



Colleges & Coronavirus - Time to Be Proactive

Why Coronavirus Will Change Higher Education More Than the Great Recession

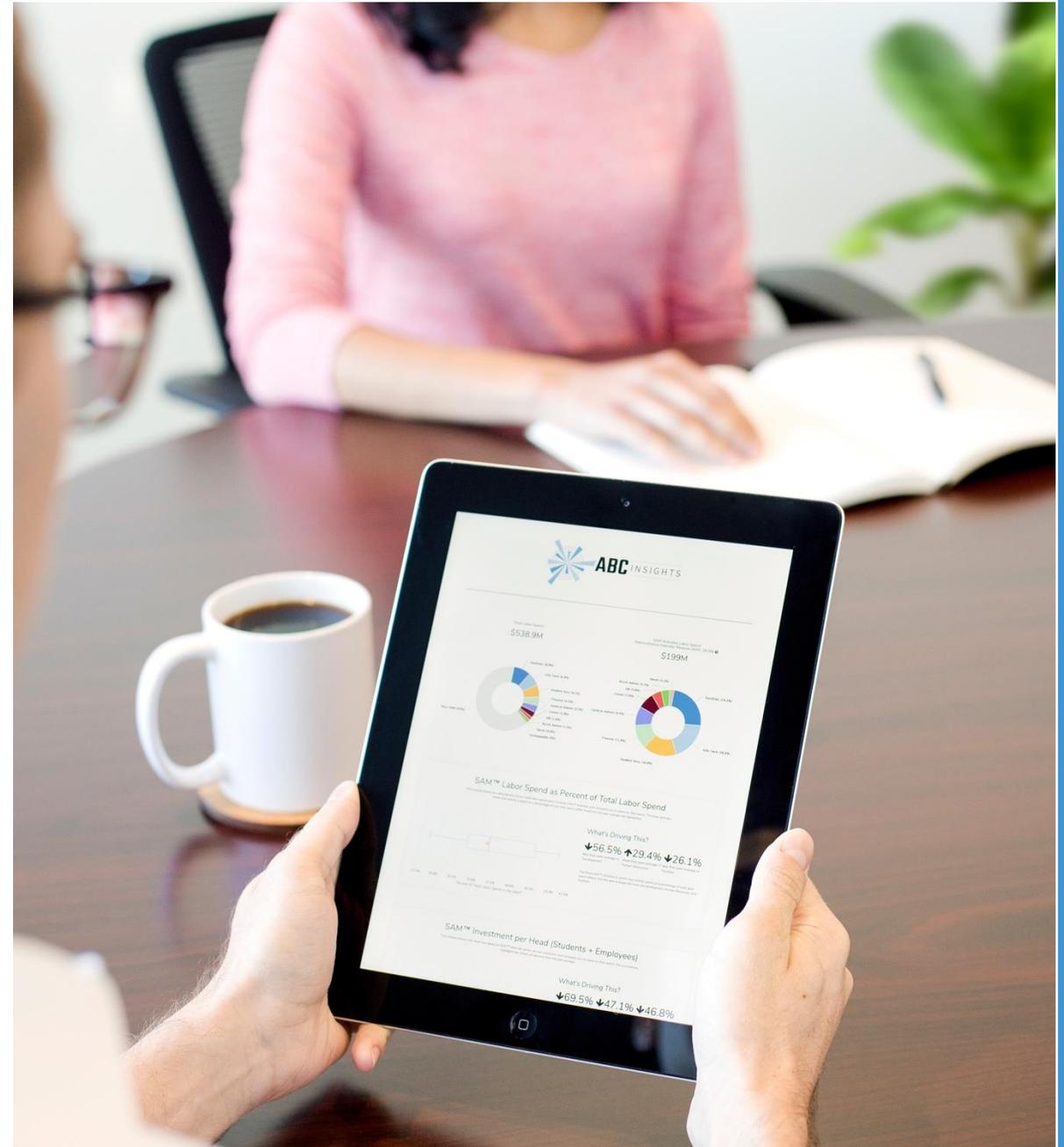
Virtual Discussion Series: Session #1

March 26, 2020 2:00-3:00 PM EST

Supporting Analysis Slides

Paul N. Friga, Ph.D.

www.abc-sights.com



Context

- The Coronavirus (COVID-19) is causing significant economic and societal changes throughout the world
- It is likely this will lead to a US and global recession beginning in 2020
- Higher education will be forced to dramatically change its academic and economic models
- Change in higher education is generally slow, but this is a unique opportunity to make overdue changes
- The Chronicle of Higher Education is dedicated to leading this discussion through a series of articles and virtual discussions
- ABC Insights has a sole mission of improving the sustainability of higher education by helping universities become more efficient and effective
- The purpose of this virtual discussion is to begin a dialogue on the new economic reality and recommendations thereof – we know that many of you are dealing with immediate issues on your respective campuses, but we also realize that you need to continue your strategic financial planning

Specific Objectives

- Review the pressure for change and lessons learned for higher education from the last recession
- Present a framework and recommendations for making institutions more efficient and effective
- Open the conversation with university leaders across the world to share ideas as we deal with this crisis

Colleges & Coronavirus, *Time to Be Proactive: Virtual Discussions*



Why Coronavirus Will Change Higher Ed More Than the Great Recession

March 26
2:00-3:00pm EST



Michael Drake, M.D.

President, The Ohio State University (led UC Irvine through the last recession)

We will review how the last major recession in the US affected Higher Education, how universities responded and tips for how we may want to prepare for today's crisis.

Key Questions:

- Economic impact on society & campus?
- Changes over the past decade?
- Relevance to today's environment?

What a College Should NOT Do During a Recession

April 8
2:00-3:00pm EST



Lynn Pasquerella, Ph.D.

