Turnaround

A presentation to OACUBO Professional Development Day Attendees

BKD

Agenda

- I. Recognizing and communicating
- II. Performing triage on areas of immediate need
- III. Putting together a good offense
- IV. Trimming down on defense
- V. Case Study: Example College

I. Recognizing and communicating

A. Recognizing the presence of institutional stress
   - ✓ Financial and operational characteristics of stress
   - ✓ Academic and leadership stress

B. Who to communicate with

C. What to communicate

D. When to communicate

BKD

A. Financial and operational characteristics of stress

1. Operational decline	Deficits for three of the past five years
2. Reduced demand	New student enrollment down > 10%
3. Pricing discipline	Freshman discount > 50%
4. Ineffective planning	> 1 cycle of mid-year cuts
5. Retention challenges	Declining 1st year retention
6. Labor cost imbalance	Compensation > 80% of net tuition
7. Assessment deficiency	Deterioration of DOE and/or CFI ratio

Financial and operational characteristics of stress

8. Resource harvesting	Unsustainable endowment spending
9. Ignoring long term needs	Deferred maintenance > 10% of annual spending
10. Delayed reaction	Student to faculty ratio < 15 and declining
11. Declining cash reserves	Increased time and amount of LOC
12. Using “hope” as a strategy	Decline in marketing spend

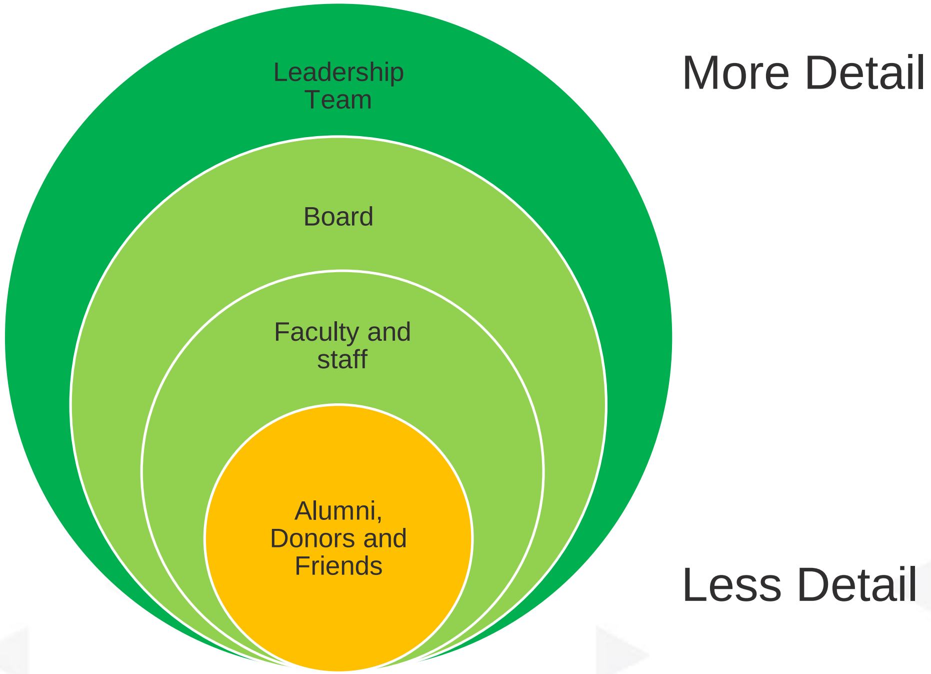
Academic and leadership stress

From: TURNAROUND, Leading Stressed Colleges and Universities to Excellence, Martin and Samels 2009 P. 9

1. No complete online programs developed
2. No new degree programs developed for at least two years
3. Academic governance and curriculum development systems require more than one year to approve changes or new programs
4. Institution on probation or warning with accreditors
5. Separate review of financial resources by accreditor
6. More than 50 percent of faculty lack terminal degree
7. Average age of full-time faculty is fifty-eight or higher
8. Leadership team avg term of service to institution of > 12 or < 3 years

C. Who to Communicate With

- Leadership Team
- Board
- Faculty and Staff
- Alumni, donors and friends



C. Who to Communicate With

1. Leadership team

- Identify driving activities that have yielded financial outcomes
- Require unanimity of problem recognition
- Maintain confidentiality concerning plans
- Agree upon targets for reduction together
- Not just a “financial” problem for the CFO

C. Who to Communicate With

2. Finance committee of the board

- Individual briefing of committee chair and board chair
- Full disclosure with committee - as much data as possible
- Details of renewal plan reviewed, with assent requested
- Expectation that committee chair will sell need and plan to general board

C. Who to Communicate With

3. Board of Trustees

- Use of executive session, with invitations for resource persons
- Separate presentation, led by finance committee chair
- All of leadership team present to answer questions
- Primary goal is education about situation and plan
- Affirmation of plan is desired outcome

