

Massachusetts Public Higher Education Financial Assessment Project

February 2, 2021



MASSACHUSETTS
Department of
Higher Education

Agenda

- 1 Financial health
- 2 Reporting and key metrics
- 3 Collaboration opportunities

Financial health

The project collected and analyzed financial data quarterly; DHE (through the FAAP Committee) can set policy and metrics for continued monitoring

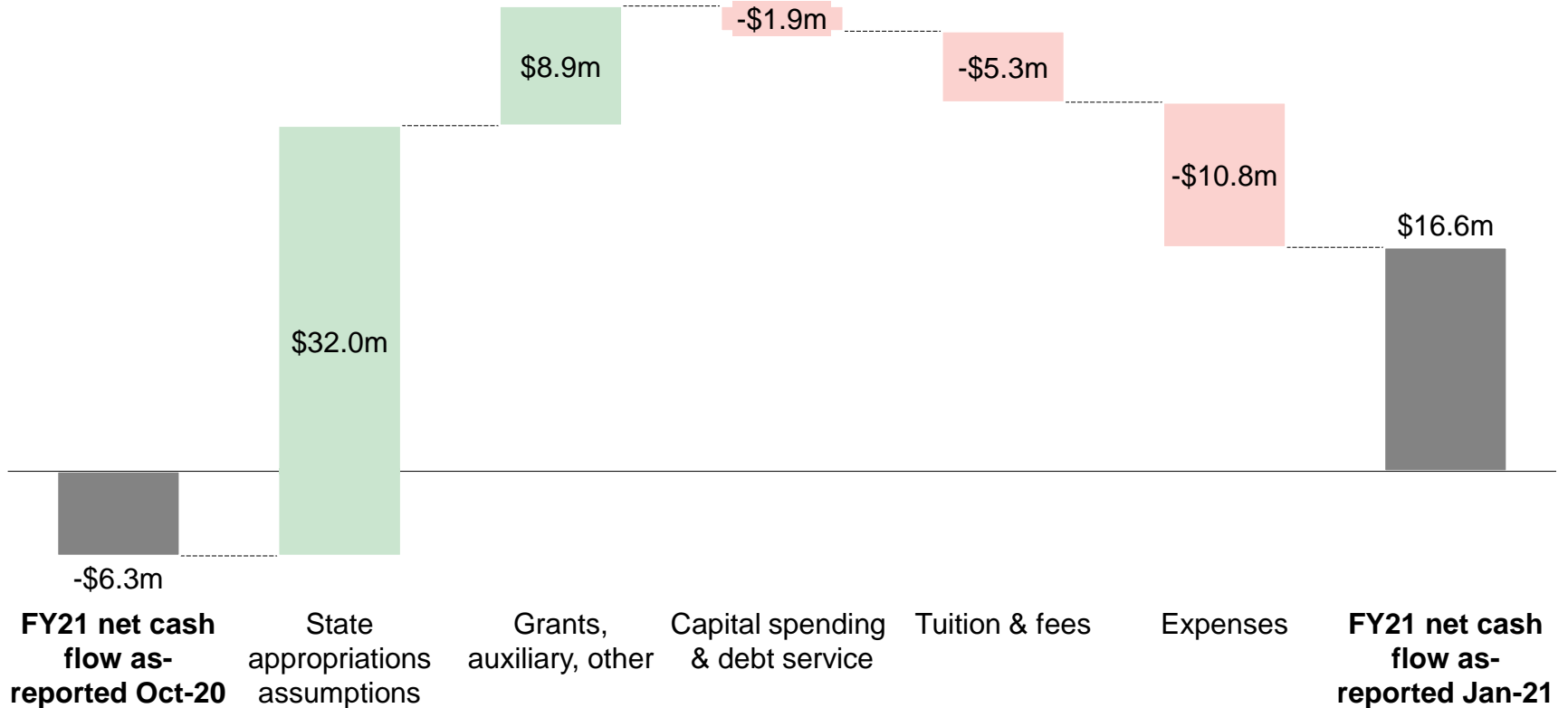
Project timeline	Summary
June 2020	<ul style="list-style-type: none">▶ Developed data collection template and assessed monthly cash flow forecast with institution CFOs▶ Assessed impact of COVID-19 through base case and two downside sensitivity scenarios
October 2020	<ul style="list-style-type: none">▶ Updated data based upon first quarter view▶ Considered additional metrics of financial health with CFOs, DHE, and advisory committee▶ Update showed more positive forecast than June scenarios
January 2021	<ul style="list-style-type: none">▶ Updated data based upon first half view▶ Refined definitions of metrics with CFOs, DHE, and advisory committee▶ Update showed more positive than October forecast in aggregate, variation exists among institutions
Beyond (FAAP, BHE, DHE)	<ul style="list-style-type: none">▶ Lay the foundation for monitoring and understanding near-term financial health and performance▶ Continue to engage with campuses

