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SECTOR IN-DEPTH
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Higher education - US

Tuition revenue growth weakens for public and private universities

Median net tuition revenue will grow 1.0% and 2.3% for public and private universities, respectively, for fiscal 2020, according to the results of our tenth annual tuition survey. The continued trend of softening net tuition revenue growth for both public and private universities reflects enrollment and pricing challenges.

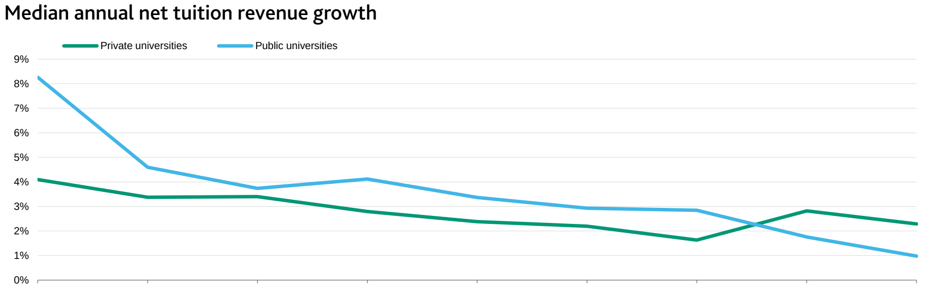
» Overall enrollment is relatively stable, reflecting continued demand for higher education offset by demographic pressures including flat numbers of high school graduates, a favorable economy drawing students into the workforce, and some declines in international student enrollment.

» Among public universities, pricing constraints imposed at the state level continue to be a factor in limiting net tuition increases, with additional states pursuing tuition freezes at public universities for fiscal 2020.

» The median growth in net tuition revenue among private universities is likely to soften slightly, partially because of increasing competition reflected in continuously rising discount rates.

» The first-year discount rate at private universities rose slightly to 51% for students entering in fall 2019. Overall, nearly one quarter of private university survey respondents reported a first-year tuition discount of 60% or higher, an indicator that private universities will struggle to sustain net tuition revenue growth.

Exhibit 1
Enrollment, tuition discounting and pricing challenges restrict net tuition revenue growth at public and private universities
Median annual net tuition revenue growth

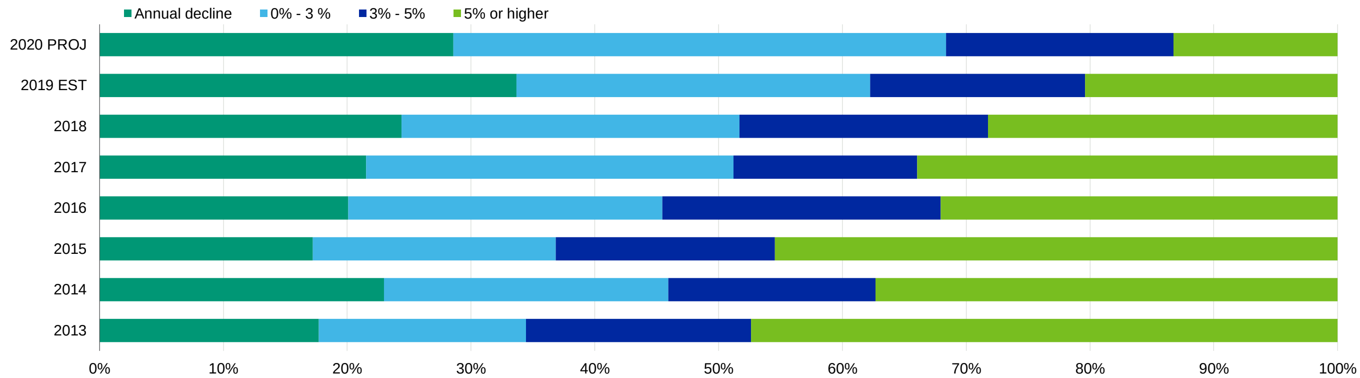


Source: Moody's Investors Service

Exhibit 2

Public university net tuition revenue growth is sluggish, with an increasing proportion reporting growth below 3%

Percent of public universities by annual change in net tuition revenue



Source: Moody's Investors Service

An increasing proportion of public universities are reporting net tuition revenue growth of less than 3%

» Among public universities, the median annual growth in net tuition revenue in fiscal 2020 is projected at 1%. This represents a decrease from 1.8% in fiscal 2019, due in part to relatively flat enrollment.

