WHAT’S NEXT?

Absorbing Chaos,
Giving Back Calm,
Providing Hope
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>03</td>
</tr>
<tr>
<td>State of the Industry</td>
<td>05</td>
</tr>
<tr>
<td>Forward-Looking Financial Planning Task 1: The Comprehensive Long-Term Financial Plan</td>
<td>08</td>
</tr>
<tr>
<td>Forward-Looking Financial Planning Task 2: Enhancing the Balance Sheet</td>
<td>09</td>
</tr>
<tr>
<td>Forward-Looking Financial Planning Task 3: Monitoring &amp; Managing Liquidity</td>
<td>09</td>
</tr>
<tr>
<td>The Role of Effective Financial Communication (at Both a Macro- &amp; Micro-Level)</td>
<td>11</td>
</tr>
<tr>
<td>Innovation, Change, &amp; Pivot Points</td>
<td>15</td>
</tr>
<tr>
<td>Leadership</td>
<td>17</td>
</tr>
<tr>
<td>Outlook on Enrollment &amp; Retention</td>
<td>20</td>
</tr>
<tr>
<td>Opportunities Amid the Chaos</td>
<td>23</td>
</tr>
<tr>
<td>Envisioning the Future – What’s Next?</td>
<td>25</td>
</tr>
<tr>
<td>Conclusion</td>
<td>26</td>
</tr>
<tr>
<td>Appendix A</td>
<td>27</td>
</tr>
<tr>
<td>Appendix B</td>
<td>28</td>
</tr>
<tr>
<td>Endnotes</td>
<td>34</td>
</tr>
</tbody>
</table>
Many industries coping with the current economic, health, and social issues don’t have the talent and creativity enjoyed by higher education institutions.

The quantity of resources may be limited, but the grassroots quality and functionality of higher education institutions is fundamentally sound and has a long history of repeatability. Higher education in the U.S. has survived revolutionary, civil, and world wars, other pandemics, and social unrest. Some schools no longer exist, but it seems that might be a normal part of the life cycle for humankind and the organizations we create.

We hope to create some thoughtful moments as you read through the analysis. We seek to provide insights and data to help institutions as they strive to regain their balance and reset a pace to continue the journey toward an educated society. There aren’t many other endeavors more deserving of our time and energy.

Nick Wallace
Director
Welcome those big, sticky, complicated problems. In them are your most powerful opportunities.

Ralph Marston
CURRENT ENVIRONMENT

Describing the current environment would require many inches of print space. It also would be disheartening to read. Instead of a lengthy analysis, we’ve provided the following list of difficult issues:

1. Uncertainty about enrollment
2. Massive planning efforts to prepare for a campus reopening in the late summer and operating a campus under a new “virus-aware” reality
3. Major efforts to assure liquidity and position institutional balance sheets to withstand a worst-case hit
4. Civil unrest in the streets of many major cities (where numerous colleges exist) and the need to step up efforts to address underlying social issues on campuses
5. A worldwide pandemic that’s spiking in some areas after an initial recession
6. Whipsawed financial markets bringing the corresponding uncertainty about endowment performance
7. High unemployment, especially at small businesses where many students work to afford their education
8. A seriously divided media and political structure that seems to stoke fear rather than provide hope
9. Reluctant international students
10. Reluctant funding sources

There’s so much uncertainty and trouble, with few solid answers. The state of the industry boils down to one question—what’s next?

LEADERSHIP PRINCIPLES FOR ABSORBING THE CHAOS

Jim Collins’ bestselling 2001 book Good to Great was ahead of its time. It deserves to be updated and republished. Chapter 4 explains a principle the Collins research team discovered in good organizations that break through to greatness: the “Stockdale Paradox.” Rephrased, his third principle of organizational greatness is “Confront the brutal facts (yet never lose faith).”

He starts the chapter by describing, in his famous company-pairing style, the reversal of fortunes of once-great companies compared to other companies that went from good to great. One theme that arose through their research was that “breakthrough results come about by a series of good decisions, diligently executed and accumulated one on top of the other.”

More importantly, on the big decisions, he notes, “they were remarkably on target,” which begs the question: Were these great companies just lucky to stumble into the right set of decisions, or was there “something distinctive about their process that dramatically increased the likelihood of being right?” They found two things were present:

1. They infused the decisions with facts, which they called “the brutal facts of reality.”
2. They developed a simple, yet deeply insightful, frame of reference for all decisions.

What might that mean for executive-level leaders at public and private higher education institutions?
Experienced higher education presidents can usually be counted on to provide practical meaning to these situations. One such person is Dr. Eugene Habecker, who spent most of his career in executive-level leadership at two private nonprofit institutions. Dr. Habecker has documented his leadership principle for troubled times in his book, *The Softer Side of Leadership*. His triad reflects the meaning of this Stockdale Paradox: "Absorb the chaos, give back calm and provide hope." V

In practical terms, he would say this translates into the following important practical approaches to decisions and actions that leaders can apply to the current environment:

1. Collect all the relevant data you can—even data that runs counter to your paradigm (the brutal facts).
2. Understand the data and give it meaning along with your senior team.
3. Effectively communicate about the meaning of the brutal facts with poise and calm.
4. Make sure faith in getting to the other side of the chaos is provided, giving hope.
5. Execute with diligence an agreed-upon action plan that deals with the issues head on.

To make these concepts practical and promote clear thinking, consider these questions:

- Have you done an adequate job of collecting and understanding the facts, even if they’re brutal?
- What data do you need to review but haven’t due to certain restraints?
- Have you engaged in dialogue and debate, including healthy conflict about the issues resulting from the brutal facts, or has your approach been top-down?

