

# Massachusetts Public Higher Education Financial Assessment Project

October 20, 2020



MASSACHUSETTS  
Department of  
Higher Education

# Agenda

---

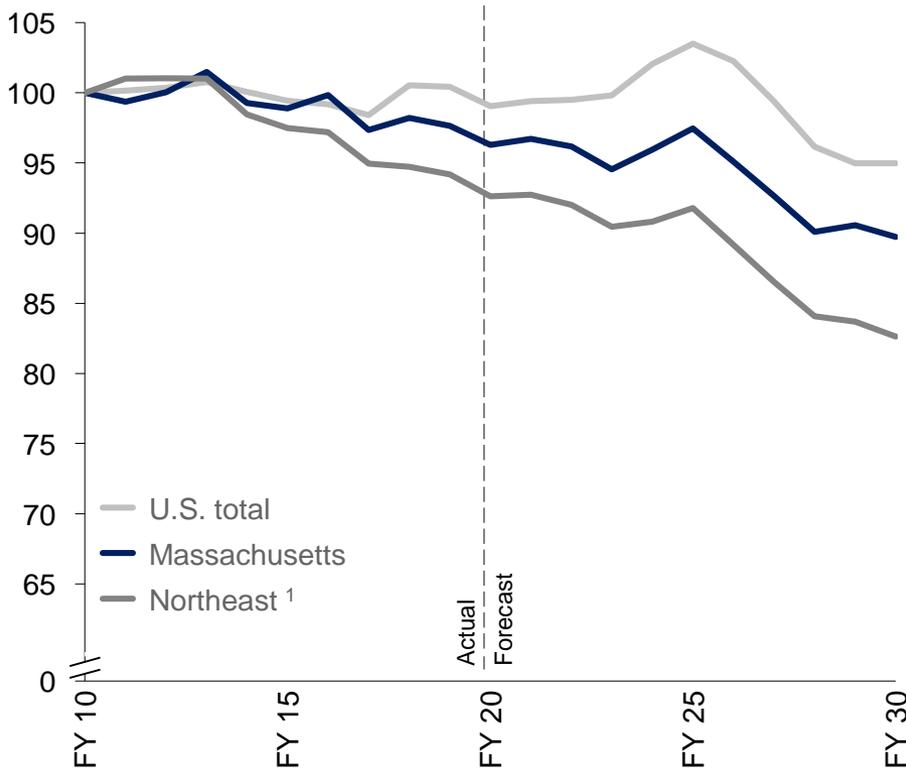
- 1 Recent Massachusetts higher education context
- 2 Updated FY21 observations
- 3 Next steps

# Recent Massachusetts Higher Education Context

## Massachusetts public institutions have faced increasing pressure due to demographic shifts, shifts in revenue composition, and increased expenses

**Total public and private high school graduates by region,  
U.S. total, Massachusetts, and Northeast  
Indexed to FY10 (FY10=100), FY10 – FY30**

### Commentary



- ▶ Higher education institutions across the Northeast face enrollment pressure due to declining demographics
- ▶ From FY08 to FY18, total expenses per FTE have grown at both Massachusetts community colleges and state universities (+2.7% and +3.9%, respectively)
- ▶ In the same timeframe, state appropriations have only grown modestly (+1.7% for community colleges and +1.0% for state universities)
- ▶ Campuses have proactively implemented spending solutions and shifted some of the burden to students by increasing tuition & fees
- ▶ The COVID-19 pandemic has placed increased pressure on enrollment and financial health at institutions across the state

