



# Agenda

- 1 Higher Education Sector Summary**
- 2 Current Issues/Trends**
- 3 Enrollment and Demand Pricing**
- 4 Pricing**
- 5 Key Performance Indicators (KPI's)**
- 6 Asset/Liability Management**
- 7 Debt & Liquidity Trends**
- 8 Management and Governance**
- 9 Issues on the Horizon**

# Sector Summary:

## USPF Higher Education

Number of S&P rated USPF Higher Education entities in USA = 439

*Your dedicated USPF Higher Education Ratings team has over 150 years combined Credit and Sector experience*

### Analytical Excellence Manager



**Robin Prunty**  
MD, New York  
+212 438 2081  
Experience: 29 years

### Analytical Manager/ Sector Lead



**Laura MacDonald**  
Sr. Director, NY  
+212-438-2519  
Experience: 26 years



**Jessica Matsumori**  
Sr. Director, SF  
+415-371-5083  
Experience: 16 years

### Lead Analysts



**Charlene Butterfield**  
Director, NY  
+212-438-2741  
Experience: 18 years



**Jessica Goldman**  
Director, NY  
+212-438-6484  
Experience: 10 years



**Kenneth Rodgers**  
Director, NY  
+212-438-2087  
Experience: 37 years



**Jessica Wood**  
Director, Chicago  
+312-233-7004  
Experience: 15 years



**Mary Ellen Wriedt**  
Director, Los Angeles  
+415-371-5027  
Experience: 17 years

### AAA Rated Higher Education Entities in United States by S&P Ratings Services

#### PRIVATE

Columbia University  
Grinnell College  
Harvard University  
Massachusetts Institute of Technology  
Northwestern University  
Pomona College  
Princeton Theological Seminary  
Princeton University  
Rice University  
Stanford University  
Swarthmore College  
Yale University

