



A New Financial Model Post COVID: Predictions from Two Institutions

The University of Missouri System & Springfield College
April 29, 2021

Agenda

The University of Missouri System

- Presenter Introduction & Background
- Current Market Challenges
- Data Needs
- Goals & Results
- Conclusions & What's Next

Springfield College

- Presenter Introduction & Background
- Higher Education Context Due to COVID-19
- Budgeting Expenses Due to COVID-19
- Auxiliary Enterprise & Non-Tuition Revenue
- Predictions & What's Next

Q&A

The University of Missouri System



Introduction to Presenter



Ryan Rapp

Vice President for Finance and Chief Financial Officer
@University of Missouri System

Ryan Rapp, CPA serves as Vice President for Finance, Chief Financial Officer and Treasurer at the University of Missouri. He has responsibility for the university's \$3 billion budget and its endowment and retirement trust fund. Under his direction are the university's financial planning, treasury, investment, accounting, procurement, facilities planning and development, real estate, internal audit, and risk and insurance management.

University of Missouri System Background



University of Missouri System
COLUMBIA | KANSAS CITY | ROLLA | ST. LOUIS





MU

UMKC

S&T

UMSL

University of Missouri System Background

	Enrollment	Faculty	Staff	Degrees awarded
	29,843	3,103	13,804	9,279
	16,375	1,252	1,924	3,416
	8,601	520	976	2,662
	16,441	785	1,094	3,098

Current Market Challenges



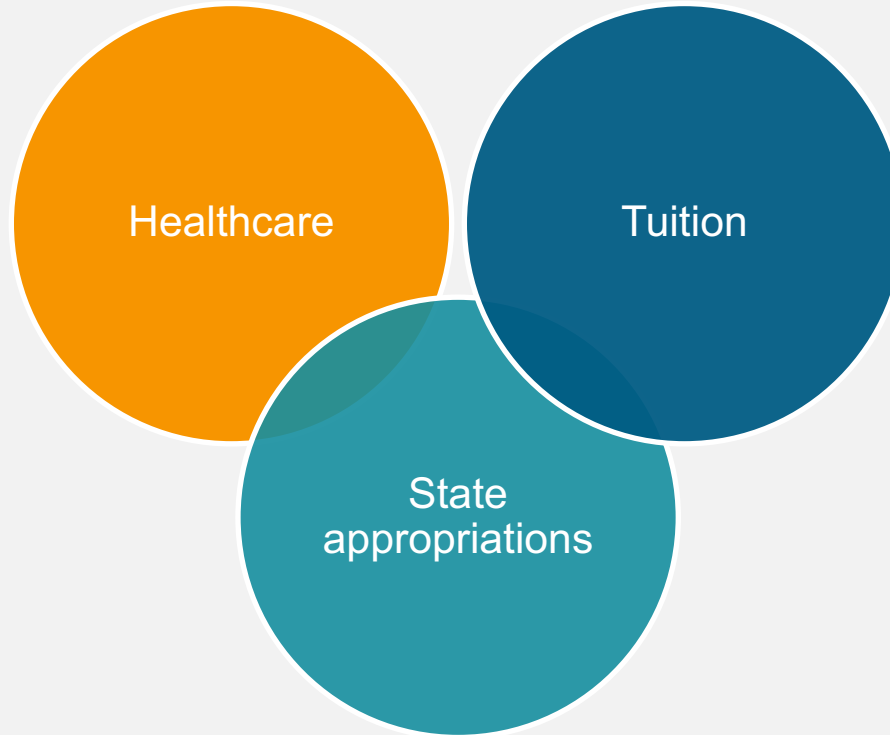
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The Missouri Context



Challenges for Missouri: University limiting factors

University
funding sources



Challenges for Missouri: Perception of higher education

Not accessible to all Indoctrinating

Expensive

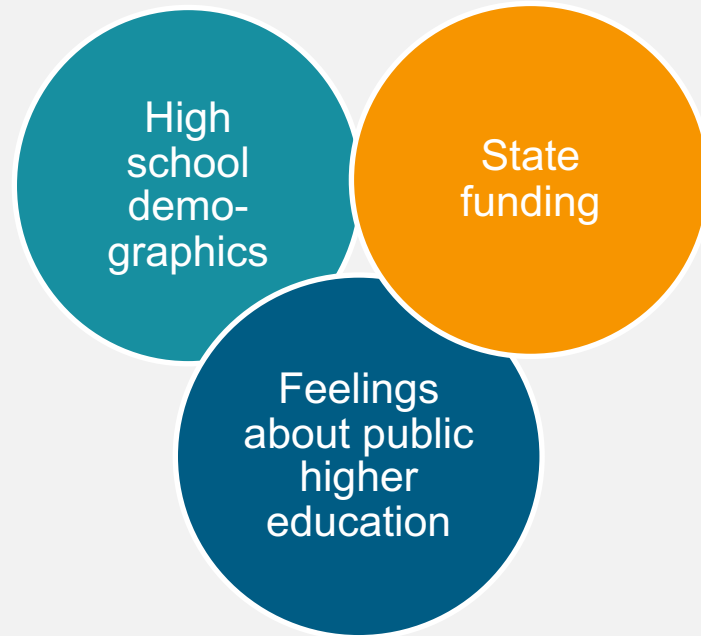
Large student loan dept **Biased**

Useless degrees

Higher education in Missouri is changing

Major challenges

We are well-positioned to lead the changes necessary to reshape public higher education



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Where have we been



Since the Pandemic...

Budgeted revenue decline of \$115M over FY2019 in the academic enterprise

- State withholding and stabilization drops core by \$55M
- Declining tuition and auxiliary revenues on declining enrollments
- *Budget looks more like a recurring problem than a one-time problem*

Additional exposure of \$120M-\$320M if further disruptions occur during FY2021

- Would not have to shut down campus again, could be driven by students slowing consumption
- Requires significant action to stem the resource consumption

The Pace of Change Will Only Accelerate



The environmental forces impacting our Universities are not going away



Higher education like any industry has challenges/opportunities



We must change to adapt – requires a different type of focus than in the past

We Cannot “Just Wait It Out”

In the current reality...

- % of state support for operations has dropped for 20 years, but not due to just economic downturn
- Significant competition for student enrollment
- Investments in academic, research & engagement programs are needed more than ever
- Past practices are ill-suited for current reality
- Need bold actions to become a more resilient university

In the past...

- Declines in state support were caused by economic recessions
- Imposed hiring freezes
- Key investments were not made
- Enrollment growth was the key new revenue source
- The decline eventually turned around after a few years
- Hunkering down to “wait it out” was the **defacto** strategy

So, at this moment...

