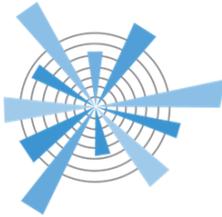




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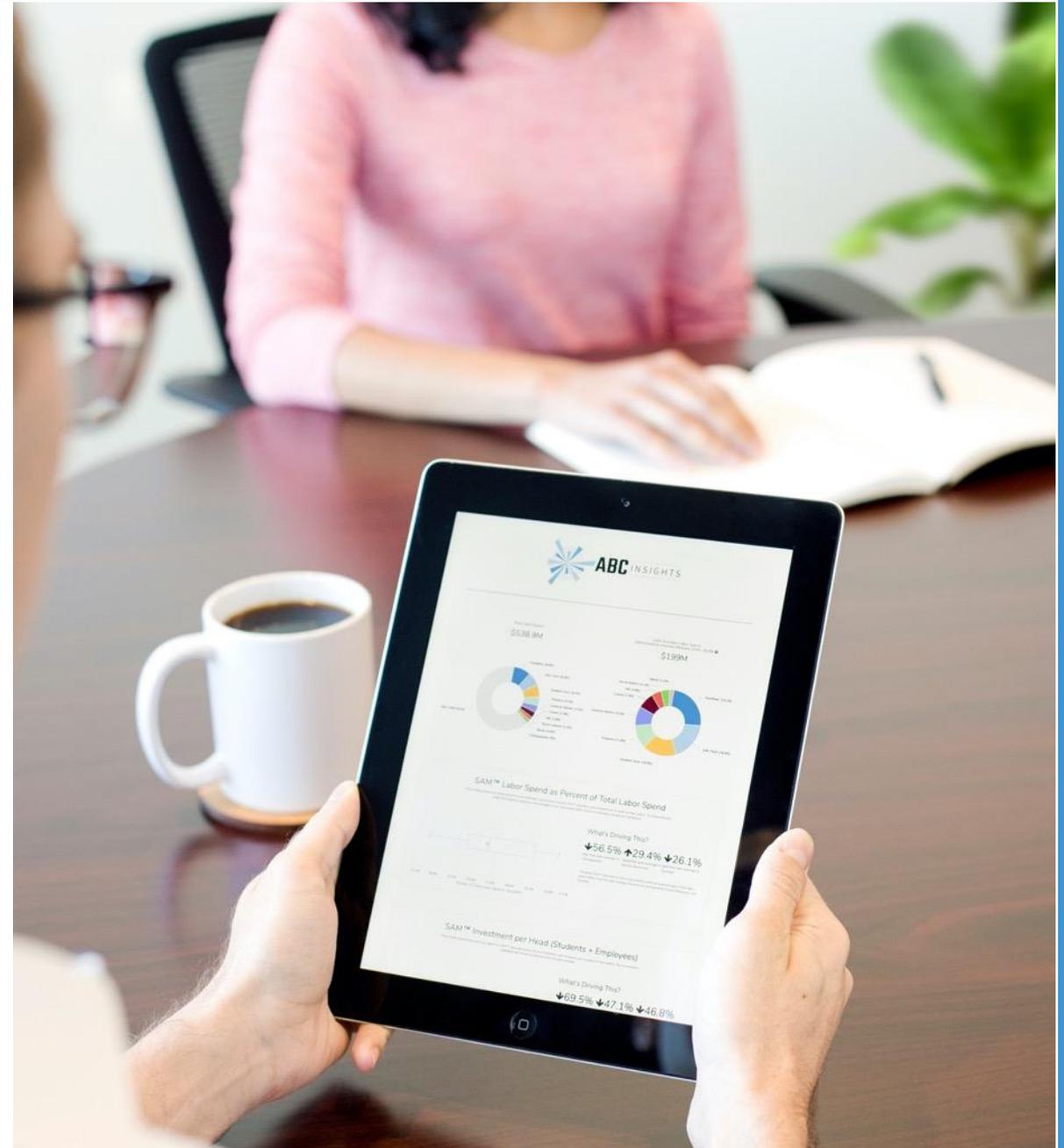
ABC INSIGHTS
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Master Class Series - Financial Transformation During COVID-19

An Exclusive Opportunity for only CBOs

October 9 – December 2, 2020

Class Session Material #1 – Oct 9, 2020



Discussion topics



- Introductions and Overview
- Understanding and Managing Financial Realities
- Report Outs

Discussion topics



- **Introductions and Overview**
- Understanding and Managing Financial Realities
- Report Outs

Meet your Subject Matter Experts



Oct. 9 3:30-5pm EST

Understanding and Managing Financial Realities



Kasia Lundy

Managing Director in the Education Practice, EY-Parthenon



Haven Ladd

Managing Director in the Education Practice, EY-Parthenon

Oct. 21 3:30-5pm EST

Drive Greater Operational Efficiency & Organizational Effectiveness



Laura Yaeger

Higher Education Client Service Leader, Huron Consulting



Kurt Dorschel

Senior Director in the Higher Education Sector, Huron Consulting

Nov. 4 3:30-5pm EST

Aligning Faculty Effort to Institutional Mission: Leveraging Traditional Scholarship to Optimize Academic Resources



Peter Stokes

Managing Director in the Higher Education Group, Huron Consulting



Mike Cogan

Strategy and Ops Consultant in the Higher Education Group, Huron Consulting

Nov. 18 3:30-5pm EST

Driving Efficiency and Effectiveness in Administrative Services



Jonathan Fry

Managing Director, Head of NA Education Practice, Accenture



Natalie Sisto Means

Managing Director, Strategy & Consulting, Accenture

Dec. 2 3:30-5pm EST

Post-Pandemic – The Future of Higher Education



Samantha Fisher

Managing Director, NA Education Practice, Accenture



Aneel Delawalla

Managing Director/Senior Partner, Accenture Strategy

Each Session Hosted By:



Jim Hundrieser, Ph.D.

Vice President for Consulting Services, NACUBO
Focus on student success and strategic business models
B.S. from Northern Michigan University, M.Ed. from Plymouth State university, Ph.D. from Barry University



Paul Friga, Ph.D.

Strategy Prof. at UNC CH, Co-founder of ABC Insights
Focus on university strategy and efficiency/effectiveness
Previously with PwC and McKinsey
B.S. St Francis University, MBA & Ph.D. UNC-CH

Welcome Master Class Participants!



Community Colleges

Allen Bottorff	Polk State College
Anabel Cunha	Community College of Rhode Island
David Kuntz	Cuyahoga Community College
Elizabeth Argiri	Macomb Community College
Jeffrey West	Salt Lake Community College
Kathryn Kaoudis	Community College of Denver
Lisa Watson	Northwest College
Maria Elizondo	South Texas College
Nathan Langstraat	Whatcom Community College
Olivia Padilla-Jackson	Central New Mexico Community College
Pam Harrison	Meridian Community College
Roberta Remias	Oakland Community College



Small institutions - Public

Kari Gaswick	Chadron State College
Veronica Paulson	Northern State University
William Spindle	South Dakota School of Mines and Technology

Small institutions - Private

Amy Bosio	Georgian Court University
Andrea Young	Ripon College
Ann Spall	Fontbonne University
Anna Arvay	Geisinger Commonwealth School of Medicine
Beth Mcgrath	Clarke University
Christopher Gardner	Wofford College
Claudette Smith	Stillman College
Debra Martin	Mount Saint Mary's University
Debra Polley	The College of Saint Rose
Denton Stargel	Centenary University
Donna Nance	Texas Wesleyan University
Jeff Scaccia	Presbyterian College
Jerry Silberman	Elizabethtown College
Jodie McGaughey	Hardin-Simmons University
Lezlie Hukill	Wayland Baptist University
Linda Allen	Evangel University
Lorraine Atwood	Vermont Law School
Meghan Kass	Wheaton College
Michael Poster	St. Ambrose University
Michele Smith	Brite Divinity School
Rhonda Shirazi	Spring Hill College
Rick Gilbertson	University of Sioux Falls
Sarah Mouch	Methodist Theological School in Ohio
Stacie Scott	Beloit College

Comprehensive – Public

Beth Reissenweber	Midwestern State University
Claire Stinson	Tennessee Technological University
Jennifer Potter	Stockton University
John Carmichael	The Evergreen State College
Kathleen Eichelroth	Worcester State University
Lori Beaty	Tarleton State University
Pratima Gandhi	University of Wisconsin-Stevens Point
Rick Anderson	University of Texas Rio Grande Valley
Russ Hannah	Arkansas State University