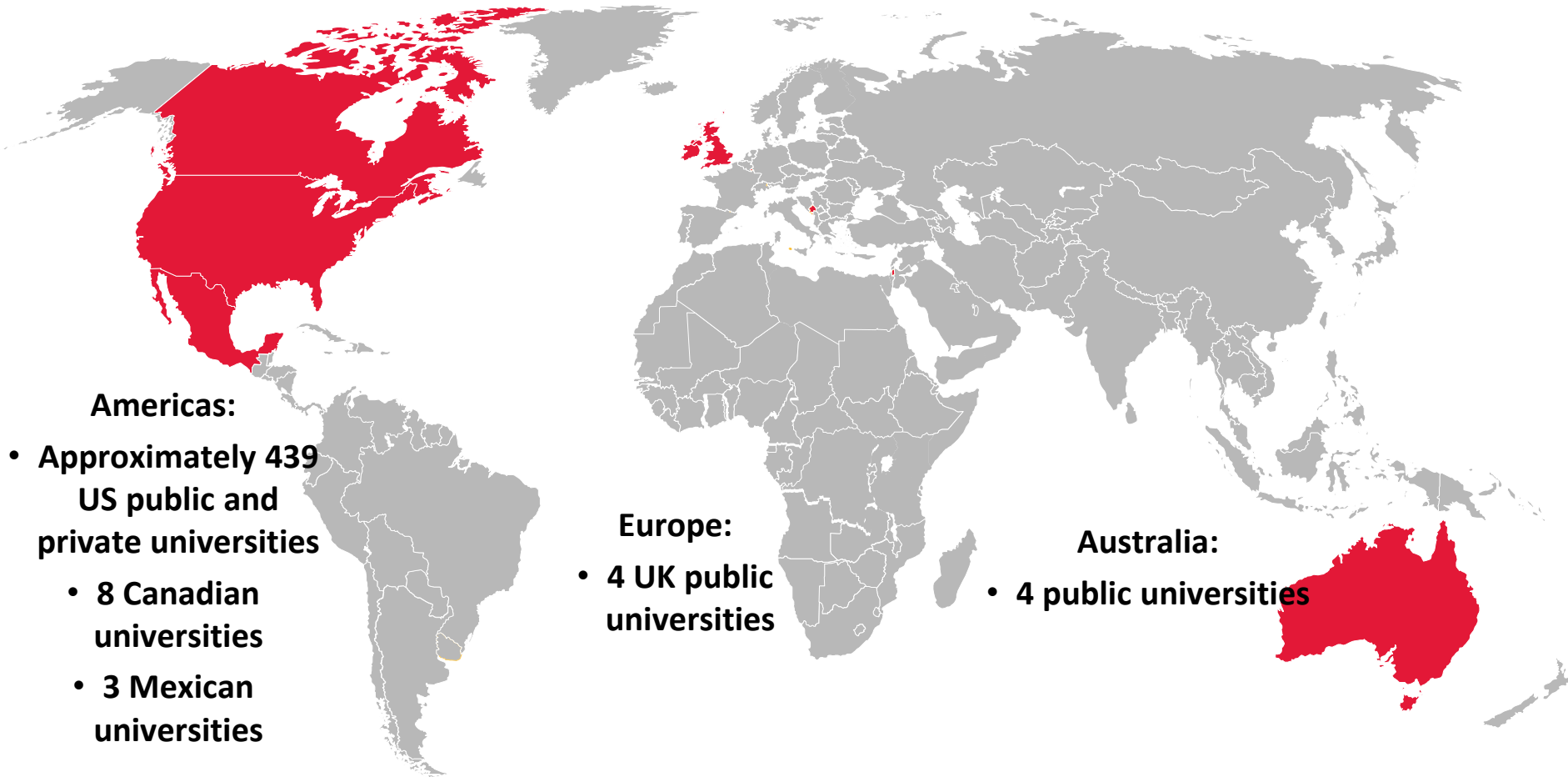
#### PUBLIC

University of Texas System  
University of Virginia  
University of Michigan  
University of North Carolina at Chapel Hill  
Indiana University  
Purdue University  
Texas A&M University

### Credit Conditions

- Economic growth accelerating;
- Real GDP growth will increase to 2.9% in 2018 up from prior forecasts of 2.6% then 2.8%