We encourage a review of these and related questions as you move into this next year.

In summary, the truth about the state of the industry is that it’s in chaos, even though many are working hard to project a state of order and readiness. Below the surface, there’s a current of uncertainty and even fear. Many are wondering what’s next.

To answer that question, the remainder of the Outlook is devoted to processes and strategies that may help institutions prepare for the times ahead and transition from uncertainty to hope.

**Here are processes and tools to help move from chaos to hope:**

- The Role of Effective Financial Communication (at Both a Macro- & Micro-Level) 11
- Innovation, Change, & Pivot Points 15
- Envisioning the Future – What’s Next? 25
Looking Forward: Three Tasks & Related Tools for a Clear Vision

Depending on whose crystal ball you’re looking through, the outlook on the threat of financial disruption and possible institutional insolvency ranges from imminent to unlikely. At times, reports on individual campuses have varying opinions about institutional financial stability. Campuses like these, and the industry, may relate to the reports of Mark Twain dying in poverty, in London. Upon hearing about this report, Twain was prompted to respond, “The reports of my death are greatly exaggerated.”

Over the last several years, numerous prognosticators gazed into their usually well-researched crystal balls and predicted anywhere from a 25 percent failure rate (Michael Horn, 2013) to a 50 percent failure rate (Frey, 2013 and Christiansen, 2017) in the next 10 years for the industry.

Recently, authors and higher education researchers Robert Zemsky, Susan Shaman, and Susan Campbell Baldridge predicted that “10 percent of schools will face severe market risk ... 30 percent will face some market risk and are likely to struggle ... and the remaining 60 percent face little or no risk.”

But you wouldn’t know there was a substantial risk of closure for any colleges just by reading the reactions of many institutional leaders as they discuss their individual situations. This is understandable, as few outside supporters would want to prop up an institution on shaky ground. Unfortunately, this leads some institutional leaders to avoid publicly acknowledging the brutal facts about their struggles until the last hope for recovery has faded. Jim Collins’ work on facing the brutal facts is needed. One additional problem exists.

The task of forecasting economic distress has been left to old tools and older data. The Department of Education’s (ED) financial responsibility composite score has been widely criticized due to its inability to predict financial failure with alarming frequency. In fact, a recent (2017) GAO report states, “The composite score has been an imprecise measure, predicting only half of closures since school year 2010-2011.”

Other tools like the Composite Financial Index are based on historical, sometimes dated, information. What’s needed is forward-facing data that results in early warnings of trouble ahead rather than looking back to see trends in prior years. This year’s massive changes are reason enough to know that using past events to predict future results is risky at best.
Because we’re experiencing an “elephant in the room” moment, the brutal facts referred to earlier need attention, discussion, and action by college leadership and trustees. Incremental annual budgets won’t be very helpful to schools that need to solve difficult and complex financial challenges.

Consumers and state regulatory agencies recognize the need to identify at-risk schools. At the same time, national industry associations are lobbying to urge the waiver of existing analyses like ED’s financial responsibility score. This is one reason why it’s important to have good, forward-looking information. Suspension of the federal financial responsibility regulation is understandable, especially due to its proven predictive inaccuracy. Lack of any measurement benchmarks, however, might reduce the arguments for or against financial viability to subjective and qualitative arguments that may leave regulators and consumers without clarity. Though this was suggested earlier in 2020, the passage of more stringent regulations was the result.

The best approach for a school is to settle on forward-facing data that forms the basis for acknowledging the brutal facts. The combination of good data and a school’s plan to address the issues would be a welcome relief to consumers and regulators alike.

In addition to data in a comprehensive financial planning tool, there are a few newer models for scoring stressed colleges, including the model built by the firm Edmit and the one built by the authors of the book The College Stress Test: Tracking Institutional Futures Across a Crowded Market. In fact, the book’s authors have created a website with Excel templates available for schools to compute their own scores.

While scoring rubrics and graded assessments can be helpful, the best approach is to perform a detailed scenario analysis projecting your specific school’s plans forward like the one just recommended. No two schools are exactly alike in history, mission, resources, and, most of all, creativity and strategy. That’s where the individual school scenario builder is helpful. The analysis becomes your school’s plan and reflects your decisions and resources, as well as how they’ll be deployed.

If you read the histories of schools experiencing difficult financial issues, you’ll see the ones that survive and thrive are those with great leadership teams that work together to execute a well-thought-through plan that’s informed by great data.

In the closing chapter of their book How to Run a College: A Practical Guide for Trustees, Faculty, Administrators, and Policymakers, authors Brian C. Mitchell and W. Joseph King say it best: “The path forward must be comprehensive in design. It is not enough to ‘fix the admissions problem’ to generate new revenue. Nor will it be sufficient to launch eternal comprehensive fund-raising campaigns or anticipate that the federal government will replace tuition or donors to fund the changes that must be made as the crisis deepens.”
This forward-looking financial assessment task should involve leveraging unused or underused real property. Some schools are realizing a need to supplement academic revenues with revenue sources not tied to instruction. Enhancing the revenue potential for existing real property or developing unused and underused property has been successful for both public and private schools. An example of this is the work done at California Polytechnic Pomona in Southern California. They developed an underused piece of real property to add retail and housing, which yielded an extra $5 million in revenue over a five-year period. See Appendix A for a full review of this case study. This type of entrepreneurial use of property is needed especially now when nonacademic revenue sources are such an important part of overall financial equilibrium. This might be a good time to reassess this area of the balance sheet.

