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Spurring Standards for State Subsidies

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Agenda

- **Current State Funding Environment**
- **Performance Funding**
- **Potential Credit Impacts**

Current State Funding

Since the current recession, almost all public universities have experienced reductions in state funding

- **Though some increases in fiscal 2013 and 2014, not likely to return to pre-recession increases.**
 - Have not kept up with the rate of enrollment and/or inflation
- **Increased appropriations = Increased oversight from state legislators.**
 - Legislators want “more bang for the buck”

By the numbers

Overall Increase of 5.7%
FY 13-14

Better than 5 year change from FY 09-14

- 1.2% decline when including state funding only
- 4.1% decline when including ARRA funding

Largest Increase by State
FY 13-14

- New Hampshire: 27.3%
- North Dakota: 19.2%
- Florida: 17.6%

Largest Decrease by State
FY 13-14

- Wyoming: -8.1%
- Louisiana: -5.6%
- West Virginia: -4.7%

Performance Funding

Performance Based Funding vs. Performance Budgeting

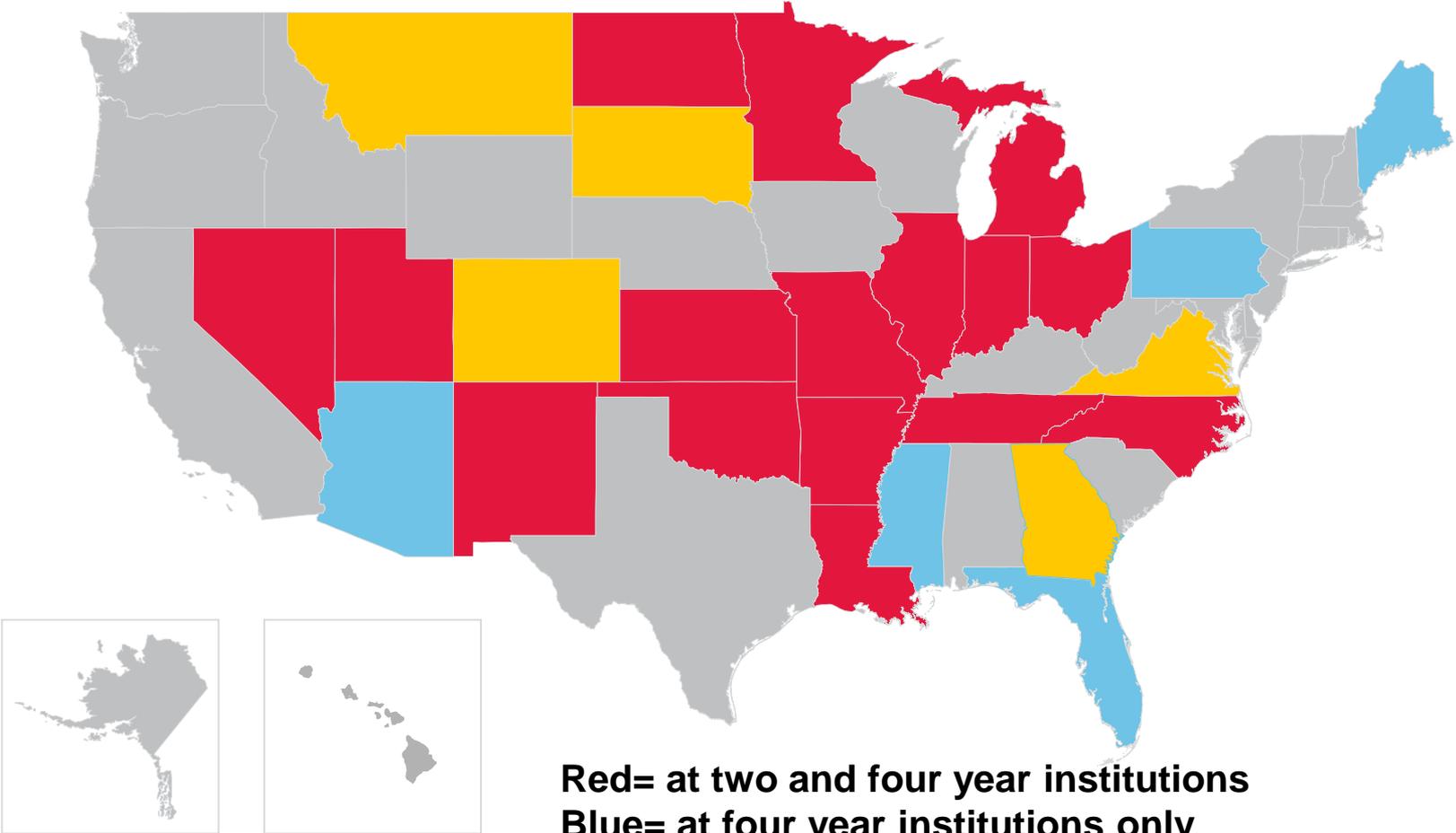
Performance Budgeting

- **General linkage to what state appropriations “buy”**
- **Indirect, discretionary and uncertain**
- **Most institutions followed performance budgeting in the past**