» Nearly two-thirds of public universities are projected to grow overall net tuition revenue at under 3% for fiscal 2020, our proxy for inflation in the higher education sector. This is almost double the level five years ago.

» Continued declines in the number of international students also contribute to more constrained revenue growth. Among our public university survey respondents, the median decline in international students for fall 2019 was 3.7%.

» Comprehensive public universities continue to have stronger tuition revenue growth compared with smaller peers. In fiscal 2020, comprehensive public universities are projected to increase net tuition revenue by 2%, compared with 0.5% and 1% for moderate- and small-sized public universities, respectively

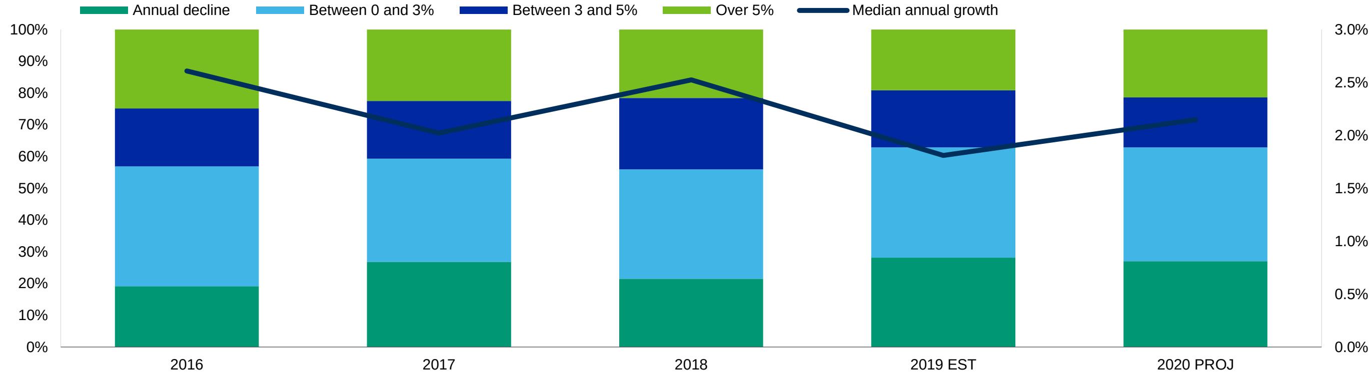
» The stronger net tuition revenue growth for comprehensive public universities reflects modestly stronger enrollment growth than their more regional competitors. Comprehensive universities have broader brands that enable them to attract a larger share of nonresident and international students. They also have more a more diversified mix of undergraduate, graduate and professional programs.

» Net tuition revenue growth in fiscal 2021 will likely continue to be restrained by flat to declining enrollment and a continued focus on student affordability at a national and state level.

Exhibit 3

Policy focus on affordability reduce some of public universities' pricing power

Median annual change in net tuition per student (line) and percent of public universities by change in net tuition per student (bars)



Source: Moody's Investors Service

Continued focus on affordability will partially reduce public university pricing power

» Public universities' pricing power will remain constrained in fiscal 2020, with the median net tuition revenue per student likely to increase by roughly 2% for the second consecutive year.

» A general focus on college affordability continues to influence pricing decisions with numerous states taking action to limit tuition increases. For example, tuition rates will be frozen at universities in Virginia (Aaa stable) in fiscal 2020, while in South Carolina (Aaa stable), tuition increases were limited to offsetting increasing pension and benefit expenses. In these two states, increasing state appropriations offset the tuition-raising limitations. In North Carolina (Aaa stable), public universities are required to freeze tuition for in-state undergraduate students for four years.

