

Outlook for US Higher Education
Washington Higher Education Secretariat

March 2016

Moody's Rates Universities Around the World

- » **30 credit analysts** bring sector and regional expertise to ratings
- » **800 rated organizations**, including: universities, philanthropic foundations, social service providers, membership organizations, and cultural institutions
- » Over **\$250 billion of rated debt**

- >520 public & private four-year universities
- >200 two-year colleges
- 100 not-for-profit organizations
- 40 private K-12 schools

United States



- 9 public universities
- Ratings from Aa1-A3

Canada



- 8 public universities
- 1 not-for-profit organization
- Ratings from Aaa-Aa2

England



- 2 public universities
- Ratings from Aa1-Aa2

Australia



- 2 public universities
- Both rated Aaa

Singapore



- 1 public university
- Rated Baa3

Mexico



- 1 public university based on a guaranty by a regional government

Spain





US Higher Education & Not-For-Profits Outlooks

Sector Outlooks Driven by Revenue Projections

Outlook Horizon: 12-18 months

Key Indicator: Modest real revenue growth in a low inflationary environment

US Higher Education
Stable

- Increases in net tuition revenue and state funding with increased investment income and steady philanthropy

Community Colleges
Stable

- Stabilizing net tuition revenue, and continued increases in state government funding and tax revenue

Not-for-Profits
Stable

- Endowment spending to support operations with total cash and investments reaching a new peak

Independent Schools
Stable

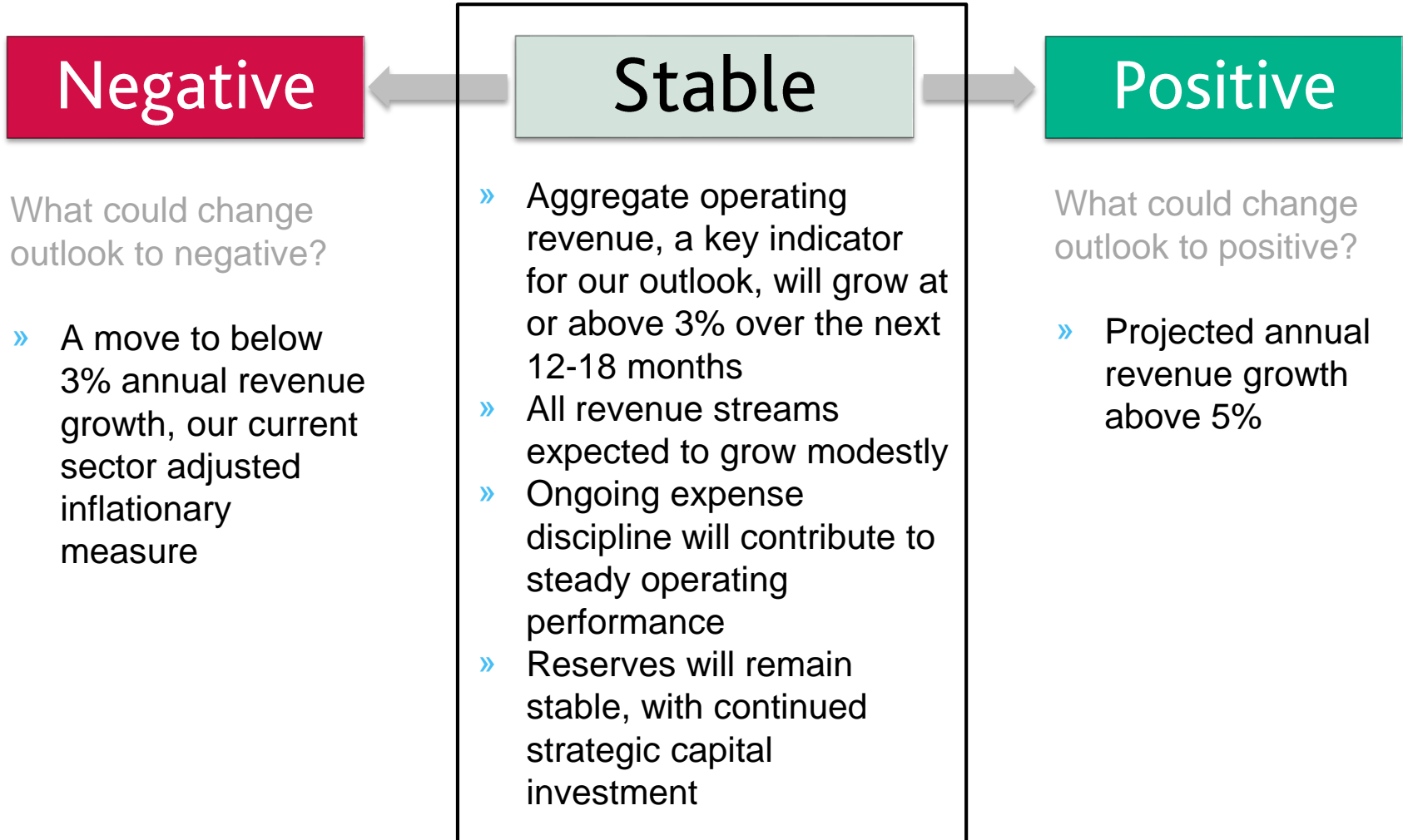
- Persistent demand, demonstrated pricing power, and sustained philanthropy



US Higher Education Outlook

US Higher Education Outlook is Stable

Outlook revised in July 2015 from negative



All Revenue Streams Expected to Grow, Albeit at Differing Rates

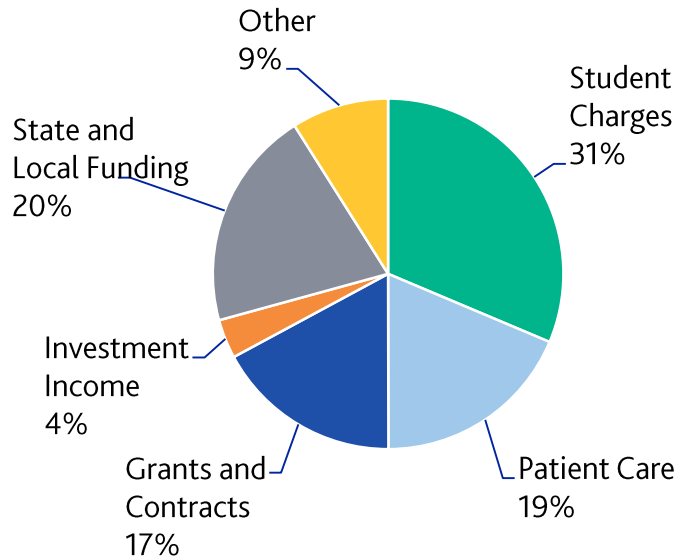
	Expected Growth Over Next 12-18 Months
Student Charges	2-3%
State Funding	2-4%
Patient Care	4-6%
Research	2-4%
Endowment Income	4-5%
Gifts	3-4%

Source: Moody's Investors Service

Sector-Wide Revenue is Diversified

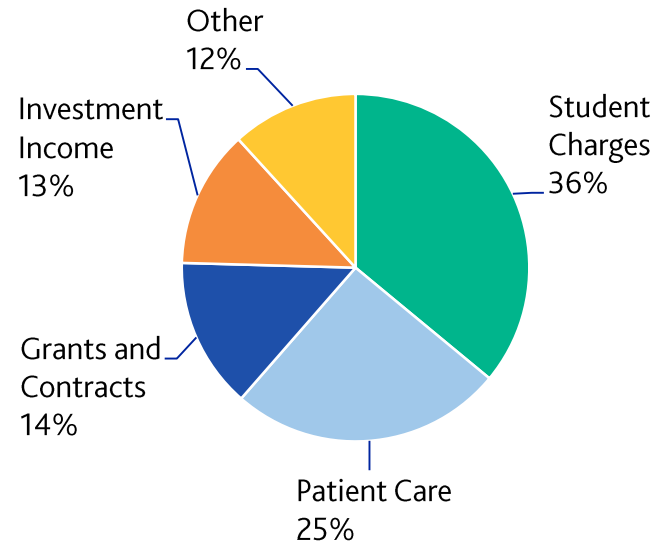
Publics benefit from state support; privates have more investment income

Public Universities Derive an Aggregate 20% of Funding from their States



* % of Operating Revenue in FY 2016 (projected)

Private Universities Have a Higher Exposure to Investment Income



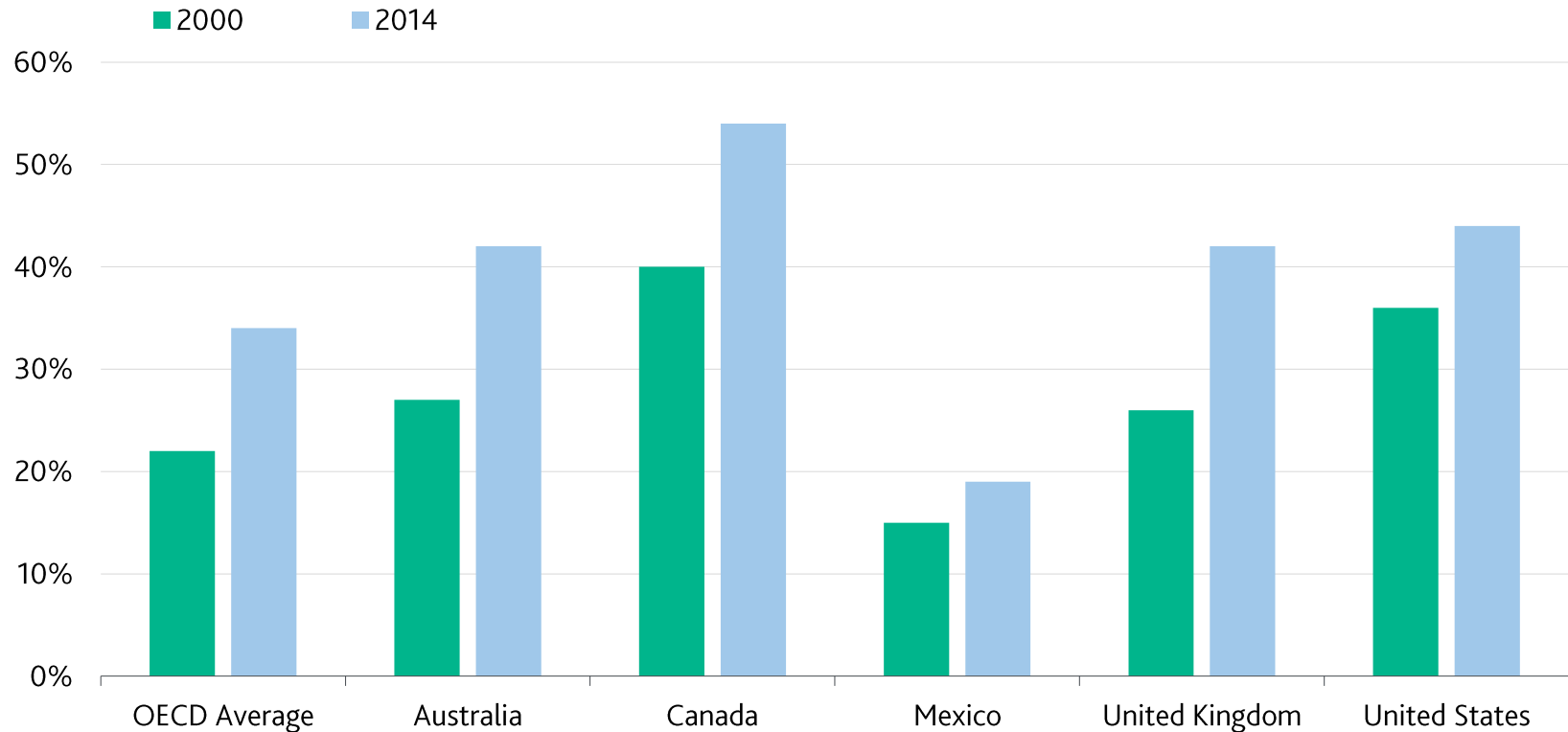
* % of Operating Revenue in FY 2016 (projected)