Tuition has become a primary revenue source; flattening enrollment and fewer high school graduates

Market tuition; tuition rates are now competitive in public higher ed

State support remains challenged; slow tax growth coupled with higher expenses in mandatory programs

The public higher ed horizon looks different than ever before.

Research is connected to state support and/or tuition; requires investment

Limited resources per student; affects class size, faculty salaries, competitiveness

Resources are not available to grow research

The capacity to remain competitive in research is deteriorating.

Salaries have and will continue to erode under resource constraints

Invites risk when our most important resource is our intellect

The ability to attract and retain top talent is declining.

Since 2011, the University earns more from students than from the state

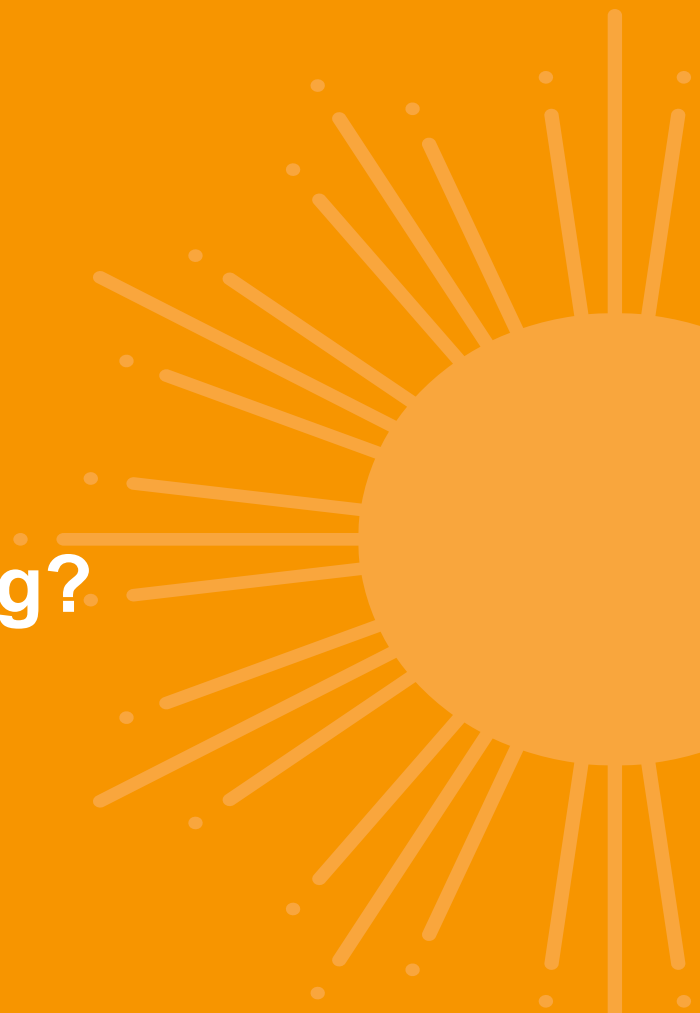
Preserve University's access mission

Economics shifts burden to students.

These long-term trends are not going away.

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**How we are
proactively responding?**



Moving Forward

- Shared responsibility to move the institution forward and make it better/stronger despite the challenges
- Success in the new environment means identifying change and adapting to it
- Relentless commitment shared by all to be the very best, to define excellence and then achieve it
- That is the powerful message that we should all understand and reinforce

Why and how management of financial performance is changing

- Moving from appropriations approach to earning approach
- Revenue is everybody's problem
- We all must understand the business model – focusing only on cost is not sustainable
- Moving from a spending approach to net revenue approach
 - Must understand revenue drivers and return on investment
 - Net revenue (margin) will generate needed investments in scholarships, research and other academic pursuits
- Managing to the net revenue ensures the financial viability and sustains the mission of the institution

Challenge to the University Remains

Grow Revenue and Prioritize Mission

We can't cut our way to greatness

- But we can spend our way to bankruptcy if revenues don't change
- Necessary cuts are a result of the paradigm shift in revenues

Past growth strategies will not work

- State revenues will remain challenged, even with significant support we enjoy
- Traditional tuition rates and enrollments subject to market forces

New, paying students/learners and programs to serve them are the key to our future

Focus on productivity while growing... if we want the best faculty we need the paying students to support them

Administrative cost cutting can not solve the entirety of the shortfall

What do Academic Leaders need to do?

- **YOU control your destiny with revenues**
 - Enrollment
 - Research
 - Philanthropy
- **Think of spend in terms of resource generation and mission**
- **Prioritize those activities that directly support teaching and research**
- **Understand your budget and how it works – align incentives to how resources are produced**
 - market (what people demand)
 - mission (how it relates to our core purpose)
 - margin (how much money we make/consume on the activity)

Keys to Success

- Understand this is a *long-term* plan that will **take time** and no one solution is available
- Clearly **define success** with input from stakeholders
- Drive a *focused execution model*
- Communication and transparency!!!
- Set specific targets and outcomes for each work stream

Data Needs



Initial Challenges



**Topline revenue
growth**



**Academic
productivity**



**Operational
efficiency and
effectiveness**

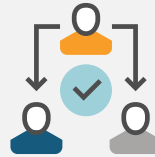
Goals: A Closer Look at Operational Efficiency and Effectiveness



Goal for Administrative Services



Deliver the *right* support services



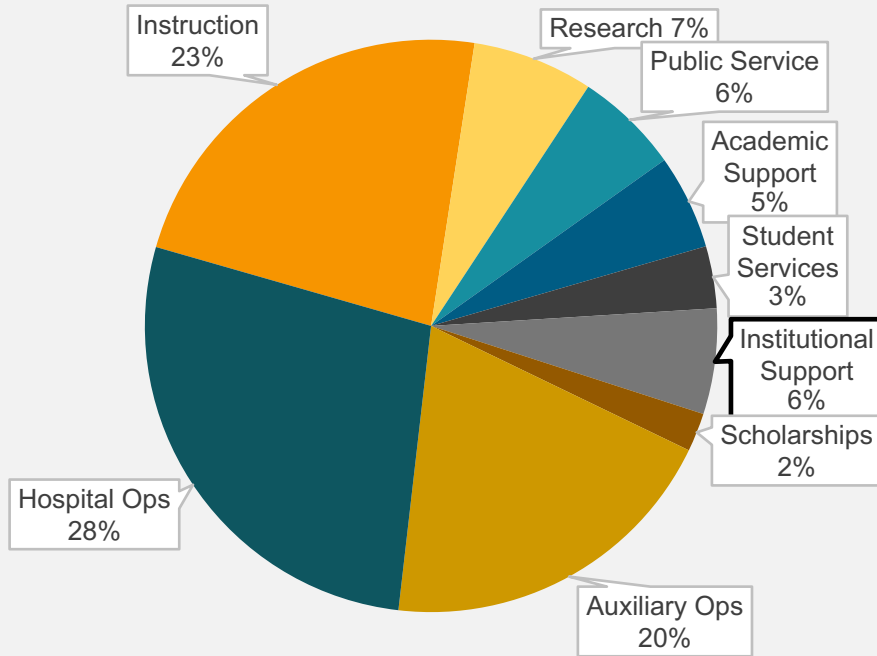
At the *right* level of the organization



