Education Market Update

Industry Consulting Team | Q2 2022

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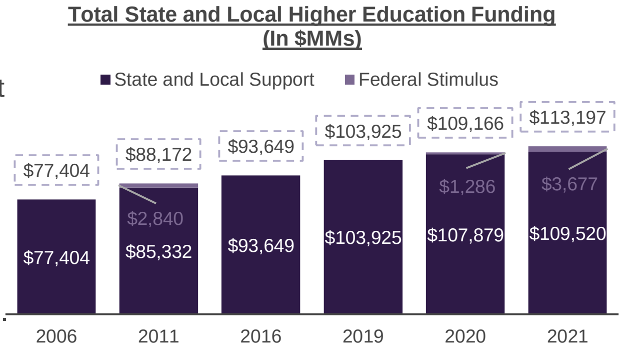
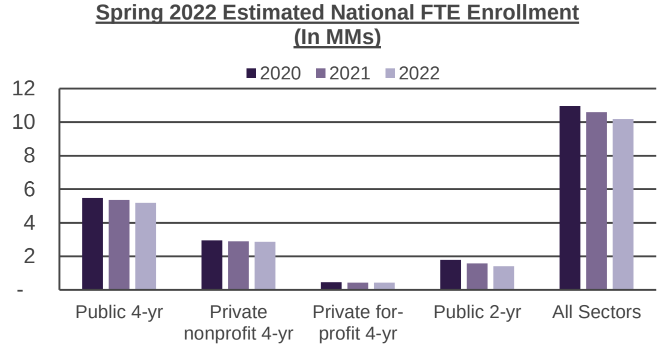
State funding for higher education increased for FY2021 backed by COVID-19 stimulus, despite tuition revenue and enrollment decreases. Infrastructure needs for higher education pose a credit risk as labor and materials costs continue to rise.

State Support for Higher Ed



According to recent data from the State Higher Education Finance (SHEF) Report released annually by the State Higher Education Executive Officers Association (SHEEO), "State and local funding for all higher education totaled $113.2 billion in fiscal year 2021, including $3.7 billion in federal stimulus funding (3.2%)" which constitutes a 3.7% increase from FY2020. On a full-time-equivalent (FTE) basis, inflation-adjusted education appropriations increased around 4.5%. Historically, appropriations per FTE have decreased following an economic recession but the increase can be attributed to three notable trends, "increasing state commitments to higher education funding, a sharp decrease in FTE, and generous federal stimulus funding." Without the federal stimulus, the appropriations would have increased by around 2%, and without the stimulus and holding FTE constant, education appropriations would have declined 1%.

Enrollment Declines Continue



According to data from the SHEF report, there were 10.6MM FTE enrolled students in 2021, about a 3% decline from the previous year, and is the largest FTE decline on record marking the 10th straight year of declines. The report goes on to state that the decline is more concentrated among two-year public institutions which reported a decline of 6.1% as opposed to four-year institutions which only recorded a decline of 0.9%. Enrollment declines were seen across 47 states and Washington D.C. this year, which is more than any previous year.

Recently released data from the National Student Clearinghouse Spring 2022 indicated that the total unduplicated student headcount for all sectors of higher education was down 4% from Spring 2021. All four categories were down year over year with the largest decreases coming from Public 4-yr, which decreased 3.4%, and Public 2-yr, down 7.8%.

Labor & Materials Costs Pose a Credit Risk to Higher Ed

Moody's Investor Services recently published an article on universities' rising infrastructure needs and how the increased costs of labor and materials could pose a future credit risk. Over the last year the Producer Price Index for Construction Materials increased nearly 16%, and over 50% since May of 2020. Increased constructions costs coupled with rising interest rates could create problems for colleges and universities that have aging facilities in need of investment in order to continue to attract top students and faculty. Moody's report states that "in an increasingly competitive environment, colleges and universities with weaker financial profiles may lose ground because of fewer resources to invest in facilities. Some institutions that have the highest age of plant are also highly leveraged, potentially limiting their capacity to take on additional debt to make necessary facilities investments."

Events

NACUBO Annual Meeting
July 16th – 19th
Denver, CO

MISBO Annual Meeting
October 26th – 28th
Savannah, GA

EACUBO Annual Meeting
October 30th – November 2nd
New York City, NY

TRUIST

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Education Institutions are being more strategic when deploying their short-term investments in order to maximize return and help fund future growth. A school's strategic plan and value proposition are more important now than ever as the education industry exits the pandemic.

