



Restructuring, Realignment, and Consolidation across Campuses

November 9, 2020
2:15-3:30pm

Your hosts for this session

Moderator



Dr. Steve Wrigley

13th Chancellor of the University System of Georgia



Dr. Paul N. Friga

Co-founder, ABC Insights; Clinical Associate Professor of Strategy, UNC Kenan-Flagler School of Business



Ying Huang

Municipal Analyst-Director, S&P Global

Session flow

Introductions	Steve Wrigley, Paul Friga, Ying Huang
The Macro View	Led by Paul Friga
The Ratings Perspective	Led by Ying Huang
A Case Example – Georgia	Led by Steve Wrigley
Q&A	Moderated by Steve Wrigley

Executive Summary

The Macro View



The Ratings Perspective



A Case Example -
Georgia



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A Case Example -
Georgia



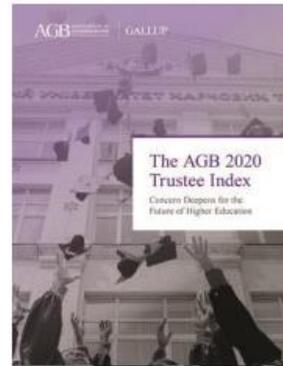
There is agreement that our sector is not in great shape

The Financial Model Crisis in Higher Education



Moody's Credit Rating Agency

100% - Moody's has kept a negative credit rating on higher education as an industry for the third consecutive year.



AGB Trustee Index

Eighty nine percent (89%) of **trustees** are concerned or very concerned about the financial model of higher education



Gallup Poll on Higher Education

Seventy-One (71%) percent of Chief Business Officers at Colleges and Universities say reports suggesting higher education is in the midst of a financial crisis accurately reflect the general financial landscape of higher education in the U.S.

*Metrics are pre-COVID

Source: AGB Consulting and Rick Beyer

Demand is on the decline for traditional higher ed

The higher education market has experienced nine consecutive years of enrollment decline on a national basis; contracting from approximately 21M to 18M students

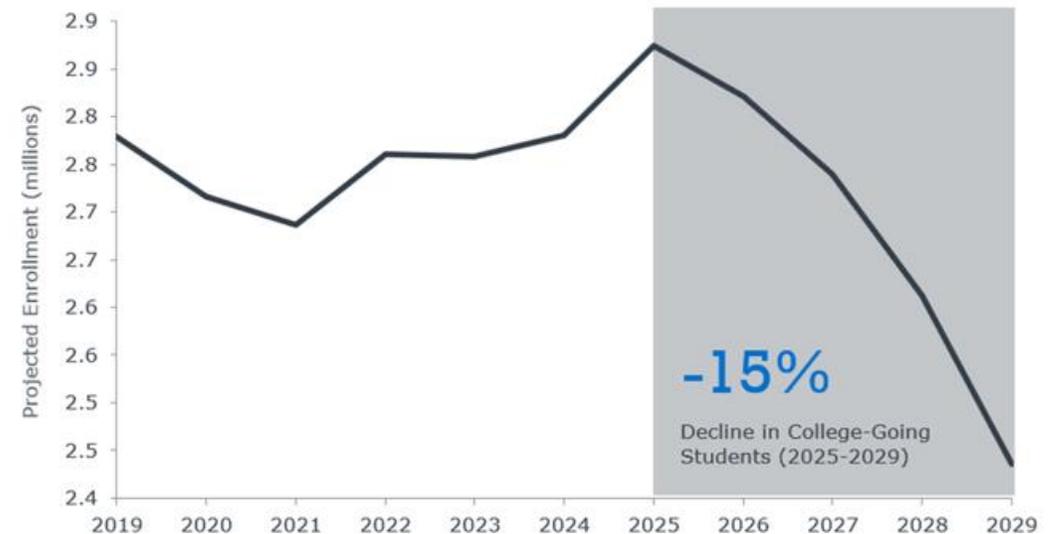


- Only 34% of institutions met their 2019 fall enrollment targets – declining market for degrees
 - Fall of 2020 private college enrollment was down ~4%
 - Arizona State University enrollment grew by 23% in the fall of 2020
- There is more capacity than student demand for traditional brick and mortar institutions
- Students are choosing alternative knowledge pathways versus degrees, including credentials, certificates, work-force related skill-sets

Source: <https://www.insidehighered.com/quicktakes/2019/05/30/college-enrollment-declines-continue#:~:text=College%20enrollment%20in%20the%20U.S.,National%20Student%20Clearinghouse%20Research%20Center.&text=The%20overall%20decline%20this%20spring,300%2C000%20students%2C%20the%20center%20found.>

