

Demographic Pressures in Higher Education

NAHEFFA Fall Conference 2023, Burlington Vermont

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With special acknowledgment to Nicholas Breeding
for research contributions

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U.S. Higher Education | Agenda



Ratings Overview



Mid Year Update

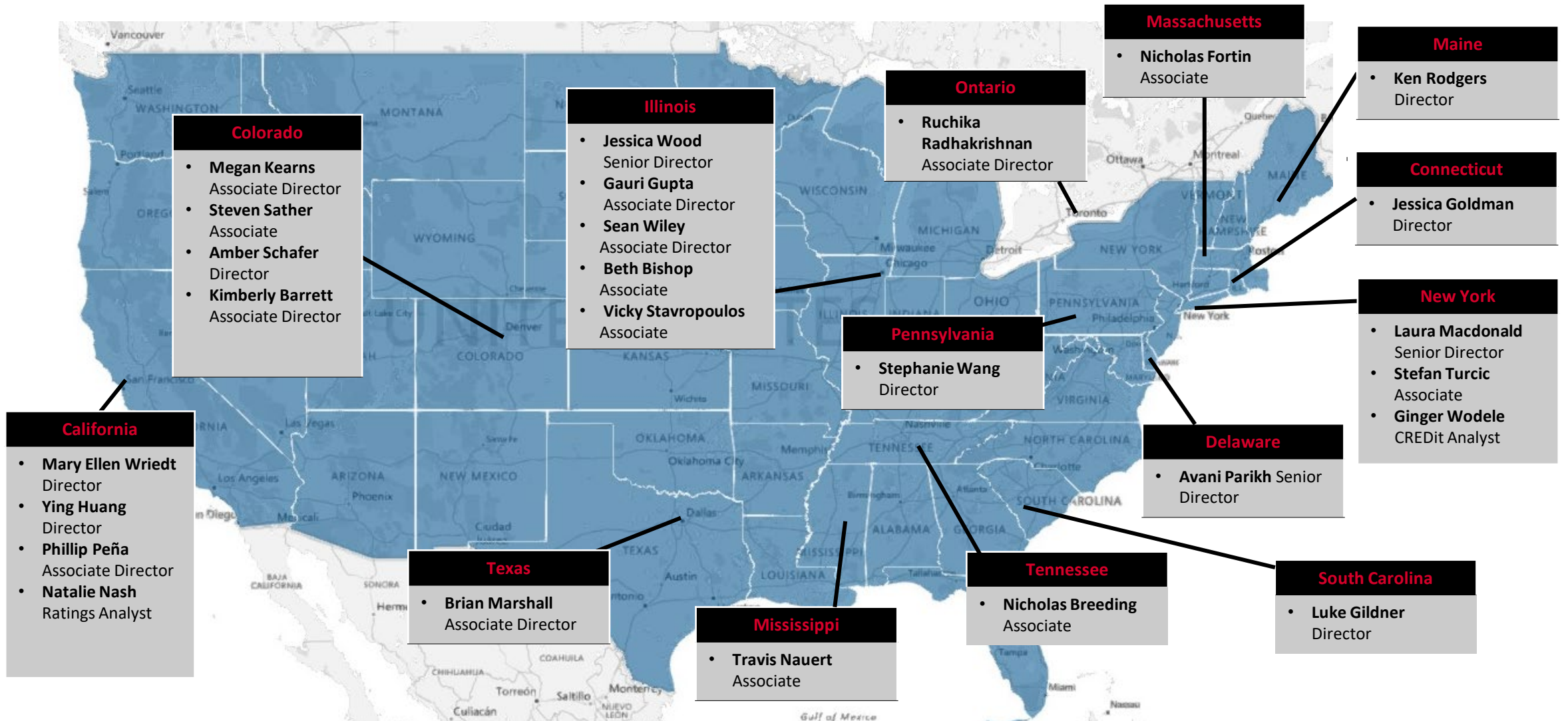


Higher Education Enrollment Trends

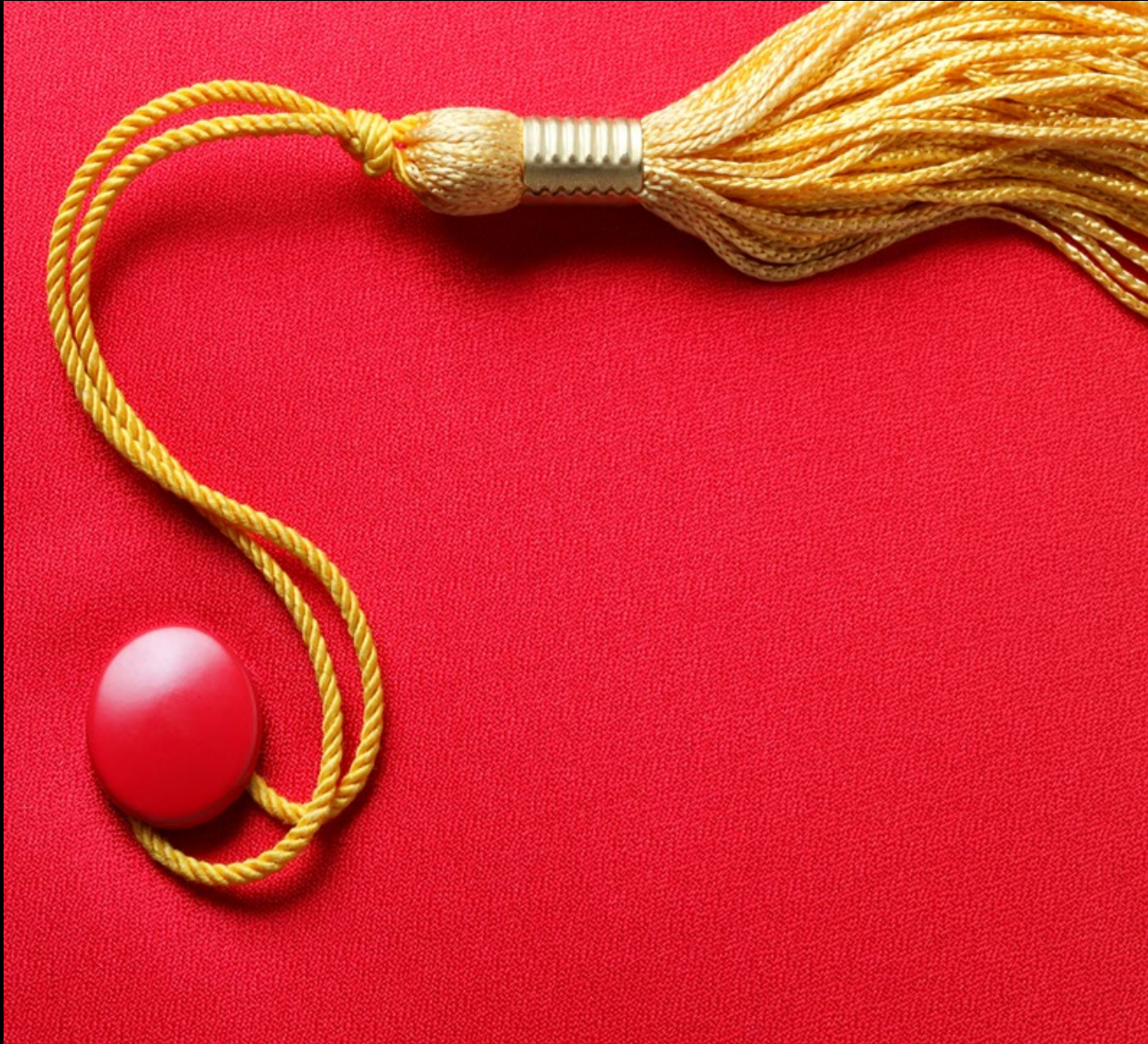


