Education Market Update

Industry Consulting Team | Q4 2022

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Events

NBOA Annual Meeting
February 19th – 22nd
Los Angeles, CA

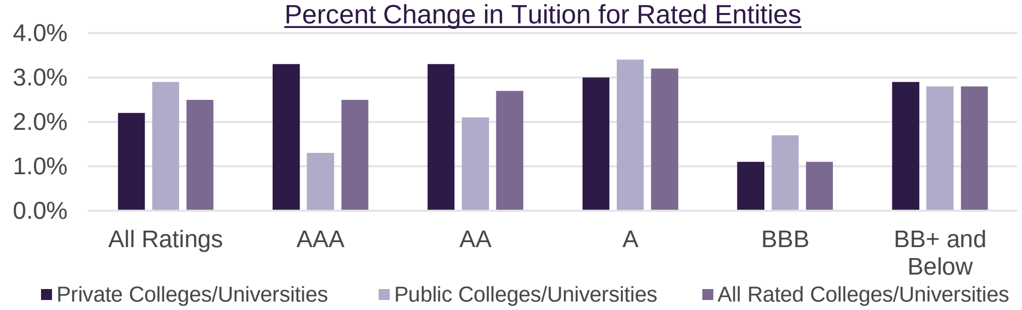
SACUBO Annual Meeting
April 23rd – 25th
Tampa, FL

While Higher Education is still working through the effects of the pandemic, it is apparent that the way forward is ongoing innovation. Over the next year, universities will have to craft strategies such as expanding programs, offering hybrid classes, or setting affordable tuition costs in order to maintain revenue growth and stay resilient in the face of change.

Colleges Continue to Face Enrollment and Tuition Growth Challenges

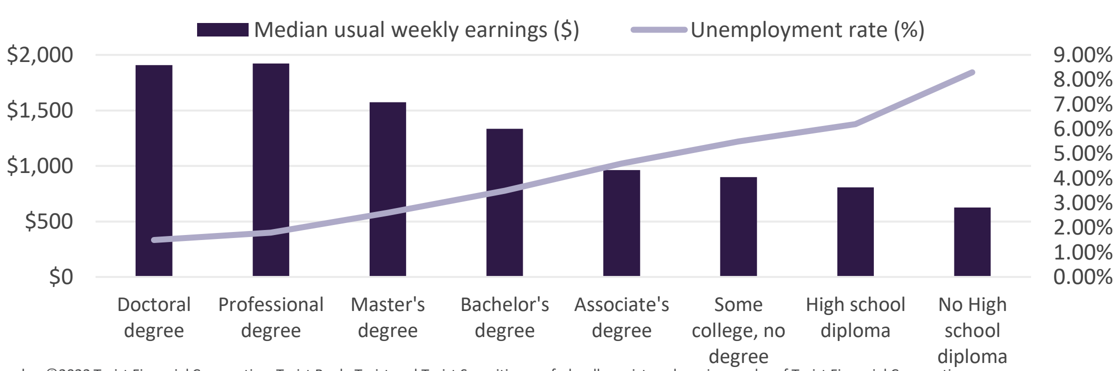
The US Higher Education sector is taking a hit due to enrollment volatility and constrained revenue growth. The largest impact to enrollment has been a shift in societal trends and demographics. As high schoolers look to decide on college, they are increasingly focused on return on investment and affordability. This has led to a shift away from a traditional liberal arts education and toward STEM fields (science, technology, engineering, and math) inclusive of healthcare careers. As the labor market tightened in 2021 and 2022, certain types of employers changed their degree requirements materially and focused on a more skills or competency-based approach rather than credentials. In a healthy economy, more high schoolers weighed the option to go straight to work rather than the traditional college path. Outside of the economic perspective, many high school students do not feel they are ready for college due to covid learning impacts and mental health issues. While every institution should maintain awareness of these trends, only about 30% of the sector is projected to face the most volatility. There is strong competition for a smaller pool of applicants and smaller schools with low application numbers and lack of brand recognition will be affected the most. Schools that will maintain strength are those that adapt programs to changing demands of students and employers, such as a hybrid learning models and a focus on ESG (environmental, social, governance.)

Percent Change in Tuition for Rated Entities



Coupling shifts in enrollment trends is higher sector expenses due to high inflation, return to normal operations and a tight labor market. This could lead colleges and universities to use their reserves if there are deficits. The projected revenue growth for 2023 is 2% but that will assumably lag inflation. While these risks have increased over the years, the demand for higher education will likely continue. According to the U.S. Bureau of Labor Statistics, education pays. In 2021, higher levels of education led to higher earnings and lower unemployment rates. There is need for an educated population from a workforce demand perspective and to drive economic development in the United States. Government support for higher education is projected to continue due to these ideas.

Earnings and Unemployment by Educational Attainment, 2021



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Independent schools have enacted strategies to grow enrollment through middle-income families. Simultaneously, schools face heightened risk of cyber attacks.