Another balance sheet enhancement might be the review and restructuring of debt. Many schools haven’t used a disciplined set of debt structure policies and procedures that enhance the use of debt including types of debt (taxable, nontaxable, short-term, medium-term, and long-term).

Debt optimization also helps in the process of defining liquidity and cash needs, (see Task 3 below). A thorough study of your existing institutional position, policy statements, and procedures for review and approval is especially helpful in today’s low-interest economic environment.

According to a national poll taken by NACUBO member institutions, as many as 78 percent of respondents are concerned or extremely concerned about enrollment decline. Likewise, the poll reports that 76 percent are concerned or extremely concerned about the loss of auxiliary revenue, and 53 percent are concerned or extremely concerned about a decrease in annual giving (see Figure I).
This has put stress on reserves (when present) and pressure on budgets. According to Moody’s, “As much as 30% of universities’ operating performance is weak,”[xiii] (see Figure II). On March 18, 2020, Moody’s Investors Service lowered the credit rating for higher education institutions to negative and commented on operational deficits at rated institutions as seen below.[xiv]

With this level of concern about revenue loss, is there any wonder about why there’s also concern regarding liquidity? It’s no secret that results of operations at many colleges nationwide are negative. For the past several years, net tuition and fees (gross tuition minus institutional aid) have been flat or down at many schools.

This has put stress on reserves (when present) and pressure on budgets. According to Moody’s, “As much as 30% of universities’ operating performance is weak,”[xiii] (see Figure II). On March 18, 2020, Moody’s Investors Service lowered the credit rating for higher education institutions to negative and commented on operational deficits at rated institutions as seen below.[xiv]

What’s your reaction to the need for forward-looking information and the above call to action to provide comprehensive liquidity and scenario planning data?

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**Figure I**

**NACUBO Flash Poll — Percent Concerned or Extremely Concerned About Revenue Loss**

NACUBO Member Institutions Polled May 26 to June 1, 2020; N = 113

- **Liquidity-Related Issue**
  - Decline in Research Activity: 26%
  - Loss in Clinical Revenue: 36%
  - Decline in Athletic Revenue: 53%
  - Decline in State Funding: 58%
  - Decrease in Annual Giving: 76%
  - Loss of Summer Auxiliary Revenue: 78%

- **Percent Concerned or Extremely Concerned**
  - 0%
  - 10%
  - 20%
  - 30%
  - 40%
  - 50%
  - 60%
  - 70%
  - 80%
  - 90%
  - 100%

**Figure II**

**2019 Operating Deficits & Low Cash**

Moody’s Investors Service Rated Institutions — March 18, 2020

- % with Operating Deficit
- % with Less Than 90 Days’ Cash on Hand

- Public Universities
- Private Universities
Macro-Level Reporting – Communicating Clearly: Is Your Team Ready?

The modern-day higher education chief financial officer (CFO) is part diplomat, part chief storyteller, and part strategist. CFOs certainly are needed to maintain a posture of steady leadership in crisis conditions. By virtue of their role, they see more elements of the educational enterprise in a more granular manner than almost anyone else on an academic entity’s cabinet.

In times of crisis, they’re normally depended on to become champions of financial sustainability, communicators of financial realities, and institutional leaders. Those who rise to leadership positions are asked to move outside technical accounting and reporting issues, during times of crisis, to become trusted advisors and strategists for their teams.

One difficulty some financial officers face is the sometimes divergent views on what the data says and the tactics and strategies needed to bring the institution to financial sustainability. This is apparent in the debates over academic revenues, costs, and margins. Author William Massy addresses these issues in his recent book, Resource Management for Colleges & Universities. In his chapter titled “Changing the Conversation,” Massy asserts, “They (faculty) don’t think about balancing quality with cost in the ways that businesses and some academic officers do, but instead seek to garner as many resources as they can for their programs. They resist efforts by ‘bean counters’ to intervene in the what and how of departmental activity—lest academic values be undermined by ‘crass’ monetary considerations.”

Having solid tools and ways to display the relevant data about academic net revenues, expenses, and margin in a clear and compelling manner is usually helpful. This is described further in the section on micro-level reporting on page 13.

The outlook for higher education in this macro-level reporting context is that CFOs will be counted on to move the institution to higher levels of operation, helping their organization leaders see the big picture of organizational health status and the effect of long-term strategic plans. While reporting clear and unambiguous messages is always important, it’s even more crucial during these uncertain times.

We’ve already reviewed the importance of building solid, forward-looking financial plans. The underlying issue that affects an organization’s ability to produce clear reporting is the maturity level of the finance staff. Figure III maps the maturity and the time horizon for reporting. Considering the importance of reporting future-facing data, this may help in assessing your finance team’s maturity in becoming trusted advisors and strategists.
## Financial Team Maturity Assessment