Investment Policy Parameters and Seasonal Cash Investing in a Rising Rate Environment

With a rising rate cycle, education institutions are seeing a core component of financial discipline—their short-term investment strategy—rise in importance. Now, getting your short-term investment strategy right has an even greater impact on your financial returns, not to mention its effect on your ability to manage liquidity, address your cash flow cycle, and deliver on your organization's mission. As you think about your approach to short-term investments, these questions can provide helpful prompts for conversations with your team and your professional advisors:

- Do you have a policy? If so, how is it structured to address your liquidity requirements or your risk tolerance? What are the parameters of your policy? When was your investment policy last updated?
- Do you have liquidity constraints which might affect the duration-related contours of your portfolio?
- How have you typically managed your cash pool?
- What are your intended uses for your excess cash?

See the latest article on the Truist Education Specialty website for additional information on ways to maximize your short-term investment strategy in a rising rate environment.

Short-Term Investment Strategies

Operating Cash

- Cash required for operations
- Principal protection and liquidity are priorities
- Range: 0-15 Months

Reserve Cash

- Longer-term investment horizon
- Principal protection is a priority, but same-day liquidity may not be necessary
- Range: 0-3 Years

Strategic Cash

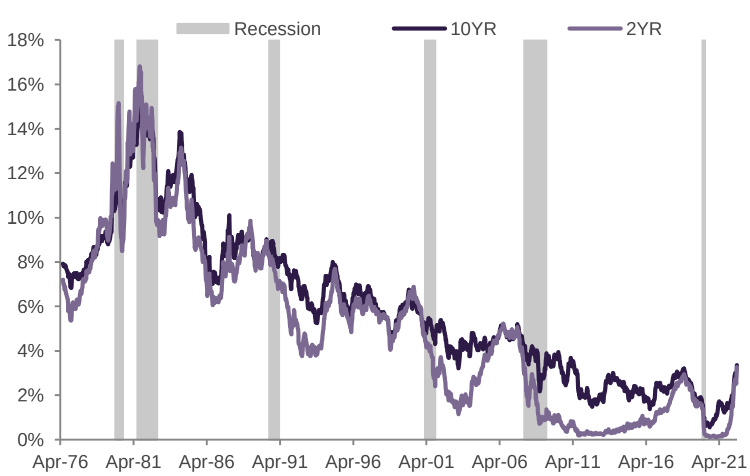
- Principal and liquidity are prioritized with the corresponding liability
- Investment horizons can exceed a year with yield and total returns a priority
- Range: 0-5 Years

Strategies: Strategic Financial Planning for School Business Leaders (NetAssets May/June 2022)

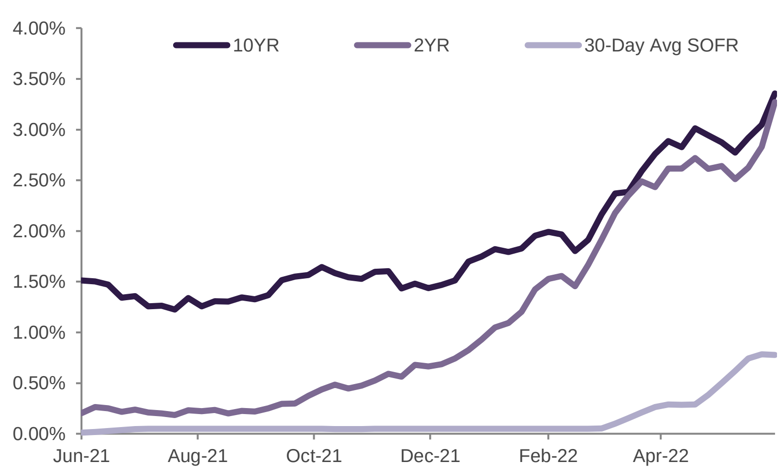
The business officer, head of school or trustees alone cannot solve a school's financial challenges. School leadership, including division heads, admissions and advancement professionals, and others, must work together to address financial challenges for the long term by bringing others on board to solve these complex problems. This article hits on several key points that were also discussed in **Building Blocks for a Stronger Financials Future** (**NetAssets Nov/Dec 2019 authored by John Lynch**). Together, business officers, board members and school leaders hold the keys to the actionable data that drives decision-making. With these four key building blocks, your school will be well-suited to further drive its mission, overcome financial obstacles and promote future growth.

1. Articulate your Value Proposition
2. Focus on the Future
3. Perfect the Proforma
4. Strengthen the Balance

Historical 2yr & 10yrTreasury Maturity Rate



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



Sources: University Business; State Higher Education Finance; National Student Clearinghouse; Moody's Investor Services; St. Louis Federal Reserve (FRED);