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**MOODY'S**

# Navigating Mounting Pressures for Private Colleges

JULY 11, 2024

# Navigating Mounting Pressures for Private Colleges

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# Long-Term Partner with Endowments and Foundations



## MOODY'S

### O V E R V I E W

- Leading investment office for non-profits and families
- Specialists in Higher Education
- 36 years of experience – Since 1988
- Independent, privately-owned firm
- Manage ~\$20 billion
- Serve ~90 nonprofits
- 96% client retention rate
- Headquartered in Philadelphia with offices in Chicago, Cleveland, Denver, Houston, Minneapolis, Pittsburgh and Scottsdale

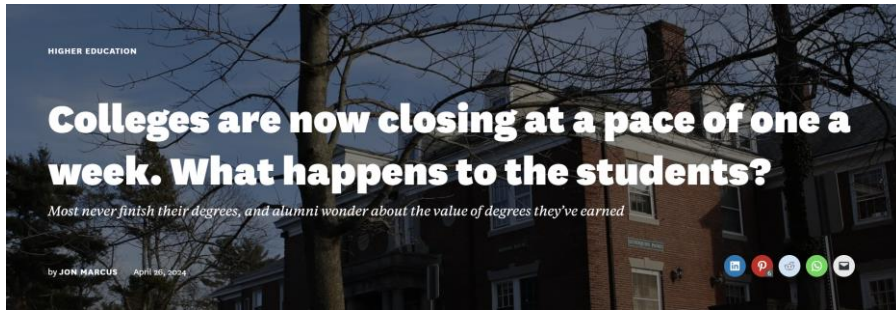
All data is as of June 30, 2024. Client retention rate is for ten years.

### O V E R V I E W

- 1,700 analysts
- 40+ regions and countries
- 73 trillion of total rated debt
- 32,900 rated organizations
  - 14,900 US public finance issuers
  - 630+ higher ed and nonprofit organizations rated

# Private Colleges Face Unprecedented Challenges

At least 60 public or nonprofit colleges have closed, merged, or announced closures or mergers since March 2020.



HLC 2024

## ‘We are not hospice’: The race to get faster in predicting college shutdowns

The Higher Learning Commission has been studying institutional closures under its purview to understand the signs of distress, officials with the accreditor said at its annual conference.

Published April 18, 2024



Forbes

<https://www.forbes.com> › Leadership › Education ›

### 3 More Major Universities Reveal Plans For Budget Cuts

Jan 23, 2024 — 3 More Major Universities Reveal Plans For Budget Cuts · Pennsylvania State University · University of Connecticut · University of New Hampshire.

“SUNY Warns of Future \$1B Deficit Without Higher Tuition or More Aid” — [The Times Union](#), Jan. 2.

## Small private colleges are struggling to keep their doors open as declining enrollment leads to financial instability



By Athena Jones, CNN

6 minute read · Published 6:00 AM EDT, Sat April 13, 2024



The Change Leader, Inc.

<https://changinghighered.com> › higher-ed-budget-cuts-... ›

### Higher Ed Budget Cuts and Accountability

Higher ed budget cuts and accountability issues threaten higher education institutions worldwide. The financial challenges facing higher education ...

“As U. of Arizona Confronts Budget Cuts, Workers and Students Brace for the Worst” — [The New York Times](#), Feb. 21.



# Higher Ed Remains a Highly Rated Sector Despite Bifurcation

- Moody's rates the financially strongest but pressures building for over a decade.
- Roughly 20% thriving, 50-60% managing with differing degrees of success, 20-30% struggling.

