



Pressure-Testing Revenue Assumptions for FY 2021

A Guided Discussion for Finance Leaders

Joining Us Today

Today's Participants



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**Favorite COVID
Shut-in Activity:**

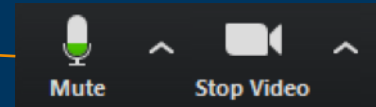
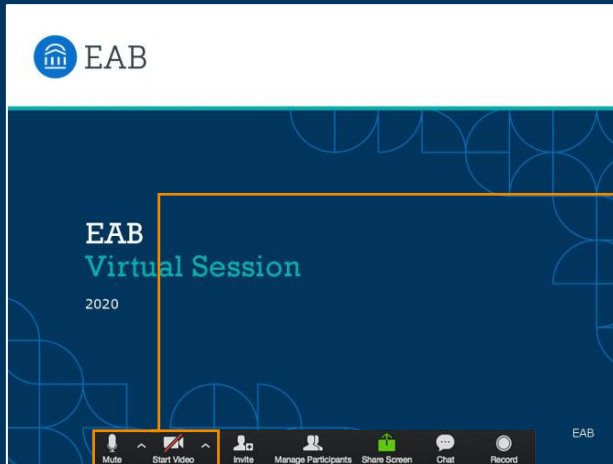
Jigsaw Puzzles

Connect with EAB



Zoom Features and Settings

Audio Mute/Unmute & Video Stop/Start



You are live.
Everyone can hear you.
Everyone can see you.



You are not live.
You are muted.
Your video is turned off.

Clicking the Up arrow next to the Mic and Camera icon at any time during the meeting will provide you with audio and video options.

Zoom Features and Settings

Nonverbal Feedback

- 1 Click **Participants** in the menu bar.
- 2 You can select one of the icons to provide feedback during the meeting. Click the icon again to remove it.

Chat

- 3 Please utilize the **Chat** button—located in the Zoom menu bar at the bottom of your window—to ask any questions throughout the session.

If you have any technical difficulties with Zoom please message us utilizing the **Chat** button.

The screenshot displays a Zoom meeting window for an "EAB Virtual Session" at 2020. The interface is divided into several sections:

- Participants Panel (Top Right):** Shows two participants: "National Meetings (Host, me)" and "Test Participant". Below the list is a feedback toolbar with icons for "Raise Hand", "yes", "no", "go slower", "go faster", and "more". A yellow box highlights this toolbar, with a "2" callout next to it.
- Zoom Group Chat (Middle Right):** A chat window titled "Zoom Group Chat" with a "Mute All" button, "Unmute All" button, and a "More" dropdown menu. The chat area shows "To: Everyone" and a text input field "Type message here...".
- Zoom Meeting Control Bar (Bottom):** Contains icons for Mute, Stop Video, Invite, Participants, Share, Chat, and Record. A yellow box highlights the "Participants" and "Chat" icons, with callouts "1" and "3" respectively.

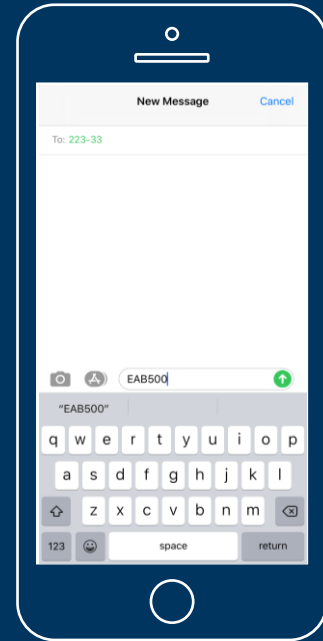
Digitizing Your EAB Meeting Experience

How to Use the Poll Everywhere Technology

- ▶ We will use Poll Everywhere as an interactive feature in today's presentation.
- ▶ Please note that all results are anonymous, and we do not collect contact information.

Text **EAB500** to
22333 once to join

- ▶ Each poll page in the presentation will give you instructions for how to vote for an answer





When poll is active, respond at **PollEv.com/eab500**

Text **EAB500** to **22333** once to join

What's YOUR favorite COVID shut-in activity?

Start the presentation to see live content. For screen share software, share the entire screen. Get help at pollev.com/app



Confronting the Challenge of Thinking Ahead

Leading through the Covid-19 Crisis on Multiple Horizons

Next Few Months

"How do we anticipate and prepare for the next wave of Covid-19 emergency issues?"