# Recent Massachusetts Higher Education Context

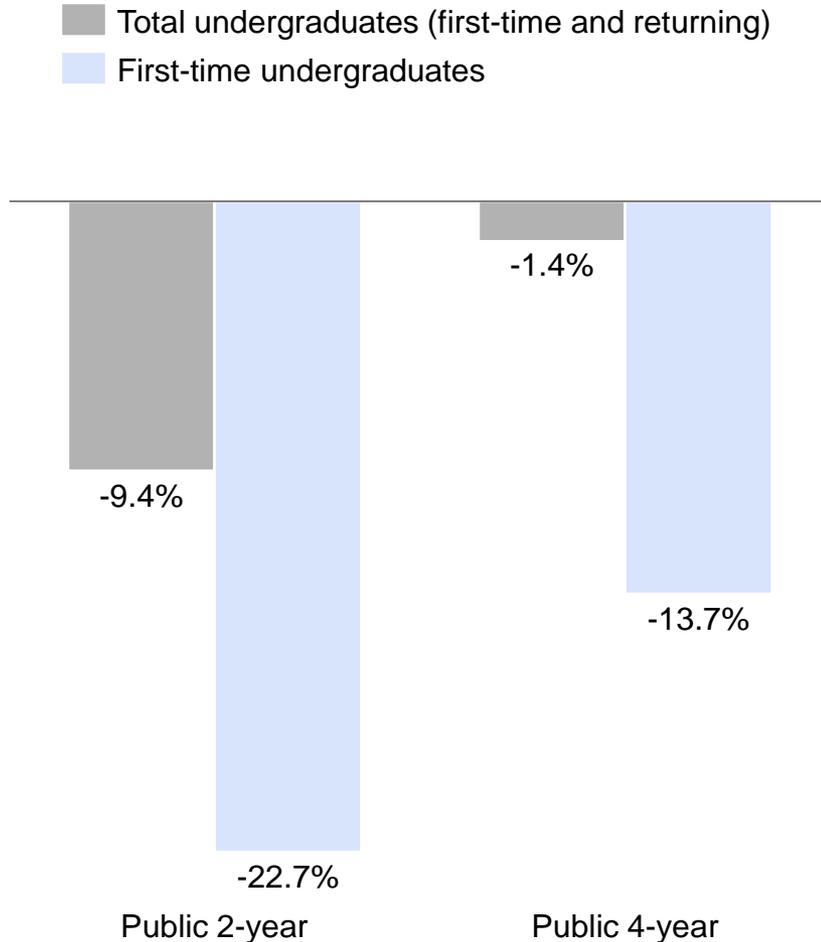
The COVID-19 pandemic has caused significant disruptions to campuses operating models and student base

	Community colleges	State universities
Campus opening	<ul style="list-style-type: none"><li>▶ Majority have partially opened campus, mainly to students with lab requirements</li><li>▶ Some have announced remote through spring</li></ul>	<ul style="list-style-type: none"><li>▶ All have opened dormitories and some in-person classrooms with distancing measures</li></ul>
Instructional model	<ul style="list-style-type: none"><li>▶ Hybrid model, 5% in-person</li><li>▶ Many offer delayed-start term with condensed semester from Oct-Dec</li></ul>	<ul style="list-style-type: none"><li>▶ Approximately 15-25% of classes are in-person; studio and lab classes have priority</li></ul>
COVID testing	<ul style="list-style-type: none"><li>▶ Strongly encouraging everyone who comes to campus to get tested and take precautions</li></ul>	<ul style="list-style-type: none"><li>▶ All 9 state universities have implemented campus-specific testing protocols and track number of cases</li></ul>
Other impacts	<ul style="list-style-type: none"><li>▶ Many students are also parents who face limited childcare options during pandemic</li><li>▶ Students face challenges with access to technology and / or reliable internet</li></ul>	<ul style="list-style-type: none"><li>▶ Dormitory resident count fell short of forecast for many likely due to public health concerns and/or shift to remote instruction</li></ul>

# Recent Massachusetts Higher Education Context

## Undergraduate enrollment in public institutions has declined, especially among first-time undergrads aged 30+ at 2-year schools and 21-24 at 4-year schools

U.S. undergraduate enrollment changes<sup>1</sup> by sector,  
As of 10/15/2020 vs. 2019



First-time undergraduate enrollment changes<sup>1</sup> by age,  
As of 10/15/2020 vs. 2019

  Greatest decline in sector

First-time undergraduate age	Public 2-year	Public 4-year
18-20	-19.1%	-12.0%
21-24	-26.0%	-40.5%
25-29	-23.1%	-21.3%
30+	-30.1%	-21.5%

# Agenda

---

- 1 Recent Massachusetts higher education context
- 2 Updated FY21 observations
  - A Context
  - B Preliminary community college observations
  - C Preliminary state university observations
- 3 Next steps

# Updated FY21 observations

Today's presentation will provide a preliminary update on key indicators of fiscal health

Context
Prelim. community college observations
Prelim. state university observations