Financial health

Community colleges forecast a ~\$23m increase in net cash flow as compared to October expectations, primarily due to increased state appropriations

Aggregate net cash flow* for community colleges,
(as-reported in October 2020 and January 2021;
for 12 months ending June 30, 2021)

Does not include impact of second federal stimulus



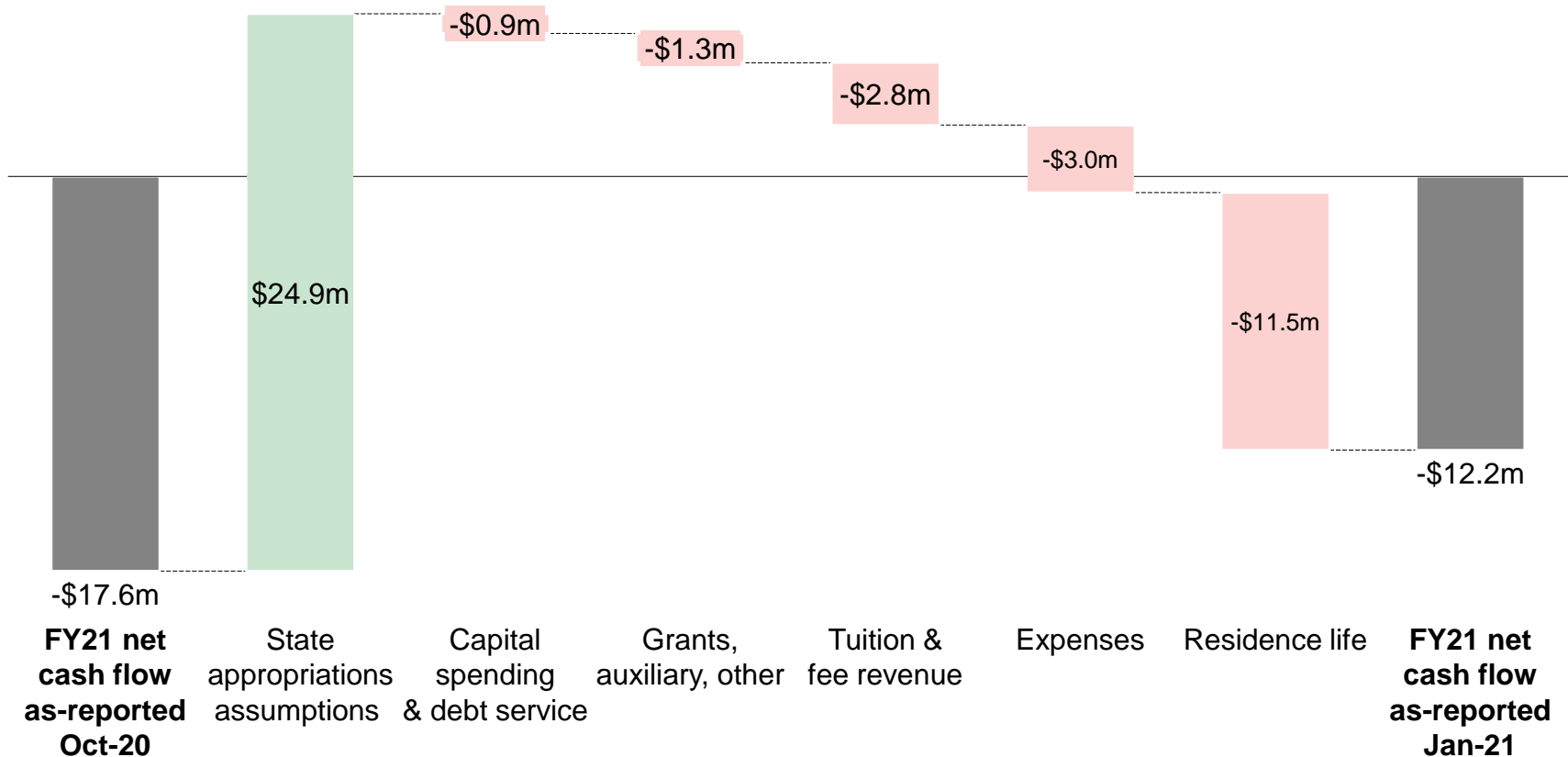
*Note: Aggregate net cash flow (excl. beginning balances) is illustrative; does not reflect inability to consolidate/pool cash
Source: internal data, management financial projections; U.S. Department of Education HEERF II program information