Enrollment Projected to Drop Sharply After 2025

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

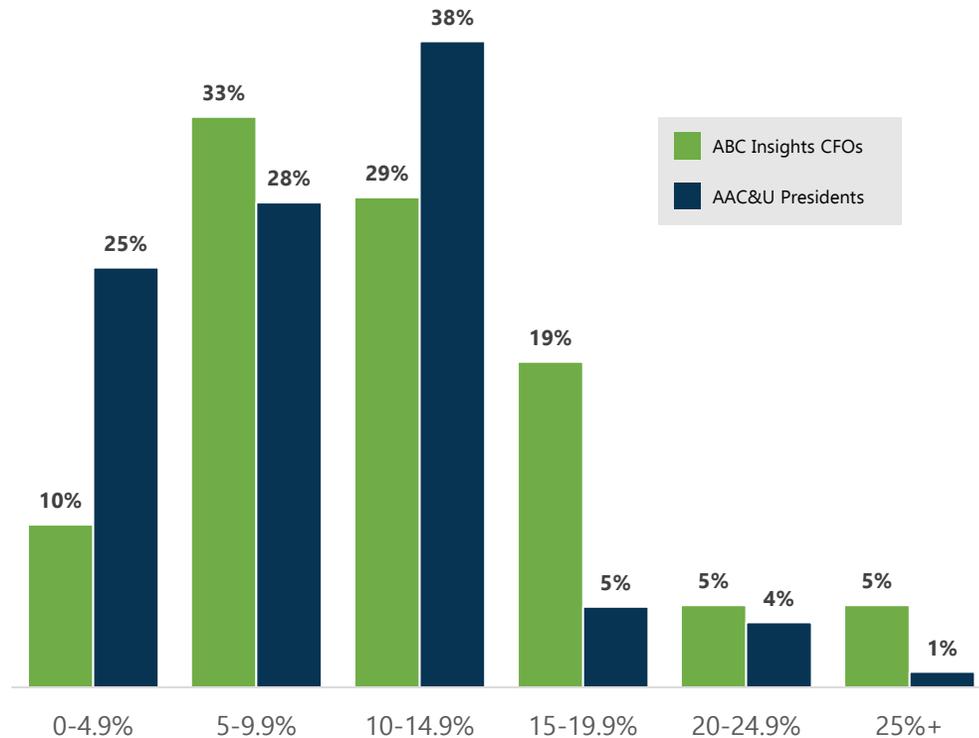


Source: Nathan Grawe's book, Demographics and the Demand for Higher Education (2019)

Source: AGB Consulting and Rick Beyer

Presidents and CFOs believe the impact of COVID-19 will be significant on their respective campuses

Expected Potential Decreases to Revenue in FY21



Source: ABC Insights AAC&U Survey of Presidents, July 12, 2020
n=119; ABC Insights Survey of CFOs, April 30, 2020, n=21

Presidents Say

"I worry about cuts in state and county funding. ... I worry that I won't have the workforce resources to help lead the economic recovery."

"Beyond the well-being of our students and staff, which comes first, I am worried about the lack of sufficient relief for higher education from state and federal governments."

"Sharply declining revenue due to loss of paying students and a new 'free college' program in our state."

"All income streams are under stress — tuition, development, endowment."

CFOs Say

"State subsidy will be reduced, auxiliary funds will be reduced due to lack of events, athletics impacted negatively."

"We are expecting 25% cuts in State support as well as enrollment impacts."

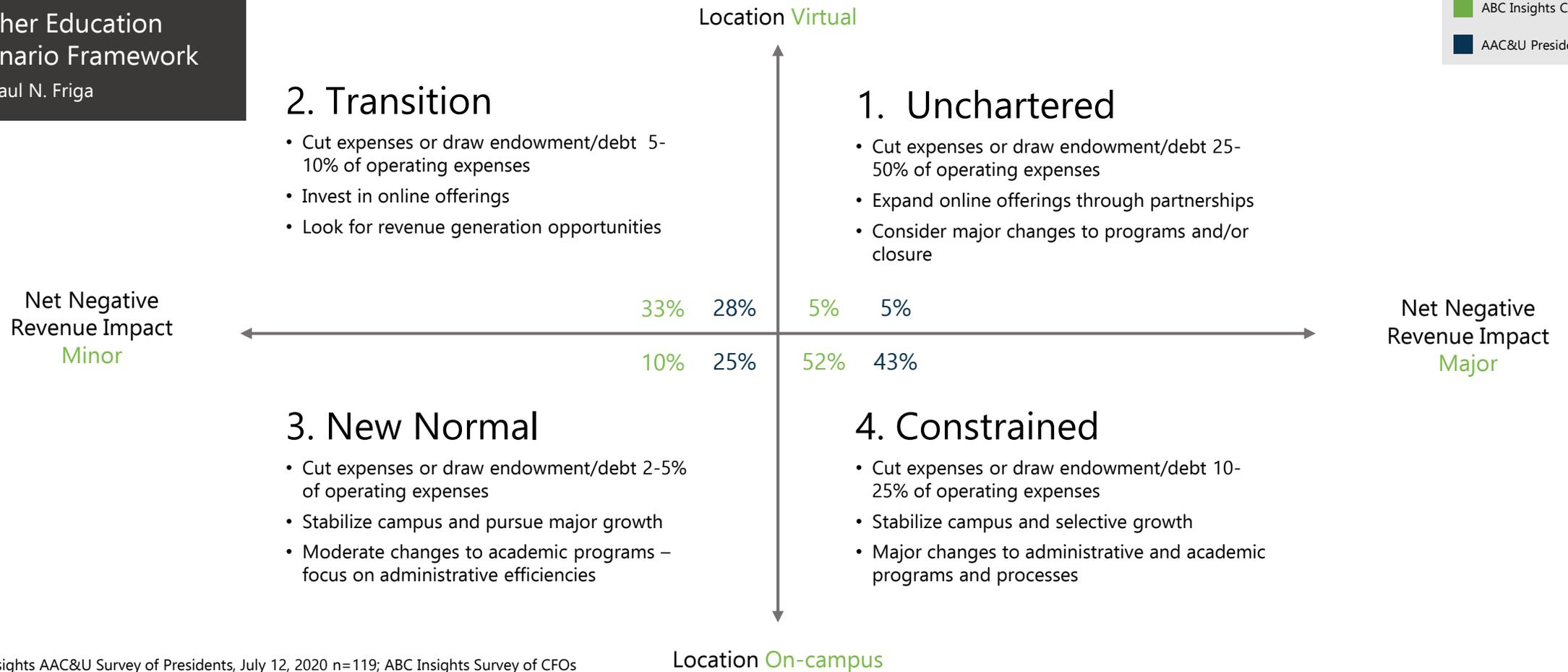
"Lost revenue is the main issue and the need to maintain physical infrastructure without revenue"

"Out of state revenues account for [a majority] of our revenue."