President, AAC&U (Association of American Colleges & Universities)

We will offer a framework on myths to avoid doing during a recession and how universities should be planning for strategic changes on their campus.

Key Questions:

- What are '5 Myths During Recessions'?
- How do they apply to higher ed?
- How should we change our models?

Preparing Your Budget With Coronavirus in Mind

April 22
2:00-3:00pm EST



Laura E. Hubbard

Vice President for Finance and Administration, University at Buffalo

We will explore ways to develop a reasonable budget emphasizing suggestions on how to strategically modify academic and administrative investments.

Key Questions:

- How much will revenue drop?
- Which admin expenses can we cut?
- How to transition academic investment?

Each Session Hosted By:



Scott Carlson
Senior Writer, Chronicle of Higher Education



Paul Friga, Ph.D.
Clinical Assoc. Prof. UNC CH, Co-founder of ABC Insights

A look back at 2010 and even 1929

Recession: Contraction period of economy, usually 6-12 months

The Great Recession of 2007-2009:

- Unemployment rose from 4.9% in 2007 to over 10% in 2010
- Increases of over 5K suicides in 2009
- Stock market lost more than 50% of its value
- American households lost an estimated \$16 trillion in net worth; one quarter of households lost at least 75 percent of their net worth, and more than half lost at least 25 percent

Depression: Prolonged period of economic recession, over 10% drop in GDP

The Great Depression of 1929-1933:

- US Economy decreased more than 30%
- Unemployment rose from 3% to over 25%
- Stock market lost more than 89% of its value

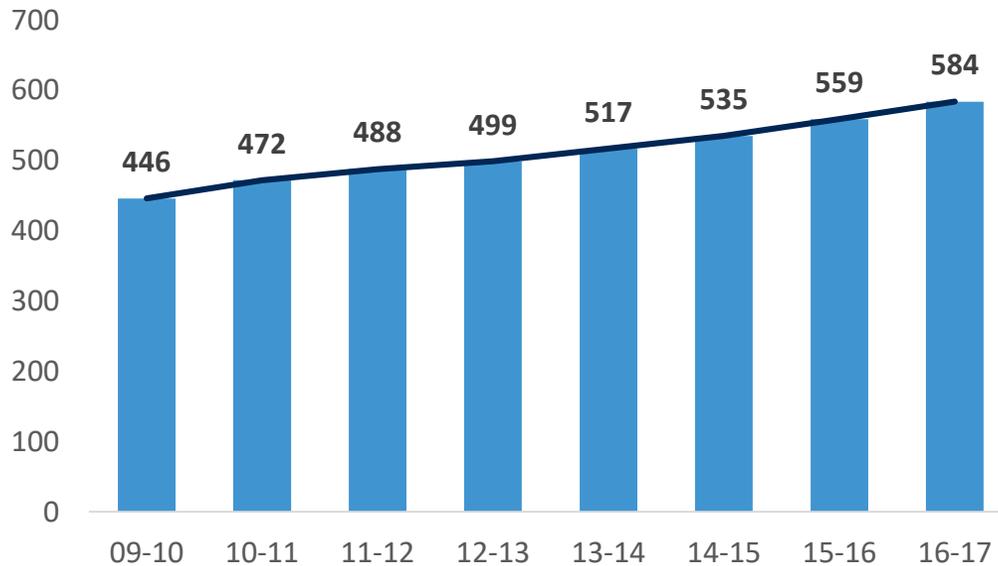


Current Scenario in 2020:

- Stock market has lost over 35% of its value
- Unemployment estimates are as high as 20%
- 2020 GDP estimates are -6%, -24% for Q1 & Q2

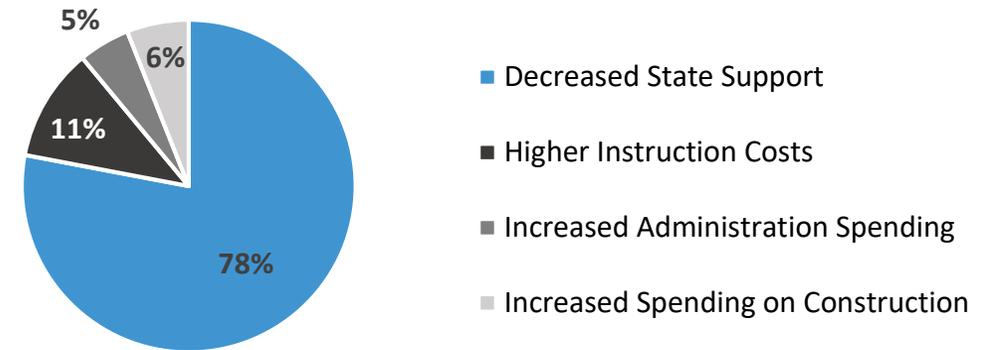
Since our last recession, spending in higher education continued to rise fueled primarily by tuition increases

Spending in Higher Education (Billions)



