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# How Chasing Prestige Is Starting to Strain Some Elite Institutions

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*Chronicle Illustration by Ron Coddington*

The pressure to maintain elite status is starting to be reflected in the finances of some of the nation's pre-eminent private research institutions.

Last month Northwestern University became the latest such institution to have its bond rating lowered by Moody's Investors

Service, the financial-information company. Moody's [cut the university's rating](#) of nearly \$2.2 billion in debt, from its [top grade](#) of Aaa to Aa1, its second-highest score.

As Moody's noted, the "pressure to invest to sustain competitiveness with other elite universities will be challenging."

To be sure, Northwestern still occupies an enviable perch in higher ed, with an \$8-billion endowment. But ratings downgrades typically trigger larger interest payments. It's unclear, however, how much Northwestern's interest payments will increase as a result of the October downgrade.

"It's unlikely, in our opinion, that they are going to return to the very high cash flow that they used to have, at least over our outlook period," said Susan Fitzgerald, an analyst at Moody's. "They've invested in faculty and infrastructure that has increased their fixed cost base."

Northwestern is generating smaller gains from its operations than it did in previous years, Moody's found. While tuition revenue has remained stable, Northwestern's expenses across nearly every category have grown significantly. Of particular concern to the analysts was the university's debt load. It tripled between the 2011 and 2018 fiscal years, from [\\$775 million](#) to [\\$2.555 billion](#). For every dollar Northwestern earned from operations in 2014, the institution was liable for \$2.60 in debt. Four years later, that ratio had ballooned to \$18.10 in debt for every \$1, according to Moody's calculations.

What is that debt financing? Some of it has funded or will fund the construction of a medical-research center, a life-sciences building, an engineering-design center, a proteomics-research building, and a chemistry lab. Northwestern recently opened its Simpson Querrey Biomedical Research Center on its Chicago campus (total cost: \$455 million), which was partly funded by the issuance of debt.

In its analysis, Moody's cited the increasingly competitive environment for federal research funding. While Northwestern has seen growth in the amount of money it has raised for research in recent years, Moody's noted that such competition "can prove difficult given the strategic imperative of enhancing its research standing."

Similar pressures can be seen in other areas of the enterprise. "What they are competing for are the most academically qualified students, and the most renowned faculty and researchers," Fitzgerald said. "That's an expensive proposition in terms of being able to compete on those levels."

Northwestern declined to make administrators available for an interview, though it provided a statement attributed to Craig Johnson, senior vice president for business and finance. He noted that the university continues to maintain top scores from two other credit-rating agencies, Standard and Poor's, and Fitch.

"We are committed to our strategic initiatives and our financial plan," Johnson wrote, "which maintains steady progression towards returning to balanced operations by the end of FY 2021 while also being informed by the university's academic and research vision."

And Moody's continued to express confidence in the institution. Despite the downgrade, Moody's said Northwestern still holds an "excellent credit profile" that is "supported by its strong and growing balance-sheet reserves."

## Pressure on Other Universities

Some of the language that appeared in Moody's report on Northwestern has also cropped up in the analyses prepared for similar elite private research institutions.

For instance, Boston University's [Aa3 rating](#), in June, was "tempered by the highly competitive conditions to attract both students and research awards." Case Western Reserve University's investment in a new health-education campus held the "potential to grow research funding and student demand," but Moody's [noted](#) in a report in March that the university's operating performance was lower than that of its peers, "reflecting recent investment in the new campus."

Finally, like Northwestern, Washington University in St. Louis's June 2017 [downgrade](#), from triple-A to Aa1, was "driven by a substantial increase in debt relative to reserves and operations." The university declined to comment on how the ratings change had affected it, if at all.

Other elite private research universities maintained their top

ratings, according to *The Chronicle's* review of Moody's analyses. At least six institutions held the Aaa rating: [Columbia](#), [Harvard](#), [Princeton](#), [Rice](#), [Stanford](#), and [Yale Universities](#). Other institutions may or may not have had their ratings lowered; not all universities have their financial positions graded by Moody's. And because public universities could theoretically be bailed out of their debt obligations by state taxpayers, *The Chronicle* chose not to include that type of institution in its analysis.

What does it take to be a Aaa-rated elite private research university? To Moody's, it's a matter of continuing to invest robustly in attracting the best researchers and students in the world, while generating large revenues and taking on as little debt as possible.

As Moody's [opined](#) to bondholders in April 2018, Columbia would continue to hold onto its top rating given "our expectation that Columbia will successfully navigate its continued expansion, without significantly increasing financial leverage, and maintain core market strengths and consistently positive operating performance." Columbia declined to comment for this article, citing a policy of not publicly discussing investment performance, strategy, or tactics.

## Elites and Super-Elites

The differing credit ratings among similar-seeming institutions points to the increasingly stratified nature of higher education's economics, said Brendan Cantwell, an associate professor of educational administration at Michigan State University.

This group of highly selective institutions actually contains two separate groups, the elites and the super-elites, said Cantwell,

who, with his co-author, Barrett J. Taylor, identified the split in their book, *Unequal Higher Education: Wealth, Status, and Student Opportunity* (Rutgers University Press, 2019).

Elites include institutions like Northwestern and Carnegie Mellon University; super-elites are institutions like Harvard and Stanford. Cantwell and Taylor found that super-elites spend about \$90,000 per year per student. Elites spend about \$50,000 per year per student.

As a result of that dynamic, universities in the elite tier fear falling further behind the super-elite, Cantwell said. And so elites feel that they can't take their "foot off the gas," he said. Furthermore, the system dictates that they can't expand their enrollments significantly, because then they would be seen as less selective, and therefore less prestigious.

While Cantwell said Moody's and other such organizations can accurately interpret the distinctions between elites and super-elites, instruments like ratings and rankings can reinforce problematic policy. Cantwell said such instruments can sometimes do more to calcify established social biases than signal significant financial risk.

Ratings and rankings are part of a larger social system in which leaders of elite institutions operate, and the demands of the system, Cantwell said, are sometimes indifferent or directly contradictory to a more-expansive vision of higher-education policy. And so it can be difficult for even the most charismatic and creative leaders to carry out policies in such a competitive

environment, he said.

“Moody’s isn’t going away,” he said. “*U.S. News* isn’t going away. College consultants who steer students into these places aren’t going away. The anxiety that upper-middle-class and wealthy families have about getting their kids into the best colleges isn’t going away. And our attention to these institutions, as researchers and journalists, isn’t going away.”