Demographics & Higher Education

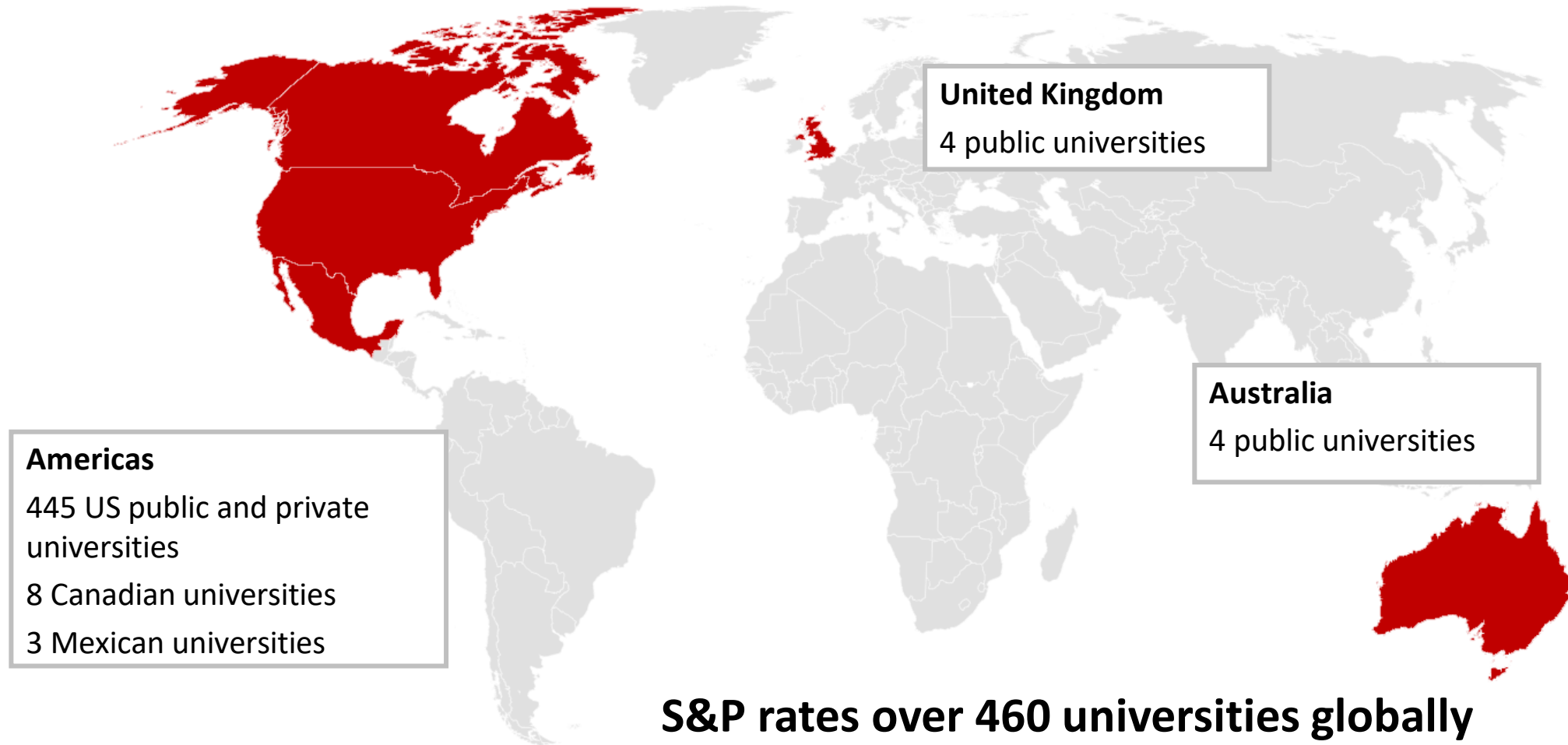
U.S. Higher Education | Our Team



Ratings Overview

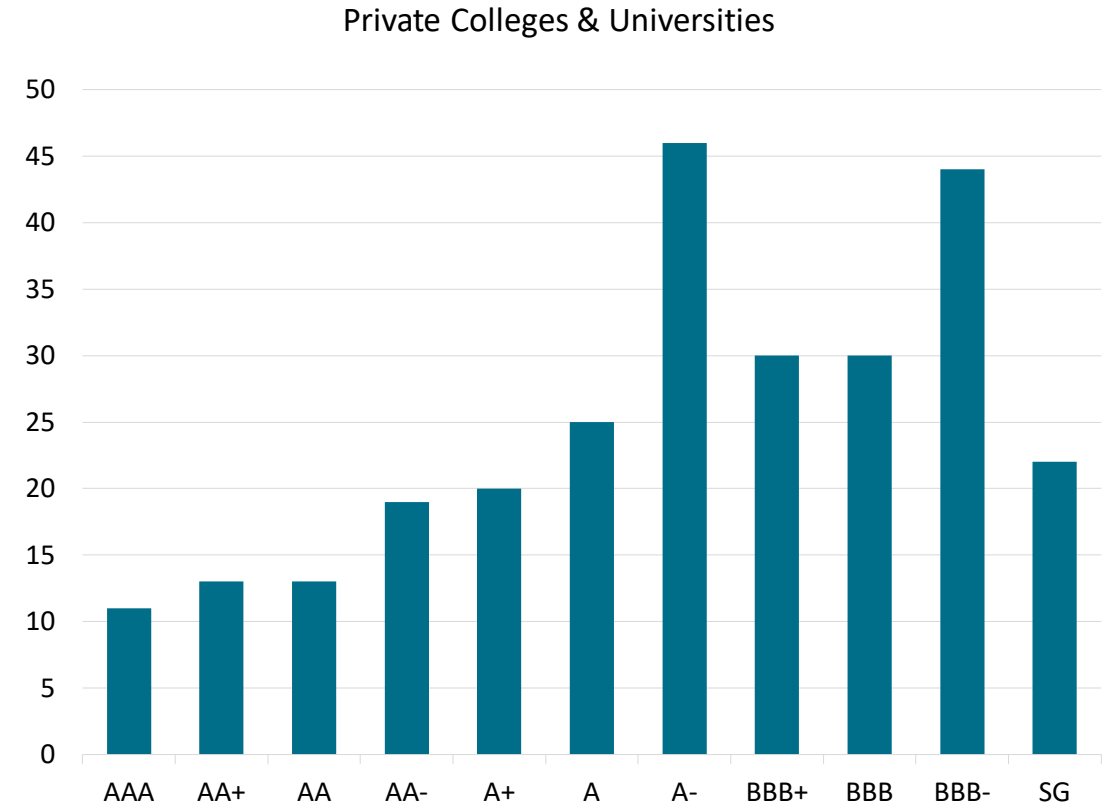
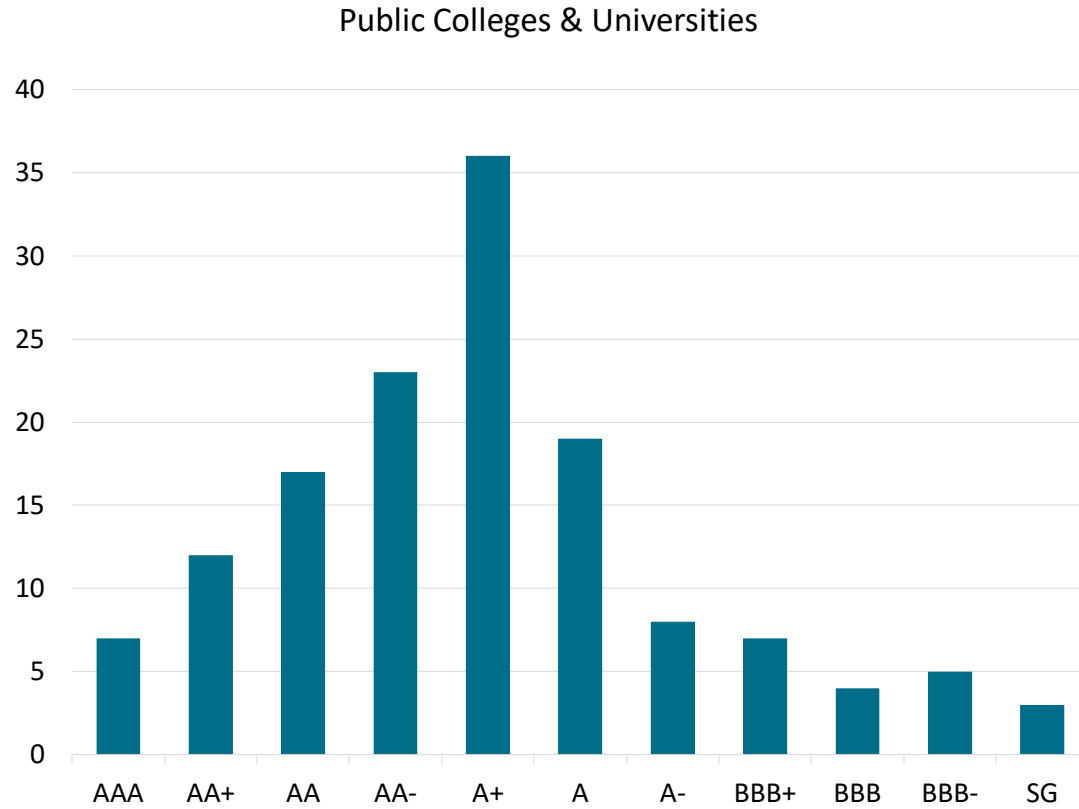


