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Ep.87: Colleges' Financial Situations and Institutional Transformation

(MUSIC PLAYS).

DOUG LEDERMAN:

Most business officers are upbeat about their college's financial future. Why is that so? And are they right to be so optimistic? Hi, and welcome to this week's episode of the Key, Inside Higher Ed's news and analysis podcast. I'm your host, Doug Lederman, editor and co-founder of Inside Higher Ed. I hope you're all keeping cool in the oppressive heat that most of us are experiencing. This week's episode is nominally about Inside Higher Ed survey of college and university of business officers, which we published earlier this month. And yes, we'll be talking a bit about the survey's results, which generally found college financial officers feeling pretty good about how their institutions are faring and how they're positioned for the future. But what this episode is really about is whether financial and other leaders in higher education think their institutions need to make meaningful changes in how they operate to be financially sustainable and stable down the road and whether their relatively rosy view might make them less inclined to see the need for significant changes on their campuses.

At the core of the episode is a conversation that unfolded during a session on our survey at the annual conference of the National Association of College and University Business Officers outside Denver this month. Joining me for the discussion were a trio of chief business officers, Diane Snyder, Vice Chancellor of Finance and Administration at the Alamo Colleges District in Texas, Cynthia Vizcaino Villa, Senior Vice President for Administration and Finance at California Polytechnic State University at San Luis Obispo, and Mark Volpatti, Vice President for Finance and Chief Financial Officer at Indiana's Valparaiso University. What follows are excerpts from our discussion punctuated by a few thoughts from me along the way. Before we begin, though, here's a word from the sponsor of this week's episode EY-Parthenon.

SPEAKER:

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DOUG LEDERMAN:

We'll start today's episode with excerpts from a summary of the survey's highlights that I did to start the conference session. I'm focusing on a series of questions we asked to try to gauge the headspace of campus financial leaders about their institution's current financial situation and what's ahead. And one of the key questions we ask and it's sort of the closest thing we have to a consumer confidence survey, we ask business officers to sort of look ahead five and ten years down the road at their institution's financial stability is the term we use. And what you see here is that the business officers are more confident. About two-thirds of business officers are confident over ten year period. That's interestingly, it's quite a bit less confident than they were last year and also quite a bit less confident than their presidents were when we surveyed them in March. And that's not surprising to me 'cause presidents, let's face it, are ultimately salespeople to some extent. And I think a lot of institutions look to you to be the truth-tellers.

The next set of questions we asked were about how they compare their current financial situation to where they were in 2019 and where they're expected to be a year from now. Business officers pretty unanimously agreed that their institutions are in better shape now than they were pre-pandemic. And that's not surprising. When they were asked how they expect to be a year from now, there was an interesting split, slightly more agreed than disagreed that their institution is in better shape now than they will be next year. So, 42% essentially said we're better off now than we're gonna be a year from now. 37% said they expected to be better off a year from now. Business leaders at non-doctoral public institutions, comprehensive public universities and community colleges expect to be in worse shape a year from now while those at private, and especially four-year doctoral universities, public doctoral universities expect to be better off a year from now than they are now. So, why? Those who expect to be better off a year from now expect more money from tuition and more enrollment.

Those who expect to be worse off a year from now are worried about the impact of inflation, the funding from the American Rescue Plan running out, and they expect enrollment to be lower. I have a hard time looking ahead and seeing enrollment generally. And again, these are averages. So, there are certainly institutions out there that are, that are running against the current tide of lower enrollment. But most of the conversations I'm having with institutions, they don't expect enrollment to suddenly shoot up. Now, obviously, if the economy tanks, which it could, well, we could see sort of a return to the counter-cyclical nature of higher education, where those who are sort of on that job education bubble tend to come back for more education or training. Moving on, we had a set of questions about current financial performance, three quarters of CBOs reported positive operating margin last year, fiscal year 2021. About three quarters said they expect to have a positive operating margin in '21 and '22, but that's including the federal money.

