

March 2017

## Panel: The Capital Markets and Higher Education

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### Recommended Citation

Fitzgerald, Susan (2017) "Panel: The Capital Markets and Higher Education," *Journal of Collective Bargaining in the Academy*: Vol. 0, Article 25.

DOI: <https://doi.org/10.58188/1941-8043.1678>

Available at: <https://thekeep.eiu.edu/jcba/vol0/iss12/25>

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**National Center for the Study of Collective Bargaining in Higher Education and the Professions**

**44<sup>th</sup> Annual Conference: Creating Solutions in Challenging Times**

March 2017

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# Capital Markets Panel

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# Global Higher Education & Not-For-Profits Coverage

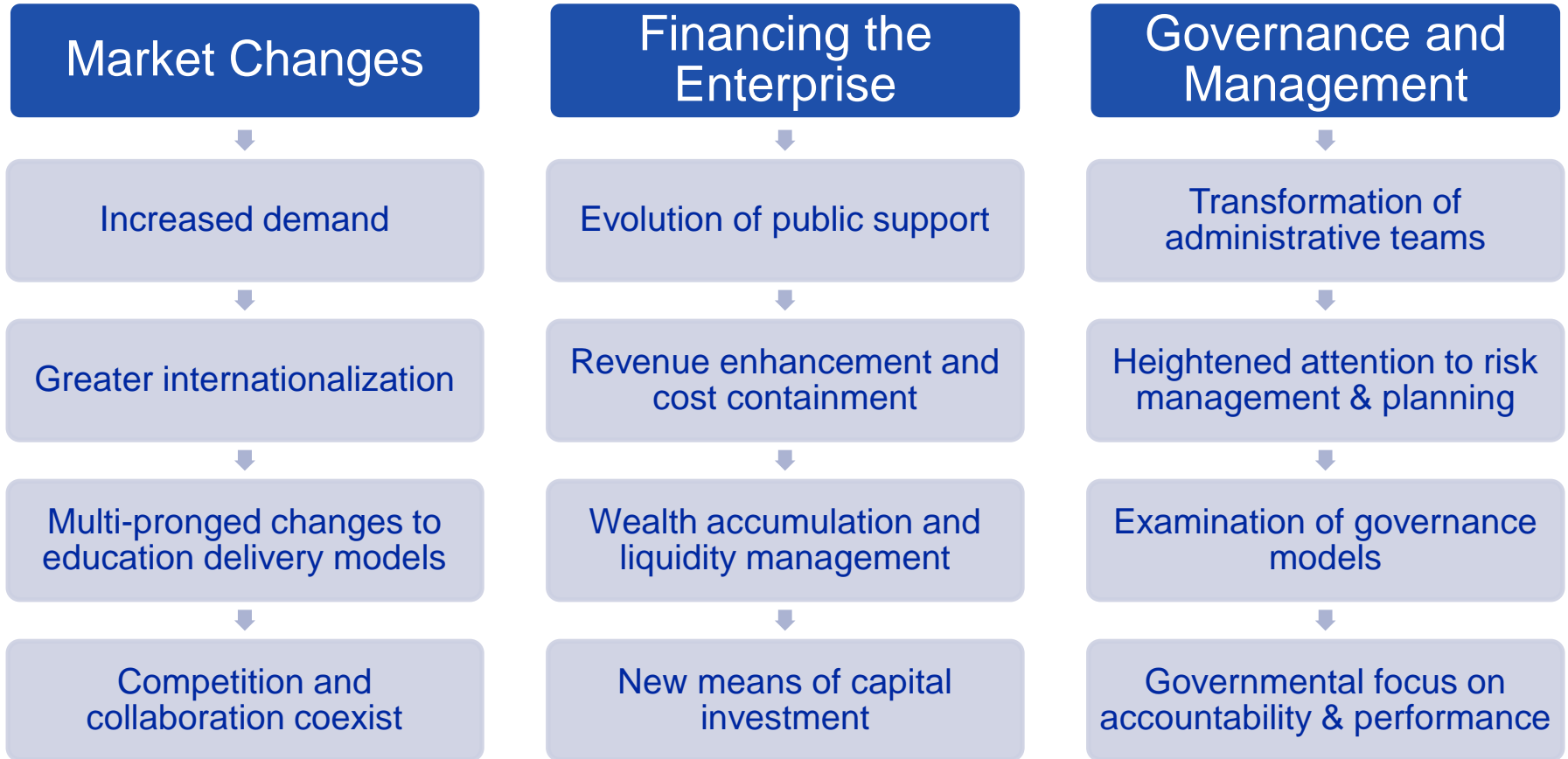
- » Coordinated credit analysis brings together both sector and region specific expertise: over 30 dedicated analysts cover ratings in 6 countries