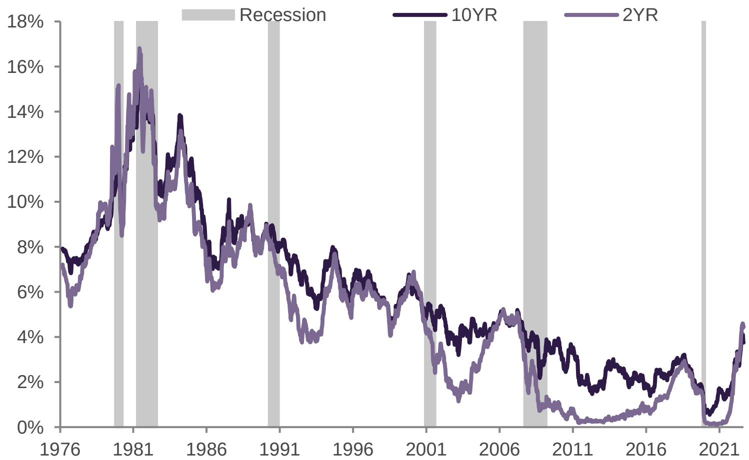
Balancing Out the Barbell: Net Assets Magazine

A common term used in the independent school sector is called the Barbell Effect. What is it? It is used to describe the idea that student populations tend to trend toward two extremes, either no financial need or high financial need. These two sides have grown "heavier" over the past decades and middle-income families are feeling left behind as they struggle to keep up with rising tuition costs. According to the Pew Research Center, middle-class households are defined as earning between $43,000 and $130,000 annually across the country. In an article posted by the Stanford Center for Education Policy, the analysis portrayed that the percentage of middle-income students that were enrolled in independent schools fell by about half from 1968 to 2013. With many schools emphasizing diversity, equity, and inclusion, there are four schools that have created sustainable strategies to capture the enrollment of these middle-income families. The Groton School in Massachusetts launched a program called the Groton Affordability and Inclusion Effort or "GRAIN." This school kicked off a fundraising campaign emphasizing the importance of inclusion and raised over $76 million which allowed GRAIN to expand aid to all levels. Gann Academy in Boston created the "Within Reach" program to inform families what they can expect to pay. On their website they have a calculator where you can input your adjusted gross income (AGI), number of students, annual property tax and your net assets to help determine what your tuition would be to attend. This transparency opens dialogue among middle-income families who may have previously thought the tuition would be out of reach. Heritage Christian School in Indiana utilized the state's voucher and tax-credit scholarship programs to grow enrollment by 32%. Indiana expanded these programs to include almost 80% of the state's students. Headwaters school in Austin Texas analyzes the tuition rates in the city and seeks to stay below the median. The school posts income tiers and average net tuition annually to maintain transparency of rates. The senior director also encourages parents that are making professional-level salaries to apply for financial aid, even if they don't receive a huge portion. There are a multitude of factors that have allowed these schools to lessen the Barbell effect- large donors, state programs, creating financial aid tools, and incentives. However, the commonality among these strategies is that they aim to create a school community that is inclusive of all income brackets allowing for a more diverse student population.

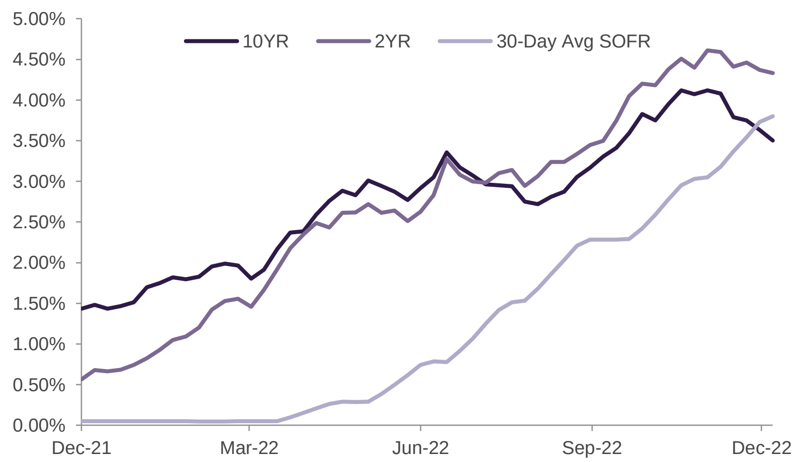
Cyber Risk Management

Cybersecurity is a risk to all businesses, but recently it has become a growing concern for independent schools. The FBI recently issued an alert that K-12 schools were being targeted by criminal hackers. The onset of these cyber attacks occurred when schools were forced to quickly pivot to remote learning during the pandemic. These attacks can put the school, students and community at risk. Common hacks include theft of student health information and donor financial data, and these attacks are typically done by phishing, ransomware, and video conferencing disruptions. Due to the growing number of cyber attacks, board of trustees will have to choose to make an investment in their safety. Unfortunately, cyber insurance premiums had already been on the rise over the years, and they are projected to continue to increase knowing that Independent schools are highly targeted. McGriff did a deep dive into controls that can be implemented to help mitigate cyber attacks. These solutions include multifactor authentication, which helps with remote access to networks, endpoint detection and response solutions, patch management, secure data backups and most importantly employee training. With these safeguards put in place, schools should be better equipped to fight off unwanted hackers.

Historical 2yr & 10yr Treasury Maturity Rate



Treasury Maturity Rates & 30-Day SOFR (Last 12M)



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Sources: Fitch Ratings; IIE OpenDoors; S&P Global Ratings, Moody's Investors Service; St. Louis Federal Reserve (FRED); NBOA NetAssets Magazine, Government Accountability Office