

Navigating Financial Challenges: Strategies for Small to Mid-Sized Independent Institutions

Brought to you by: AGB Consulting

Nov. 28, 2023

Webinar Overview

- ❑ Webinar recording and slides are emailed to you.

- ❑ Structure:
 - ❑ Conversation & slides
 - ❑ Audience Q&A

- ❑ Interaction: Questions and comments are strongly encouraged. Please use the Q&A button to send us questions.

Meet Your Panelists



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Today's Agenda



1. Challenges and Opportunities in Higher Education
2. The Board's Role in Financial Decision-Making
3. Future Strategies to Support Financial Health

Today's Agenda



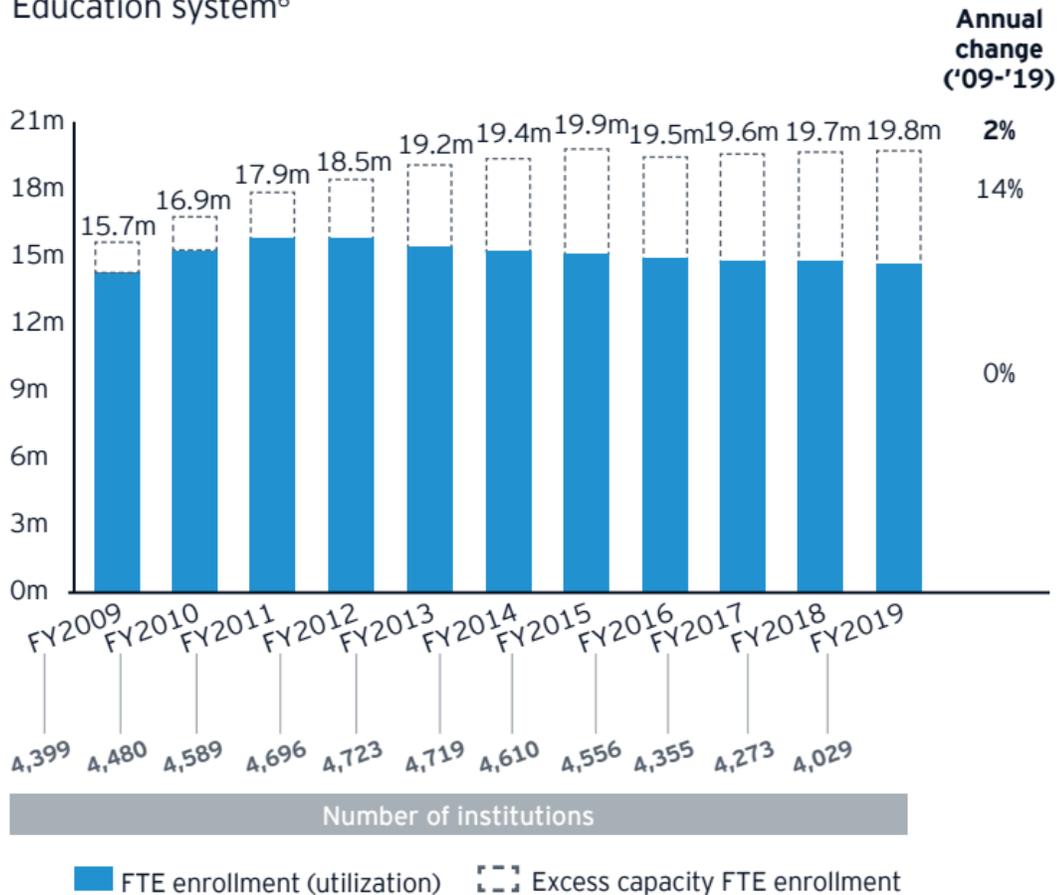
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Our Starting Point Is An Over-supply of Higher Education

Figure 2. Excess and utilized capacity in the US Higher Education system⁶



Capacity growth of 26% dwarfs enrollment growth of 3% (FY2009–FY2019)

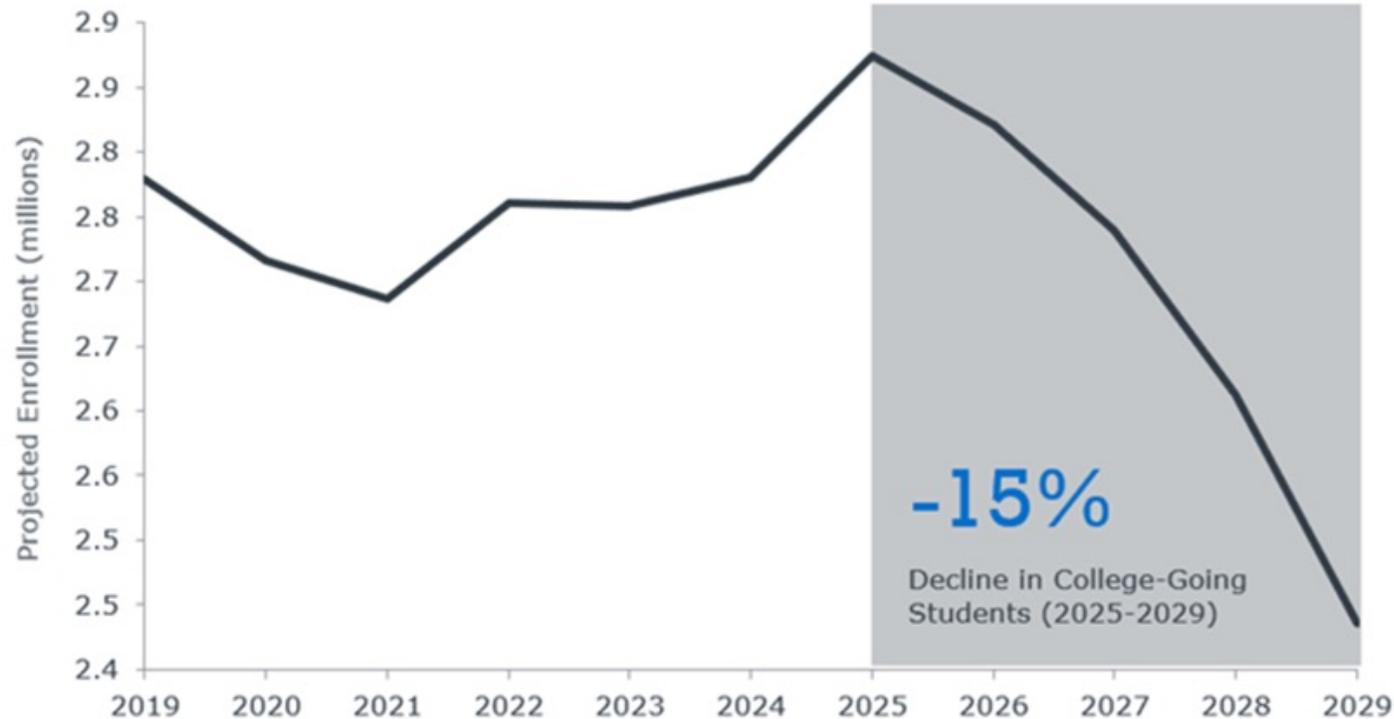
75% usage implies excess capacity of 3 million to 5 million seats