Comprehensive – Private

Cathleen Kenny	Pratt Institute
Hania Ferrara	Fairleigh Dickinson University
Laura Sander	Suffolk University

Research – Public

Allyson Easterwood	University of Southern Mississippi
Cathy Anderson	University of Utah
Jean Vock	University of Nevada, Las Vegas
Karin Hegstad	North Dakota State University
Kelli Shomaker	Auburn University
Kelly Fox	Georgia Institute of Technology
Lynne Schaefer	University of Maryland Baltimore County
Noel Sloan	Texas Tech University
Stacy Pearson	Washington State University

Research – Private

Danielle Manning	Clark University
Leslie Brunelli	University of Denver

Our unique format for the Master Class Series



Master Class Sessions

<p>Friday, October 9th 3:30 – 5:00pm</p> <p>Understanding and Managing Financial Realities</p> <p>Featuring EY Parthenon</p>	<p>Wed, October 21st 3:30 – 5:00pm</p> <p>Drive Greater Operational Efficiency & Organizational Effectiveness</p> <p>Featuring Huron Consulting</p>
<p>Wed, November 4th 3:30 – 5:00pm</p> <p>Aligning Faculty Effort to Institutional Mission</p> <p>Featuring Huron Consulting</p>	<p>Wed, November 18th 3:30 – 5:00pm</p> <p>Driving Efficiency and Effectiveness in Admin Services</p> <p>Featuring Accenture</p>
<p>Wed, December 2nd 3:30 – 5:00pm</p> <p>Post-Pandemic – The Future of Higher Education</p> <p>Featuring Accenture</p>	

Workshop Flow

15 Minutes	Overview	Jim Hundrieser and Paul Friga
30 Minutes	Plenary Presentation	Led by Topic Subject Matter Expert From Consulting Firm
30 Minutes	Breakouts & Case Studies	Self guided sessions for CFOs to talk together
15 Minutes	Report Outs	Led by Jim Hundrieser and Paul Friga

Session One – Understanding and Managing Financial Realities



Oct. 9 3:30-5:00pm EST



Kasia Lundy

Managing Director in the Education Practice, EY-Parthenon



Haven Ladd

Managing Director in the Education Practice, EY-Parthenon

Description

With every week a different scenario of likely possibilities emerge. This session explores how to move beyond basic scenario testing to a developing a consistent process of using data and models to develop a tactical understanding of the financial realities facing your institution, and how to manage for the future.

Learning Objectives

1. Understand how to estimate the real financial impact an institution may face
2. Discuss successful change management practices
3. Understand the levers available to make the financial model of the institution more resilient to market changes and competitive threats

15 min

Overview

30 min

Plenary Presentation

30 min

Breakouts & Case Studies

15 min

Report Outs

Key Readings

- [Scenario Planning for Coronavirus](#)
- [The Great Recession Was Bad for Higher Education. Coronavirus Could Be Worse](#)
- [UNC is Preparing for the Worst-case Scenario \(and Why You Should, Too\)](#)
- [Laser-Focused Leadership \(May 2020\)](#)
- [How Higher Education Institutions Can Navigate COVID-19 Challenges](#) (EY-Parthenon)

Key Asynchronous Webinars

- [Why Coronavirus Will Change Higher Ed More Than The Great Recession](#) (Chronicle)
- [What A College Should NOT Do During A Recession](#) (Chronicle)
- [Strategic Leadership Series: Managing Through a Crisis](#) (Chronicle)
- [Unprecedented Times: Responding to the COVID-19 Crisis](#) (NACUBO)
- [Lessons Learned from NECHE's Pilot Program for Financial Monitoring](#) (NACUBO)
- [Once Upon a Financial Statement...Telling Your Institution's Financial Story](#) (NACUBO)

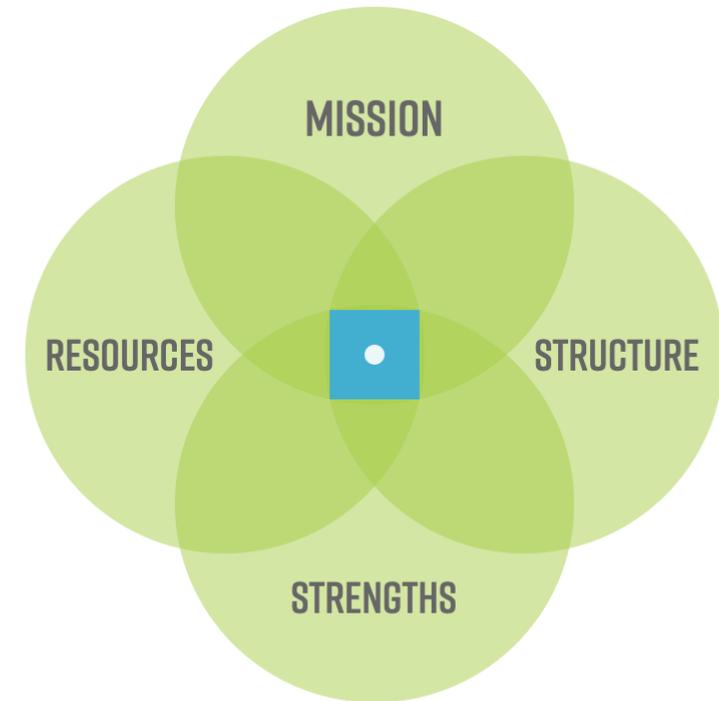
The NACUBO Economic Models Project



Is your institution's economic model sustainable?

What is a sustainable economic model?

What will higher education look like in 25 years?



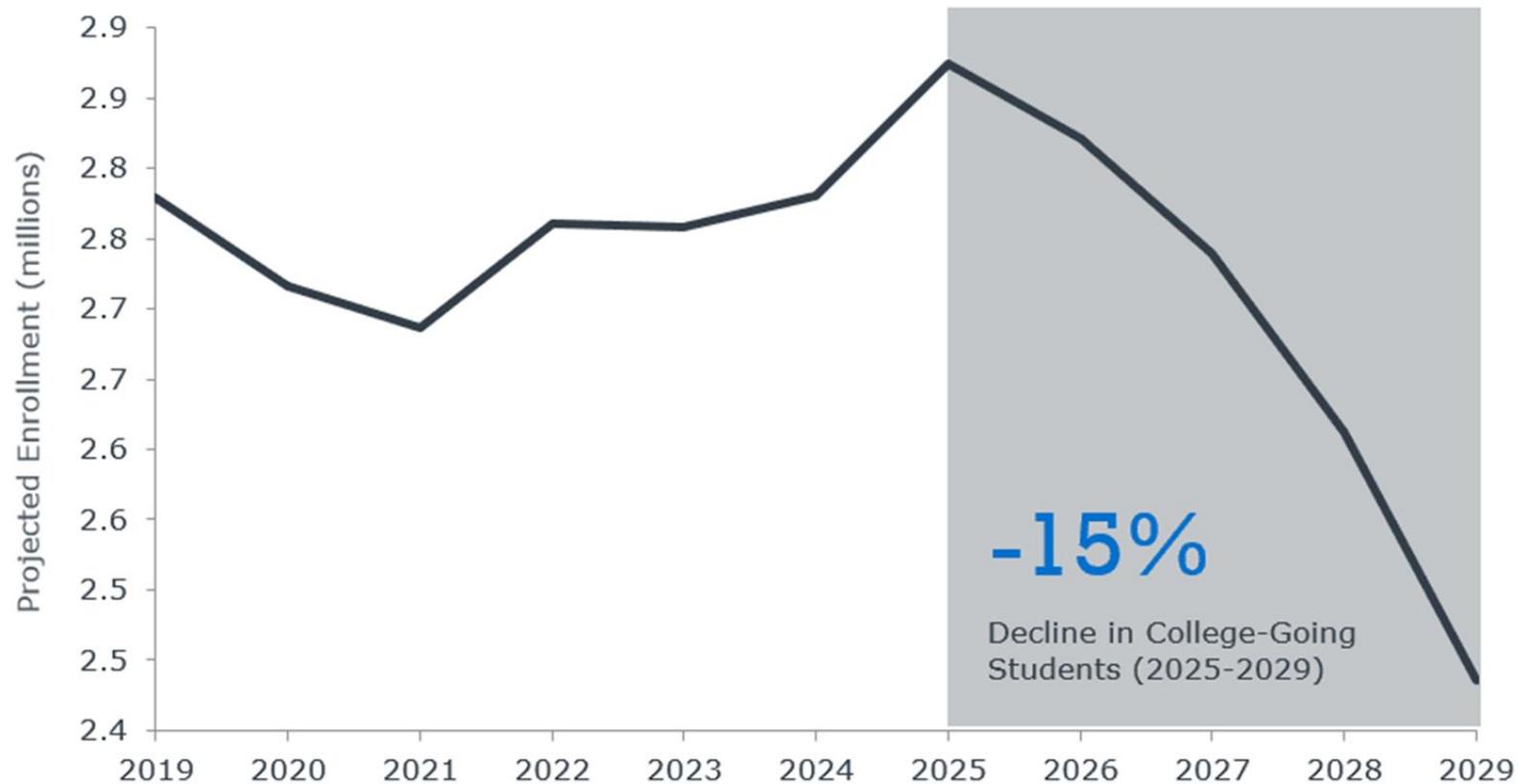
ECONOMIC SUSTAINABILITY

How are universities going to handle drops in enrollments?



