

*Eyes on the Balance Sheet: Fiscal
Lessons for Higher Education*

Strategic Perspectives and Implications

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Major Financial Stress

- Major Stresses
 - Cash
 - Uncollectable Receivables
 - Net Tuition Competition
 - Delay in Government Funding
 - Continued Reduction in Gifts and Grants
 - Attrition
- What could tip the balance at small colleges?
 - Loss of cash reserves
 - Huge increases in uncollectable receivables
 - Tougher federal response to weak financial condition

Will Consolidation of Colleges Increase?

- Buy outs of not-for-profits by for-profits has been going on for the past several years.
- For-profits continue to look for not-for-profits with weak financials that have accreditation, have a decent reputation, and are located in good market.
- Faster of pace of consolidations among not-for-profits or between for- and not-for-profits will depend on changes in government funding regulations or auditors choosing not to approve shaky institutions.

Critical Turnaround Strategies

- Rebuild Financial Equilibrium.
- Rework your strategic plans.
- Find new markets.
- Sharpen your competitive skills.
- Cut costs by reducing the administrative tail.
- Create Net Tuition Slack – difference between net tuition and breakeven price.
- Create cost synergies with other colleges.
- Get the best skills and technology for your business office.

Key Measures of Equilibrium

- *Long term growth rates* for revenue are equal to or greater than expenses.
- *Composite Financial Index score* should be at least three and increasing over time.
- *Cash as percentage* of expenses should increase.
- *Credit line* growth should not exceed revenue growth rates.
- *Cyert's Equilibrium* should guide financial actions.

Cyert's Equilibrium Model

- The *organization fulfills its mission* with adequate quality and quantity.
- The *organization maintains the purchasing power* of its financial assets.
- The *organization maintains needed facilities* in satisfactory condition.

Cyert's Critical Equilibrium Factors

- **Mission** – finances undergird the mission so that there is:
 - Adequate quality and
 - Quantity.
- **Purchasing Power: cash and liquid assets maintain their value despite inflation.**
- **Needed Facilities:** finance is sufficient to provide new facilities and maintain existing facilities.

Implications of Failing Department of Education's "Stress Test"

- Note: Title IV stress test components include – primary, net asset, and net income ratios.
- If it is the first time that your college failed – you will need to show how your college will meet the requirements of the stress test.
- If you have failed several years in a row – the college could lose access to federal financial aid funds.

What Are the Key Questions to Ask about Financial Performance

- Cash position
- Financial Equilibrium
 - Revenue and cost growth
 - Liquidity and capacity to maintain facilities and mission
- How excess revenues were used
- Unit costs changes
- Benchmark comparisons for revenue and expenditure functions

Good Financial Practices / Policies

- Regular and precise financial reports
- Increasing cash balances
- Close management of receivables
- Checking if expenditures from annual increases in revenue fit strategic goals.
- Reconciling enrollment to receivables
- Expanding markets
- Monitoring net revenue from income producing programs
- Tracking unit costs and reducing costs
- Presidential support of business office policies

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Biography

- Dr. Townsley is Special Assistant for Finance to the President and Professor of Business at Becker College, and Senior Consultant at Stevens Strategy where he has developed financial strategies and forecasts for many colleges on the east coast.
- Dr. Townsley also was the President of the Pennsylvania Institute of Technology and Senior Vice President for Finance and Administration at Wilmington College.
- He authored Weathering Turbulent Times, The Small College Guide to Financial Health Beating the Odds, *The Financial Toolbox for Colleges and Universities*, *Strategic Turnarounds*, and *Debt - Investment Strategies*. He has published widely and made presentations on financial management, strategy and major issues facing colleges and universities .
- He holds a Ph.D. from the University of Pennsylvania.
- You can reach Dr. Townsley at: mtown@dca.net or MTownsley@StevensStrategy.com.

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