The cost of excess capacity could be as high as \$50 billion annually

Declining #S of High School Graduates and Fewer Enrollments Are Causing Financial Pressure

Enrollment Projected to Drop Sharply After 2025

Forecasted Number of College-Going Students in the U.S. (millions), by Year of High School Graduation



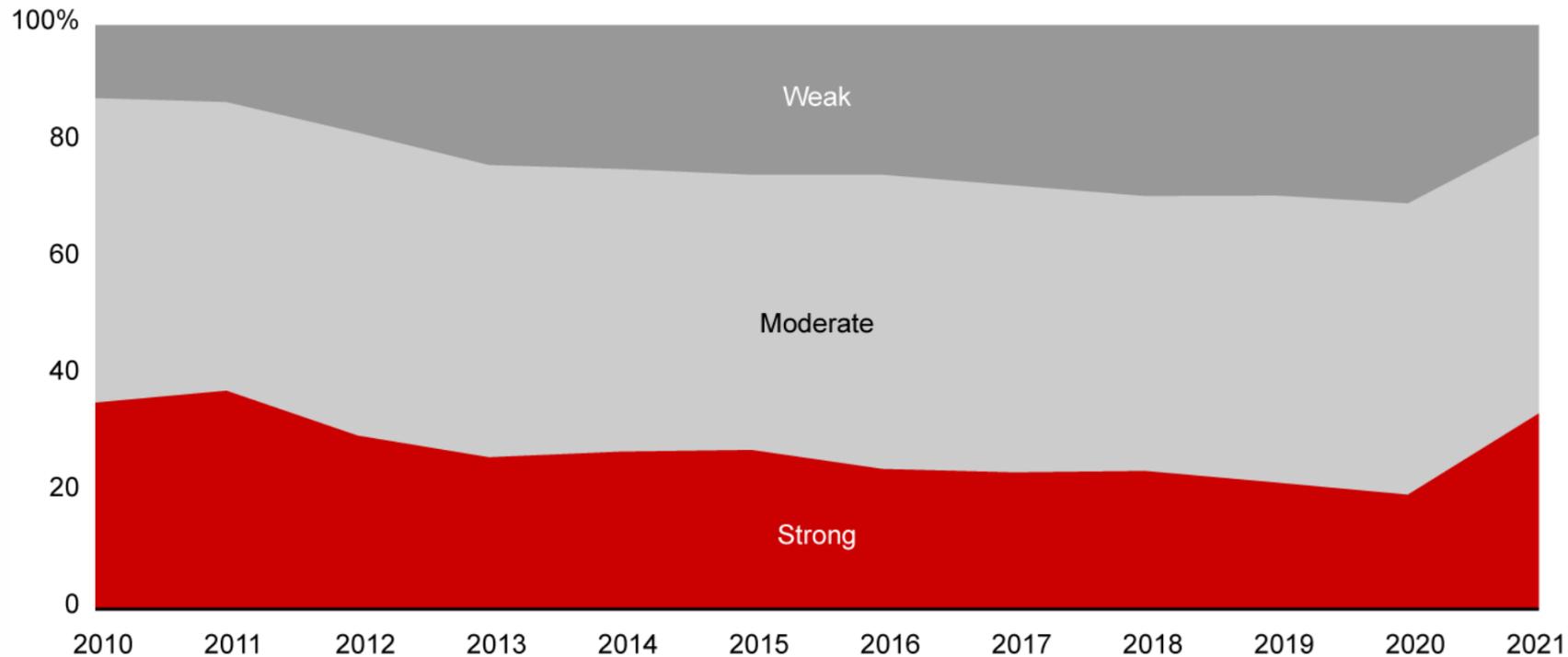
Update on Recent Enrollments:

Enrollment has recently declined at all levels, with the steepest declines in the undergraduate sector. Here, enrollments have fallen year-over-year for the past two years, **-4.9% in spring 2021**, **-4.7% in spring 2022**, and another **-0.2% in spring 2023**.

However, graduate-level enrollments have been more resilient throughout the pandemic. They decreased by only **-0.1% in spring 2020**, grew by **4.6% in spring 2021**, declined **-0.8% in spring 2022**, and declined again by **-2.2% in spring 2023**.

The Majority of Universities and Colleges Are In a Weak to Moderate Financial Position

The annual composite score measures a university's resiliency based on three equally weighted metrics: **primary reserve ratio**, **net margin**, and **three-year enrollment growth**