Crisis Management

*Emergency Response
Tabletop Exercises*

- Cabinet practices simulated emergency situations stemming from Covid-19 pandemic

Next 3-6 Months

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

Scenario Planning

*Forecasting the Financial
Impact of COVID-19 on
Higher Ed Revenue Streams*

- Roundtable for business and finance leaders

Today's focus

End of 2020 and Beyond

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

Future Visioning

*Forthcoming Summer 2020
Thriving in a New Normal:
Strategies for a Post-Covid-19
Landscape*

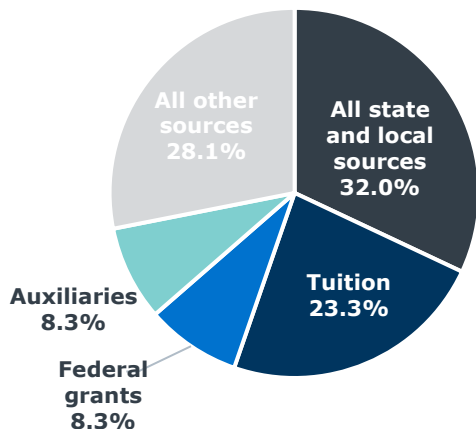
- How will institutions need to reinvent themselves to stand out?

Where the Revenue Comes From

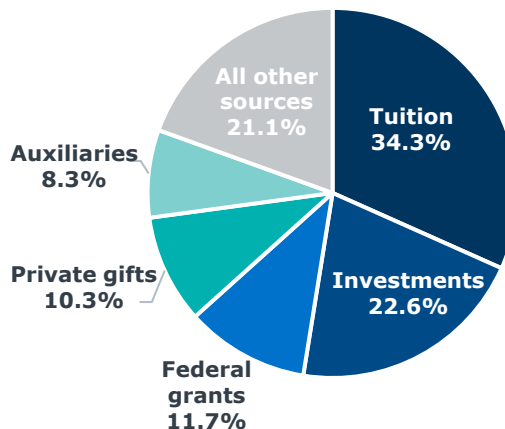


Higher Ed Revenue Sources

Major Revenue Categories for Public Institutions



Major Revenue Categories for Private Institutions



EAB's Issue-Focused Virtual Roundtables



Pressure-Testing Revenue Assumptions



Senior Business Leaders



Discussion Overview

- Level set on what is known about the Revenue Outlook as of May 2020
- Share assumptions and modeling challenges regarding forward projections

Goals For Today

- Discuss future revenue streams issues and share ideas regarding challenges and solutions.

Conversation One



– Enrollment

Conversation Two

–Participant choice

Our Follow-up

- Participants will receive a conversation summary and notes
- EAB will identify any additional areas of idea-sharing or crowd-sourcing and initiate follow-up research



Which revenue streams would you like to focus on during our discussion today?

Enrollment/tuition

Government funding (federal and state)

Auxiliaries

Endowment

Advancement

Athletics

Research





Enrollment Revenue





How to Think About Enrollment Projections

Historical Guidance is Limited

Our Data Sources...and Their Limitations



Outcomes of 2008 recession: *slower onset, purely financial causes*



Previous epidemics (e.g., SARS): *shorter duration, more localized*



Early economic and epidemiological projections including NCES, IHME, Federal Reserve

Scenarios Need Not Be Perfectly Accurate to be Useful Planning Tools

Entering Uncharted Waters

- Must assume a break with past 5-10 years of trend data
- Covid-19 is first pandemic of its kind in over 100 years
- However, **hypothetical data is still more helpful than no data at all.**

Enrollment Financial Impact Will Vary by School

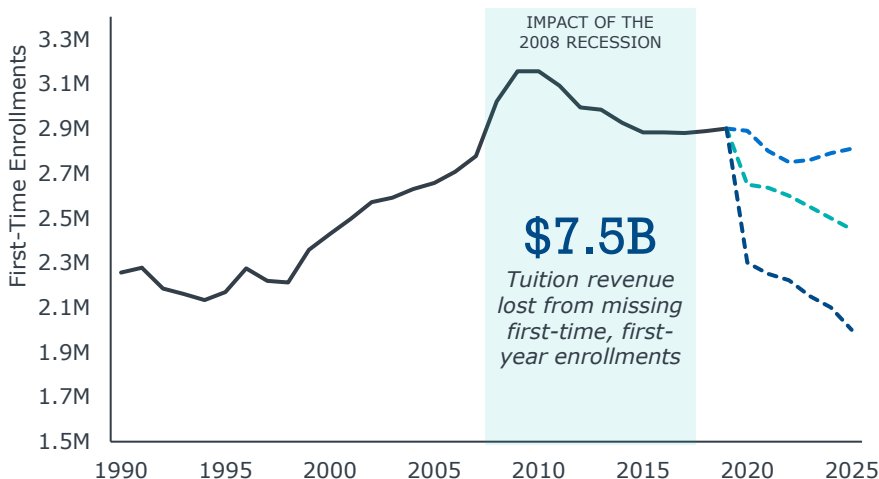
- Dependence on tuition revenue, which determines financial impact of an enrollment decline, varies by segment and within segment
- Institutions should prepare for each scenario in their own financial contingency plans



The Demographic Cliff May Already Be Here

Projecting the Impact of Increased High School Dropouts and Delayed College Plans