Financial health

While universities expect a further decline in residence life revenue, the increase in forecast appropriations contributes to a ~\$5m increase in net cash flow

Aggregate net cash flow* for state universities†, (as-reported in October 2020 and January 2021; for 12 months ending June 30, 2021)

Does not include impact of second federal stimulus



*Note: Aggregate net cash flow (excl. beginning balances) is illustrative; does not reflect inability to consolidate/pool cash

†Excludes UMass

Source: internal data, management financial projections; U.S. Department of Education HEERF II program information

Financial health

Liquidity in terms of average monthly cash outflows can measure ability to meet cash obligations; in aggregate this metric has ranged from 3-5 months

Liquidity in terms of average monthly cash outflows



Available liquidity

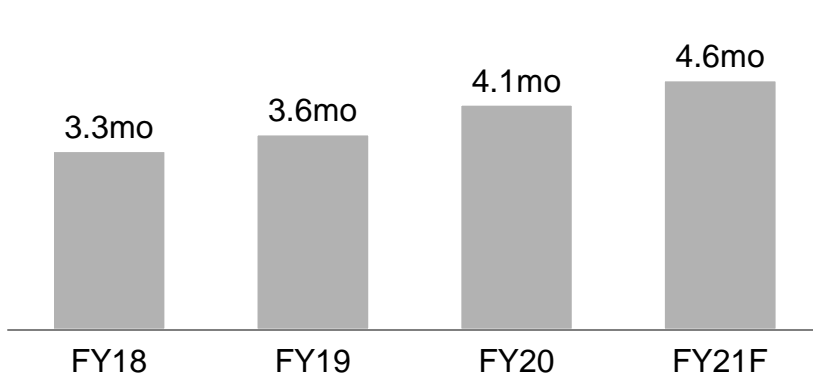
- ▶ Includes cash & equivalents, short-term, and long-term investments
- ▶ Excl. non-cash fringe benefits, restricted cash and cash held by other entities
- ▶ Excl. cash and investments held by component units (e.g. foundation)



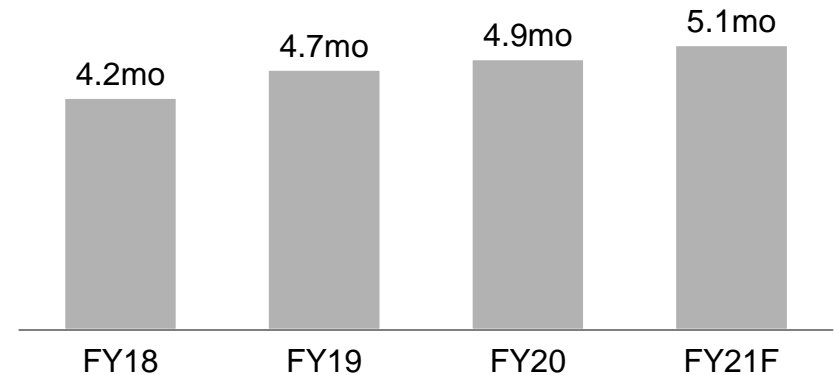
Average monthly cash outflows

- ▶ Includes cash operating expenses, debt servicing costs¹, net working capital and purchase of capital assets
- ▶ Excl. depreciation, pension & OPEB, and other non-cash items

**Available liquidity in terms of avg. monthly cash outflows at community colleges*,
FY18 – FY21F**



**Available liquidity in terms of avg. monthly cash outflows at state universities*,
FY18 – FY21F**



¹) Includes residence lease payments (MSBCA), debt service (interest expenses), capital expenditures, bond principal repayments, and lease obligations

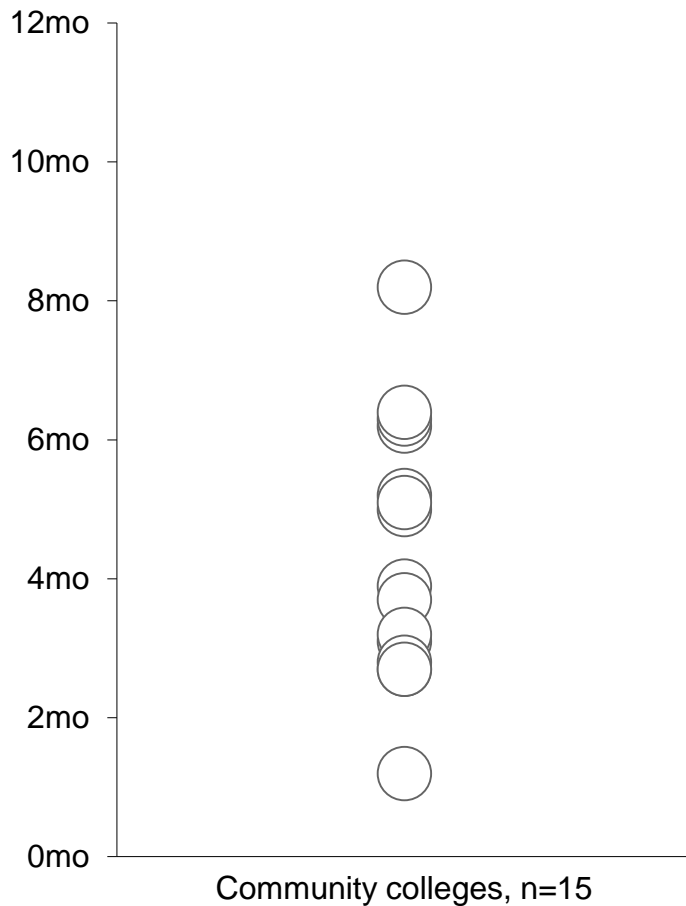
*Note: Total is illustrative, does not reflect inability to consolidate/pool funds