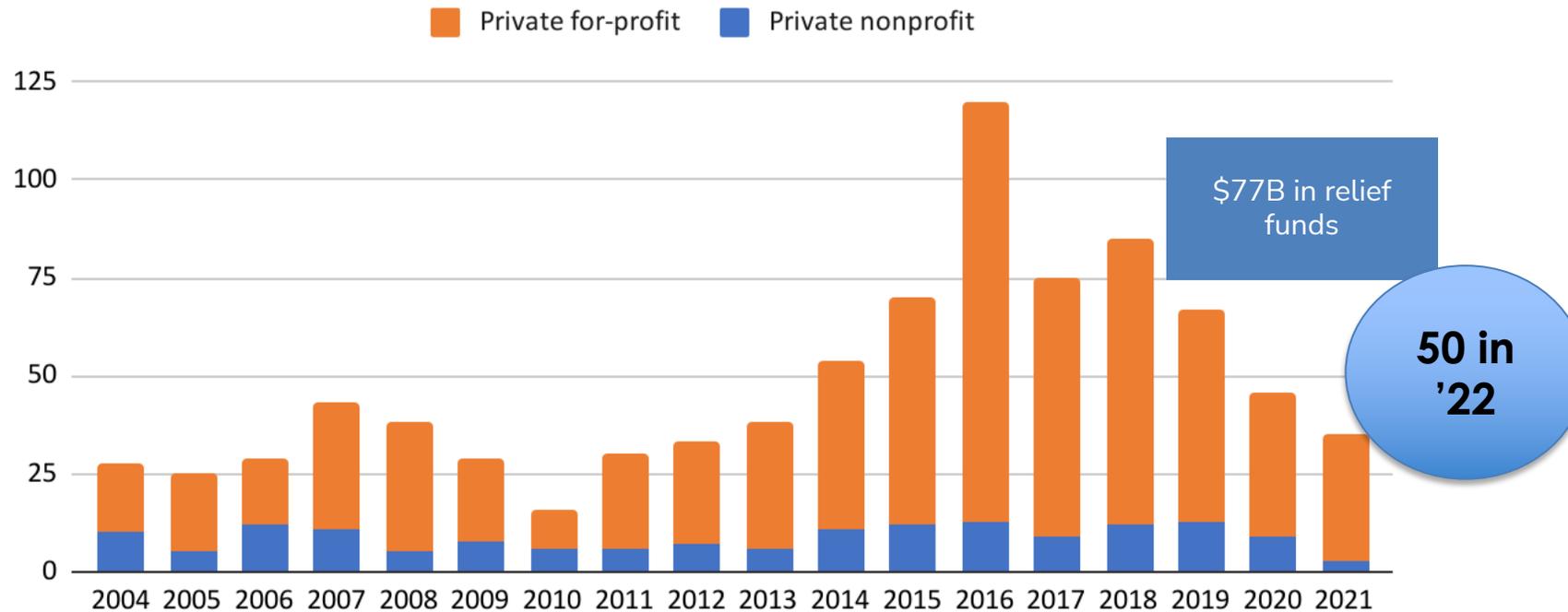
Note: n=1,504

Temporary uptick due to significant federal support and strong endowment returns (not likely to be sustainable).

The Rise In Closures Between 2015 and 2019 May Be On The Decline Due to Federal Relief Funds but Are On The Rise

College closures

861 colleges and universities have ceased operations since 2004



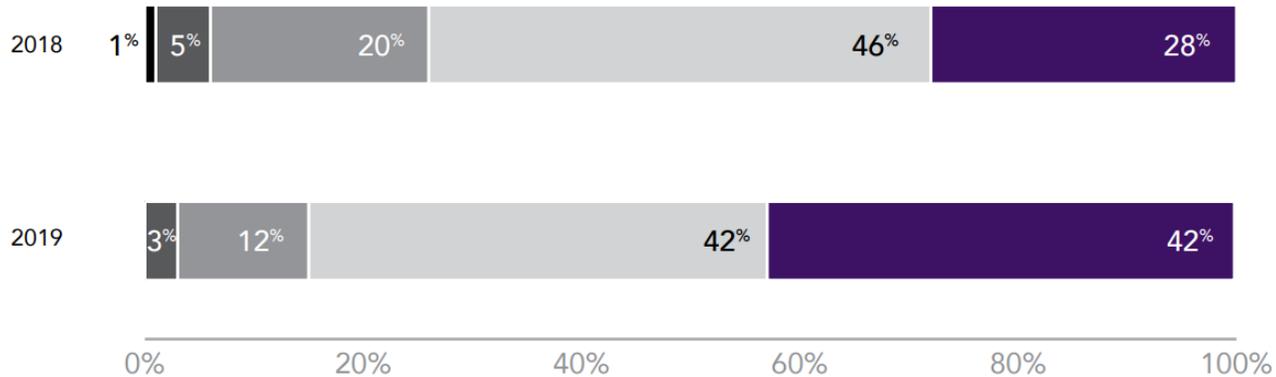
Data source: SHEEO analysis of PEPS database at U.S. Department of Education

- 300 colleges have closed since 2000, according to EY-Parthenon. **80% had fewer than 1000 students.**
- 861 colleges and 9,499 campuses have closed since 2004
- The latest outlook for 2023 from Fitch Ratings indicates “more operating woes” are ahead for U.S. colleges and universities. The agency described the sector outlook for higher education as “deteriorating,” due to rising costs and wages combined with sluggish enrollment.

Financial Sustainability Is On The Radar For Today's Leaders

Looking ahead to the next 10 years, how concerned, if at all, are you about the future of the higher education sector in the U.S.?

■ 1 - Not at all concerned ■ 2 ■ 3 ■ 4 ■ 5 - Very concerned



Rank	Public
1	The financial sustainability of higher education institutions (25%)
2	Price of higher education for students and their families (24%)
3	Decrease in state funding of higher education (10%)
4	Public perception of the value of a college degree (9%)
5	Relevance of higher education in helping graduates obtain a better job/career (8%)
6	Student debt (7%)
7	Incoming students' preparedness for college (6%)
8	Other (6%)
9	Equal access to higher education among different demographic groups (5%)



Recent Headlines Reflect Higher Education Turmoil

OPINION STUDENT VOICE

Higher Ed Failing Students as They Navigate College and Career

As More Stressed-Out Students Consider Dropping Out, Surgeon General Pushes College Leaders to Ramp Up Support

Employee Retention | AUGUST 30, 2022

The Great Resignation Stems from a Great Exploration

by Keith Ferrazzi and Mike Clementi



Math Scores Fell in Nearly Every State, and Reading Dipped on National Exam

The results, from what is known as the nation's report card, offer the most definitive picture yet of the pandemic's devastating impact on students.