Number of first-time enrollments, 1990-2025¹



Recovery before fall
 Nearly 20% of prospective students delay college. HS dropouts near 1.5M as remote instruction fails to engage

Partial recovery by fall
 30% increase in HS dropout rate; one-third of would-be students delay matriculation by a year or more

No recovery by fall
 High school dropouts top 2M in the next year. 500k would-be freshman delay their plans indefinitely due to the crisis

Indicators

Institutions at Most Risk

- Access-oriented institutions
- Small student populations
- Limited remote instruction capability

Institutions at Least Risk

- Larger student populations
- Ability to admit “down the waitlist”
- Robust remote instruction capability

1) EAB projections included for years 2020 onward.
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Accelerating Decline of International Enrollment

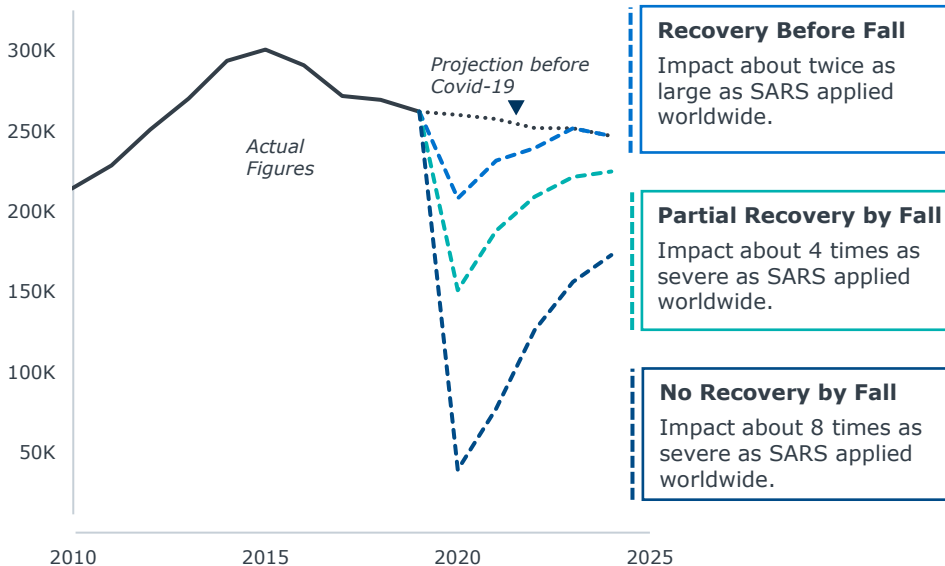
Effects of Covid-19

- Travel restrictions
- Suspended visa interviews
- Pressure on family finances
- Falling exchange rates
- Fears about virus resurgence

-10%

change in intl. enrollments due to 2003 SARS outbreak, selected countries¹

Actual and Estimated Total New International Enrollments



Recovery Before Fall
Impact about twice as large as SARS applied worldwide.

Partial Recovery by Fall
Impact about 4 times as severe as SARS applied worldwide.

No Recovery by Fall
Impact about 8 times as severe as SARS applied worldwide.

Indicators

Institutions at Most Risk:



- R1 Universities
- Located in or near MA, DC, NY, DE, ID, or PA
- 'Downstream' from institutions with high intl. pop.

Institutions at Least Risk:

- Few international students
- Located in southern states
- Highly selective, niche institutions

1) Hong Kong, Taiwan, and Singapore

Source: EAB 2020 Coronavirus Survey, March 17, 2020; Institute of International Education, (2019); IPEDS Fall Enrollment 2018; "Update 95-SARS: Chronology of a serial killer," World Health Organization, July 4, 2003; EAB interviews and analysis.



What are your current institutional projections regarding international enrollment?

0-20% decrease

20-40% decrease

40-60% decrease

Greater than 60% decrease

No change

Increase in enrollment

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Tracking Enrollment on Your Campus

Fall Enrollment Metrics

New Students

Deposits received
Financial aid acceptances
Tuition installment payments
[Housing deposits]
Health form submissions
Insurance confirmations
Orientation registrations
Orientation attendance

Course registrations

Current Students

Parking requests
Work-study job requests
Requests for delays in matriculation
Requests for leaves of absence

Increasing Degree of Enrollment Certainty

Questions for Discussion

1. What data are you tracking, with what frequency, to project fall enrollment?
2. How confident are you in your projections?
3. What process for collecting, disseminating and communicating updates is in place?