Source: Moody's Investors Service

Student Charges

Global Demand for Higher Education is Expanding Rapidly

Percent of 25-64 Year Olds Attaining Tertiary Education



Source: OECD, *Education at a Glance 2015*

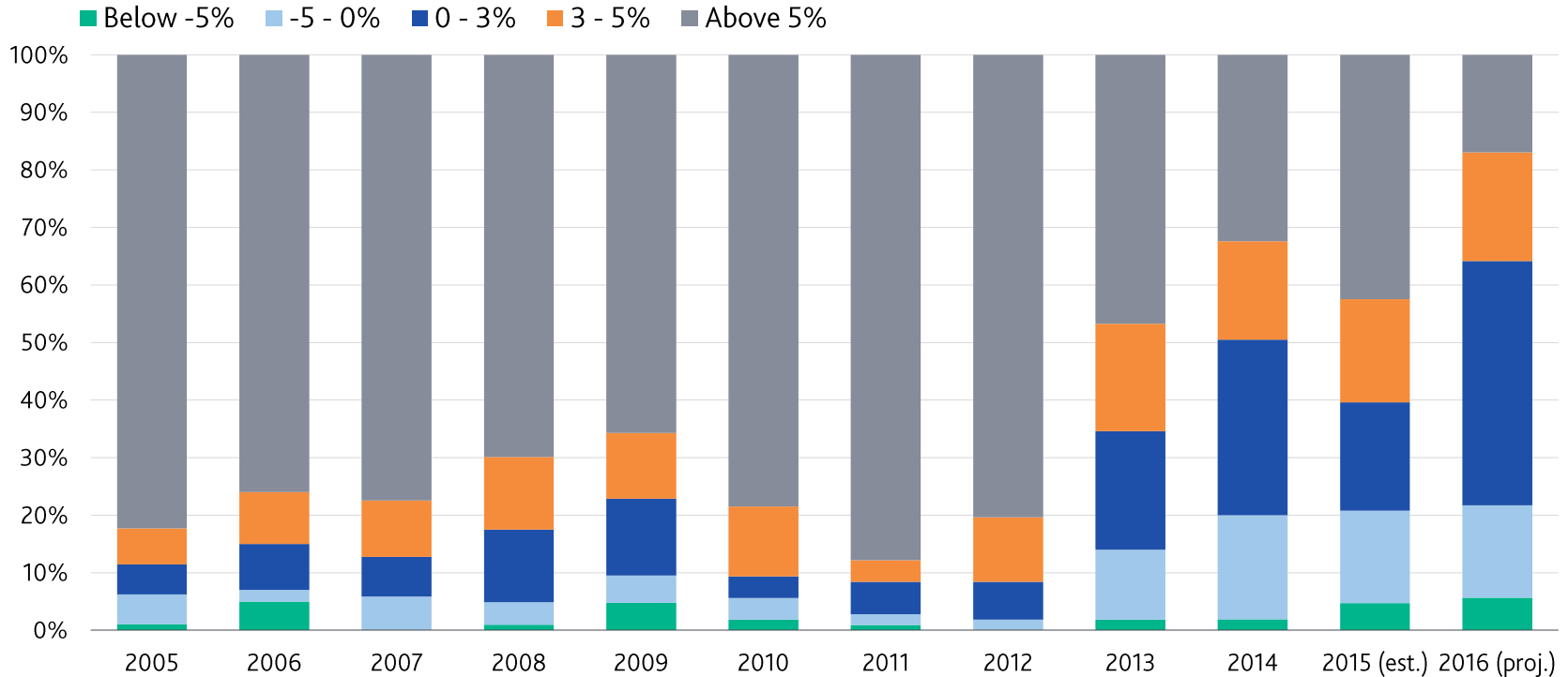
Influences on Willingness to Pay Tuition

	1991	2002	2008	2012	2013	2014	2015* (F)
Change in Household Net Worth	6.6%	-0.7%	-15.8%	9.2%	13.4%	5.16%	8.81%
Change in Median Sales Price of Existing Single-Family Homes	5.4%	7.6%	-9.2%	6.5%	11.4%	5.79%	6.49%
Unemployment Rate	6.9%	5.8%	5.8%	8.1%	7.4%	6.15%	5.19%

Sources: U.S. Board of Governors of the Federal Reserve System (FRB): Z.1 Flow of Funds, Moody's Analytics

More Public Universities Confront Constrained Net Tuition Revenue Growth

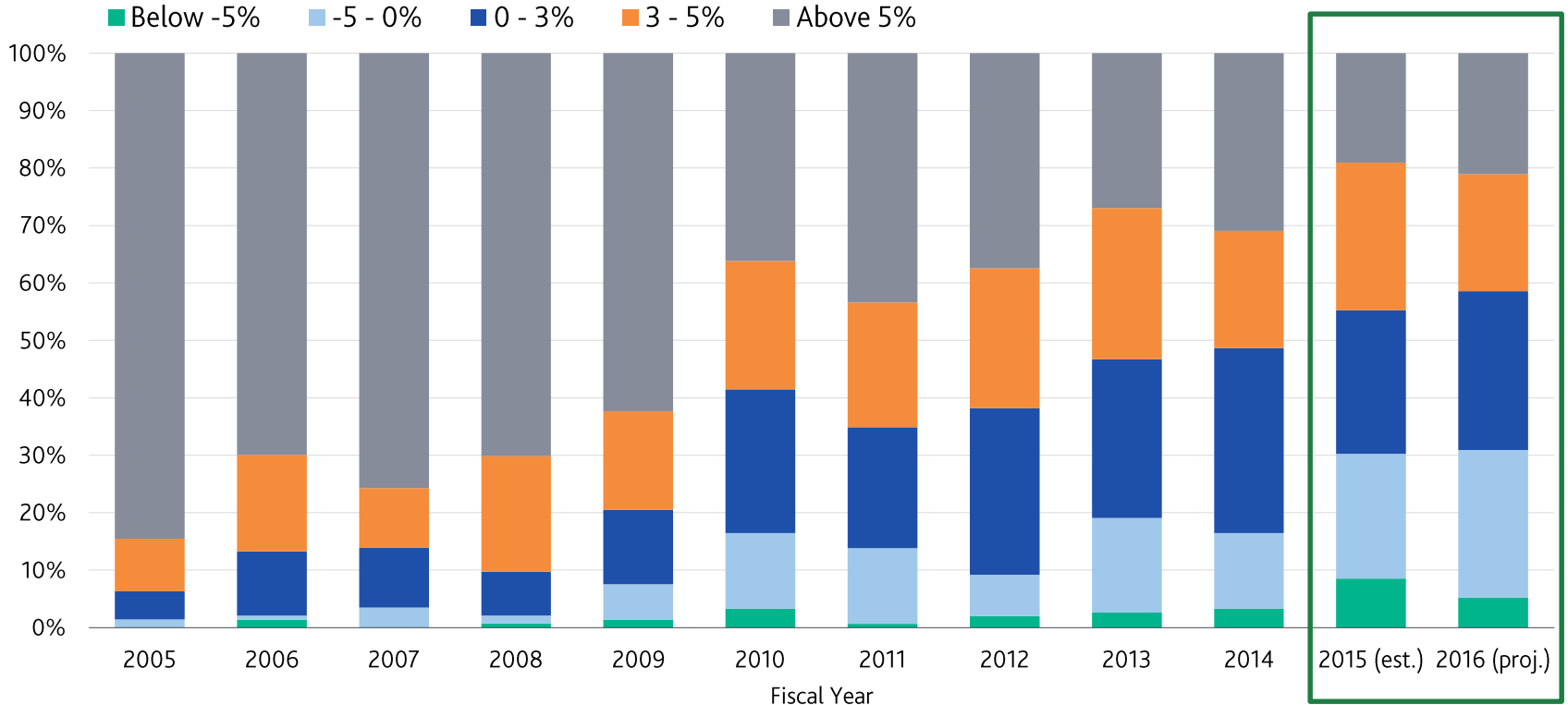
Percent of Public Universities by Change in Net Tuition Revenue



Source: Moody's Investors Service

Low Net Tuition Revenue Growth is New Normal for Private Universities

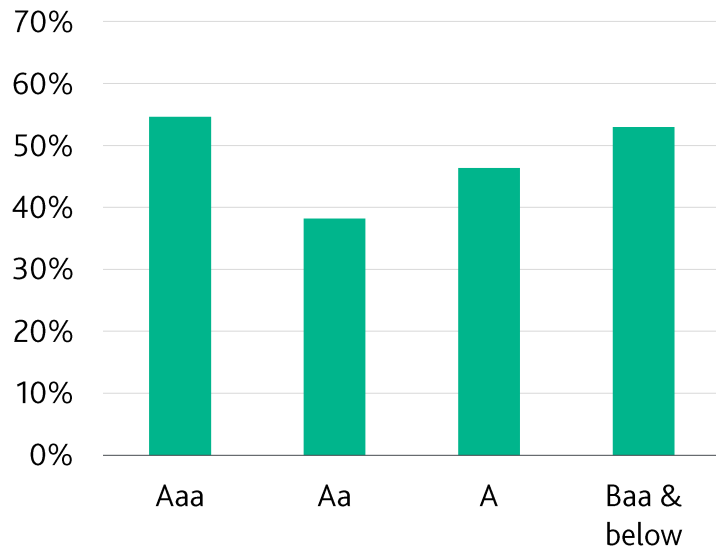
Percent of Private Universities by Change in Net Tuition Revenue