Ratings Overview | Rated Universe



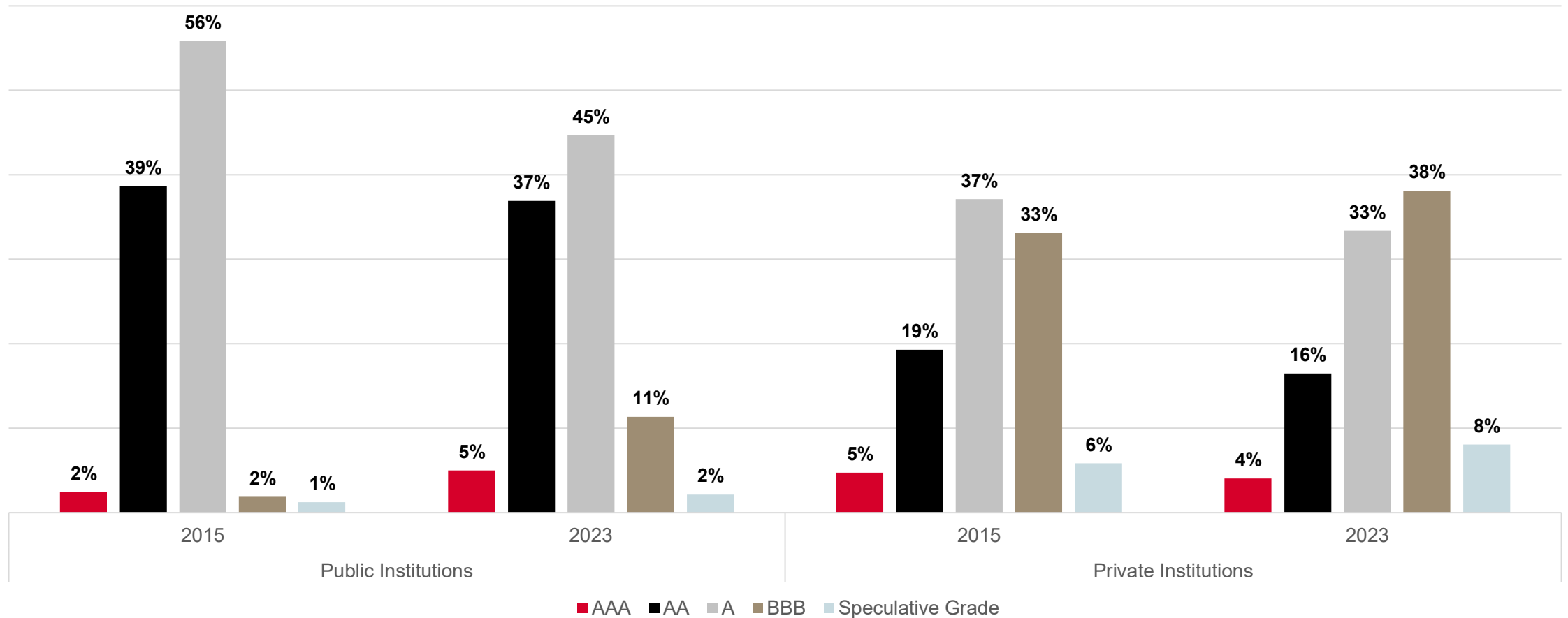
Source: S&P Global Ratings as of June 1, 2023

Ratings Overview | Ratings Distribution By Type Of Institution



Source: S&P Global Ratings as of June 1, 2023
Specialty schools have been excluded

