

U.S. Higher Education Outlook 2025

Uneven Impact for Sector Pressures

Fitch's Sector Outlook: Deteriorating

Fitch Ratings anticipates a deteriorating credit environment for U.S. public finance higher education in 2024 relative to 2023. Uneven enrollment dynamics, rising competitive pressures and continuing margin pressures will challenge credit factors across the sector. Public funding has flattened as states return to normalized budgetary means following the pandemic, and net tuition growth prospects are modest at best. This revenue trajectory is unlikely to be sufficient to fully offset still-elevated labor and wage costs, rising capital needs and a sharply uncertain legislative landscape.

These risks are likely to erode budgetary flexibility for many higher education institutions, particularly those with limited sources of revenue beyond student fee income. Consolidation is expected to persist at a higher-than-typical rate, with rising pressure on some public institutions in more economically and demographically challenging markets. Meanwhile, the potential for reduced fundraising, reduced research funding, less favorable tax treatment, some demand erosion, market volatility and additional regulatory scrutiny could also affect higher education institutions across the credit rating spectrum.

Rating Outlook Distribution

For Fitch's rated portfolio, the predominant Rating Outlook remains Stable and widespread downgrades are not anticipated. Outlook revisions in 2025 are likely to trend negatively, similar to the nearly 2:1 ratio of seven downward outlook revisions against just four upward revisions through 3Q24.

What to Watch

- A sector outlook revision to neutral would require evidence of further stabilization in sector enrollment across student groups and institution types, which is not anticipated in the near to medium term. Local and regional enrollment nuances will become more important than sector-wide trends. Limited revenue growth prospects will persist for most issuers, including for both student-fee revenues and more normalized state revenue prospects. Material stabilization in operating costs, including a meaningful easing of labor and benefit costs, could contribute to a reversion in the sector outlook to neutral.
- Reflective of sector pressures, further consolidation is anticipated, with actions ranging from restructurings, divestitures, affiliations, mergers and closures. Public institutions, which have long been more insulated from sector pressures, will also be affected.
- Tapering consumer spending trends and increasing household debt likely will temper demand to some degree. Unexpected improvement in macroeconomic conditions that support growth in family wealth and income levels, as well as stronger-than-expected revenue growth prospects at the state level, could contribute to an outlook revision to neutral.

Emily Wadhvani, Senior Director

"Variable enrollment, rising capital needs and continued operating pressures will continue to chip away at more vulnerable higher education institutions in 2025, even if inflationary pressures ease and interest rates fall. A widening credit gap continues to prompt an elevated level of consolidation, thus far concentrated among smaller, less selective and more tuition-dependent institutions."



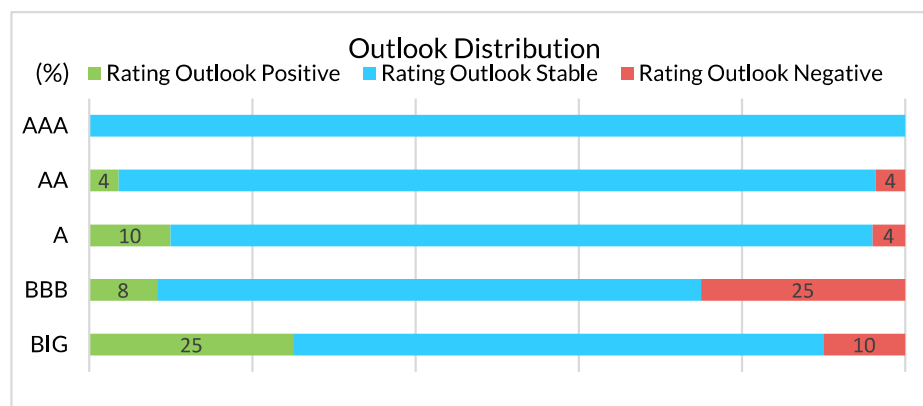
Core Credit Drivers: Higher Education

Sub-Sectors	Revenues			Expenditures			Financial Profile		
	Personal Income/Affordability	Real-Estate Values	Demand/Volumes	Labor Costs	Labor Availability	Non-Labor Operating Costs	Capital Input Costs	Leverage	Cost of Debt
Higher Education	↔	↔	↘	↔	↔	↔	↔	↘	↗

↑ Improving — High relevance. ↗ Improving — Moderate relevance. ↔ Neutral. ↘ Deteriorating — Moderate relevance.

↓ Deteriorating — High relevance. N.A. — Not a material driver of credit quality in the sector.

