



EAB

Assessing and Responding to the Financial Impact of COVID-19

April 28, 2020

EAB at a Glance

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Best Practice Research and Guidance Rooted in a Global Network

12+

Years serving the higher education sector in academic, business, enrolment, advancement, and student affairs terrains

1,500+

Partner institutions worldwide whose experiences provide the foundation for best practices and transformative insights

26,000+

Campus leaders using EAB services to recruit students, ensure their success, and adapt to an ever-changing environment

Core Pillars of EAB Support

Getting Smart on Complex Issues



Roundtable gatherings of senior leaders to hear latest EAB research



Best practice research studies and shorter-term collaborative initiatives

Making Better Decisions



On-demand advice delivered via workshops and webconferences



Expert consultations with EAB subject-matter experts

Accelerating Implementation



Change management guides, self-assessments, and implementation tools



Executive networking with global peers

Responding to COVID-19 Across Multiple Horizons

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EAB Support for Immediate and Long-Term Challenges

Next Few Weeks

"How do we respond to the immediate financial challenges of the crisis?"

Emergency Financial Management

Support for Immediate Financial Decisions, Including:

- Refunds policies
- Contingency planning
- Near-term cost containment

Today's focus

Next 3-6 Months

"How bad will things get and what difficult decisions and trade-offs will we need to make by autumn?"

Budget Scenario Planning

Forecasting the Impact of COVID-19 on Universities

- Detailed analyses of potential future impact on major revenue streams
- Small peer working sessions on key budget assumptions

End of 2020 and Beyond

"What will competitive differentiation and financial sustainability look like in a radically altered higher ed landscape?"

Future Visioning

Thriving in a New Normal: Strategies for a Post-COVID-19 Landscape

- Longer-term cost restructuring strategies
- Competitive differentiation in an altered market
- Future of admin work and space utilization

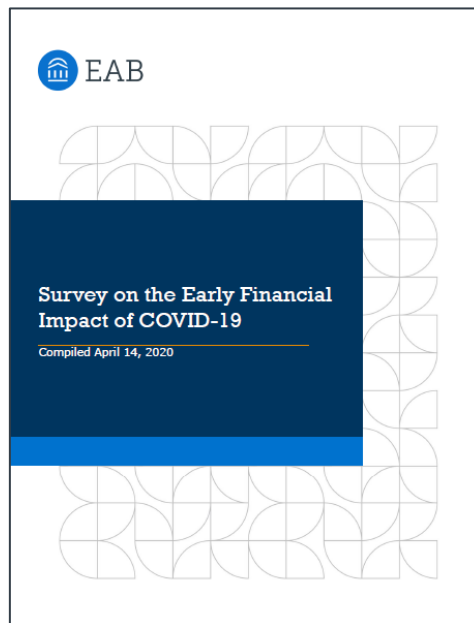
- 1 Results of EAB Survey on the Immediate Financial Impact of COVID-19
- 2 Cost Containment Strategies in the COVID Environment
- 3 Budget Scenario Planning
- 4 Q&A

EAB's Financial Impact Survey

A Snapshot of COVID-19's Early Impact on 4-Year Institutions

Survey in Brief:

- 15-question survey assessing the early financial impact of the COVID-19 crisis
- Circulated to >300 business and finance leaders across the US, Canada, UK, and Ireland
- Open from April 9- 14, 2020 (~3 weeks after most campus closures)
- Questions spanned four major topics:
 - Cost and loss estimates for FY20
 - Pursued and planned tactics to increase liquidity
 - Pursued and planned tactics to contain costs
 - Confidence in FY21 budget planning assumptions



View the full survey results [here](#).

Near-Term Financial Impact

Emergency Costs and Lost Revenues

Estimated Total Costs Incurred at Survey Response Date

n=57

£5.7M¹

Median estimated cost among all survey respondents

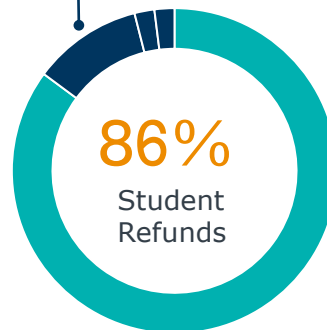
3.6%

Median estimated cost as a percent of OpEx² among all survey respondents

Student Refunds Comprise the Majority of Financial Impact

n=64

- Remote Instruction 2%
- Remote Administration 2%
- Other 11%



Read EAB's analysis of COVID-19 refund policies [here](#).

1) Financial calculations have been converted from USD using exchange rate of 1 USD = .81 GBP
2) Operating Expenditure.