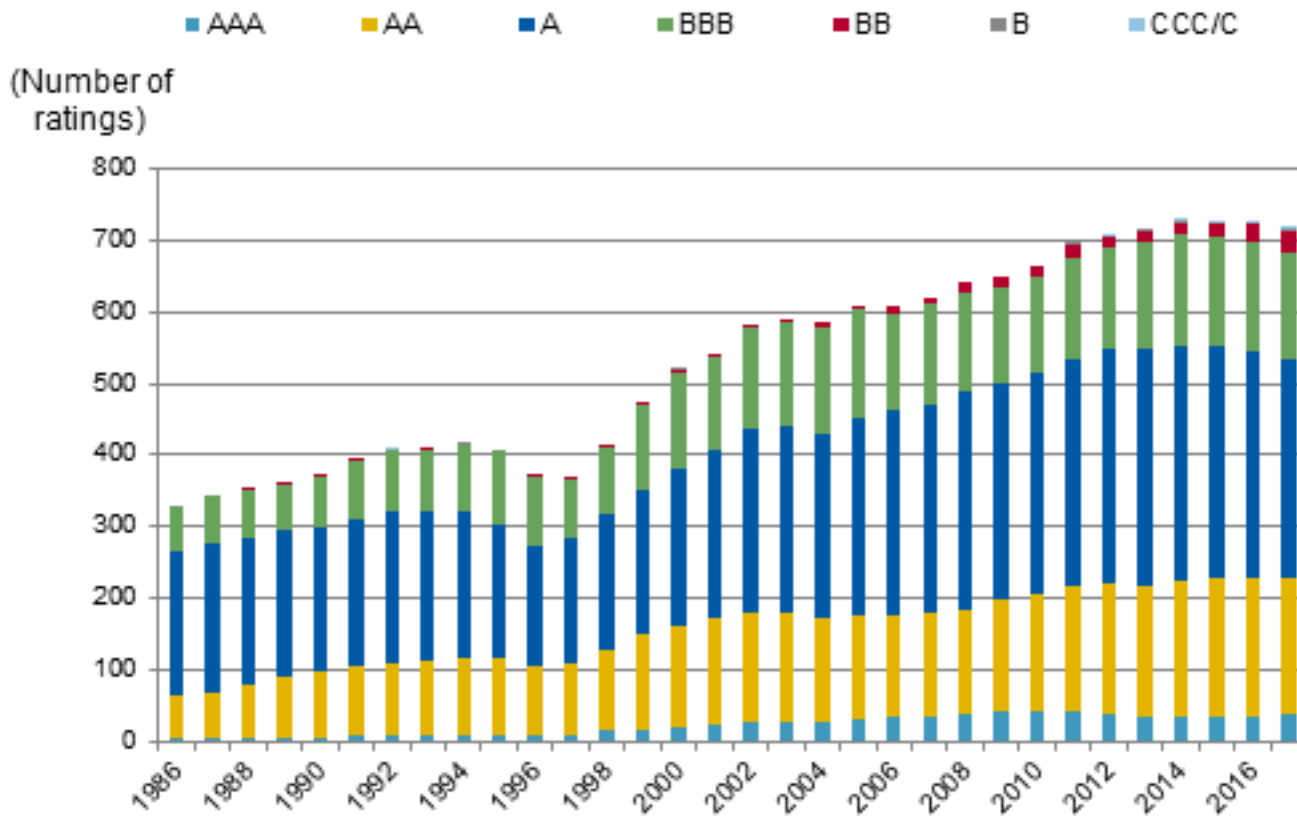
# S&P's Higher Education Ratings Universe



➤ S&P rates just shy of 460 universities globally as of Dec. 31, 2017

# Summary of Rated Universe

# U.S. Public Finance Higher Education And Nonprofits Ratings Distribution



Source: S&P Global Fixed Income Research.