Source: Fitch Ratings



Mixed Enrollment Dynamics

Freshman Pipeline Has Softened

While overall undergraduate enrollment has stabilized somewhat post-COVID, the freshman enrollment pipeline has declined particularly for four-year schools. Likely a combination of factors including the botched FAFSA rollout and wider softness in college-going rates, the freshman pipeline is likely to remain pressured in the coming year. Much of the growth in freshman enrollment has been due to dual-enrolled high-school students at two-year institutions, as community colleges exhibited a protracted recovery post-COVID. The pipeline for four-year schools remains vulnerable to both demographic trends and other consumer trends, and will face further pressure as unfavorable demographic trends play out in many U.S. markets.

New International Enrollment Remains Fragile

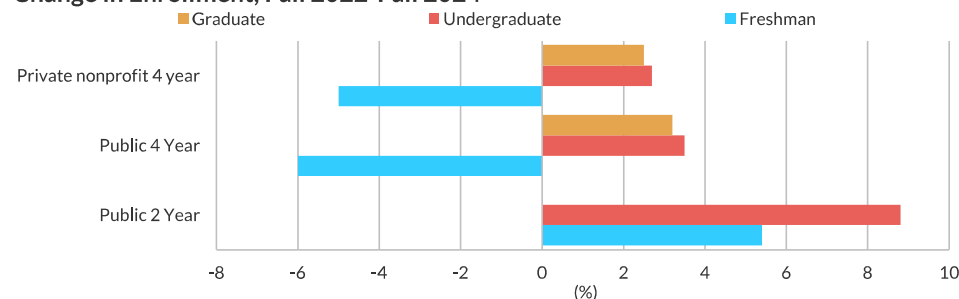
Following a strong year for total enrollment in 2023, the international student landscape remains fragile. New international student enrollment has been flat for the past two years, and that student group remains highly susceptible to unfavorable shifts in both geopolitical sentiment and policy. In addition, visa acceptance rates remain well below pre-pandemic levels, with a shift in student origin and an increase in alternative international education options.

Tuition Growth Prospects Are Limited

For the 2024-2025 academic year, Fitch is expecting mild growth in net tuition of 2%-4% for most rated institutions. Discount rates continue to rise, which will limit overall revenue growth prospects. Public institutions retain some flexibility, as state funding efforts continue to support access and affordability, but a return to normal state revenue prospects is likely to stifle meaningful growth in state support during the next budget cycle. Tuition increases at public universities, which have been flatter in recent years, are likely to incrementally increase as a result, though Fitch expects future growth to remain modest.

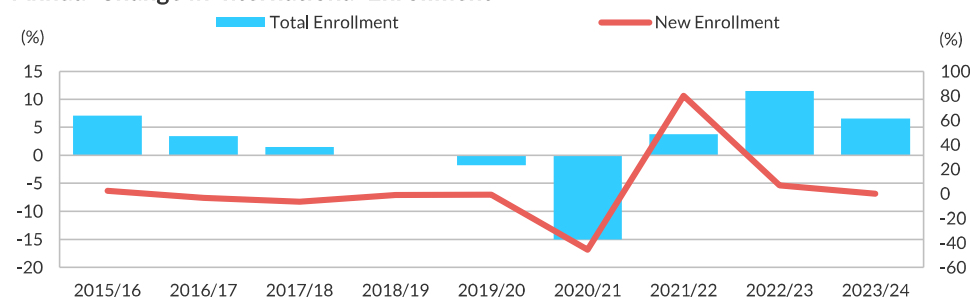
Private college tuition pricing has briefly rebounded from pandemic lows in catch-up efforts, although Fitch expects the pace of increases to abate as competition increases and the wider economic landscape moderates. Personal household income and consumer spending levels are expected to taper in 2025 and beyond, which may impact sentiment about the value of a degree against other options.

Change in Enrollment, Fall 2022-Fall 2024



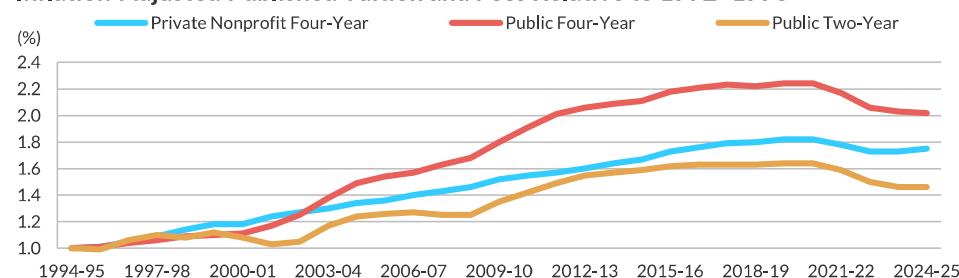
Source: Fitch Ratings, National Center for Education Statistics.

Annual Change in International Enrollment



Source: Fitch Ratings, Institute of International Education. (2023).

Inflation-Adjusted Published Tuition and Fees Relative to 1992-1993



Note: Seasonally adjusted.