Higher education scenario analysis allows for dynamic planning

Higher Education Scenario Framework
Dr. Paul N. Friga

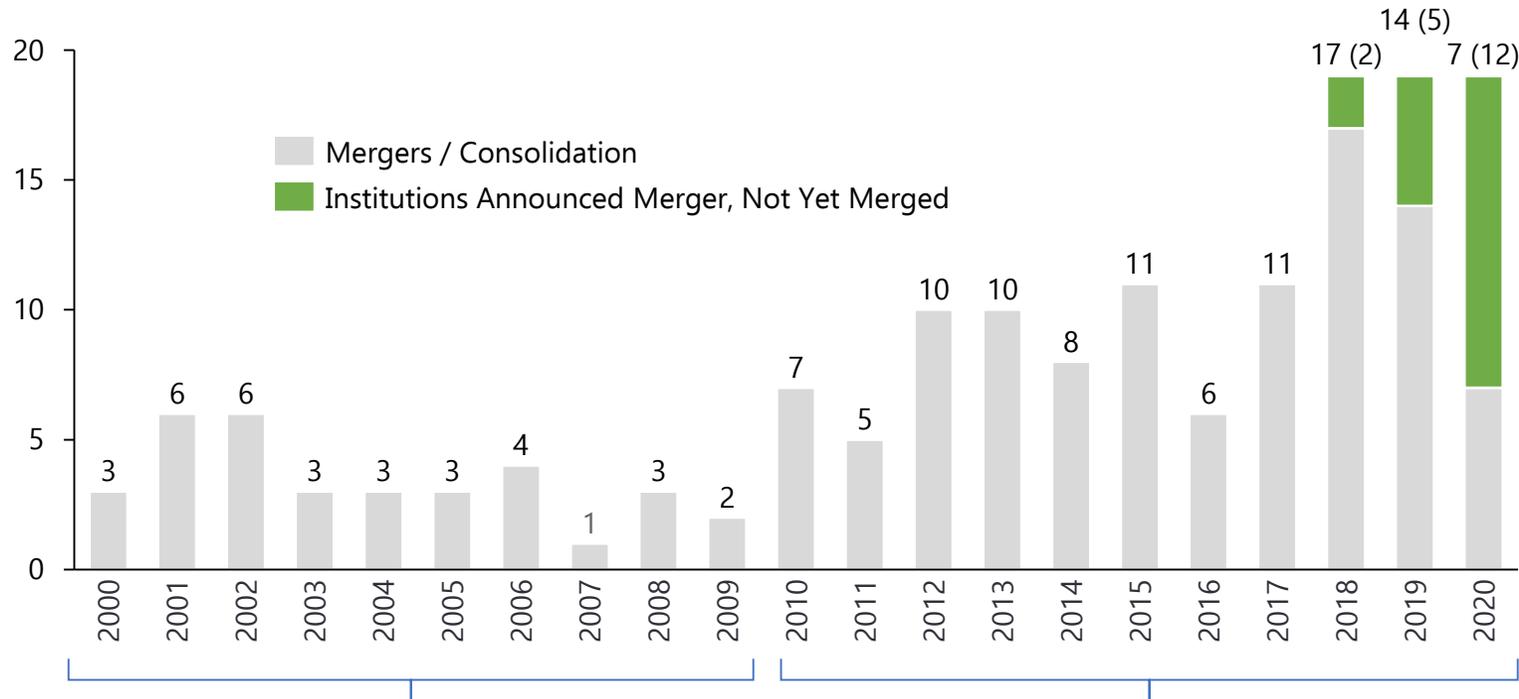
ABC Insights CFOs
AAC&U Presidents



Source: ABC Insights AAC&U Survey of Presidents, July 12, 2020 n=119; ABC Insights Survey of CFOs n=21; Dr. Paul N. Friga – “Under Covid-19, University Budgets Like We’ve Never Seen Before”, Chronicle of Higher Education, April 20, 2020

COVID-19 may accelerate M&A, with institutions seeking mergers and combinations to offset financial pressures and gain access to capital

Count of Combinations of Higher Education Institutions, by Year of Completion, 2000–2020 (June)*



11 mergers have been announced since March 1st

20 institutions have announced plans to close in 2020

Total Completed Combinations	34	105
Total Closures	34	138

* Note: 2020 figure represents the number of deals through 9/15//2020, Numbers in parenthesis refers to those that are announce, but not completed
Source: IPEDS, EY-Parthenon analysis

Campuses will need to make operations more efficient and effective

ABC Insights/HelioCampus Transformation Roadmap

Optimize Administrative Spend

Increase Academic Program Returns

Grow Resources

Examples of Strategic Initiatives For Change

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

- Sunset Programs
- Expand 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

- 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.)
- Grow Enrollments

Source: www.abc-insights.com ; www.heliocampus.com

Examples of Restructuring, Realignment, and Consolidation



Restructuring

Realignment

Consolidation

The Challenges

- Ohio cut higher ed budget FY21 by \$110M
- Declining enrollments
- Anticipated budget deficit (operating revenue approx. \$759M) of approx. \$300M over the next 5 years

- Decreasing enrollments at the 7 universities (2K fewer students over the past 8 years)
- Campuses struggled to maintain departments with fewer majors
- Increasing deficits

- Enrollments decreased 20% in the last decade 120K to 95K
- Union arrangements with generous compensation
- Operating losses and increasing debt

The Actions

- 3 rounds of layoffs, non-renewals, buyouts, and cuts (over 334 positions, including 82 faculty members)
- Furloughing administration, faculty and non-bargaining employees
- Salary reductions of 10 percent or more for FY21