# Higher Education Key Themes

# Higher Education Undergoing Substantive Changes

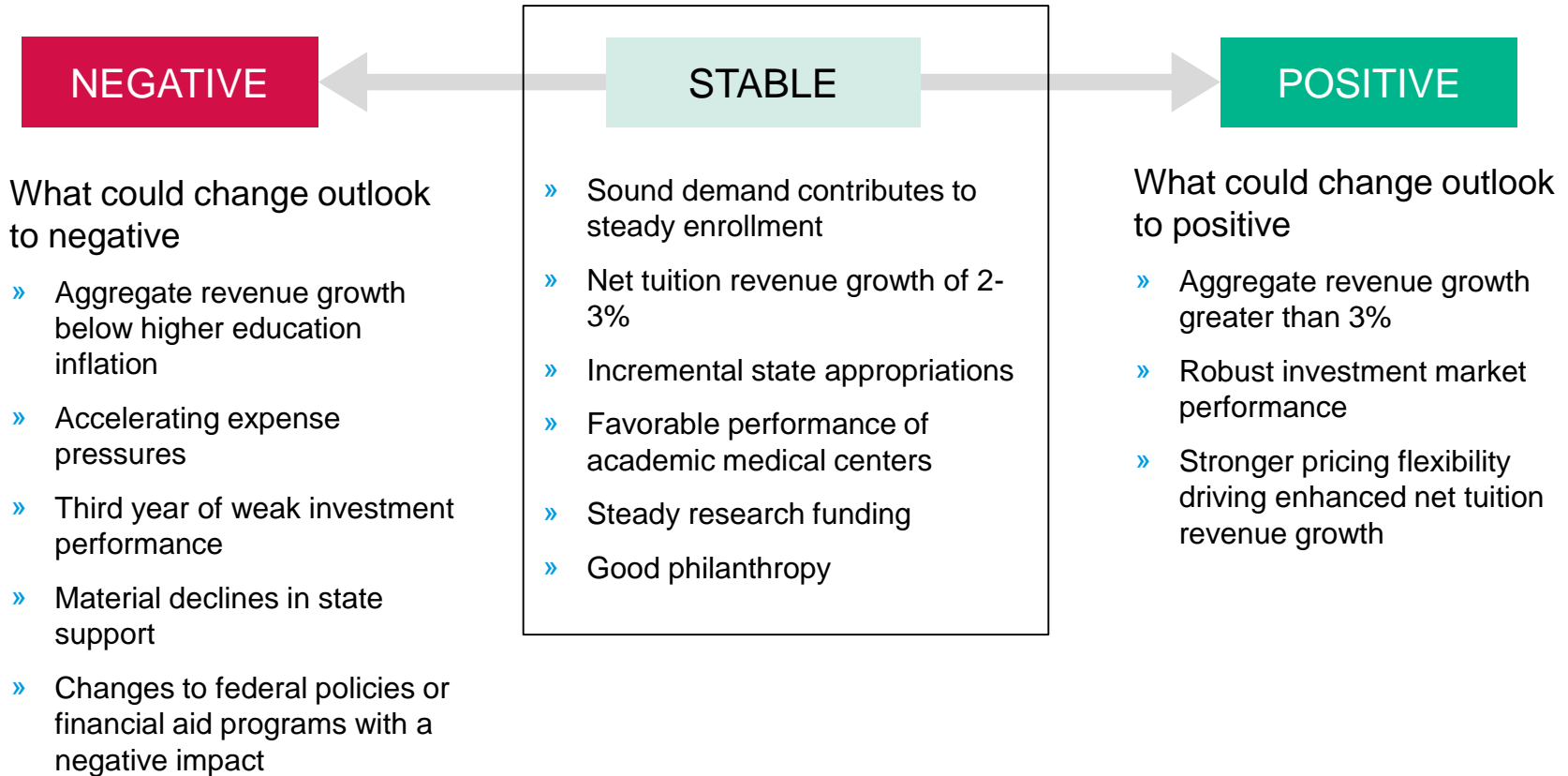




# US Higher Education Outlook 2017-2018

# Moody's US Higher Education Outlook

Stable With Clouds Forming on the Horizon



*A negative sector outlook indicates our view that fundamental business conditions will worsen. A positive outlook indicates that we expect fundamental business conditions to improve. A stable sector outlook indicates that conditions are not expected to change significantly. Since sector outlooks represent our forward looking view on conditions that factor into ratings, a negative (positive) outlook indicates that negative (positive) rating actions are more likely on average.*

## Revenue Streams Have Varied Projected Growth Rates

- » Patient care revenue is projected to have the strongest growth
- » Growth of multiple revenue streams will moderate in FY 2018

Source of Revenue	FY 2017 Forecast Growth Assumptions (%)	FY 2018 Forecast Growth Assumptions (%)	Aggregate Private University Revenue (%)	Median Private University Revenue (%)	Aggregate Public University Revenue (%)	Median Public University Revenue (%)
Net Tuition & Auxiliaries	2.5-3.5	2.5-3.5	38	75	34	49
State Appropriations	3-4	1.5-2.5	-	-	20	24
Patient Care	4-5	4-5	25	-	17	-
Grants & Contracts	2-3	1-2	14	2	17	11
Endowment Income	4-5	0-1	12	8	3	2
Gifts for Operations	4-5	3-4	3	6	3	2
Other Revenue	4-5	4-5	8	2	6	4