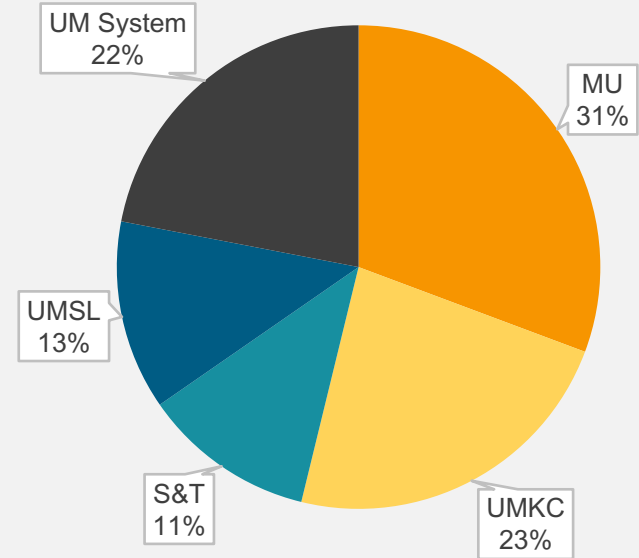
Both *efficiently* and *effectively* while supporting the mission

How Much Administrative Spend does the University Have?

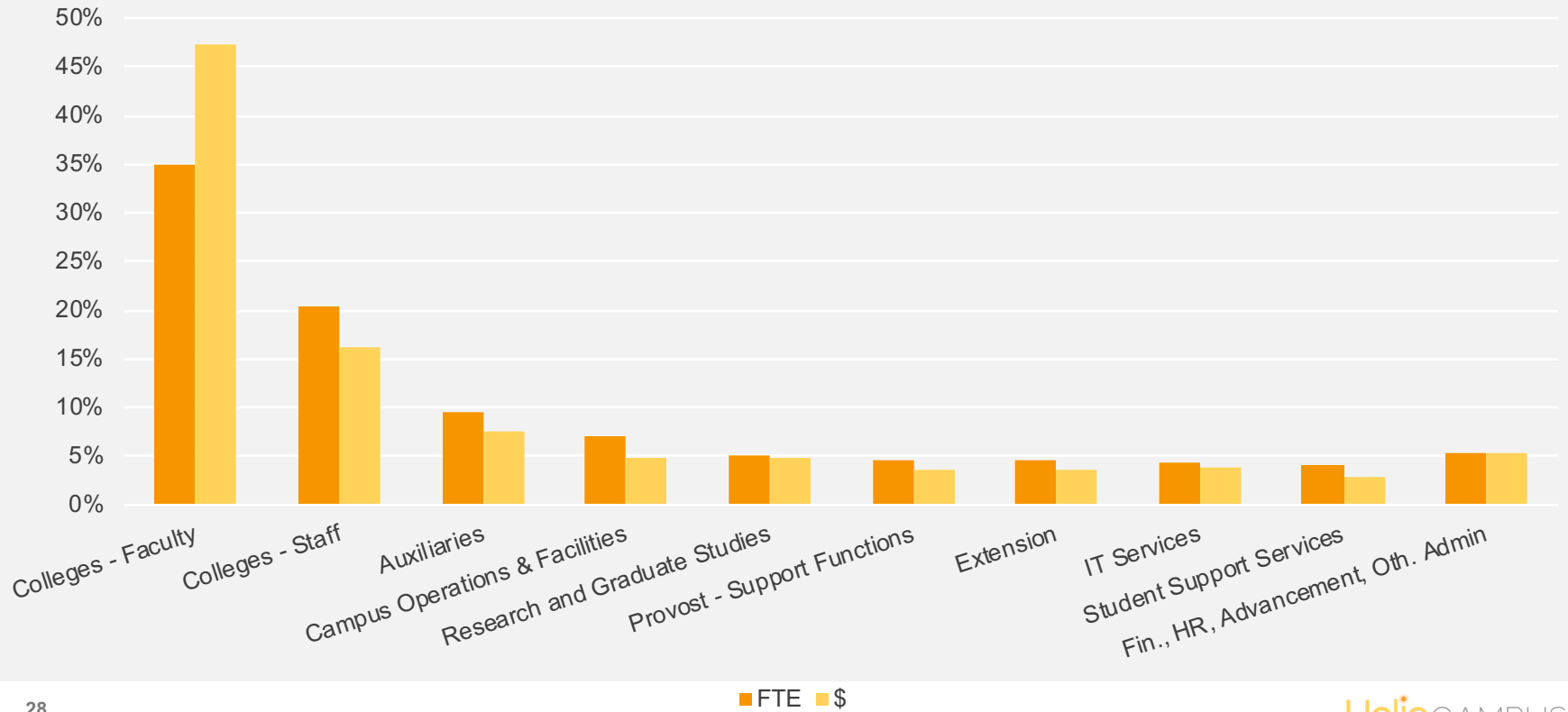
Total Spend by Functional Classification



Share of Institutional Support



Staffing is distributed across the enterprise



UM has managed administrative cost through past crisis

2008 financial crisis lead to OEI in 2010

- Results included implementation of AP shared services and significant technology improvements

2015 enrollment drop lead to administrative review in 2017

- Further deployed cross university shared services
- Gathered significant data on staff work and repositioned staffing
- Identified 387 positions and \$17 million in salary eliminations

This initiative is a continuation of our work in this area

The New Framework for Administrative Services

The four tiers of service:

- Tier 1: Systemwide Central Services
- Tier 2: Systemwide Shared Services
- Tier 3: University Shared Services
- Tier 4: Local Shared Services

Supported by a policy environment that holds leaders accountable for decisions and financial performance with a relentless focus on constant optimization