- Pursued a unified system-wide accreditation
- Centralizing operations (e.g., IT and purchasing)
- Managing academic programs across the system as a portfolio
- University of Maine at Orono merged with The University of Maine at Machias

- Consolidating across the system: Clarion University, California University, Edinboro University will affiliate
- Faculty layoffs, at least 112
- Modifying governance structures, increasing data transparency, and finding operational efficiencies

Supplemental Slides

- Extra slides from Paul Friga as additional support

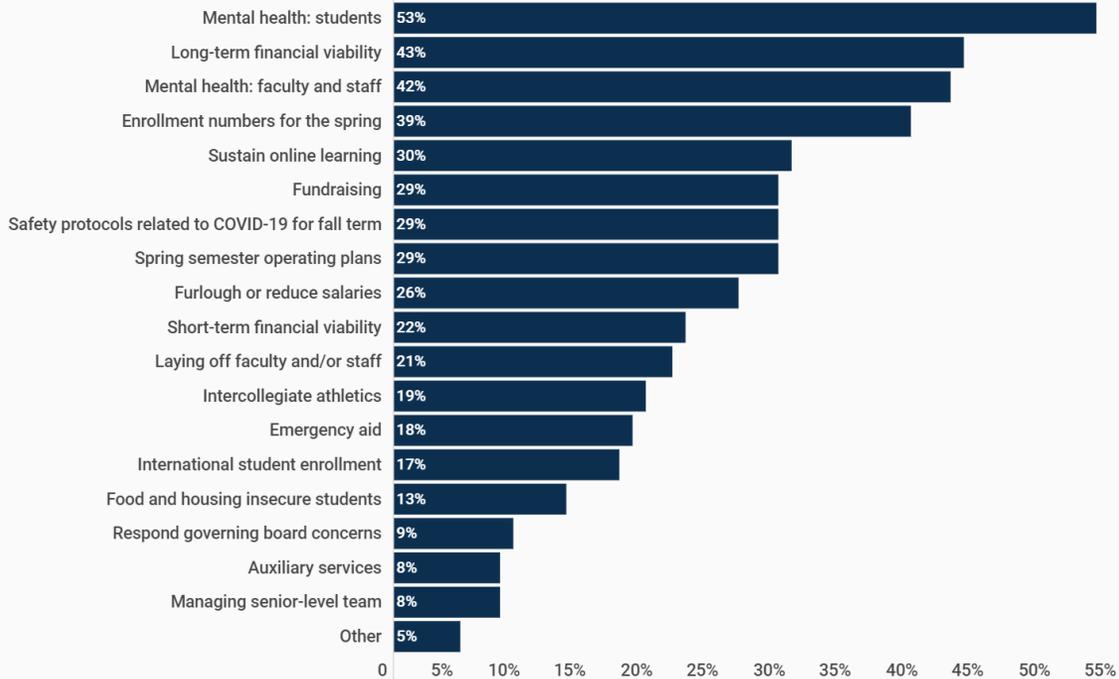
Additional rationale as to the need for change (from AGB)

- \$1.6 Trillion of student debt
- An industry with poor quality of earnings
- Nine consecutive years of enrollment decline on a national basis
- An industry that is slow to change
- More supply of brick and mortar colleges than student demand
- More than 1,200 colleges that are either at or approaching – “not financially viable” status according to DOE Financial Composite Scores
- Changing consumer behaviors
- Migration from degrees to credentials and certificates
- Corporate workforce development influence on higher education
- Technology requirements, substantially increasing
- New entrants impacting student demand
- Economies of scale will become an important attribute of the business model

Source: AGB Consulting and Rick Beyer

Campus leaders seem to recognize that it is time for real change

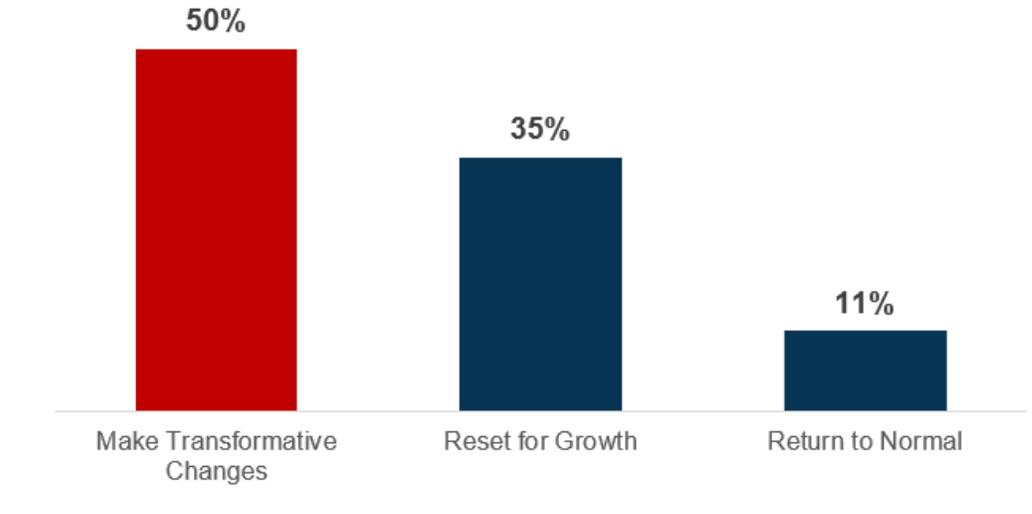
Figure 1. Most Pressing Issues Facing Presidents Due to COVID-19 in September



Pulse Point Survey of College and University Presidents on COVID-19: 2020 Fall Term Survey, American Council on Education, 2020.

InsideHigherEd Survey of Presidents

How do you intend to use this period?