Source: Moody's Investors Service

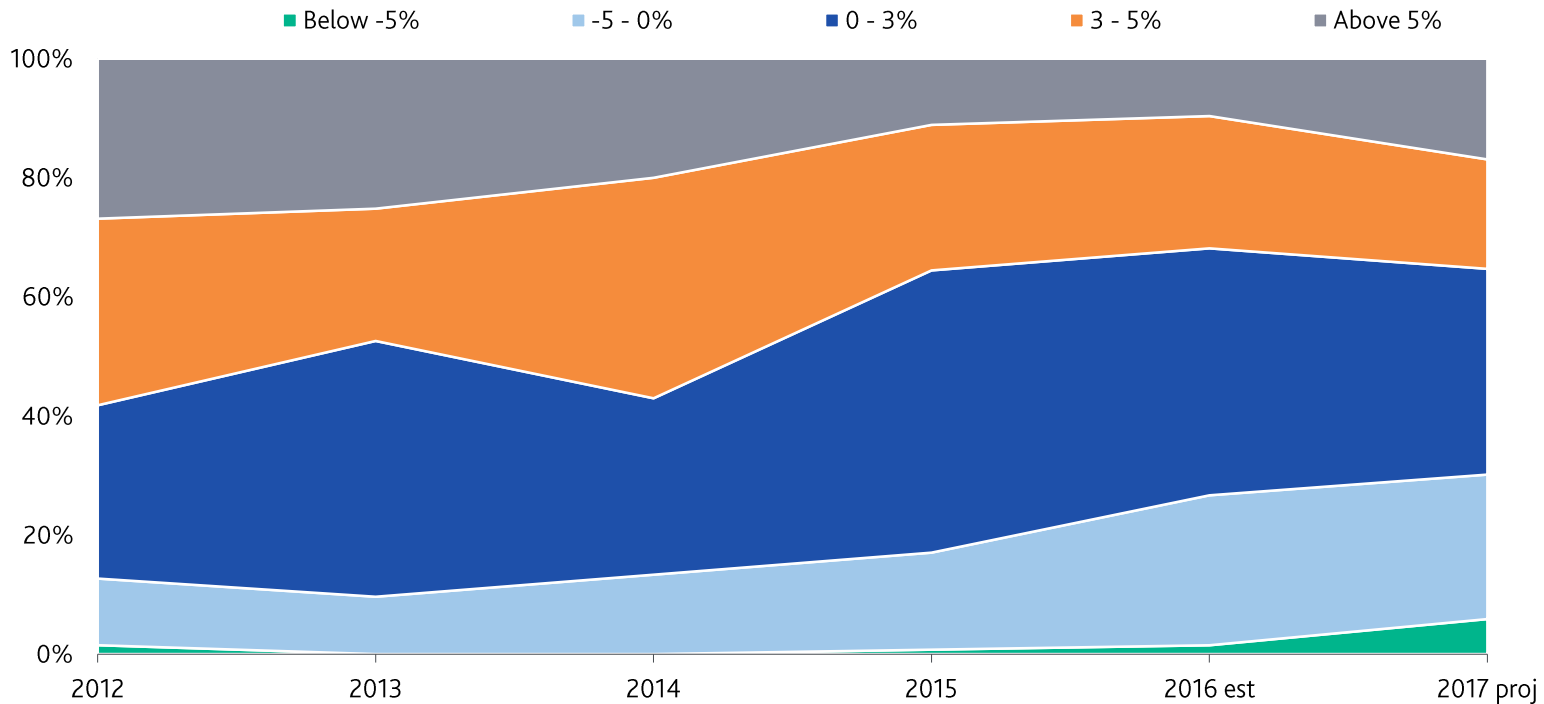


# Constrained Growth in Net Tuition Per Student

- » Approximately 70% of rated private universities retain some pricing power, evidenced by the ability to grow net tuition per student above 0%