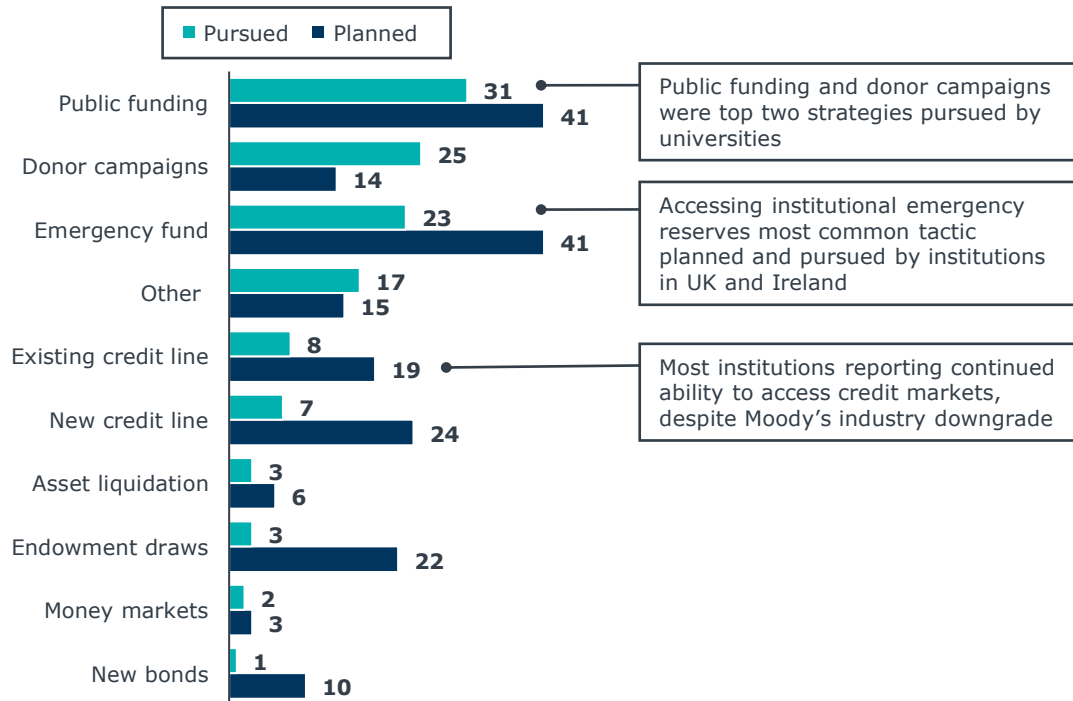
Cash Is King

7

Pursued and Planned Tactics to Increase Liquidity

Pursued and Planned Tactics—All Respondents

n=92



The Donor Imperative

How the Pandemic is Affecting Giving—and Resources to Optimize Strategy

Emerging Challenges for Advancement Shops



Donors experiencing financial strain of crisis



Competition for donor attention among wide swath of causes



Travel restrictions limit staff activity and planned events



Disruptions to spring fundraising initiatives, like annual giving days



Changes to commencement and annual reunion plans

EAB COVID-19 Advancement Resources

Expert Insight

3 ways the COVID-19 crisis is affecting advancement strategy

Access the expert insight [here](#).

Expert Insight

What the CARES Act means for higher education advancement leaders

Access the expert insight [here](#).

Expert Insight

Insights from the Great Recession and what they mean for fundraising during COVID-19

Access the expert insight [here](#).

Expert Insight

Rethink donor outreach during the coronavirus pandemic

Access the expert insight [here](#).

Hoping for the Best, Planning for the Worst



Most Finance Leaders Updating Contingency Plans as They Implement Them

83%

of respondents updating financial contingency plans as a result of COVID-19

25%

of respondents developing contingency plans for the first time

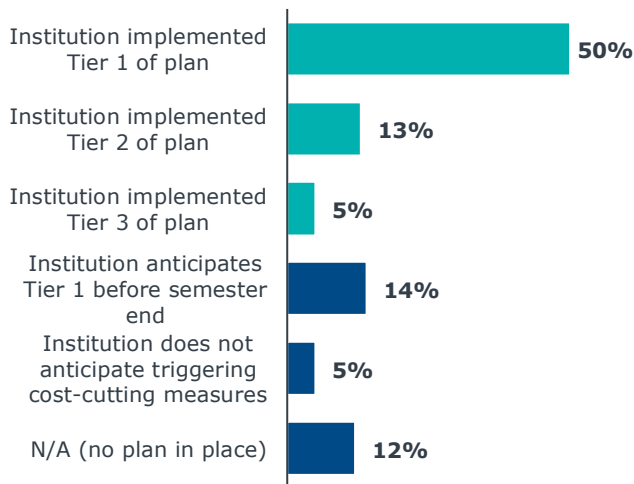
68%

of respondents using **projected revenue losses and/or incremental expenses vs. budget** to set thresholds to trigger action