When you exclude the federal recovery aid, it drops below half. And only 17% of public institutions said they were very likely to have a positive operating margin in the fiscal year that just ended for most institutions. And so, again, thinking about sort of what's ahead with the federal recovery money, largely running out over the next year or so that raises questions to me about the sort of future. Ultimately, what the survey in some ways is really designed to do is to try and gauge the sort of sense of how these officers are thinking about their institution's futures. And we've started asking a set of questions in 2020 about how they viewed the sort of atmosphere at their institution in terms of how much change was needed and possible. Basically, we asked CBOs to, in 2020, to say what they envisioned their institution doing during the pandemic. There were four options, return to normal, shrink the institution, reset for

growth, or try to transform the institution, which we defined as making it difficult for transformative changes in its core structure and operations to better position itself for long-term sustainability.

In 2020, just about half of business officers, 47% chose the transformed choice, about a quarter envision aiming to return to normal, 20% said reset for growth, and almost nobody said they were gonna shrink. When we asked this question again this year, we sort of asked, what have you done? And what path are you on? Half said they had returned to normal. Only 16% said they had either tried to or envisioned sort of transforming the institution in meaningful ways. Next, we hear from a couple of our panelists, Alamo Colleges, Diane Snyder, and Cindy Villa of Cal Poly sharing their initial thoughts about how this survey results resonated with what they're seeing on their campuses and in the industry.

DIANE SNYDER:

In general, what troubles me in the survey as it appears in some ways to be overly optimistic by the community college respondents. Many of my peers and I believe that students and employee expectations are gonna be significantly different post-pandemic. Yet, it appears from the survey and personally from my own institution, the focus is returned to normal. We're losing a lot of our employees who don't want to work just all on-site. They want to have more flexibility. Many of the community colleges I talked to 'cause we are heavily centric in workforce degrees, which obviously that if you're doing welding, nursing, all of those things need to be on campus. It's very difficult to do that online. But even so, there's this fairness concept where we have in our institution constantly talking about, well, it's not fair if not everybody can work remote. So, we're struggling to actually become more flexible. And as a result, I think we're gonna have a lot more turnover in our staff and difficulty attracting.

And our wages were never as high as they need to be to attract folks anyway. So, all in all, I think we weathered the pandemic. We're merging with lower-level enrollment. And it's gonna take us longer than a year to rebuild that enrollment. And we'll have to be more flexible to attract talent and the salary pressures will be high. And it's unclear what the new normal will be on our student expectations. And it may call for more transformational change. So, the good news is we have almost a year left on the federal recovery funds.

CYNTHIA VIZCAINO VILLA:

What we have to recognize and what our leadership is recognized is that COVID has a long tail. We're facing significant headwinds, largely because of COVID, workforce challenges that Diane mentioned, you know, competitive salaries, individuals that wanna work remotely, individuals that don't wanna come back to campus and the employees are in the power position. Now, we have to adjust the way that we manage the inflationary factors that we're all feeling right now, construction. So, yes, things are coming back to normal. But I think as leaders, we all have to recognize that we are, we have to plan for the future and recognize that the new normal isn't the old normal. As was mentioned by Doug is two-thirds of our chief business officers feel that their institution is in better shape today than it was before the pandemic. I think that's a measure of relief because two years ago when this pandemic started, none of us ever imagined that we would be in the position that we are today because of the influx of federal funds, because we all cut expenses significantly, there was no travel, we had hiring freezes.

We weathered the COVID far better than we ever imagined we would, but it's not sustainable. The monies are one-time. And it gives us an opportunity to do some things as a campus, but we have to reset our base. And that is, and at least for our campus, we're struggling to be in a deficit going forward

so that the reserves that we've built will help us weather the storm for a couple of years. But we've got to reset our base and get out of those deficit spending patterns that we've gotten into.