100% of University CFOs and 96% of Presidents are planning to “Reengineer Operational Processes”

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The Macro View



The Ratings Perspective

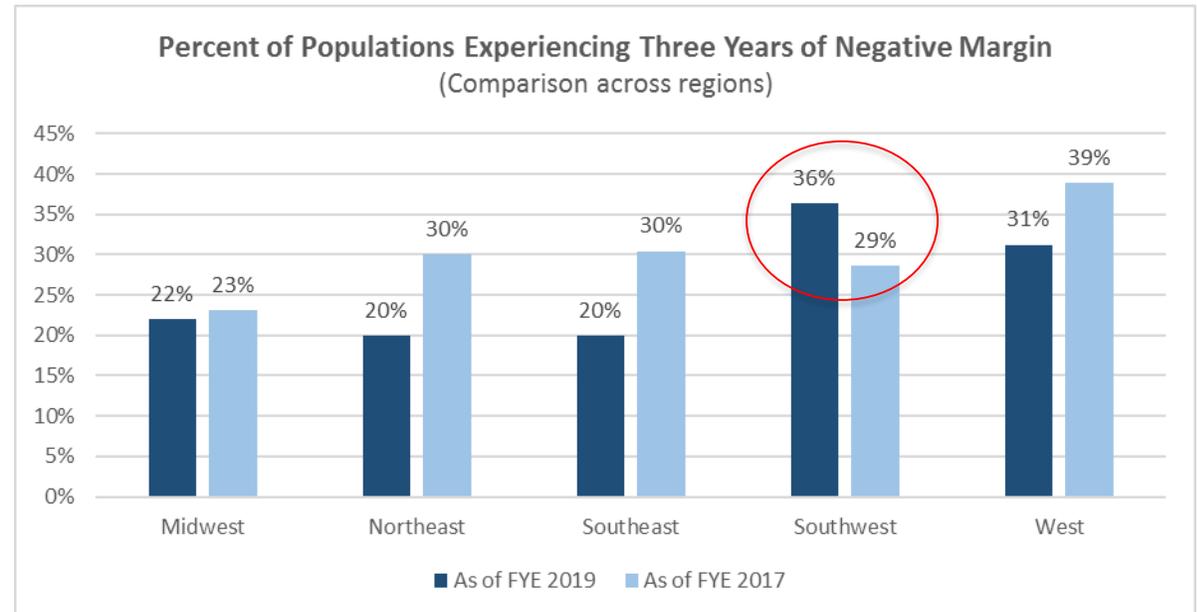
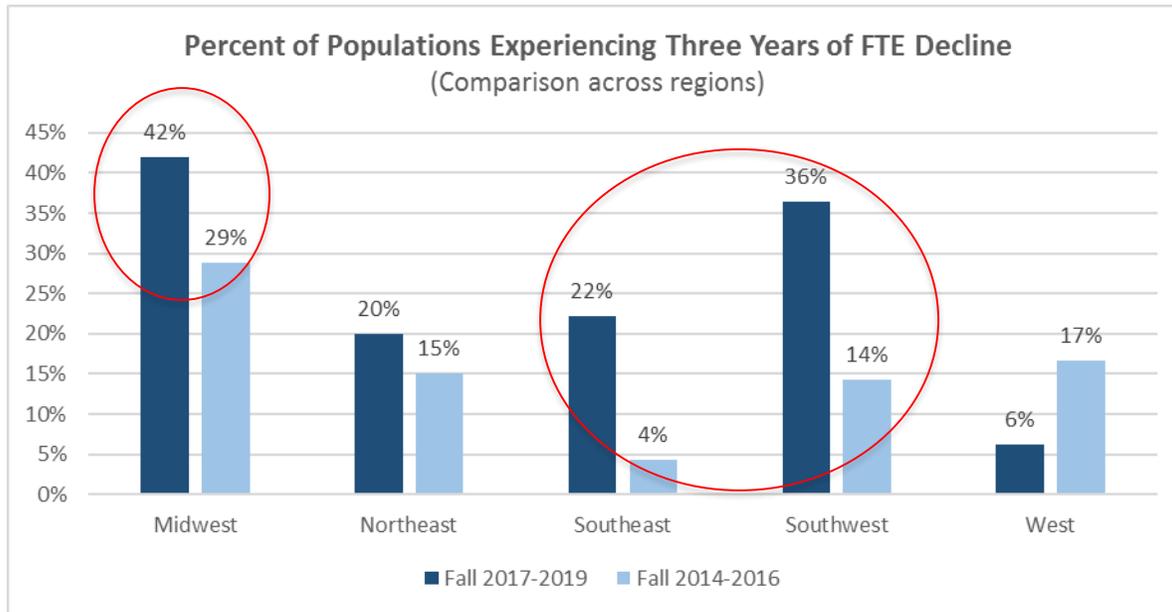


A Case Example -
Georgia



Accelerating enrollment pressure and growing operational pressure in certain regions may lead to more consolidations