Enrollment Projected to Drop Sharply After 2025

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



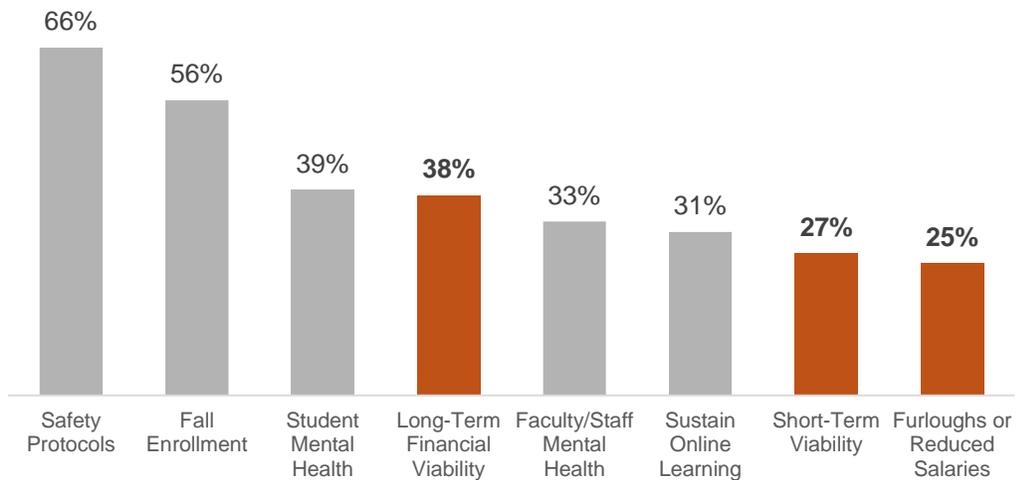
Source: Nathan Grawe's book, Demographics and the Demand for Higher Education (2019)

Proprietary and Confidential

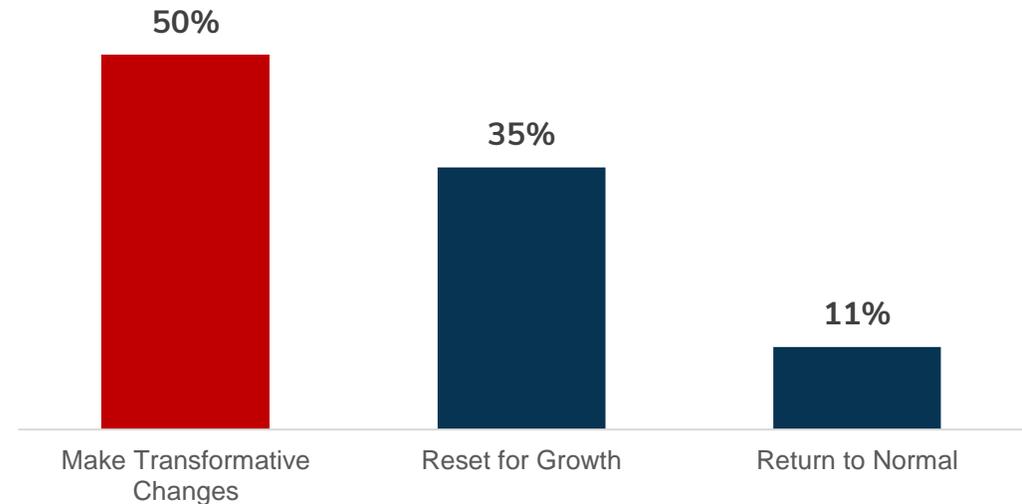
Academic leaders are planning for major changes



ACE Survey of Presidents – July 2020 Most Pressing Issues Facing Presidents



InsideHigherEd Survey of Presidents How do you intend to use this period?

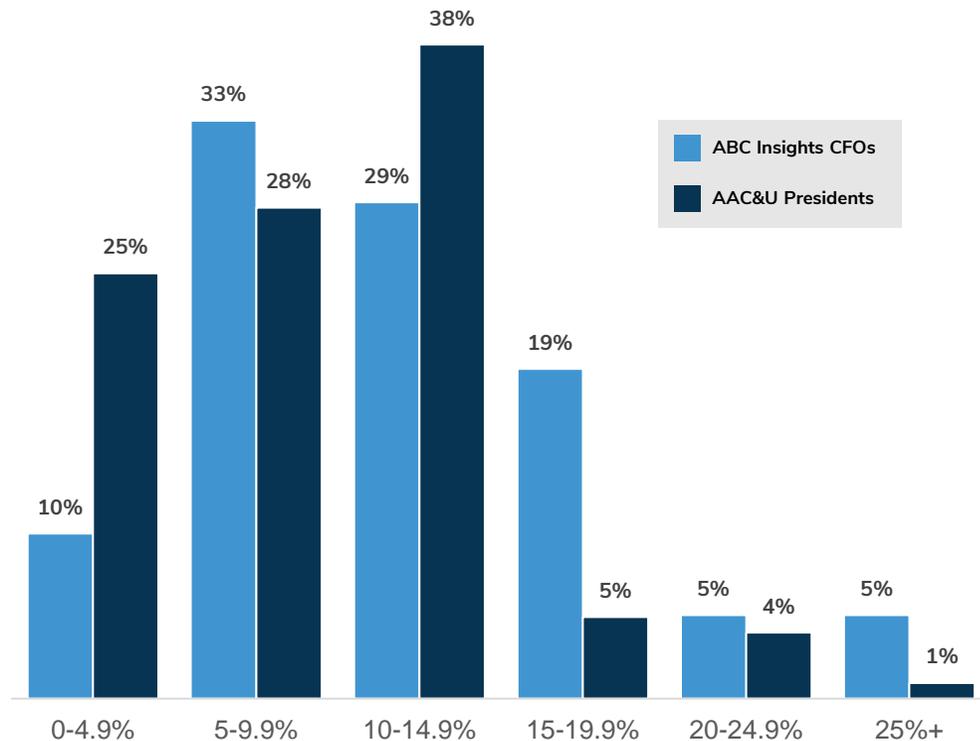


100% of University CFOs and 96% of Presidents are planning to “Reengineer Operational Processes”

Presidents and CFOs believe the impact will be significant on their respective campuses



Expected Potential Decreases to Revenue in FY21



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"