68% of CBOs Already Actively Implementing Tactics on Plan

n=97



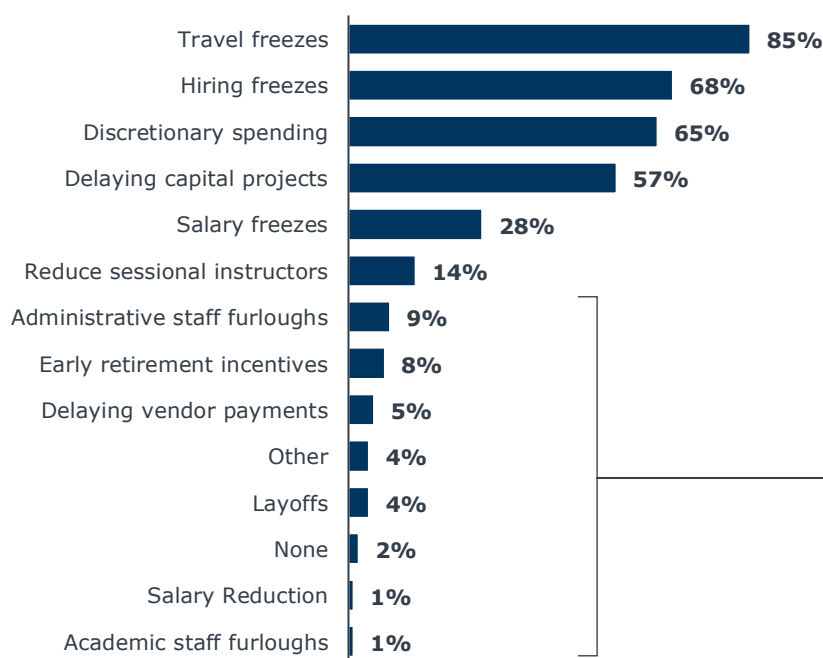
For guidance on creating financial contingency plans, download EAB's [Playbook for Immediate Labor Savings](#).

The Current Cost Containment Landscape



Early Implemented Actions Target Non-Personnel Costs

Cost Cutting Measures Implemented



Initial Steps Taken

- Most units have adopted quick cost control measures
- Units that have not yet done so largely said they intend to soon

Personnel Costs Linger

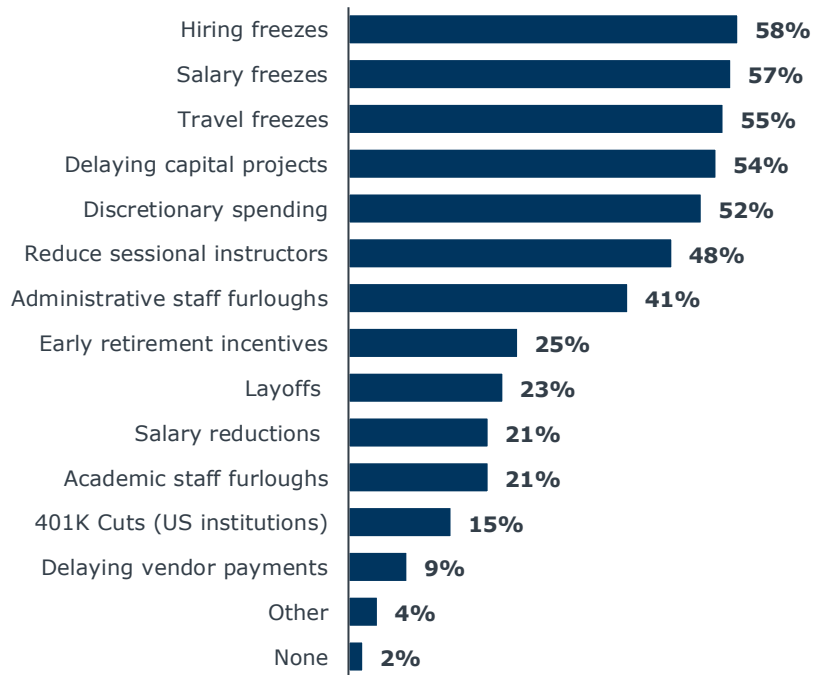
- Hiring and salary freezes are the first personnel cost control measures
- Institutions favoring furloughs 2 to 1 over layoffs

Future Cost Control Plans



Expected Measures Affect Staff More Directly

Cost Cutting Measures Planned



Freezes Remain Ubiquitous

- Most unis expect to maintain or adopt costs freezing policies
- More institutions plan salary freezes to further control personnel costs

Personnel Cost Cuts Now on the Table

- Unis target adjunct and administrative staff for furloughs and, increasingly, layoffs