## DISTRIBUTION OF RATINGS AND OUTLOOKS IN THE US HIGHER EDUCATION SECTOR

RATING DISTRIBUTION BY NUMBER OF ISSUERS

INVESTMENT-GRADE

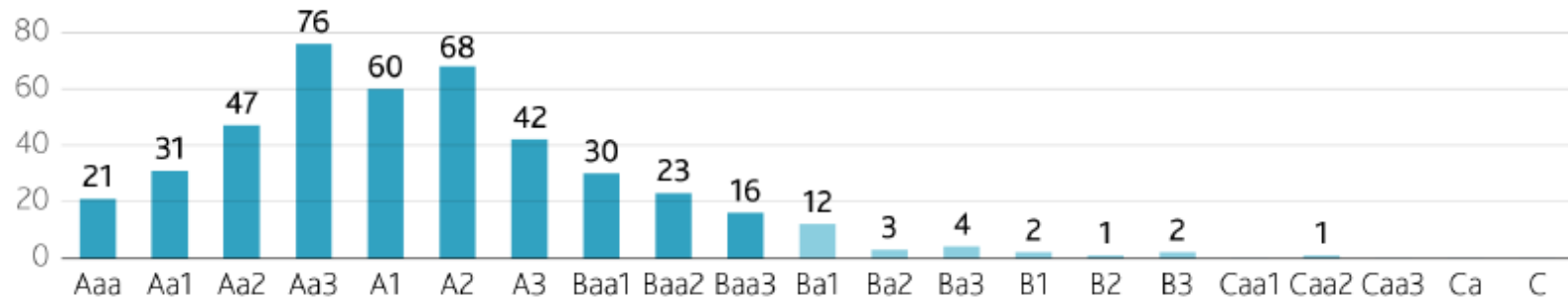
94%

SPECULATIVE-GRADE

6%

414 issuers

25 issuers



OUTLOOK DISTRIBUTION

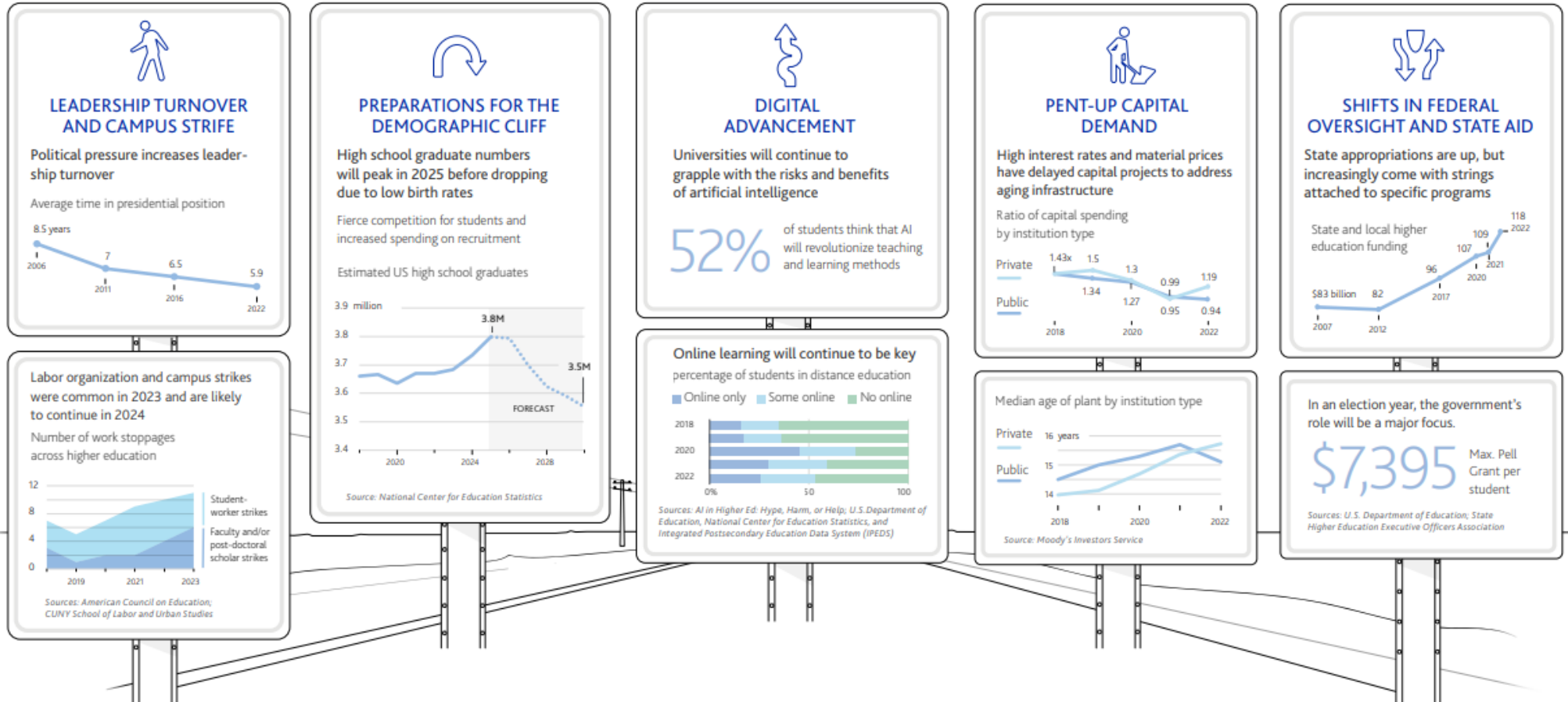
Positive Stable Negative

Total number of issuers

439 issuers



# Near-Term Pressures are Mounting for Private Institutions



# Agenda

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ENROLLMENT TRENDS