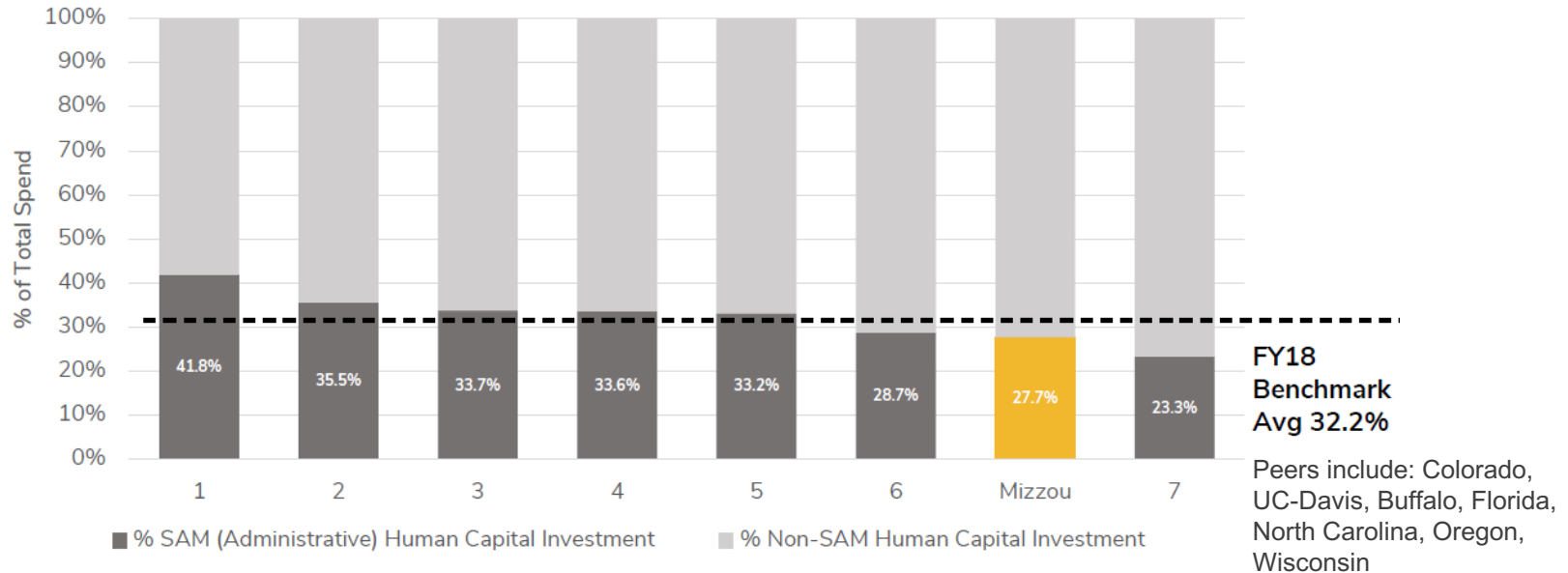
Results



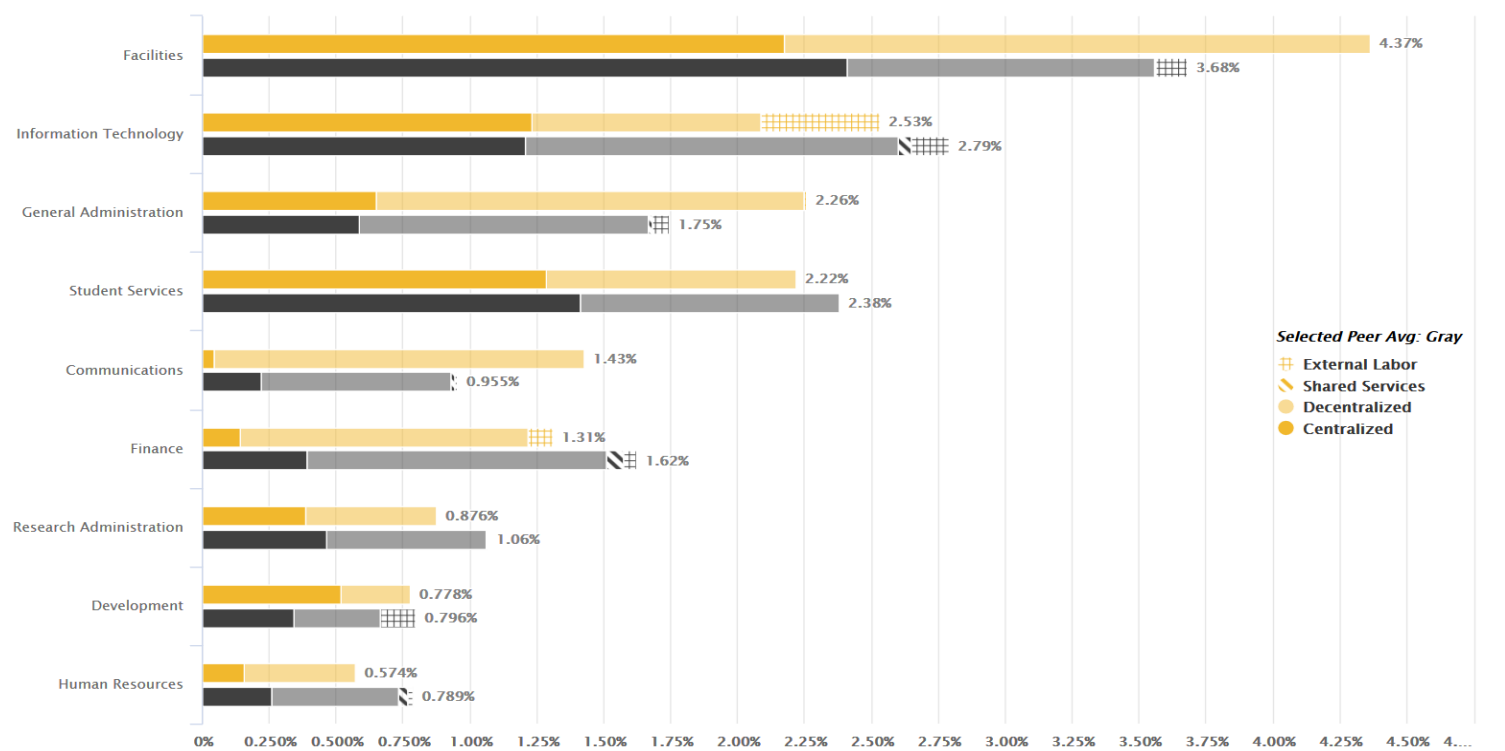
New Data: HelioCampus Benchmarking (Mizzou and UM only)

MU (including pro-rata share of system) is below peer average on administrative spend