31% growth over past 6 years

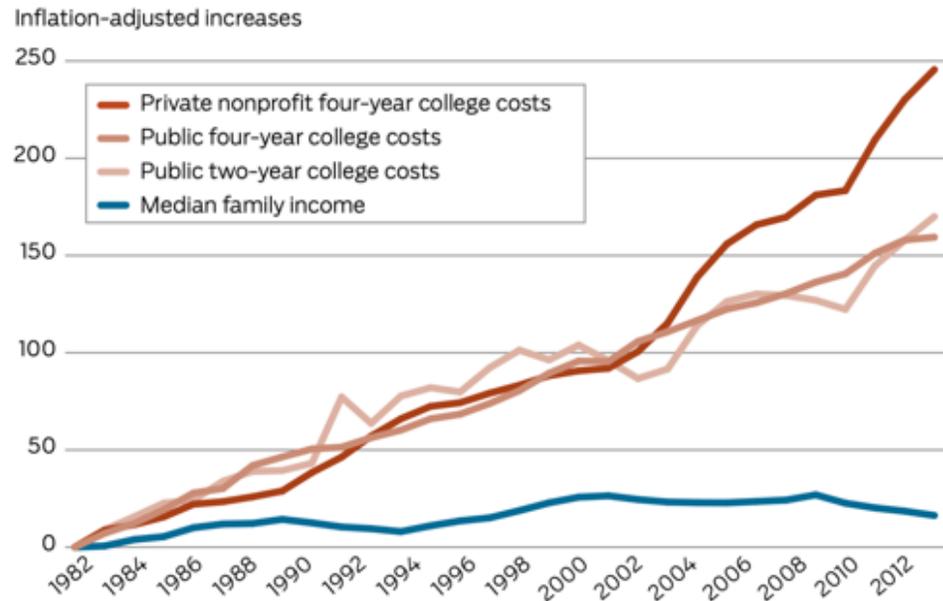
Causes of Rising Tuition



- **Annual published tuition at four-year public colleges has risen by \$2,484, or 35 percent, since the 2008 school year**
- *Non-academic administrative and professional employees have more than doubled in the past 25 years*
- *Administrative spend now represents an equal percentage of total spend when compared to spend on faculty and all other educational expenses*
- *“According to the Department of Education data, administrative positions at colleges and universities grew by 60 percent between 1993 and 2009, which Bloomberg reported was 10 times the rate of growth of tenured faculty positions.”*

We must consider the ability to pay in term of tuition increases

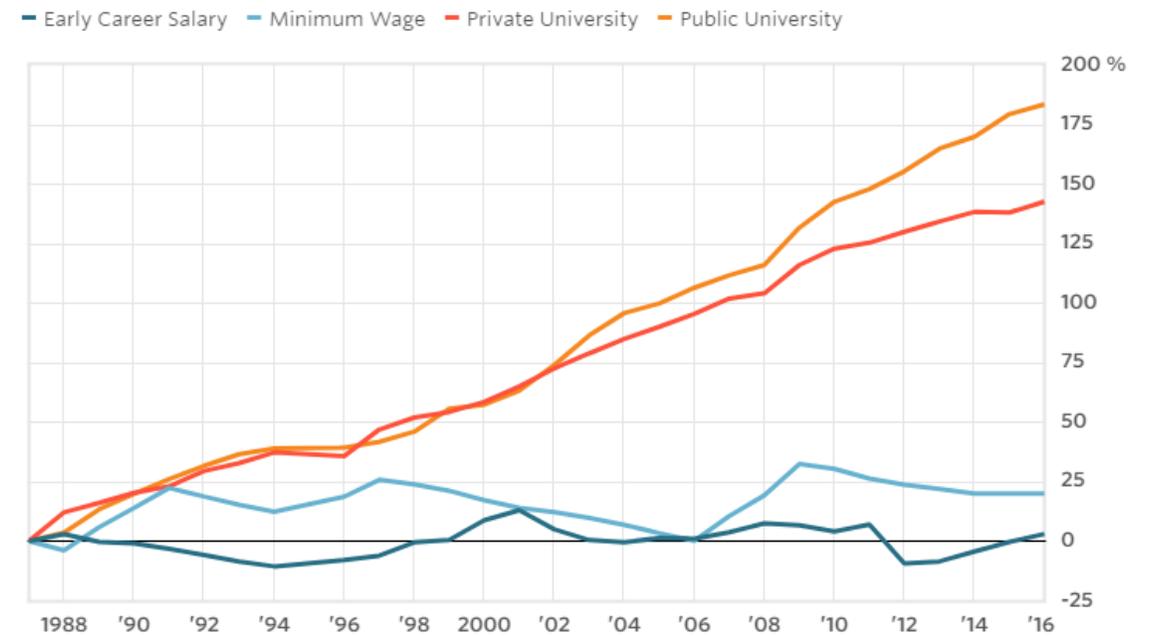
College costs and median family income, 1982 to 2012



Sources: The College Board, Annual Survey of Colleges; National Center for Education Statistics, Integrated Postsecondary Education and Data System.

Tuitions rise, salaries don't

Percentage change since 1987, adjusted for inflation



Source: National Center for Education Statistics; National Association of Colleges and Employers; U.S. Department of Labor

Pressure for change in higher education existed prior to the Coronavirus and potential recession scenarios

Demand-Side Pressures

- Investment in facilities, and services to attract top students, faculty and staff
- Investment in research infrastructure to support top faculty

Revenue Pressures

- Continued cuts in state appropriations
- Nascent limitations on increasing tuition
- Declining projections in traditional students