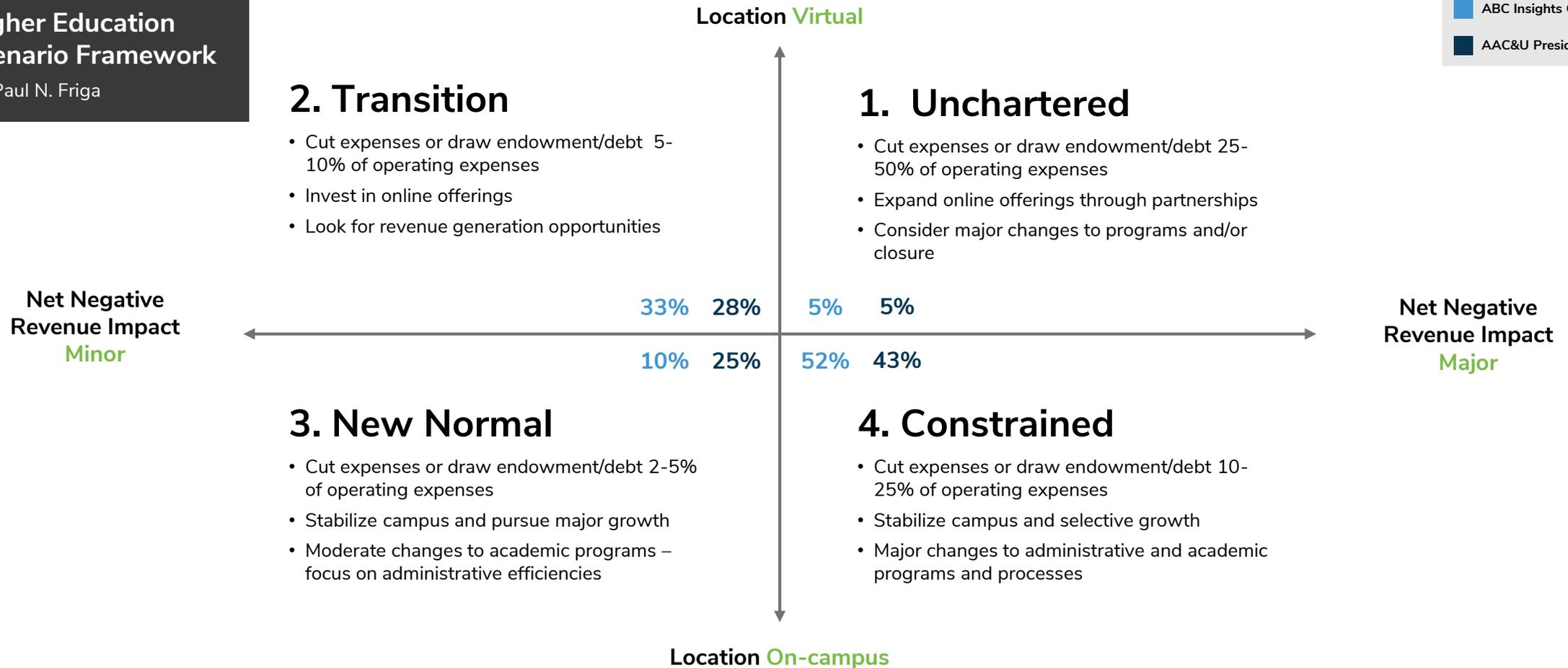
"Out of state revenues account for [a majority] of our revenue."

Higher education scenario analysis allows for dynamic planning



Higher Education Scenario Framework
Dr. Paul N. Friga

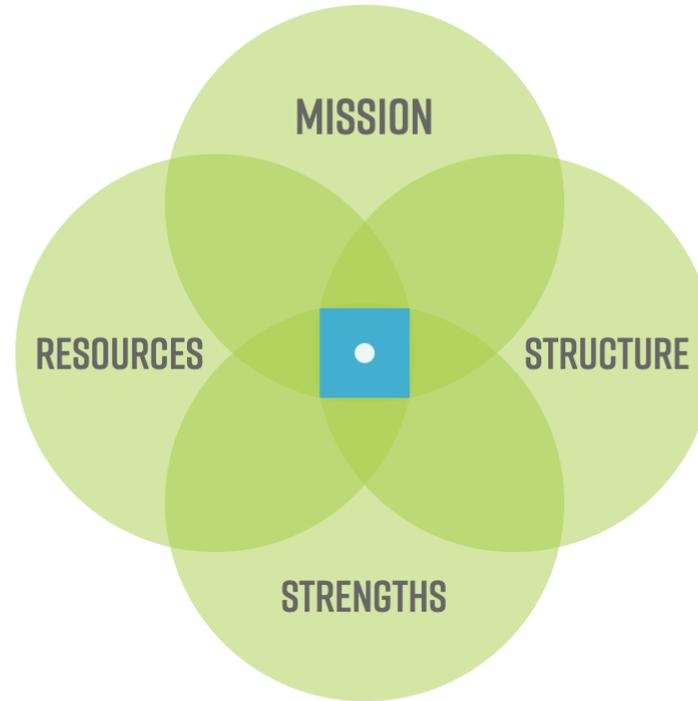
ABC Insights CFOs
AAC&U Presidents



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

Proprietary and Confidential

Is it time to simplify and differentiate your unique mission?



Are you controlling costs and budgeting properly?

How can you modify your structure for the modern times and new normal?

ECONOMIC SUSTAINABILITY

Do you have the right people, processes and technology?

Strategic initiatives for changing your business model



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

Participant Participation – Polling Question 1



Question 1: How much of a financial hit are you anticipating in FY 21 as a percentage of revenue?

- 0 to positive
 - 1 to 4.9%
 - 5 to 9.9%
- 10 to 14.9%
- 15 to 19.9%
- 20 to 24.9%
 - 25% +



Discussion topics



- Introductions and Overview
- **Understanding and Managing Financial Realities**
- Report Outs



National Association of College and
University Business Officers



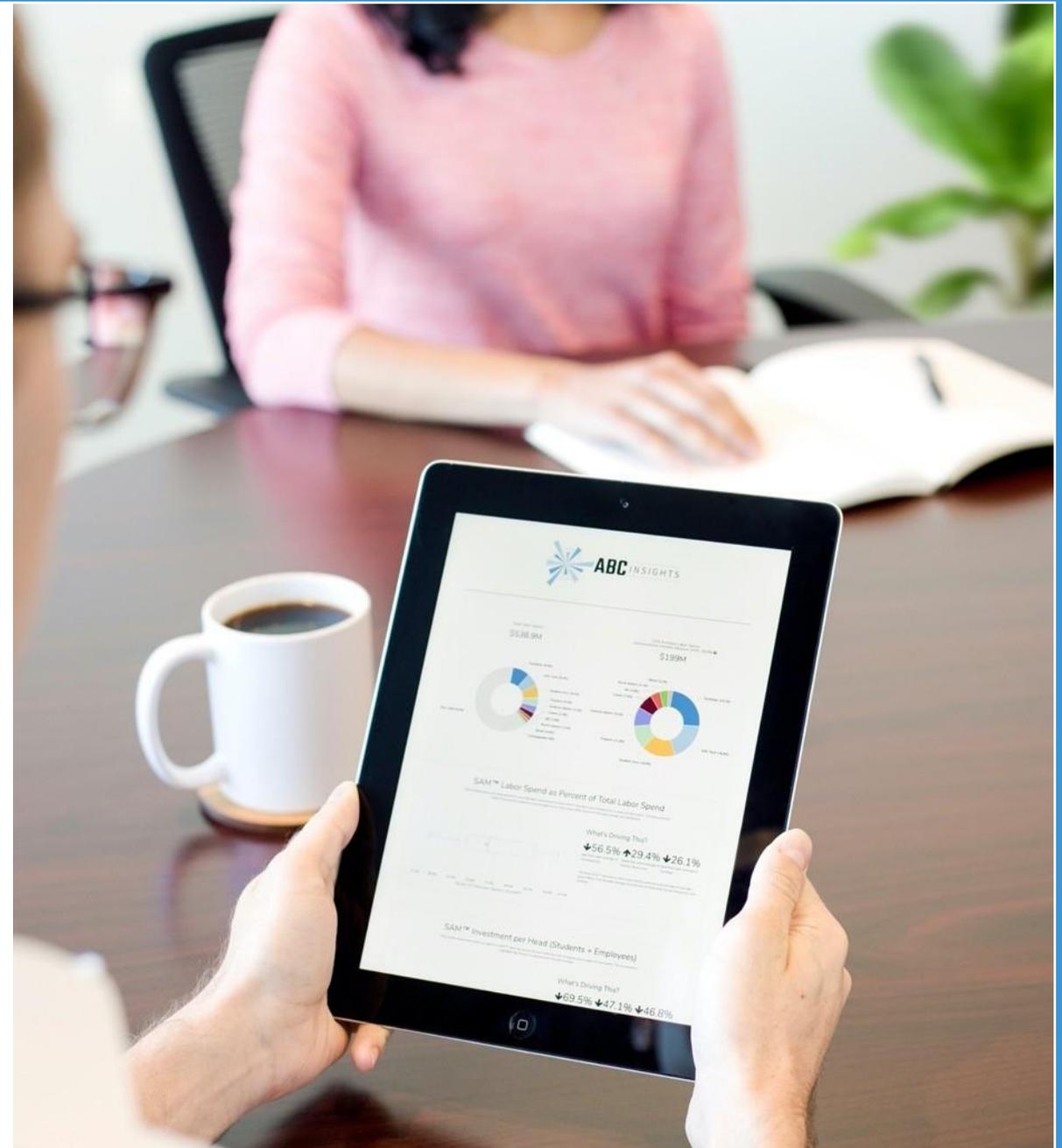
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Master Class Series - Financial Transformation During COVID-19