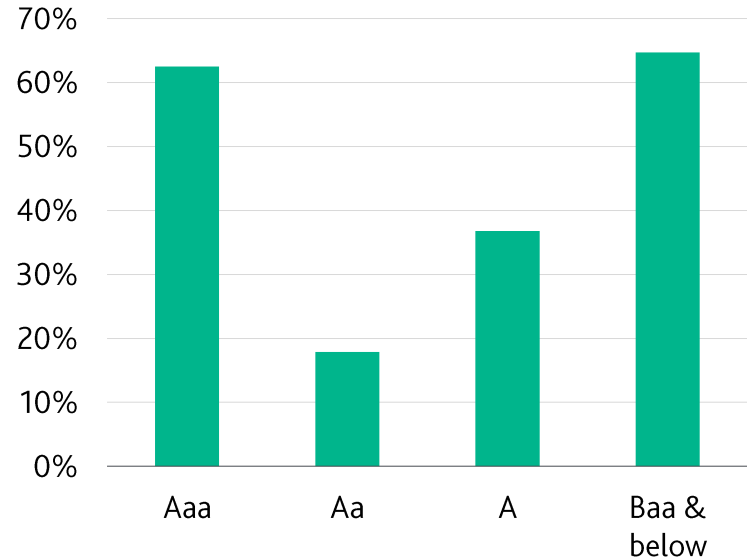
Source: Moody's Investors Service

Forty-Four Percent of Private Universities Discount Tuition by More Than Half

Median First Year Discount Rate for Fall 2015



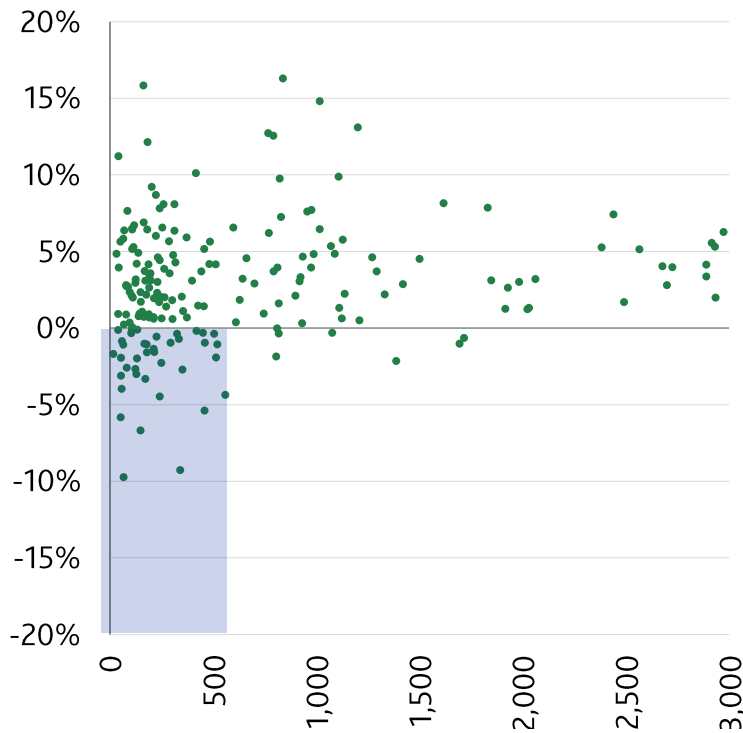
Universities with First Year Discount Rates Over 50%



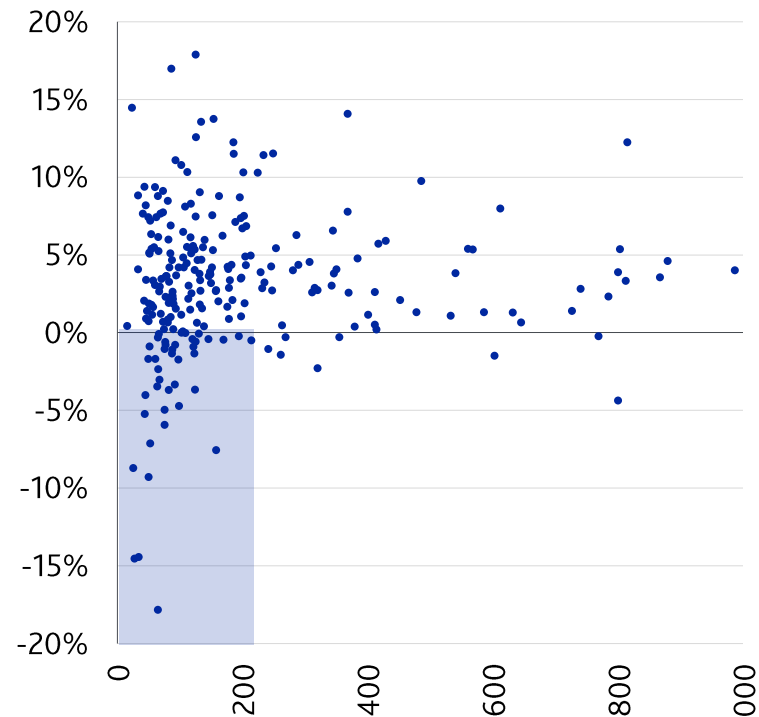
Source: Moody's Investors Service

Smaller Regional Public Universities and Small Private Universities Have Weakest Revenue Growth

Public Universities Arrayed by Operating Revenue Size (\$ Millions) and Annual Revenue Growth FY 2014



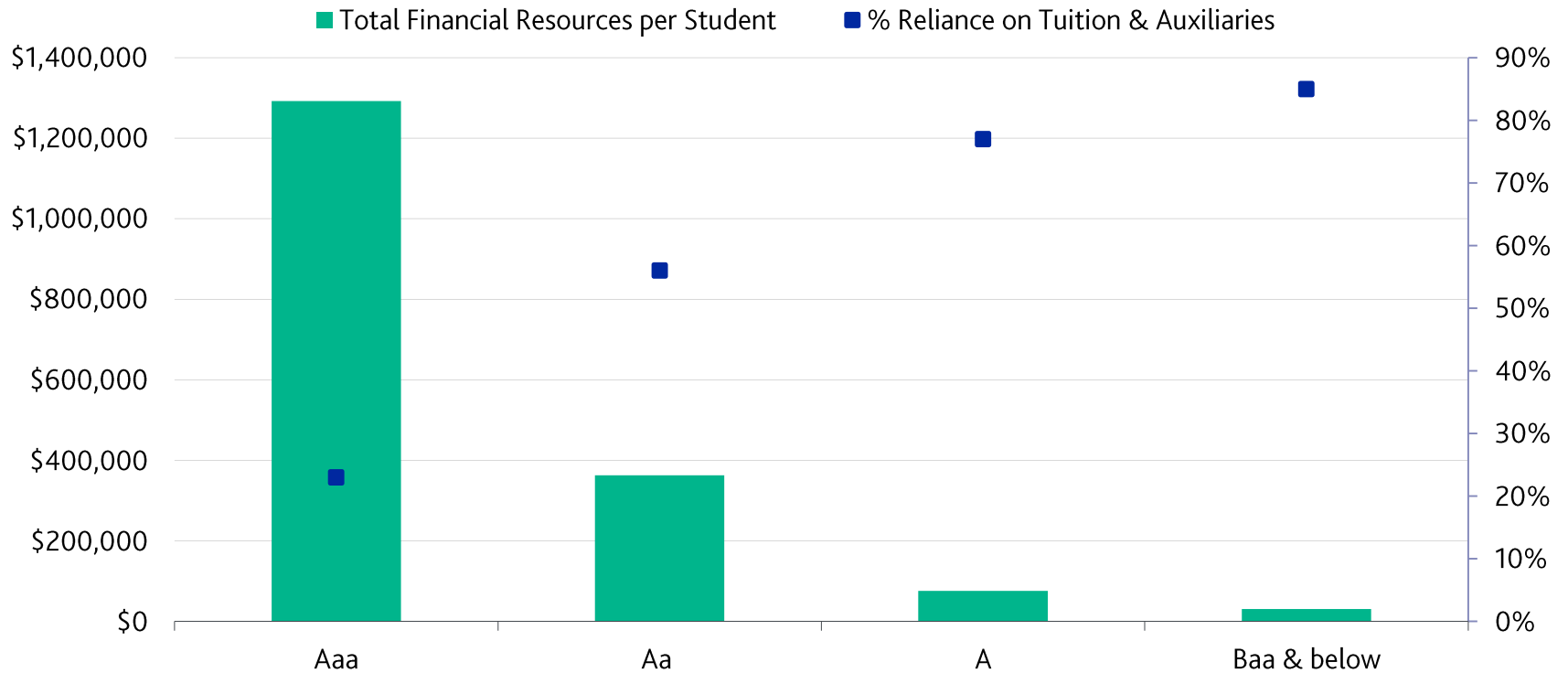
Private Universities Arrayed by Operating Revenue Size (\$ Millions) and Annual Revenue Growth FY 2014