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

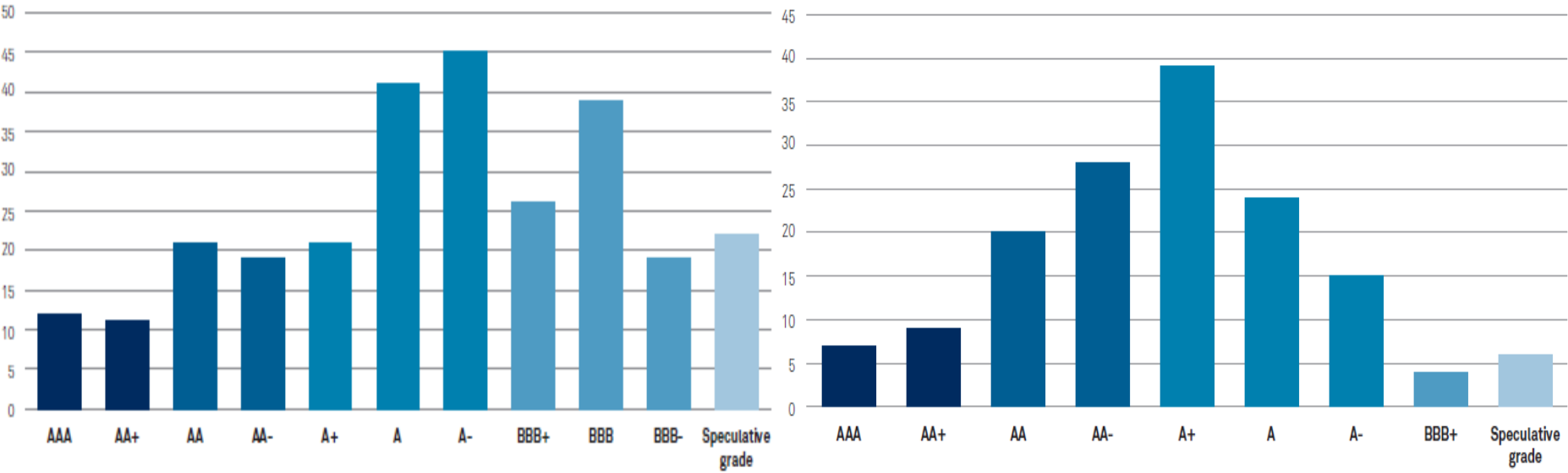
As of May 31, 2017

**S&P Global**  
Ratings

# U.S. Higher Education Rating Distributions –

Private Universities

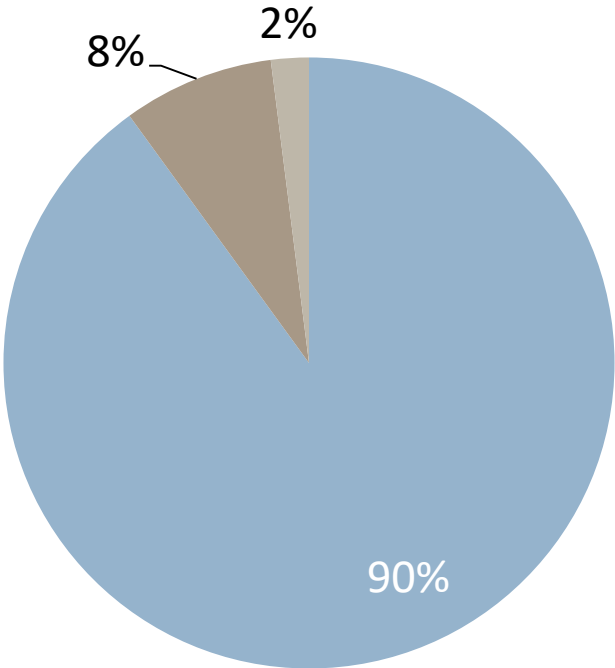
Public Universities



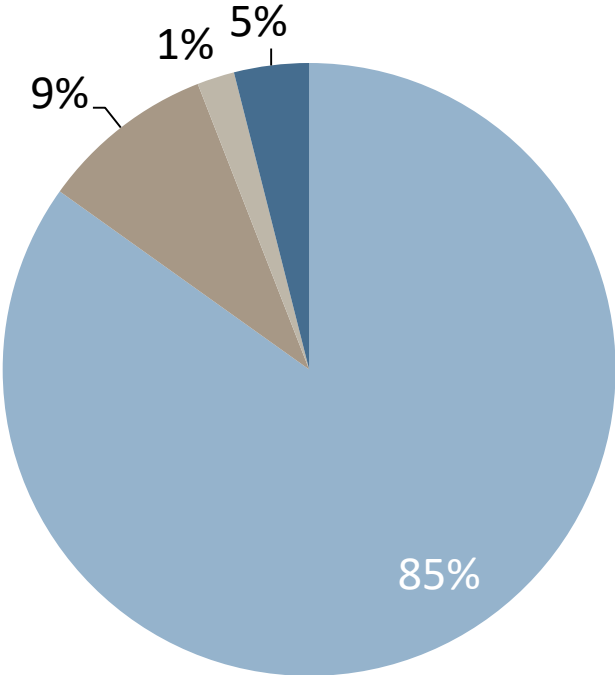
As of May 31, 2017

# U.S. Higher Education Outlook Distributions

### Private Universities



### Public Universities



- Stable
- Negative
- Positive
- CreditWatch Negative

As of May 31, 2017



# 2018 Higher Education Outlook: Negative

Risks	Opportunities
Multiple implications from the recently enacted Tax Cut and Jobs Act.	Increase and emergence of innovative strategies and partnerships.
Decrease in capital markets activity due to rising interest rates and curtailment of advance refundings.	Change in institution's view of ideal target student profile.
Widening gap between student's expectations and their willingness to pay.	More schools have shown a willingness to make difficult decisions to refine their operations through focused, rather than general, expansion strategies.
Decline in actuarial rates could lead to further pressure on pension and other postemployment benefit (OPEB) obligations.	Aging workforce and upcoming retirements could lead to lower tenure rates and salary expenses.