COMPETITIVE FORCES



ENDOWMENT LANDSCAPE



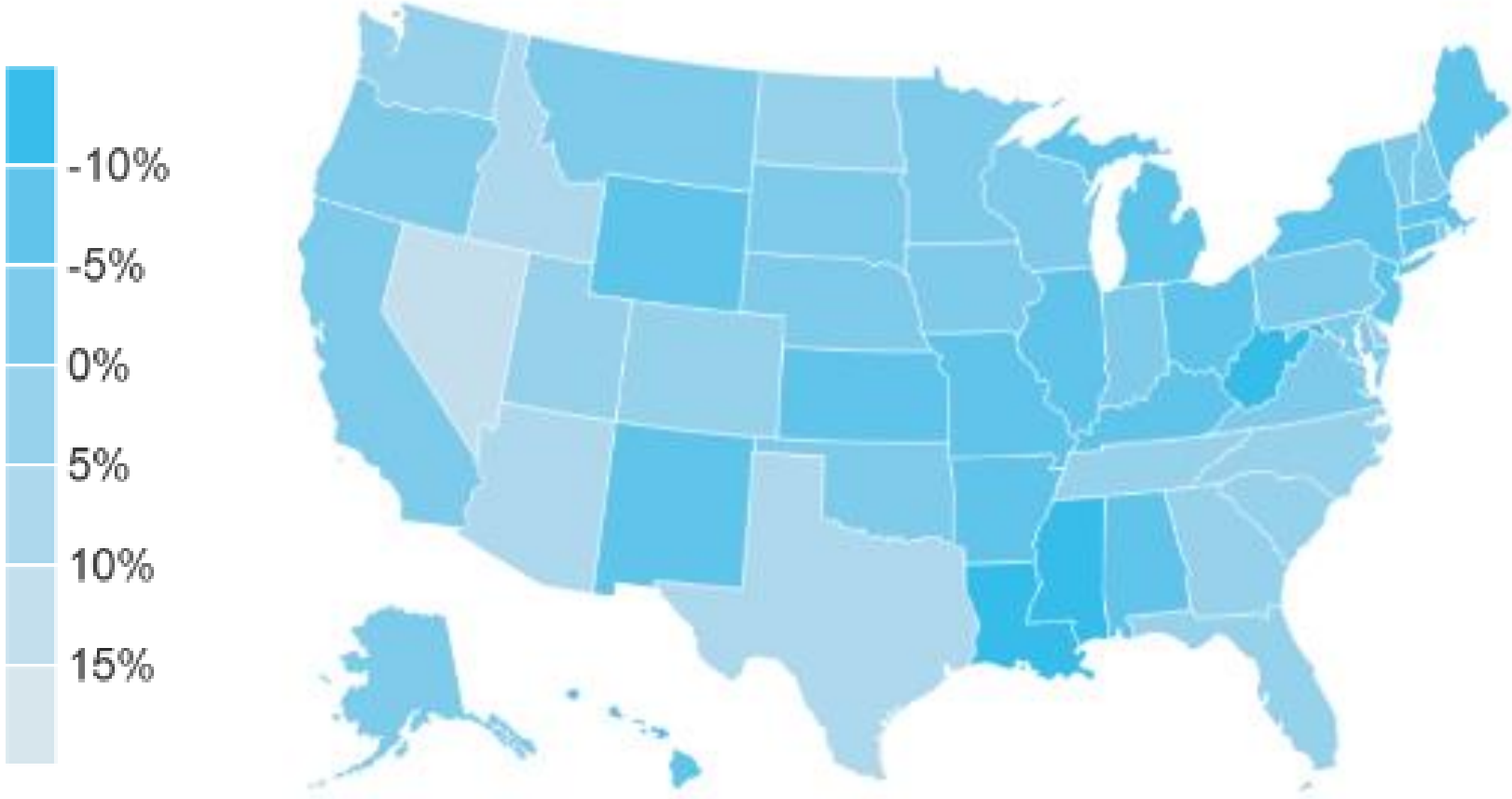
LEADERSHIP CHALLENGES



STRATEGIES AND ALTERNATIVES

# High School Enrollment Varies Widely By State

% DECLINE IN POPULATION OF 15 - 19 YEAR OLDS, 2022 - 2032



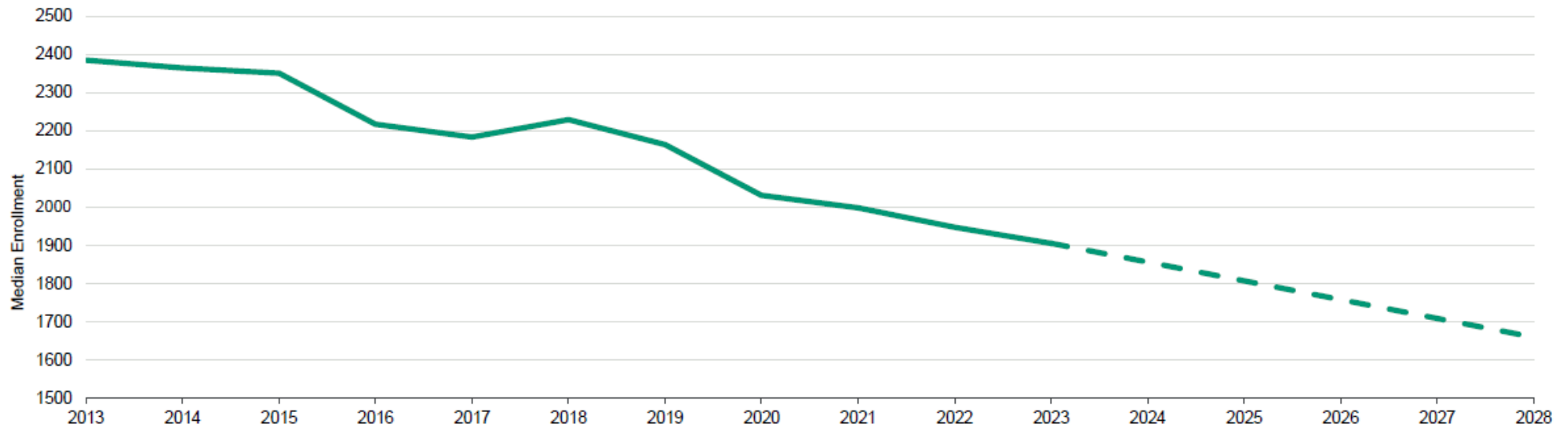
Source: Moody's Investors Services