Source: Moody's Investors Service

Wealthier Universities Less Reliant on Net Tuition Revenue

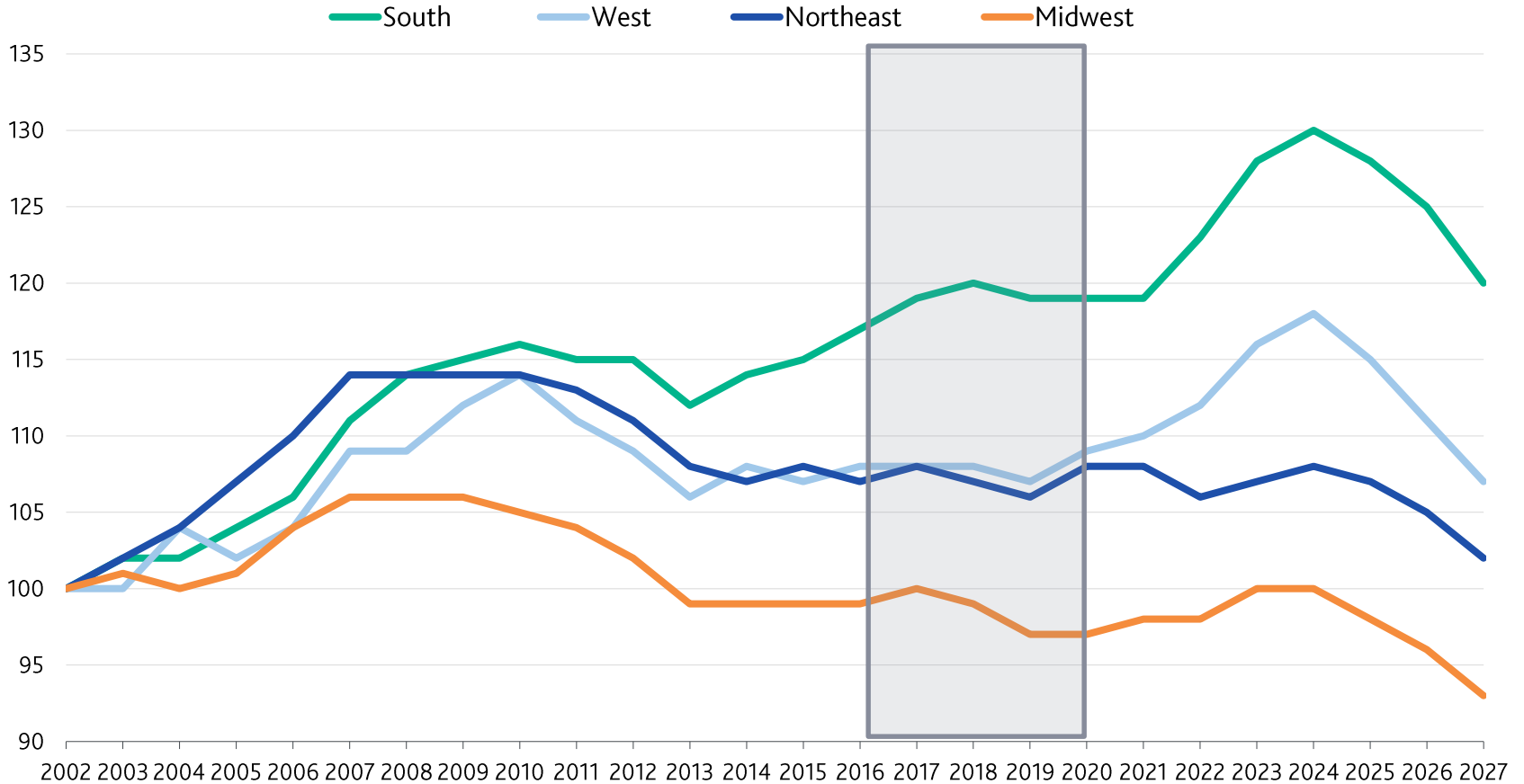
Fiscal Year 2014 Medians



Source: Moody's Investors Service

Flat High School Graduates Over Next Several Years

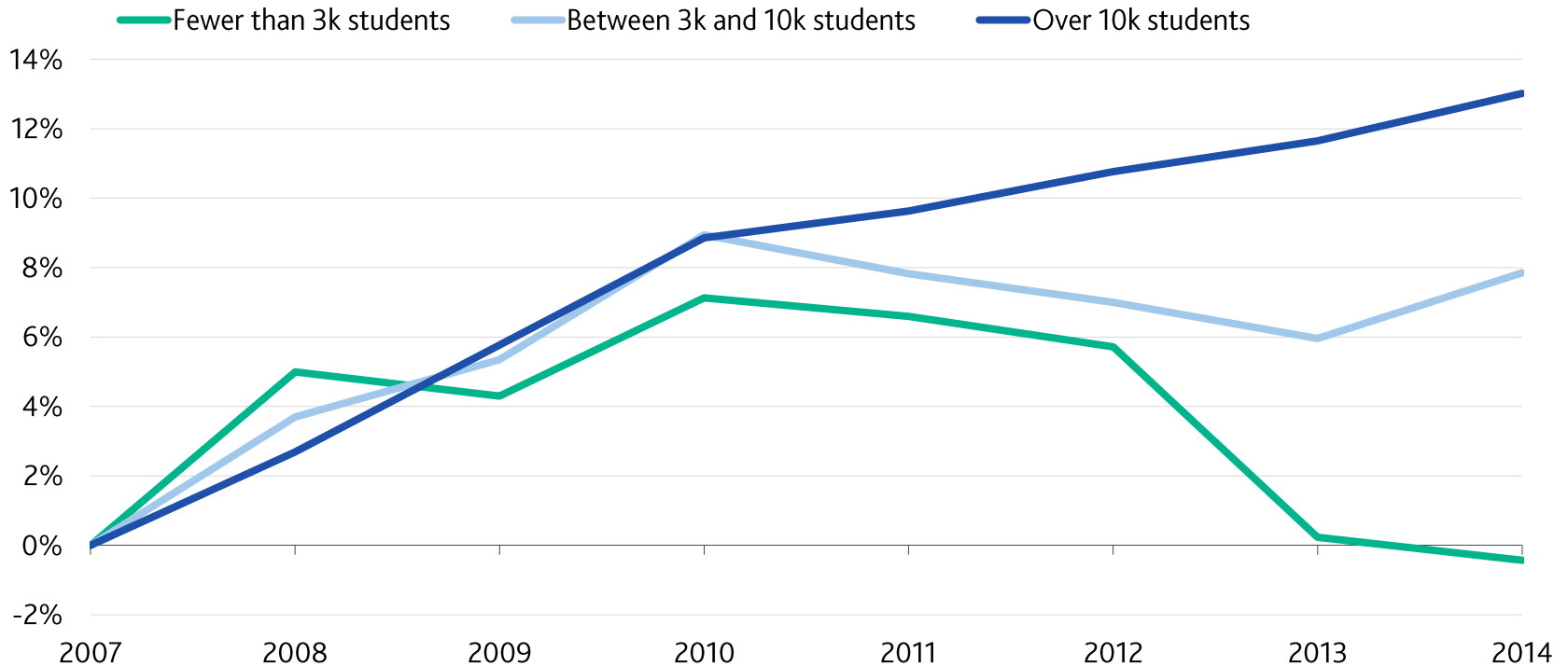
Projected High School Graduates (Base period: 2002 = 100)



Source: WICHE, Moody's Economy.com

Graduate Enrollment Growing for Large Universities, but Declining for Small Schools

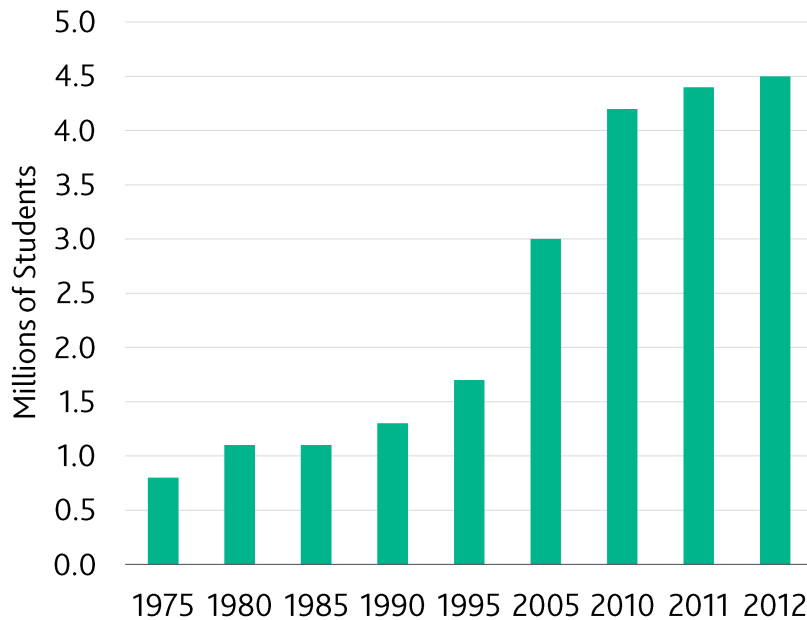
Graduate Enrollment Growing for Large Universities, but Declining for Small Schools



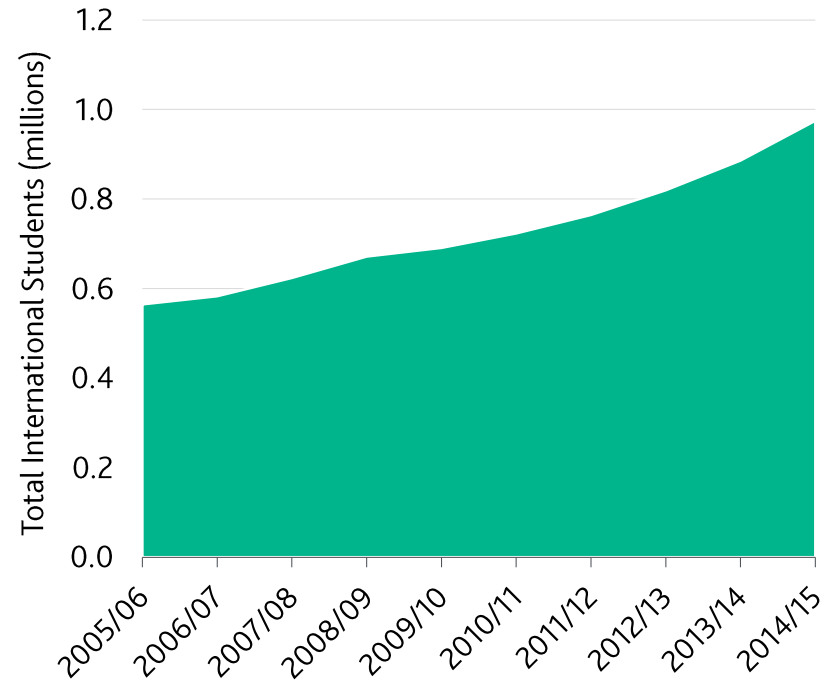
Source: Moody's Investors Service

International Student Enrollment has Increased Dramatically in the US and Globally