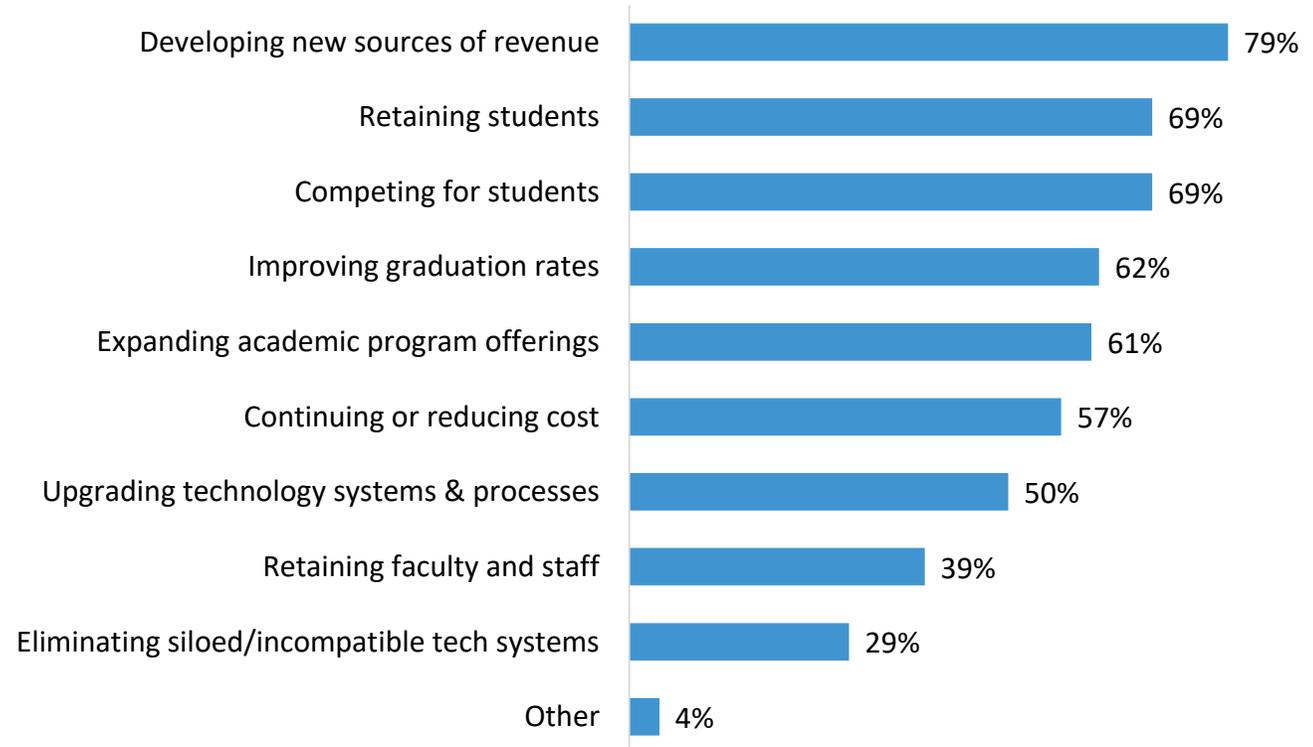
Raising Regulatory Compliance

- State and Federal laws
- Title IX
- Research Administration
- Facilities and Athletics

BUDGET AND COST MANAGEMENT

Growth and increasing efficiency have been top priorities on campuses in higher education around the nation

Top Institutional Challenges According to Academic Leaders



How did universities and colleges respond to the last recession?

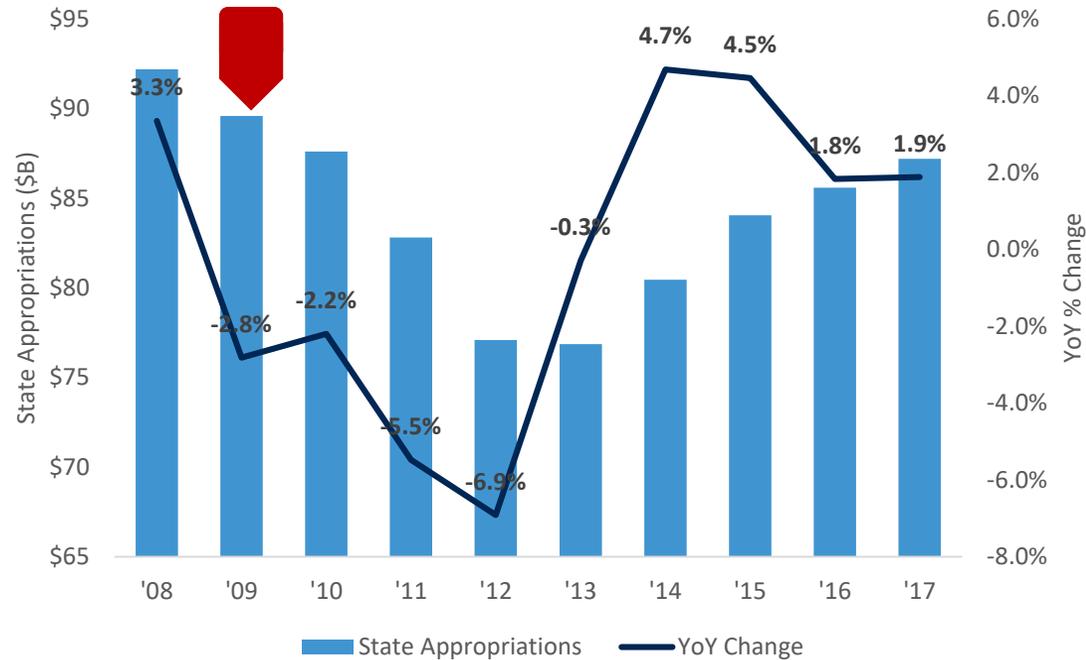


Higher Education Responses	Current Environment Considerations	UNC-CH Impact
Cuts in state government support	State support likely to decline with decreases in tax revenue	State Appropriations CAGR 05-08: 10.14% State Appropriations CAGR 08-09: -4.60% State Appropriations CAGR 09-12: -2.09%
Decreases in philanthropy	Potential even greater declines due to loss in market value and new tax laws for athletic contributions	Philanthropy CAGR 05-08: -16.07% Philanthropy CAGR 08-09: -9.88% Philanthropy CAGR 09-12: -1.25%
Decreases in endowment returns	Likely to be significant based upon market turbulence	Endowment Returns CAGR 05-08: 16.68% Endowment Returns CAGR 08-09: -19.60% Endowment Returns CAGR 09-12: 7.93%
Increases in tuition	Not likely to be an option given current pressure/inability to pay of families and \$1.6T student debt	In-State Tuition CAGR 05-08: 6.26% In-State Tuition CAGR 08-09: 1.07% In-State Tuition CAGR 09-12: 9.10%
Layoff/furlough administrative staff	Certainly an avenue; although many universities have already streamlined operations	EHRA Non-Faculty CAGR 05-08: 6.86% EHRA Non-Faculty CAGR 08-09: 5.69% EHRA Non-Faculty CAGR 09-12: 0.02%
Increases in PT and NTT faculty	Expect this to continue to increase due to lower cost and increased load capacity for teaching	Tenured Faculty CAGR 05-08: -1.81% Tenured Faculty CAGR 08-09: 18.00% Tenured Faculty CAGR 09-12: -9.59%
Decreases in faculty hires	Could become an important lever as universities prioritize certain academic programs and rationalize offerings	Faculty CAGR 05-08: 1.25% Faculty CAGR 08-09: 4.70% Faculty CAGR 09-12: 1.28%