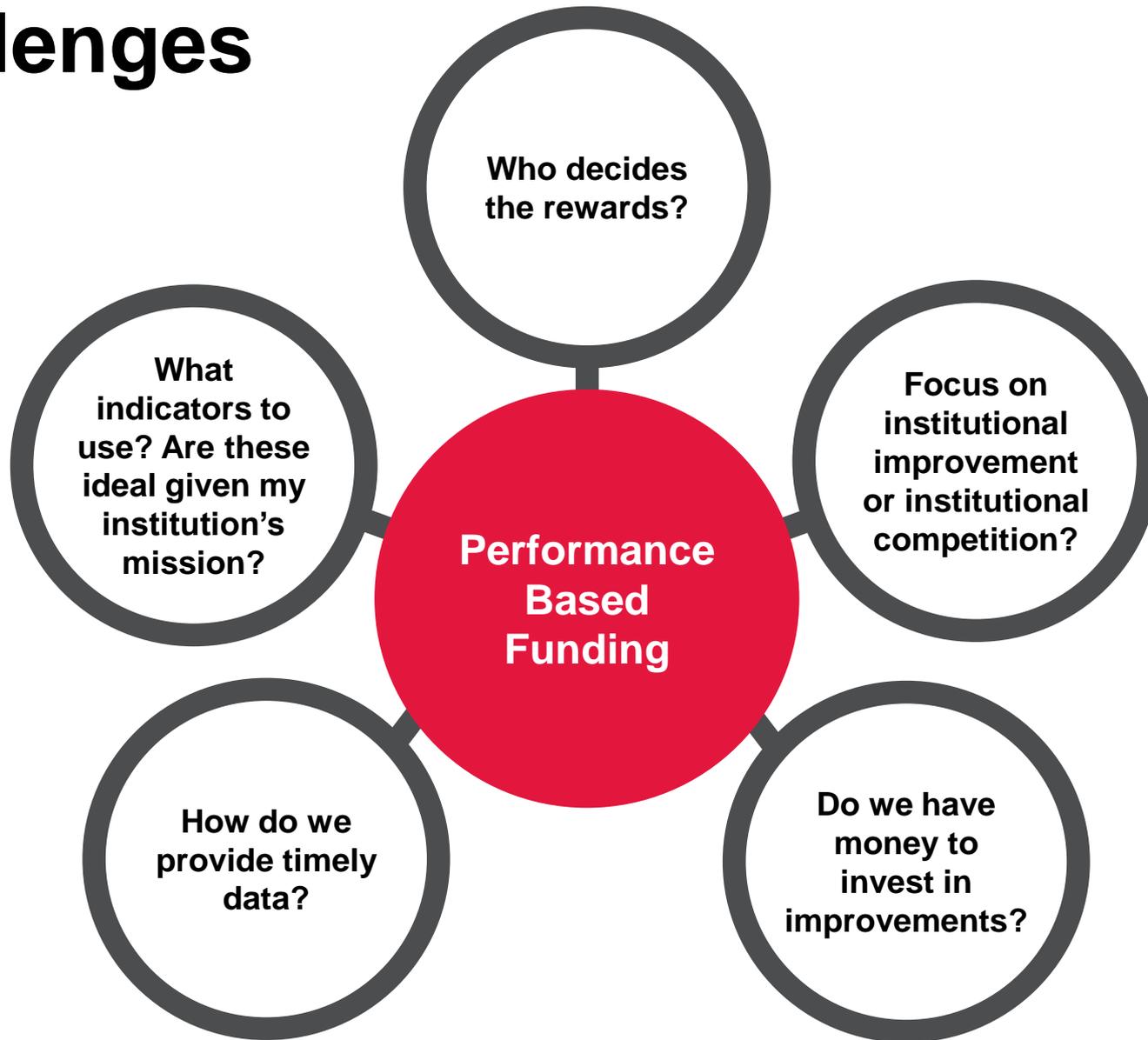
Performance Based

- **Tied directly to what state appropriations “buy”**
- **Formulaic and direct**
- **Today moving more toward performance based funding**