One Year Later: COVID-19's Impact on Current and Future College Students

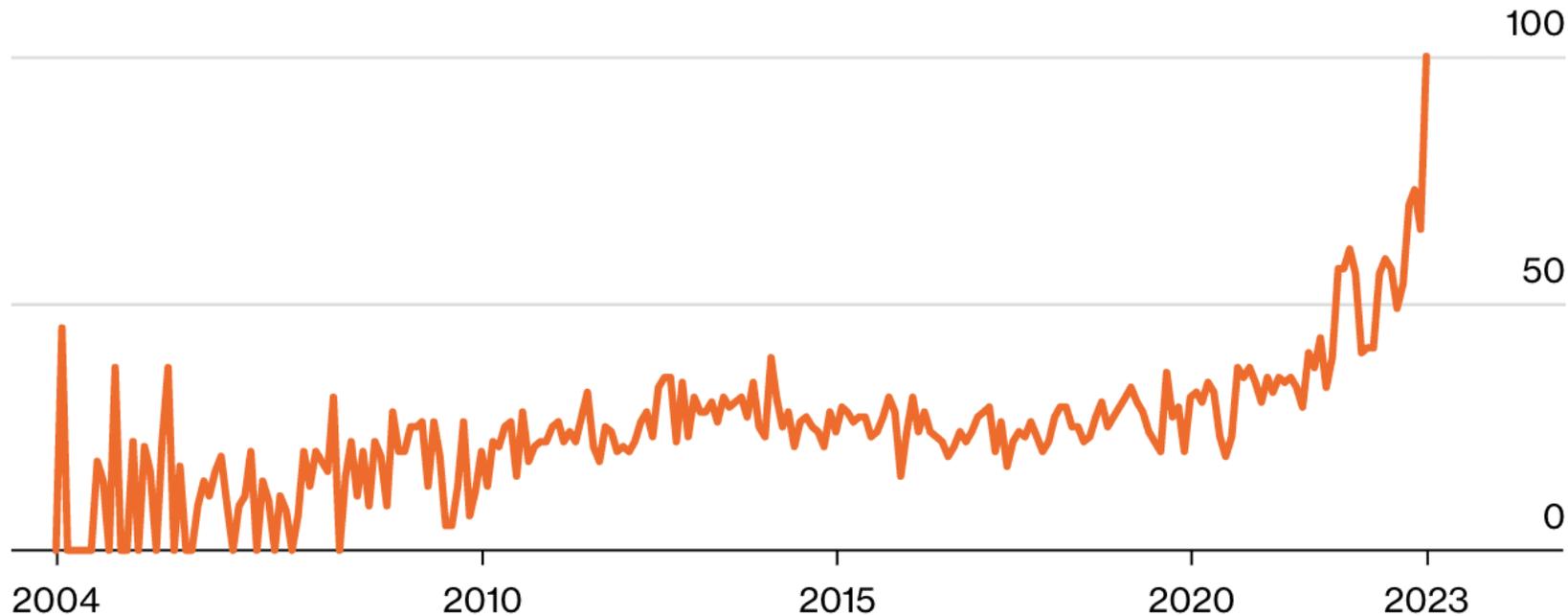
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Colleges and Universities Play a Pivotal Connectivity Role

The Loneliness Epidemic in a Search Term

Google Trends show that interest in finding connection is at record highs.

— "where to meet people" queries (US)



Source: Google Trends

Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A score of 0 means there was not enough data for this term.

Online Enrollment Trends

School administrators report— the age range of students enrolling is increasing to include students who are both older and younger than previously seen.

School administrators report - a continued demand for online learning, including from on-campus students who also want to take online courses.

31% of respondents enrolled in online programs in order to accommodate existing commitments such as work and family responsibilities.

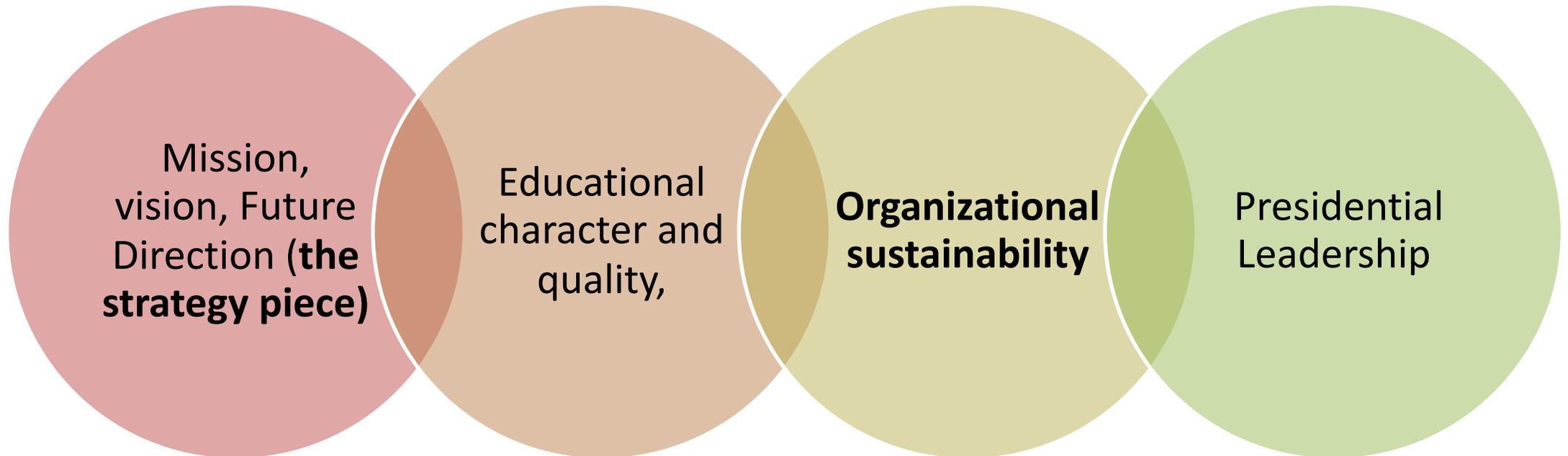
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- 2. The Board's Role in Financial Decision-Making**
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FOCUS on Fiduciary Responsibilities

Four fiduciary assets that boards should sustain and enhance:



Exercise Strategic Governance

Strategic Governance

describes both a **general philosophy** and **practical framework** for board discussion and engagement across all institution types.

