WHEFA Annual Workshop

Higher Education – Sector Update

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WHEFA

Wisconsin Health and Educational Facilities Authority

September 2025

BLUE ROSE
CAPITAL ADVISORS

Key Themes of 2025 YTD

- Shifting Federal Policy
- Heightened Credit Scrutiny
- Revenue Challenges & Innovation
- Expense Growth
- Volatile Borrowing Environment

Economic Environment

- Calming, but still elevated inflation.
  - Operating budget pressures
    - Wages, healthcare, insurance costs
  - Increasing capital spending pressures
    - Inflation, deferred capital maintenance, competitiveness
- Higher interest rate environment than pandemic, still near historic averages.
- Higher Education and Non-Profit supply currently outpacing 2024.
  - Political uncertainty driving much of this supply

Credit Environment

- **<u>Higher Education Outlook:</u>**
  - **Moody's –Negative**
    - Moody's outlook on US higher education has been revised from stable to negative – the agency focused primarily on recent and potential federal policy changes creating a more difficult operating environment.
  - **S&P – Bifurcated**
    - S&P has maintained its bifurcated outlook on US higher education – Their outlook is negative for "less selective, more regional institutions without financial flexibility", but the outlook remains stable for institutions with strong demand and financial resources.
- **<u>Recent Trends</u>**
  - Rating agencies have applied additional scrutiny in recent reviews. We've seen more downgrades than upgrades this year, especially among tuition-dependent small privates.
- **<u>Ket Metrics</u>**
  - Net tuition revenue, operating margin, available resources to debt, and liquidity.
- **<u>Differentiators</u>**
  - Strong governance, diversified revenue, ability to fundraise, and flexibility in capital planning.
- **<u>Investor Demand</u>**
  - Focused on higher rated institutions, particularly A+ and above. BBB credits are facing more scrutiny, though demand has improved recently.

Strategic Financing Considerations

- **Capital Planning**
  - Inflationary impacts to project costs
  - Emphasis on projects necessary to competitive position
- **Refundings**
  - Current Refundings are picking up with declining rates
  - Taxable Advance Refundings still not seeing much use in elevated environment
- **Bank Liquidity**
  - Direct placements remain an attractive option for shorter maturities, and in many cases provide interest rate savings
    - Synthetic fixed rate structures providing less cost benefits as yield curve normalizes
- **Debt Structuring**
  - Financial Covenants
  - Security
  - Interest Rate(s)
- **P3 Structures**

Federal Policy Update

- Tax-Exempt borrowings not currently threatened
  - Municipal bonds
  - Private Activity bonds
- Cuts to research funding
- Endowment Tax
  - 8%, $2MM or more in endowment assets for each enrolled student
  - 4%, $750k - $2MM in endowment assets for each enrolled student
  - 1.4%, $500k - $750k in endowment assets for each enrolled student
  - **At least 3,000 students**
- Cuts to DoE employees working in the federal student aid office
- More to come

Federal Policy Risk - Moody's 2025 Outlook Report

Exhibit 1

Credit impact ● Negative ● Neutral ● Positive   Severity ● High ● Medium ● Low

Policy risk	Institutions affected	Credit impact	Severity
Federal research cuts	All, predominantly R1 institutions	●	●
Enforcement actions related to DEI programs	All	●	●
Department of Education restructuring	All	●	●
Reduction or interruption in Pell Grants	All, institutions serving low-income students	●	●
Changes or disruptions to federal student loans	All	●	●
Endowment tax	Wealthy private colleges and universities	●	●
Reduction in foreign student visas	Many, especially those with STEM or art and design programs	●	●

Source: Moody's Ratings

What CFO's Should Be Doing Now

- Stress testing
  - Enrollment declines
  - Cost increases
  - Endowment draws
  - Financial covenants
- Credit and/or ratings strategy
- Debt policy assessment
- Strategic investment considerations
- Talk to experts

Q&A

About the Blue Rose / Disclaimer

About the Blue Rose

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Blue Rose Capital Advisors at a Glance

Blue Rose Overview

- **Full-service independent** financial advisory firm
- National reach with advisors across the country
- 15 employees and 10 registered advisors
- 115+ years combined experience in finance
- $136+ billion worth of financings to date
- Focus on non-profit entities
- Broad array of debt advisory and consulting services
- Affiliated with HedgeStar (derivatives valuation)

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Erik Kelly
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Sam Gruer
Managing Director


James McNulty
Managing Director


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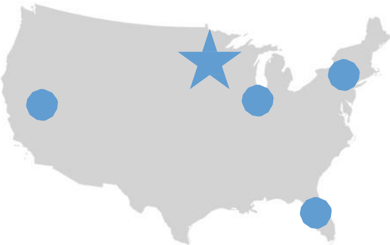
Richa Sharma
Analyst

Advisor Locations

- Minneapolis
- Chicago
- New York
- California
- Florida



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Debt Advisory	Derivatives Services	Reinvestment Advisory	P3 & Additional Advisory Services
			

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Securities and Exchange Commission	Municipal Securities Rulemaking Board

Sector Served

Higher Education	Non-Profit	Charter Schools	K-12	Healthcare	Government	Corporate
						

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