### Maturity Continuum

<table>
<thead>
<tr>
<th>PERFORMANCE FEATURE</th>
<th>Compliance Follower</th>
<th>Observant Follower</th>
<th>Growing Leader</th>
<th>Strategic Leader</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TIME HORIZON FOCUS</strong></td>
<td>Historic</td>
<td>Short Term (Current &amp; Next Year)</td>
<td>Medium Term (Next Three Years)</td>
<td>Long Term (Five to 10 Years)</td>
</tr>
<tr>
<td><strong>MINDSET</strong></td>
<td>Maintain the System</td>
<td>Observe the Trends</td>
<td>Observe Trends &amp; Underlying Causes</td>
<td>Understand &amp; Rebuild Business Models</td>
</tr>
<tr>
<td><strong>NORMAL ROLE</strong></td>
<td>Low Visibility</td>
<td>Reactive</td>
<td>Proactive</td>
<td>Influential Leader</td>
</tr>
<tr>
<td></td>
<td>Basic Information</td>
<td>Mostly Basic Information</td>
<td>Cause &amp; Effect Reporting</td>
<td>Focused on Next vs. Now</td>
</tr>
<tr>
<td></td>
<td>Low Influence</td>
<td>Limited Influence</td>
<td>Growing Influence</td>
<td>Executive Level</td>
</tr>
<tr>
<td><strong>MEASUREMENTS</strong></td>
<td>Basic Financial Measures</td>
<td>Basic Financial Measures</td>
<td>Multiyear Financial Measures</td>
<td>Financial Performance Drivers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Limited Operational Data</td>
<td>Limited Operational Data</td>
<td>Risk Measurement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Operational Assessment Measures</td>
<td>Forecasts/Projections</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Liquidity</td>
<td>Performance Impacting Results</td>
</tr>
<tr>
<td><strong>TOOLS USED</strong></td>
<td>Historical Reporting</td>
<td>Multiyear Reporting</td>
<td>Scorecards</td>
<td>Predictive Financial Models</td>
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<td></td>
<td></td>
<td></td>
<td>Dashboards</td>
<td>Financial Scenario Assessments</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Operational Metrics</td>
<td>Strategic Mapping of Business Drivers &amp; Results</td>
</tr>
</tbody>
</table>
Micro-Level Reporting – Academic Resource Analysis, A Game Changer

Micro-level reporting refers to the data and reporting systems necessary to enable good decision making in the area that leading higher education author William Massy calls “academic resourcing.” The former vice provost at Stanford University and higher education consultant released his latest book in June 2020. In the book’s preface, Massy says his work and interviews with academic resource (AR) model adopter schools have reaffirmed his belief that “the time has come to fix the flaws in the university business model, and that the methods’ and tools’ potential for transforming institutional processes is clear and present.” He goes on to state, “I believe we are looking at game changers here, and I am optimistic that traditional colleges and universities will, by using these systems and methods, succeed in renewing themselves.”

Massy is referring to three analytic systems and resulting decision-making processes:

- Detailed revenue, cost, and margin analysis
- Academic program market analysis
- Mission alignment analysis

Fix the Business Model

In the book’s preface, Massy says his work and interviews with academic resource (AR) model adopter schools have reaffirmed his belief that “the time has come to fix the flaws in the university business model.”}

One final observation is important. The lower levels of financial team maturity are easily found and usually inexpensive to acquire. However, the roles and tasks performed are critical and take the most time because they’re basically a summarization of all the organization’s historical financial transactions. The higher levels of maturity are harder to find and typically more expensive. Fortunately, some of those functions often can be outsourced on a project basis to individuals with the right industry knowledge and background.

These questions can help you assess your communications. No responses indicate weakness, and several instances of a no response could be cause for concern.

1. Are your financial reports timely?
2. Are your financial reports at both an organizational unit level and comprehensive level?
3. Do all cabinet members understand the financial reports?
4. When it comes to identifying problems, are both causes and effects made known?
5. Once causes and effects are known, are variances explained and solutions offered in a manner that allows discussion and decisions?
6. Does the reporting include forward-looking data?
7. Does the information include comparisons with prior periods, goals, and benchmarks?
8. Are the reports graphical and easy to read and understand?
9. Are the reports summarized at appropriate levels to allow an understanding of the big picture while not being so detailed they lose the reader?
10. Are the reports aligned with strategies and related planning documents?
The first provides analysis of activity and economic data down to the course or even individual class sections. Once that micro-level economic data on revenues and costs is captured and reported, it can then be rolled up to the department, school, campus, and institutional level. Massy points out that these types of tools have a wide variety of uses on campuses, including:

1. Adjusting to changing enrollment
2. Supporting comprehensive program review
3. Managing program portfolios
4. Setting prices (including discounts)
5. Balancing faculty workloads
6. Managing course configurations
7. Managing classroom utilization
8. Informing budget makers about costs, revenues, and margins
9. Focusing budget making on mission
10. Supporting scenario planning

As you scan this list, it becomes clear the primary use for this analysis is to evaluate academic program economics.

The second tool relates to how the college or university faces the market with its course offerings. This tool allows a deep dive into a variety of data that drives the marketplace in decisions about where to attend college and what degree to choose. This data generally fits into four categories:

1. Demand – Measured through inquiry from several sources
2. Employment – This should include employment outlook and wage data
3. Competitive environment – This demonstrates the competitor schools for various programs
4. Degree alignment – This measures the level of alignment between the academic program and job market needs

Many schools use a variety of data sources to gather this information. The ideal way to do that would be to pull all the data into one place and enable a scoring and ranking for all existing and future programs.

The third tool aligns the school’s academic activities with the institution’s stated vision and mission. This helps ensure the school’s vision and mission remain aligned with the course and program decisions made on a regular basis.

BKD currently offers versions of these AR tools that are in line with what Massy describes as level 2 tools. Level 1 tools he suggests might include spreadsheets and studies, such as the Delta Cost project that analyzes “functional categories” of expenses and the Delaware Cost Study that yields a broader selection of variables to review but still remains at a level of aggregation above the individual course and student (where the analysis should start becoming effective in analyzing both course and department structure in addition to program).