Number of Students Enrolled Outside Their Country of Citizenship



Millions of International Students in the United States

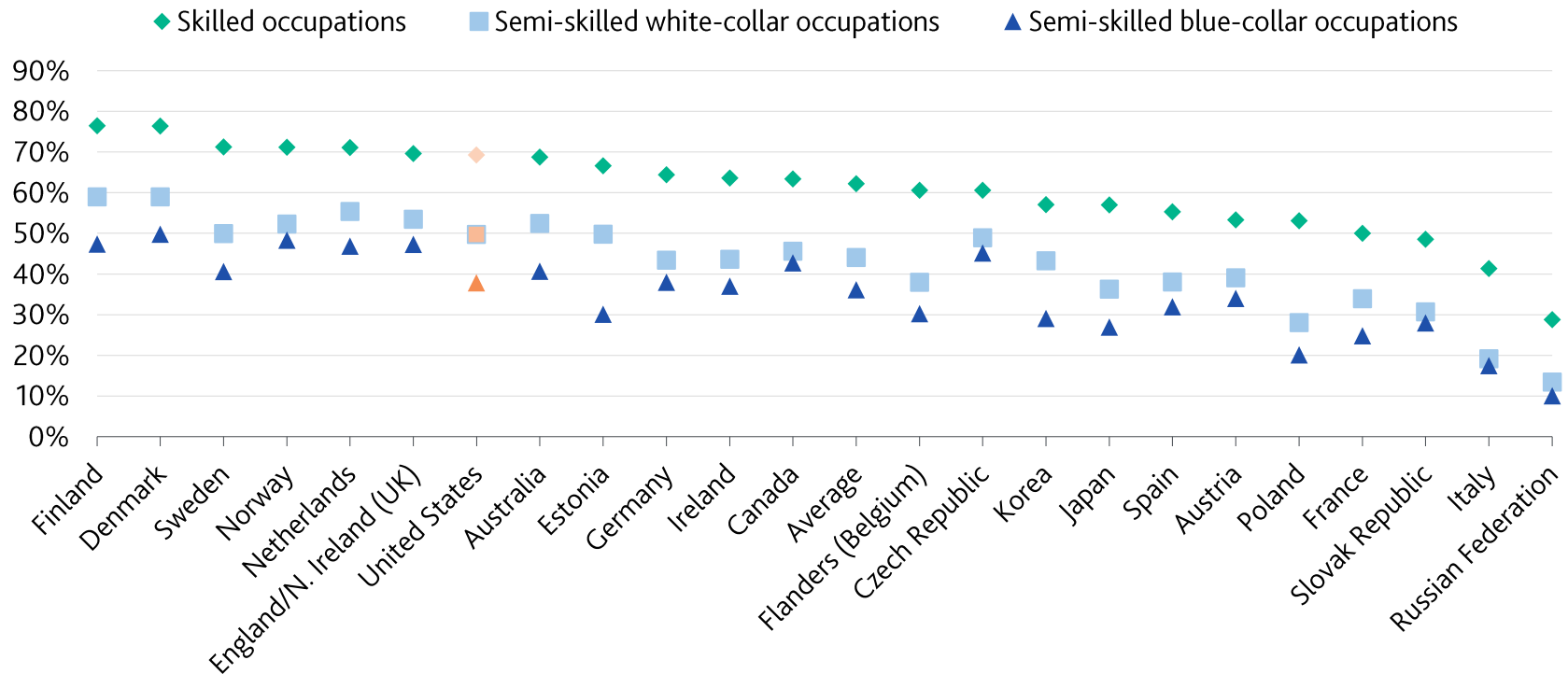


Source: OECD, Education at a Glance 2015

Source: Institute of International Education, Open Doors 2015 Report

High Numbers of Employees Globally Participate in Employer-Sponsored Education

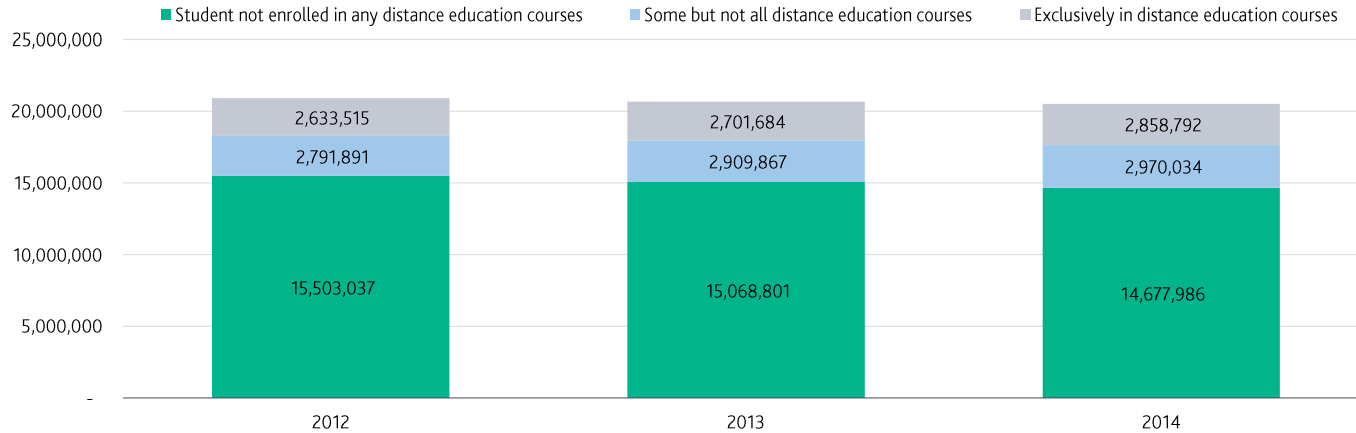
Percentage of Employed 25-64 Year-Olds Participating in Employer-Sponsored Education, by Occupation, 2012



Sources: OECD, Education at a Glance 2015; Survey of Adult Skills and Adult Education Survey

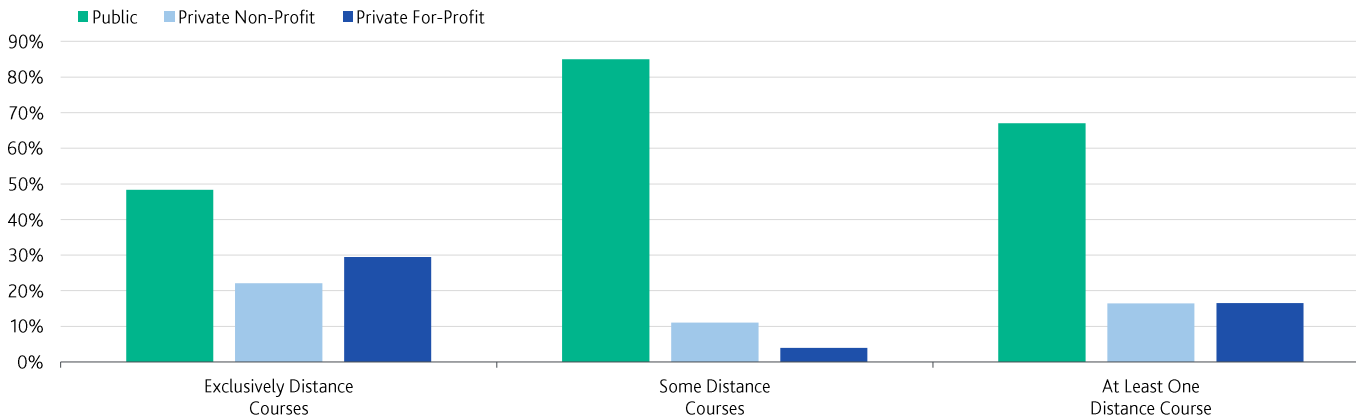
Online Education Augments Higher Education Enrollment

Online Enrollment Growth Increases While Total Enrollment Stagnates



Public Sector Provides Majority of Online Education

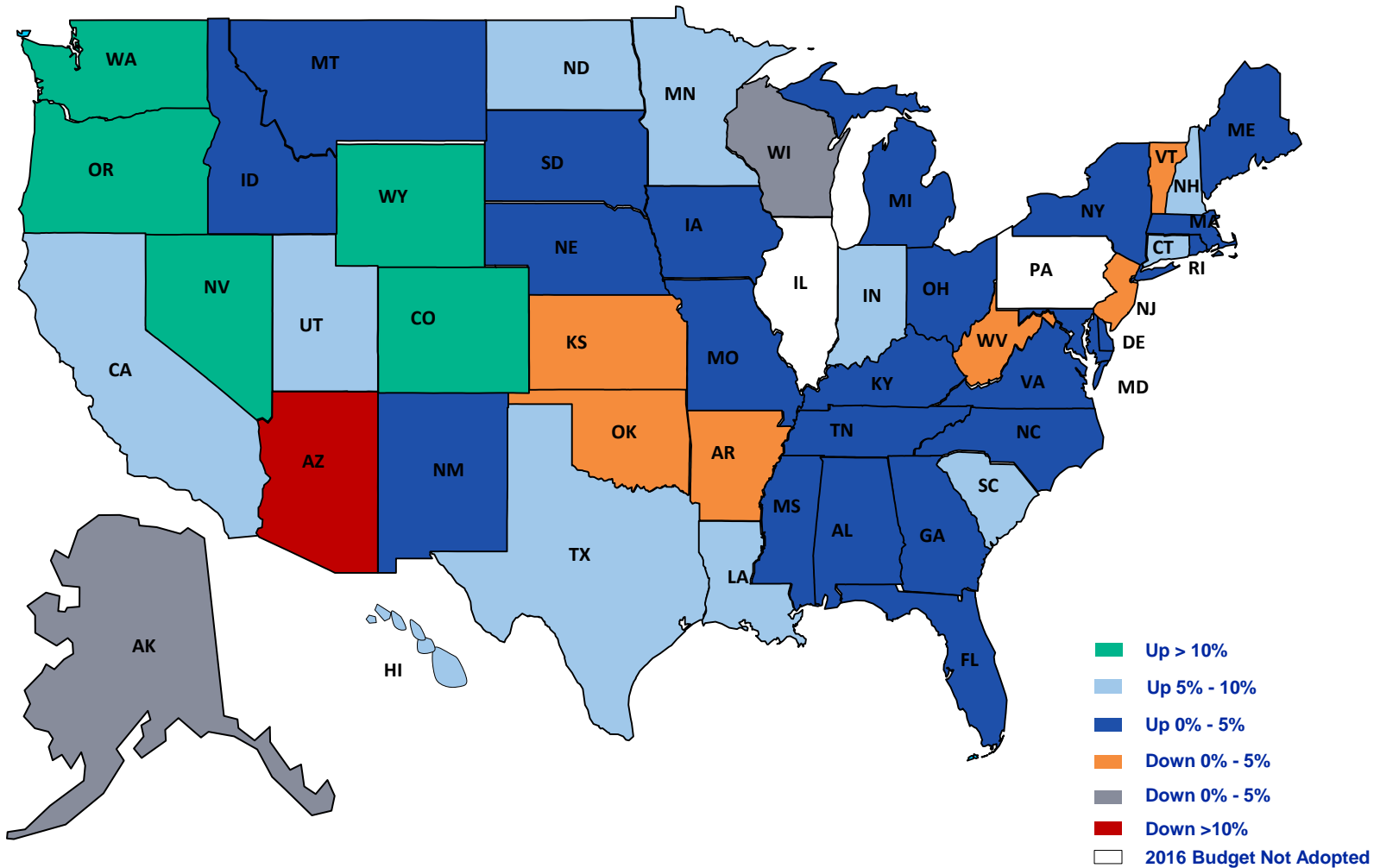
Market Share by Online Enrollment Type



Source: National Center for Education Statistics, Babson Survey Research Group - "Online Report Card Tracking Online Education in the United States"