Government Funding



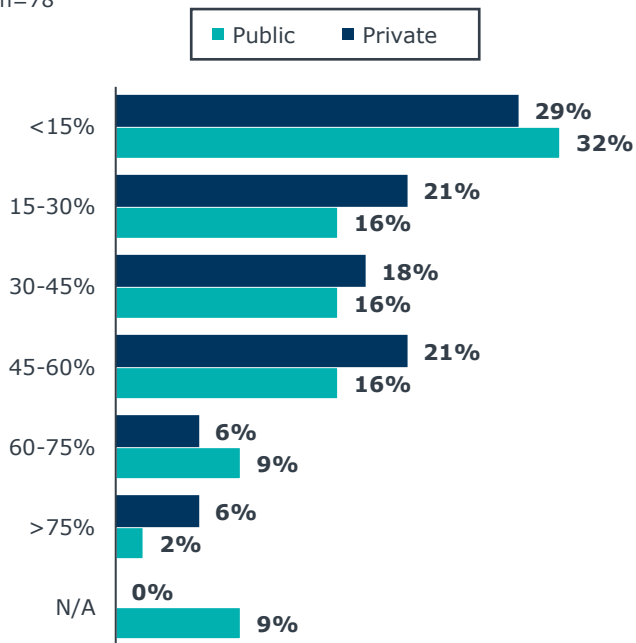


CARES Won't Be Enough

Unanimous Expectation that Aid Will Be Insufficient

Expected Amount of Estimated Costs Covered by CARES Relief Funding

n=78



Questions for Discussion

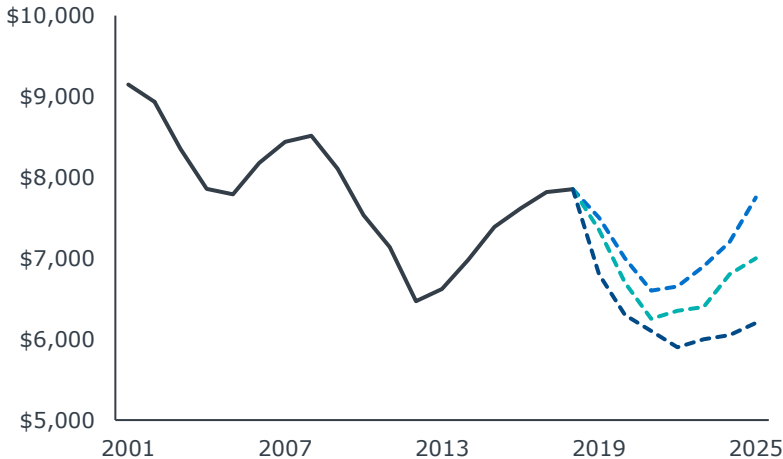
1. What have you allocated non-student aid CARES dollars to?
2. What is your outlook for additional emergency funds? What do you base that on?



Other State Priorities Crowd Out Higher Ed

Despite Recent Rebound, State Spending Will Likely Drop Again

State appropriations per student, 2001-2025¹



Recovery before fall

Spending on higher education will follow similar trajectory as 2008 recession, rebounding to pre-crisis rates in 2-5 years

Partial recovery by fall

Unemployment claim payouts increase exponentially in most states; temporary redirection of millions away from higher ed

No recovery by fall

State spending on health and social programs increases 100x over the next five years, permanently redirecting millions away from higher ed annually

States Already Decreasing Higher Ed Appropriations in Response to COVID-19



14%

Freeze on annual appropriations in New Jersey



8.3%

Decrease in FY20 appropriations in Missouri



4%

FY20 cut; 6-14% FY21 cut expected in Nevada



3.8%

Projected decrease in Arkansas

Source: K Murakami, "The Next Financial Blow," *Inside Higher Ed*, April 13, 2020; M Korn, "Public Colleges Lose State Funding," *WSJ*, April 23, 2020; *New Jersey FY2020 Budget*; "Summary of COVID-19 Reserved Balances," State of New Jersey; EAB interviews and analysis.

1) EAB projections included for years 2020 onward.
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Tracking Key State Funding Indicators

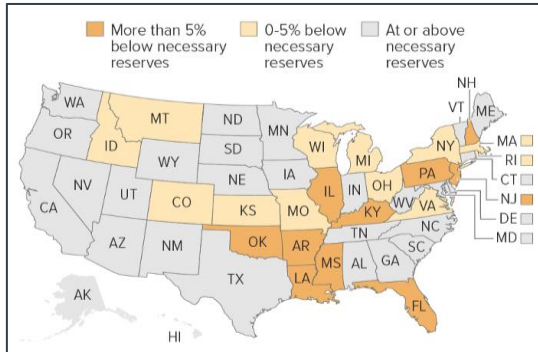
Key Indicators

- State spending on unemployment; health
- Current number of coronavirus cases in region
- State culture of supporting higher education
- Adequacy of state reserves; should equal 15% or more of budget

Questions for Discussion

1. What is your Government Relations staff reporting about state funding?
2. What about out-of-state tuition differentials? How defensible is this pricing strategy?
3. Tuition increases? Is this viable for your institution?

One-Third of States Unprepared for a Recession



CBPP.