Source: internal data and management budgets/forecasts

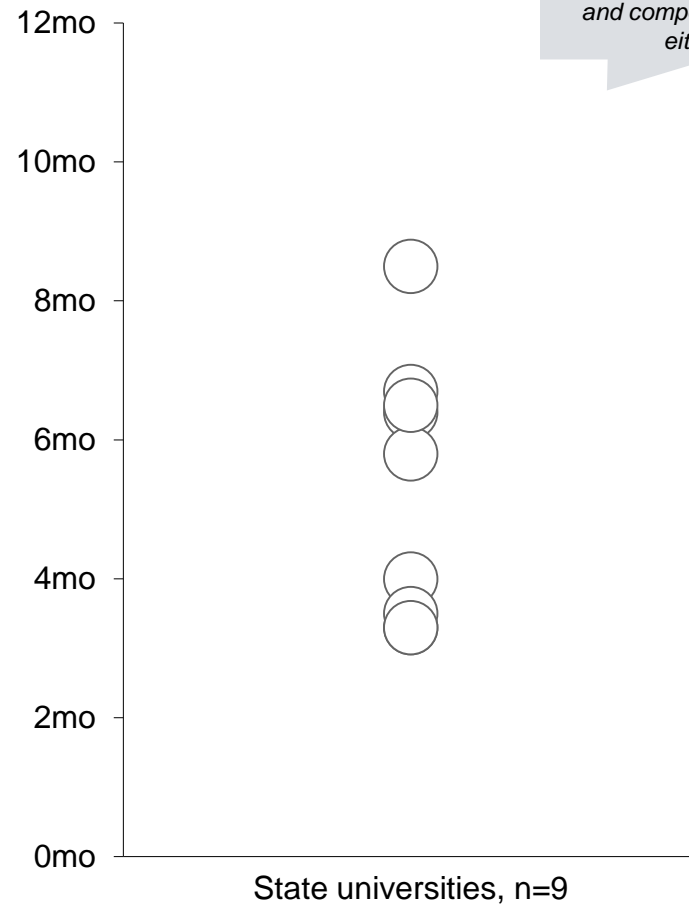
Financial health

While the metric in aggregate ranges from 3-5 months, there is high variability among institutions in both segments

Distribution of liquidity in terms of avg. monthly cash outflows at community colleges, FY21F



Distribution of liquidity in terms of avg. monthly cash outflows at state universities*, FY21F



Note: does not include foundation and component unit liquidity in either segment

*excludes UMass
Source: internal data and management budgets/forecasts

Financial health

In FY21, cost containment and increased state support have helped to offset enrollment-related revenue pressures though liquidity position varies by campus

Summary and next steps

- ▶ The project worked with institutions to collect and update financial health data as scenarios evolved
- ▶ Institutions have balanced budgets in FY21, offsetting a decrease in enrollment-related revenue through cost containment measures
- ▶ Higher-than-budgeted state appropriations have further offset revenue loss and a second round of federal stimulus will provide an additional ~\$122m for MA institutions* over the next calendar year
- ▶ MSCBA restructuring reduced the FY21 assessment expense at state universities, mitigating the challenges of having to close or reduce capacity in residence halls
- ▶ While in aggregate the system has ~3-5 months of liquidity in terms of average monthly cash outflows, considering as a whole does not account for wide variability in liquidity positions among institutions
- ▶ Beyond FY21, as enrollment pressures continue and one-time savings/funding may disappear, regular financial health monitoring can provide necessary data to support autonomous institutions

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Reporting and key metrics

The BHE and DHE provide leadership and guidance to a decentralized system of autonomous institutions; financial health information can support that charge