Session One Understanding and Managing Financial Realities

Kasia Lundy and Haven Ladd

October 9, 2020



Learning Objectives

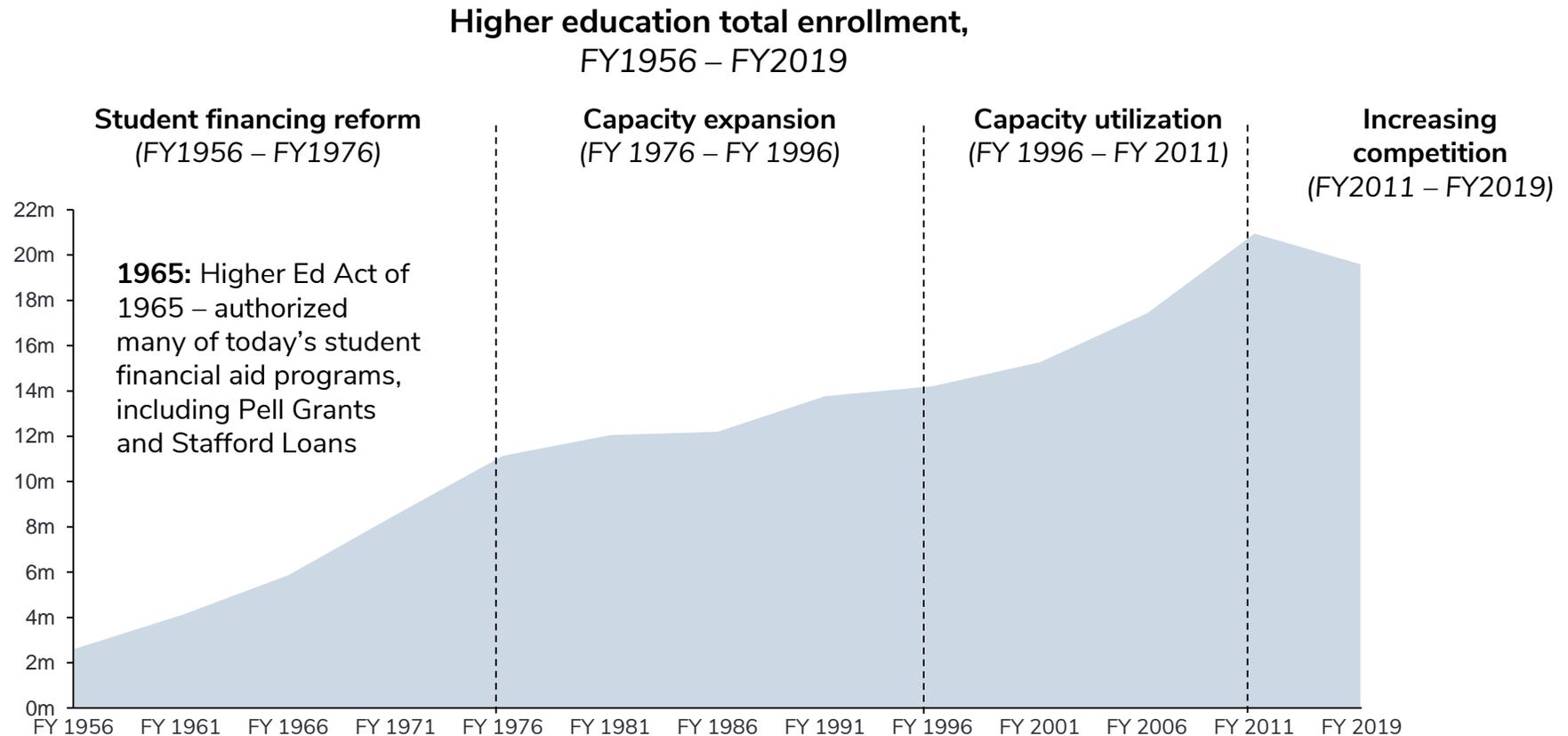
- Understand how to estimate the real financial impact an institution may face
- Understand the levers available to make the financial model of the institution more resilient to market changes and competitive threats
- Discuss successful change management practices

Presentation Content

- **Market context**
- Assessing and managing fiscal health
- Proactive strategies in current context

Market Context

Higher Education (pre-COVID) has been in a period of slow growth and heightened competition for students, funds, and reputation



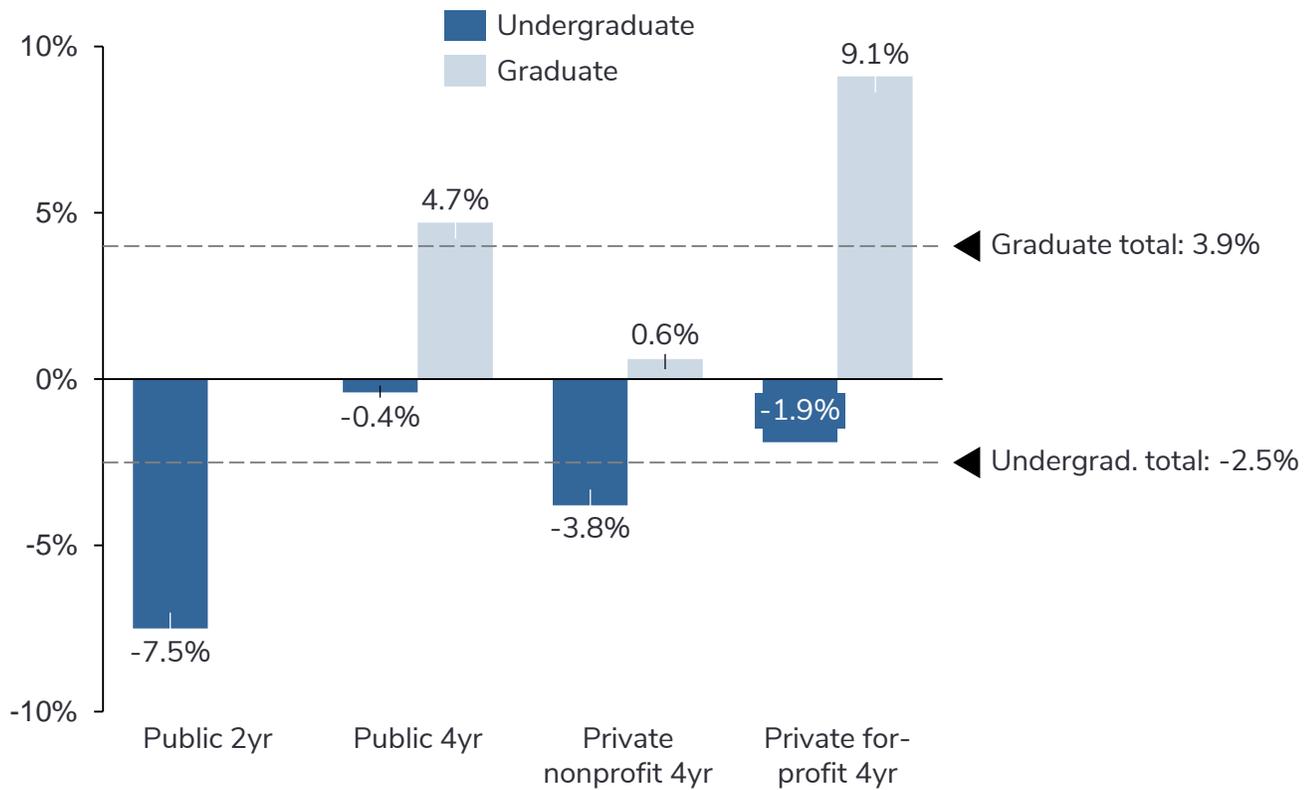
	'56-'76	'76-'96	'96-'11	'11-'19
Enrollment CAGR	8%	1%	3%	-1%
# institutions CAGR	2%	2%	2%	-2%

Note: The data includes enrollments from US institutions that are both degree-granting and title IV-participating
Source: National Center for Education Statistics (NCES); Integrated Postsecondary Education Data System (IPEDS)