C. Who to Communicate With

4a. Faculty and staff

- Should be led by the President – NOT THE CFO
- Can be separately presented to faculty and staff but not optimal (initially)
- Stress comparisons with overall market and primary competition
- Concerning reductions, share only about voluntary separation in first meeting

C. Who to Communicate With

4b. Alumni, donors and friends

- Share in broad terms the challenges being confronted
- Reassure them that a plan is in place to realign resources
- Thank them for their generosity and commitment to the institution
- Ask for renewal of their support to the mission and values of the institution
- Provide updates as the process unfolds – broad terms, with emphasis on “wins”

BKD

D. What to Communicate

1. Prerequisites

- Need a definition of stress (MUST be agreement on this issue)
- Need context (Institutional benchmarks with primary competition)
- Need longitudinal analysis (Turnaround factors, CFI, DOE)
- Need goals or targets (Need to be in alignment with strategic planning)

2. Questions to ask

- Do we fit the definition of an “at risk” institution?
- What is our financial direction? (From longitudinal analysis)
- How far must we come to be healthy? (Distance from goals)
- How do we compare to benchmark institutions?

D. What to Communicate

3. Key features of communication:

- Timely
- Concise (Bullet Points, not paragraphs… Pictures, not columns of numbers)
- Comparisons (to competition and well chosen peers)
- Trends (Showing both direction and velocity)
- Distance to internal targets (facilitating accountability)
- Thoughtful forecasts (3 to 5 years)

E. When to Communicate

Gary A. Olson is President of Daeman College in Amherst, New York. He knows about communicating to higher education governing boards, administration and faculty. He wrote in a recent Chronicle of Higher Education article,

"The key to genuine shared governance is ***broad*** *and* ***unending communication****. When various groups of people are kept in the loop and understand what developments are occurring within the university, and when they are invited to participate as true partners, the institution prospers. That, after all, is our common goal".*

BKD

E. When to Communicate

Michael K. Townsley, Ph.D. “There is a difference between late and too late”.

- **<u>Must</u> know the difference**
- **Start the communication process early… When the signs of stress first begin to appear (before its too late)**

II. Triage

Living long enough to undergo treatment

A. Strategies to bolster DOE and bank ratios
B. Generating cash to carry the institution through

BKD

A. Bolstering ratios

1. **DOE ratio enhancement**
   - Borrow funds so long as they do not exceed fixed assets
   - Recognize pledges from recurring donors – not board members
   - Sale and leaseback of assets to recognize gains and generate liquidity
   - Sale of non-core operations that have goodwill associated with them

A. Bolstering ratios

2. **Bank covenants**
   - Sale of appreciated investment portfolio (realized vs unrealized)
   - Update appraisal so that bank can approve asset sales without material debt payoff
   - Convert investments to cash around year-end to show stronger liquidity

BKD

B. Generating near term cash

1. Freezing budgets
2. Sale of non-core assets
3. Increasing line of credit
4. Increased accounts receivable diligence
5. Vendors agree to summer payment holiday
6. Focused attention on annual fund
7. Open positions carefully vetted

BKD

III. A Good Offense …

Not sure you can cut your way to health…

So Consider:

A. New academic programs (including graduate, adult and online)

B. Creative marketing and recruitment strategies and initiatives

C. Monetizing assets

D. Updating the endowment strategy to reduce the amount of unfunded discount

A. New academic programs - Examples

- Kenyon College – Filmmaking (an extension of their well-known English literature program)
- Augustana College – Media studies and a certificate in entertainment and media, bringing a film company on campus
- Webster University – Film, Television and Video production
- Alvernia University – Leadership
- Augustana – Certificate in Nonprofit leadership
- Goucher College and Texas Lutheran – Data analytics
- Hilbert College, St. Bonaventure University, Bluefield College, Hood College, Immaculata University, Mount St. Mary’s University - Cybersecurity and computer forensics

B. Creative marketing and recruitment strategies

1. New sports (But be careful here, it's all about net revenue)
2. New student populations
   - Transfer Students
   - Veterans
   - Internationals
   - Under-represented populations
   - Older students and High School students
3. Three-yr. BA or 3+1 with masters
4. Academic delivery modality (Online, blended, summers free, etc.)

