Higher Education - US

Universities Face Another Year of Low Net Tuition Revenue Growth, Survey Shows

Our annual tuition survey of US higher education issuers that we rate reveals sound demand for public and private universities, with 75% expecting increased year-over-year net tuition revenue in FY 2017. The projected median net tuition revenue growth in the 2.0%-2.5% range supports our expectations of steady, but tempered growth. In the new normal of an affordability centric higher education environment, increases are more than likely to remain modest, tracking closely to the higher education price index (HEPI) or inflation. Institutions that lack a distinct brand or strong value proposition are bearing the brunt of an increasingly value-oriented consumer.

» Private colleges' and universities' median net tuition revenue is projected to grow 2.5%. Comprehensive private universities continue to parlay programmatic diversity and name recognition into stronger net tuition revenue growth compared to small and moderate-sized universities.

» Public universities' net tuition revenue growth will slow materially. Median net tuition revenue growth is a relatively low 2% for public universities, compared to 8% five years ago. Similar to private universities, public comprehensive universities have stronger growth reflecting more non-resident students and a mix of graduate and professional programs.

» Enrollment will grow modestly across all regions. Estimated fall 2016 enrollment shows more universities increasing enrollment compared to the prior fall, highlighting continued demand. The Midwest is still facing the greatest challenge with more than half of universities reporting enrollment declines.

» Rising freshmen discounting will temper revenue growth. Projections for FY 2017 indicate that freshmen discount rates are up slightly from last year. Approximately half of small and moderate-sized private universities now have discount rates above 50%.

» A variety of factors will contribute to weaker net tuition gains per student. Growth of net tuition on a per student basis has slowed even more than aggregate net tuition growth, highlighting an increasingly competitive landscape and a continued focus on affordability. Approximately 30% of private and public universities are projected to be unable to grow net tuition per student in FY 2017, and the median growth is under 2%.
Relatively steady net tuition revenue growth, but with variability across the private university sector

» Private colleges and universities project net tuition revenue will grow by a median 2.5% for FY 2017, 75% project at least some level of growth. Higher fall 2016 enrollment contributed to the increase relative to the FY 2016 (fall 2015) estimated median 2% growth.

» We anticipate 2%-3% net tuition revenue growth will now be the new normal for private higher education, in large part reflecting a highly competitive environment.

» Comprehensive privates continue to capitalize on strong brands and programmatic diversity, projecting the strongest median net tuition growth of 3% (see Exhibit 1). Small private colleges are the most strained, with nearly 40% projecting a decline in net tuition revenue for FY 2017; approximately 20% of moderate-sized and comprehensive universities forecast declines.

Affordability agendas and multi-year constraints on increasing tuition stifle public university growth

» Net tuition revenue growth continues to slow for public universities with a 2% projected median increase for FY 2017 (see Exhibit 2). Favorably, three-quarters of universities are still projecting some growth compared to FY 2016.

» Many states continue to limit tuition increases, particularly for in-state undergraduate students. This focus on affordability will likely continue to constrain net tuition revenue growth to the 2%-3% range for public universities. Universities in states that are cutting appropriations could see modestly stronger growth because these two revenue sources often move in the opposite direction.

» More out-of-state students and an array of graduate and professional degree programs boost enrollment and overall net tuition revenue growth at comprehensive universities. We forecast the median net tuition growth for comprehensive universities to be around 3% compared to 1.5% each for small and moderate-sized public universities.
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Exhibit 3
Sector-Wide Enrollment Modestly Growing, Although Significant Regional Variation Exists
Percent of public and private universities with increasing total full-time enrollment by region, fall semester

Source: Moody’s Investors Service

Majority of universities grow enrollment across all regions

» Aggregate enrollment for our rated universities has increased each year since 2012, up 5.5% in fall 2016 from fall 2012. Over 60% of universities are projecting increased year-over-year enrollment for fall 2016.

» Nonetheless, a material proportion of the sector is experiencing enrollment declines. More universities in the Midwest are projecting declining enrollment than in other regions, in part due to still lower growth amongst the traditional college age population of 18-24 year olds.

» Increases in post-baccalaureate and graduate enrollment are driving growth in the Northeast, whereas more vibrant high school demographics relative to the rest of the country are driving enrollment growth in the South.

» We expect continued modest sector-wide enrollment growth based on a relatively stable level of high school graduates, expansion of graduate degrees and other credentials, growth in online programs and a move to lifelong learning.