U.S. Higher Education | Ratings Distribution, 2015 vs. Today



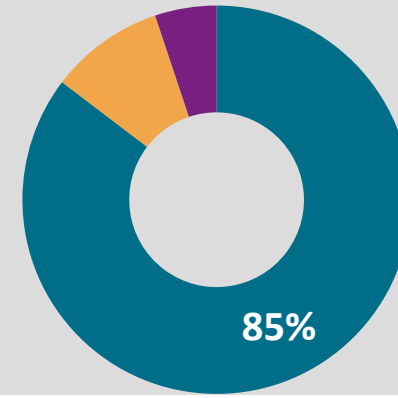
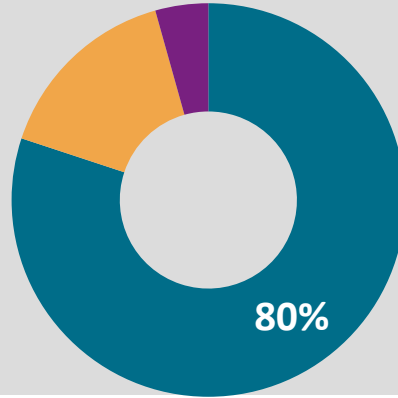
Source: S&P Global Ratings as of June 1, 2023
Specialty schools have been excluded

Ratings Overview | Outlook Distributions

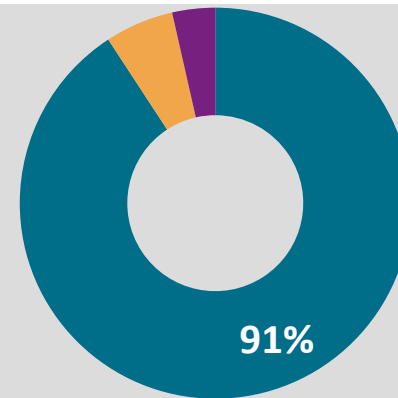
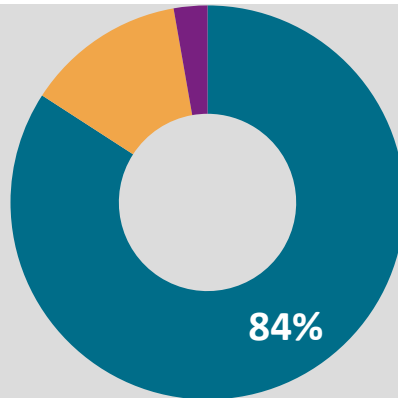
June 1, 2022

June 1, 2023

**Private
Colleges &
Universities**



**Public
Colleges &
Universities**



- Stable
- Negative
- Positive

Source: S&P Global Ratings as of June 1, 2023

Mid-Year Update



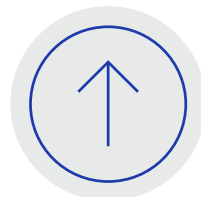
Mid-Year Update | Q3 Rating Action Summary

By The Numbers - U.S. Higher Education 2023 Third Quarter 2023 Rating Actions



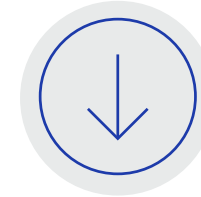
Total actions

15



Upgrades

2



Downgrades

2



3

New ratings



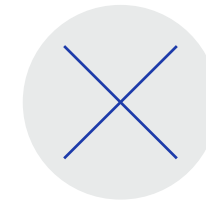
1

Outlook
revisions
to positive



2

Outlook
revisions
to stable



5

Outlook
revisions
to negative

Source: S&P Global data as of Sept. 30, 2023

Mid-Year Update | Rating Activity

	2015	2016	2017	2018	2019	2020	2021	2022	2023 YTD
Private and public colleges and universities									
Upgrades	11	54	9	3	14	3	12	9	10
Downgrades	37	42	28	20	17	28	14	14	20

Source: S&P Global Ratings. Data as of September 30, 2023

Mid-Year Update | What We're Watching



Operations After Federal Relief Funding

Stimulus funds have filled budgetary holes, but this safety net is now gone.



Fall 2023 Enrollment

Will enrollment declines continue in fall 2023, amid continued shifts in student preferences, competition, and market saturation



Recessionary Pressures

How will management teams navigate inflation and rising expenses?



Teacher Shortages & Labor Relations

Faculty and staff burnout, attrition, and labor & supply shortages present operational challenges



Event Risks

Cyber breaches, social unrest, major management turnover, and governance scandals can cause disruptions



Credit Quality Bifurcation

The gap between schools with greater financial flexibility and those without continues to widen