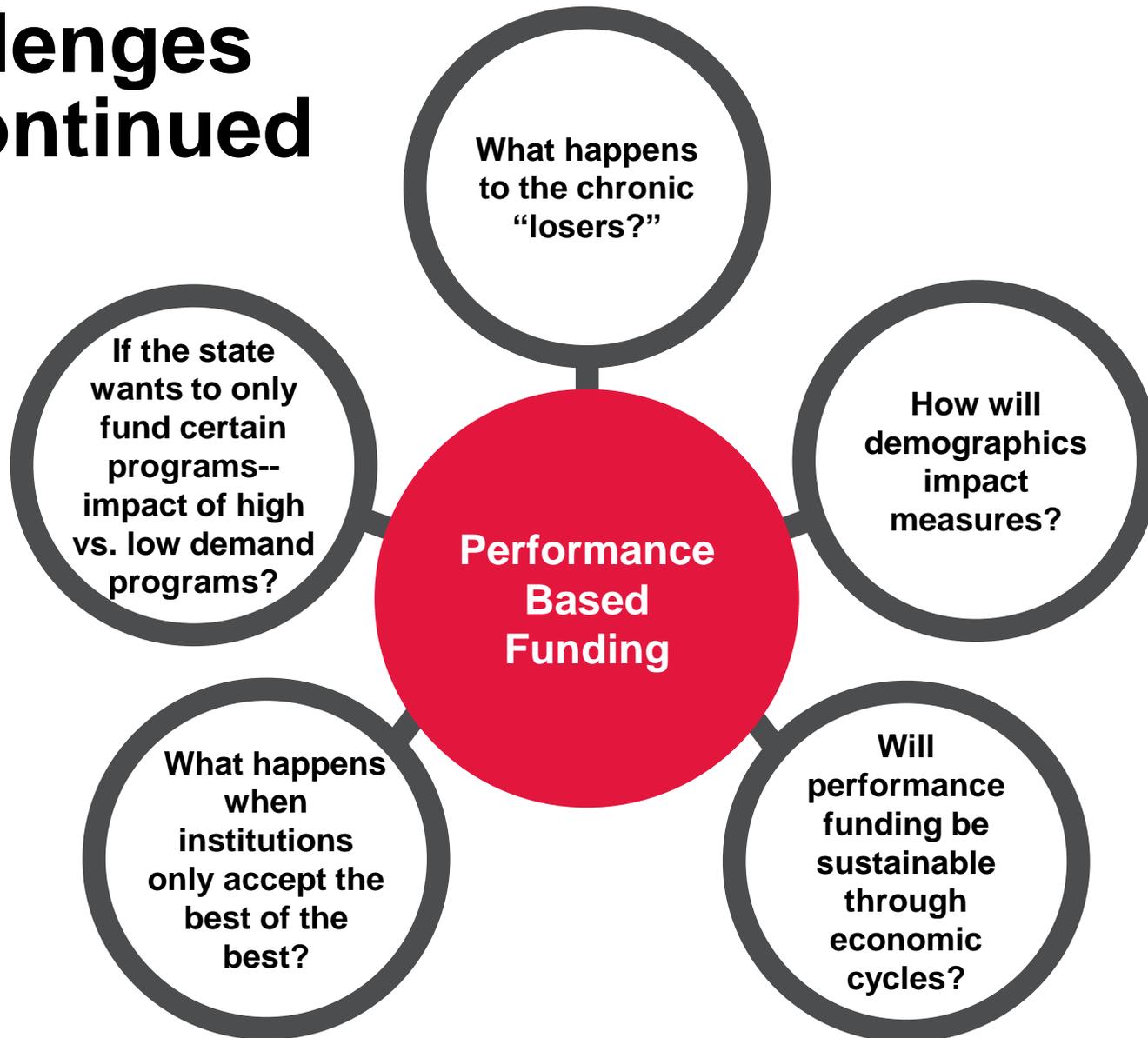
Performance funding by state



Challenges



Challenges Continued



What Challenges/Opportunities Do You See?



Potential Credit Impacts

Higher Education Criteria Summary

Enterprise Profile

- Enrollment
- Market Position and Demand
- For Publics– State Appropriations
- Competitive position/ Peer group comparisons

Financial Profile

- Operating Performance
- Financial Resources
- Endowment
- Fundraising
- Debt and debt profile



Credit Factor Impacts

In general, we aren't likely to see major rating shifts solely as a result of performance funding.

