COVID-19’s impact on higher education: Strategies for tackling the financial challenges facing colleges and universities

The coronavirus pandemic has upended business as usual for colleges and universities. Not only have campuses shifted to remote learning almost overnight, but institutions are also suddenly grappling with grave financial challenges as the domestic and global economies may now face what looks to be a major recession.1

The most immediate challenge for most institutions involves cash flow. As institutions lose parking fees, dining outlet sales, and other auxiliary revenues, they also face unexpected expenses, including partial refunds on fees, room, and board, and the need to scale virtual engagement modalities. To ensure continuity in the short term, some institutions will likely need to rapidly restructure their operations.

Further compounding the cash flow challenge is the uncertainty surrounding fall enrollment. If students are unable to return to campus this fall, colleges and universities could face unanticipated and historic attrition from students who are either unsatisfied with their distance-learning experience or whose ability to afford tuition in the current economic climate will be inhibited; others may simply decide to stay closer to home in uncertain times. Even well-resourced institutions will find it hard to forecast enrollment for the 2020–21 academic year.2

For institutions that were already financially stressed or operating from a deficit position prior to the pandemic, short-term unanticipated expenses and longer-term enrollment declines will likely threaten their solvency, potentially forcing numerous closures and mergers.

Here we explore some key considerations for colleges and universities as they find their fiscal footing in a very different operating environment in the months ahead.

Deloitte Center for Higher Education Excellence
Cash flow

To gain insight into an institution’s cash flow and its underlying drivers, an institution’s financial leaders should create a cash flow tool that defines the inflows and outflows of resources until September 2020, January 2021, and September 2021. Armed with that information, a school should assemble a broad group of stakeholders—including the administration, board, and faculty—to build a response plan. Once a cogent response plan is in place, leaders must make sure key stakeholders remain involved in its execution.

The plan should start with an initial cash balance and then provide a weekly forecast of revenues and expenses, building in various scenarios. Each week, the team should update the cash flow tool, developing a rolling forecast, starting with the cash available at the beginning of the week, subtracting expenses, and adding in revenues. Doing so will surface any shortfalls that need to be addressed. Of course, forecasts are never perfect; an institution could see unexpected expenses or find that expected revenues have not come through. That’s why it’s important to continually adjust the plan based on the data coming in.

The plan should initially cover at least 13 weeks so it is clear from the start where to anticipate problems. Eventually, the plan should stretch out to August/September 2020 and 2021, when institutions can realistically anticipate an influx of cash.

One way to control cash flow is to postpone planned capital projects, but the current crisis could also offer opportunities for new revenue. For example, the State University of New York (SUNY) is offering empty dorms for use as temporary hospitals. Other institutions have offered dorms as housing for health care professionals who are working on the front lines and don’t want to risk infecting their families.

Some help may also come from the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which includes approximately $14 billion in aid to colleges and universities. Some of that money will offset costs caused by the pandemic, and some will underwrite direct financial aid to students.

Debt

As institutions evaluate their expected cash flow, they may also look for ways to modify their debt obligations—the key here is to reach out to the bank proactively. When an institution seeks an extension of credit, it should bring its cash flow projections and response plan. Doing so will demonstrate that the institution has thought through its financial situation and has a realistic strategy for meeting its commitments.

Additionally, institutions should continue to monitor state and federal legislation for other potential sources of liquidity. Under the CARES Act, for example, smaller colleges and universities may be eligible for loans from the Small Business Administration.

Institutional endowments

Endowments are another potential source of funding that institutions may be able to tap to shore up their liquidity. One group of universities has asked their state attorney general for a one-time waiver that would let them borrow, interest-free, from their endowments, with a promise to pay back the money within a specified time period.

Institutions may also consider reaching out to donors who have made restricted gifts in the past and seeking their permission to unrestrict funds to shore up the institution’s operating budget to help deal with the current crisis.

In general, an institution should be careful about drawing down its endowment to cover near-term expenses, especially since the market downturn has reduced the corpus of most university endowments.
Scenario planning

According to recent surveys, the current financial crisis is prompting prospective and returning students to rethink their college plans for the fall. At the same time, history shows that colleges and universities often see enrollment rise during periods of economic distress. Institutions will need to account for both of those possibilities in their financial planning.

One likely scenario is that parents won’t be able to contribute as much toward their children’s education expenses as they would have before the pandemic. Traditional models used to forecast “melt” for admitted students and retention for returning students are not likely to be as predictive in the current cycle, or for several cycles to come. As a result, institutions will need to repackage financial aid for incoming and returning students and be prepared to alter their aid strategies in real time. They may want to consider offering incoming students more flexible scheduling, staggered starts, or reduced course load requirements to ease the transition for students who want to spend more time with their families, or who need to earn money to support themselves and/or their families.

Uncertainties about yield and retention rates will likely exacerbate the situation for schools that were already forecast to miss their enrollment targets. Those schools will need to think critically about how to aggressively reduce costs in scenarios that assume marked reductions in enrollment and the need to provide more direct institutional aid.

When analyzing various scenarios, the Great Recession of 2008 may serve as a useful proxy, but institutions should also model out more aggressive scenarios to provide a reasonable range of possibilities. The current situation is different from 2008 in important ways. For one thing, even in 2007, signs of a slowdown in the housing market—which would make it harder for parents to finance their children’s education—gave early warning of troubles to come. The coronavirus pandemic was far more precipitous.

Moreover, in 2009, the financial underpinnings of higher education were stronger. At that time, enrollments were high, even among adult and master’s degree students. With so many students enrolled, net tuition was high. That was not the case at the start of 2020. Schools were discounting tuition, enrollment in master’s and professional programs was on the decline, and failing schools were closing their face-to-face MBA programs. The pandemic made an already difficult situation even worse.

Even if the current crisis leads to a surge in enrollment for certain institutions, that influx of students may not necessarily put them in a strong financial position. That’s because the financial aid that institutions will have to provide could exceed the additional revenue they receive from extra matriculants. These institutions may have to serve larger student bodies with fewer resources.

Institutions with large numbers of face-to-face students who are eligible for Pell Grants are most likely to get help from the CARES Act. Colleges and universities that depend heavily on tuition, have seen their endowments shrink, and have lower percentages of Pell-eligible students will be especially challenged.

Any institution that anticipates a bump in enrollment needs a plan for how it will scale up student services—without significantly more revenue—to maintain retention and graduation rates.

Conclusion

Uncertainty will remain a fiscal fact of life at colleges and universities for many months to come. To survive in these difficult times, leadership will need to prepare for numerous possible scenarios, seek creative solutions, and stay flexible in the face of continuous change.
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Endnotes


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Deloitte’s Center for Higher Education Excellence produces groundbreaking research to help colleges and universities navigate these challenges and reimagine how they achieve excellence in every aspect of the academy: teaching, learning, and research. Through forums and immersive lab sessions, we engage the higher education community collaboratively on a transformative journey, exploring critical topics, overcoming constraints, and expanding the limits of the art of the possible.

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