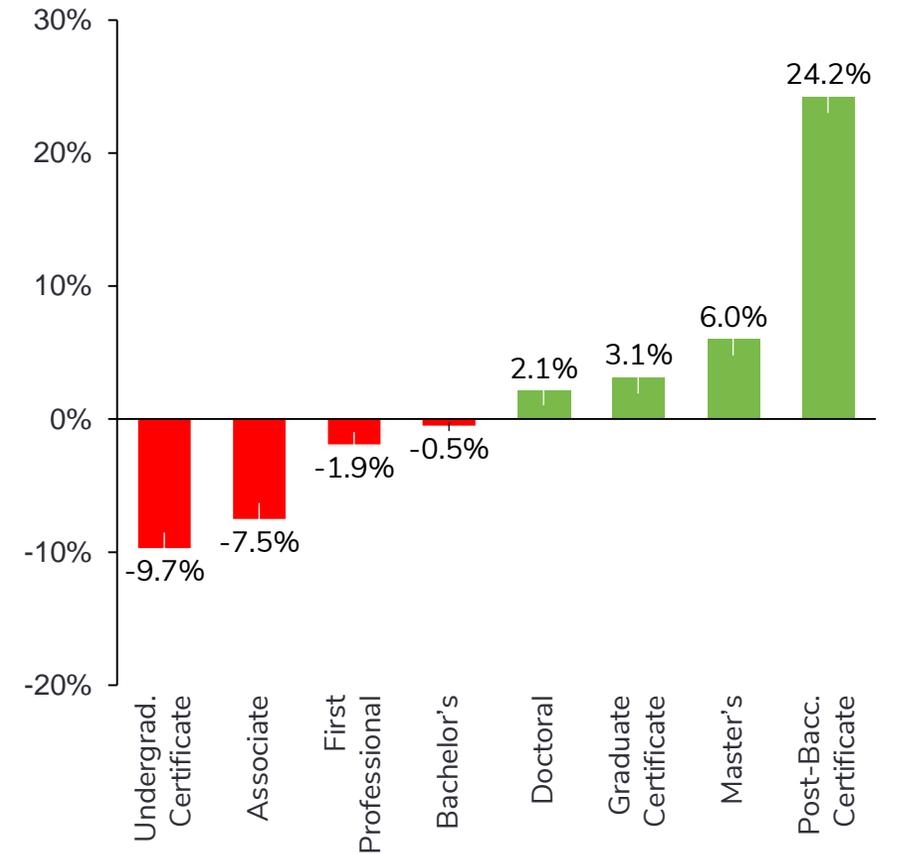
Market Context

Undergraduate enrollment is down ~2.5% across institutions, though graduate programs are experiencing a counter-cyclical increase during the pandemic

Undergraduate and graduate enrollment changes by sector,
As of 9/10/2020



Enrollment changes by credential type,
As of 9/10/2020



Note: Represents 22% of participating institutions
Source: National Student Clearinghouse Research Center

Presentation Content

- Market context
- **Assessing and managing fiscal health**
- Proactive strategies in current context

Assessing and Managing Fiscal Health

Institutions use financial & managerial accounting tools to understand fiscal health, potentially missing information on more immediate cash/operating needs

Information source

✓ Can...

✗ May not...

Institutional financial
accounting and reports

...show standardized audited
financial reports, reviewed
and approved by the board

... provide sufficient information
on financial health, including
liquidity position & cash
... offer “real-time visibility” or
forward looking ability

Institutional managerial
accounting and projections

...provide information about
drivers of revenue and
expense

...provide a clear picture of how
budget is balanced, especially
when considering unfunded
scholarships

Cash position is a critical metric to answer the question
“How financially stable is the institution today?”

Assessing and Managing Fiscal Health

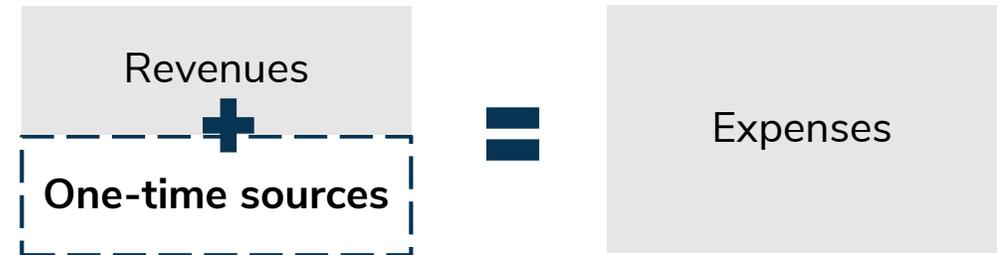
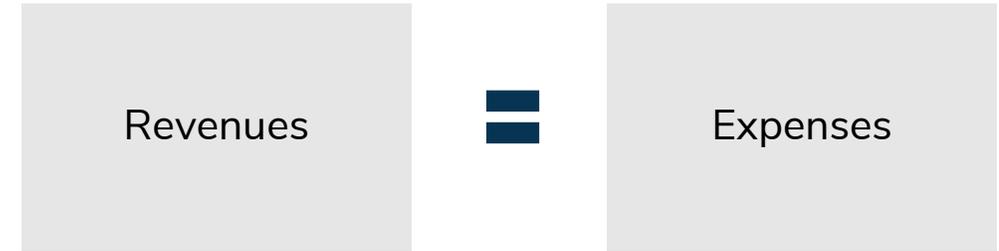
The presence of a balanced budget does not necessarily translate into a financially sound institution, some balancing methods may lead to cash drain

Highly preferred

A structurally balanced budget, when annual revenues cover annual expenses, is most sustainable

Less sustainable

When revenues are less than expenses, institutions rely on other methods to balance the budget, frequently depleting cash in the process



One-time sources of funds to balance budgets (can lead to a reduction in net cash):

- Excess endowment draw (above 5%)
- Draws from reserve fund
- Borrowing from endowment
- Increases in working capital/line of credit
- Transfers across funds / activities

- Increase in long-term debt
- Debt refunding and refinancing that reduce current year expense but extend debt horizon
- Deferred maintenance (e.g. depreciation higher than capital expenditures)

Assessing and Managing Fiscal Health

Preserving operating liquidity is critical during times of financial uncertainty in order to maintain a structurally balanced budget

Proactive fiscal management strategies

- ▶ Proactively manage towards positive operating margins at sub-levels of the institution to build liquidity
- ▶ Understand and plan for cyclical cash needs
- ▶ Align expenses with revenue to avoid depleting liquid reserves
- ▶ Assess operating liquidity in the context of average monthly expenses to determine months of operating liquidity you have on hand
- ▶ Set target liquidity benchmark appropriate to your cash needs



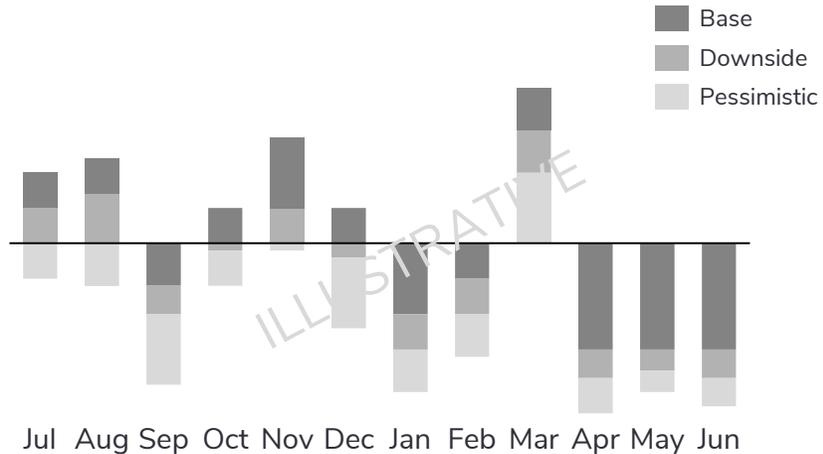
Acting proactively and monitoring results through both real-time tracking and forward (~4-year) forecasting is key to managing through uncertainty and preserving liquidity to weather future challenges

Assessing and Managing Fiscal Health

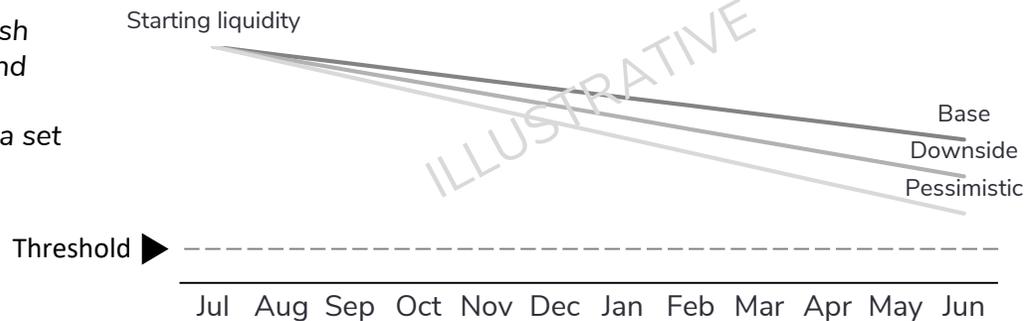
Examining monthly cash needs can help to identify and address potential pinch points in time to deploy a mitigating strategy

Example analysis

Forecast how cash flow will change under a set of plausible revenue and expense scenarios



Monitor cash reserves and liquidity in relation to a set threshold



Questions to ask

- ▶ What are your monthly cash needs? What is an appropriate minimum cash threshold to should target?
- ▶ What are realistic revenue and expense scenarios? Will cash on hand cover cash expenses?
- ▶ What are the implications of current year cash burn on future year cash operation needs?