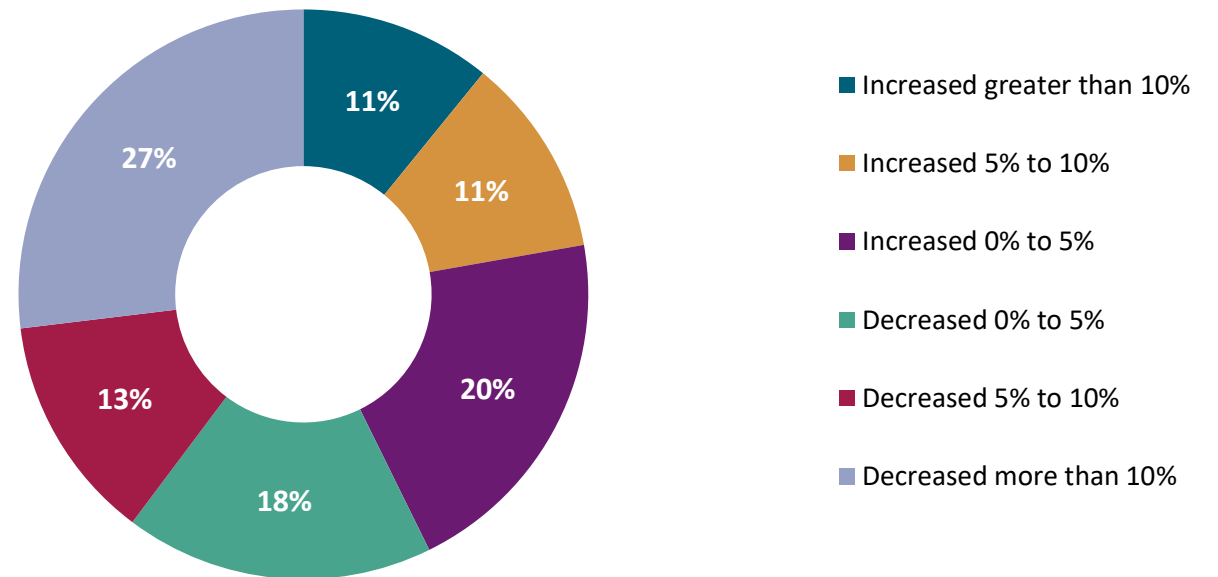
Higher Education Enrollment Trends



Higher Education Enrollment Trends | Three Year Enrollment Change

Nearly 40% of our rated colleges and universities experienced enrollment declines greater than 5% during the past three years

Change in FTE Enrollment, Fall 2019 to Fall 2022



Source: S&P Global Ratings as of June 1, 2023
Specialty schools have been excluded

Higher Education Enrollment Trends | One Year Enrollment Change

Average FTE Enrollment Change by Rating Category, Fall 2021 to Fall 2022

	All Ratings	AAA	AA	A	BBB	BB+ and below
Private colleges and universities	-1.0%	0.7%	0.1%	-1.3%	-1.4%	-1.6%
Public colleges and universities	-1.1%	0.6%	0.0%	-1.9%	-1.7%	-3.7%
All rated colleges and universities	-1.1%	0.7%	0.0%	-1.5%	-1.4%	-1.9%

Source: S&P Global Ratings as of June 1, 2023
Specialty schools have been excluded

Higher Education Enrollment Trends | Fall 2022 Enrollment

The enrollment downturn is slowing, but we have yet to see a full recovery

What we're watching:



Colleges making big changes to management and marketing strategies in efforts to improve enrollment



Amongst recruitment and enrollment pressures, some colleges look to prioritize outreach to underrepresented communities

Selected examples of Fall 21 to Fall 22 enrollment growth:

University of Texas	AAA Stable	2.0% Enrollment growth	52,384 Total enrolled students	30.3% Undergrads from underrepresented backgrounds
Morgan State University	A+ Stable	7.5% Enrollment growth	60% First generation college students	60% Pell grant eligible
High Point University	A- Stable	2.1% Enrollment growth	15% First generation undergraduates	22% Students of color