# Northeast and Midwest Face Greater Enrollment Headwinds

Enrollment at less-selective small, private institutions in the Northeast and Midwest is predicted to decline 13% by 2028.

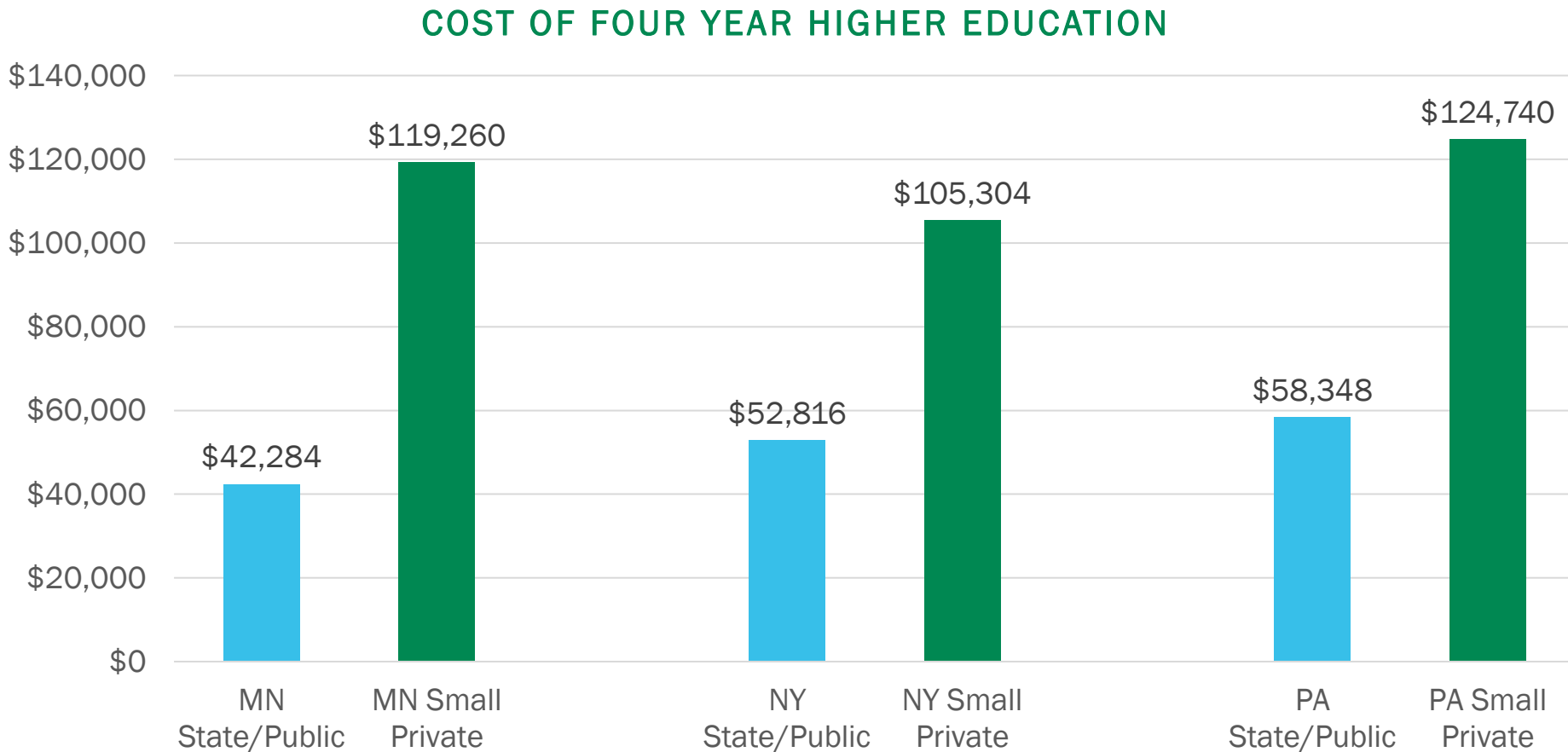
## POPULATION OF SMALL, PRIVATE NORTHEAST/MIDWEST SCHOOLS



Source: Moody's Investors Services. Includes data for the 24 small private colleges and universities in the Northeast and Midwest rated by Moody's with 3,000 students or less and selectivity of 60% or more as of fall 2023.