Regional FTE Declines & Negative Margins

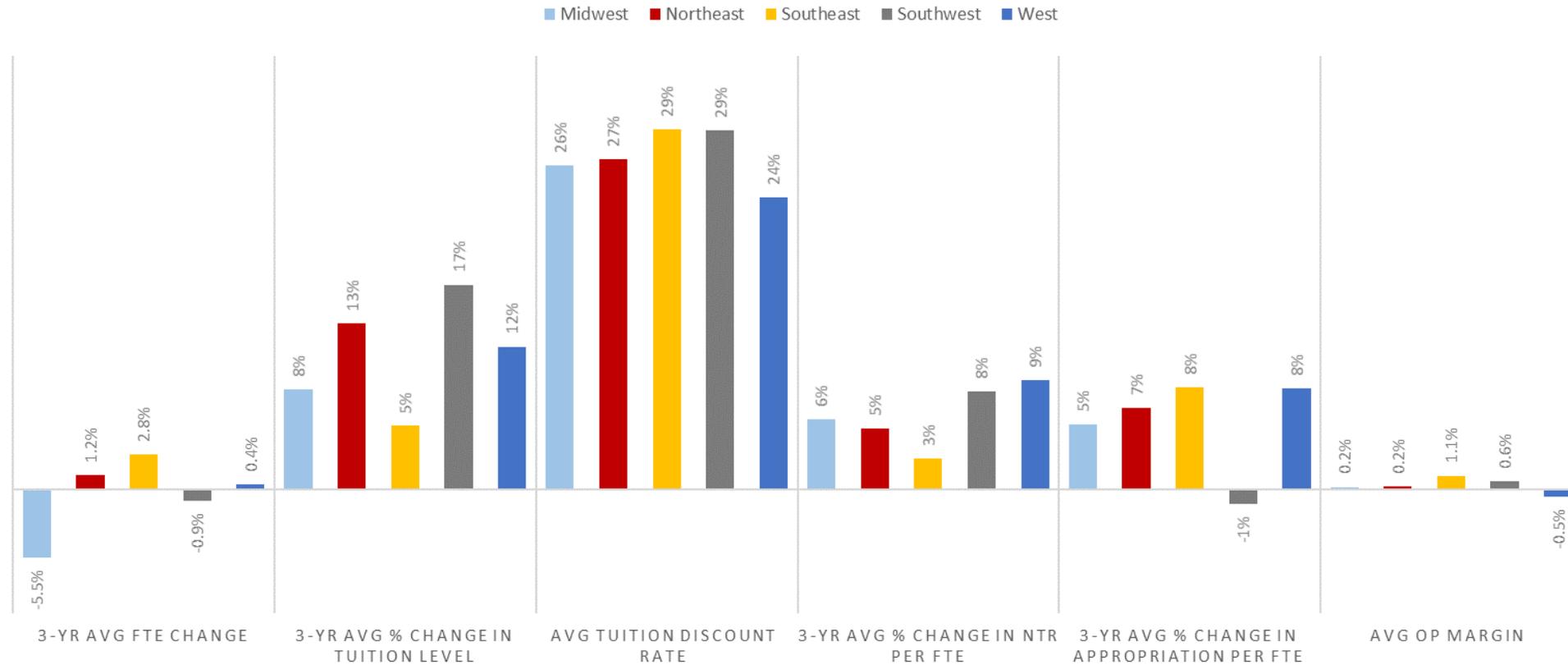


Region	States
Midwest	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Ohio, and Wisconsin
Northeast	Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont
Southeast	Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia
Southwest	Arizona, New Mexico, Oklahoma, and Texas
West	Alaska, California, Colorado, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, and Wyoming

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Performance comparison across regions

Regional Comparison



Source: S&P Global Ratings, enrollment data as of fall 2019 and financial data as of fiscal year-end 2019.
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Consolidations and M&A In Higher Education

Why now?

- Industry pressures such as declining enrollment, growing tuition discount, growing expenses
- Tuition reform
- Industry disruption (ex., COVID, online ed...)
- Value of higher education in question

Will we see more?

- Yes, we think there will be more consolidations and mergers
- We believe there will also be more closures

But there are challenges!

- Management/Board Culture
- Student/Faculty disapproval
- Program consolidation
- Asset restrictions
- System infrastructure

A Rating Agency Perspective

- When to contact during process
- What information to share
- How we evaluate mergers and acquisitions