## Increasing Portion of Private Universities Have Limited Pricing Power

Percent of private universities by growth in net tuition per student



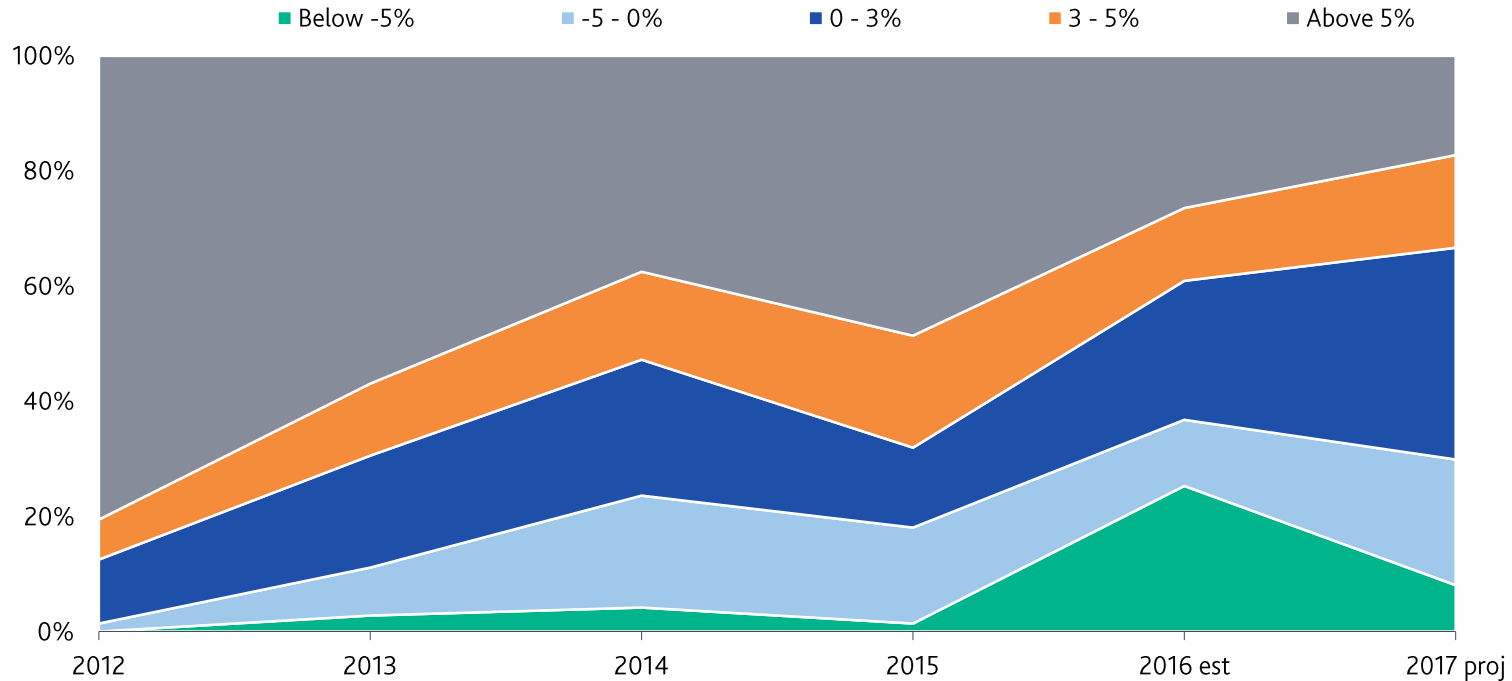
Source: Moody's Investors Service

# Constrained Growth in Net Tuition Per Student

- » For public universities, tightening growth largely reflects a multi-year period of various state-mandated freezes, limitations or policies affecting the ability to raise tuition

## Net Tuition Per Student Growth Slows for Public Universities

Percent of public universities by growth in net tuition per student



Source: Moody's Investors Service

# Clouds Forming on the Horizon

- » Multiple factors could begin to pressure the outlook toward the latter end of the outlook period



Source: Moody's Investors Service

<https://thekeep.eiu.edu/jcba/vol0/iss12/25>

DOI: 10.58138/1941-8043.1678

# Assessing a College's Financial Health

# Moody's Rating Scale and Definitions

Moody's ratings provide investors with a simple grading system by which relative creditworthiness is determined

	Long-Term	Short-Term
Investment-Grade	Aaa	Prime-1
	Aa1	
	Aa2 Aa3	
	A1	Prime-2
	A2	
	A3	
	Baa1	Prime-3
	Baa2	
	Baa3	
	Speculative-Grade	Ba1
Ba2		
Ba3		
B1		
B2		
B3		
Caa1		
Caa2		
Caa3		
Ca		
C		

Source: Moody's Rating Symbols and Definitions

<b>Aaa</b>	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
<b>Aa</b>	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
<b>A</b>	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
<b>Baa</b>	Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.
<b>Ba</b>	Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.
<b>B</b>	Obligations rated B are considered speculative and are subject to high credit risk.
<b>Caa</b>	Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.
<b>Ca</b>	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
<b>C</b>	Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

*Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.*

<b>P-1</b>	Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
<b>P-2</b>	Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.
<b>P-3</b>	Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.
<b>NP</b>	Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.