# Competition from State Schools is Increasingly Strong

Rising tuition for private colleges makes state institutions more competitive.



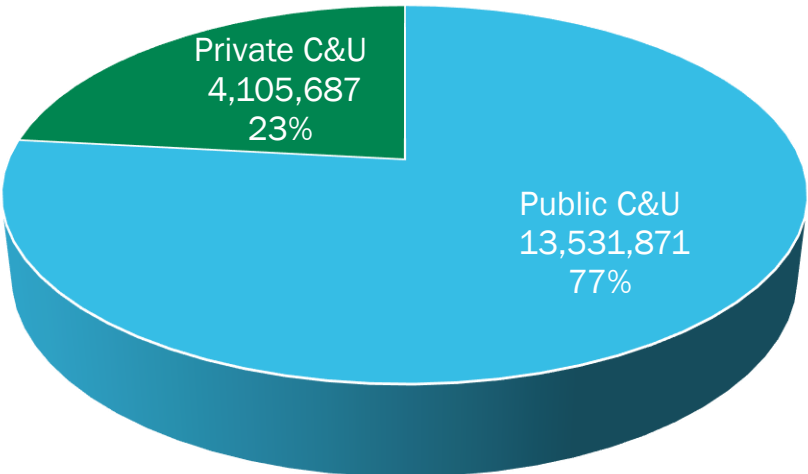
Source: Moody's Investors Services

# Threats to Small, Private C&U are Multi-Faceted

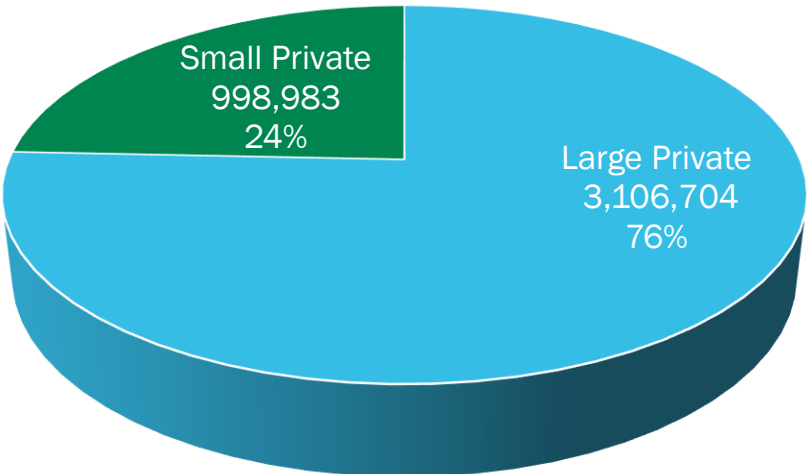
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- 1. Demographic decline in college age students
- 2. Growing demand for public institutions over private colleges and universities
- 3. Preference for larger private institutions over smaller private institutions

