

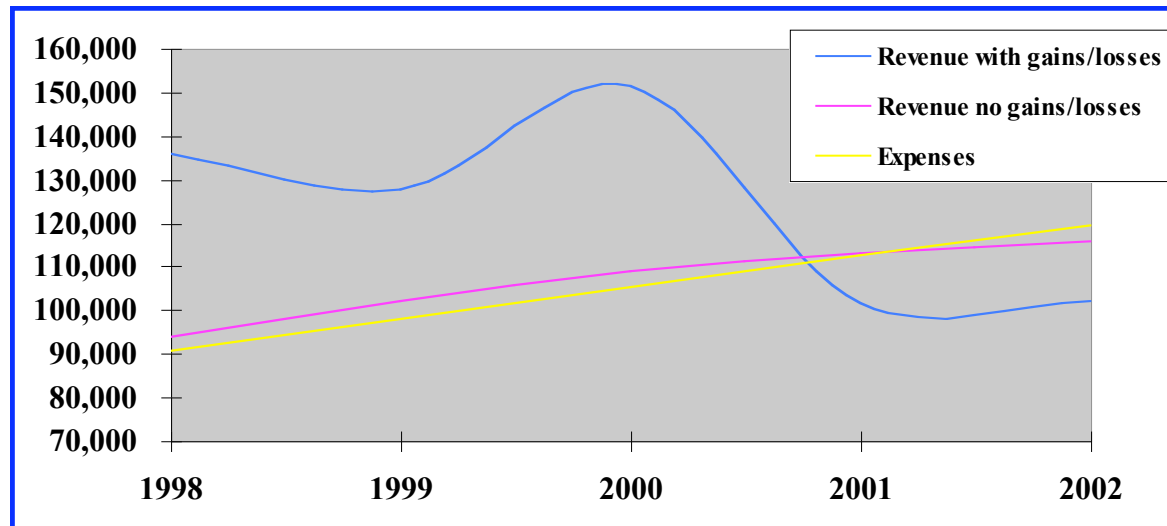
College and Universities Confronting the Financial Crisis

**Michael K. Townsley
Stevens Strategy**

What Will Shape the Financial Condition of Colleges After 2008?

- Government Support for Higher Education
- Stock Market Crash
- Financial Aid; Savings & Disposable Income of Parents
- Competition

What Happened in 2001-02 Will Happened This Time



How Does a College Achieve Financial Equilibrium

- **General Condition:** Marginal short & long-term growth rates for revenue and expenses need to be balanced.
- **Specific Conditions:**
 - One year and five year growth rates for revenue are balanced with one and five year rates for revenue and expenses.
 - Net Tuition - rates of growth are positive.
 - Trends for financial ratios move in a positive direction.

First Steps to Financial Equilibrium

- **Step #1: Measure the financial condition of your college by computing:**
 - CFI (Composite Financial Index)
 - Compare performance to benchmarks
 - Growth rates for revenue and expenses for 1 & 5 years
 - How are new revenue is allocated to expenses.
- **Step #2:** What internal or external factors have had the greatest impact on the college's financial condition?
- **Step #3:** Prepare a forecast model to measure strategic options.

Equilibrium Depends on Financial Strategy

- Strategy must weave itself into a college's eccentricities.
- Strategy responds to the economic constraints facing the college.
- Equilibrium strategy follows from a realistic appraisal of financial condition
- Purpose of equilibrium strategy –
 - Reduce large fluctuations in revenue & expenses.
 - Stabilize financial condition,
 - Expand financial resources

Strategic Conditions to Cope and Grow Part I

- ***Expand Markets*** – new programs, new geographic markets, and new delivery systems.
- ***Joint Ventures*** – work through consortiums to reduce administrative, information technology, and plant expenses.
- ***Create Partnerships*** – with businesses, unions, and other organizations to deliver educational services.

Strategic Conditions to Cope and Grow Part II

- ***Develop Institutional Partnerships*** - establish a university administrative system which manages several colleges, while they maintain their institutional integrity.
- ***Redesign the cost structure*** - to improve productivity and cost efficiency
- ***Build Cash Reserves***

How Do Heavily Indebted Colleges Manage Finances? Part I

- They manage to financial statements and their debt instrument covenants:
- Managing to financial statements means:
 - Eliminating deficits,
 - Building Cash,
 - Use debt to generate revenue or reduce costs.
 - Expanding assets
 - Build budgets that show financial statements

How Do Heavily Indebted Colleges Manage Finances? Part II

- Managing to covenants means:
 - Knowing the covenant conditions
 - Constantly compare performance and covenant conditions
 - Build budgets in reference to debt covenants
 - Immediately identify problems and develop solutions
 - Meet with debt holder(s) when a major problem arises

How to Create Strategic Conditions Part I

- Become the president's behind the scenes support.
- Tactics to implement strategic conditions:
 - President establishes and leads “New Market Task Force”
 - President leads effort to set up joint ventures with businesses and other colleges
 - President works with other colleges to establish Partnerships or Quasi-University

How to Create Strategic Conditions

Part II

- Redesign the cost structure by:
 - Estimating the cost of administration, student support and instruction – see Michael Middaugh
 - Comparing cost structure to best practices; “for profits” are a good reference point because they are forced by the market to care about this issue
 - Asking the President to establish a “Paradigm Shift Task Force” to change the cost dynamics of the institution and to use information technology to improve operational efficiency.

How to Create Strategic Conditions

Part III

- Build Cash Reserves
 - Find cash sources within the institution
 - Draw federal money on first available date
 - Invest cash as soon as available
 - Use due dates on invoices – take advantage of payable discounts
 - Have parents prepare now to find loans
 - Collect outstanding student and third party bills
 - Hold big unrestricted gifts before long-term investments

What Are Best Practices in Finance in Higher Education?

- Tie strategy to operations and finances.
- Allocate discounts based on enrollment goals.
- Monitor performance to budget and goals.
- Use benchmarks to analyze operations.
- Build a contingency fund
- Auxiliaries should produce a positive net.
- Create operational efficiencies.
- Pay for top notch people in skilled positions.

Workshop Biography

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