Uncertainty Around Future Budget Projections

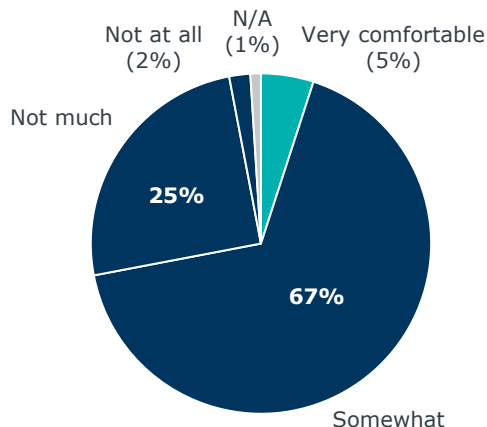


Most Leaders at Least Somewhat Uncomfortable with Current Plans

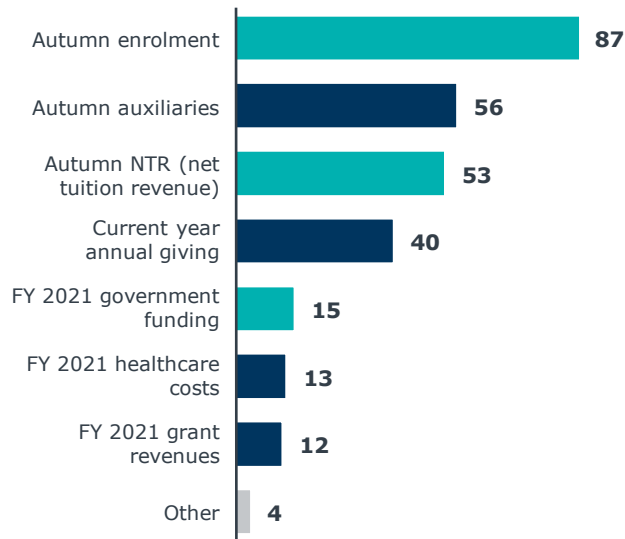
Varying Degrees of Confidence Around Budget Planning Assumptions

How comfortable are you with your current scenario model?

n=98



Which budget planning assumptions are you finding most difficult to make in the current environment?



1

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Q&A

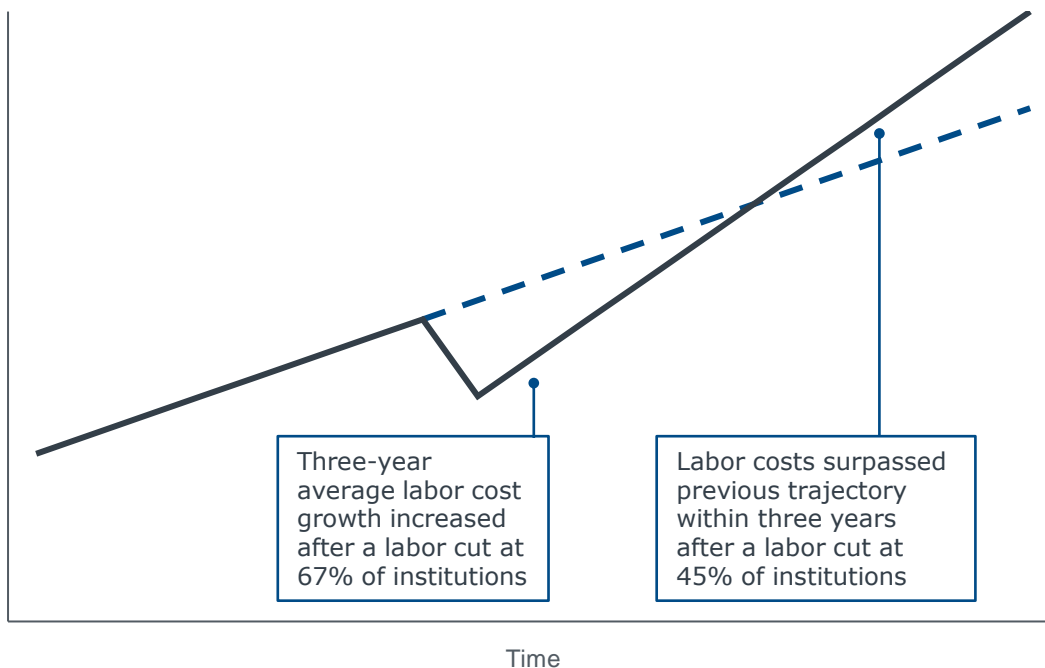
Most Cuts Don't Last



Historical Data Shows Many Institutions Are Worse Off After Labor Cuts

Modeled Labor Cost Growth Following Significant Cut

$n = 1,307$



Cutting Into the Bone



Over-Correction Quickly Erases Gains from Labor Cuts

1 Institution cuts labor

Institution institutes hiring freeze and lays off 40+ central admin staff

2 Units short-staffed

Select units under-staffed during busiest time of year

3 Unit managers turn to costly alternatives

Leaders use expensive overtime and temp agencies to temporarily fill in staffing needs

4 Institution experiences net loss

Money spent on expensive staffing alternatives exceeds money saved from labor cuts