State Funding

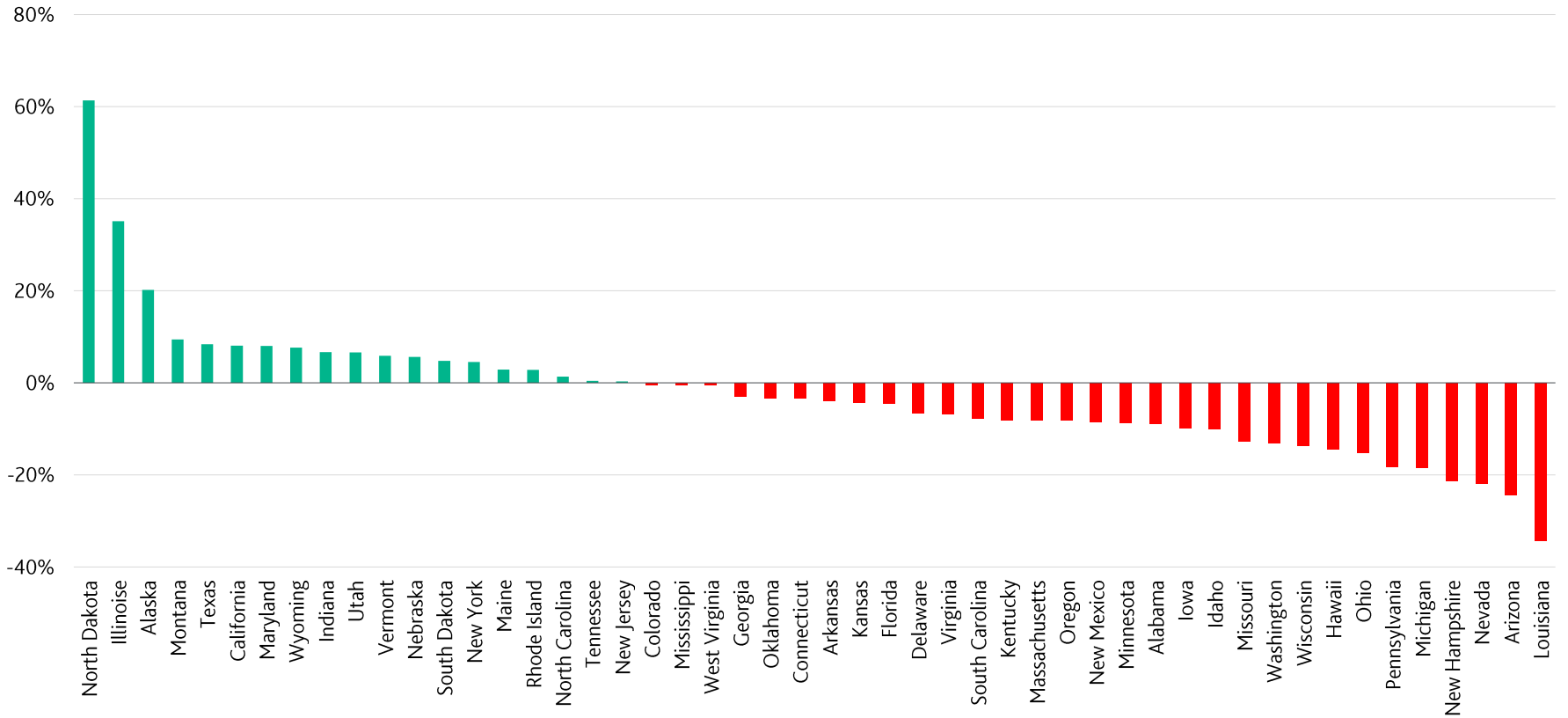
State Support on the Rise in FY 2016



Source: Grapevine

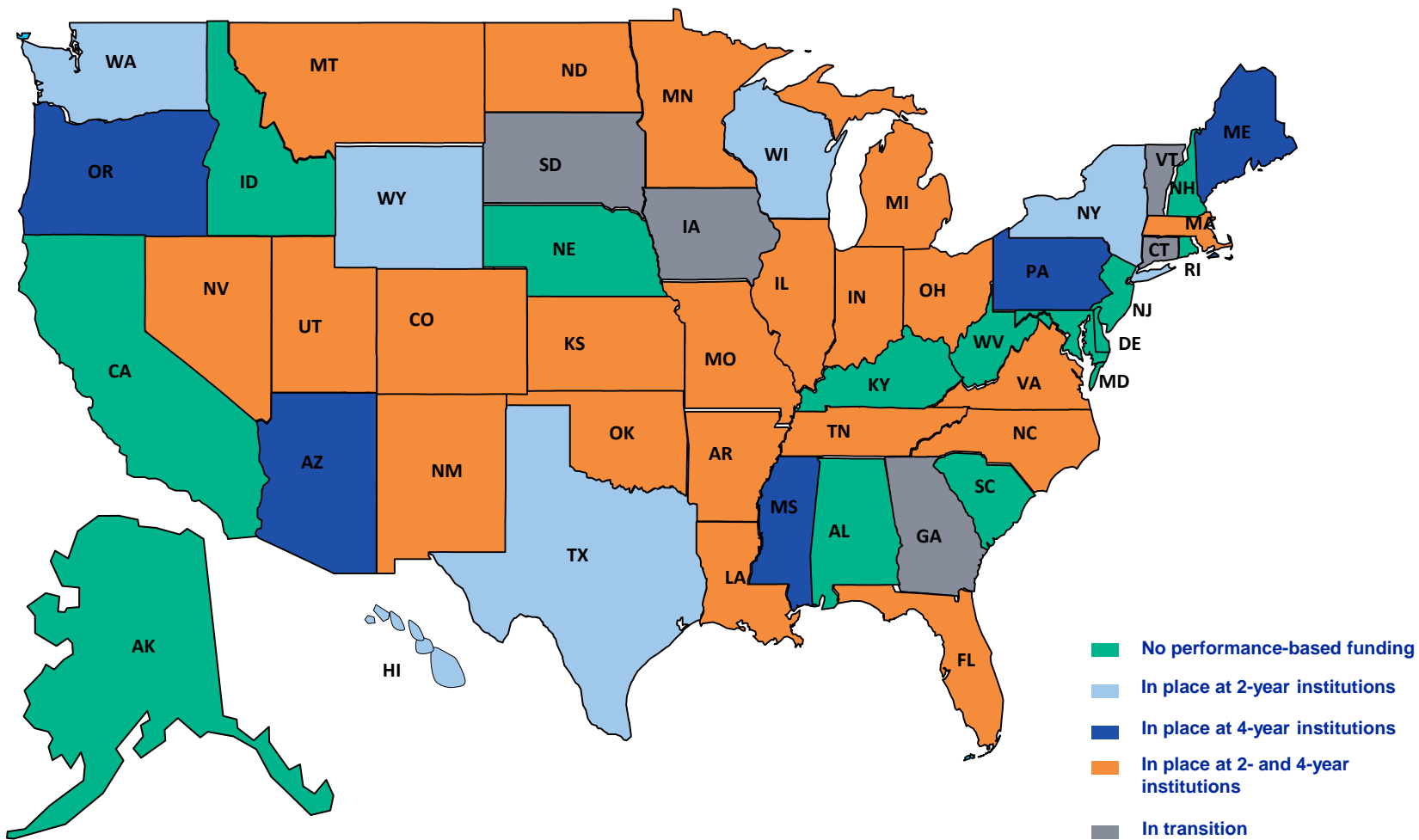
Wide Disparity in Funding Levels from State To State

Funding Still Below Levels Five Years Ago
% increase 2009-2014



Source: Illinois State University-Grapevine Data

Many States Implementing Performance-Based Funding



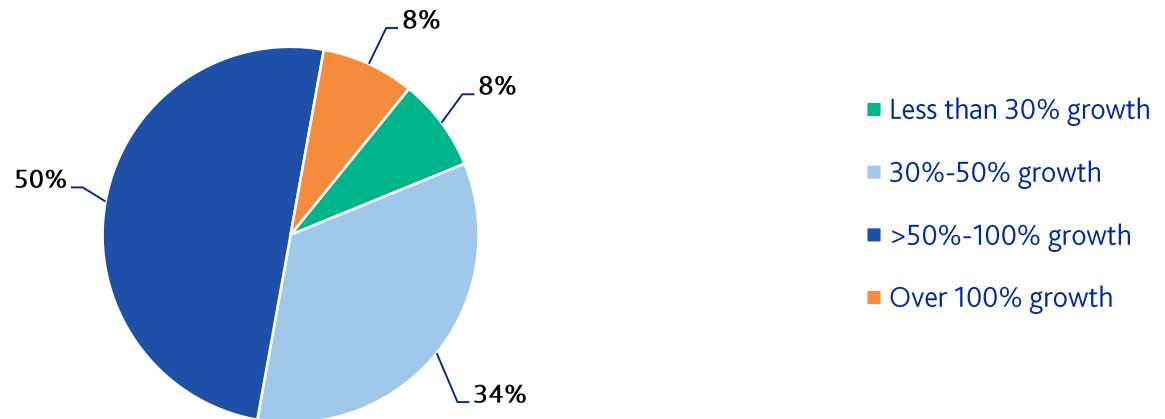
Source: National Conference of State Legislatures, July 2015

Patient Care Revenue

AMC Universities Benefit From Hospital Relationships

- » Financial transfers support medical schools' faculty recruitment, research, and capital investment
- » Enhance research competitiveness
- » Revenue diversifier
- » Not immune from challenges, universities will protect core

Healthcare Exposure Increases Rapidly at AMC Universities
(Growth of healthcare-related revenue from FY 2007-2014)*

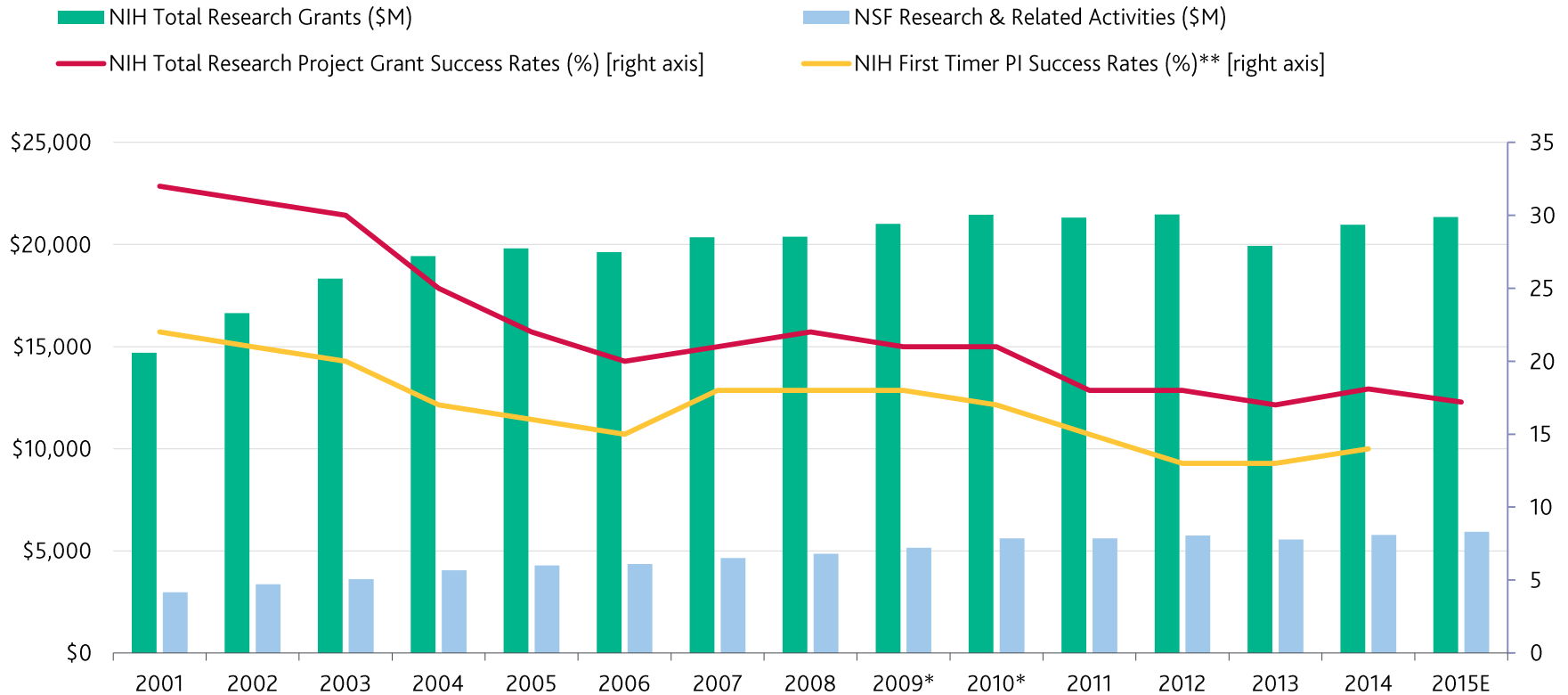


*Estimated data for AMC universities with >20% patient care revenue exposure in FY 2007