# Current Issues / Trends

# **Current Issues/Trends: Enrollment and Demand**

- **Enrollment trends-on average stable at best**
- **Stronger economy impacting graduate enrollment**
- **Re-examining Programming/Degrees**
- **Who is your customer when 18-21 yr. old population shrinks?**
- **International student disruption due to travel ban**

# Current Issues/Trends: Tuition/Pricing Strategy

- **Tuition-net tuition revenue compression**
- **Tuition discounting-getting more scrutiny in light of demand for greater transparency**
- **Publics competing more with privates-state operating appropriation declines**
- **Pay for performance-an idea whose time has come?**
- **Student debt a rising factor in school selection**

# Current Issues/Trends: KPI's

- **Trend of annual change in net tuition revenue**
- **Student dependency-how much revenue tied to tuition & auxiliaries**
- **Operating margins-before and after endowment support**
- **Financial resource ratios to operations and debt**
- **Debt burden and amortization structure**
- **Pension/OPEB-funding adequacy**
- **Contingent liability funding**
- **Endowment Performance/Fundraising**

# **Current Issues/Trends: Asset/Liability Management**

- **Investment management policies and practices**
- **Long-range capital planning**
- **Enterprise risk management**
- **Succession planning**
- **Endowment spending policy**

# Current Trends/Issues: Debt and Liquidity

- **Debt issuance-how much is too much and timing?**
- **Capital/Strategic Plans-is there a connection?**
- **Direct Purchase-an effective financing tool if used properly**
- **P3s-third parties and communities gain influence**
- **No more advance refundings-40% of \$19 billion 2017 higher-ed issuance**

# Current Issues/Trends: Management and Governance

- **Management & Governance questionnaire-our tool for subjective analysis**
- **Senior leadership turnover-seeing an uptick due to aging and industry pressure**
- **New roles**
- **Diversity**



# Macro Issues/ Looking Forward

# Macro Issues: Federal Oversight and Department of Education Policy Impact

- **Bipartisan Budget Act of 2018 (Two-year bipartisan funding bill) increases spending for most programs supporting higher education**
- **Budget priorities and goals include –**
  - **\$4 billion for “student-centered programs that aid college completion and affordability” (limited program specific details)**
  - **Attempts to address unintended implications of the new tax code and its regulation to tax endowments**
  - **Provision that authorizes the education secretary to exempt colleges from the potential loss of federal Title IV funds if they operate in economically distressed areas**

# Macro Issues: Federal Oversight and Department of Education Policy Impact

## Enacted/Proposed Policy Initiatives

- **Department of Education –**
  - Financial responsibility standard (112 non-profit and 65 for-profit institutions failed)
  - Give colleges more flexibility in how they handle allegations of sexual assault
  - Changed “borrower defense” rules that allow some student borrowers to discharge loans
- **Tax legislation – a 1.4 percent tax on endowment income for any college with more than 500 students and an endowment worth over \$500,000 per full-time student**
  - Bipartisan analysis suggests that small liberal arts colleges may be disproportionately impacted
- **Republican plan to require minority-serving institutions receiving dedicated grant money to graduate or transfer at least 25% of students**
- **Department of Education plan to reauthorize the Higher Education Act and eliminate certain rules that have been key parts of efforts to regulate for-profit higher education**

# Macro Issues / Looking Forward

- **Changing business models including new partners**
- **Cyber security**
- **Value proposition articulation & marketing**
- **Market differentiation-what makes us special?**
- **Changing accounting standards**
- **Managing headline risk**
- **Increasing student activism**