How confident are you that you will have sufficient cash to cover your costs four years from now?

Assessing and Managing Fiscal Health

There are multiple reasons why institutions of higher education may be at risk of not being able to provide degrees to all of its current students

Factors contributing to the ability to provide degrees to all students



Tuition exceeds the cost of delivery on a per student basis



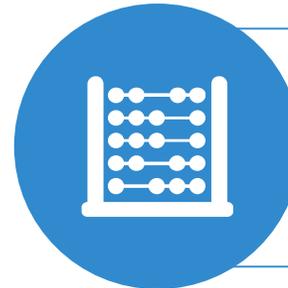
The institution's assets are significant enough to cover any operating losses



Factors contributing to the risk of not being able to provide degrees to all students



The institution has a growing or consistent operating deficiency



The institution's liquid assets (including endowment) are insufficient to cover operating losses



The institution has a strong reliance on one-time private gifts to sustain operations

Assessing and Managing Fiscal Health

Given this context, there are new ways of measuring institutional financial health with a student-centered metric

One option is the EY-Parthenon SER metric that assesses, at a given point in time, an institution's ability to meet its obligations to currently enrolled students – that is, the institution's ability to provide the resources required to allow all currently enrolled students to complete their degrees over a four-year period.

The metric asks a simple question:
“Given its sources of revenue, cost structure, assets and financial obligations, can the institution teach its students all the way through graduation?”

It suggests that a number of private 4-year non-profit IHEs may be at risk of being unable to teach out their students over a 4-year period

High risk (20% of schools)

**Institutions can cover
< 75% of four-year teach-out costs**

Medium risk (15% of schools)

**Institutions can cover
between 76-125%
of four-year teach-out costs**

Low risk (65% of schools)

**Institutions can cover
more than 125%
of four-year teach-out costs**

Assessing and Managing Fiscal Health

Higher-risk institutions are smaller, less-selective, and tend to have more liabilities; those in the highest risk category may have a structural deficit (liabilities > assets)

		Student educational resources metric risk category			
		Highest risk 4% of institutions	High risk 16% of institutions	Medium risk 15% of institutions	Low risk 65% of institutions
Descriptive characteristics	Average size	960	2,500	3,500	3,300
	Average acceptance rate	73%	71%	68%	63%
	Average annual enrollment growth ('06-'17)	-1.6%	0.9%	0.4%	0.6%
	Endowment/FTE student (median)	\$0	\$6,500	\$15,000	\$26,700
	First-time students awarded Pell Grants (median)	51%	41%	34%	33%
	Liabilities as a percent of total assets	55%	42%	36%	28%

Note: All sample sizes are greater than 60 institutions; schools without undergraduate students or with no recorded first-time enrollment have been removed from this analysis; excludes two-year institutions.

Sources: IPEDS; EY-Parthenon analysis

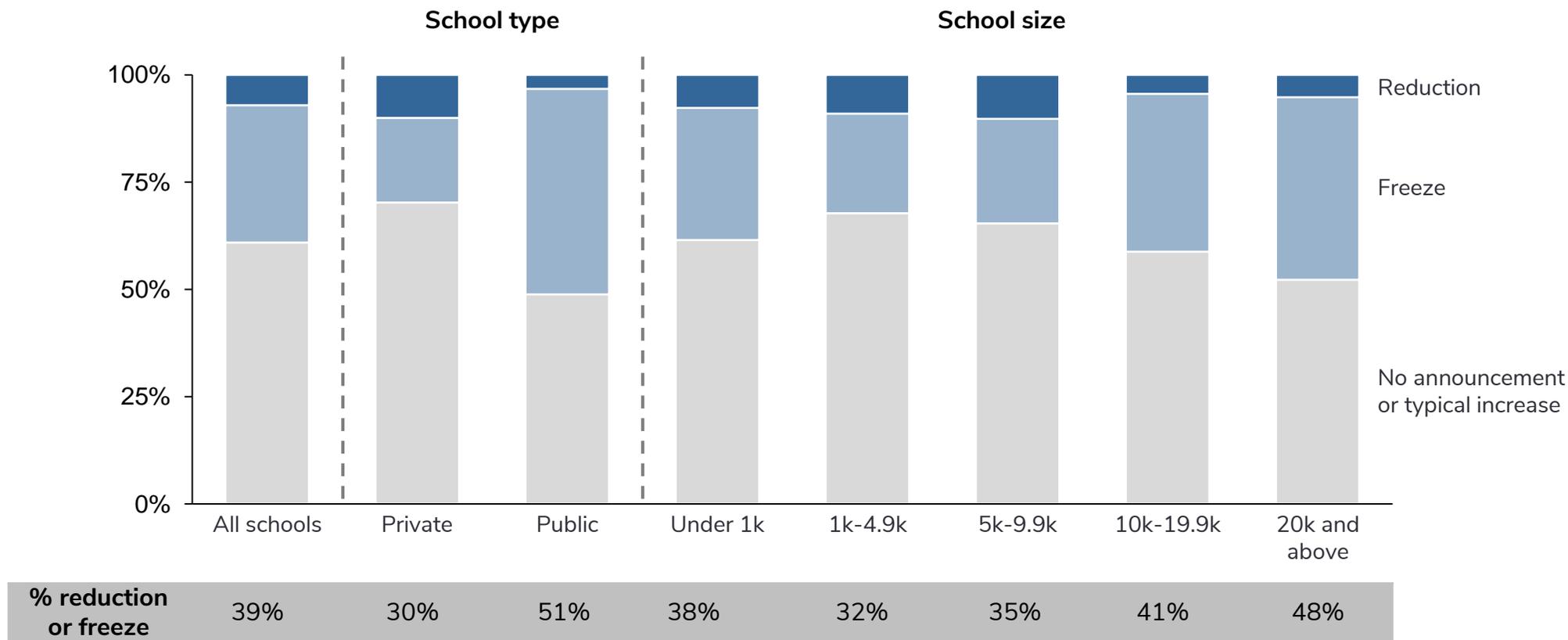
Presentation Content

- Market context
- Assessing and managing fiscal health
- **Proactive strategies in current context**

Proactive Strategies in Current Context

~40% of the top 500 institutions have implemented tuition freezes or even reductions, further exacerbating the financial impact of enrollment declines

Published tuition changes for Fall 2020 of top 500 universities by school type and fall strategy, As of 9/24/2020 (n=494)



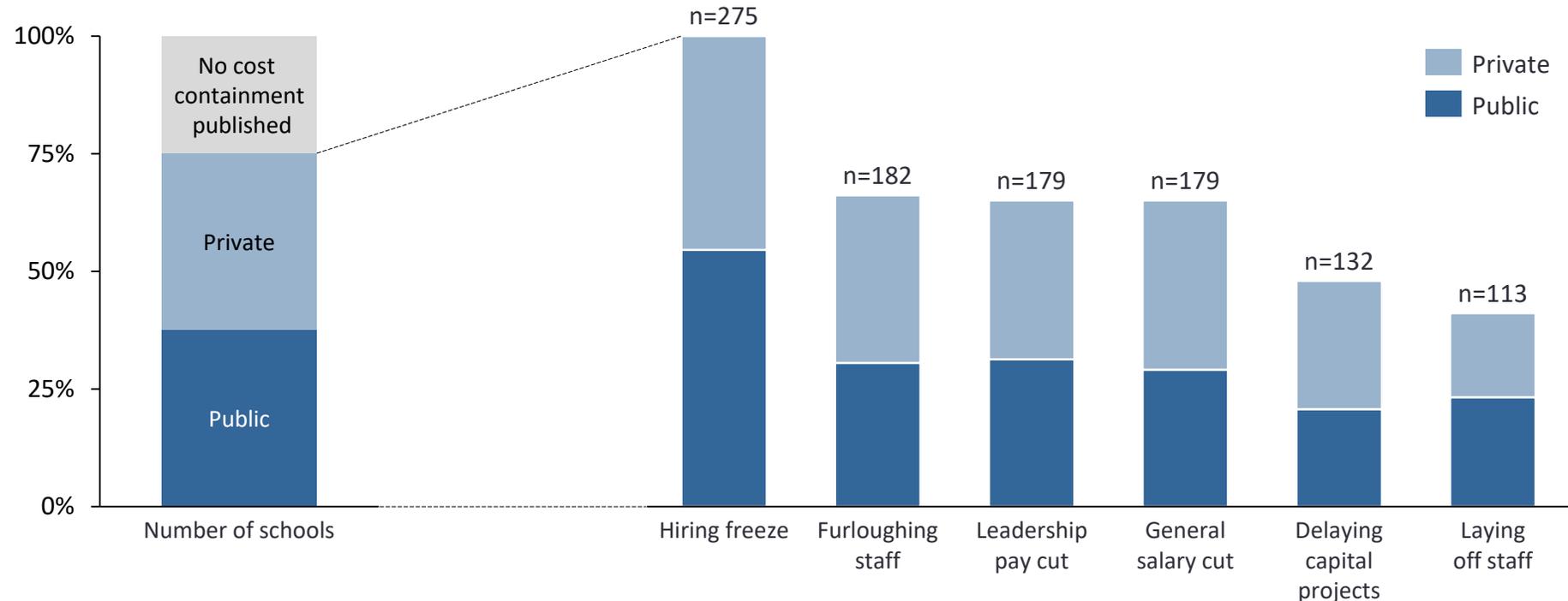
Note: Top Universities includes Top 400 U.S. News and World Universities and Top 100 Liberal Arts Universities; preliminary full data collection has been completed; data will be continually updated as school statuses change
 Source: EY-Parthenon Analysis, US News & World Report, Chronicle, Inside Higher Ed, University Websites, Education Dive, Daily Pennsylvanian