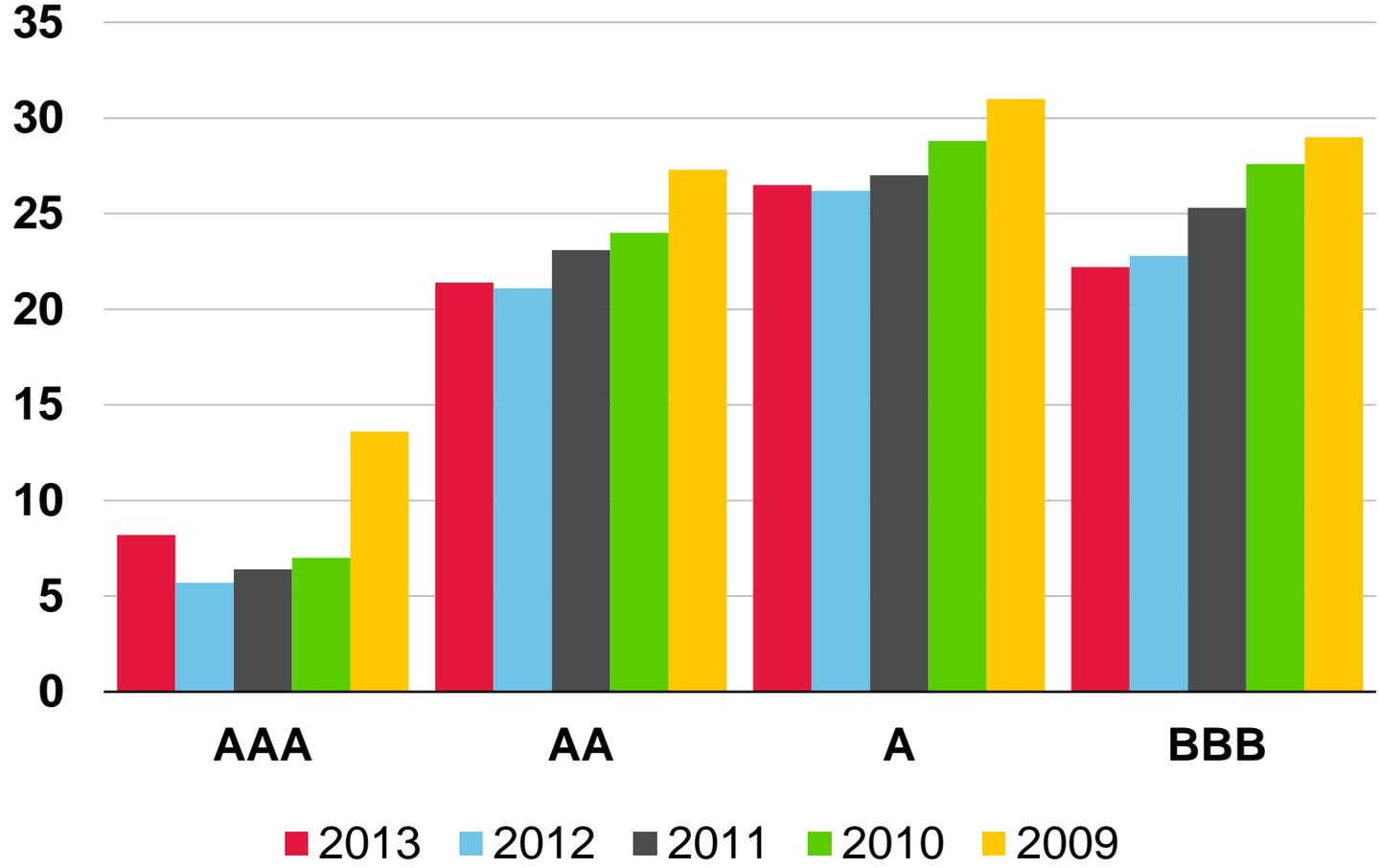
Why?

State Appropriations continue to decrease as a source of revenue.

Highly rated issuers with greater financial resources and revenue diversity have minimized the disruption to operations.

Institutions with fewer financial resources and a greater reliance on state funding have experienced increased fiscal pressure.

State Appropriations (% of total revenue)



Source Standard & Poor's 2014

Credit Factor Impacts

However, performance based funding could impact some enterprise and financial profile factors:

“Skimming off the cream”– could result in better selectivity and matriculation measures.

- May result in a decrease in enrollment in the short term.

Improved retention rates could improve operations.

- “Cheaper to retain a student than recruit”.

Higher investment in programming and infrastructure that could affect already stressed budgets.

- Continue the “weak getting weaker and strong getting stronger” argument.

Conclusion

Performance Funding is still in its infancy and a dramatic departure from the past:

- S&P will continue to monitor broader economic changes, state budgets, performance-funding trends, and overall enrollment patterns -- to evaluate how these continue to play into affordability and credit**
- Credit impact is muted currently because performance funding is not a large part of total revenues but direction of this initiative and any shifts in institutional characteristics will warrant close review .**



Thank You

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