Strategic Governance

Strategic Governance

General Philosophy: The critical responsibilities of boards are to act as ethical fiduciaries, help define the parameters of strategy, and support the allocation of resources for critical strategic initiatives.

Practical Framework: To embody the philosophy of strategic governance, boards should:

- (1) have trust and vision alignment with the president/CEO
- (2) maintain a purposeful focus on the future and what matters most
- (3) own their actions, culture, and accountability

Why Does Strategic Governance Matter and How Do We Develop a More Strategic Board?



There is an observed significant, positive correlation between:

- ❑ Strategic governance and the development and successful implementation of institutional strategies...
- ❑ Especially:
 - ❑ Mission continuation and fulfillment
 - ❑ More successful student outcomes and perceptions of ROI
 - ❑ Long-term institutional financial prosperity
 - ❑ Org culture – retention of senior execs., staff, etc.

Grounded In The Core Principles of Trusteeship



Board Responsibilities for Oversight and Monitoring

Board's must understand where and how student's choose their college or university and the data on outcomes and success

- Application #'s and 5 year trends
- Enrollment #'s and 5 year trends
- Retention rates and 5 year trends
 - Transfers in/out
 - Aggregate and by race/gender/age and 1st gen status
- Graduation rates and 5 year trends
 - Aggregate and by race/gender/age and 1st gen status

Why it Matters That Board's Understand Retention as They Address Strategy

Calculate the cost per student to recruit and yield enrollment

Identify the **sunk costs** in students who do not return at any point

Question for Boards: Would a modest investment in student engagement and support make a difference here?

Boards Should Also Understand The Gates Foundation Post-Secondary Success Predictors

Innovation

Holistic student support

Transformation

Data and information

Policy

The Role of a Higher Education Board

"The Governing Board's Basic Responsibilities" from Effective Governing Boards

Establish, disseminate, and keep current the institution's mission

Select a chief executive to lead the institution

Support and periodically assess the performance of the chief executive and establish and review the chief executive's compensation

Charge the chief executive with the task of leading a strategic planning process, participate in that process, approve the strategic plan, and monitor its progress

Ensure the institution's fiscal integrity, preserve and protect its assets for posterity, and engage directly in fundraising and philanthropy

Ensure the educational quality of the institution

Preserve and protect institutional autonomy and academic freedom

Ensure that institutional policies and procedures are current and properly implemented

In concert with senior administration, engage regularly with the institution's major constituencies

Conduct the board's business in an exemplary fashion and with appropriate transparency; ensure the currency of board governance policies and practices, and periodically assess the performance of the board, its committees, and its members

AGB Provides Guidance to Help Governing Boards Be More Effective

Principles of Trusteeship



Questions the Board Should be Asking

1.

Revenue, Expenditures, and Debt Management:

1. What is our current financial position, and how does it compare with past years and peer institutions (do we have a structural/operating deficit)?
2. How are revenue sources (e.g., tuition, state funding, endowment) evolving, and are they stable?
3. What are our major expenditures, and are any areas growing disproportionately?
4. How much debt does the institution carry, and how does it compare with similar institutions?

2.

Student-Related Financial Health:

1. How are enrollment trends impacting our financial situation, and what is our student retention and graduation rate?
2. What percentage of our students receive financial aid, and how is this affecting our net tuition revenue?
3. What is our overall discount rate on tuition?

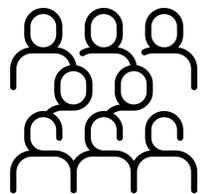
3.

Strategic Planning and Efficiency:

1. What are our multi-year financial projections, and how are we planning for potential challenges?
2. Are there unexplored opportunities for cost-saving measures or operational efficiencies (do we have prosperity gaps)?
3. How transparent are our financial practices, and how frequently are updates provided to stakeholders?

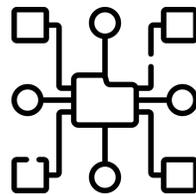
It is Imperative That Boards Have a Strong Foundation to Respond to Modern Challenges

Effective Governing Boards and Strategies:



Distinctions:

Trustee vs.
Administrative
distinctions and
guardrails



Structures:

Are committee
structures and
responsibilities
adequate?



Process:

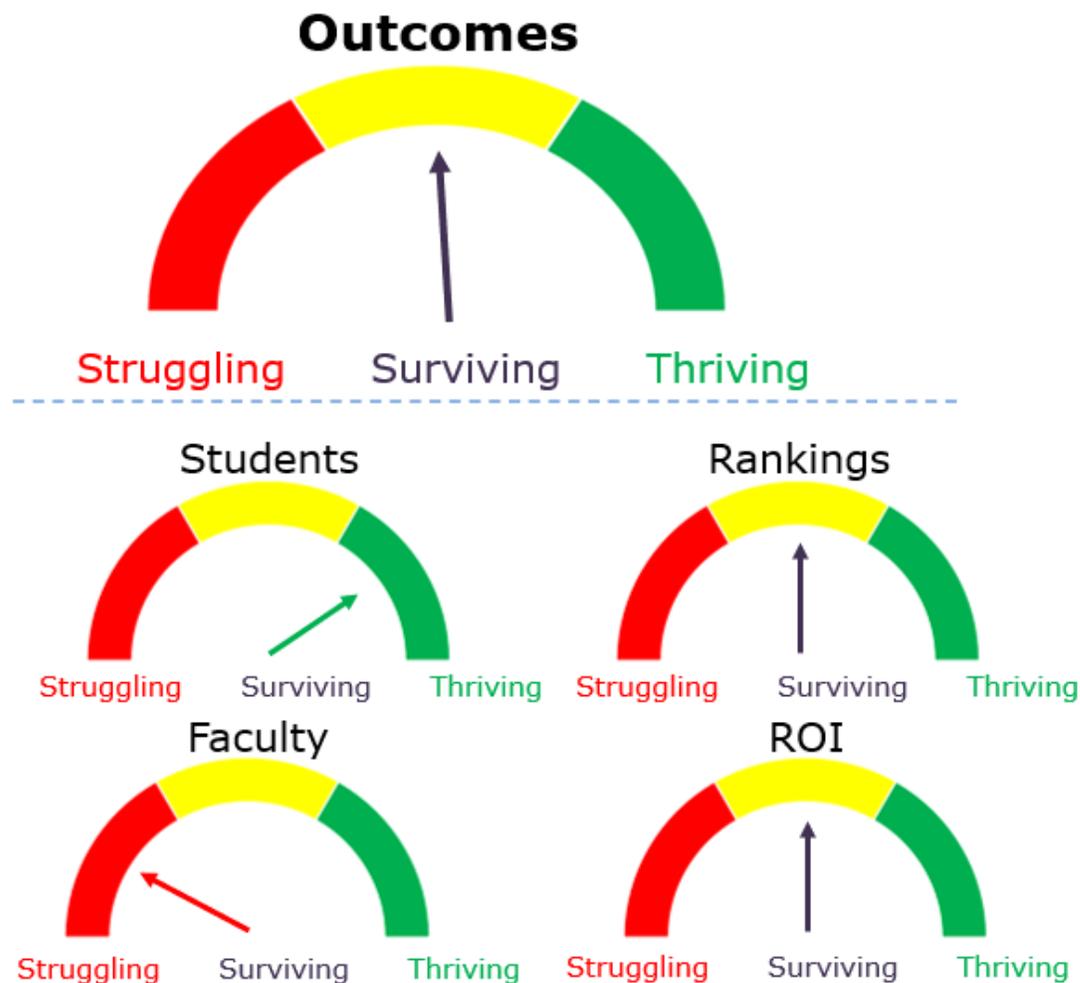
Are general
board meetings
and practices
effective?