Auxiliary Revenue





Too Much Room at the Inn

Potential Fully- or Partial-Remote Fall Will Result in Significant Auxiliary Losses

Fall Projections Are Grim at Best



25%

Association of American Universities' projected decline in auxiliaries revenues nationwide



75%

Projected decline of auxiliaries revenues at a dozen Colorado institutions if students unable to return to campus in the fall

OpEx with a 25% Decline in Auxiliary Revenues

Assumes Auxiliaries are 8.3% of OpEx

\$2.1M Projected loss for a school with \$100M OpEx

\$20.8M Projected loss for a school with \$1B OpEx

These are conservative estimates relative to what institutions have reported this spring



Auxiliaries Losses Extend Beyond Financial Impact

"These aren't just numbers. While there's money going out the door, our institutions have moved heaven and earth to meet the needs of our students."

Tom Stritikus, President of Fort Lewis College

Tracking Auxiliaries Revenues on Your Campus



Auxiliaries Metrics

Housing

Total number of housing contracts

Number of students on housing wait list

Percentage of beds filled

Campus housing occupancy rates

Annual residence hall maintenance costs

Dining

Number of students with dining contracts

Ratio of staff to dining contracts, customers served

Bookstore

Bookstore receivables as percentage of current year revenue

Gross margin, new/used textbooks

Questions for Discussion

1. What metrics other than enrollment are you using to better forecast fall revenue?
2. Do you have an initiative underway to find “new” auxiliary revenues?



Advancement Revenue



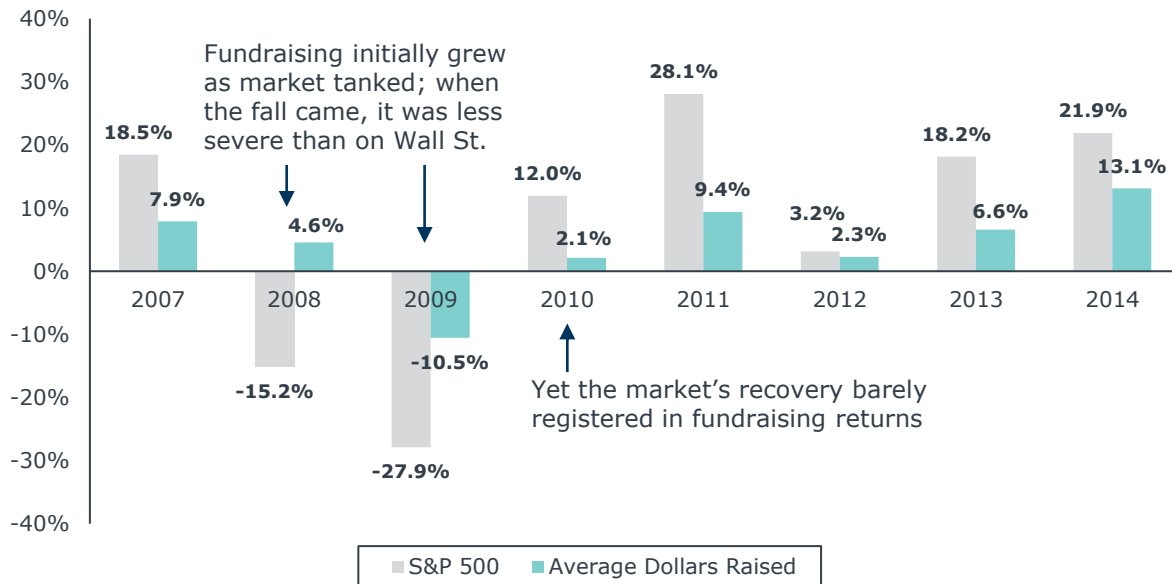


Fundraising Pre- and Post-Great Recession

Fundraising Lags, and Proves to be Less Volatile, Than the Stock Market

YOY Change in S&P 500 Price v. Average Dollars Raised

n=865 institutions



1) S&P 500 price taken as of June 30 of each calendar year to align with most institutions' fiscal years.