## Objectives

## October 20<sup>th</sup> update

**1 Key indicators of fiscal health**

- ▶ Updated sensitivity analysis based on early October indicators

Focus of today's presentation

**2 Streamlined fiscal reporting processes**

- ▶ Interviewed campus presidents and CFOs to gain a detailed understanding of current reporting processes and procedures

**3 Cost and value optimization strategies**

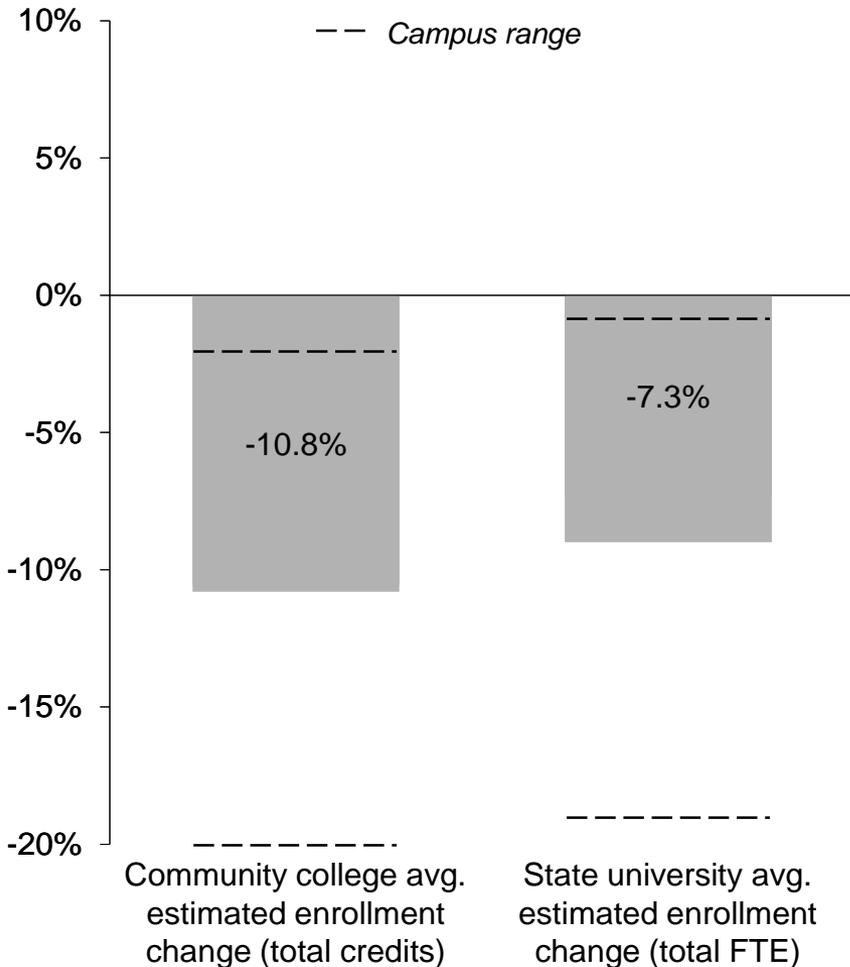
- ▶ Extended invitation to campuses to examine synergistic partnerships and alliances on a voluntary basis

# Updated FY21 observations

## Updated FY21 enrollment forecasts reflect significant decreases from FY20 at both institution types

Context
Prelim. community college observations
Prelim. state university observations

Community college and state university average annual enrollment change (est.), FY21 enrollment estimate vs. FY20, n=24



### Campus perspectives on enrollment forecast

<p><b>COVID-19 has potential to positively impact higher education</b></p>	<ul style="list-style-type: none"> <li>▶ Higher education enrollment has traditionally been countercyclical with economic recessions</li> <li>▶ Move toward remote learning offers more flexibility, which could increase available student base</li> </ul>
<p><b>However, next few months may bring further clarity</b></p>	<ul style="list-style-type: none"> <li>▶ Many community campuses added a condensed October-start term</li> <li>▶ Forecasting based on trends and early indicators may not hold as this year has been an anomaly</li> </ul>
<p><b>Fall enrollment is down, and not expected to increase in spring</b></p>	<ul style="list-style-type: none"> <li>▶ Enrollment is down across all campuses</li> <li>▶ Remote learning poses barriers, especially for students with limited access to technology or children in virtual K-12</li> </ul>