Case in Brief: Barnes University¹

- Small public baccalaureate university in the United States
- Implemented hiring freeze and layoffs in central admin to reduce costs, but ultimately saw costs increase when unit leaders corrected for reduction with expensive premium labor

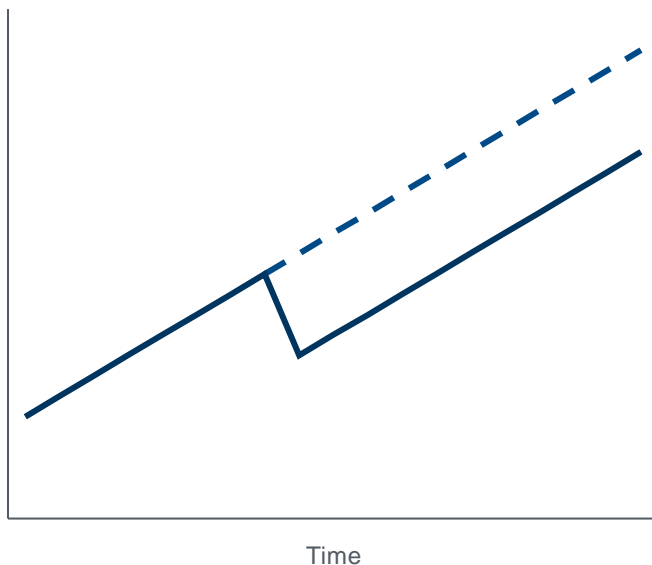


1) Pseudonym.

Rebasing the Current Cost Structure

Strategies Yield Immediate and Sustainable Savings to Combat Present Losses

Modeled Labor Cost Growth Following Principled Savings Tactic Implementation



Contrasting Rebasing Tactics to Cost Cutting

- Cuts often go too deep, impacting staff's ability to perform needed work and leading to costly course corrections
- Rebasing tactics reduce cost baseline without increasing growth rate or "cutting into the bone"
- Principled approaches to cost savings do not hinder work processes or damage staff morale, making them more sustainable long-term

Compendium of 60+ Containment Tactics and Implementation Guidance

Contains **67** distinct tactics
organized into nine categories:

- Benefits Vendor Management
- Compensation
- Employee Stipends and Perks
- Fringe Benefits
- Health Benefits
- Overtime
- Personnel Decisions and Staffing
- Physical Plant and Real Estate
- Purchasing and Procurement

VII. Personnel Decisions and Staffing

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Tactic	Savings Potential	Time to Achieve Savings	Requires Union Negotiation
#39: Freeze hiring	\$\$\$	Short	Not Likely
#40: Create hold period for vacancies	\$	Short	Not Likely
#41: Enact targeted layoffs	\$\$\$\$	Short to Long	Likely
#42: Consolidate management layers within departments	\$	Medium to Long	Not Likely

Implementation Guidance

Hiring freezes can generate immediate cost savings, and also serve as a mechanism by which the need for new or vacant positions can be scrutinized. However, care should be taken not to "cut too deep" when deciding not to backfill vacant positions—ensure existing staff are capable of maintaining current service levels and handling potential increases in work volumes.

Ensuring a period of time that newly vacated positions should be held open before they are backfilled has several cost-related benefits. A mandatory hold period intentionally slows down the hiring process, reducing the number of positions that are filled and the amount of recruitment and placement costs. It provides time to obtain existing resources in a more efficient way, reducing the need to hire new employees. Additionally, it lets vacancy review leaders "batch" vacancies from across units to determine where the greatest need for staff exists and to prioritize filling those units. In addition to the marginal savings created by the hold, more substantial year-over-year savings are achievable when the vacancy review process and mandatory hold period are used to increase storage capacity and prevent automation, sometimes unnecessary, backfilling of various roles across the agency. Some savings are also realized by the hold period—justified—jobs with a disproportionate impact on public safety, requiring highly specialized or hard-to-find skill sets, as well as units with exceptionally high turnover rates, should be exempted from the hold.

This tactic is often thought of as the option of "last resort" for reducing administrative overhead. Rather than pursuing across-the-board cuts, positions should be eliminated based on business need and strategy alignment. Coordinated communication is critical to maintaining the morale of existing employees.

Staffing	This tactic involves reducing administrative layers by holding vacant management positions open and distributing tasks up or down to existing management staff. Depending on the institutional bureaucracy, this tactic has the potential to significantly reduce staffing layers contributing to burdensome structures and over-inflated administrative costs.
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In Search of New Savings Strategies

EAB Call for Contingency Plans

Already Updated Your Financial Contingency Plan?



EAB is collecting financial contingency plans



Our researchers will analyze your submissions...