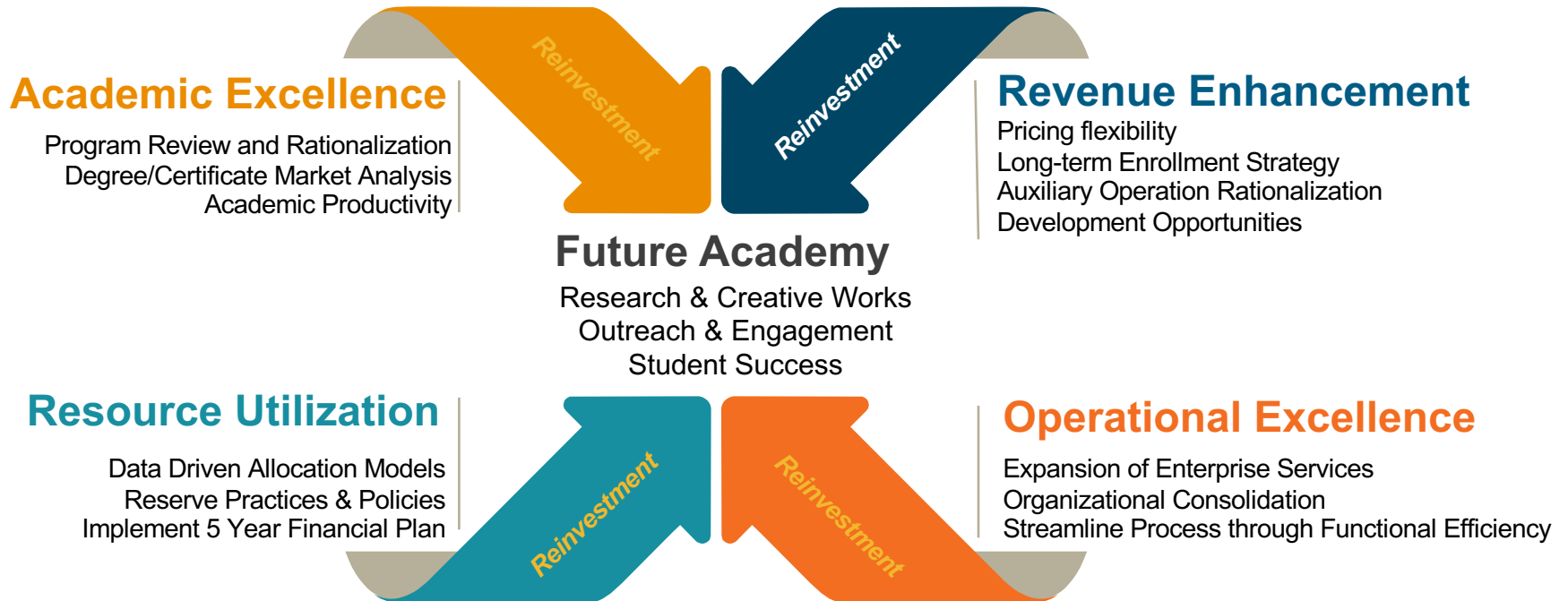
Administrative Intensity Measure (AIM) = SAM spend divided by total dollars



Benchmarking to percent of budget



No Single Action Sustains Excellence



Conclusion

- **The University undertook significant steps to reduce administrative cost, but more can be done**
- **Data informed decision making is necessary**
- **Must align financial performance and accountability with the mission of the University**
 - Requires a new approach to financial planning and budgeting
 - Utilize trial and error to see what works
- **Administrative cost cutting will not solve the entirety of the shortfall – a focus on maximizing revenues from students, the state, granting agencies, donors, and patients will sustain the University of Missouri for generations to come.**

Predictions & What's Next



Springfield College



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Presenter Introduction and Background



Introduction to Presenter



William Guerrero

Vice President for Finance and Administration
@Springfield College

Bill Guerrero has 22 years of experience in educational administration with 19 of them in higher education. Currently he serves as the vice president for finance and administration at Springfield College in Springfield, MA. His responsibilities include leadership for effective long-term planning and annual budgeting, overseeing business operations, investment management, facilities management, information technology, auxiliary enterprises and risk management. Previously he served as the CFO at Ithaca College, Albertus Magnus College and the Foote School in CT.

Introduction to Presenter

- Springfield College - Vice President for Finance & Administration / CFO
- Ithaca College and Albertus Magnus College - VPFA / CFO
- Adjunct Faculty at Montclair State University for Higher Ed. Finance
- Purchase College, SUNY - Executive Director, Adjunct Prof. in Entrepreneurship and Business Ethics and Head Baseball Coach
- Professional Associations:
 - NACUBO – Diversity Leadership Council & CBO Speaks podcast
 - NACAS – Regional Past President
 - SASA – Past President

About Springfield College

- Since 1885: Private, residential college in the Northeast
- Humanics: Spirit, Mind, and Body
- President: Mary-Beth Cooper PhD D.M.
- #26 in Best Regional Universities North
- Birthplace of Basketball (*and where Volleyball was named*)
- YMCA Leadership Development Center
- 4 schools:
 - Arts & Sciences
 - Health Sciences
 - Social Work and Behavioral Sciences
 - Physical Education, Performance & Sport Leadership



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Higher Education Context Due to COVID-19