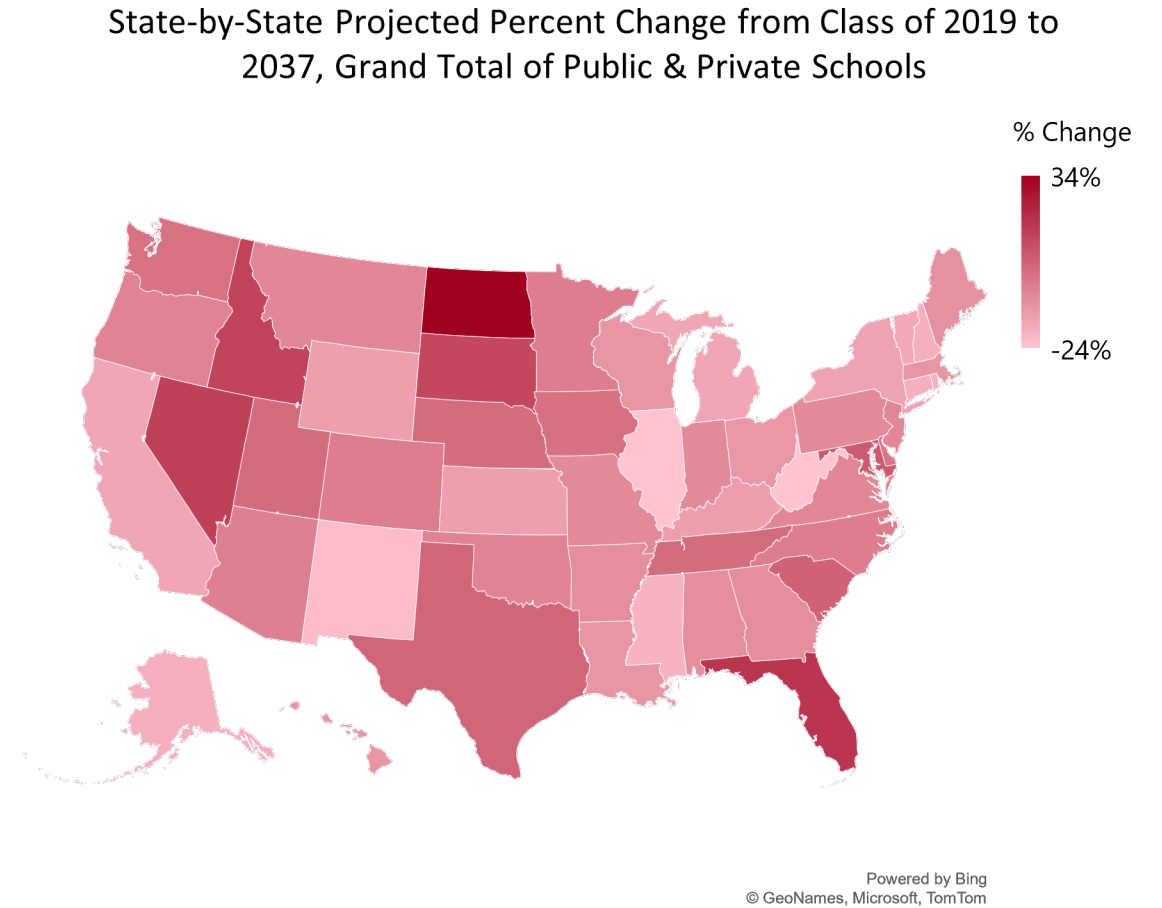
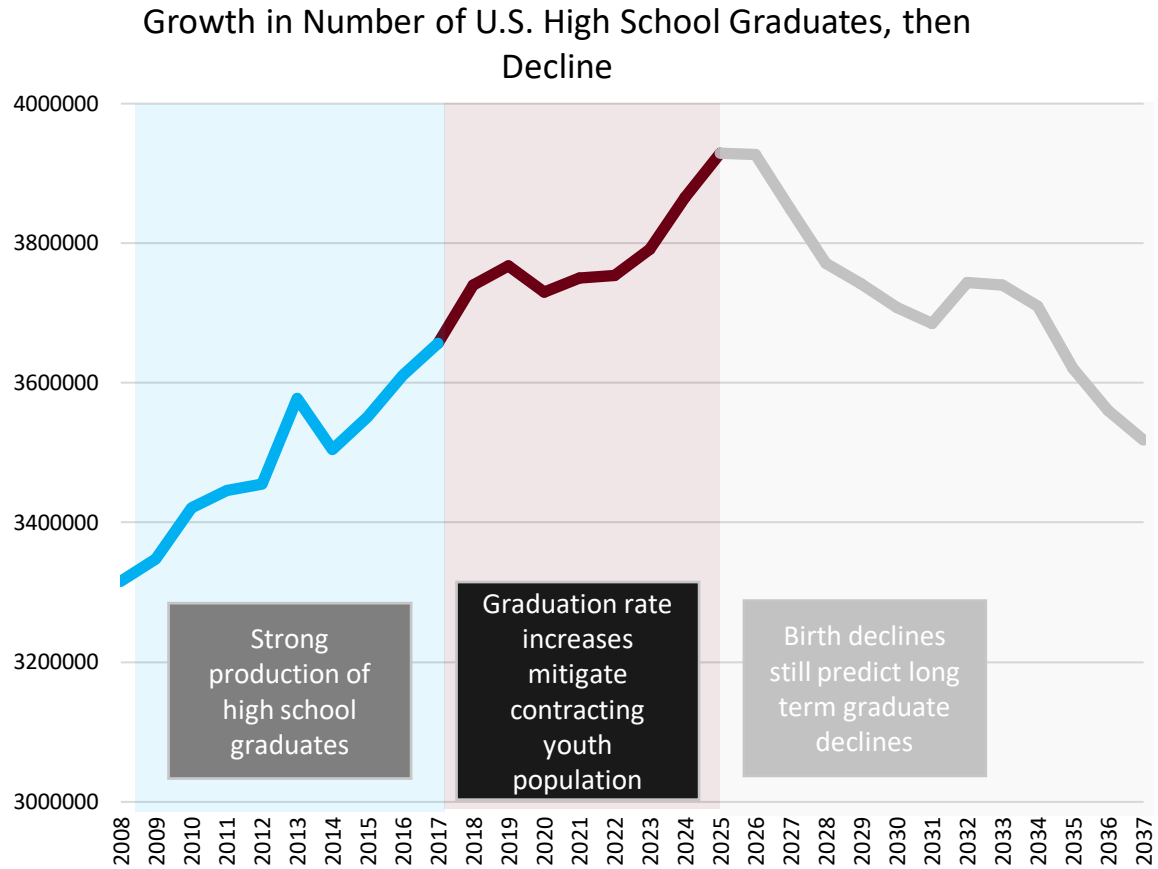
Source: Inside Higher Ed: "As the Pandemic Wanes, All Eyes Are on Enrollment," 2022.

Note: * Figure is approximate.

Demographics & Higher Education



Demographics & Higher Education | The “Demographic Cliff”



Source: WICHE: “Knocking on the College Door,” 2020.