...and share novel ideas back with the EAB community

Submit Your Financial Contingency Plan

▶ Email plans to **kmaloney@eab.com**



All documents will be held **in confidence**



We will not share plans or ideas from individual institutions without your consent

Adapting Furlough Plans to COVID Realities



How Today's Policies Are Differing from the Great Recession's

	Post-Great Recession	Immediate COVID Response	Future COVID Projections
Affected institutions	Most common at public institutions, with some states mandating for all state employees	Public and private institutions enacting (at least 25 institutions to date; 41% of survey respondents planning)	Likelihood that some states and systems will mandate as they grasp magnitude of budget deficits
Targeted staff	All administrative staff, though number of furlough days required varied by salary	Staff who cannot perform duties remotely, commonly those in auxiliaries	May see more across-the-board announcements across summer if on-campus activities cannot resume
Duration	Short duration, amount of furlough days required of each employee defined upfront (typically fewer than 20 days)	Longer-term, some indefinite (i.e., expected to last through summer to start of 2020-21 academic year)	More institutions likely to create tiered plans with furlough durations varying by paygrade if they target staff more broadly

Select Furlough Savings from the Great Recession



Furloughs (10-15 days) yielded **£19.4 million¹** in savings in FY09, which was 40% of their required budget reduction



System-wide furloughs (11-26 days) yielded **£149 million** in savings in FY09-FY10, which was 25% of their budget shortfall



Furloughs (5 days) yielded **£2.7 million** in savings in FY09, which was 60% of their required budget reduction

¹) Financial calculations have been converted from USD using exchange rate of 1 USD = .81 GBP

Supporting Staff Through Long-Term Furloughs



Select Institutions Crafting Policies that Reflect Staff Needs Amid Pandemic



Loughborough University's Robust Benefits Package

- Furloughing employees unable to carry out work remotely
- Institution will apply for Government funding to cover 80% of furloughed staff pay, and top up remaining employees' pay
- Employees will continue to accrue annual leave, and pre-booked leave will not be cancelled
- Pension contributions will continue, and University will maintain employer contributions
- For more info about Loughborough's furlough benefits, click [here](#)



University of Oregon's Coordinated Program

- Putting 282 employees on leave-without-pay status until August 31, 2020
- Developed UO Extended Benefits Program in consultation with unions to reduce employee hardships
- Employees receive minimum 30-day paid notice and continued health insurance at same rate
- For more info about Oregon's program, click [here](#)



University of Michigan's Voluntary Staff Furloughs

- With unit approval, staff can voluntarily take an unpaid furlough for 60-120 days
- Emphasizes employees will be eligible for unemployment (\$362 maximum state weekly benefit and \$600 weekly federal supplement)
- Employees will receive continued benefits and job security (unit will hold their position to return to at the end of the approved period)
- For more info about Michigan's voluntary furloughs, click [here](#)

Source: University of Michigan, "A COVID-19 update from President Mark S. Schlissel" and "Coronavirus Finances FAQs"; Loughborough University, "Coronavirus Information"; University of Oregon, "President announces staffing reductions due to COVID-19" and "COVID-19: Employment Changes and Employee Benefits"; EAB interviews and analysis.

Sample Tiered Furlough Plans

Learning from Peer Policies and Staff Communications



The University of Arizona's 2020-21 Tiered Furlough Plan¹

Projected Revenue Loss- \$250M

Income Bracket	Furlough Days	Equivalent % Pay Reduction
<\$44.5K	13	5%
\$44.5-75K	26	10%
>\$75-150K	39	15%

- Staff must take at least 8 hours of furlough time each pay period until days are fulfilled
- Furlough leave does not affect benefit eligibility, though benefits calculated as a percentage of earnings (e.g., life insurance) will be reduced slightly
- Staff continue to accrue vacation and sick leave at regular rate
- For FAQ and sample staff communications from the University of Arizona, click [here](#).

Archived Tiered Furlough Plans from the Great Recession (2009-2011)

- [Morgan State University](#)
- [University of Louisiana Monroe](#)
- [Oregon State University](#)
- [University of Toledo](#)

1) Staff making more than \$150K are subject to pay reductions of 17-20%

Layering on Other Compensation Adjustments

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Multi-Tiered Savings Approaches Minimize Disruption for Staff

Common Salary Adjustments During COVID-19



Vice Chancellors
10-20% temporary pay cuts



VPs and Deans
5-10% temporary pay cuts



Staff
Merit increase freezes and voluntary salary reductions



Athletics
One-year pay reductions for coaches and directors

University of Minnesota's System-Wide Three-Pronged Approach

- 1 10% temporary VC salary reduction
- 2 One-week unpaid leave for 200 senior administrators
- 3 Staff-wide freeze on merit increases

£32-40M^{1,2}

Total expected savings from salary freezes and senior admin pay reductions

Considerations for Equitable Compensation

Tiered pay cuts based on salary brackets

Quinnipiac
UNIVERSITY

Quinnipiac University's tiered system reduces staff pay cuts from 5% to 3% for employees making less than \$50K