Appendix B illustrates the capabilities of BKD’s Program Economic Analysis, Academic Portfolio Review, and Financial and Scenario Modeling tools.
In order to assist schools to monitor the changing higher education landscape and to innovate and change as needed, BKD issues surveys and delivers group discussions and webinars to assist schools to better understand what higher education management and leadership teams have done and what they’ll be doing going forward. For 2021, our survey included 13 questions, and 119 higher education leaders responded.

We also collected answers to polling questions during our Table Talk sessions this spring.

Figures IV through VI display information on those who responded to the survey:

- Type of school
- Size of the school
- Geographical region

Results for the Table Talk sessions did not identify the schools as these sessions were not recorded.

**FIGURE IV**

**OUR SCHOOL IDENTIFIED AS:**

<table>
<thead>
<tr>
<th>Percentage of Respondents</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.84%</td>
<td>For-Profit Institution</td>
</tr>
<tr>
<td>8.40%</td>
<td>Community College</td>
</tr>
<tr>
<td>21.85%</td>
<td>Public Four-Year</td>
</tr>
<tr>
<td>68.91%</td>
<td>Private Nonprofit Four-Year</td>
</tr>
</tbody>
</table>

**FIGURE V**

**OUR SCHOOL SIZE CAN BE CHARACTERIZED FROM AN ENROLLMENT PERSPECTIVE AS:**

<table>
<thead>
<tr>
<th>Percentage of Respondents</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.24%</td>
<td>More than 25,000 Students</td>
</tr>
<tr>
<td>13.45%</td>
<td>10,000 to 25,000 Students</td>
</tr>
<tr>
<td>9.24%</td>
<td>5,001 to 10,000 Students</td>
</tr>
<tr>
<td>26.05%</td>
<td>2,001 to 5,000 Students</td>
</tr>
<tr>
<td>42.02%</td>
<td>Less than 2,000 Students</td>
</tr>
</tbody>
</table>
FIGURE VI

OUR GEOGRAPHICAL REGION IS:

- MID-ATLANTIC: 5.93%
- SOUTHWEST: 8.47%
- WEST: 5.93%
- PLAINS: 19.49%
- GREAT LAKES: 32.20%
- SOUTH: 22.88%
- NORTHEAST: 5.10%

PERCENT OF RESPONDENTS

- MID-ATLANTIC
- SOUTHWEST
- WEST
- PLAINS
- GREAT LAKES
- SOUTH
- NORTHEAST
As already mentioned, higher education institutions should ensure they have the right leaders in place. Leadership should strive to establish a culture that gathers and embraces the brutal facts and be committed to prevailing. BKD’s survey asked respondents to rank the following financial management topics based on the amount of attention their leadership has given them lately, with 1 denoting the least attention and 5 denoting the most: 1) liquidity, 2) debt and debt structure, 3) pricing strategies (discount, reset, other), 4) cost reduction, and 5) capital spending. The following graph summarizes the responses:

**Figure VII**

*On a scale of 1 to 5 with 5 being the most attention, what financial management topic has received the most attention recently?*
COVID-19 has brought a lot of uncertainty, and as noted in the previous survey responses, cost reduction is at the top of the list for management focus. BKD’s survey also asked respondents if their higher education institution experienced layoffs or furloughed faculty and/or staff. According to Figure VIII, approximately 40 percent responded that less than 5 percent were laid off or furloughed; 17 percent hoped to bring staff back, and 31 percent have been hiring.

Another cost reduction strategy relates to whether administrative leaders have taken cuts in pay. Approximately 31 percent of respondents said the highest cuts were less than 5 percent, while 40 percent responded they elected not to disclose (see Figure IX).
BKD also asked higher education leaders about the future of capital spending and when they estimate spending will equal or exceed 2019 spending. According to Figure X, approximately 38 percent of survey respondents weren’t sure, and the rest were divided between the next three years.

**FIGURE X**

When do you think capital spending will equal or exceed 2019 spending?

<table>
<thead>
<tr>
<th>PERCENT OF RESPONDENTS</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>DON’T KNOW</td>
<td>38.14%</td>
<td>16.95%</td>
<td>25.42%</td>
<td>19.49%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cost reduction should be no surprise when revealed that it’s at the top of higher education’s areas of concern. COVID-19 has had and will continue to have a drastic effect. This emphasizes the importance of understanding the costs of the different programs offered and why having a program analysis in place is vital. Understanding the costs of each program can help higher education leaders make decisions to better control costs.

Given COVID-19’s drastic financial effects, it’s also not a surprise that liquidity is another area of top concern. Liquidity reflects the availability of an institution’s financial resources to meet the cash needs for expenses within one year. Financial resources can mean the money in their bank accounts, lines of credit that can be accessed, or assets that can be quickly sold to produce cash. Higher education leaders are closely watching liquidity to help ensure they’re making the right decisions to move forward, and they have the right resources available to cover payroll and bills, as well as serve students. There are many uncertainties in the future, including future enrollment; therefore, having tools in place to help forecast the future (financial modeling) can allow a school to make decisions that help ensure they have sufficient liquidity.
Before COVID-19, higher education institutions were already facing many significant challenges. COVID-19 only added to the challenges and created uncertainty. BKD’s survey aimed to help understand higher education leaders’ thoughts and focus. The first question asked was about the anticipated drop in full-time enrollment for the upcoming school year (see Figure XI).

Approximately 66 percent responded they expect to see enrollment drop less than 10 percent. The new normal for the upcoming year will be flat or decreased enrollment changes. Interestingly, 8 percent responded they expect the opposite—an increase in enrollment.