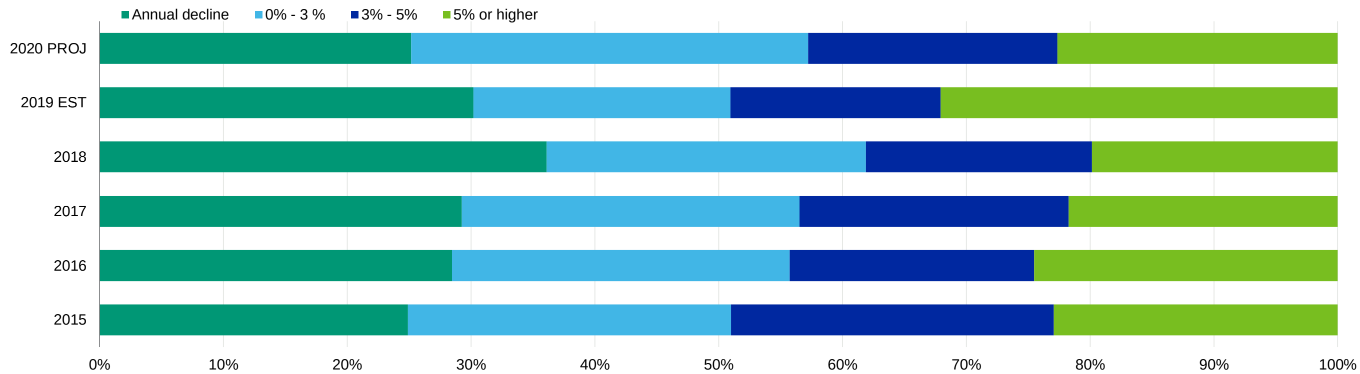
» In fiscal 2020, roughly 27% of public universities are likely to see declines in net tuition per student. This decline varies by institution type, with nearly 36% of small-sized public universities likely to see a decline in net tuition per student, compared with 22% and 21% for moderate-sized and comprehensive public universities, respectively.

» Compared with their larger peers, small-sized public universities tend to have a more local student draw, which brings heightened exposure to demographic trends, including the number of high-school graduates as well as the price sensitivity of the student body in their local or regional area. Additionally, small regional public universities with a larger portion of undergraduate students are more vulnerable to state tuition freezes or limits on undergraduate tuition increases.

Exhibit 4

The proportion of private universities reporting net tuition revenue growth less than 3% has increased

Percent of private universities by annual change in net tuition revenue



Source: Moody's Investors Service

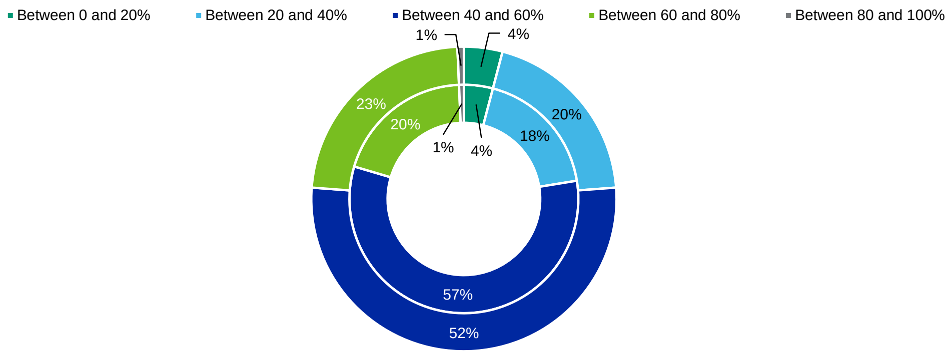
Private universities' median net tuition revenue growth outpaces public university peers, but is likely to slow compared with previous years

- Among private universities, median net tuition revenue growth in fiscal 2020 is likely to be 2.3%, down from 2.8% in fiscal 2019. This lower median growth is partially due to flattening enrollment in fall 2019, with a median fall 2019 enrollment increase of 0.1%.
- Although the percentage of private universities reporting a decline in net tuition revenue is set to decrease to 25% in fiscal 2020, the percentage of universities projecting an increase in tuition revenue greater than 5% has also declined. Overall, most private universities are projecting either a decline or growth in net tuition revenue of 0%-3% in fiscal 2020.
- As with public universities, projected increases in net tuition revenue vary by institution type. The median growth in net tuition revenue for small private universities in fiscal 2020 is 1.1%, compared with 1.9% and 4% for moderate-sized and comprehensive private universities, respectively.
- The median reliance on tuition and auxiliary revenue as a percentage of overall operating revenue was 73% among private universities in fiscal 2018, highlighting the materiality of this revenue source to overall operating performance.