Pandemic



Social Justice

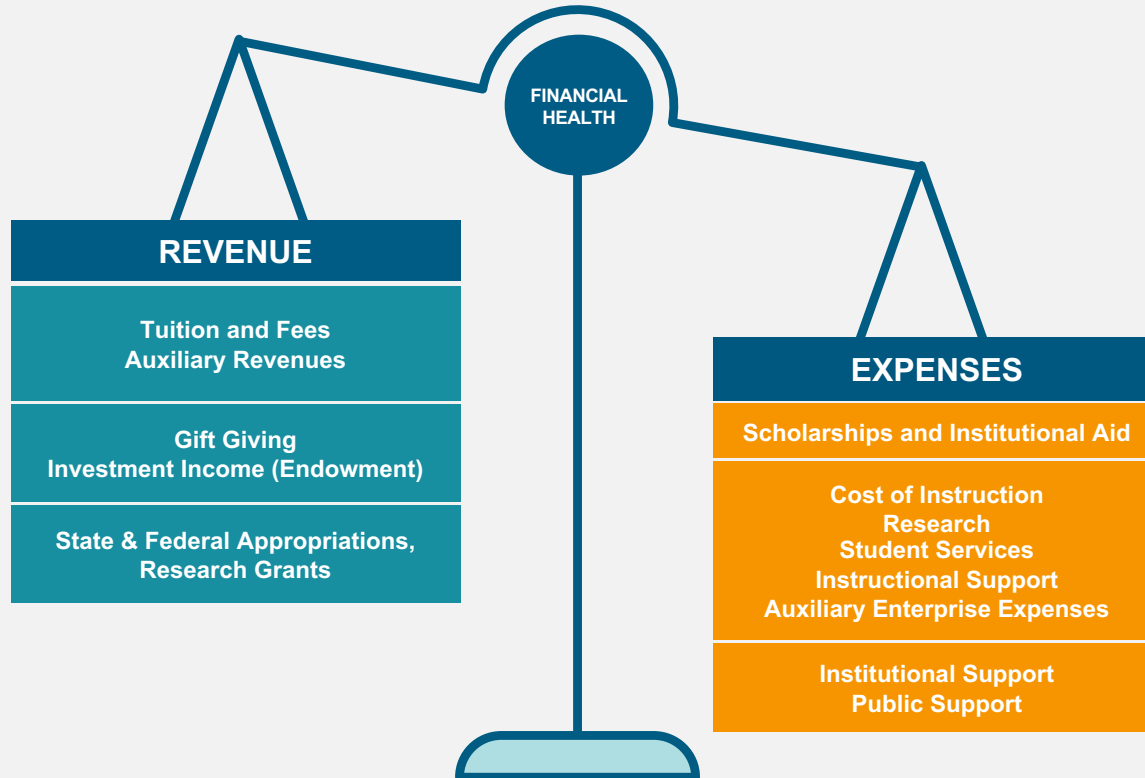
Environmental



Financial



Financial Sustainability Challenged Pre-Pandemic



Impact of the Pandemic

REVENUE SOURCES



Tuition
+ Fees



Auxiliary
Revenues



Government
Grants + Contracts



Investment +
Endowment Returns



Gifts



State + Federal
Appropriations

COSTS



Technology

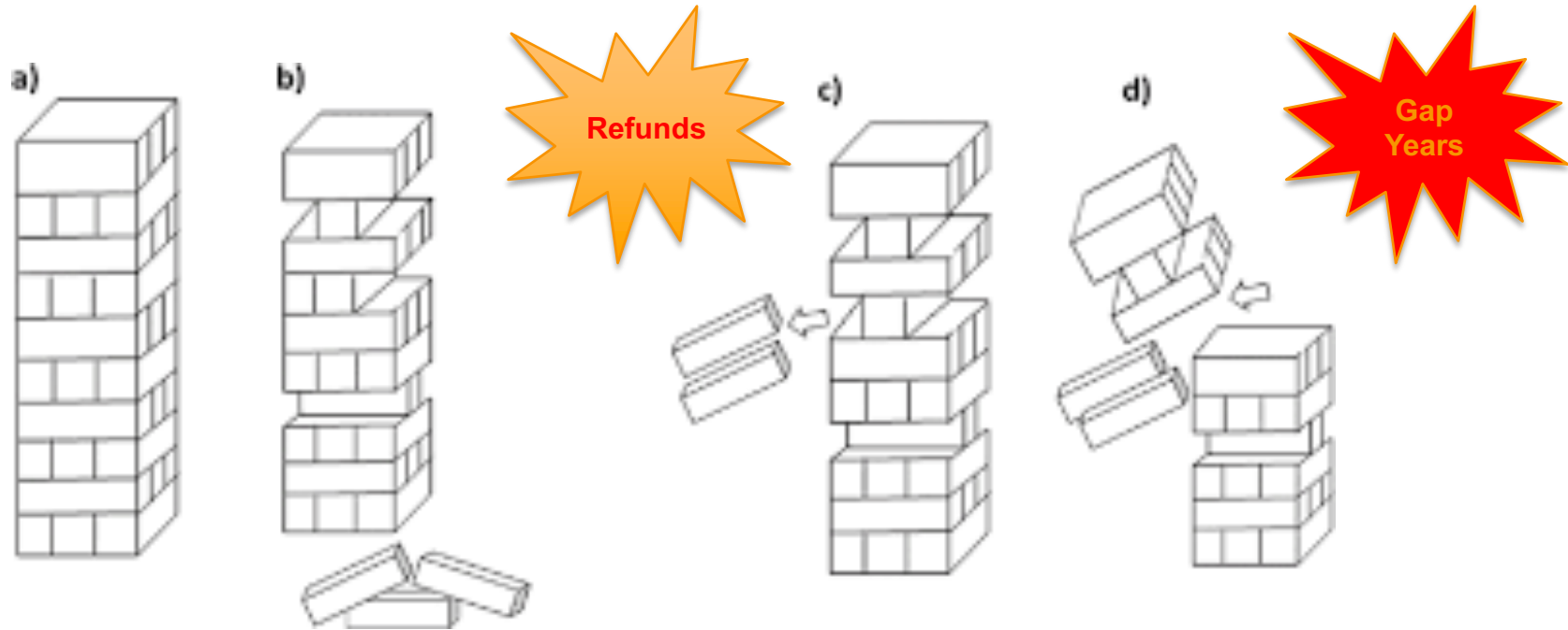


Sanitation



COVID Testing

Higher Education Jenga



Higher Education Emergency Relief Funds (HEERF)

March 2020:

CARES Act
\$14 billion

December 2020:

CRRSAA
\$24 billion

March 2021:

American
Rescue Plan:
\$40 billion

Moody's Raises Higher Ed Outlook to Stable

By **Rick Seltzer**

// March 23, 2021

Moody's Investors Service raised its outlook for the U.S. higher education sector from negative to stable Monday, pointing to improved revenue potential for colleges and universities over the next year to year and a half.

"The greater presence of students in housing and resumption of other auxiliary activities will fuel better revenue prospects from tuition and student fees heading into fall 2021," Debra Roane, vice president and senior credit officer at Moody's, said in a statement. "Students' ability to return to campus will improve as the vaccine rollout succeeds, which will reduce the public health crisis. Most states have also lifted their revenue forecasts for the current fiscal year 2021 and upcoming fiscal 2022, which supports a steadier outlook for higher education."

Long-term or short-term fix?

Bowen's Law - Revenue Theory of Costs:

Howard Bowen (1980). Higher education institutions spend everything they can raise. Therefore, a unit cost is a product of revenue.

Bennett's Hypothesis:

William Bennett, Our Greedy Colleges, NYT (1987). Government subsidy of college tuition reduces the price sensitivity of students and their parents, enabling cost increase by universities.