Source: *A Lost Decade in Higher Education Funding: State Cuts Have Driven Up Tuition and Reduced Quality*; Mitchel et al., 2017;; *How the Great Recession Affected Higher Ed*, Brown and Hoxby, 2014; ; *How the Great Recession Reshaped Higher Education*, Chronicle of Higher Education, 2018; *Source of Data for (State Appropriations, Tuition, Staff and Faculty Data, and Operating Expenses): UNC Chapel Hill CAFR for 2012*. https://finance.unc.edu/files/2015/12/2012_cafr.pdf ; *Source of Data for Endowment Returns and Philanthropy: only listed in CAFR for specific year that the data was taken from. 2005-2012 UNC-CH CAFR located at <https://finance.unc.edu/about/reports-data/>*

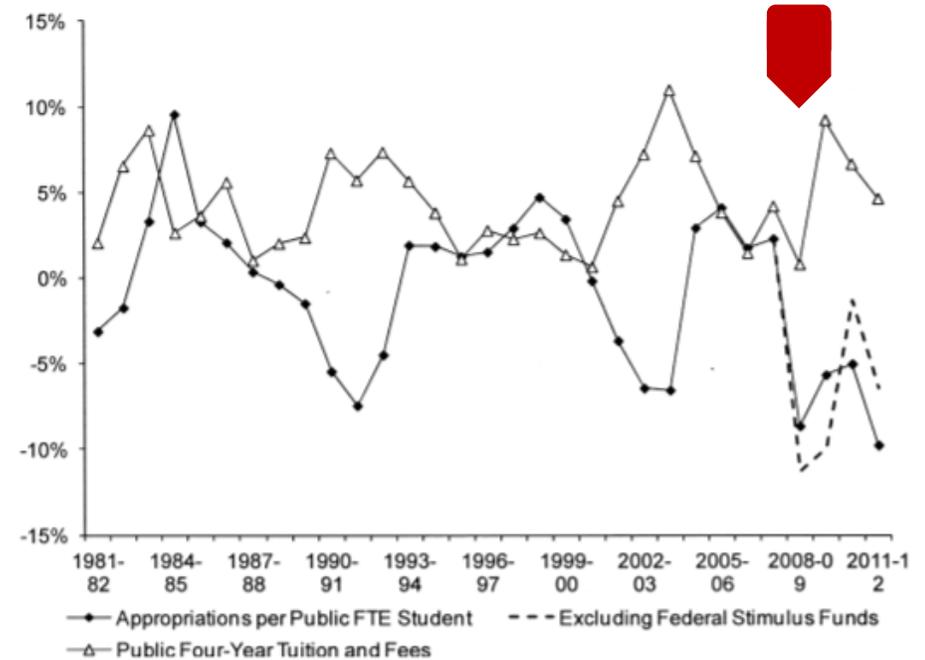
State appropriations dipped following the 2008 recession

State appropriations (in \$B) and YoY % change 2007-2017



Source: *Two Decades of Change in Federal and State Higher Education Funding, 2019, The Pew Charitable Trusts*

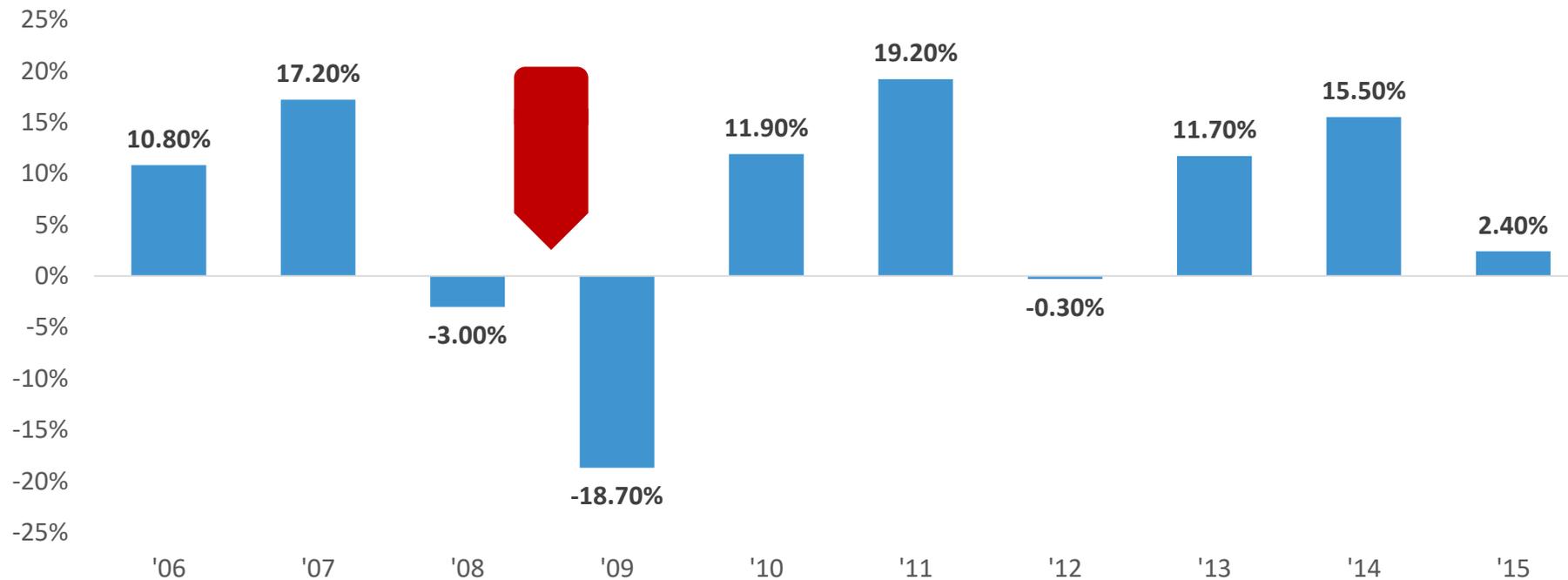
The change is even starker on a per FTE basis