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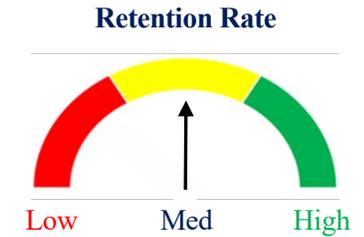
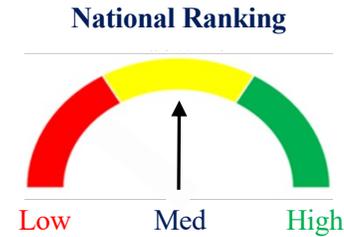
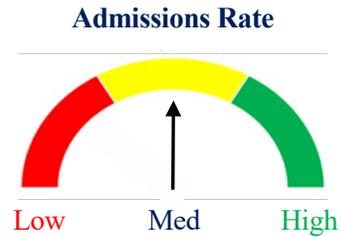
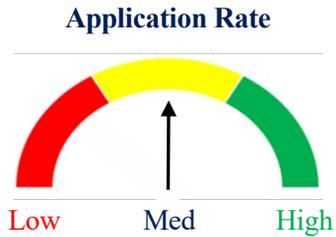
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You Will Want to Create and Track a Strategic Dashboard of Resources and Outcomes

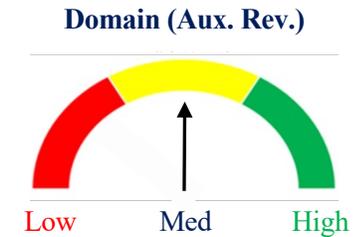
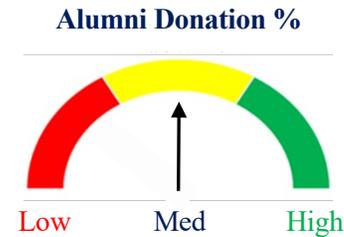
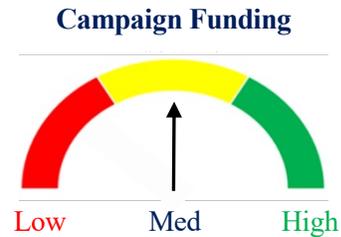
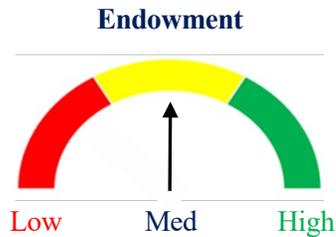


Dashboard Metrics – Illustrative Examples

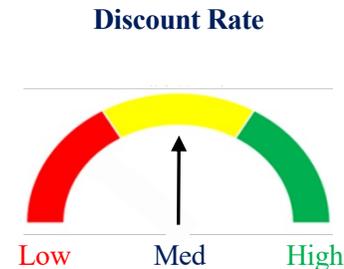
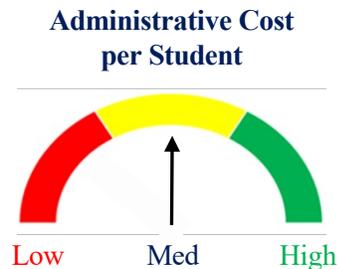
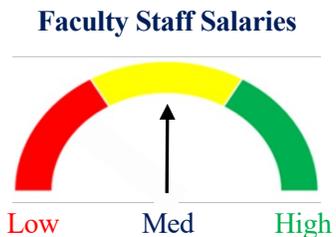
Students



Revenue



Costs



Key Financial Analysis Metrics

Balance Sheet

- Total Assets
- Endowment Composition
- Cash and Cash Equivalents
- Property, Plant, and Equipment Composition
- Total Liabilities
- Net Long-Term Debt
- Liquidity and Availability of Resources

Income Statement

- Total Operating Revenue
- Operating Profit
- Net Cash Flow from Operating Activities
- Endowment Composition
- Operating Profit Margin
- Net Tuition, Fees, and Room & Board Revenue by Type
- Scholarships & Grants Applied Against Tuition, Fees, and Room & Board
- Tuition Discount Rate
- Net Tuition & Fees per Full-Time Student
- Auxiliary Enterprises Revenue Excluding Room & Board
- Total Operating Expenses by Type
- Salary and Benefits Expenses by Function
- Media and Advertising Expenses
- Depreciation Expense

Ratios and Rankings

- Aggregated Net Tuition, Fees, and Room & Board Revenue as a Percentage of Total Operating Revenue
- Primary Reserve Ratio
- Equity Ratio
- Net Income Ratio

Gary Stocker's Metrics to Track and Compare The Financial Health and Viability of Colleges