# Updated FY21 observations

## June 2020 sensitivities showed some institutions at risk of liquidity shortfall, updated data shows action to mitigate

Context

Prelim. community college observations

Prelim. state university observations

### June 2020 sensitivity observations

- ▶ In June, enrollment and appropriations were uncertain, sensitivity analysis tested impacts of potential adverse revenue scenarios
- ▶ June observations showed community colleges and state universities could deplete ~50% of reserves in a pessimistic scenario
- ▶ In a pessimistic scenario, as many as 8 institutions (4 community colleges, 4 state universities) could have faced liquidity challenges

### October preliminary update

- ▶ Enrollment actuals for fall 2020 align with previous sensitivity analysis's downside or pessimistic scenarios at most campuses
- ▶ State appropriations are not yet finalized, most state colleges and universities have planned for a reduction in state aid
- ▶ Campuses have taken considerable action to contain costs and manage liquidity in order to preserve operating cash and mitigate against further action in FY22



**While campuses have taken action to preserve liquidity, they will continue to monitor operating revenue and expenses in order to build resiliency going into FY22**

# Updated FY21 observations

## Public colleges and universities (excl. UMass) serve ~79k FTE students with operating budgets of ~\$732 & \$827m

Context
Prelim. community college observations
Prelim. state university observations

### Community colleges

### State universities

Number of institutions:

15

Number of institutions:

9

FY20 undergraduate fall FTE enrollment:

~45k

FY20 undergraduate fall FTE enrollment:

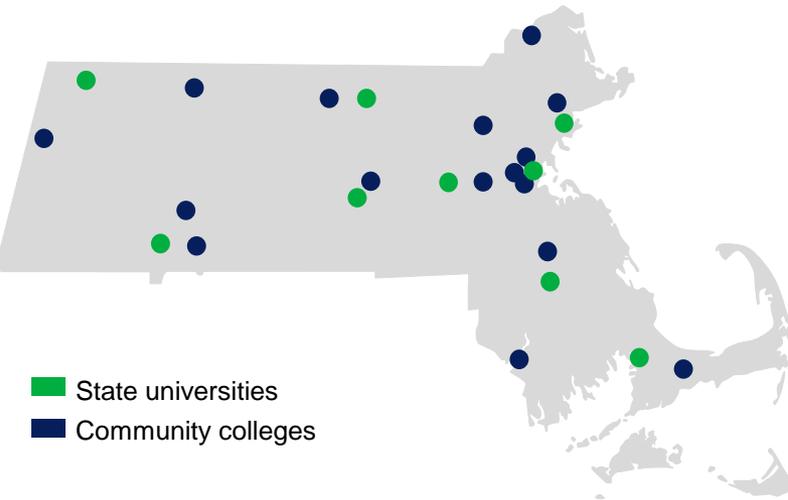
~34k

FY20 operating expense  
(excl. non-cash items)

~(\$732)m

FY20 operating expense  
(excl. non-cash items)