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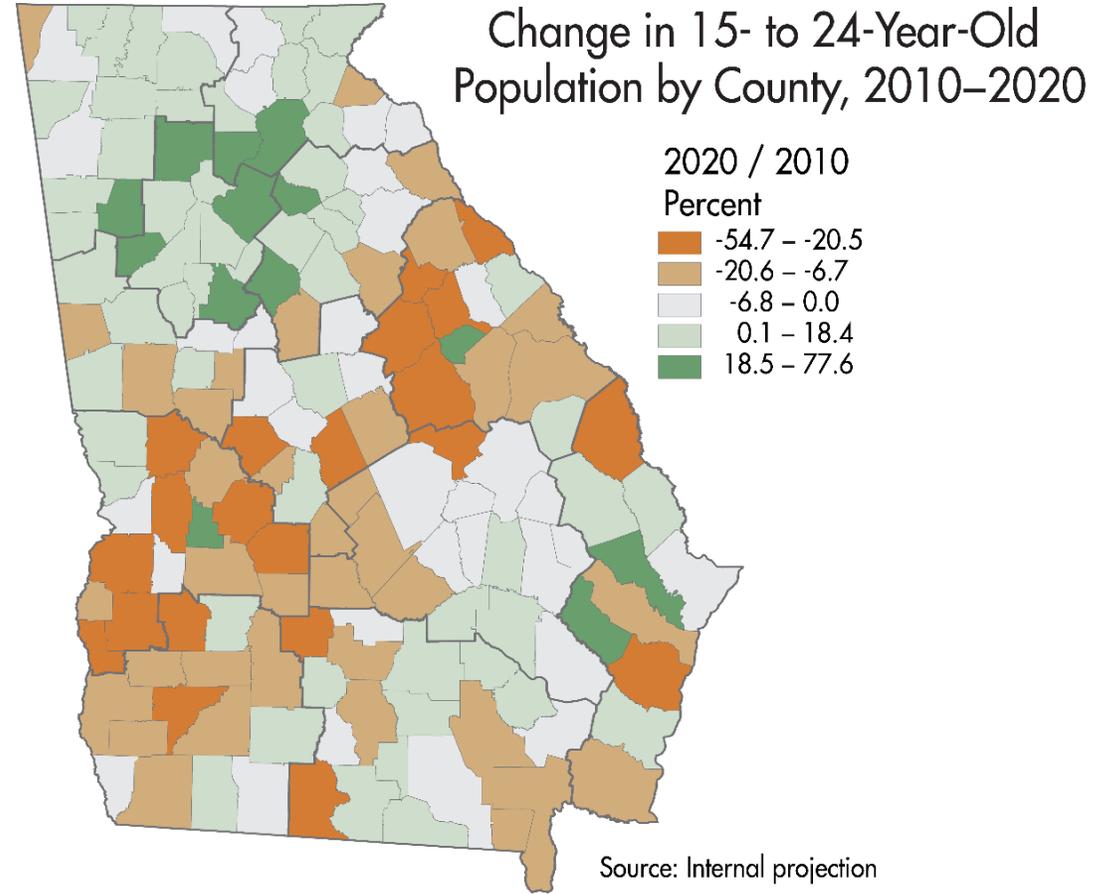
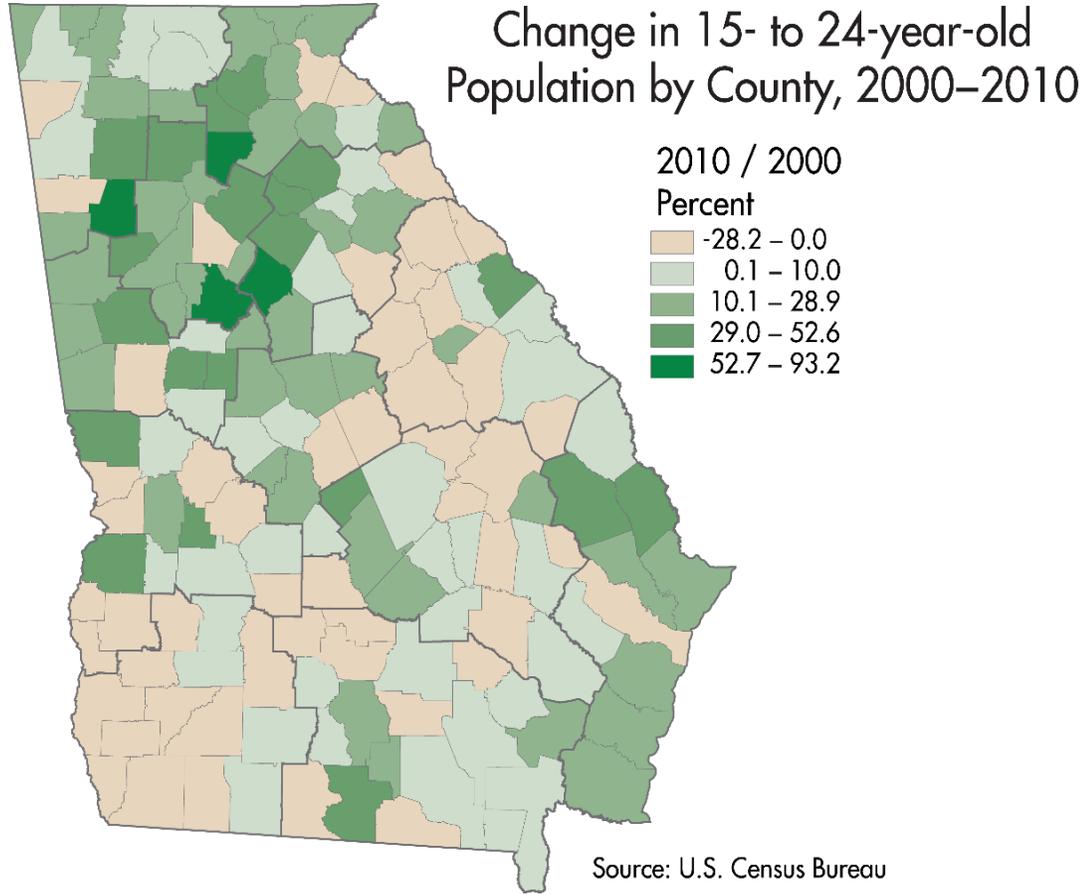
The Ratings Perspective