Source: Moody's Investors Service

Research Revenue

Federal Research Grants Remain Flat With Moderate Lift in 2014 and 2015



Source: National Institutes of Health; National Science Foundation

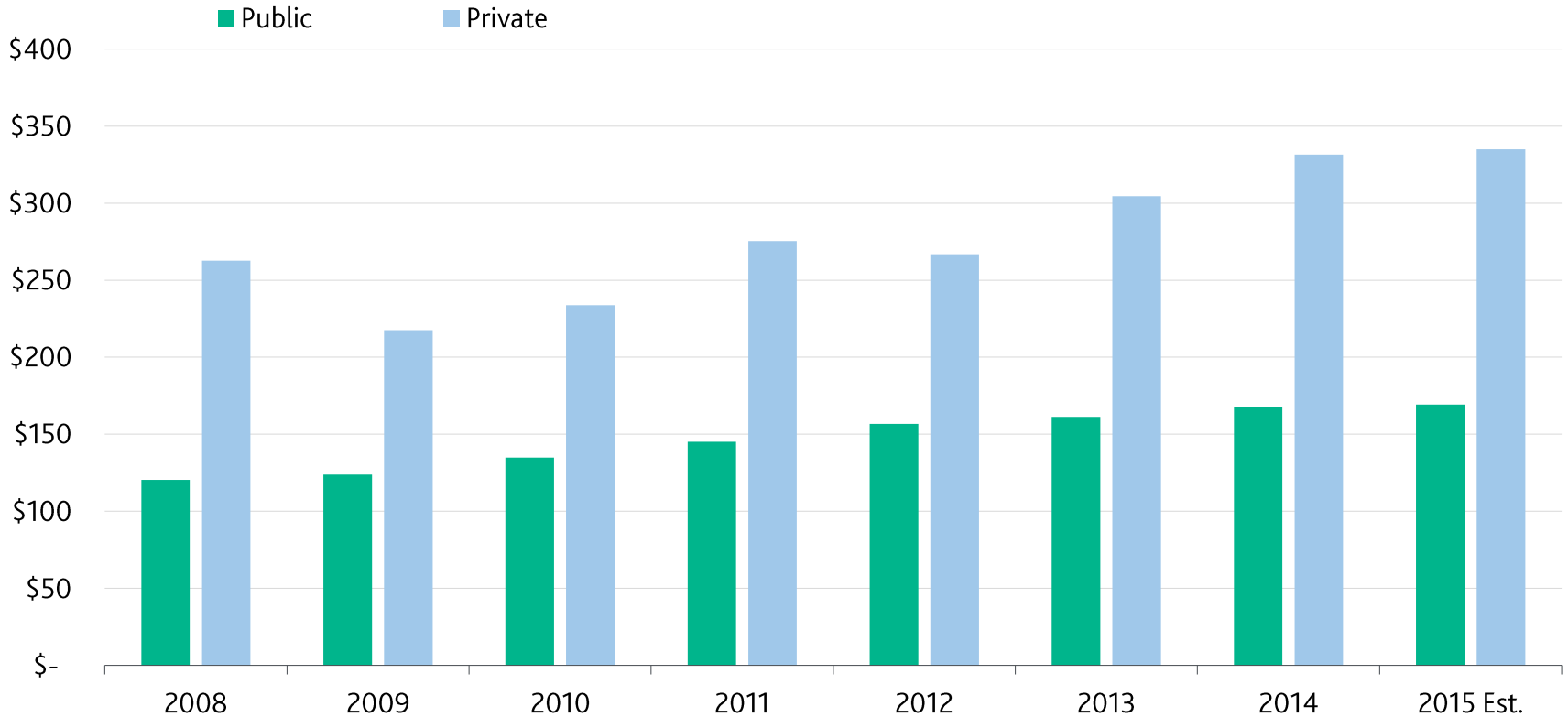
*Excludes ARRA Supplemental Appropriation **R01-Equivalent



Endowment Income & Gifts

Cash and Investments are Well Above Pre-Recession Levels

Median Cash and Investments for Public and Private Universities (\$ Millions)