~(\$827)m

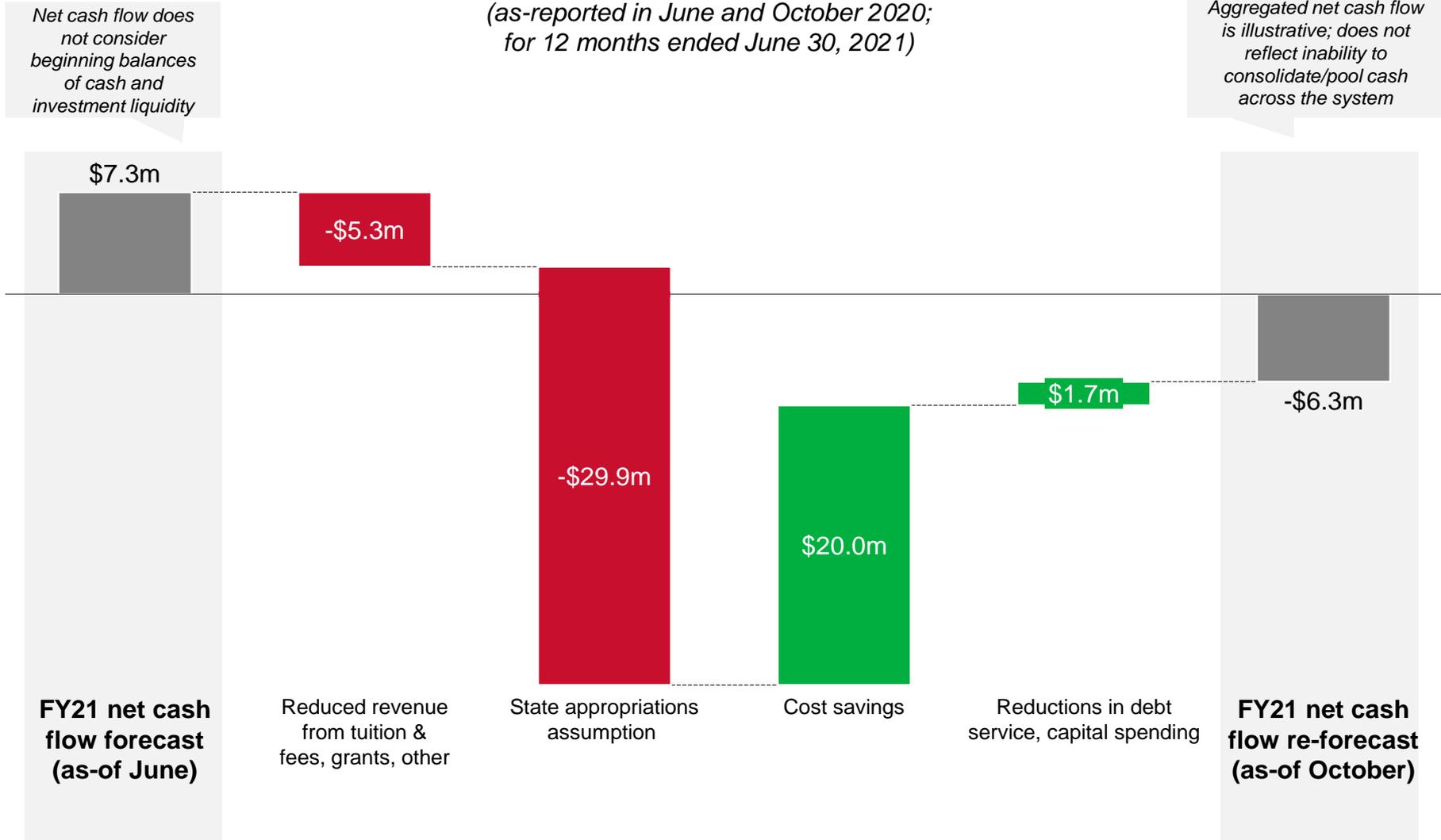


State universities  
Community colleges

# Updated FY21 observations Community colleges show a ~\$13m decrease in net cash flow vs. June base case primarily due to expectations for state appropriations

Context
Prelim. community college observations
Prelim. state university observations