Demographics & Higher Education | Sample ESG Language

Pressured Demographics:

Institution is located in State where declining demographics have challenged enrollment trends, which we consider as part of our market position analysis. We think, absent management's ability to implement initiatives to reverse declining demographic trends in the state, social capital risk could become more influential in our credit rating analysis and potentially lead to credit rating pressure.

Pressured Demographics, With Institution Mitigant:

Institution is located in a region with changing demographic trends, which we view as a social capital risk. However, Institution's demonstrated trend of increasing enrollment, prestigious market position, and out-of-state draw mitigate the potential impact of fewer projected graduating high school students in the state. Therefore, we view social credit factors as neutral in our analysis.

Increasing Demographics:

Institution is affected by changing demographic trends, which we view as a positive social capital credit factor in our analysis given increasing projected graduating high school students in the state. We believe Institution's demonstrated trend of increasing enrollment reflects an opportunity that we consider as part of our market position analysis.

Demographics & Higher Education | Impacts: Consolidations & Closures

On Closures

53 colleges closed permanently during the 2019-2020 school year

From 2016-2019, 86 colleges shut down or merged with other schools

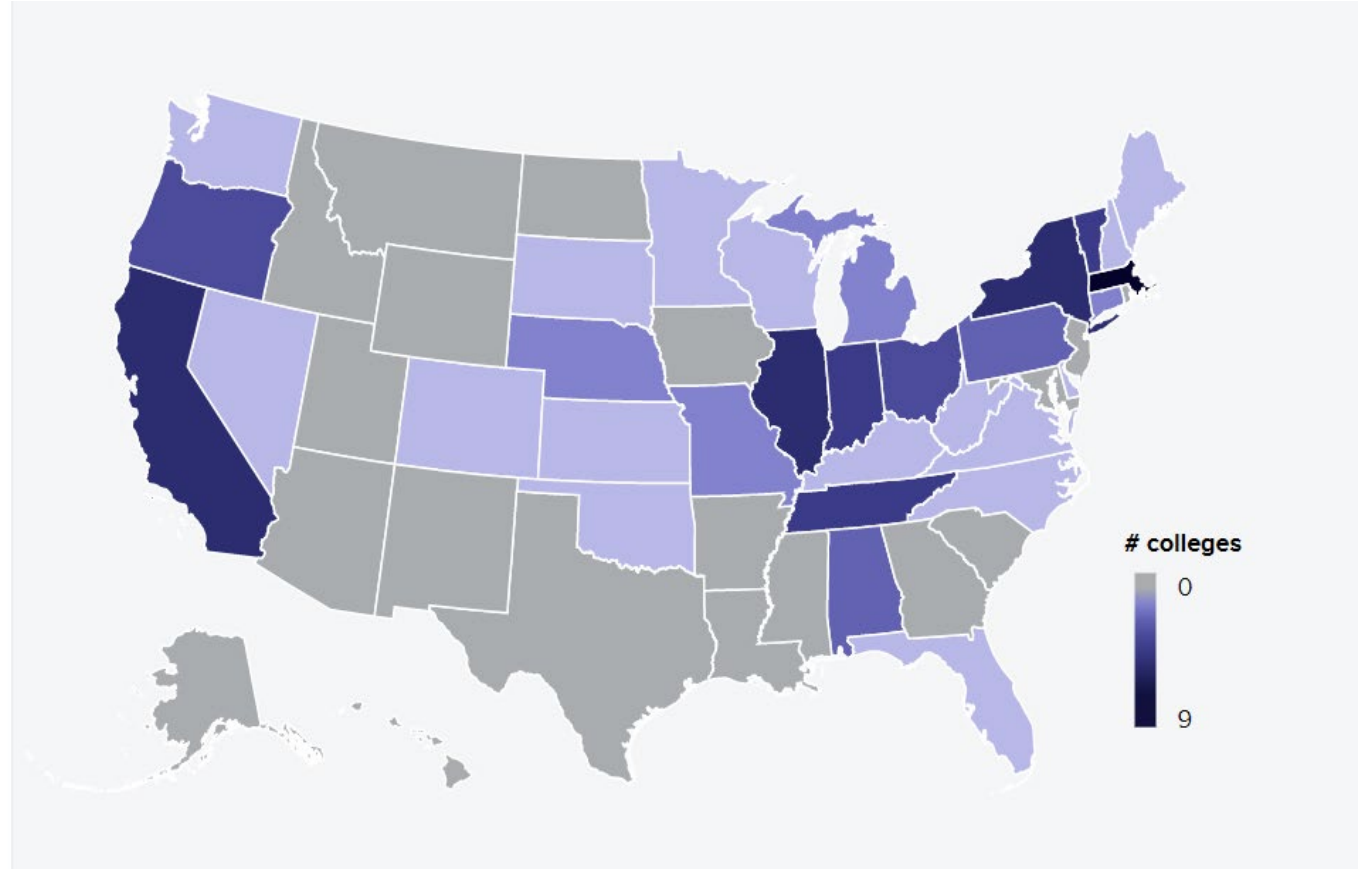
The pandemic exacerbated pre-existing enrollment and financial pressures.

On Consolidations

95 mergers completed in the last 4 years versus 78 completed in the prior 18 years

40% of mergers are private and non-profit schools while majority involve same state schools with students less than 5,000

Many mergers that are announced are not completed. Success for merged entities takes years to assess.



Q&A



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