DOUG LEDERMAN:

When we surveyed college presidents in March, 7% of them said that they were confident in the ten-year stability of their institutions, which is quite a bit higher than the business officers were. That didn't surprise me. After all, presidents almost have to be optimists. And some of them are cheerleaders. If they don't express confidence in their institutions, who will? But the business officers have a different role to play, I asked my fellow panelists. I very much see the CBO and you know, this, that the person in that function as needing to be a truth-teller and a sort of clear-eyed assessor of the situation. And I guess I'm, what I'm curious, do you feel that is your role? Is it a difficult role? Do you feel pressure to put a brighter spin on things? I'm just curious how you all think about it. Well, hear first from Diane Snyder, then Cindy Vizcaino Villa, then Mark Volpatti.

DIANE SNYDER:

Part of the challenge that we walk is you don't wanna be the naysayer, of course, and you wanna, you wanna support innovation, you wanna, you wanna support some level of risk-taking. So, when ideas are coming up is I think our role is to then play it forward, what's the short-term options of how we can achieve that, and then ripple that forward. Especially my institution, we use a lot of one-time funds that we'll say, oh, well, we can spend another 20 million this year on this 'cause we have all of this we can do and we just had our budget retreat last Saturday. In that, our role is we've gotta go ahead and look ahead for the sustainability of everything that we're doing right now on how we're gonna sustain it in the next two years. If we use one-time funds, you're gonna have to have a way that is reasonable, that you'll be able to continue those programs. And so, because we did that, it was an easy yes for our trustees to go ahead and approve that board.

CYNTHIA VIZCAINO VILLA:

I think Doug, we absolutely have to be the truth-tellers. And I think that I don't find it all that difficult at our campus. It largely depends on your president and your culture. Our president is an extreme optimist, super-aggressive, but also really sharp on the budget side. And so, while he'll he'll push, he also understands that we, we put the, lay out the numbers in front of him and he knows I'm probably better than we do sometimes. He's pragmatic about it, but we have to put it in front of him, we have to say, OK, slow down, this is what we're facing. And someone mentioned earlier looking at the results of the study that, or the survey that sometimes it feels like our counterparts across the cabinet or in the leadership, don't always see it. And I do think that's a little true. I don't think they're coming at it from with any ill will or, but they, all they see is their need. And so, we have to be able to tell the story and make the, not just the president, but the entire leadership team really understand the reality of where we stand, not being the naysayer, helping them understand that we really are there to support them and help them succeed within the limitations that we have.

MARK VOLPATTI:

So, yeah, I think you heard a consistent thing about the story and that's very important. I think a lot of times as the CFOs, we know what an income statement is, we know what a balance sheet is and when we go present, we're presenting that as if we're talking to other accountants. And I think when we do that, people see that red number at the bottom and start to fear. And so, if we can't talk about, put things in context and talk about historical trends and what they mean, you know, instead of saying

we've decreased revenue for the past six years, you know, intuition, what's that, what's that actually mean? And what's that, what's the future look like? And I think that helps people give that perspective.

DOUG LEDERMAN:

The reason, I guess, this set of questions matters to me and the reason I think I'm paying so much attention to the sort of attitudinal aspect of this is that if institutions mostly are gonna need to redistribute money, reallocate fund, once these one time funds run out, a lot of institutions are gonna be in an era of constrained resources. And to do new things are probably gonna need to find, yes, everybody is gonna continue to look for new sources of revenue, but a lot of it's gonna be about sort of reallocation, which is gonna require presumably some things being done less or not at all. And I guess in general, I think people in higher ed act when they have to. And we saw during the pandemic, institutions really behave remarkably in terms of being responsive and doing truly significant often transformative change. But there really wasn't a lot of choice either for most institutions. And I guess the worry about the sort of return to normal meme is when things are back to normal, the pressure to continue to innovate continue to sort of make the sort of strategic changes that may be necessary lessen.