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



# Updated FY21 observations

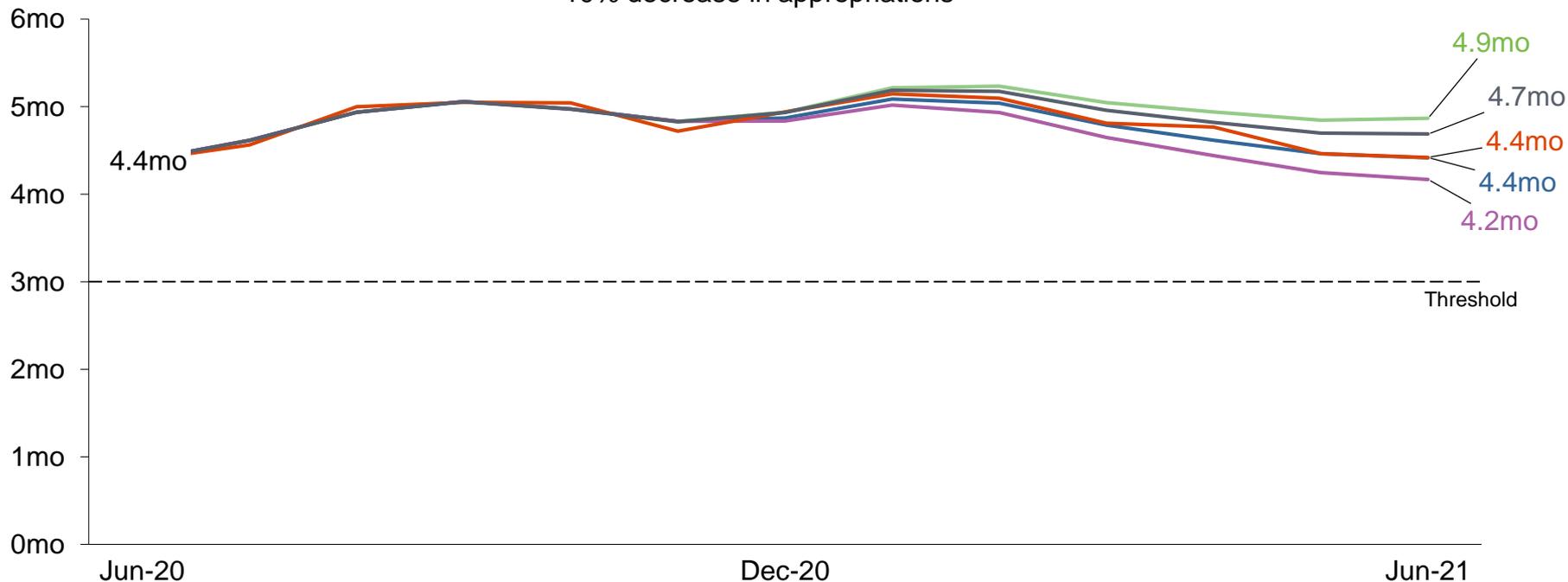
## Community colleges preserve cash through FY21 due to significant cost savings measures

Context
Prelim. community college observations
Prelim. state university observations

Projected aggregated liquidity in months cash operating spend for community colleges, FY21F

Total liquidity is illustrative, does not reflect inability to consolidate/pool cash across system (refer to note in footer)

- Appropriations as proposed in House Bill 2
- Oct 2020 update (normalized to FY20 GAA appropriations)
- Oct 2020 update (as-reported)
- 5% decrease in appropriations
- 10% decrease in appropriations



Note: cash and investment liquidity includes cash, short-term and other investments which may or may not be quickly convertible to cash, as provided by the institutions; cash threshold calculated as projected average 30 days of cash operating expenditures (varies slightly by scenario due to effect of enrollment assumptions on scholarship expense) actual minimum cash needs of the individual institutions may vary and should be considered by each institution

Source: internal data

# Updated FY21 observations

In the updated analysis, all community colleges end FY21 with positive liquidity, though some have a <3 mo. buffer

Context
Prelim. community college observations
Prelim. state university observations

Shortfalls below 3-mo threshold	Months below 3-mo threshold	Observations
---------------------------------	-----------------------------	--------------

**June 2020**  
normalized base case

5

Some to all of year

- ▶ 14 colleges end FY21 with positive liquidity
- ▶ 1 college ends FY21 in a negative cash position
- ▶ 5 fall below a 3-month threshold for 1+ months

**October 2020**  
as-reported  
(campus forecast)

4

Some to all of year

- ▶ All 15 end FY21 in positive liquidity position
- ▶ 4 fall below a 3-month threshold for 1+ months

Cash and investment liquidity includes cash, short-term and other investments which may or may not be quickly convertible to cash, as provided by the institutions; cash threshold calculated as projected average 90 days of cash operating expenditures (varies slightly by scenario due to effect of enrollment assumptions on scholarship expense) actual minimum cash needs of the individual institutions may vary and should be considered by each institution  
Source: internal data

