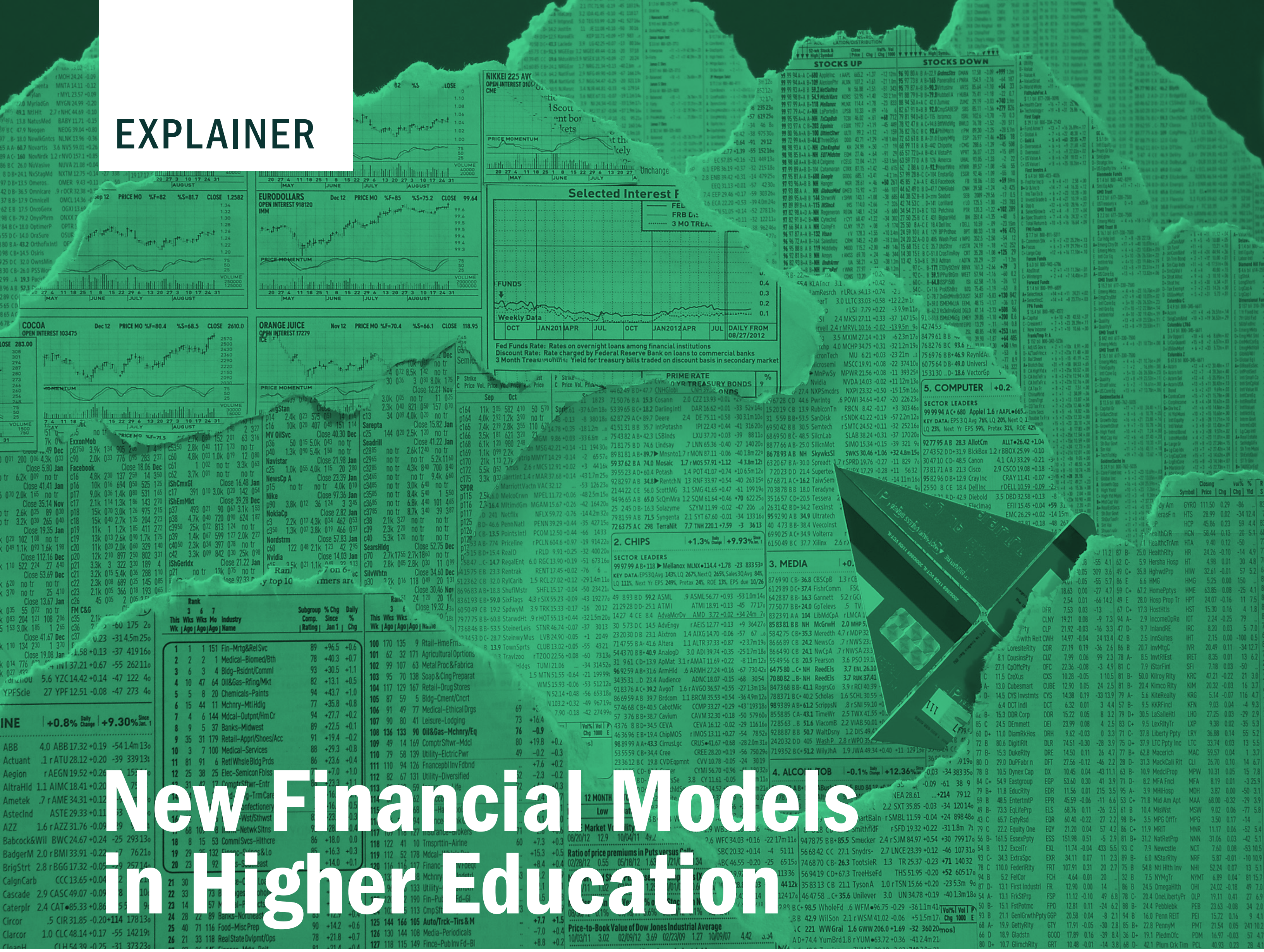
EXPLAINER



New Financial Models in Higher Education

Why do colleges need to find new financial models?

The college business model is under great strain, thanks to the increasing pressures on the higher-ed industry in recent decades. They include rising labor costs, falling public funding, suppressed tuition revenue, and demographic changes. Colleges aspire to be mission-driven, pursuing learning and knowledge untainted by business concerns, but campus leaders who don't grapple with their costs and revenues in detail cannot set priorities wisely. To meet the demands of an evolving higher-education market, institutions must shore up their finances now while considering major transformations in what they offer, how, and to whom.

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How do colleges diagnose problems?

Along with the external factors bearing down on them, colleges face challenges from within. Keeping close account of expenses and revenue, down to departments and students, isn't an established practice on many campuses. Many institutions have inefficiencies in academic programs and personnel management they can no longer afford, and detailed data can shake up preconceived notions about which programs are bringing in the most revenue. In order to recognize the uncomfortable truths and make the hard choices that will strengthen institutions, administrators must focus on cost tracking and program-prioritization studies.

Other problems include building booms, deferred-maintenance backlogs, and poor space utilization. Space inventories and campus plans for no net growth can help. On various fronts, leaders must immerse themselves in data and engage with stakeholders to understand options and set a course.

What ways are colleges rethinking their finances and their financial models?

