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‘The Worst-Case Scenario’: What Financial Disclosures Tell Us About Coronavirus’s Strain on Colleges So Far

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6–8 minutes

Moody’s Investors Service issued a bleak forecast this week for higher education in America, downgrading it from “stable” to “negative” in light of the coronavirus pandemic. The news was yet another alarming sign for colleges, many of which have been hollowed out by the past decade’s demographic changes and are now trying to determine what effect the public-health crisis and expected recession could have on their balance sheets.

In issuing its forecast, on Wednesday, Moody’s cited a laundry list of factors that could drag down revenue, including “disruption in enrollment patterns, state support, endowment income and philanthropy, and research grants and contracts.”

Echoing that grim prognosis already are some colleges themselves, which in financial disclosures since the dawn of the pandemic have underlined just how little they know about its possible consequences — and just how bad things could get.

In an issuance of bonds this week, the University of Cincinnati, for instance, sought to disclose any number of ways the virus could disrupt its operations, including declines in revenue, enrollment, demand for on-campus housing, and interest in university programs involving travel or international connections.

“The full impact of Covid-19 and the scope of any adverse impact on university finances and operations cannot be fully determined at this time,” the university wrote.

Harvey Mudd College and the University of Washington also cited the outbreak in bond issues this week. Both assured bondholders that they were continuously monitoring the situation, and taking steps in coordination with college, state, and federal health officials.

Some institutions have sought to reassure investors amid all the uncertainty, economic and otherwise. In separate conference calls, representatives of Azusa Pacific University and Hawaii Pacific University heard from nervous bondholders who peppered them with questions about each institution’s response to the outbreak, and if any economic losses could be forecast at this time. The Azusa Pacific officials said a financial-contingency plan was being developed as the university sought to increase its cleaning services. Administrators at Hawaii Pacific reported it was seeking to estimate the cost of its online transition.

“We — the state and various institutions — are just preparing for the worst-case scenario here, just to be prudent,” said David Kostecki, the university’s chief financial officer. “And that would be a widespread outbreak here in Hawaii.”

That preparation can take any number of forms. Last Friday, for example, DePaul University reported to bondholders that it expected to draw $21 million on three lines of credit, to be used as needed for normal operating activities.

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“This is a prudent opportunity to increase available cash in light of current market and global conditions,” the university wrote. DePaul’s precautionary actions mirror those taken by businesses as the pandemic has intensified. For instance, the multinational hospitality company Hilton elected this month to draw on credit instruments valued at $1.75 billion.

Companies that rely on business with colleges and universities are also forecasting dark days ahead. Compass Group PLC, whose subsidiaries include food-service providers such as Bon Appétit and Chartwells, reported to investors this week that it expected a 25- to 30-percent loss in revenue. The company said it had devised “significant mitigation plans to manage our costs,” which will probably include employee layoffs. Another food- and facilities-service provider, Aramark, told investors that it had borrowed $230 million “in light of current uncertainty in the global markets resulting from the Covid-19 outbreak.”

‘A Lasting Impact’

As that uncertainty clears, higher education is likely to be staring down several different possible realities, depending on the institution type.

For Felecia Commodore, an assistant professor of higher education at Old Dominion University, the current moment reminds her of the challenges faced by institutions devastated in 2005 by Hurricane Katrina. Then as now, colleges and universities evacuated their campuses to protect students, with no certainty that they would ever return. Actions once considered unthinkable became unavoidable as colleges sought to keep from going under. Even after the last person is inoculated against this virus, Commodore said, universities and colleges would still be dealing with the fallout.

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“I do think it will have a lasting impact on higher education as a whole,” she said. “We will not go back to how it was.”

Though some institutions are underresourced, Commodore said, that’s not a death sentence. She said such colleges, particularly public regional institutions, may function more nimbly and with more confidence in this crisis than others can. Many institutions, already forced to make tough and uncomfortable decisions in the last decade, may be better-prepared to adapt to the new economic reality that awaits them.

Still, some institutions on the margins that were already contemplating closing or merging may be left with no other choice, said Kevin R. McClure, an associate professor of higher education at the University of North Carolina at Wilmington.

For other colleges, additional steps will be needed once the pandemic ends. Within the span of two decades, higher education will have undergone two economic shocks once thought extremely rare or even impossible. As a matter of their continued survival, McClure said, colleges and universities may need to plan for more-frequent and bigger crises.

“That means having those rainy-day funds and having insurance,” he said. “Basically planning for worst-case scenarios.”