C. Monetizing Assets

1. Large Schools:
   - Ohio State, Leasing parking facilities
   - Ohio State, Outsourcing campus utilities
   - Kent State, Closing golf course looking for alternative uses
   - Bowling Green State University, Closing golf course considering alternative uses
2. Small Schools:
   - Wheelock College, Selling Presidents House on campus and Residence Hall
   - Holy Cross, 50 acre sale to Notre Dame
   - Fuller Theological Seminary sold Pasadena campus

IV. Trimming down on defense

A. Voluntary Separation Incentive
B. Involuntary RIF
C. Salary and benefit reductions
D. Other cost saving initiatives

A. Voluntary Separation Agreements

1. Must be generous
2. Must include nearly everybody
3. Creates “buzz” – “You’d be silly NOT to take this”
4. Commit to adjusting to what may be random outcomes
5. Avoids the declaration of “financial exigency” (emergency)
6. Inaction means these folks will be paid anyway – and for more $
7. Communication plan includes next steps: RIF, comp reductions, outsourcing

B. Involuntary reduction in force

1. Communicated with announcement of Voluntary Separation Incentive
2. Only used if VSI isn’t as successful as desired
3. Much less generous than VSI
4. Will consider employee necessity and performance
5. “Do I stay and risk the job of another?”
6. “Do I feel confident that I will survive a RIF?”
7. “Didn’t they talk about pay reductions and outsourcing too?”

C. Salary and benefit reductions

1. To be used only if goals are not met by VSI and RIF
2. Retirement plan contributions reduced for younger workers
3. Move from outright retirement contribution to match or reduce match
4. Increase contribution by school toward single health plan
5. Eliminate additional contribution toward family health plan
6. Reduce contribution toward plans other than high deductible
7. Sliding scale of salary reduction – administration has highest percentage

D. Other cost savings reductions

1. Ask campus community for reduction possibilities: minimum $25,000 each
2. Have a serious conversation with major vendors – food service particularly
3. Open the door to outsourcing in creative ways – encourage some employees to start their own businesses
4. Closing off unused portions of housing and offices

V. Case Study: Example College

V. Case Study: Example College

- The Turnaround plan began as a three-year plan for financial improvement.
  - Put on hold certain elements to first work on the Strategic Plan and Campus Master Plan, rebuilt staffing in many departments in order to fold elements of both the Strategic and Campus Master plan into the Turnaround plan.
  - It is now a five-year plan.
- Higher Education turnaround specialist, was brought in at the beginning planning stage. He estimated that if College continued the current course, year-end financials results would be:
  - 2017/2018 = $-5m
  - 2018/2019 = $-7m
  - 2019/2020 = $-8m

V. Case Study: Example College

Example College needs to be restructured to align spending with revenues. With growth challenged due to declining graduates from high schools…we must not only right size, but insist on operational efficiency and new sources of revenue.

Key Components:

1. FTE Reduction / Rightsizing
2. Operational Improvement
3. New Revenue Sources

V. Case Study: Example College

Five things became clear:

1. Culture was going to trump strategy
2. Communication would be vital
3. Timing was not on our side
4. We needed to bring in help (Credo & Leap Solutions)

BKD

V. Case Study: Example College

- FTE Reduction / Rightsizing:
  - Changes for 2017/2018 Budget:
    - Planned & Early Retirement = -18.80 FTEs
    - Involuntary = -12.50 FTEs
    - Attrition = -22.75 FTEs
    - Adjunct/Replace = +7.96 FTEs

    - Total FTE Reduction = 46.09
    - Anticipated Cost Savings = $2.8m
    - Early Retirement cost College $700k
  - As of March 31, 2018 (3rd QTR of fiscal year) S&W saved = $2.3m

V. Case Study: Example College

- FTE Reduction / Rightsizing:
  - Work still to be done:
    - Follow up on Higher Education consultant academic suggestions

V. Case Study: Example College

- Operational Improvements:
  - Temporarily suspended Wellness Incentive Payments:
    - Employees were receiving rebates as high as 50% of their premium contributions…with no evidence of any participation in wellness activities.
    - Eliminating the incentive payments saved over $50k annually.
  - Health plan changes for 2017/2018:
    - College moved to incrementally increase the employee shared-cost over multiple years. For 2017/2018, we went from 2% to 10%. We budget to be approximately 15% for 2018/2019.

V. Case Study: Example College

- Operational Improvements:
  - Health plan changes for 2017/2018 (cont.):
    - Health plan changes included:
      - We went from two PPO plans and one HSA down to one PPO and kept the one HSA.
      - We increased premium deductions by ~8%.
      - The most significant change was to a Reference-Based Pricing plan. We also contracted with Patient Advocacy Center, a patient advocacy firm to deal directly with the providers.
      - Minor changes to certain allowed benefits (e.g. acupuncture, message therapy, etc.).
    - College had year-over-year healthcare increase of 4% to 5% annually. For 2017/2018, we budgeted a decrease of 3%, yielding a run-rate savings of ~$1m. As of March 31, 2018, we've saved over $928k.

V. Case Study: Example College

- Operational Improvements:
  - Outsourced campus security function to third-party
    - Reduced 6 FTEs
    - Cost savings - neutral
    - Benefits:
      - Third party is the largest private security provider in the United States.
      - Is a leader in higher education with more experience than all other private security companies combined.
      - Already has a well established presence in the geographic area
      - Easily scalable to fit College's needs.
      - Access to additional resources (Clery Center, Active Shooter, Disaster Preparedness, Security Monitoring, Safety Alert app, etc.).