*Note: Canadian issuers rated P-1 or P-2 have their short-term ratings enhanced by the senior-most long-term rating of the issuer, its guarantor or support-provider.*

# Global Higher Education Methodology

- » Rating methodologies provide transparency about how we assign ratings
- » Scorecard serves as an analytical tool, but is not an exhaustive list of possible credit factors
- » Ratings incorporate our forward-looking assessment of credit quality

## Global Higher Education Scorecard Overview

Market Profile (30%)	Scope of Operations (15%)
	Reputation and Pricing Power (5%)
	Strategic Positioning (10%)
Operating Performance (25%)	Operating Results (10%)
	Revenue Diversity (15%)
Wealth & Liquidity (25%)	Total Wealth (10%)
	Operating Reserve (10%)
	Liquidity (5%)
Leverage (20%)	Financial Leverage (10%)
	Debt Affordability (10%)

## Other Credit Considerations

- » Multi-Year Trends
- » Governance and Management
- » Debt Structure Considerations
- » Liquidity Quality
- » Government Relationship
- » Pension and Other Post-Employment Obligations
- » Healthcare Operations

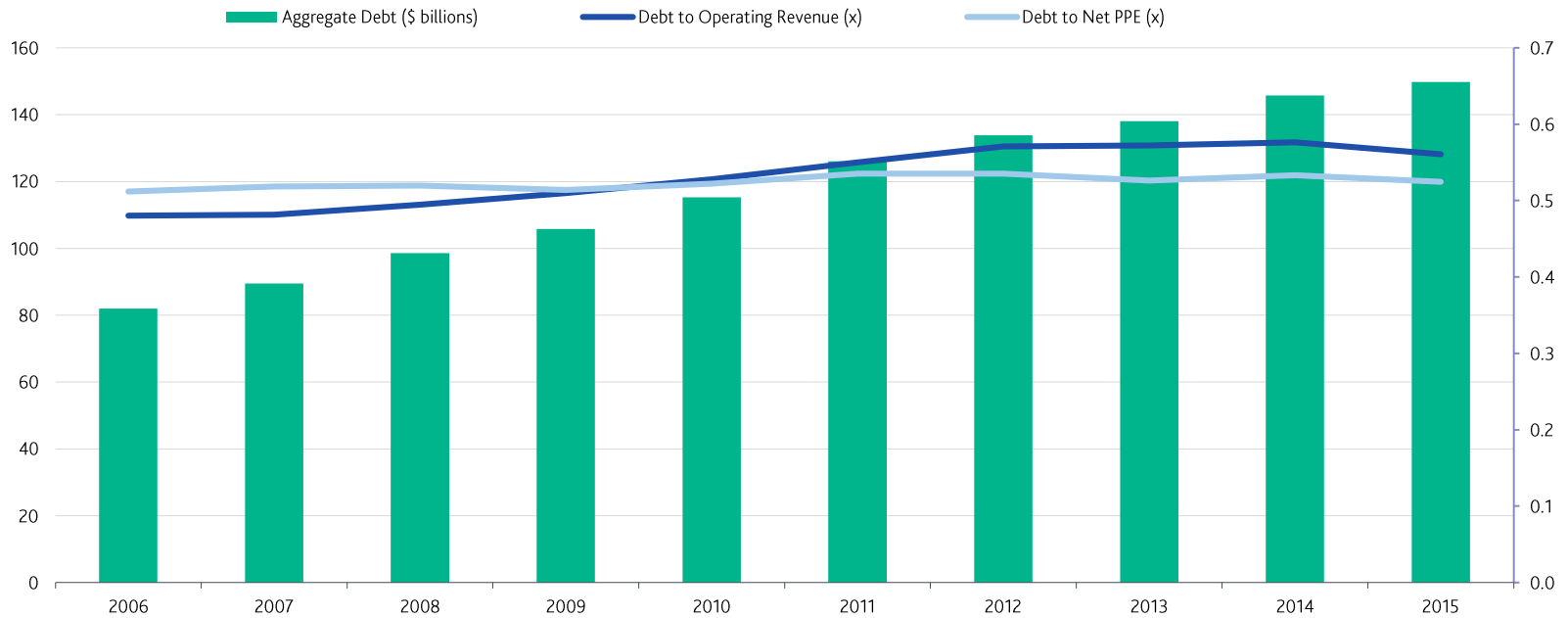
# Debt Trends



# Public Universities: Debt Rising Moderately; Pensions More Rapidly

- » Debt service consumes a median 4.5% of public universities' operating budgets
- » Pension liabilities of over \$180 billion exceed capital related debt and are an increasing budgetary burden—3% of operating expenses (FY2015)