BKD also asked respondents about the anticipated drop in freshman to sophomore retention (see Figure XII). Approximately 60 percent expect a drop in freshman to sophomore retention of zero percent to 5 percent, while approximately 14 percent responded they expect an increase in freshman to sophomore retention.
The survey also asked higher education leaders about their confidence level in their campus safety for all constituents this fall. Survey results showed that approximately 71 percent are doing all they can and only time will tell how good their plans are. Approximately 24 percent are either very confident or somewhat confident in their campus safety. Less than 2 percent responded they’re just getting started with the preparation.

According to Figure XIII, survey results show that higher education leaders are thinking ahead and working together to prepare for a different fall semester. As always, leaders will need to continue to plan and make changes, as it’s highly likely the environment will continue to change as COVID-19 cases increase and best practices for higher education campuses are communicated.

**FIGURE XIII**

**WHAT IS YOUR CONFIDENCE LEVEL THAT YOUR CAMPUS WILL BE SAFE FOR ALL CONSTITUENTS THIS FALL?**

- 2.52% — No opinion
- 1.68% — Very confident, our planning has never been better
- 20.17% — Somewhat confident, we have put a lot of effort into planning
- 71.43% — We are doing all we can, but only time will tell how good our plans are
- 4.20% — We are just getting started with preparation

We asked respondents how their institution plans to deliver education for the upcoming fall semester. In March, most schools were abruptly interrupted by COVID-19 and needed to make changes fast. Most schools were able to take swift action and switch from live classrooms to an online format. According to Figure XIV, approximately 69 percent will open their campuses this fall but have online classes or a hybrid class format; 27 percent responded that they’ll open their campus and deliver education live in the classrooms; and 4 percent responded that it depends on the circumstances around their state and local guidelines. The next section describes the changes to campus life more in depth, especially with the growth of technology.

**FIGURE XIV**

**WE PLAN TO OPEN THE CAMPUS THIS FALL & DELIVER EDUCATION LIVE IN CLASSROOMS**

- 3.36% — Depends on the circumstances around our state & local guidelines
- 0.84% — No
- 26.89% — Yes, but we will have online classes or hybrid classes as part of this opening
- 68.91% — Yes
In preparation for battle I have always found that plans are useless, but planning is indispensable.

Dwight D. Eisenhower
Since March 2020, higher education leaders have been attempting to handle an environment that seems to change every day. From health scares to new federal regulations, higher education leaders can get lost in the chaos. However, new ideas and paths can be discovered amid this turmoil.

BKD asked higher education leaders what opportunities their school leadership has focused on as a result of the crisis and their leadership (see Figure XV). Although approximately 31 percent responded that they haven’t seen any new opportunities, the remaining 69 percent revealed that opportunities were identified. Approximately 22 percent of higher education leaders responded they’re reaching alternative populations of students; 19 percent are focusing on new academic programs; 16 percent identified other alternative revenue sources; and 12 percent have interacted with the business community around the institution, leading to focused academic program development.

The fact that approximately 69 percent of the higher education leaders identified opportunities in the chaos further emphasizes the need to implement tools that help leadership understand the school’s current state, as well as what is and isn’t working. Data analytics and forecasting tools can help you analyze and display your school data to see your student population and which programs are working and which could be expended. In addition, having access to a financial modeling tool can help a school better understand how certain decisions made now will affect the next three to five years.

**FIGURE XV**

**WHAT OPPORTUNITY HAS YOUR SCHOOL LEADERSHIP FOCUSED ON AS A RESULT OF THE CRISIS LEADERSHIP?**

- **31.36%**
  - We have not seen any new opportunities arise
- **22.03%**
  - Reaching alternative populations of students
- **18.64%**
  - New academic programs
- **16.10%**
  - Other alternative revenue sources
- **11.87%**
  - Interaction with the business community around the institution leading to focused academic program development

PERCENT OF RESPONDENTS
The last survey question’s results are likely not surprising to anyone but are an important indicator of the path going forward. Higher education leaders were asked how the COVID-19 crisis is affecting technological transformation, and approximately 82 percent of respondents indicated the crisis accelerated the use of technology (see Figure XVI).

Technology continually transforms the higher education landscape, and for many, COVID-19 has accelerated this process. Higher education leaders are using technology to implement various changes, from technology used in the classroom to increased online classes with different formats, all with the goal to increase access and enhance students’ experiences. Schools are seeking the best path forward and determining if they should have on-site live classroom experiences, more online classes, or a mix of the two. Whatever decision your institution makes, higher education leaders should ensure they have contingency plans in place given the ever-changing environment and the need to quickly respond that everyone encountered back in March.

It’s also important to note the long-standing debate on whether an online experience provides a good student experience. Those against online education argue that learning is limited, as there’s little interaction and fewer opportunities to learn from the instructor and other students. The online format also makes it harder for students to stay focused, typically resulting in online classes facing a higher drop rate. However, because COVID-19 forced many students to experience the online format, there’s more feedback on what worked and what can be improved. Technology is providing solutions to help better structure online classes, e.g., setting specific times for online classes, and enable better interactions with the instructor and students, e.g., using Zoom.

Technology also can allow for better group discussions and enable students with similar needs to connect. In response to COVID-19, other technology has emerged to help make campus life safer, such as online mobile ordering for the dining halls, touchless door entries, and better uses of technology for communication, e.g., online town hall meetings, instant chatrooms, document sharing, etc.
As we approach the 2021 school year, many athletic conferences have already announced the suspension of fall sports, with two major conferences (Pac-12 and Big Ten) taking votes against conducting a fall sports season this year. This comes as the Atlantic Coast Conference, Big 12, and Southeastern Conference appear to have adjusted their playing schedules.