Colleges face different financial strains based on their revenue, operations, and locations. No one-size-fits-all model exists to fix their problems. But there are common approaches that many colleges are testing. They broadly fit into four categories: growing revenue, streamlining operations, collaborating and consolidating, and reinventing the institution.

How are colleges growing their revenue?

They start programs relevant to the market, go looking for new student pipelines, encourage transfer in, or promote retention. A few common strategies are to focus on dual enrollment of high-school students, develop policies to attract adult learners, and reach out to underrepresented-minority populations.

While finding new students is an appealing approach, especially in competitive markets, institutions need to meticulously study whom they want to enroll and what would attract them. Often that requires unconventional thinking and can create conflict.

That's what happened at Trinity Washington University, which opened in 1897 as a Catholic women's college primarily serving wealthy, white students who were shut out of all-male institutions. As those institutions went coed, Trinity's enrollment dwindled — to just 300 in the 1980s. Administrators responded by recruiting adult students, non-Catholics, and black and Hispanic women. Those efforts caused a rebellion among some students and alumnae who felt that Trinity was abandoning its traditions. But the board backed the administration, and today the institution is educating more than 2,000 students.

How are colleges streamlining operations?

Institutions under pressure also have to find inefficiencies, which can be tricky to uncover in the sector's decentralized processes and programs; leaders should look for waste in how the college operates. Deep-dive number-crunching is critical to determine which academic programs to invest in or step back from, and sprawling departments and courses may offer more options than a college can sustain and be out of sync with student demand.

But colleges need to go beyond cutting departments, offices, and people in order to streamline effectively. It's important to not overlook improving services and reassigning staff members to better align priorities and resources, and making academic programs and services easier for students to navigate. Some campus leaders have decided that tuition pricing, too, is harder than it needs to be. Converse College, Drew University, and Utica College, among others, have announced "tuition resets" in recent years, reducing the sticker price and the tuition-discount rate.

Facilities demand attention, too. Take the University of Maine system, with a deferred-maintenance backlog of $1 billion. More than half the buildings on the flagship campus are at least 50 years old, a critical age for repair or renewal. Because of a downturn in enrollment and reductions in state support over several years, the Maine system hasn't been able to hit a target of $80 million annually for capital improvements. And so the system has come up with a $10-million plan to demolish buildings and reduce square footage.

How are colleges collaborating and consolidating?

Many institutions are exploring options for sharing resources, in order to create economies of scale without compromising their identities. Such partnerships are rarely easy — they take time to negotiate and administer, to work through differences in policies and culture.

But the benefits can be worth it. Take the experience of Tufts University and the School of the Museum of Fine Arts in Boston, which had suffered enrollment declines. There were challenges in bringing the two institutions together, including computer systems, financial-aid policies, and transportation, but campus leaders made it work. It helped that the two institutions had a partnership dating back to 1945 — the long-term relationship made the merger easier, as SMFA faculty understood some of Tuft's systems and were familiar with the university's leadership. The arts institution became the School of the Museum of Fine Arts at Tufts in 2016. Administrators at Tufts felt that the acquisition would bring SMFA back to viability, and once viable, it would in turn elevate the arts at Tufts, with an enhanced studio art experience and curriculum, and allow for collaborations in pedagogy, research, and scholarship with visual artists and performance artists.

How are colleges reinventing themselves?

Desperation spurs action, and so the boldest moves may come from an existential crisis — a moment when presidents and boards realize an institution needs to change or die. Transformative change requires a charismatic leader with vision and courage to take risks and confront opposition. It also demands a strong

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handle on the fundamentals: costs, revenue, market trends, and communication. Without a basis in accounting, any "innovation" will merely be a gamble on a hunch.

Despite the challenges, there are examples of colleges that have successfully reinvented themselves. Take Harrisburg University, in central Pennsylvania. In 2011, it had roughly $300,000 in available cash and about $3.6 million in debt due, with an enrollment of 300 undergraduates and 50 graduate students.

In keeping with the university's missions of developing a STEM work force and bolstering the regional economy, it started to emphasize lucrative graduate programs, most of them primarily online, in fields with large and increasing demand for local workers.

In the past three years, it has begun 20 academic programs, increased its faculty from 147 to 400, and planned a new student union, a new health-sciences building, and off-site programs in Philadelphia and the United Arab Emirates. It's capitalized successfully on the growing popularity of esports with a new varsity team and a new annual festival.

From near extinction, HU now has $50 million saved in net assets. It went from $8 million to $80 million in annual revenue. Its 6,500 students — nearly 600 of them undergraduates — come from 103 countries.

What is the path forward?

The financial pressures of rising expenses and declining revenue are real and urgent. Once colleges firm up the fundamentals, campus leaders can pursue new opportunities and ponder transformative moves. It's worth keeping in mind some emerging trends, such as real-world learning (students want to engage with problems in practical ways); college for life (colleges should consider programs that let alumni come back to their alma mater for further study, retraining, or career support); new certifications (different credentials promise to tell hiring managers more about candidates' preparation or skills than are currently indicated by their degree programs); and employer-paid programs (apprenticeships as well as companies' paying for employees to enroll at a local college while they gain on-the-job experience).

To thrive in the 21st century will require colleges to be adaptive, their leaders perceptive and collaborative. They will have to learn from other industries. And they will have to engage more with businesses and communities.

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