## Debt Has Funded Approximately Half of Public University Campus Infrastructure

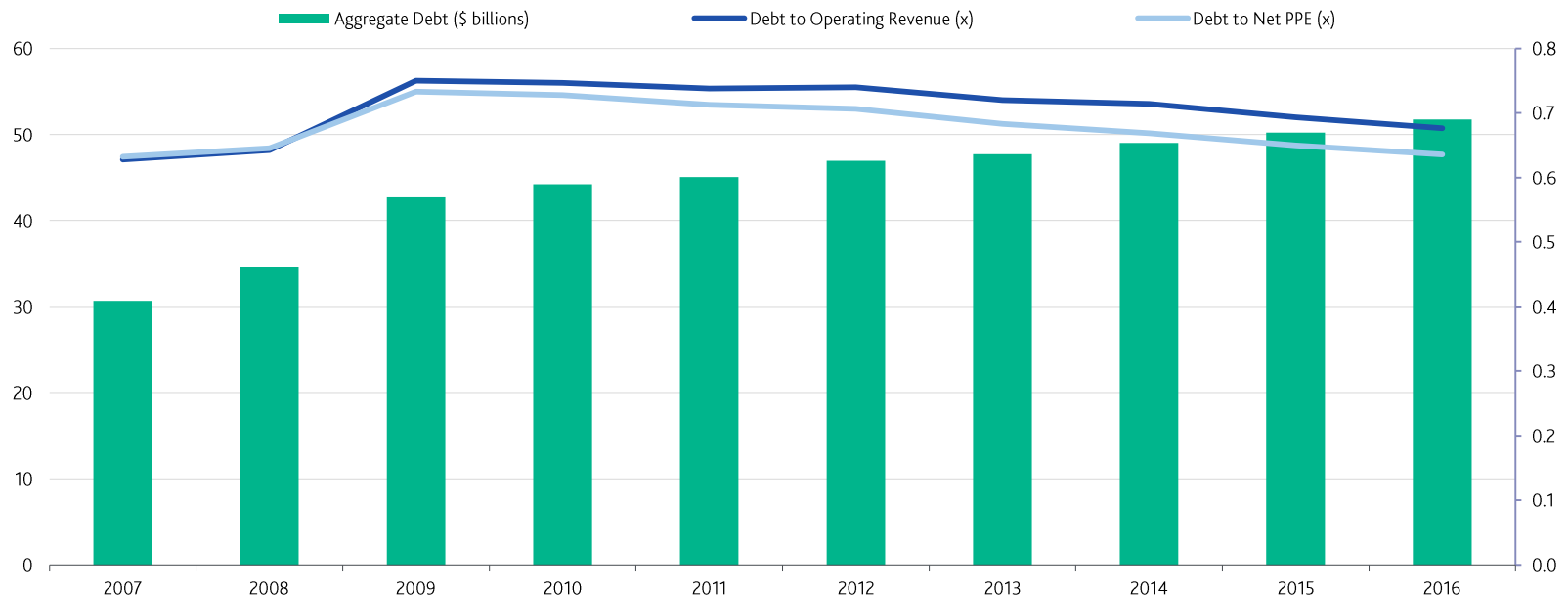


Source: Moody's Investors Service

# Private Universities: Debt Levels Declining Relative to Operations

- » Debt service consumes a median 5% of private universities' operating budgets
- » Aggregate debt levels only slowly growing, less than 3% annually over past five years
- » Most private universities have limited pension exposure

## Private Universities Have Financed Over 60% of Campus Infrastructure With Debt



Source: Moody's Investors Service

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