Source: Fitch Ratings, U.S. Bureau of Labor Statistics.

Macroeconomic Conditions Remain a Factor

State Funding Dynamics

In 2024, state funding for higher education improved overall for the 11th straight year, albeit at a slowing pace as federal stimulus funds were fully utilized. State support overall is still relatively favorable, increasing in 42 of 50 states in 2024. In five of the eight states reporting a decline in funding, the decline resulted from level or increased support being outpaced by the loss of stimulus funding. State funding for higher education is expected to remain relatively solid in 2024–2025, but will be tempered by budgetary expectations for slower revenue growth prospects (or even declines) in what is a return to pre-pandemic trend. Overall, we expect a median (and meager) 1% growth in fiscal 2025 budgets against fiscal 2024.

Market Performance

Returns in 2023 recovered to a more typical level, and while 2024 results are not yet final, early indicators call for a healthy annual return of close to 10% on average in the year to date. Liquidity continues to be a key differentiating credit factor, particularly in Fitch's assessment of financial flexibility against less flexible operating and capital cost demands.

Wealth and investment levels have continued to rise in the sector, which for some schools has translated into increasingly illiquid asset classes. Accessible liquidity will continue to be a key rating consideration, particularly further down the rating scale as financial flexibility becomes increasingly essential.

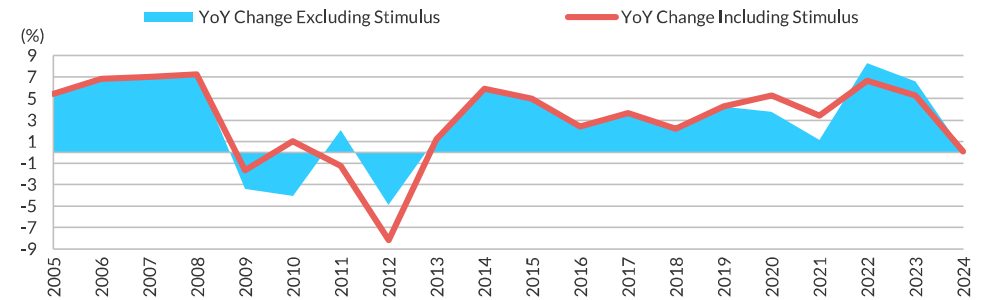
Debt and Capital Needs

For most schools capital spending has remained well below pre-pandemic levels through this past year, as evidenced by increasing levels of deferred maintenance and the highest average age of plant in years for many Fitch-rated institutions. Capital spending is likely to accelerate for many due to pent-up deferred maintenance needs. Institutions that are more rate-sensitive likely have held back from the capital markets, which likely contributed to delayed spending in 2023 and 2024.

Additional Key Sector Issues

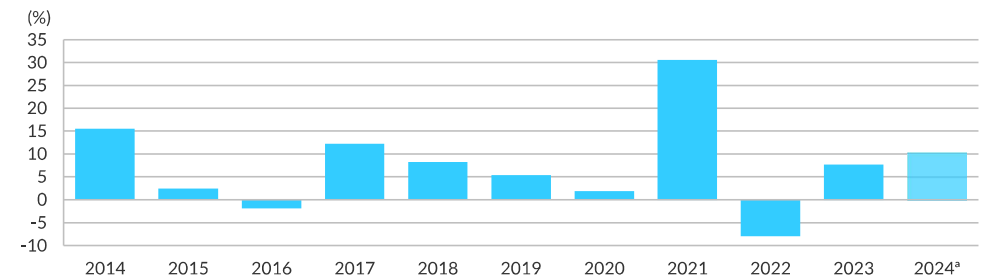
- New international enrollment has flattened and remains sensitive to geopolitical dynamics.
- Pent-up capital needs and deferred maintenance will likely prompt some return to the debt markets in 2025, particularly for schools that have been sensitive to higher interest rates.
- Labor costs are likely to remain elevated, particularly with higher sector vacancies in some departments, including for key roles in student admission offices.

State Funding Over Time



Source: Fitch Ratings, State Higher Education Executive Officers Association (SHEEOA, 2024).

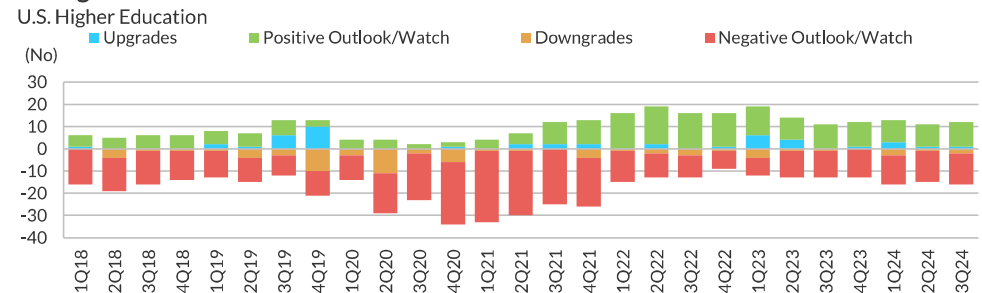
Average Annual Net Investment Return



*2024 is estimated.