Incentives for those with new occupational hazards



USC University of Southern California

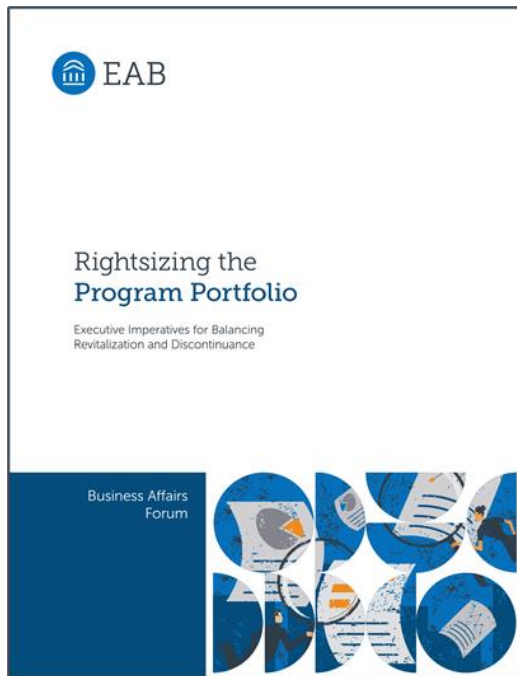
University of Southern California's incentive pay system compensates essential clinical personnel despite campus-wide salary freezes

1) Amount equivalent to 143-179% of refunds losses (£23M)

2) Financial calculations have been converted from USD using exchange rate of 1 USD = .81 GBP

When Temporary Measures Aren't Enough

Guidance on Conducting a Principled Academic Programme Review



Resource in Brief:

- Peer-tested metrics for evaluating academic program health
- Guidance on aligning programme closures with faculty retirements to minimize disruption
- Sample programme closure and teach-out policies
- Download the study [here](#)

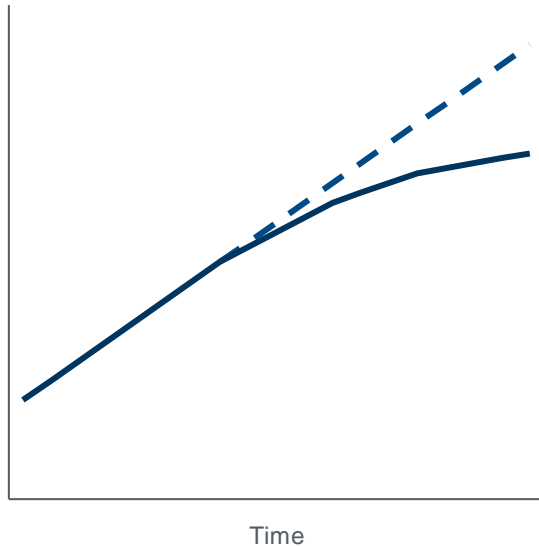
Questions about other cost cutting strategies? Reach out to your Strategic Leader or kmaloney@eab.com.

Looking Beyond the Immediate Crisis



Greatest Opportunity is Slowing Cost Growth, Avoiding Future Costs

Ideal Labor Cost Growth Over Time



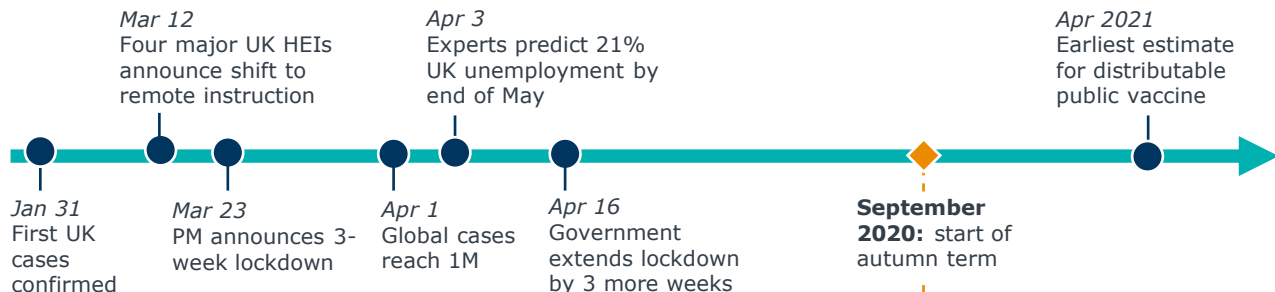
EAB Resources to Help You Slow Cost Growth Over Time

- [Bending the Administrative Labor Cost Curve](#)
- [Design a Shared Services Model that Reflects Campus Priorities](#)
- [Process Improvement Primer](#)
- [Efficiency and Effectiveness Initiatives](#)

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How the Pandemic Could Play Out for the Sector

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Three Scenarios for How COVID-19 Could Impact Autumn Operations

Recovery Before Autumn

Campuses reopen to a new normal. "Flattening the curve" succeeds, and most activities resume, but large-scale events and athletics still paused, with new distancing in dorms.