The BHE and DHE provide leadership, coordination, guidance, and support for the system and institutions

Proactive, prospective monitoring of fiscal health and a regulatory approach to public higher education are aligned to responsibilities under Chapter 15A

Department of Higher Education

Provide confidential support to institutions that may face near-term challenges, customized to individual circumstances

Section 5. [...] “The board shall coordinate activities among the public institutions of higher education and shall engage in advocacy on their behalf, which advocacy shall include a sustained program to inform the public of the needs, importance, and accomplishments of the public institutions of higher education in the commonwealth”

Board of Higher Education

Provide leadership, coordination, and guidance across a decentralized system; actively monitor and support institutions to provide a public and transparent view of fiscal stability

*Section 7A. (a) “[...]The board of higher education [...] in consultation with the institutions and the secretary, shall develop the system, including specific performance measures, with which to evaluate the institutions and with which to compare them with peer institutions with similar missions in other states
(b) [...] higher education accountability objectives shall include, but not be limited to [...] ensuring cost-effective use of resources at each institution and across all institutions, and manage campuses as efficiently as possible”*

Reporting and key metrics

Many public systems have developed financial monitoring policies through a collaborative approach similar to the one the project has taken

Other states and systems have shared a similar approach...

- ▶ Collaborative, iterative discussions with boards, departments, and institutions to develop and maintain policy
- ▶ Identification of straightforward, standardized metrics that facilitate prospective risk assessment with emphasis on liquidity
- ▶ Data to inform advocacy and support at the institution level and through policy

...to selecting key financial health metrics

	<i>University of Massachusetts</i>	<i>PA State System of Higher Education</i>	<i>University of California System</i>	<i>Texas A&M University System</i>
Key metric	3mo liquidity in terms of monthly expenses	6mo liquidity in terms of monthly expenses	2mo liquidity minimum, 3-6mo recommended	3mo reserves, 4.8mo target
Details	<ul style="list-style-type: none"> ▶ Targets at least three months liquidity in terms of operating expense (incl. depreciation) ▶ Reports liquidity quarterly to unified board 	<ul style="list-style-type: none"> ▶ Defines stability as 6mo liquidity in terms of operating expense ▶ Monitors enrolment change, operating margin, primary reserve 	<ul style="list-style-type: none"> ▶ Requires at least two months liquidity in terms of avg. operating spend ▶ Recommends 3-6 months 	<ul style="list-style-type: none"> ▶ Defines stability as 4mo, targets 4.8mo reserves ▶ Discusses plans with universities above and below target

Reporting and key metrics

A policy could take a more proactive, prospective approach to financial reporting while maintaining institutional autonomy

Current approach

Retroactive

- ▶ BHE and DHE receive audits in October of following fiscal year
- ▶ BHE approves institution strategic plan and can receive periodic updates

Reactive

- ▶ Institutions share near-term and forward-looking information with local boards
- ▶ DHE is notified of potential emerging issues often after institutional boards
- ▶ Institutions are responsible for training and education on financial metrics

Institutional autonomy

- ▶ Institutions have local autonomy and decision-making authority in a decentralized system

Possible future approach

Proactive

- ▶ Continue to collect audits
- ▶ Collect budgeted/forecast information for upcoming fiscal year and periodic updates throughout

Prospective

- ▶ Near-term metrics and trends
- ▶ Data-driven financial health discussions with DHE
- ▶ Shared set of clear and transparent metrics to enhance public confidence
- ▶ Supports guidelines for training of public officials

Institutional autonomy

- ▶ Continue to retain high level of institutional autonomy and decision-making authority