Source: Fitch Ratings, 2023 NACUBO-TIAA Study of Endowments.

Rating Actions and Outlooks



Source: Fitch Ratings

Appendix

U.S. Higher Education, Select Portfolio Median Ratios

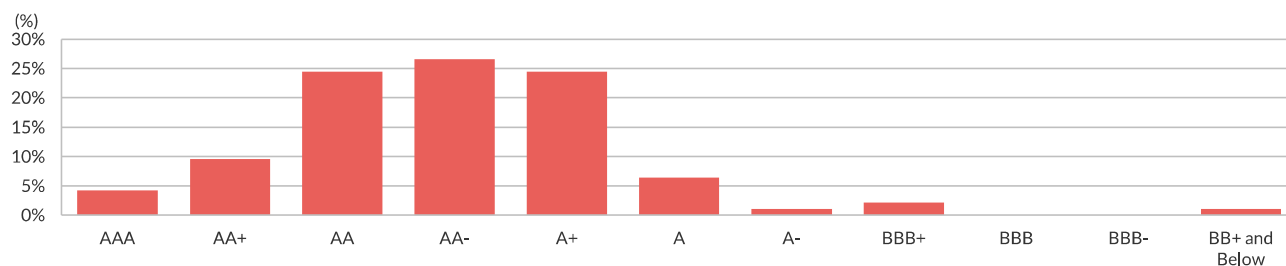
Public Median (%)	2017	2018	2019	2020	2021	2022	2023
Change in Net Tuition & Fees	3.2	2.1	2.2	1	-0.9	3.3	1.4
Adjusted Operating Margin	-0.5	0.9	-0.4	-3.1	0.1	4	2.4
Cash Flow Margin - Adjusted	10	10.9	10.1	10.2	13.2	12.5	11.9
Available Funds/Adjusted Debt	53.1	60.5	54.2	61.1	81.9	83.4	83.2

Private Median (%)	2017	2018	2019	2020	2021	2022	2023
Change in Net Tuition & Fees	2.1	2.1	2.4	1.9	-1.7	-0.4	1.1
Adjusted Operating Margin	2.7	2	1.2	1.2	3	0.7	-1.7
Cash Flow Margin	13.4	12.8	12.4	12.5	14.5	12.5	9.4
Available Funds/Adjusted Debt	107.5	119	127.2	126.2	165	142	142.2

Source: Fitch Ratings

Rating Distribution

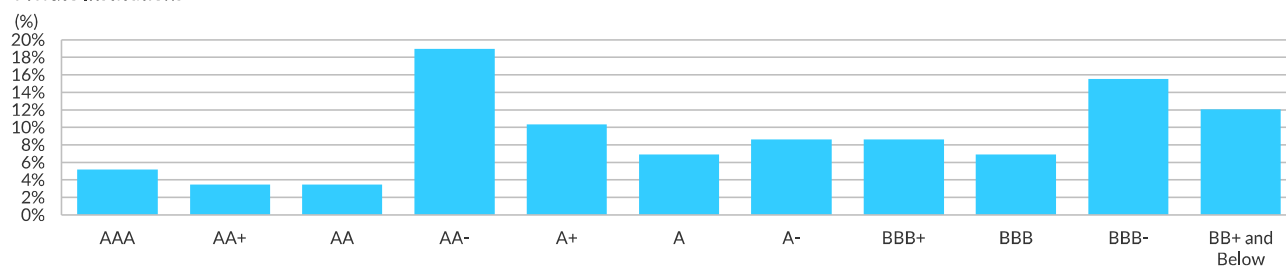
Public Institutions



Source: Fitch Ratings, as of Dec. 1, 2024

Rating Distribution

Private Institutions



Source: Fitch Ratings, as of Dec. 1, 2024

Sector outlooks are a general forward-looking assessment of the underlying operational and business conditions of the sector compared to the previous calendar year. A neutral outlook is an assessment that these conditions will remain mostly unchanged. Sector outlooks are distinct from Rating Outlooks.

Outlooks and Related Research

2024 Outlooks

[Global Economic Outlook \(September 2024\)](#)

[Higher Ed Net Downgrades to Continue with Budget Pressures \(October 2024\)](#)

[Fiscal 2023 Median Ratios for U.S. Public Colleges and Universities \(July 2024\)](#)

[Fiscal 2023 Median Ratios for U.S. Not-for-Profit Private Colleges and Universities \(July 2024\)](#)

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