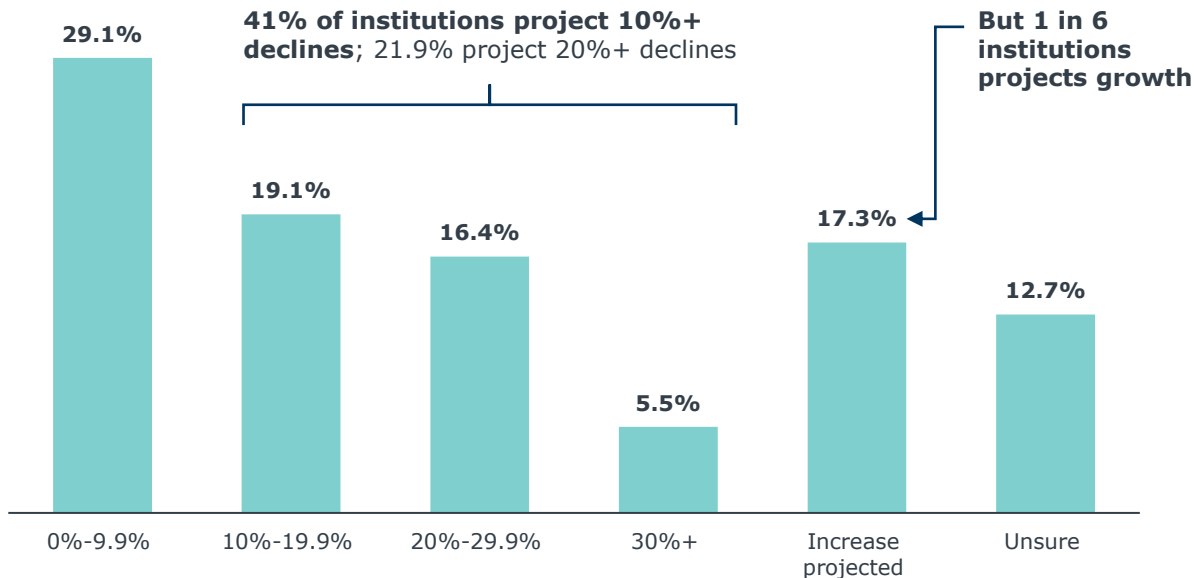


Bracing for a Lean FY20

EAB Survey: Declines of 10%+ Predicted by over 40% of Universities

Projected Decline in Value of New Commitments, FY20

n=110 institutions



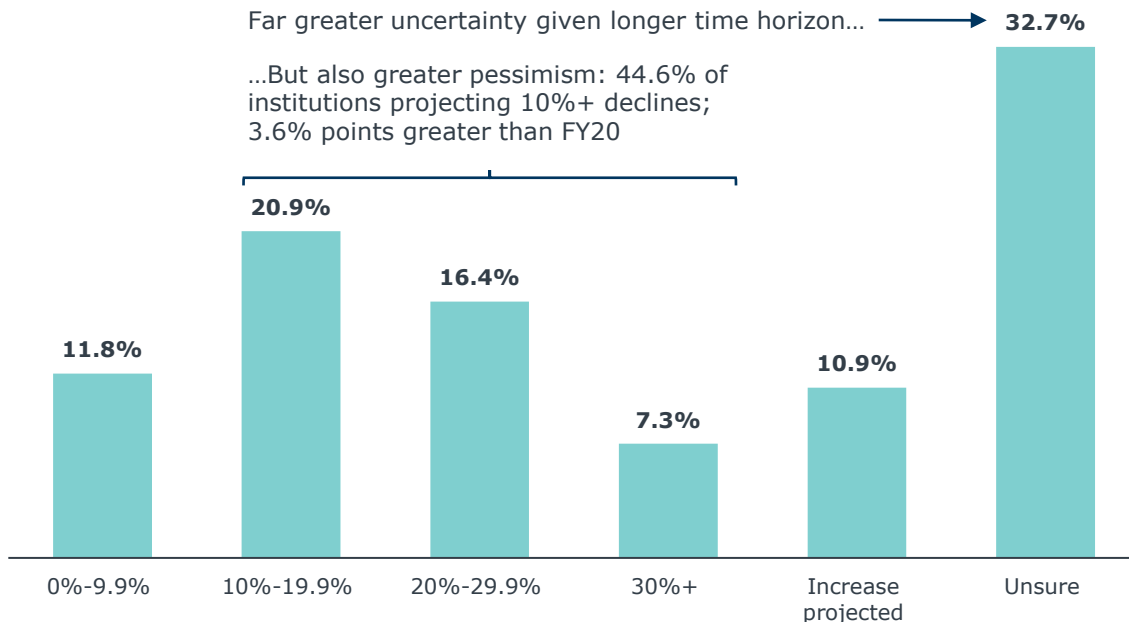


The Bearish Mood Deepens for FY21

Greater Share of Institutions Predicting 10%+ Declines Compared to FY20

Projected Decline in Value of New Commitments, FY21

n=110 institutions



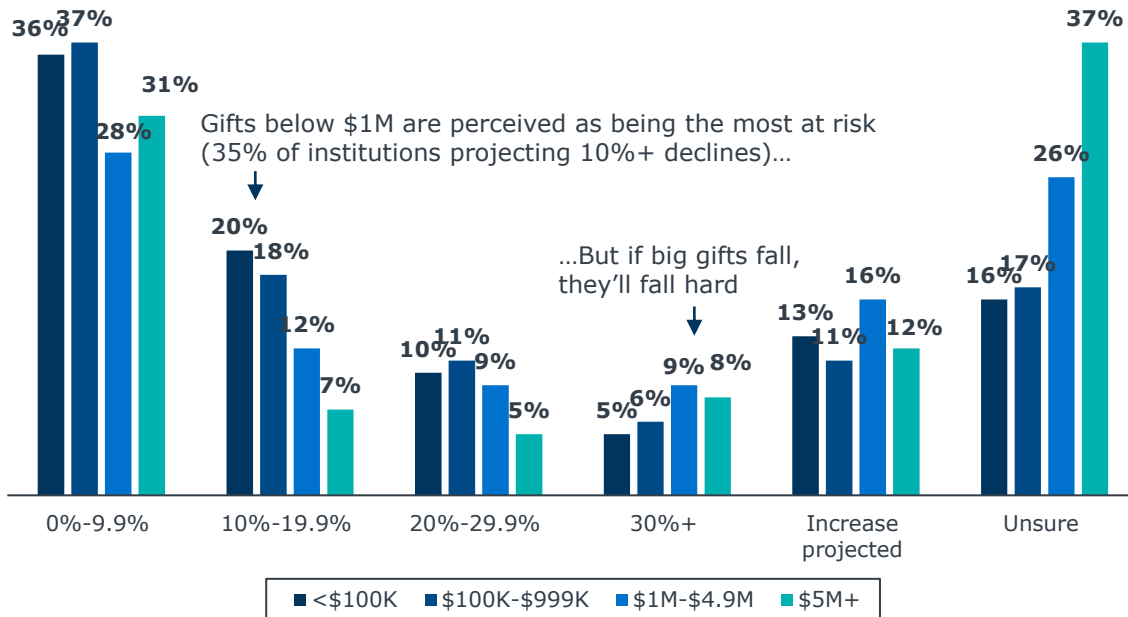


Which Donors Are Most Likely to Pull Back?

The Crisis Expected to Hurt \$1M and Below Gifts

Projected Declines in Dollars by Gift Band, FY20

n=110 institutions



Tracking Advancement Revenue on Your Campus



Advancement Metrics

- Dollars raised
- Average gift size
- Number of new commitments
- Number of donors
- Number of visits (in-person or virtual)
- Number of proposals
- Average size of proposals
- Number of closed proposals
- Conversion rate
- Number of campaigns launched

Questions for Discussion

1. What is your Advancement team doing to adjust solicitations and fundraising events during the lockdown? Any innovations to report?
2. How are you adjusting your 'rules of thumb' about pipeline? Conversion rates? Etc.?
3. Which gift bands are you most concerned about and how are you addressing that?



Athletics Revenue





Are We Ready for Some Football?

Football Season Scenarios Highlight Tradeoffs Between Health, Financial Risks

Seven Possible Scenarios for Big-12 Football Season

Reported by Kansas State AD

- Season starts as scheduled
- Season starts in late September and ends games in December
- Season starts in September and plays a conference-only schedule