Reporting and key metrics

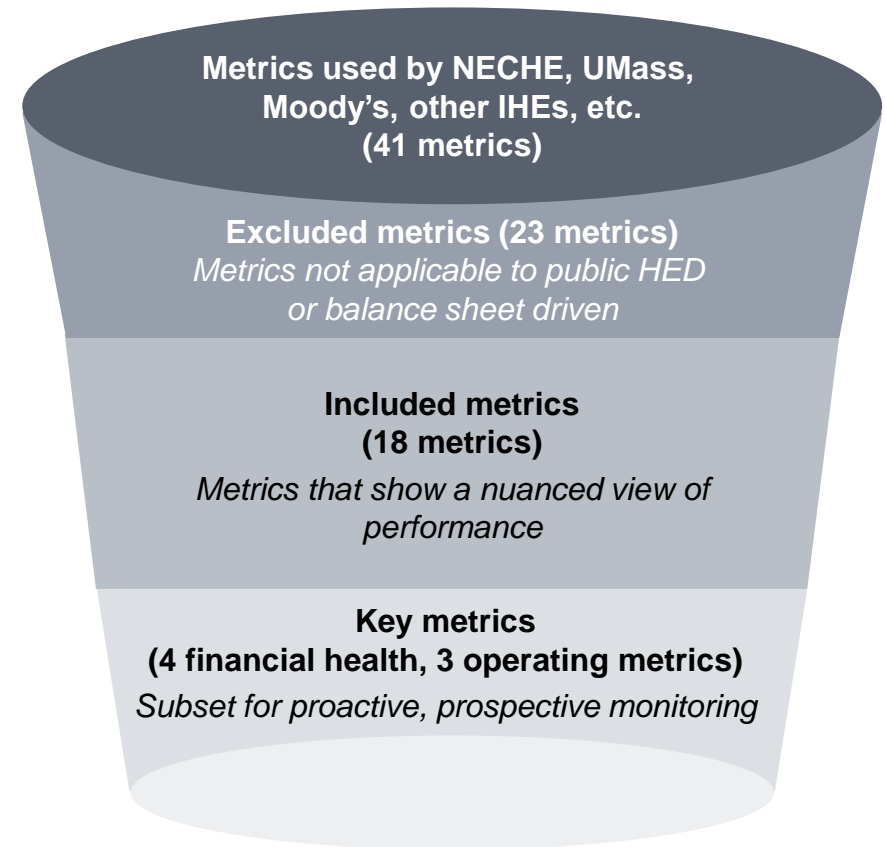
From a long list of financial metrics used in higher education, the project identified key metrics to provide a snapshot of fiscal health

Methodology to identify key financial health metrics

Goal – identify a subset of metrics that are:



- ▶ Relevant to public higher education
- ▶ Focused on cash and liquidity
- ▶ Comprehensive, non-redundant with other metrics
- ▶ Flexible to be updated on an interim basis
- ▶ Frequently used and easy to interpret



Reporting and key metrics

A liquidity metric can summarize revenue and expense trends and signal potential risk while other key metrics can provide context and detail

Proposed potential metrics for continued discussion by FAAP and other stakeholders

	Summary metric	Other key financial health metrics	Operating metrics
Metric(s) and definition	<ol style="list-style-type: none"> Liquidity in terms of average monthly cash outflows 	<ol style="list-style-type: none"> Operating margin (%) Net cash flow (\$) Debt service coverage (x) 	<ol style="list-style-type: none"> Change in enrollment (%) State and student revenue per credit or FTE (\$) Cash outflows per credit or FTE (\$)
Rationale	<ul style="list-style-type: none"> Comparable across institutions Measure of ability to meet cash obligations Can be used to indicate need for additional information 	<ul style="list-style-type: none"> Provides additional context to summary metric Shows effects of longer-term decisions via depreciation and debt service 	<ul style="list-style-type: none"> Leading indicators based on drivers of financial health Can be used to monitor impact of changes to operating model
Key considerations	<ul style="list-style-type: none"> Transparent, clear Reflects changes both revenue and expenses Cash focused, able to be calculated on forward-looking basis 	<ul style="list-style-type: none"> Set of supporting metrics should be non-redundant Numerous enough to give context, streamlined enough to be actionable 	<ul style="list-style-type: none"> Should be refined with institutions, academic committee, equity agenda, PMRS, etc. Can align methodology and definitions where data may be tracked inconsistently

Reporting and key metrics

The FAAP Committee heard and discussed recommendations in January; the Committee and DHE will continue to work with institutions to set a policy by June