# Q&A

# Appendix

## **Additional Resources**

### **Recent actions**

**U.S. Higher Education Rating Actions, First-Quarter 2018; Apr. 11, 2018**

### **Commentary**

**U.S. Higher Education Sector Year in Review; Dec. 27, 2017**

**U.S. Higher Education Sector 2018 Outlook: Additional Credit Pressures Spell A Negative Outlook For Institutions; Jan. 23, 2018**

**U.S. Higher Education Privatized Student Housing Projects; Feb. 15, 2018**

**How Changing Accounting Could Affect Higher Ed Credit Analysis; Mar. 28, 2018**

### **Medians**

**U.S. Not-For-Profit Private Universities' Fiscal 2016 Median Ratios Show A Stable Sector Despite Uncertainties; Jul. 20, 2017**

**U.S. Public College And University Fiscal 2016 Median Ratios: Lower Rated Entities Pressured In An Otherwise Relatively Stable Sector; Jul. 20, 2017**

### **Criteria**

- **Methodology: Not-For-Profit Public and Private Colleges and Universities; Jan. 6, 2016**

# HIGHER EDUCATION ANALYTICAL TEAM

## Head of Analytics and Research

### **Robin Prunty**

Managing Director

(1) 212-438-2081

robin.prunty@spglobal.com

## Analytical Manager

### **Laura Kuffler-Macdonald**

Senior Director

(1) 212-438-2519

laura.kuffler-macdonald@spglobal.com

## Sector Leader

### **Jessica Matsumori**

Senior Director

(1) 415-371-5083

jessica.matsumori@spglobal.com

## Analytical Team

### **Debra Boyd**

Senior Director

(1) 415-371-5063

debra.boyd@spglobal.com

### **Charlene Butterfield**

Director

(1) 212-438-2741

charlene.butterfield@spglobal.com

### **Bobbi Gajwani**

Director

(1) 312-233-7001

bobbi.gajwani@spglobal.com

### **Jessica Goldman**

Director

(1) 212-438-6484

jessica.goldman@spglobal.com

### **Avani Parikh**

Director

(1) 212-438-1133

avani.parikh@spglobal.com

### **Ken Rodgers**

Director

(1) 212-438-2087

ken.rodgers@spglobal.com

### **Shivani Singh**

Director

(1) 212-438-3120

shivani.singh@spglobal.com

### **Jessica Wood**

Director

(1) 312-233-7004

jessica.wood@spglobal.com

### **Mary Ellen Wriedt**

Director

(1) 415-371-5027

maryellen.wriedt@spglobal.com

### **Luke Gildner**

Associate Director

(1) 303-721-4124

luke.gildner@spglobal.com

### **Ying Huang**

Associate Director

(1) 212-438-7613

ying.huang@spglobal.com



## Analytical Team - Continued

### **Sussan Corson**

Director

(1) 212-438-2014

sussan.corson@spglobal.com

### **Ashley Ramchandani**

Associate Director

(1) 312-233-7071

ashley.ramchandani@spglobal.com

### **Stephanie Wang**

Associate Director

(1) 212-438-3841

stephanie.wang@spglobal.com

### **Gauri Gupta**

Associate

(1) 312-233-7010

gauri.gupta@spglobal.com

### **Jamie Seman**

Associate

(1) 415-371-5020

jamie.seman@spglobal.com

### **James Gallardo**

Rating Analyst

(1) 303-721-4391

james.gallardo@spglobal.com

### **Sean Lacy**

Rating Analyst

(1) 303-721-4250

sean.lacy@spglobal.com

### **America Murillo**

Rating Analyst

(1) 303-721-4571

america.murillo@spglobal.com

### **Amber Schafer**

Rating Analyst

(1) 303-721-4238

amber.schafer@spglobal.com

### **Sean Wiley**

Rating Analyst

(1) 312-233-7050

sean.wiley@spglobal.com