Exhibit 5

First-year tuition discount rate at private universities continues to grow

Change in first-year discount rate; fall 2018 inside circle; fall 2019 outside circle



Source: Moody's Investors Service

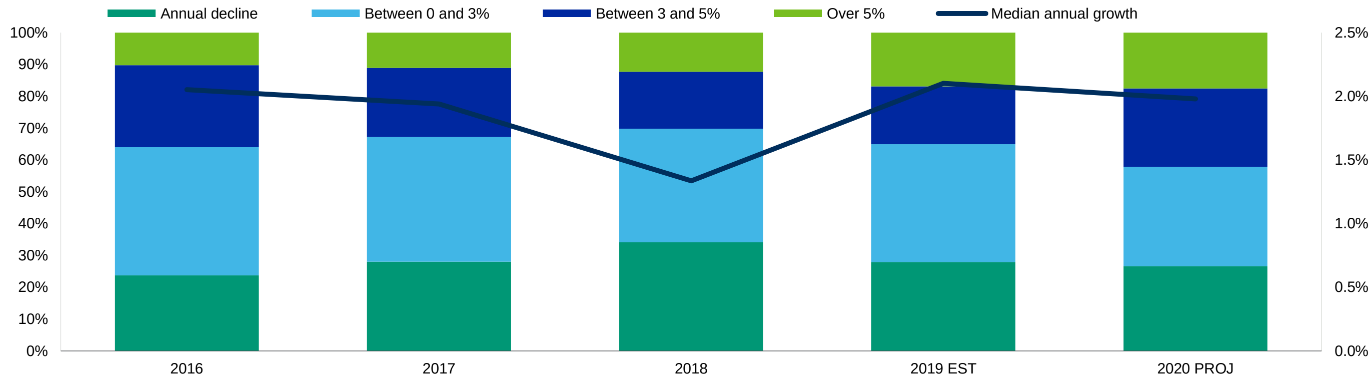
Tuition discounting at private universities continues to rise, limiting net tuition revenue growth

- Private universities continue to use sophisticated financial aid models to sustain enrollment and demand, but rising discount rates generally mitigate overall growth in tuition revenue. Among survey respondents, nearly one quarter reported a first-year discount rate over 60% in fall 2019.
- Approximately 53% of private university survey respondents reported a first-year discount rate over 50%, up 3% from the previous year.
- The total median discount rate among private universities is projected at 40.6% in fiscal 2020, up 14% from fiscal 2015.
- The first-year discount rate remains highest among small private universities, which report a median first-year discount rate of 56% for fall 2019, compared with 54% for moderate-sized universities and 44% for comprehensive universities.
- The rising first-year discount rate indicates that future tuition revenue growth will remain limited as it impacts four years of enrollment.

Exhibit 6

Pricing flexibility among private universities remains limited

Median annual change in net tuition per student (line) and percent of private universities by change in net tuition per student (bars)



Source: Moody's Investors Service

Pricing power among private universities likely to remain relatively flat in fiscal 2020

» The median growth in net tuition per student is projected at 2% in fiscal 2020, which is flat compared with fiscal 2019 and in part reflects increased tuition discounting and stable enrollment.

» Roughly 27% of private universities are projecting a decline in net tuition per student, consistent with fiscal 2019.

» Median net tuition per student growth will remain strongest at comprehensive private universities at 3.2% in fiscal 2020, compared with 2% and 1.1% for moderate-sized and small-sized private universities, respectively.

» Pricing flexibility among private universities is likely to remain relatively limited, given increasing competition among public and private university peers and increased focus on student affordability.

Fall 2019 survey respondents

We received 170 responses from US not-for-profit private universities, over 67% of Moody's rated entities, and 127 responses from US public universities, roughly 61% of rated entities. The rating categories range from Aaa to Caa1 for the private university respondents, and Aaa to B3 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 publications

Sector In-Depth

» Medians - Public university revenue growth declines again, driving cost containment, June 27, 2019

» Medians - Private universities' low revenue growth tightens operating performance, June 27, 2019

» State funding a stabilizing element while competition curbs revenue growth, August 12, 2019

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