# Updated FY21 observations

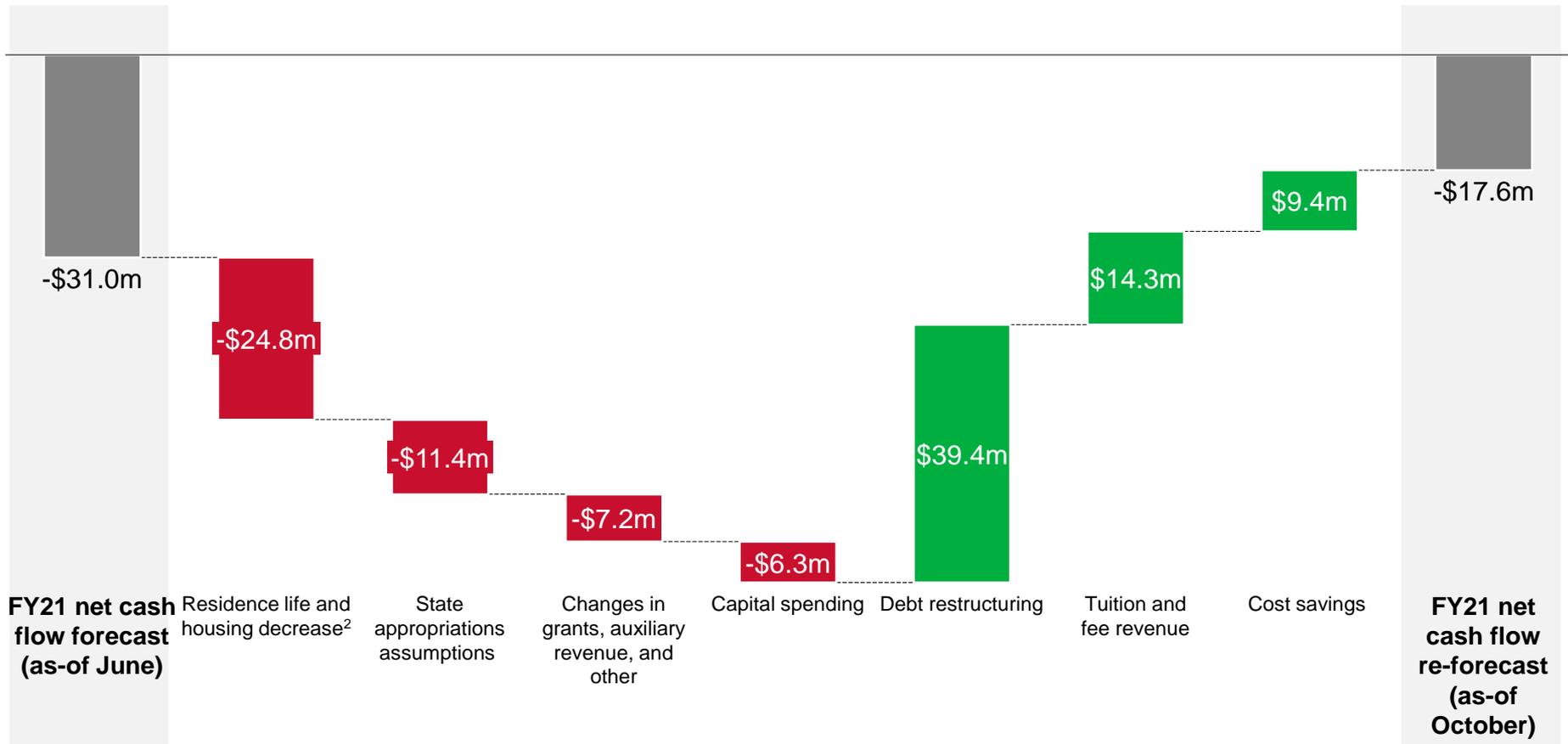
## State universities show a ~\$13m increase in net cash flow vs. June base case mainly from debt restructure

Context
Prelim. community college observations
Prelim. state university observations

Aggregate net cash flow for state universities<sup>1</sup>,  
(as-reported in June and October 2020;  
for 12 months ended June 30, 2021)

Net cash flow does not consider beginning balances of cash and investment liquidity

Aggregated net cash flow is illustrative; does not reflect inability to consolidate/pool cash across the system



Note: 1). excludes UMass system 2). June assumed a level of social distancing in dormitories, decrease reflects decline in student residents beyond distancing policies  
Source: internal data