2021 PUBLIC VS. PRIVATE COLLEGE ENROLLMENT



2021 SMALL VS. LARGE PRIVATE COLLEGE ENROLLMENT

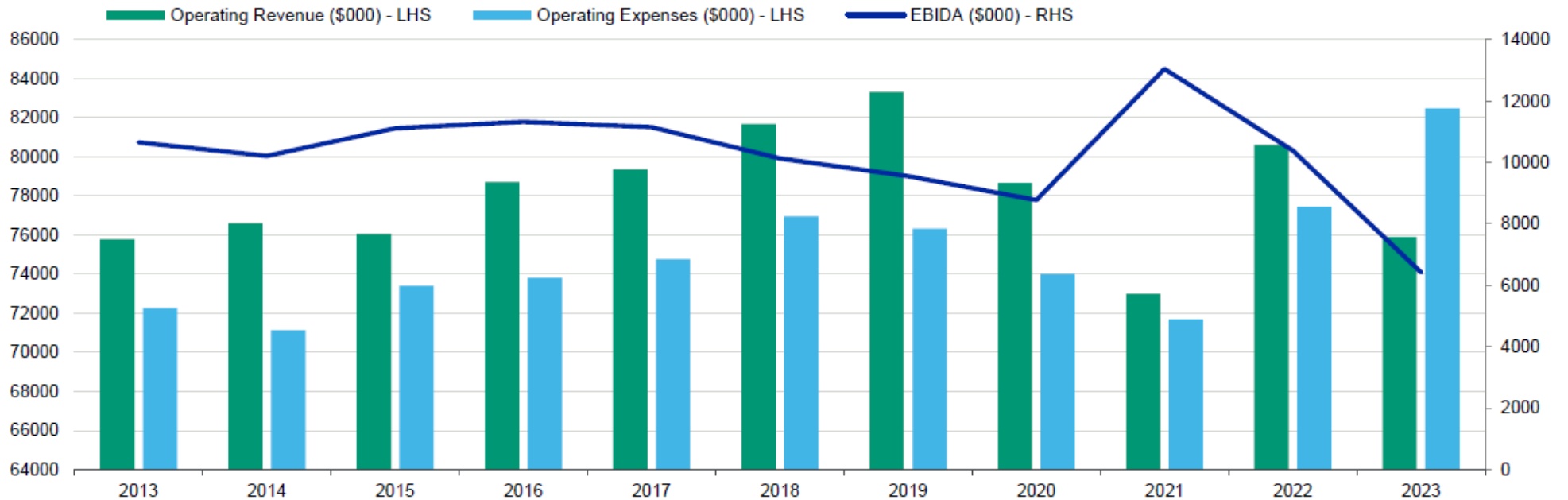


Source: IPEDS (Integrated Postsecondary Education Data System)

# Margins Are Eroding for Small, Private Institutions

Declining revenues have eaten into margins post-HEERF, a trend expected to persist.

## MARGINS AND EBIDA FOR SMALL, PRIVATE NORTHEAST/MIDWEST SCHOOLS

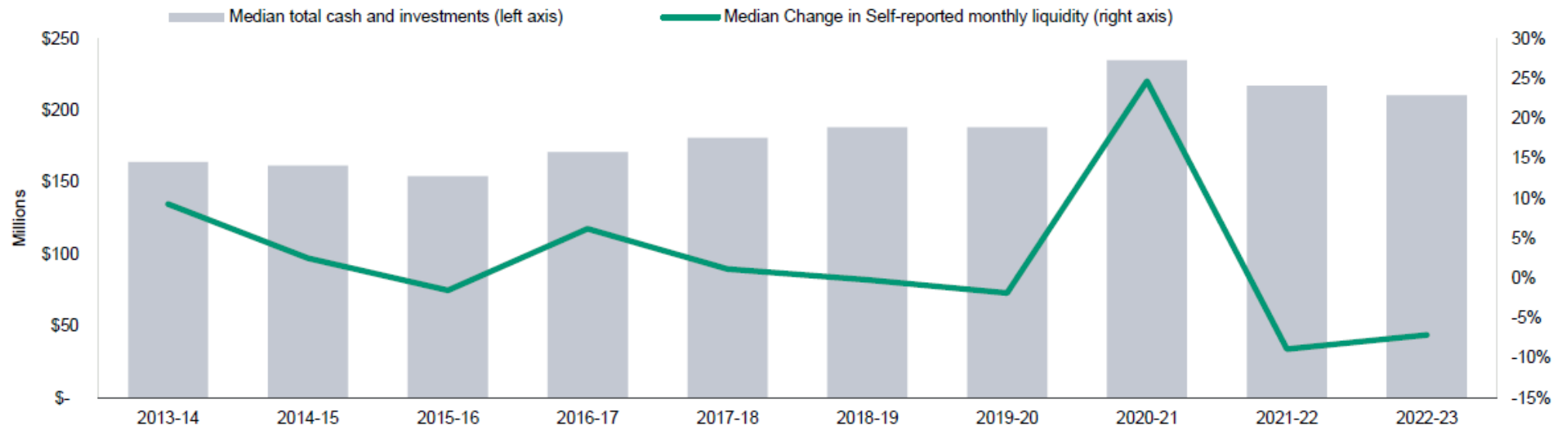


Source: Moody's Ratings. Includes data for the 24 small private colleges and universities in the Northeast and Midwest rated by Moody's with 3,000 students or less and selectivity of 60% or more as of fall 2023. HEERF is the Higher Education Emergency Relief Fund.

# Investment Returns Can Extend Runway, But Not Indefinitely

Strong endowment returns can have the effect of putting off tough decisions.

## INVESTMENT ASSETS AND LIQUIDITY FOR SMALL, PRIVATE COLLEGES



Source: Moody's Ratings. Includes data for the 24 small private colleges and universities in the Northeast and Midwest rated by Moody's with 3,000 students or less and selectivity of 60% or more as of fall 2023. The X-Axis represents fiscal years, which vary by university.