FAAP Committee update

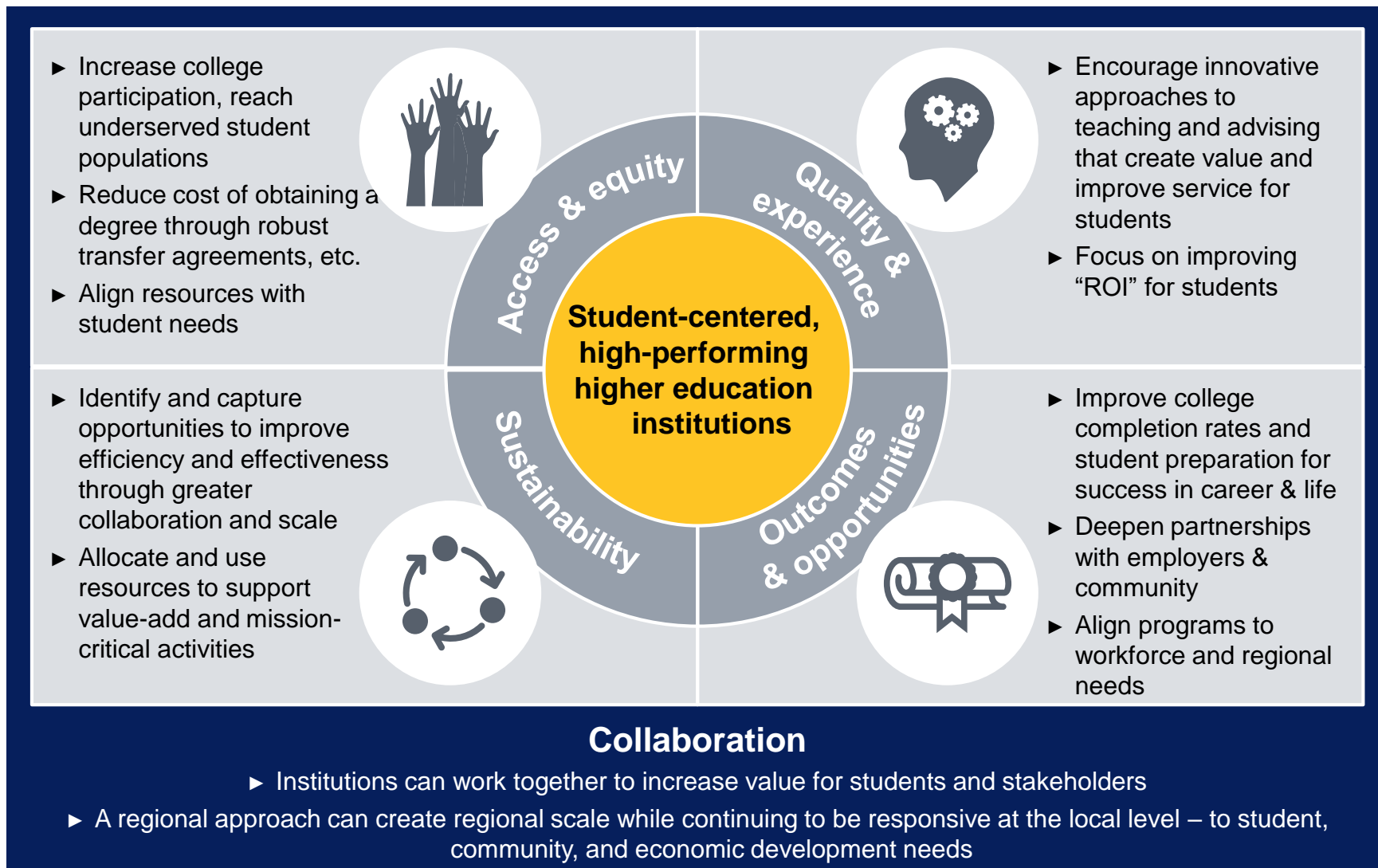
- ▶ On January 26, 2021, EY-Parthenon presented an in-depth analysis of the key financial health metrics to support near-time fiscal monitoring of the Community Colleges and State Universities, covering rationale, methodology, and fiscal outlook by segment
- ▶ The FAAP committee expressed a consensus view and recommendation that the DHE develop policies and procedures for BHE approval that will support the regular, ongoing, proactive, and prospective monitoring of the fiscal health of Massachusetts community colleges and state universities
- ▶ The DHE and the FAAP committee will work collaboratively with institutions to develop policy and procedures to implement financial reporting and monitoring
- ▶ The targeted date for the establishment of the policy and procedures is June 30, 2021

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Collaboration opportunities

As institutions face potential future enrollment & financial pressure, a student-centered approach to collaboration can support sustainability and add value