How do you create enough energy and momentum behind the need for change without provoking fear necessarily, but maybe driving people to be, to be aware of this, of the situation?

CYNTHIA VIZCAINO VILLA:

I think one of the things as business officers, most of us know that whether it's a good, whether it's a good time or bad, you always still have to make strategic investments, even when things are bad because you can't just be still, you have to be thinking forward. And I think it's incumbent upon us to help support the campus in that regard and support the president and the leadership team. Part of how you get there, Doug, is in, in our case, you have to enlist the president. You know, that's the key right there. I mean, if you get the president to listen and to support it, then I think you can start getting a lot of the cabinet members to come along. There're also, you just have to have that relationship with them to bring them along. They have to trust you. And I think that's just part of our role. On our campus, one of the things that we do on top of, everything else that we did through the pandemic, we decided to centralize IT, HR and university communications, like we didn't have enough to do.

The president recognized that here's the opportunity. And while it was really hard for everyone, we got it done. It didn't save a penny, didn't save a penny. In fact, it cost us more, but it was a strategic move that we really needed to make for the betterment of the institution. So, I think getting the president aligned, getting, getting... If they gain enthusiasm for that action, it really helps drive.

DIANE SNYDER:

I was gonna add to it in that, for those institutions that are like mine, where we have a very highly matrix organization, we have five individually accredited colleges, each with the president, we have a chancellor and a single board. So, while we've always been highly centralized, which has been from day one with support services, so we don't duplicate that. The area that's always the untouchable is the academic side. And so, the conversation that we're having right now is we need to use this next year while we still have that remaining (UNKNOWN) cushion helping us to really look at the data and be very intentional of how much duplication of the programs across the college, which ones are underperforming that we really need to take that time to start working with the faculty in those areas to redeploy, to, to do actions that are much harder to do so that we put a huge straw man out there that

we need to double the output in our nursing. We now have the ability to do a bachelor's in nursing at our institution.

And we are very short in our community of that. IT is also a huge need for us in our community. And so, we just put the big vision out there. We're gonna double the number of seats this year. So, now, that means we have to really be intentional on now trying to say, what are we gonna stop doing? So, I think that's the hardest one. And I think it's gonna be a year or two to really get there. But we have to start this year. (MUSIC PLAYS).

SPEAKER:

In today's higher education landscape leaders must negotiate real-world challenges from the pandemic to financial pressures, to embracing new technologies that are changing how teaching and research are delivered. The EY-Parthenon education team supports the transformative work of educational institutions to prepare today's learners for tomorrow's challenges. Discover how EY-Parthenon can help you create a better working world at ey.com/education. (MUSIC PLAYS).

DOUG LEDERMAN:

Here's the rest of my conversation about our business officers survey with Mark Volpatti, Diane Snyder, and Cindy Vizcaino Villa. Where do you see the most opportunity at your institution to position yourself for five, ten years down the road? What, what are the, what are the... And again, I don't want to talk about magic wand necessarily, 'cause I don't wanna make it completely something that's impossible. But what do you think sort of the institution most needs to be as financially sustainable and stable and thriving in a decade that, that, that isn't there now, or isn't there enough? Mark, do you have thoughts on that?

MARK VOLPATTI:

Oh, yeah. I think for us, it's going through that strategic planning process. So, it's resetting kind of what's happening in both in our local market, and kind of for us kind of this regional area. We haven't gone... From Valparaiso hasn't gone through a strategic priority plan for like ten years and lots of things have changed. And so, it's getting people back on, on record of what needs to be important.