Exhibit 4
Private University Discount Rates Continue to Creep Up
Median first-year and total tuition discount by year

Source: Moody’s Investors Service

Increased freshmen discounting further evidences prolonged low net tuition growth environment

» The private university median first-year tuition discount rate continues to rise – up three percentage points to 47% for FY 2017 from FY 2013 (see Exhibit 4). Nearly two-thirds report an increase in the freshman discount rate from FY 2016, indicating fierce competition for students.

» The rising first-year discount rate is a leading indicator of future growth in the overall tuition discount rate. Seventy-one percent of private universities project a higher overall discount rate for FY 2017, with a median of 37%.

» About half of small and moderate-sized private universities forecast first-year discount rates above 50% compared to just 8% of comprehensive private university survey respondents. This also demonstrates comprehensive universities’ greater market strength and pricing power, as well as a greater share of graduate/professional and international students typically paying closer to list price.
Multiple factors contribute to constrained growth in net tuition on a per student basis

» Approximately 70% of rated private universities retain some pricing power, evidenced by the ability to grow net tuition per student above 0% (see Exhibit 5). However, a rising number are confronting declining net tuition per student.

» The wealthiest colleges and universities continue to provide significant tuition discounts given endowment support for financial aid. Ongoing public scrutiny around the use of endowments and affordability, combined with a desire for diverse student populations, will limit their future growth in net tuition revenue. Colleges with weaker brands have less pricing power due to a highly competitive environment and continued student focus on the value of their education.

» Among private colleges, projected median growth in net tuition per student is nearly the same for comprehensive, moderate and small sized institutions at 1.7%, 1.5% and 1.6% respectively. However, only 25% of comprehensive universities indicate declines in net tuition per student, compared to 38% of small college survey respondents.

» For public universities, tightening of net tuition per student growth largely reflects a multi-year period of various state-mandated freezes, limitations or policies that affect the ability to raise tuition primarily for in-state undergraduates (see Exhibit 6). They are also subject to the same competitive pressures as the private sector. Nonetheless, approximately 70% project growth.

» Public universities also show the same sector bifurcation as the privates in net tuition per student growth. Comprehensive public universities have a moderately higher median projected net tuition per student growth rate, 2.2%, compared to their moderate sized, 1.4%, and small counterparts, 1.7%. Approximately a quarter of comprehensive universities project declining net tuition per student, compared to 43% and 30% of moderate sized and small institutions respectively.

» Regional public universities will remain particularly sensitive to changes in federal financial aid programs’ eligibility or size of awards because of a higher proportional dependence on students receiving need-based aid.

» While international enrollment still comprises a narrow 7.5% of total enrollment at colleges that we rate, it has been growing. This has supported net tuition and net tuition per student growth due to typically lower discounting. Any federal changes to immigration policies resulting in a dampening of international student demand would negatively affect tuition revenue growth.
Fall 2016 survey respondents
We received 159 responses from US not-for-profit private universities, 61% of rated entities, and 115 responses from four-year US public universities, 51% of rated entities. The rating categories range from Aaa to B3 for the private university respondents, and Aaa to Ba2 for public university respondents. If a university did not supply responses to all of the questions, we excluded them from the analysis for those particular questions.

Moody’s Related Research
Medians
» US Public Universities Largely Stable, Considerable Sector Variability, July 2016
» US Private Universities Maintain Stability but Pockets of Stress Remain, July 2016
» Largest Private Universities Outperform Smaller Counterparts, September 2016

Methodology
» Global Higher Education, November 2015

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.
Endnotes

1. The Commonfund Higher Education Price Index (HEPI) is an inflation index designed specifically to track the main cost drivers in higher education.

2. Comprehensive private universities either have total full-time equivalent (FTE) enrollment of greater than 10,000 students, or greater than 3,000 students with at least 15% of operating revenue from patient care and grants and contracts combined. Moderate-sized private universities have total FTE enrollment between 3,000 and 10,000 students, with less than 15% of operating revenue from patient care and grants and contracts combined. Small private colleges have total FTE enrollment of less than 3,000 students with typically less than 15% of operating revenue from patient care revenue and grants and contracts combined.

3. Comprehensive public universities have over 25,000 FTEs or greater than 20% total revenue reliance from patient care and grants and contracts revenue, and over $100 million in revenue from these sources. Moderate-sized public universities have between 10,000 to 25,000 FTEs and less than 20% total revenue reliance from patient care and grants and contracts revenue. Small public universities have less than 10,000 FTEs and less than a total of $100 million in patient care and grants and contracts revenue.
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