- Season starts in October and plays a conference-only schedule
- Season starts in January 2021
- Season starts in March 2021
- Season split up with six games in the fall and six games in the spring

Highest potential for normal season, but largest risk if a second wave of coronavirus drives public back into quarantine

More limited risk for student athletes, but fewer games leads to a significant loss of athletic department revenue

Decreased threat for student athletes, but overlap with winter and spring sports could lead to athletic scheduling conflicts



Devising a New Playbook for College Athletics

Athletics Losses Coupled with Expensive Coaches, Scholarships Brings Cuts

Lost Athletic Revenue Already High, but Fall Reductions Likely Worse

\$375M

Loss in revenue from cancellation of NCAA Men's Basketball Tournament

63%

Percentage of athletic directors who **expect at least a 20% loss** in revenue in the 2020-2021 academic year

\$4.1B

Estimated loss in revenue among public universities in Power Five conferences if football season is not played

Athletic Departments Making Significant Cuts to Try to Reduce Costs

Reducing number of athletic programs

- Old Dominion University eliminated wrestling program in April 2020
- University of Cincinnati cut men's soccer program in April 2020

Encouraging staff to take pay cuts

- University of Missouri athletic staff and coaches took 10% pay reduction
- University of Virginia athletic staff and coaches took 5-10% salary cut

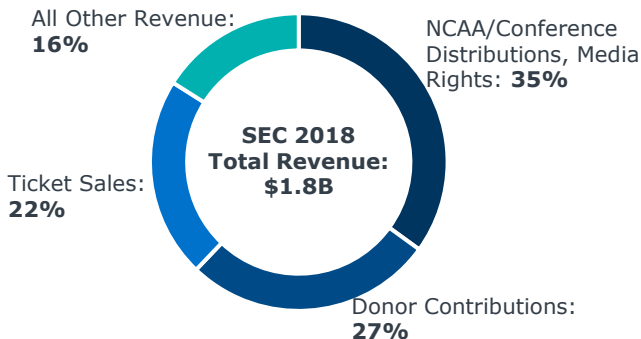
Furloughing staff temporarily

- University of Louisville furloughed 45 athletic staff for 60+ days
- University of Bridgeport temporarily laid off all athletics staff