1. 8-year changes
2. 8-year percent changes
3. FTE Enrollment
4. 4-year graduation rate
5. 6-year graduation rate
6. Admissions yield
7. Percent admitted
8. Retention
9. Transfer out rate
10. Single College Snapshot
11. 8-year changes snapshot
12. Expense Priorities
13. EOY Endowment value
14. Tuition and fees revenue
15. Total expenses
16. Average student loans
17. Average net price
18. Institutional grants - Unfunded
19. Institutional grants - Funded
20. Percent Undergrads with federal loans
21. Total discounts and allowances
22. Total student grants
23. Total assets
24. Total liabilities
25. Core expenses
26. Core revenues
27. Total revenues
28. Total net assets
29. Tuition and fees as % of core revenues
30. Grad student enrollment

Financial Responsibility Composite Scores

Metrics

A composite of three ratios is used to gauge the financial responsibility of an institution:

- Primary Reserve Ratio
- Equity Ratio
- Net Income

Rankings

- The composite score reflects an institution's overall financial health on a scale of negative 1.0 to positive 3.0
- Score greater than or equal to 1.5 = financially responsible
- Score of less than 1.5 but greater than or equal to 1.0 = financially responsible but need additional oversight
 - These schools are subject to cash monitoring and other requirements
- Score of less than 1.0 = not financially responsible
 - Can still run programs under provisional certification

Potential Actions for Navigating Financial Challenges

Optimize Administrative Spend

Assess level of investment vs strategy

- Consolidate Purchasing
- Cut Staff
- Re-engineer Processes
- Outsource
- Centralize/Shared Services
- Modernize Technologies
- Merge Multiple Locations
- Increase Spans of Control
- Decrease Energy Use

Increase Academic Program Returns

Rationalize academic offerings based upon demand

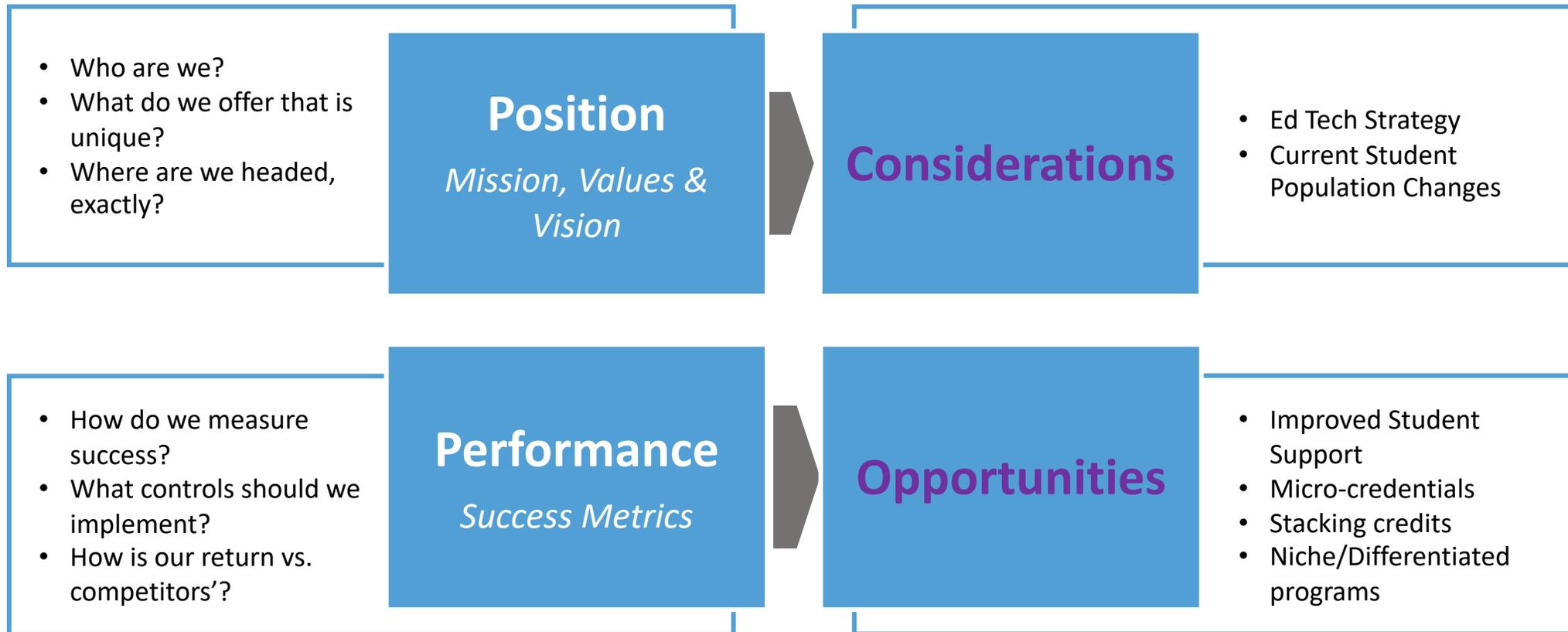
- Sunset Programs
- Grow Existing Programs
- Launch New Programs
- Increase Teaching Loads
- Hire More PT Faculty
- Hire More NTT Faculty
- Freeze New Faculty Hires
- Decrease # of Faculty
- Increase Student Retention