Already this year, we’ve seen 11 schools that have announced closure—and that number could climb much higher. We’re still waiting for the fall enrollment census to take place. What’s next?

Part III of a late July 2020 survey series conducted by SimpsonScarborough XVII [a full-service research, branding, and marketing agency] was recently published. It appears to paint a picture somewhat different than earlier studies and data we have collected. The highlights from that study include:

- 40 percent of incoming freshmen say that it is likely or highly likely they will NOT go to college in the fall
- 40 percent of incoming freshmen say that it is likely or highly likely they will still change their minds about which college to attend
- A combined 30 percent of returning students who have the option to return to campus say they will NOT return due to personal choice or report they are still not sure
- 55 percent of returning students agree or strongly agree with their institution’s decision to reopen in-person instruction in the fall and 68 percent agree or agree strongly with their institution’s decision NOT to reopen for in-person instruction in the fall
- 43 percent of returning students don’t feel safe in a socially distanced classroom and 66 percent don’t feel safe living in residence halls
- 21 percent of freshmen and only 7 percent of returning students agree they trust their fellow students to follow COVID-19 guidelines
- 69 percent of returning students want more information about COVID-19 and fall reopening plans

This is a time to think about the big picture and have plans B and C discussed and ready to execute because they may be needed. No one knows exactly how this year will play out, so having the tools, data, and analysis at the ready to make good data-informed decisions will be important.
Conclusion

One thing is clear: the status quo will likely lead to bad economic results. Hopefully this Higher Education Outlook has stimulated thought and action, moving institutions to take proactive steps to stay in step with a rapidly changing environment.

AUTHORS & CONTRIBUTORS

This year’s Higher Education Outlook was authored by BKD Directors Nick Wallace and Kimberly Marshall, and supported by the BKD Higher Education Center of Excellence. This is a specialized group of industry leaders who focus on the developments, legislation, and potential hot-button issues our college and university clients face.

BKD CAN HELP

BKD Financial Sustainability Services has solutions to help you, including:

- **Program Economic Analysis** – An affordable solution that helps institutions evaluate the financial contribution of each student, section, course, department program, or campus
- **Academic Portfolio Review** – A review of your current and potential new programs using robust industry data, helping you decide what programs to start, stop, sustain, or grow
- **Financial & Scenario Modeling** – A dynamic, agile forecasting tool helping academic leaders visualize the institution’s financial future
- **Customized Consulting** – Assisting academic and administrative leaders to make good operational or strategic decisions
California State Polytechnic University at Pomona (Cal Poly Pomona) received a surplus property from the State of California in 2015. The property, formerly called the Lanterman Developmental Center, was originally built starting in the 1920s to house citizens of the State of California who could not be cared for at that time in their homes due to developmental and physical disabilities. The State of California has been decommissioning these facilities for the last 20 years.

The property consists of 300 acres of land, 1 million square feet of buildings (including an acute care hospital, residential ward buildings, industrial facilities, office facilities, a small elementary school, a research facility, recreation facilities, and a small residential neighborhood of single-family homes). Much of the property suffered from neglect and deferred maintenance and the infrastructure was in disrepair (running water was not always reliable). The property is one block from the entry to the campus which is in a suburban location within the greater Los Angeles metropolitan area.

Upon receipt of the property, the university administration tasked Cal Poly Pomona Foundation Real Estate to create a revenue generation plan. It became clear that significant investment in infrastructure would be needed in order to convert the buildings for tenant occupancy. Due to the proximity to the Los Angeles film and television industry (the property is just within the 30-mile TMZ), Cal Poly Pomona staff consulted with a production locations company and determined that much could be done to attract the entertainment industry to the location.

The unique nature of the property proved to be very attractive to both television and feature film production companies as well as still photography and commercial shoots. The property is completely isolated from public access and is not visible to nearby arterials. There are only two entry points to the property and only one is open and guarded by security allowing only authorized personnel to access. The site is akin to a studio backlot. The entertainment industry is very capable of adapting and can provide their own toilet facilities, power, and air conditioning for buildings, grounds crews to enhance landscaping, and food service to feed as many as needed. They bring what they need and often enhance and leave behind improvements to the property.

In the COVID-19 environment this isolation has become even more appealing to the industry, thus allowing productions to keep safety measure easily. This is where college and university campuses in remote areas may find a niche. While productions like to be close to the hubs of the entertainment industry, more and more are looking for places to locate and isolate. A closed campus with housing and dining commons that are not accessed by others becomes a perfect place to set up for a month to shoot feature films or multiepisodic productions. The revenue can be significant, depending on the production and the facilities provided.

Since 2015, Cal Poly Pomona Foundation has generated $5 million in net revenue to help offset the cost of holding the property while the university does its master planning and pre-development work on the site. The key to their success was finding the right production locations partner. RSI Locations/Riverfront Stages proved to be the perfect partner. The contract is on a revenue sharing model – they lease a building from the university to house their offices paying a fair market rate, they manage all marketing, contracting, coordinating, and on-site management of filming activity. For those services they receive 30 percent of the film production revenue. Cal Poly Pomona provides security of the overall site, but not of production equipment or sets. They also provide minimal maintenance support of the site for needs that arise in the course of production relating to the site and its buildings and infrastructure, however, all productions contract for the site as-is. There is with no warranty to habitability or production value.