Tracking Athletics Revenue on Your Campus

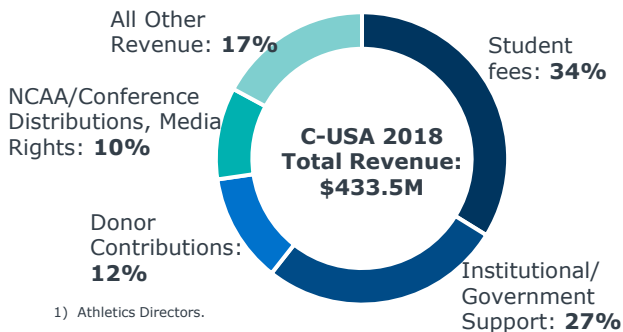
Large Schools: Football, Donations



Questions for Discussion

1. Is the possibility of a football season running on a different track from the decision about an open campus?
2. How are you thinking about non-revenue sports?
3. Have you introduced any cost containment tactics in Athletics?

Smaller Schools: Student Fees, Institutions





Research Revenue



Gut-Check: What Will Happen to Research Dollars?

The Macro-level Outlook is Poor

A few research growth opportunities...



The National Institutes of Health (NIH) has received \$1B in new funds to devote to COVID-19 related research



The CARES Act provided \$320M additional funds to other research agencies, including the National Science Foundation(NSF) and NASA



Large philanthropic organizations (e.g., Gates Foundation, Chan Zuckerberg Initiative) have made large financial commitments to supporting COVID-19 research

...and intensifying headwinds



Concentrated research funds in the biotech and health sciences space will not flow evenly to all institutions



No dramatic federal increases in agency budgets or infrastructure as occurred in the 2009 Stimulus



Substantial and uncovered costs due to research disruption and restarting due to COVID-19



Pullback of industry-funded research from companies (e.g., Boeing)



Exhausted federal and state budgets will likely constrain government-sponsored research funding

A Potential Omen in Johns Hopkins University

- Johns Hopkins forecasts a **2.2%** loss in FY20 and a **2.6%** loss in FY21
- Loss stems from less than expected direct and indirect cost recovery due to lab closures



Tracking Research Revenue and Costs

Research Metrics

Direct and indirect research cost recovery, cashflow, and variability

Value of disrupted/cancelled research projects

Costs related to suspending research and closing labs

Costs associated with restarting labs and research

Proposal pipeline and estimated proposal value

Industry-sponsored research contract value and F&A rate

Faculty and staff salaries funded in-part or wholly by extramural research sources

Questions for Discussion

1. Which research metrics are you monitoring to gauge revenue and costs?
2. Are you planning to allocate institutional funds to fill any research funding gaps?



Endowment Revenue

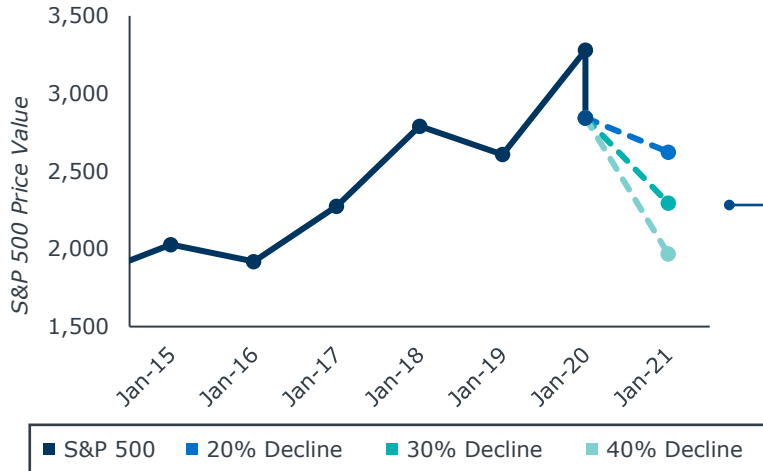




Endowment Values Down Sharply

Equity Markets in the COVID Economy

S&P 500 Price Value, Year Over Year, 2015-2021¹



- Equities compose about 75% of endowments, especially for smaller institutions
- Equity markets were up in April mostly due to Federal Reserve liquidity actions
- In aggregate, university endowments have lost roughly **\$70B** in value since January
- Major investment firms foresee a minimum correction of **20%** with some predicting up to **40%** this year

Selected Endowment Declines To-Date



1) EAB projections included for years 2020 onward.



Tracking Endowment Revenues on Your Campus

Endowment Metrics

Short-term change in endowment value and assets composition

Endowment cash percentage and cash sources

Forecasted endowment payout ratio

Restricted vs. unrestricted fund ratio and change in value

Retained vs. invested equity ratio

Breakdown of alternative investment strategies and their performance against equities

Questions for Discussion

1. Are there certain investment strategists you follow whose advice you find particularly insightful?
2. Which market metrics is your institution monitoring to help forecast fund value and amounts available for distribution?