CYNTHIA VIZCAINO VILLA:

A couple of areas that I think we have opportunity at Cal Poly. First, we are really fortunate in that we have really high demand. We have approximately 60,000 applications every year for about 4,500 slots. But we are at, in terms of our physical infrastructure, work capacity. So, we have, in order to, we have to grow, we have to create new revenues every year. So, we are looking at how we can embed virtual and hybrid classes into our curriculum and make it part of every program, not necessarily having a separate path for virtual, but embedding it in the program so that it creates opportunities for increased enrollment. And so that, that's something that we're working really hard at. In addition to becoming a year around campus, our campus is really busy. Nine months out of the year, summer is just quiet. And there's a real opportunity for us there. So, we're really working hard on making us our program truly year-round. The other area that I firmly believe we have opportunities in is, is an IT or our institution is still there are some areas that are really behind in terms of capitalizing on what IT can do for us, what software systems can do for us.

And we're starting to work on that. That's just slower going, you know, areas like financial aid registrar are very, very manual driven still. And so, we have some opportunities there. (INAUDIBLE)

DIANE SNYDER:

And I think in the community college space, so a lot of times our competitors are those that are non-degree, you know, in the IT space, the code ups, the, all of the, the ones that are attracting students for quick credential. So, we're really doubling down to, to really a lot of it we had, but we needed to tell the story and market it, to really build on and off ramps in an entire portfolio of everything from badges to certificates, at least to associates and that, and ultimately to bachelors are on. And so, that we can have our students, not just, they come in declare that what they're doing right now, but that we really keep track of those students bring them back, keep training them. And then for the masses, we are also trying to really shift from those 16-week terms to really start being much more flexible on the term schedule. And at the same time, build a year-round schedule that when you're registering, you're thinking ahead, further out, like many of our universities have always done, but community colleges don't.

They're all about this term. And then you have to go talk about the next term. And we know for students, we've really gotta build that pathway, we really gotta show 'em the whole thing, the whole bite of the apple, and then whatever their goal is, where it is, and that we continue to keep track of those students and bring 'em back to keep getting that, that additional training and then partner with those corporations and businesses where they're working to show the value of their employees continuing to train.

DOUG LEDERMAN:

I wanted to talk briefly about another section of the survey that explored cross-institutional collaboration up to and including mergers. I tend to think we're increasingly in an era where no college can be an island unto itself. And that at a time of constrained resources like we're in or about to be in, colleges are gonna struggle to do everything they already do, let alone introduce new programs or undertake new initiatives without either redistributing funds or finding a partner to do it with. Yet, minorities of CBOs in the surveys seem to be contemplating mergers or really significant sharing of academic programs or administrative operations with other colleges. So, to your institution is part of a big state system. And Diane, you represent a community college district, which is kind of a system into itself. So, I'm interested in hearing your thoughts about the advantages and disadvantages of working with other institutions. But I wanted to start with Mark since Valparaiso, like a lot of private nonprofit colleges doesn't necessarily have working fundamentally with other colleges in its DNA.

Do you think institutions like Valpo need to do that more?

MARK VOLPATTI:

Actually, we're talking about that right now. Back in the fall, in the spring, we did an early retirement program so to help kind of diminish the workforce. And there's some, some key functions that were there and one was our Title IX coordinator. We're a small campus. Fortunately, there's not a lot of Title IX issues. So, this is a great opportunity for us to go down the road and look at a college near us to start sharing some of that responsibility. And so, I think that's, that's very much on the horizon. And it's very much something that Valparaiso is looking at to do, is we don't always need to have that full-time person housed on our campus 100% of the time. How can we share some of these responsibilities with other institutions? I think that's a conversation that needs to be broached. I know there's a lot of, there's some that consortium that's happening now where, you know, you can do the full program and then maybe computer science is being housed at Loyola or something like that.

I think that's a conversation that we haven't explored, but we need to if we want to continue to have that enrollment growth that we're looking for, because I think people wanna come to Valparaiso because of the culture, but sometimes we just don't have that academic program. And if we can start partnering with other schools to offer those 12 credit hours for that major, we're a lot more successful of having that enrollment increase.