Proactive Strategies in Current Context

Private and public universities are undertaking cost containment efforts in hopes of offsetting COVID-related revenue losses

Cost containment measures published by top universities, As of 9/14/2020

Type of cost containment measure taken as response to COVID, As of 9/14/2020 (n=371)



% announced cost cutting		% institutions adopting						
	75%	56%	37%	36%	36%	27%	23%	

Note: Top Universities includes Top 400 U.S. News and World Universities and Top 100 Liberal Arts Universities; preliminary full data collection has been completed; data will be continually updated as school statuses change
 Source: EY-Parthenon Analysis, US News & World Report, Chronicle, Inside Higher Ed, University Websites, Education Dive, Daily Pennsylvanian

Proactive Strategies in Current Context

Some institutions are also looking to deeper mitigation strategies at their campuses and in collaboration with others

Within an institution

- ▶ Administrative efficiencies (e.g. outsourcing, process improvement, RPA)
- ▶ Physical plant and energy efficiency
- ▶ Asset monetization (e.g., real estate)
- ▶ Academic structure redesign
- ▶ Academic program portfolio review and rationalization

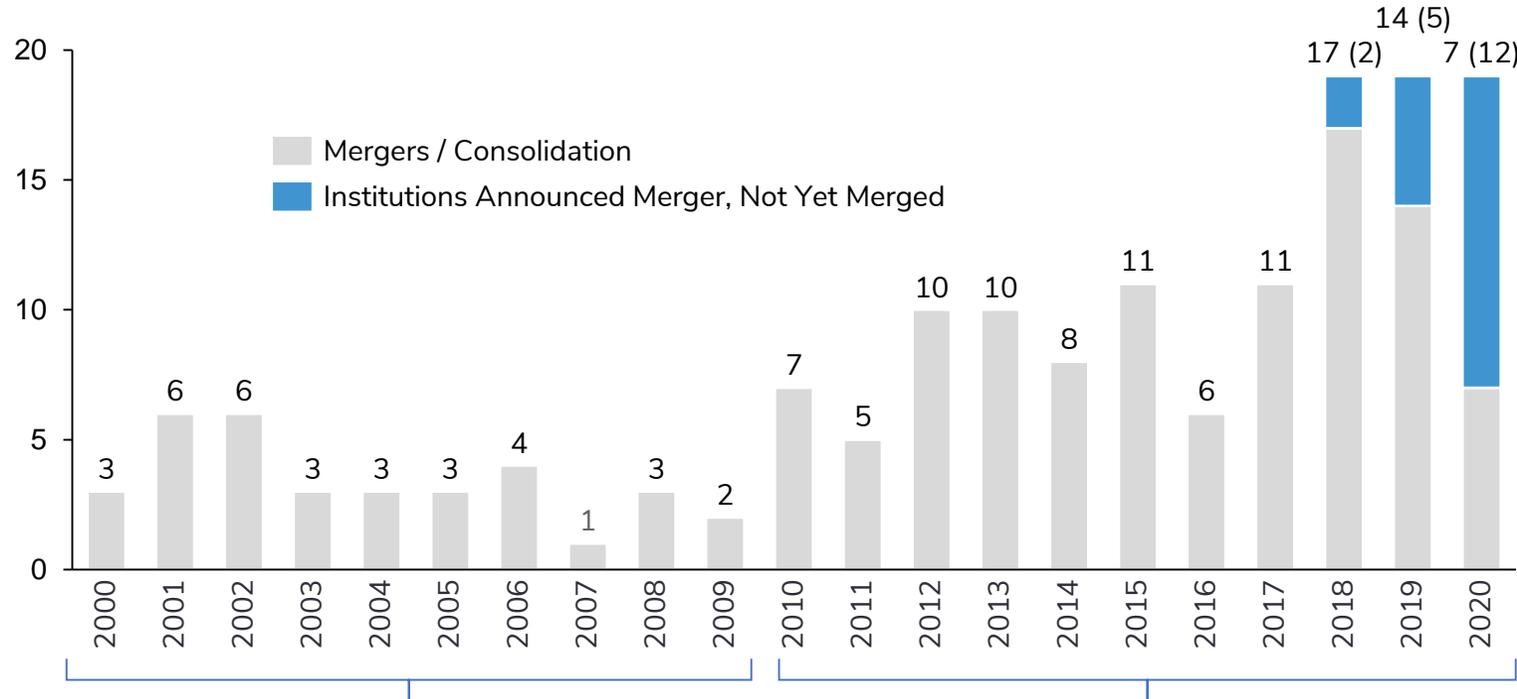
In collaboration with others

- ▶ Sharing of unused or under-used physical space
- ▶ Sharing of academic programs or faculty
- ▶ Unified or collaborative functions (e.g. IT, campus security)
- ▶ Transformative changes such as mergers & acquisitions

Proactive Strategies in Current Context

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

Participant Participation – Polling Question 2



Question 2 – Where do you plan to focus efforts to help meet budget gaps?

- Primarily Administrative Areas
 - Primarily Academic Areas
 - Primarily Growing Resources
- Primarily Administrative and Academic Areas
- Equal across Administrative Areas, Academic Areas and Growing Resources



Breakout Sessions

Questions to address during breakout:

1. How do you assess / manage fiscal health at your institution? To what extent do you monitor and report out on cash inflows/outflows?
2. What metrics do you use to communicate this to your board? To internal constituencies – staff, faculty?
3. What strategies are you considering to manage through the immediate challenges and what strategies are you contemplating to be on solid financial footing longer-term?

Discussion topics



- Introductions and Overview
- Understanding and Managing Financial Realities
- **Report Outs**

Teams report out key topics, insights, and recommendations



Participant Participation – Polling Question 3



Question 3 – What is the general level of morale of faculty, staff and students on your campus?

- Low
- Medium
- High



A preview of next week's class and SME guests



Oct. 9 3:30-5pm EST

Understanding and Managing Financial Realities



Kasia Lundy
Managing Director in the Education Practice, EY-Parthenon



Haven Ladd
Managing Director in the Education Practice, EY-Parthenon

Oct. 21 3:30-5pm EST

Drive Greater Operational Efficiency & Organizational Effectiveness



Laura Yaeger
Higher Education Client Service Leader, Huron Consulting



Kurt Dorschel
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Nov. 4 3:30-5pm EST

Aligning Faculty Effort to Institutional Mission: Leveraging Traditional Scholarship to Optimize Academic Resources



Peter Stokes
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Driving Efficiency and Effectiveness in Administrative Services



Jonathan Fry
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Dec. 2 3:30-5pm EST

Post-Pandemic – The Future of Higher Education



Samantha Fisher
Managing Director, NA Education Practice, Accenture



Aneel Delawalla
Managing Director/Senior Partner, Accenture Strategy

Each Session Hosted By:



Jim Hundrieser, Ph.D.
Vice President for Consulting Services, NACUBO
Focus on student success and strategic business models
B.S. from Northern Michigan University, M.Ed. from Plymouth State university, Ph.D. from Barry University



Paul Friga, Ph.D.
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