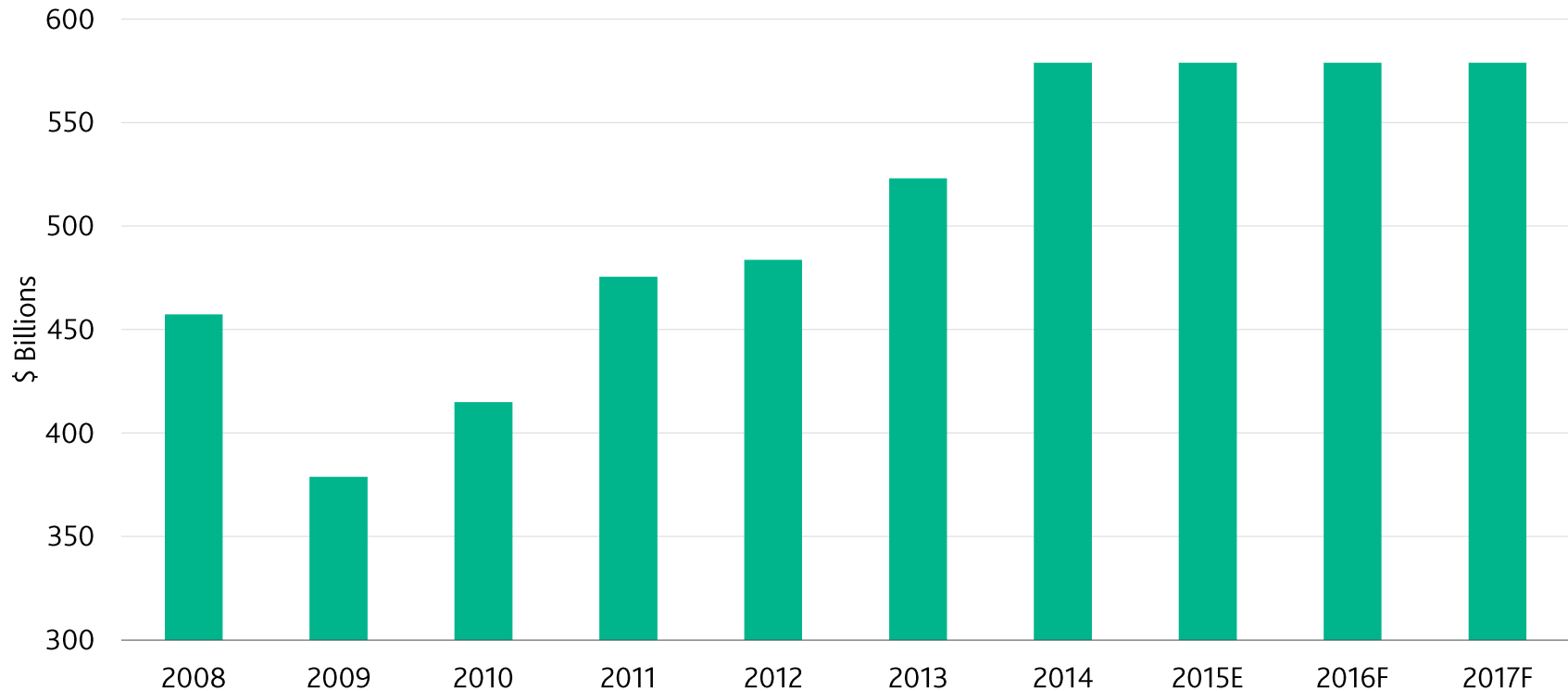


Source: Moody's Investors Service

Reserves Will Remain Stable, With Continued Strategic Capital Investment

Recent Strong Balance Sheet Growth and Giving Offset Near-Term Market Volatility

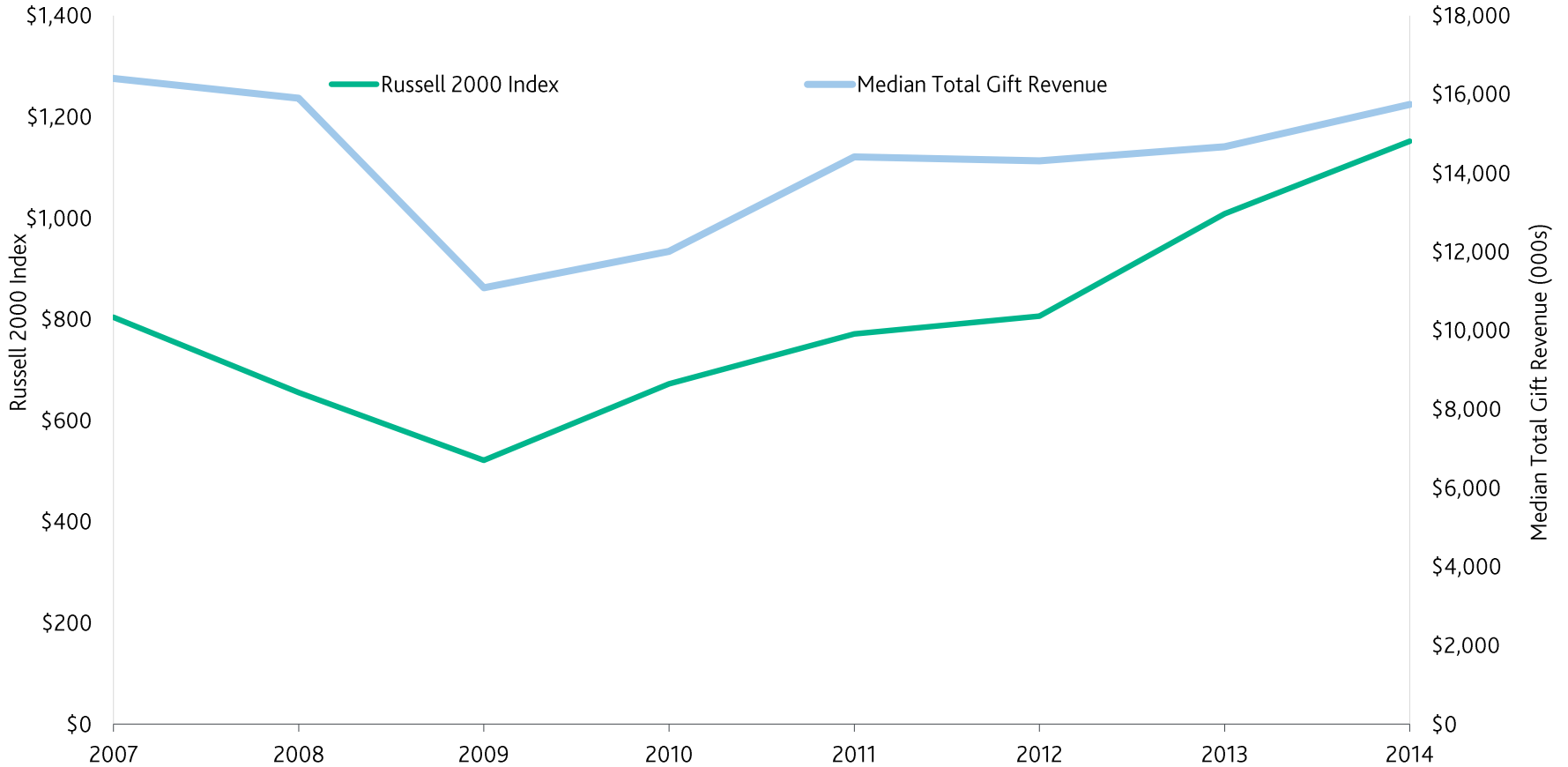
Total Aggregated Higher Education Sector Cash and Investments (\$ Billions), reported by Fiscal Year



Source: Moody's Investors Service

Gifts Have Rebounded

Private University Median Total Gift Revenue vs. Russell 2000



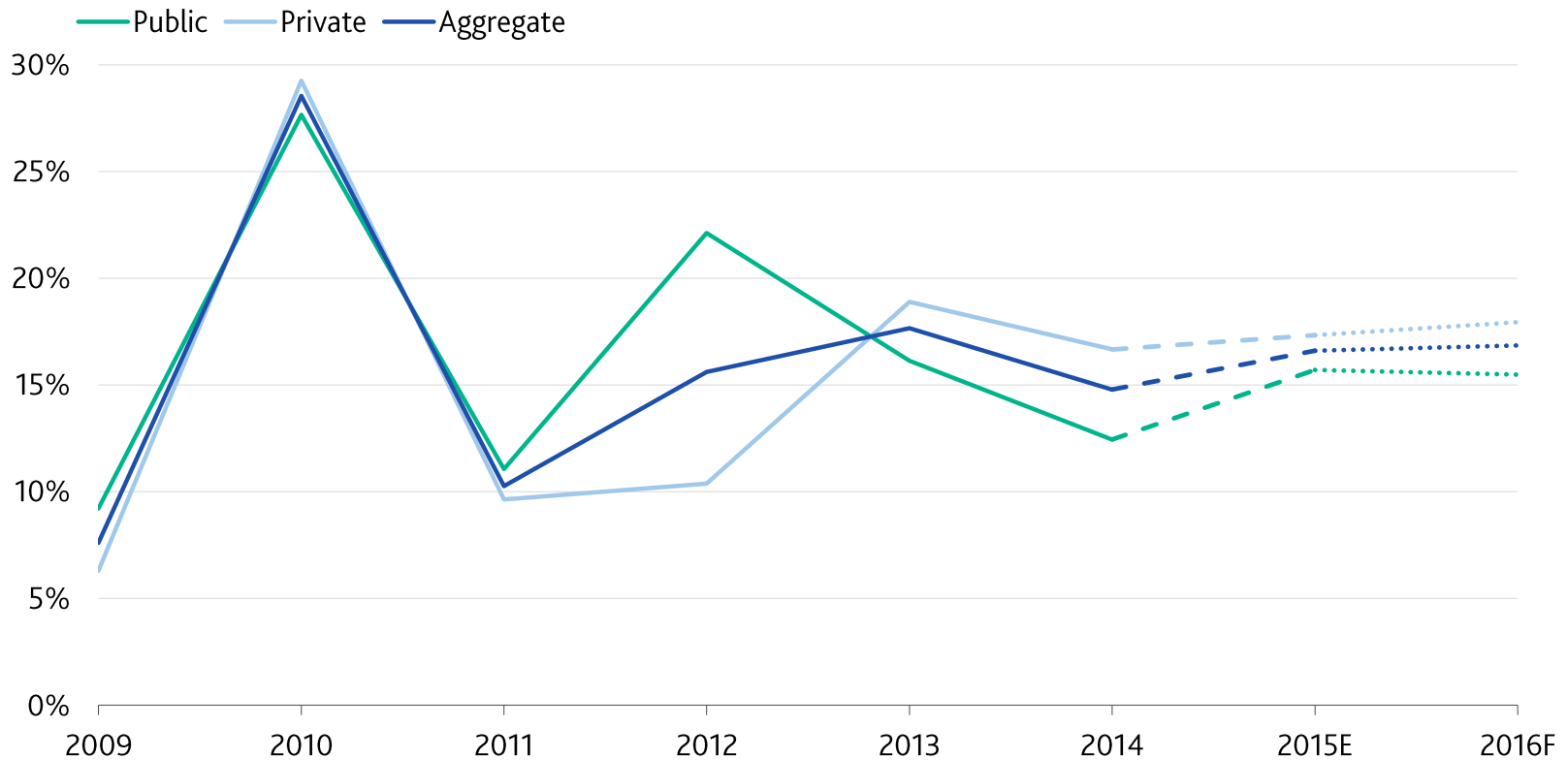
Source: Moody's Investors Service

Expense Controls

Ongoing Expense Discipline Contributes to Operating Performance Stability

Between 15% and 20% of Universities will Need to Cut Costs to Maintain Operating Stability

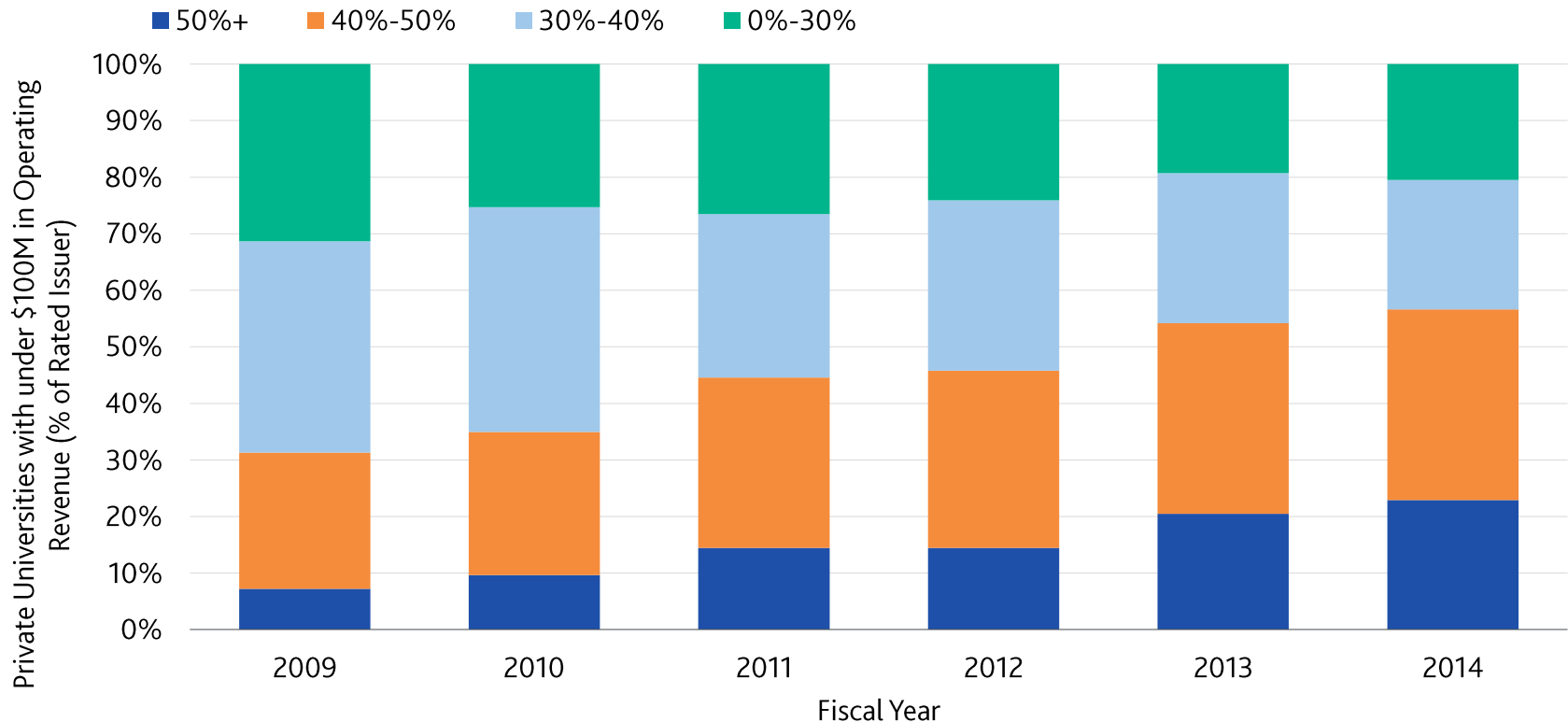
Percentage of Universities Reducing Expenses over Prior Year



Source: Moody's Investors Service; Moody's Investors Service estimate

College Consolidations and Closures Are Credit Positive in an Increasingly Competitive Sector

Tuition Discounting Rates at Small Private Universities with Under \$100 Million in Operating Revenue



Source: Moody's Investors Service

US Higher Education and Not-for-Profits Team

Managers		Analysts			
Managing Director		Main Number: 212.553.0300			
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Global Team Manager		Christopher Collins	x 7124	Michael Osborn	x 7108
Susan Fitzgerald	x 6832	Mary Kay Cooney	x 7815	Andrew Pfluger	x 7487
		Dennis Gephardt	x 7209	David Schlachter	x 4453
US Co-Team Managers		Karen Kedem	x 3614	Susan Shaffer	x 4132
Edie Behr	x 0566	Matthew Kuchtyak	x 6930	Pranav Sharma	x 7164
Kimberly Tuby	x 6899	Joshua Levine	x 4826	Diane Viacava	x 4734
		Team Assistant		Devika Ramdat	x 4953

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