Source: *How the Financial Crisis and Great Recession Affected Higher Education, Bridget Terry Long, 2015, NBER*

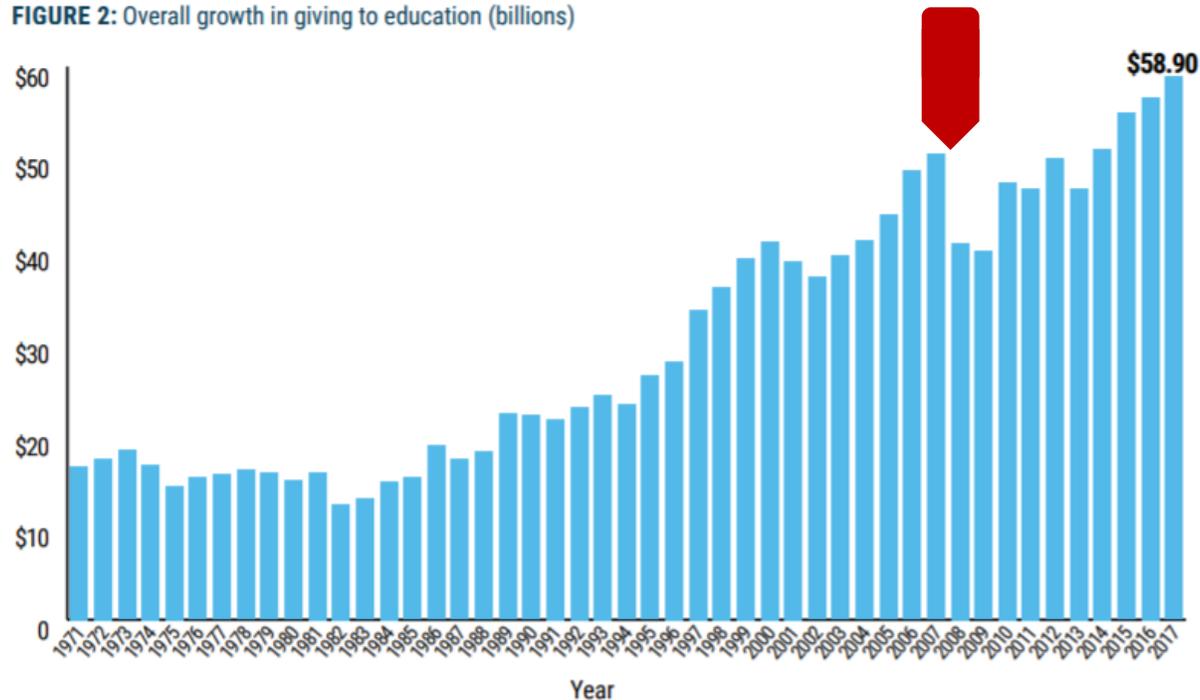
Endowment returns plummeted during the recession, but rebounded shortly after

Annual rates of return on US College and University Endowments 2006 - 2015



Philanthropy dipped significantly during the Great Recession

FIGURE 2: Overall growth in giving to education (billions)



Source: Giving USA 2018: The Annual Report on Philanthropy for the Year 2017

- During the Great Recession, Americans gave less, both in absolute and relative terms.
- In 2008, Giving USA noted a double-digit percentage decrease in inflation-adjusted overall giving by individuals (-11.7 percent), from 275.5 billion in 2007 to 243.4 billion in 2008 (Giving USA 2018b).
- Giving to education also declined by double digits during the Great Recession.
- Additionally, giving as a percentage of disposable personal income fell from 2.2 percent in 2007 to 1.9 percent during the Great Recession (Giving USA 2018b)
- Individual giving as a share of disposable income has now recovered, and has remained stable at 2.1 percent of disposable personal income since 2014 (Giving USA 2018b)
- In addition, there is a growing shift towards fewer people donating larger sums

Scenario Planning can help to strategically approach this situation

Context Variables	Quick Recovery	Global Slowdown	Global Pandemic and Recession
Teaching	Little effect; some student absenteeism; cuts in study abroad programs	Major effect on many campuses on spring residential classes and cancelling of study abroad programs	Dramatic effect – spring, summer, and fall in-person classes cancelled/switched to online format
Operations	Communicate plan; launch flexibility in work-from-home arrangements	Many employees effected and not able to work; others work from home; conferences cancelled in spring and perhaps summer; employee travel limited; major campus cleaning	Campus shutdowns through end of fall semester; employee layoffs/furloughs; coordinate with healthcare organizations to handle surge requirements
Community	Decreased attendance at events	Cancelled attendance at sporting and other events; coordinate with local department of health and other communities on risks/actions	Cancelled fall sports, concerts, and major events; potential shut down of local tourism/restaurant offerings
Financials	Minor .2 to .29% of operating expenses	Major .3 to 4.9% of operating expenses	Dramatic 5-50% of operating expenses