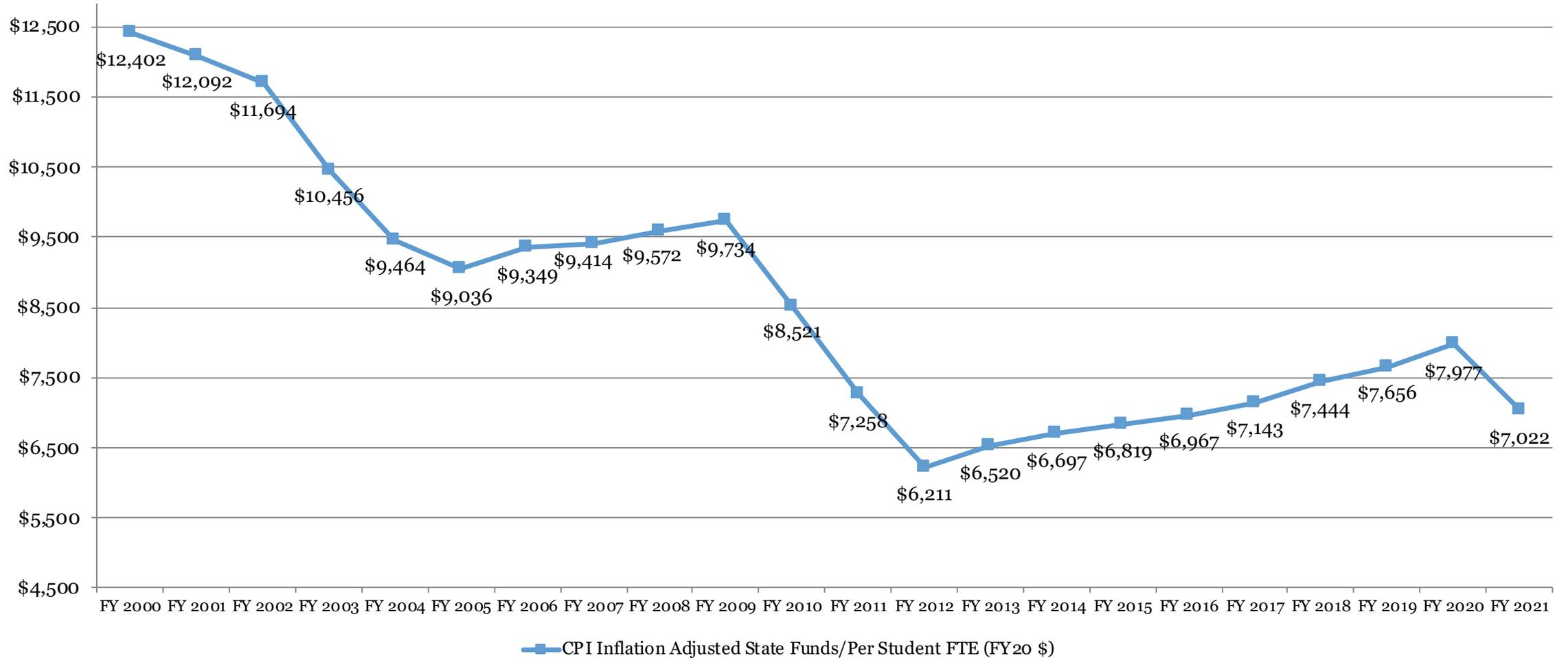
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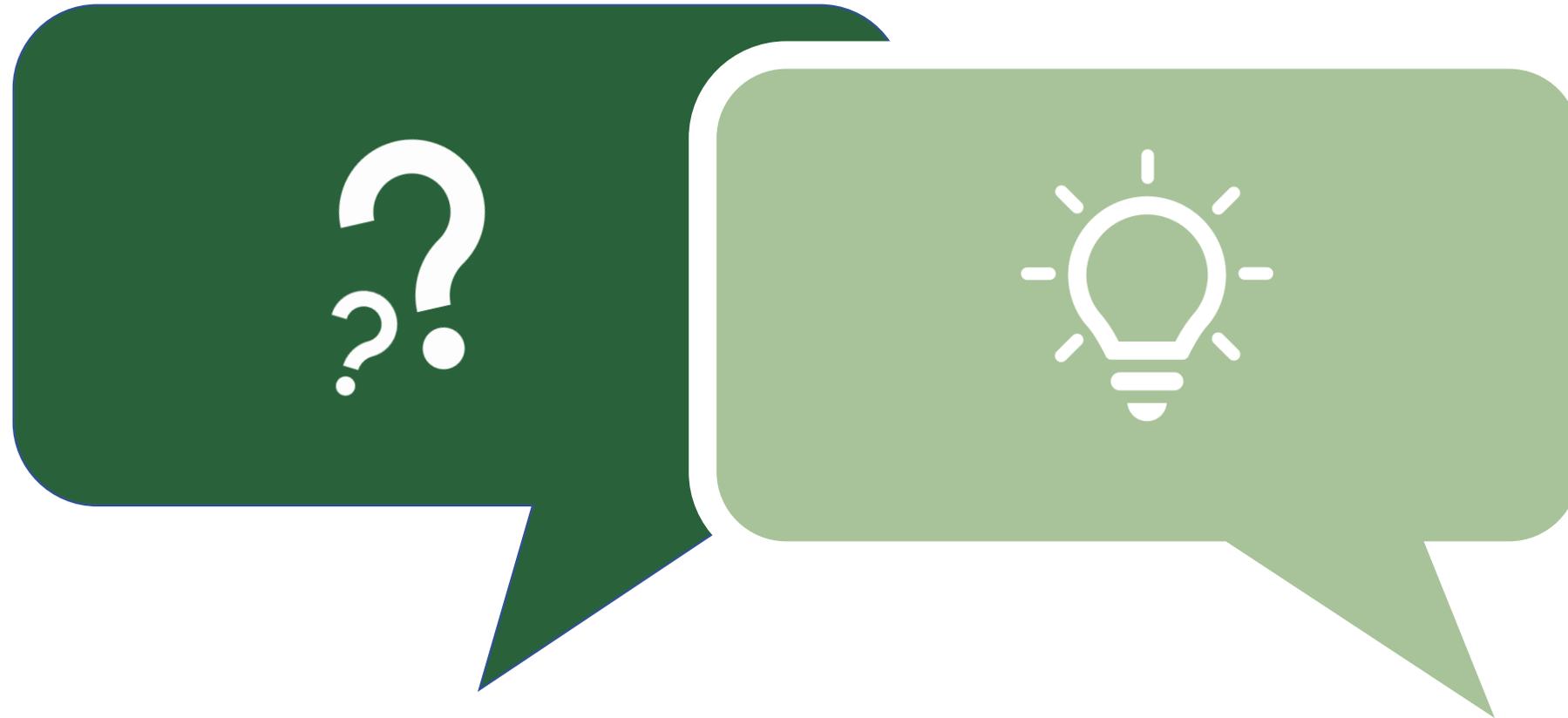
Georgia Population Trends, 15- to 24-Year-Olds



USG State Funding Per FTE, (CPI-adjusted FY21\$)



Open Discussion with Participants and Panelists



Thank You

The Macro View



The Ratings Perspective



A Case Example -
Georgia