Partial Recovery by Autumn

- Campuses reopen but risk reclosure, *or*
- Large modules must be held online, *or*
- Many students cannot return due to travel restrictions

No Recovery by Autumn

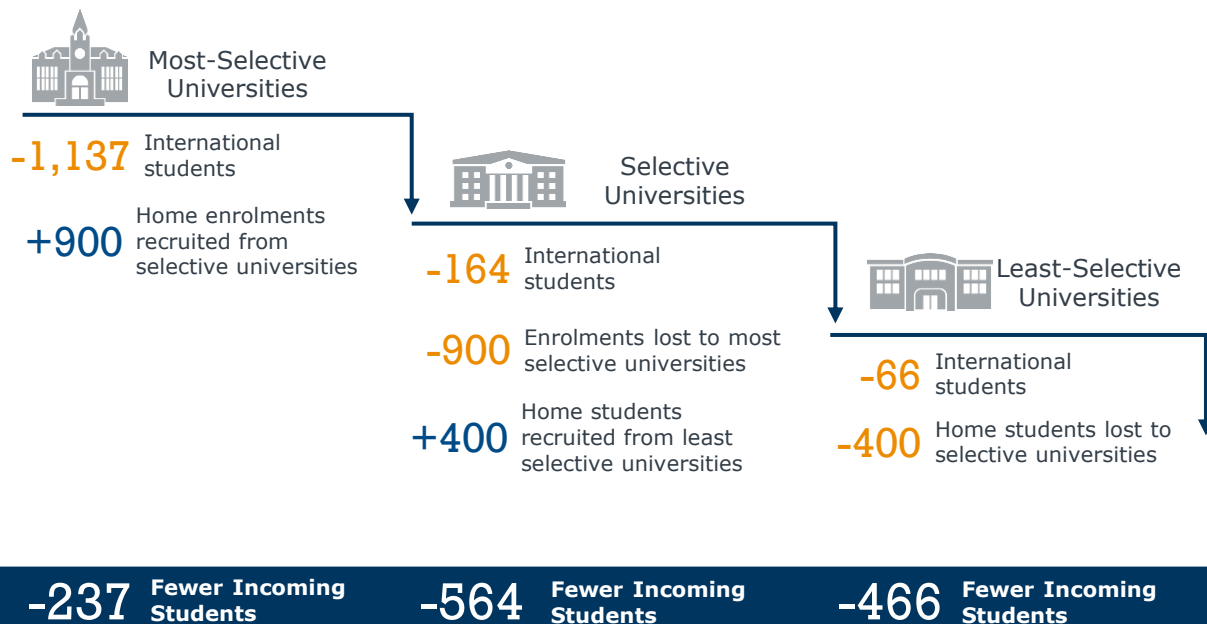
Campuses stay closed. Rolling peaks of infection throughout the UK require emergency remote instruction throughout autumn term.

No Institution Immune from International Downturn

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Barring Return of Enrolment Caps, as Selective Universities Look to Fill Vacancies Through Clearing and Unconditional Offers, All Institutions Face Tighter Competition

Illustrative Example



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Ask Us Anything

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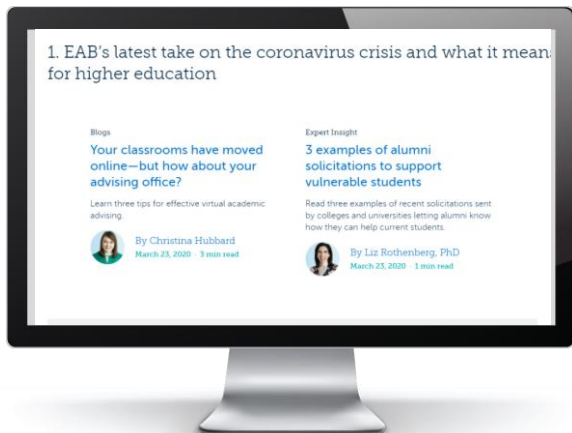
How EAB Supports Crisis Response and Recovery

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Support for Immediate Challenges

Visit our resource center now:

eab.com/COVID19



Strategy through the Crisis and Beyond



Incoming and Current Student Retention



Enrolment and Academic Programme Strategy



Research, Advancement, and Community Outreach



Budgeting and Financial Modeling



Organizational Transition and Transformation



Interested in talking to an EAB expert about your COVID-19 challenges?

Complete the exit survey

Please Fill Out the Exit Survey!



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- As you exit the webinar, you will be directed to an evaluation that will automatically load in your web browser.
- Please take a minute to provide your thoughts on the presentation.

THANK YOU!



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