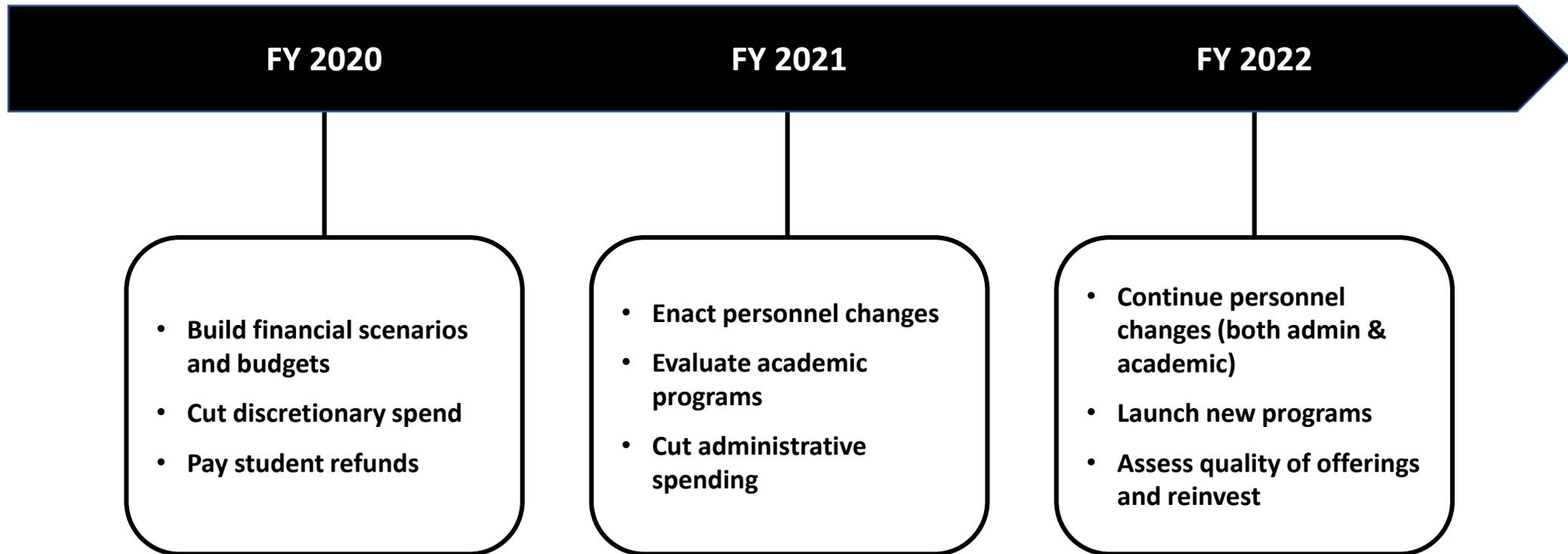
Scenario 2 – Global Slowdown:

- Support all employees who are sick and adapt flexible work-from-home arrangements
- Switch spring classes to online format to finish the semester (inform students not to return to campus)
- Return all students from study abroad programs
- Establish new campus cleaning protocols
- Identify short term working capital resources for decreases in spring and summer revenue
- Limit faculty and staff travel to essential only
- Cancel major crowd events or hold without the crowds

Scenario 3 - Global Pandemic and Recession

- Cancel summer and fall residential classes – switch to 100% online format
- Partner with other universities with robust online offerings to keep students moving forward with academic programs
- Work over the summer to create online content
- Dramatically decrease on-campus operations – shift to help healthcare with surge needs
- Layoff/furlough non-operations critical employees
- Establish dramatic financial reserves fund/sources for significant drop in revenue due to cancelled classes (no tuition), lost government subsidies, decreased auxiliary revenue (such as hotels), negative productivity, lost international students, etc.

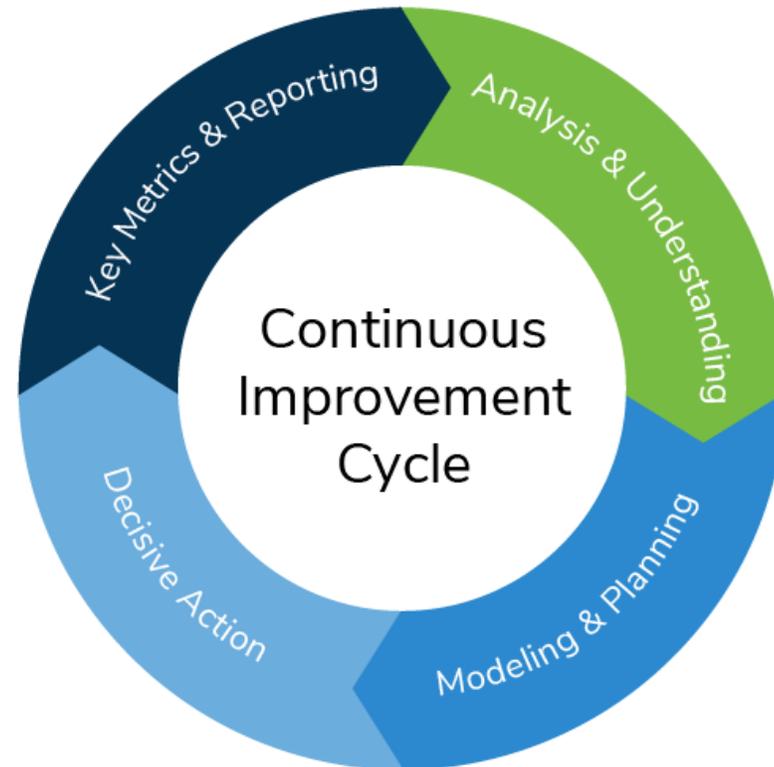
Key steps to addressing new economic model requirements



We formed ABC Insights to help higher education

Our Mission: Improve sustainability of higher education by helping universities become more efficient and effective