Sense of urgency

Not fast enough

Can't all be done tomorrow

Change

Student dependent



COVID-19



Auxiliary Services dependency



NTR Illumination



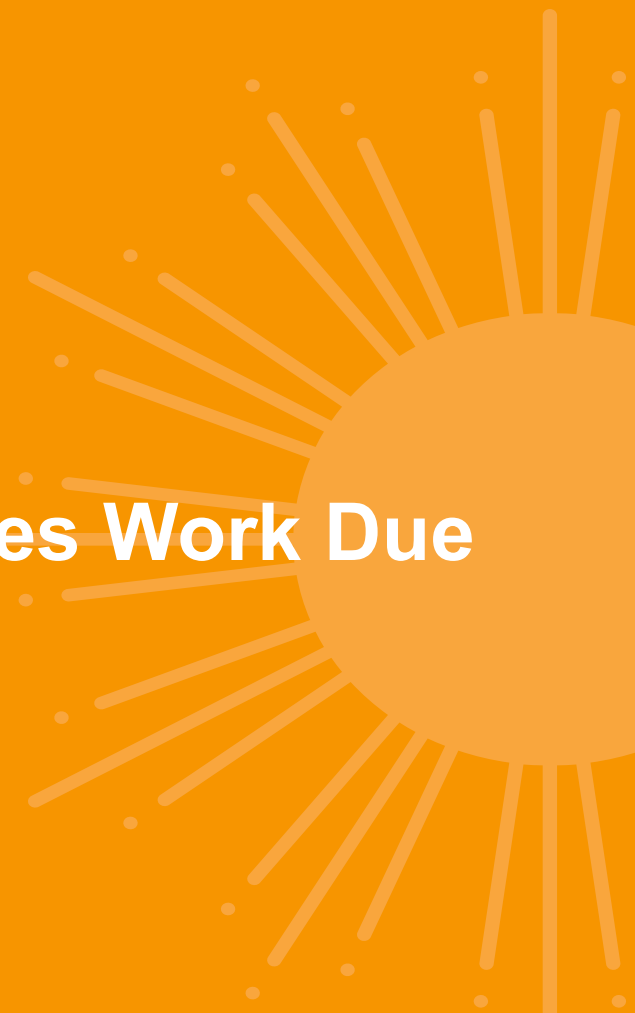
Stimulus



Sense of urgency?

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How Budgeting Expenses Work Due To COVID 19



**“Baseball is 90%
mental and the other
half is physical”.**
- Yogi Berra

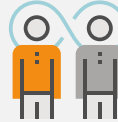
**“Higher education is
90% student dependent
and the other half is
hard choices.”**



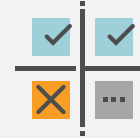
Budgeting & Planning Best Practices



Strategy translated
into numbers



Shared
Governance



Fixed vs.
Variable



Multi-year
commitments

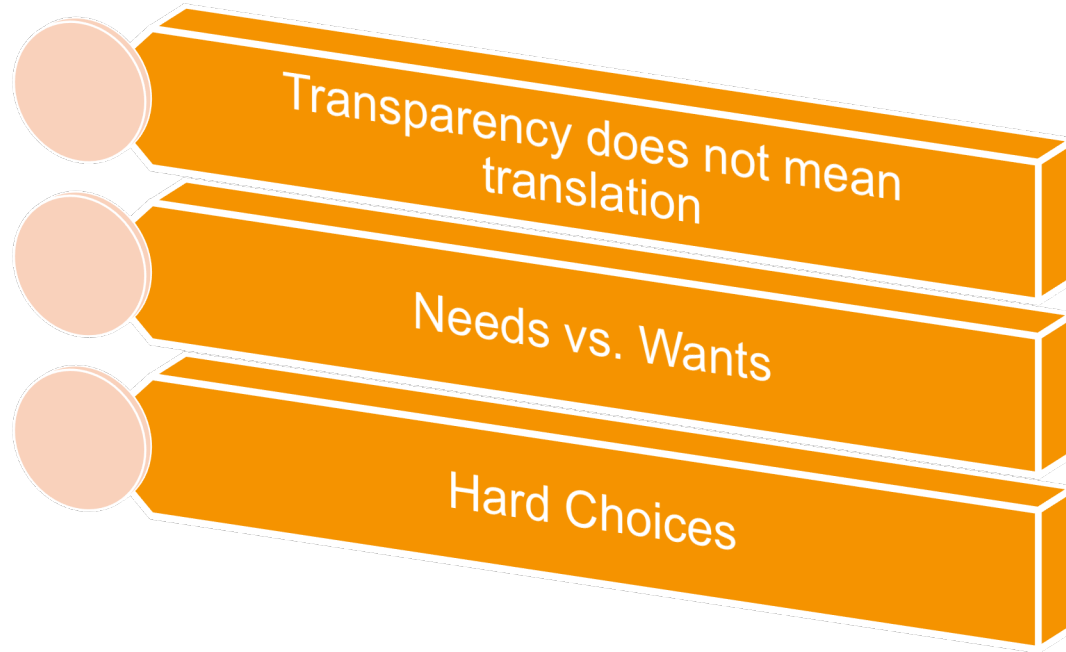


Realistic
Optimism



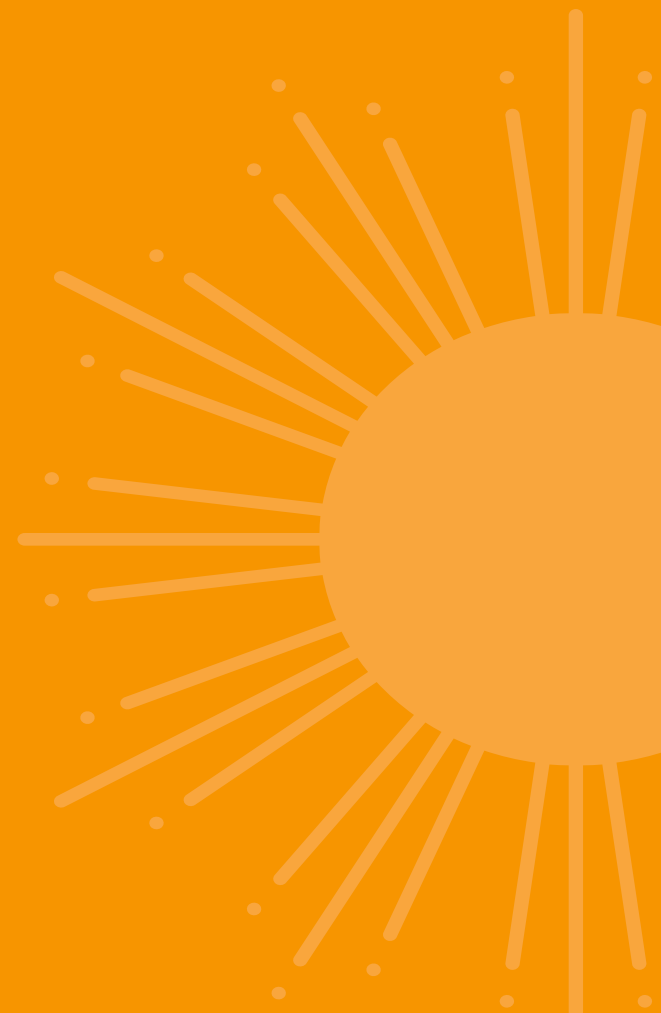
Uncertain
Certainty

Takes a lot of time...