For those interested in investigating the potential for film revenue at its campuses or remote properties, you are welcome to contact Nick Wallace. He will put you in touch with the former Vice President of Real Estate Development at Cal Poly Pomona.
Mission is the heartbeat of the university. Mission must remain at the center of every strategic decision throughout the organization. Whether student life staff is planning a cookout or academic leaders are approving new academic programs, mission drives institutional decisions. While mission must be a foundational pillar, institutional data should inform and support strategic decisions.

In the shifting landscape of higher education, there’s a new sense of urgency to re-evaluate the business model without compromising mission or quality of service. Data analytics is becoming the tool of choice to help schools make decisions that react to changing demographics, monitor student success, track program margins, and manage the academic program portfolio to cover programs the market demands. Today’s economic challenges being experienced by public and private colleges alike have colleges and universities using state-of-the-art tools to review the market viability of academic program portfolios, gain economic efficiencies in academic program delivery, and model the impact of decisions made from those reviews. Due to resource and technology constraints, many leaders aren’t using their school’s data to guide their tactical decisions and long-term strategies. BKD Financial Sustainability Services has solutions to help you, including:

- **Program Economic Analysis** – An affordable solution that helps institutions evaluate the financial contribution of each student, section, course, department program, or campus
- **Academic Portfolio Review** – A review of your current and potential new programs using robust industry data, helping you decide what programs to start, stop, sustain, or grow
- **Financial & Scenario Modeling** – A dynamic, agile forecasting tool helping academic leaders visualize the institution’s financial future
- **Customized Consulting** – Assisting academic and administrative leaders to make good operational or strategic decisions

**Consulting Services**
There’s no reason to go it alone. Our higher education consultants have a wide range of experience navigating the issues you’re facing today.
POWERFUL DATA TO HELP ILLUMINATE & EMPOWER YOUR DECISIONS

Aiming to thrive in today’s competitive landscape, many higher education institutions seek to make better use of their data for decision making. However, for many the process falls short of their goals.

Why Institutions Struggle to Do This on Their Own

- Don’t know where to start
- Hard to see the big picture through Excel
- Academic departments don’t have access to relevant data
- Tried and failed
- Limited resources and capacity
- Data becomes stale

BKD Can Help

Many schools are turning to our data visualization solution, Program Economic Analysis. This tool can assess the economics and financial performance associated at the college, program, department, and course levels.

From large public universities to small private institutions, we’ve used this solution to help schools see the associated economics of delivering their academic programs and better create an environment that encourages strategic thinking, facilitates communication, and assists in resource allocation and decision making.

Program Economic Analysis

A key feature of this service is graphic displays with strong visualizations to help you grasp complex issues. We can deliver the reports on our secure server in a 12-week time frame, and we aim to make it affordable with pricing based on student full-time equivalency.
Financial & Scenario Modeling

PROGRAMMATIC CHOICES CAN BE IMPORTANT & DIFFICULT
STRATEGIC DECISIONS FOR EDUCATION PROVIDERS

Take the complexity out of financial forecasting. Academic leaders need a dynamic, agile financial modeling platform that allows for data-informed strategic decisions. Using traditional spreadsheets for scenario planning and analysis can be inefficient and inaccurate. BKD offers financial and scenario modeling (FSM), a long-range planning solution that helps bring clarity, and transparency through a real-time financial forecasting tool.

Scenario planning allows institutional leaders to view multiple projects and their financial implications in a single tool. Whether forecasting the impact of new academic programs, starting athletic teams, constructing a new dormitory, or exploring new sources of revenues, BKD’s FSM solution can help higher education institutions forecast changes to both financials and ratios. Campus leaders also can set goals and build a model to help achieve results.

Trustees, banks, accreditors, and rating agencies are requesting long-range financial plans tied to institutional strategic plans. FSM helps provide the clarity and credibility necessary to engage collaboration regarding financial decisions.

FSM Helps Deliver

- **Dynamic Comparisons** – Real-time, side-by-side projections
- **Advanced Version Control** – Changes to assumptions provide immediate comparative analysis
- **Full-Field View** – Simultaneous control of all assumptions exponentially expands the scope and sight lines of any multivariable analysis
- **Bundled Assumptions** – User-friendly controls bundle assumption sets to drive alternative views of the future
- **Drill-Down Functionality** – Trace assumptions and formulas to their sources
BKD’s Academic Portfolio Review brings data, rigor, speed, and scale to program decisions. You no longer need to evaluate one new program at a time—and hope to hit a winner. Instead, you can evaluate potential new programs and pick the best for development. In this process, you also can evaluate current programs—by market—and decide where to invest and where to cut. The time required to make programmatic decisions can be reduced from months (or years) to days, which is increasingly important as the pace of change in education accelerates and competition intensifies. The workshop helps oversee that the right people and judgment are involved with the data to help choose the right programs. We can help you:

**Increase Revenue from Tuition**
Increase tuition by quickly identifying new programs for investment and growth.

**Decrease Costs**
Decrease costs by highlighting weak programs you can cut, and automate time-consuming work on program evaluation.

**Reduce Time to Market**
Reduce your time to market with the ability to quickly evaluate and launch program opportunities, establish a consistent approach to program evaluation, and lessen rework and organizational resistance through workshop collaboration.

**Create Understanding & Support for Decisions**
Understanding and support for the methods, criteria, and programs selected.

**Align Programs with Needs**
Align programs with student, employer, and community needs.
If you are going to achieve excellence in big things, you develop the habit in little matters. Excellence is not an exception, it is a prevailing attitude.

Colin Powell
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