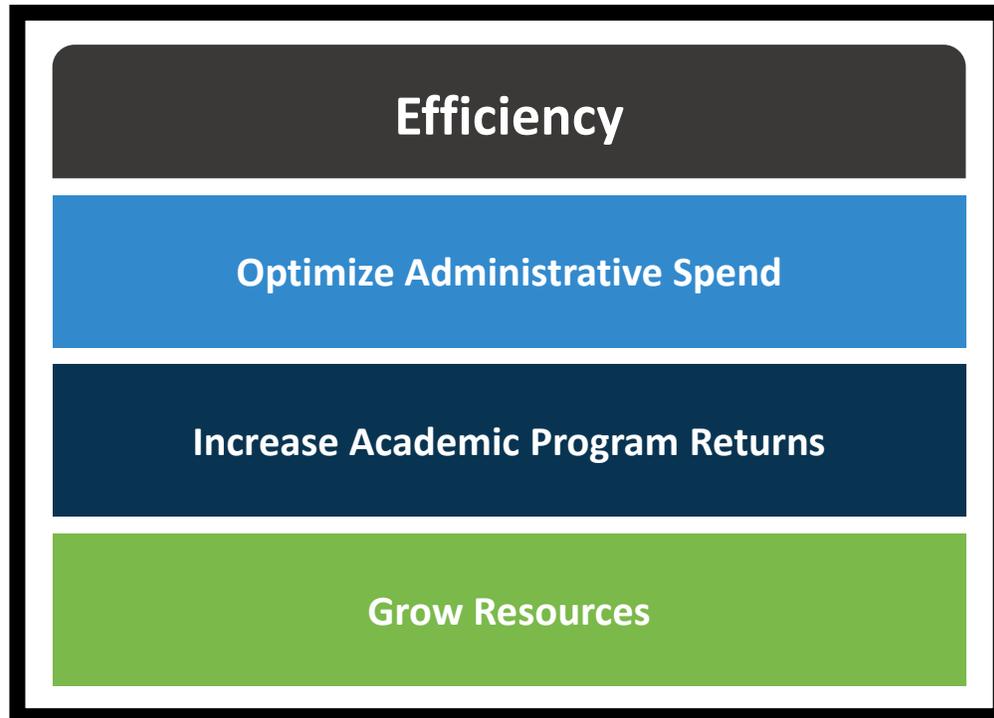
Our Vision: Become the trusted partner and thought leader for analytics, benchmarking, and insights in higher ed



Higher education needs to dramatically increase its efficiency without sacrificing quality

ABC Insights ROI = More efficient and effective universities will result in higher returns for investment

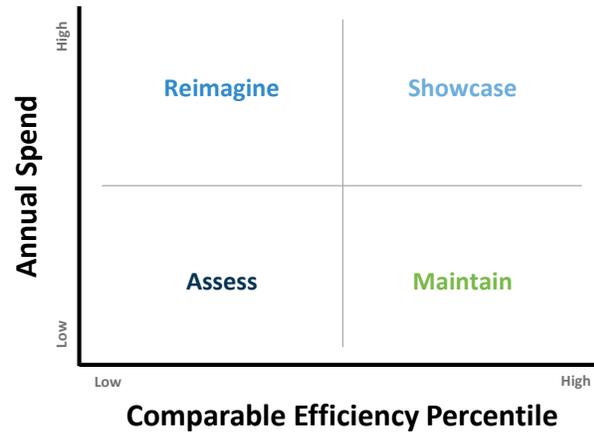
Our Focus for Today's Discussion



Key areas for increasing efficiency of a university from the ABC Insights ROI framework

Optimize Administrative Spend

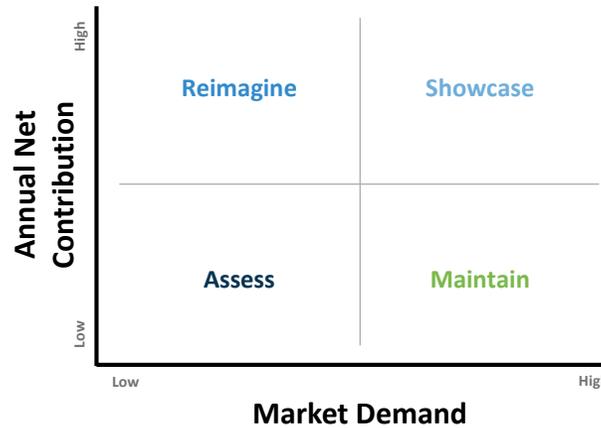
Assess level of investment vs strategy



Mapping: Activities and Sub-Activities
Size of bubble: Level of FTEs

Increase Academic Program Returns

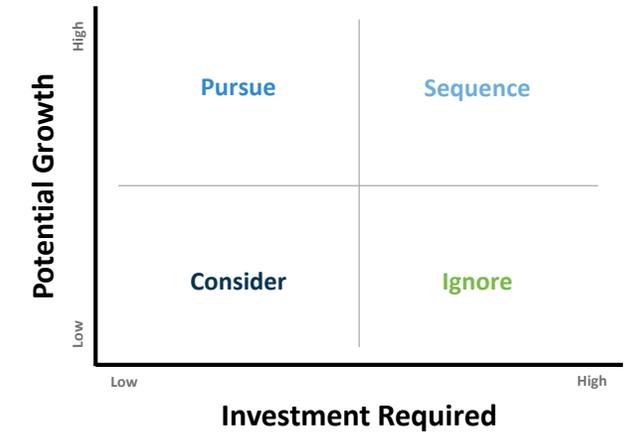
Rationalize academic offerings based upon demand



Mapping: Schools and Majors
Size of bubble: Student Outcomes

Grow Resources

Increase enrollments and revenue



Mapping: Sources of Revenue
Size of bubble: Current Revenue Level

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