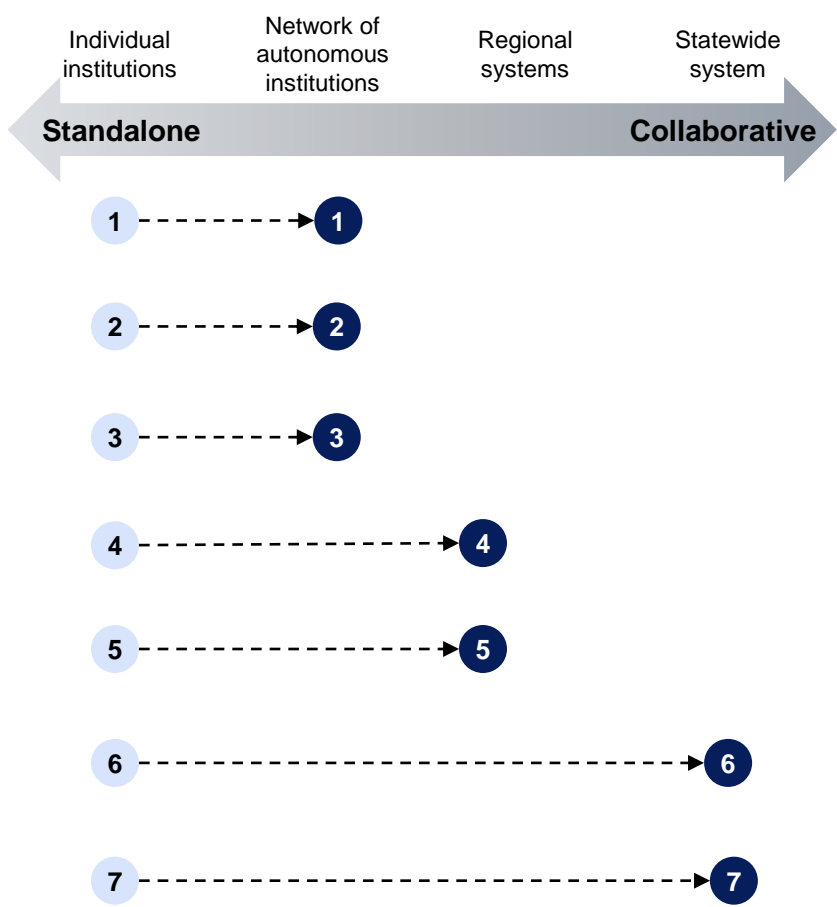


Collaboration opportunities

In recent years, many in higher education have looked to deepen student-centered collaboration

Collaboration case studies at selected U.S. public higher education institutions

Key: ● Before collaboration
● Collaboration structure



	Example	Collaboration area			
		IT	Supplies & services	Staff	Academic programs
1	▶ Ten community colleges created a legal entity to jointly adopt a cloud-based ERP				
2	▶ 11 universities share procurement via an online portal, lead campuses initiate strategic wins				
3	▶ 16 community colleges partnered to create career-focused transfer paths, stackable credentials and tech-assisted personalized				
4	▶ Two community colleges and partnered with a university through a 3+1 pathway				
5	▶ Two regional groups of three institutions share staff and strategy				
6	▶ Seven universities formalized collaboration across under a single accreditation				
7	▶ 21 universities developed an online learning platform to fulfill core requirements, credits are accepted at 2- and 4-year institutions statewide				

Collaboration opportunities

These institutions have worked regionally and statewide to gain advantages of scale and re-invest in students

Regional collaboration

Example – 3+1 transfer pathway

A community college and state university serving ~10k students offer a 3+1 program for guaranteed transfer to the four-year partner. Transfer fees are waived and students have access to additional scholarships.



- ▶ Access & equity: additional pathway to a 4-year degree, lower cost-to-degree for students



- ▶ Quality & experience: advising and attention to students in program pipeline



- ▶ Outcomes & opportunities: since implementation, graduation rates have increased 5% annually



- ▶ Sustainability: pathways for students can lead to better retention, shared staff and facilities can create efficiencies to reinvest in students

Statewide collaboration

Example – shared ERP

Ten autonomous institutions plan to jointly purchase and implement a shared enterprise resource planning (ERP) system. Goal is to standardize operating processes, increase data sharing, and use single student records.



- ▶ Access & equity: enables course sharing and cross-registration, more-seamless transfer



- ▶ Quality & experience: cohesive user interface; access to otherwise cost-prohibitive capabilities



- ▶ Outcomes & opportunities: shared student records can help to identify progress toward goals



- ▶ Sustainability: cross-institutional collaboration in purchasing, payroll management, and other administrative functions

Collaboration opportunities

Massachusetts institutions have identified further collaboration opportunity at the regional and state level to be further researched and supported

Summary and next steps

- ▶ Institutions have built momentum in many areas of collaboration, identifying over 85 ideas for consideration as part of the project
- ▶ The project shared strategies and best practices from other states that have collaborated to improve value for students as well as metrics and analysis/methodology that can be used to prioritize ideas
- ▶ Financial analyses have been conducted and shared with the DHE and FAAP Committee identifying the scale and nature of feasible efficiency gains through cumulative collaboration
- ▶ Regional groups of institutions have coalesced around two types of collaboration ideas
 - Regional pilot programs to explore shared strategic work, such as a collaborative approach to student advising and workforce development
 - Statewide opportunities that can enable reinvestment in students, such as shared IT and cybersecurity
- ▶ Institutions and the DHE (through PACE) will use research, recommendations, and campus ideas to prioritize opportunities; regional collaboration groups met last week to begin discussion
- ▶ The DHE can consider a role as convener/facilitator to support regional groups and can additionally identify and deploy funding sources to support pilot projects
- ▶ The FAAP committee can support and advocate for institutions pursuing collaboration projects

Questions?