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Auxiliary Enterprise & Non-Tuition Revenue



Higher Education Jenga

Net-Tuition Revenue

Room & Board

Auxiliary Services

Private Gifts

Fed. & Research Grants

Endowment Draw

Other

Net -Tuition Revenue

Room & Board

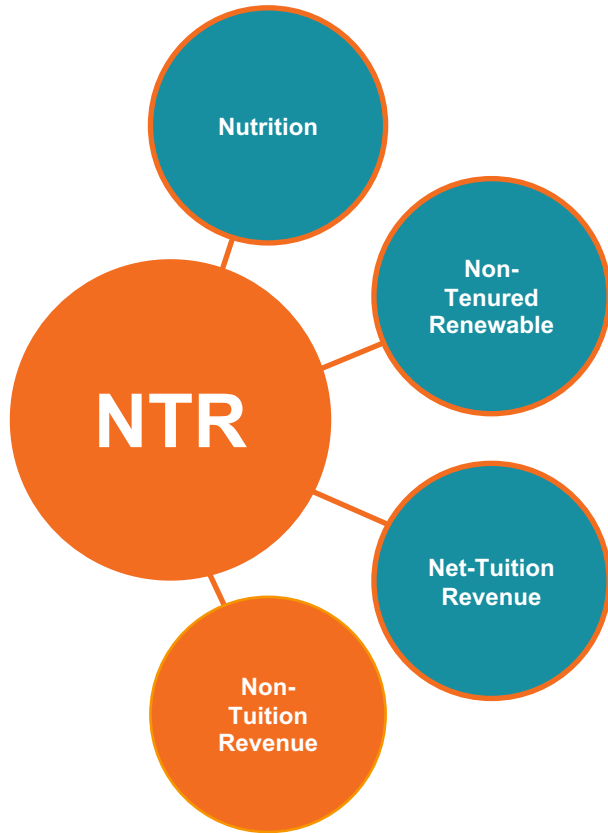
Auxiliary Services

Private Gifts

Fed. & Research Grants

Endowment Draw

Other



- Room & Board
- Auxiliary Services
- Private Gifts
- Grants and Govt
- Endowment Draw
- Other

Auxiliary Services



**Housing and
Dining Services**



**Campus
Store**



**Laundry
& Vending**



**Camps,
Conferences
& Events**



**Print, Mail,
and Copy**



**Parking &
Transportation**



Athletics



One-Card

Expense and Revenue Solutions?

- **Playbook**
- **Listening to students, faculty and staff**
- **Confirm Core Competencies**
- **Learn Best Practices**
- **Explore RFP's**
- **IT as a strategic partner**
- **Benchmark**

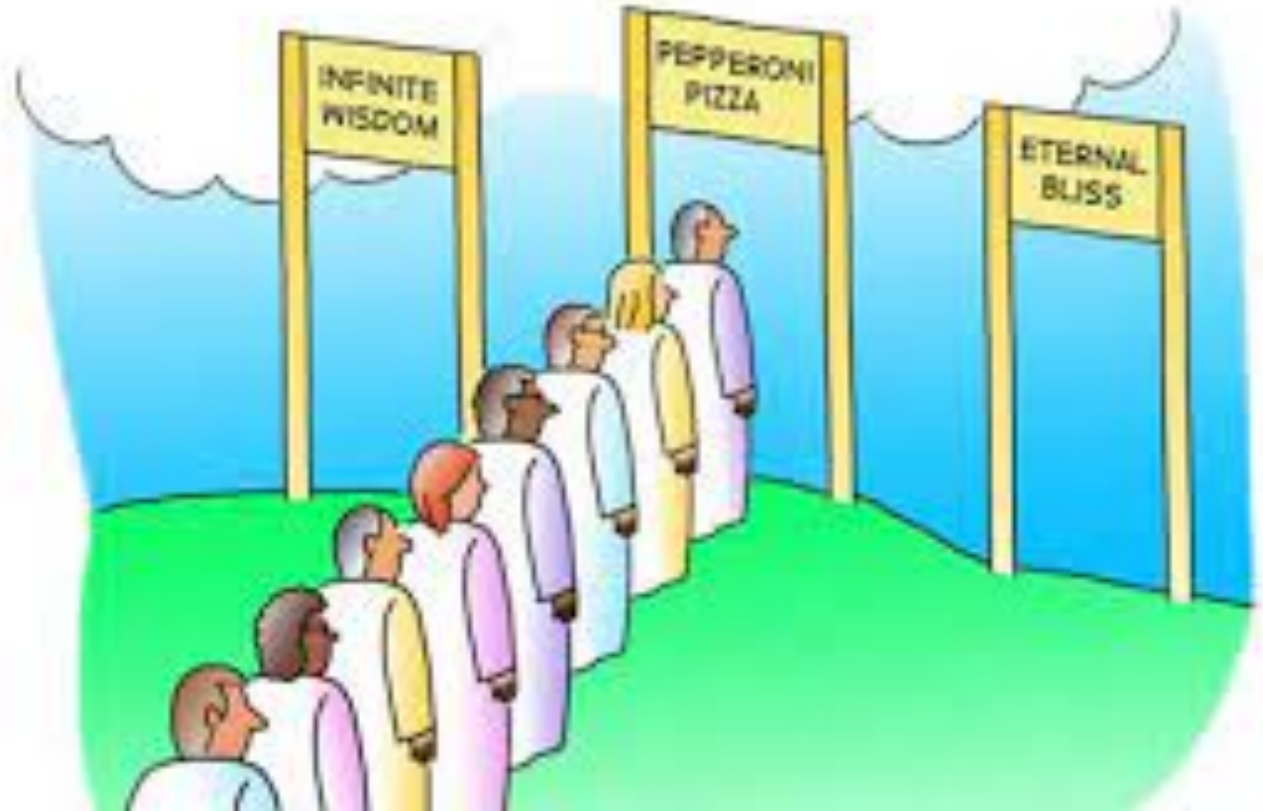


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Predictions & What's Next



Prediction



What's Next Due to COVID-19?

1. Rebuild relationships with students, faculty and staff
2. Increase commitment to Shared Services with all stakeholders
3. Invest in DX with outcomes using AI, BI, ML, and RPA
4. Review non-core services with outsourced and self-operated models
5. Continue academic reviews and program development
6. Translate DEI into ESG metrics
7. Illuminate Enterprise Risk Management (ERM) strategies
8. Reimagine the Treasury role and not just P&L management
9. Enable Non-tuition revenue (NTR) development as your entrepreneurial arm
10. Reframe Strategic Plans to Business Plans
11. **BONUS:** Students are our why -

~~Financial Aid > Student Employment > Experiential Learning > Service Learning >
Job > Annual Giving > Donor~~

Q&A