# Endowments Cannot Be Managed in Isolation

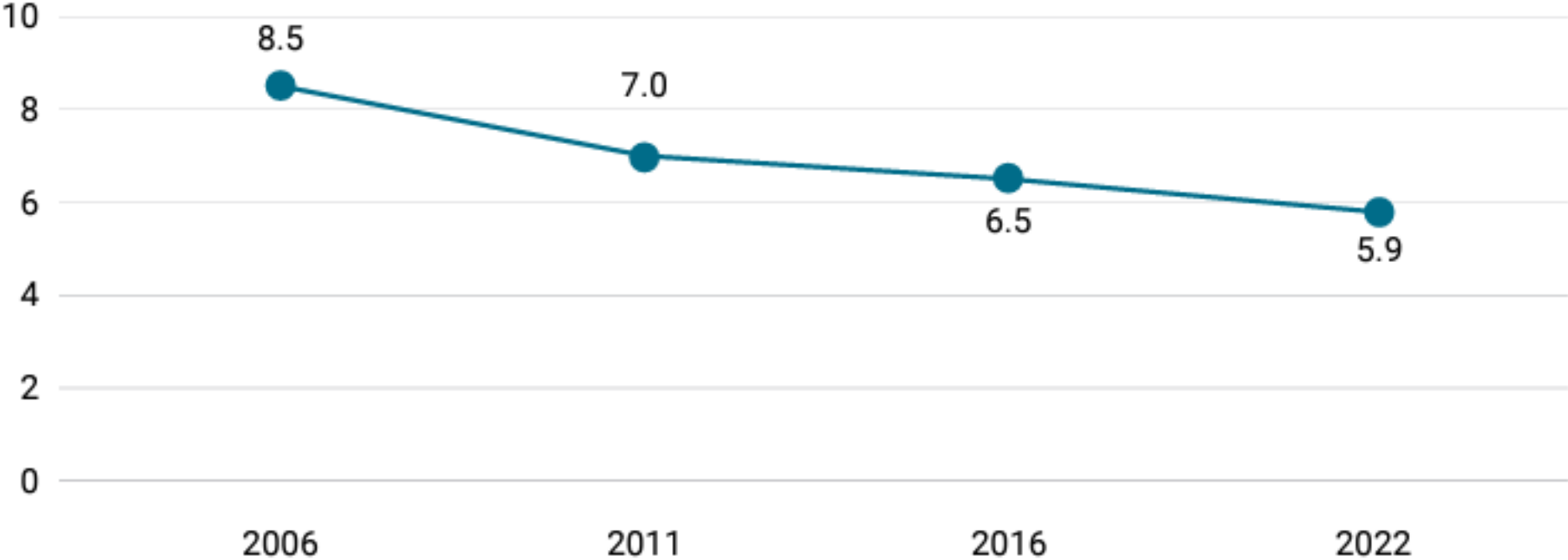
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- Comprehensive/holistic planning is key to success
- Look at investment risk in the context of total enterprise risk (finances, operations)
- Prioritize risk appropriately for the school's long-term future
  - Equities increase short-term risk/volatility, but enhance long-term returns
  - An overly conservative asset allocation may increase the risk of mission failure
  - Endowment growth is more likely than enrollment growth
  - Don't overspend from the endowment
- DON'T Borrow from Endowment!