V. Case Study: Example College

- Operational Improvements:
  - Recently launched a wage analysis…first in over 15yrs.
    - Create a multi-year wage increase schedule
  - Initiate Productivity Monitoring via current technology
    - Initial estimated savings = $100k
  - Create a multi-tiered meal plan
    - Currently College offers only one meal plan.
    - Plan to offer Platinum, Gold, Silver and Bronze with add-on plans for Deli and potential pizza shop.
    - Budget analyst and Food Service Director anticipate $250k in increased sales. Too early to budget.

BKD

V. Case Study: Example College

- Operational Improvements:
  - Return focus to education
  - Improvement to deferred maintenance
  - Work with Marketing to improve online presence
  - Updating pricing structure
  - Changing dining options
  - Looking to breakeven versus losing ~$60k to ~$90k a year

V. Case Study: Example College

- Operational Improvements:
  - Vehicle Fleet Redesign
    - On average we spend ~$90k+ on vehicle repairs, maintaining a fleet that is predominately 25-30 years old.
    - It would cost us ~$150k a year to begin systematic replacement.
  - Leased operation of Preschool to outside operator
    - Reduced 9 FTEs
    - Cost savings - $90k+
    - Benefits:
      - College still owns the building and leases it to Preschool
      - Liability mitigation.
      - Reduction in minor repairs.

V. Case Study: Example College

- Operational Improvements:
  - Broke down Silos…Streamlining Operations
    - Dorm Facilities and Custodial as well as Housing maintenance all now report to the Facilities Mgmt. Dir.
    - Create both a maintenance and janitorial float pool and call schedule

BKD

V. Case Study: Example College

- Operational Improvements:
  - Total of Credo Engagements:
    - Enrollment ACE – completed/implementing
    - Student Fin Services ACE – completed/implementing
    - Strategic Packaging Matrix – completed/implementing (NTR savings of $500k-$800k)
    - Strategic Planning – ongoing
    - Executive Coaching – ongoing
    - Campus Master Plan – ongoing
  - Don't be afraid to rebuild your team:
    - 13 position changes in less then 15 months (2 AVP's, 5 Directors, 2 Managers, 4 staff)

V. Case Study: Example College

- New Sources of Revenue:

1. *Take current resources and optimize for maximum return.*
2. *Look for and develop new business opportunities.*
   - Restarted and redesigned Auxiliary entity Board
   - Food Service Management Contract for Market Deli
     - Currently losing ~$10k a month.
     - Budgeted a profit of $75k.
     - Optimize staffing between Dining Commons and Deli.
     - Improving marketing on social media.
     - Improve POS & Inventory system.
     - Will be starting catering program.

V. Case Study: Pacific Union College

- New Sources of Revenue:
  - Food service provider - Pizza Parlor
    - Better utilization of space
    - Start up with minimal capital investment. Investment would be split with Food service provider
    - Would be the only pizza delivery
  - Market Improvements (Market & Deli)
    - Productivity Training – Established KPI monitoring
    - W/C & Safety Review
    - Product Updates/New Offerings
    - Updated Signage
    - ‘Market’ research – best practice

V. Case Study: Example College

- New Sources of Revenue:
  - Expand Ace Hardware
    - Product mix has not kept up with recommendations from Ace Corporate.
    - Increase footprint – relocate Bookstore
    - By increasing the footprint, we will receive $300-$400k in free products from Ace.
    - Coordinate with Ace Promotions
    - Installed new POS/Inventory Utilization/pricing software
    - Productivity Analysis
    - New Products/Services (vineyard products, lumber, small tools rental and repair)
    - With increased footprint and improved operations, Ace anticipates annual sales could go from $650k to $1.5m.

V. Case Study: Example College

- New Sources of Revenue:
  - Empty Buildings
    - Laundry building could generate $83k in annual rental income. However, it needs ~$1.1m in TI's.
    - The Laundry building has also been identified as a potential location for a student center.
    - Auto Parts building could generate $33k in annual rental income. However, it needs ~$350k in TI's.
  - RV Park
    - There is a high demand for RV parking due to the amount of weekend activities on campus.
    - Expect a 10-20% ROI per industry standard.
    - Demand is high and maintenance is minimal.

V. Case Study: Example College

- New Sources of Revenue:
  - Transfer reporting of Copy Center to Auxiliary entity
    - College's copy center also serves the community but has never advertised.
    - We have most of the same equipment you'd find at a professional/commercial copy center (e.g. Kinko's/FedEx).
    - Currently in the process of reviewing rates and marketing material to the local community.

Questions and Comments?