Coronavirus realities for colleges and universities – rethinking fiscal resilience

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Colleges and universities find themselves challenged to meet the academic, health and safety needs of students, faculty and staff at a time when ensuring liquidity and managing the balance of operating expenses to available funding has tipped negatively for many institutions. The current situation only exacerbates and further illuminates the struggle to provide quality academic programming and ensure achievement of mission within fiscal constraints. Governing boards have an obligation, now and always, to position their institutions to deliver on their missions and meet obligations to their stakeholders.

Higher education institutions across our nation are experiencing significant reductions in student-based revenues as physical campuses have closed and remote learning is the new norm. Meanwhile, the costs of providing these services and maintaining capital assets remain. For many academic institutions, future downward trends in enrollment-related student revenue, lost sports revenue and significantly lower earnings on endowment assets will compound for a long-term negative revenue impact. A perfect fiscal impact storm results from these trends when combined with the deterioration in students’ (and their parents’) ability to pay for the cost of attendance, along with unanticipated expenses related to the remote delivery of services, unanticipated costs to ensure safety and further refunds due to campus closures.

The continuation of these uncertain times – resulting in major changes to all aspects of institution operations and programs – puts tremendous pressures on accurately projecting the financial picture and ensuring future resilience. It takes collected cash, not expected student and auxiliary revenues, to meet obligations and survive economic downturns while achieving institutional objectives. When available cash reduces precipitously, operating costs and institutional commitments require scrutiny and diligence to understand cash flow and liquidity realities and options.

Start by conducting a cash flow and fiscal driver diagnostic assessment

At a minimum, to survive this perfect storm, leaders should examine key drivers of fiscal and institutional performance and ensure careful analysis of options for now, and in the future, to make critical decisions and navigate potential alternatives for optimal performance. Confidence that available funding sources and levels are considered in the context of current realities, key drivers of fiscal performance and expected missional commitments require a careful and comprehensive assessment across a number of functional areas (e.g., academic continuity, stimulus relief options, capital asset management, debt and liabilities, resource allocation, contract obligations, etc.). Asking all the right questions and examining the right variables can make the difference between “good” and “bad” decisions. Further, knowing what acceptable performance “looks like” relative to the current situation is paramount.

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Complete a comprehensive evaluation of your fiscal resilience by developing cash flow, liquidity and long-term financial management models

If the situation calls for more scrutiny of cash flow or specific drivers of fiscal position, a completed Cash Flow and Liquidity Management Financial Model (CFMM) can highlight critical decisions and planning requirements. It allows for scenario and "what if" analyses of various options and provides the inputs for more in-depth and longer-term planning.

The CFMM provides a detailed view of cash inflows, outflows and actions necessary to meet obligations as they come due. It details background information to assist in discussions with creditors and others where liquidity management is critical. The answer to where cash is produced and consumed and the resulting expected liquidity position is analyzed in weekly detail over each operating cycle. It helps to highlight problems in advance, so actions can be taken proactively.

The CFMM tool enables operational and capital decisions to be made with a better understanding of short- and long-term consequences and with a higher degree of confidence. This is especially relevant in our current environment, where uncertainty surrounding liquidity and solvency requires clear visibility of cash availability to meet needs such as payroll, refunds, debt service, material purchases and capital expenditures.

Use objective analysis to make decisions with transformative impact

The current environment affects nearly every sector of our economy and is among the most impactful for higher education institutions as their operating cash cycles span the academic calendar year. Dollars spent today and over the coming months are critical as the cash inflows from students, federal funding, sports, auxiliary and other sources are not only cyclical, but now muddied with tremendous uncertainty. Therefore, it is more important than ever to assemble the most current and up-to-date information that can be refreshed regularly to enable nimble, informed decisions.

The CFMM tool (and other important financial models), which combine known information with scenario analysis capabilities for the unknown, allows leadership to make better decisions over the coming days, weeks and months and provides a strong foundation for a more strategic, long-term financial plan when the current crisis is behind us. These decisions and activities likely include: tuition pricing levels, net tuition analysis, financial aid packaging and relief fund assimilation, auxiliary contract and revenue reviews, capital commitment evaluations, debt service requirements, fixed and variable cost reductions, supplier terms negotiations, lender negotiations, bond refinancing, organizational changes, and Coronavirus Aid, Relief, and Economic Security (CARES) Act and Federal Emergency Management Agency (FEMA) stimulus reimbursement accounting and tracking, among many other things.

Effectively considering the story these models tell and taking crucial action is paramount to devising a relevant plan with the urgency required to ensure institutional resiliency. Getting ahead of the action that might be required now is important to ward off not having a choice later. As institutional leaders, it is your role to be a catalyst for resiliency and ensuring fiscal, human capital and most importantly, student success.
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