# Political Pressure Contributes to Increased Presidential Turnover

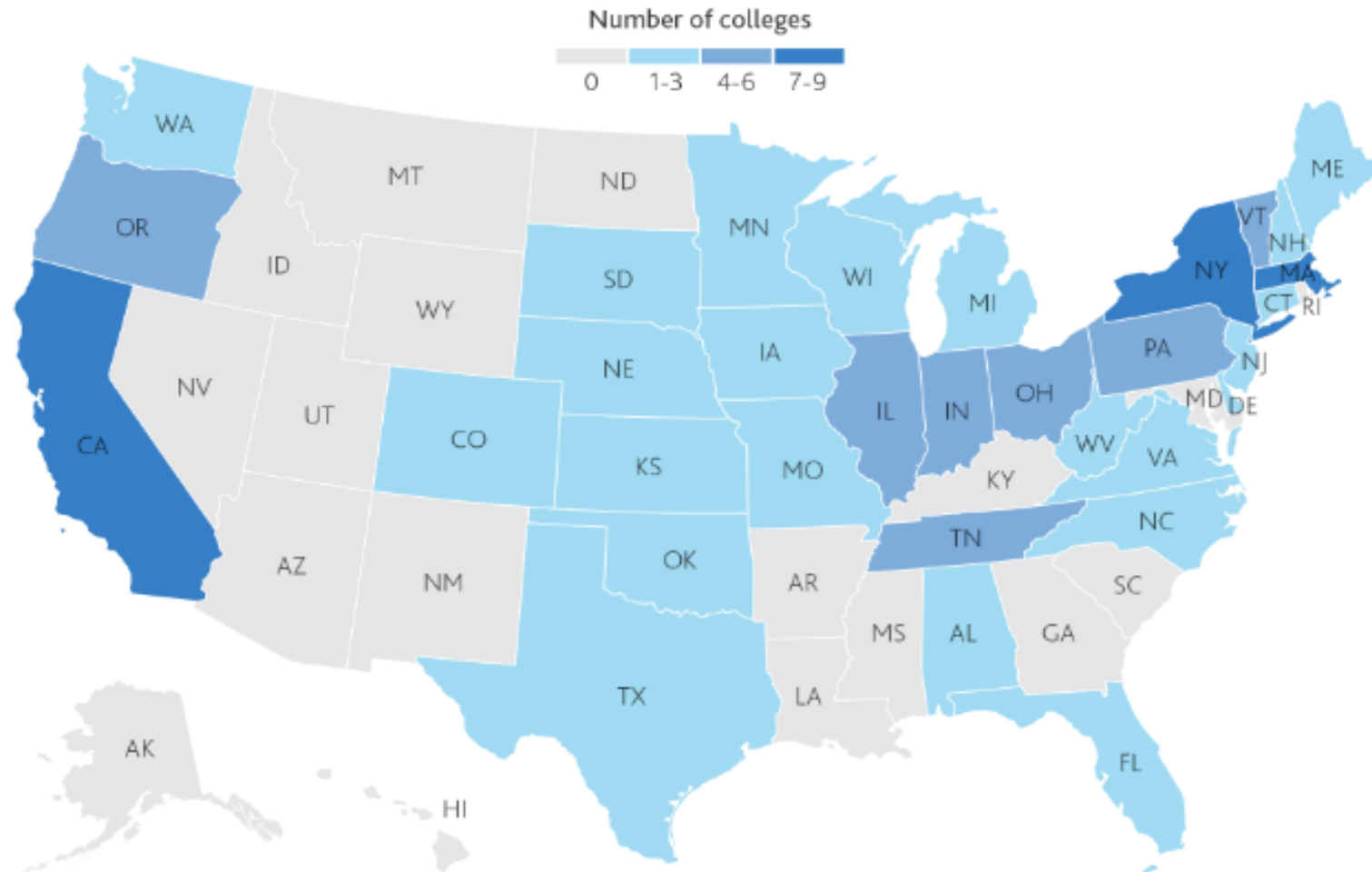
AVERAGE TIME IN PRESIDENTIAL POSITION: 2006- 2022



Source: American Council on Education "The American College President, 2023 edition"

# Rising Pace of Closures and Mergers Highlights Pressures

## COLLEGES AND UNIVERSITIES ENGAGED IN MERGERS OR CLOSURES SINCE 2016



## Current Strategies Are Unlikely to Offset Unfavorable Trends

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*“Many smaller, less selective private colleges in the Northeast and Midwest have identified strategic initiatives to attract and retain students.*

*But these will not be sufficient to overcome demographics risks and changing consumer preferences that are long-term hurdles across the sector.”*

*- Moody’s U.S. Public Finance*

# Rigorous Planning is Needed for Schools to Survive and Thrive

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**1**

**Clarity of Purpose**

**2**

**Articulating a Compelling Value Proposition**

**3**

**Focus on Student Employability**

**4**

**Focus on Affordability**

**5**

**Student Support**

**6**

**Agility**

# A Cultural Shift is Needed to Right the Ship

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The first step is to **GARNER SUPPORT FROM TRUSTEES, FACULTY AND STAFF** for radical changes.

- Revenue Growth has been the focus... Plan on a decline in revenue
- Cultivate strong board and presidential leadership
- Seek an external assessment of your current market situation
- Undertake a peer analysis – The College Stress Test
- Apply innovative business-like thinking.... This may require reinvention
- Explore mergers/partnership
- Enact radical expense discipline/reduction

# Success Stories

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- Strategic merger of financially strong but small colleges
- Niche focus – career-focused, conservative/religious
  - Agribusiness
  - Veterinary program
  - International graduate students
- Lower cost model for private C&U
- Hybrid/Choice model with online component
- Shared services
- Career services with active training



Q & A

# Summary

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- Small, private C&U face the greatest threats within higher ed
  - Northeast and Midwest are oversaturated markets
  - Looming demographic cliff will compound challenges
- Current strategies to tackle issues are not radical enough - a cultural shift is needed
- Plan on a decline in revenue and pursue truly innovative strategies
- Endowment can provide some runway if managed appropriately
  - Evaluate the role of the endowment in supporting long-term sustainability
  - Align portfolio with the school's operational and financial realities
  - Position portfolio to achieve higher growth

# Resources

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- Moody's Investors Services: ["Small institutions in Northeast and Midwest Face Credit Stress as Enrollment Declines"](#)
- Harvard Business Publishing Education: ["Many Small Colleges Are Struggling. Here's What Leaders Need to Do."](#)
- Hanover Research: ["2024 Trends in Higher Education Report"](#)
- American Council on Education: ["The American College President, 2023 Edition"](#)
- AGB Report: ["Collaborative Research for Higher Education Business Model Vitality"](#)
- Hirtle Callaghan Webcasts:

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