Grow Resources

Increase enrollments and revenue

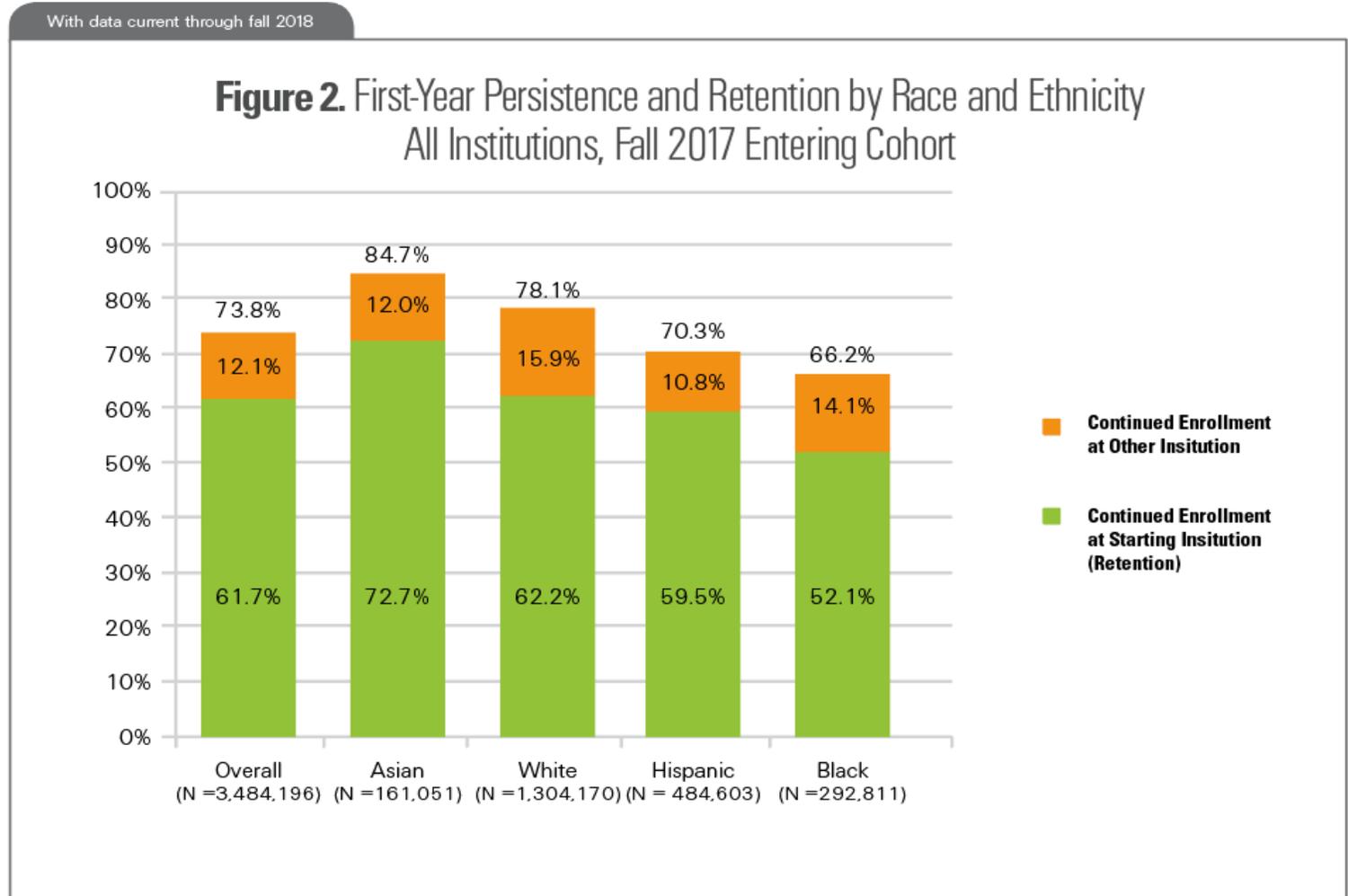
- Launch New Development Campaign
- Determine Unique Positioning
- Invest in Advertising Campaigns
- Collaborate with Other Universities
- Pursue PPPs (facilities, energy, etc.)
- Launch Medical Services
- Develop More Executive Education
- Increase Online Program Offerings
- Secure New Debt Offerings
- Grow Research Portfolio
- Sell Excess University Assets (land, etc.)

Revisiting Paul's Framework For The Ingredients of a Strategy



National Retention Rate in Higher Education

While the overall national rate for fall 2021 first-time students returning for a second year to any institution increased to 75.7%, only 67.2% of those students actually returned to their initial institution for their second year (National Student Clearinghouse, 2023).



The Importance of Student Retention to Fiscal Stability

Key threats

- The demographic cliff
- Waning confidence in the value of higher education
- Post pandemic fallout— learning loss, social isolation, increasingly virtual experience, low risk tolerance

The developmental perspective

- Vulnerability of first to second semester transition
- Returning for the second year
- Taking the Major leap
- Finishing strong

Retention Strategies Employed by Small Privates

- Scaffolded advising support to keep students on track with developmentally appropriate support
- Consider on-campus employment in meaningful roles to enhance engagement and work-ready skill sets
- Identifying hurdles in business processes and find ways to streamline
- Lowering student debt

AAC&U High Impact Practices

- Capstone Courses and Projects
- Collaborative Assignments and Projects
- Common Intellectual Experiences
- +Diversity/Global Learning
- ePortfolios
- First-Year Seminars and Experiences
- Internships
- Learning Communities
- Service Learning, Community-Based Learning
- Undergraduate Research
- Writing-Intensive Courses
- Identify creative ways to complete the “last mile,” students $\frac{3}{4}$ of the way through who stop out because “life happens”
- Stranded credits
- Certificate programs

Gallup/Purdue Big 6

- I had one professor who made me excited about learning
- My professor cared about me as a person
- I had a mentor who encouraged me to pursue my goals
- I worked on a project that took a semester or more to achieve
- I had an internship or job that allowed me to apply what I was learning in the classroom
- I was extremely active in extracurricular activities and organizations

These experiences have a strong relationship to long-term life outcomes such as employee engagement and wellbeing

Student's need...

Someone behind them

Something to belong to

Something to look forward to

Discussion With Attendees



Join AGB and The Chronicle of Higher Education in Puerto Rico: **May 29-31, 2024**



- Price includes hotel accommodations and all meals.
- Agenda well-suited for individual or small team attendance.
- Early-bird pricing ends January 19, 2024



Learn More: www.chronicle.com/trustee-strategy-symposium

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Upcoming Webinars and Opportunities to Engage

- **December 14, 2pm ET** – *Navigating Turbulence: Modern Strategy for Presidents and Trustees – for Private Institutions (with Marjorie Hass, President of CIC)*
- **January 10, 2pm ET** – *Navigating Turbulence: Modern Strategy for Presidents and Trustees – for Public Institutions (with Mark Becker, President of APLU)*
- Engage us in a strategy conversation – we'd like to learn how we can help your board, leadership, and institution!
 - Email consulting@agb.org, cmoloney@agb.org, or pfriga@agb.org