Higher Education Sector

Institutions of higher education, public and private, often issue bonds to finance on-campus capital projects. The more students a school is able to attract, retain through graduation, and place successfully into the workforce, the greater the long-term viability of the school. Projects financed by these bonds range from acquiring land to constructing entirely new facilities. There are several thousand public and private universities in the United States, all of which differ in size and programs offered. The large number of schools offering a wide variety of programs and degrees makes higher education an underserved space that is abundant with opportunity. Countering this, high student debt levels upon graduation has become a presidential campaign issue for 2020. Smaller private liberal arts schools have recently received a lot of negative press focusing on the ratio of annual tuition rates to post graduation earning potential. Even with the negative views of the sector, LCP firmly believes there is still significant value in the space.

When determining the creditworthiness of higher education bonds two broad categories must be considered: those affecting the project itself, and those related to the school's overall performance.

Depending on the type of project undertaken, different risks may be present. Construction projects may experience scheduling delays, which can present logistical difficulties for the school. If, for instance, the project is the construction of new student housing, then the ability to lease out new living spaces is dependent on their completion prior to the start of the school year. A short delay missing this window can have a substantial impact on a university's ability to service debt as anticipated prior to financing.

Beyond project-related concerns, other factors impact the creditworthiness of higher education bonds. These include the regional draw of the school in question, demand for specific programs offered by the school, academic quality, student retention rates, and size of enrollment. The demand for certain major offerings, such as STEM or humanities, may attract a student body interested in different career opportunities. A diverse major-mix may help to offset shifts in demand for specific programs and increase enrollment stability over time. Proximity to industry hubs may affect post-graduation opportunities for students in a specific major, thereby increasing the attractiveness of a given school, while other students may be more attracted to schools in a rural environment. Schools that offer higher quality education or stronger community attachments relative to their peers may see higher enrollments, greater levels of alumni contributions, and resultant larger endowments. While large endowments have great headline appeal, they may be restricted and therefore unavailable in stressed liquidity situations. Higher education bonds may be secured by revenues from the college as a whole or just those from the project itself.

Finally, macroeconomic factors have some degree of influence over the broader market for higher education. Economic downturns may incentivize students to look for subsidized public options rather than smaller private schools or may change demand for colleges altogether. The ability to increase tuition is highly dependent on tuition of competing schools, which in turn is dependent upon broader economic conditions. More substantial financial aid opportunities or changes in the broader student debt environment may also influence overall college demand.

The sheer number of higher education options available to students combined with the many factors that impact a school's ability to service debt makes the higher education space incredibly complex and require LCP to consider a wide variety of factors prior to investing.