CYNTHIA VIZCAINO VILLA:

All I'd share is that I've worked in the University of Texas System and now in the California State University system. And there certainly are pluses and minuses, Doug, but I think in the end, one of the great values that I see is that, you know, our world is getting increasingly more complex every year, Title IX, risk management, legal issues. I mean, there's just so much coming at us at times. And so, having those common resources for the 23 campuses in the CSU is incredible. And so, yeah, it comes with costs too, and there's downsides being part of a system. But on the whole, as this, this environment of ours continues to become more complicated, more demanding, more complex, more risk-based, I think having that, sometimes those shared resources of risk management financing legal HR is invaluable.

DOUG LEDERMAN:

What do you see as the biggest impediment at your institution? Don't name an individual (LAUGH) to sustainable future. And if, if you sort of accept the idea that the, that your institution needs to look different in some potentially fundamental ways down the road, what is the biggest barriers to that?

CYNTHIA VIZCAINO VILLA:

Well, I mean, it's not any one person. It's just our culture in, of how we view academics. And that's the hardest part of the organization to change. And it's sacred, and you can't cut it when we have cuts. And now, I would love for us to be able to do a deep dive into the, that budget and really rethink how we're strapped, how we're, how we're utilizing those funds, reassess programs and things of that nature. That's the toughest nut to crack. It's just the culture of our organization. And I would imagine many other institutions of higher ed.

DIANE SNYDER:

I think ours is probably more basic, I'm focused on the employees themselves. When I talk about the faculty, their world, especially in community college, it's, you know, they're, they sometimes don't understand the bigger picture because they're dealing with their classroom, their, their world. And we have to always educate them on what the environment is, what's really going on and what the outlook is and to get ideas. But it's also, there's, I'm always amazed. I came out of the corporate sector 14 years ago to higher ed. And the thing that comes up every time we're talking about innovation or change, there's always the worry about the individual employee, but what about my job? Are you eliminating my job? It starts from there. And so, that meant you really always have to think ahead before you talk about any change to always deal with what's in it for me, you know, viewpoint of the really trying to calm that down, because even after 14 years, we have not ever laid off anyone. I came from an institution.

Every Thanksgiving was the bottom 5% were cut in the corporate world. So, coming to higher ed where we never lay anybody off, we'll talk about how we redeploy, we'll take advantage of vacancies and turnover to reshape, but it's so much slower. But even then, the first thing out of the mouth of anyone in the organization is, oh, they're gonna cut, they're gonna cut jobs. And it's like 14 years. We've never done that. So again, I think that's the hardest culture to change.

MARK VOLPATTI:

Yeah, I think there's the two damning phrases as we've always done it that way, or we've never done it that way. And when you come from a institution that's over 150 years old, steeped in Lutheran faith, that's hard to overcome. And so, I think, it is that change management and getting people to realize that if we don't change, we would not be here in another 25 years. And I think it's that looking at. And as one trustee or one of our board of directors, we have to say there's no sicker cows here

DOUG LEDERMAN:

That was Cindy Vizcaino Villa of Cal Poly, San Luis Obispo, Diane Snyder of the Alamo Colleges and Mark Volpatti of Valparaiso University speaking during our panel at the annual NACUBO meeting in Denver this month. Thanks to them for their insights about the survey, how they see their roles as chief financial officers, and what's ahead for their institutions. And thanks also to EY-Parthenon for its support of both our business officers survey in this episode. This is an interesting moment in higher education as institutions slowly emerge from two and a half difficult years of pandemic, recession and more the next year or so as federal recovery funds get spent down, inflationary pressures continue, and enrollments probably still lag. It may require a lot of colleges to do things differently to continue to support students, hold onto their employees and fulfill their missions. We'll be tracking those efforts here at the key. Please reach out to me about significant transformations unfolding at your college and university that you think we should know about.

I'm Doug Lederman. And until next week, stay well, stay safe. (MUSIC PLAYS).