



Higher Ed Outlook Series

Talking Finance With Your Board

Your Presenters



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Learning Objectives

- Identify key financial, operational, and governance indicators that may signal institutional distress and call for board attention.
- Explain effective approaches for communicating financial risks and important priorities to governing boards.
- Evaluate response options available to financially challenged institutions, including restructuring, partnerships, mergers, affiliations, and institutional closure.



Key Indicators

Below are some selected financial indicators associated with institutional health for consideration, subject to institutional circumstances.**

<5%

Total debt service of operating revenue

<65%

Salary and benefit costs of total operating revenue

<50%

Overall tuition discount rate

>4%

Change in net assets without donor restrictions of operating revenue

**Metrics originally published by CFO Colleague



Other Key Indicators

The following could be “red flags” for the board:

- Leadership turnover
- Accreditation and regulatory sanctions
- Donor dependency

Effective Communications with the Board



Effective Communications with the Board

Key Message: Time is an ally which diminishes every day that your financial situation does not improve.

Communicating financial risks

- Rely on hard data
- Monitor performance relative to peer institutions
- Do not allow optimism bias to postpone a discussion of the hard truths
- Objectively evaluate KPI trends
 - One bad set of results, discuss remedial steps
 - Two consecutive bad sets of results, ask tougher questions, re-evaluate remedial steps, and consider prompt retention of external financial and/or legal assistance to aggressively address the need for immediate change
 - Three consecutive bad sets of results, consider alternative futures for your institution

“In God we trust.
Everyone else must
bring data!”

– Penn State President
Neeli Bendapudi

Effective Communications with the Board

- Identifying and communicating priorities. Your leadership teams should....
 - Analyze and manage cash to achieve liquidity necessary to implement the change
 - Maintain rolling 12-month cash flow projection
 - Evaluate projections monthly
 - Make Finance Chair aware of unexpected deviations from projection
- Using projections, ascertain how quickly your institution must change or, in other words, how long is your “runway” to land the institutional plane safely
- Focus on expense elimination to extend your runway as needed
- Identify and prioritize actions necessary to change institutional trajectory
- Develop broad-based board support for changes

Response Options



Response Options

Restructuring

- Add new, high-demand programs that may add cash
- Eliminate low-demand programs that may drain cash
- Evaluate possible surplus property to be sold
- Typically time consuming
 - Faculty involvement necessary
 - Substantive change approvals likely necessary with accreditors

Partnerships, Consortial Collaborations, & Affiliations

- Avoid general partnerships
- Consider collaborative efforts structured under one or more LLCs
- Highly flexible
- Typically permit the maintenance of institutional identity
- May require long periods of time to see positive results
- May involve academic programs and/or back-office operations

Response Options

Mergers

- Often discussed, seldom consummated
- Complicated by cultural issues, operational issues, regulatory/regional and program accreditor approvals
- Used when parties expect synergistic benefits which neither institution could realize alone
- Requires acquiring institution to assume all debt and obligations of acquired institution



Connect Across Higher Education Strategic Partnership Hub

Explore partnership opportunities, connect with peers, and plan with confidence.

The Strategic Partnership Hub is a digital experience designed to help higher education leaders discover opportunities, build meaningful connections, and access valuable insights, all in one secure platform.



Find Aligned Partners

Discover institutions that share your goals, priorities, and vision for the future.



Connect with Peers

Engage with higher education leaders through secure networking, messaging, and discussion opportunities.



Explore Opportunities Early

Evaluate possibilities proactively and gain insight into areas of mutual interest before decisions become time sensitive.



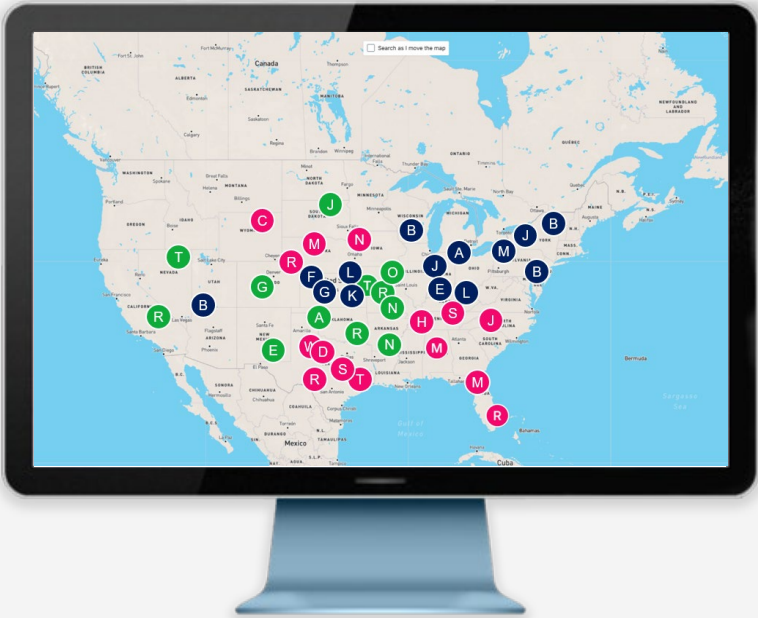
Browse with Confidence

Maintain privacy and discretion while exploring strategic options on your own terms.



Access Exclusive Resources

Gain access to exclusive strategic partnership resources and regular higher education updates.



The number of Hub members is evolving and specific representations on the map will change over time.

Ready to Connect with Your Peers?

Scan to access the strategic partnership hub and become a member today!



Response Options

Closure

- NEVER START A SEMESTER YOU DON'T HAVE ENOUGH CASH TO FINISH
- Optimal Timing – Announce in February and close at end of academic year
- Advance Discussions – Communicate extensively with:
 - Regulatory Triad
 - Attorney General
 - Creditors
- Develop Communications Plan
- Arrange Teach-Out Partners
- Anticipate Grief Process

Response Options

Closure

- Plan and schedule closing ceremony with campus input
- Assess legal issues
 - Terminate contracts
 - Address employee benefit plan obligations
 - Provide WARN Act notices as appropriate
 - Formalize teach-out agreements
- Evaluate wind-down options
 - Board-controlled process
 - Bankruptcy
 - Receivership

Conclusions

To support your board:

- Provide consistent, clear financial information – this should be a priority on your agenda
- Model your future
- Leave time for strategic discussion *at every meeting*
- Know your options and have contingency plans

Contact

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