# Updated FY21 observations

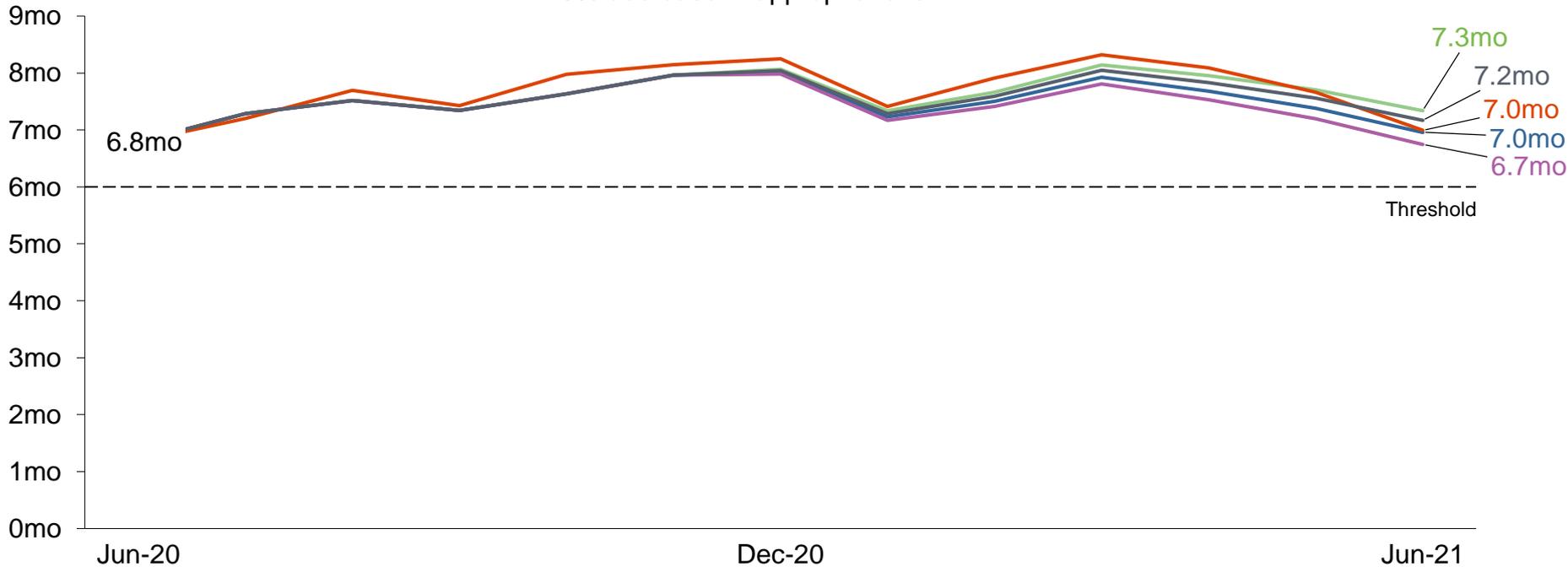
## State universities preserve cash through FY21 largely due to effects of debt restructuring and cost savings

Context
Prelim. community college observations
Prelim. state university observations

**Projected aggregated liquidity in months cash operating spend for state universities\*, FY21F**

Total liquidity is illustrative, does not reflect inability to consolidate/pool cash across system (refer to note in footer)

- Appropriations as proposed in House Bill 2
- Oct 2020 update (normalized to FY20 GAA appropriations)
- Oct 2020 update (as-reported)
- 5% decrease in appropriations
- 10% decrease in appropriations



Note: cash and investment liquidity includes cash, short-term and other investments which may or may not be quickly convertible to cash, as provided by the institutions; cash threshold calculated as projected average 30 days of cash operating expenditures (varies slightly by scenario due to effect of enrollment assumptions on scholarship expense) actual minimum cash needs of the individual institutions may vary and should be considered by each institution

\*excludes UMass system

Source: internal data

# Updated FY21 observations

In the updated analysis, three of nine state universities have less than a 6-month liquidity buffer

Context
Prelim. community college observations
Prelim. state university observations

Shortfalls below 6-mo threshold	Months below 6-mo threshold	Observations
---------------------------------	-----------------------------	--------------

**June 2020**  
normalized base case

4

Some to all of year

- ▶ All 9 end FY21 in positive liquidity position
- ▶ 4 fall below cash threshold of 6-months operating spend, some for the full year and others for the spring semester

**October 2020**  
as-reported  
(campus forecast)

3

Some to all of year

- ▶ All 9 end FY21 in positive liquidity position
- ▶ 3 fall below cash threshold of 6-months operating spend, some for all of year others for one month

Note: cash and investment liquidity includes cash, short-term and other investments which may or may not be quickly convertible to cash, as provided by the institutions; cash threshold calculated as projected average 30 days of cash operating expenditures (varies slightly by scenario due to effect of enrollment assumptions on scholarship expense) actual minimum cash needs of the individual institutions may vary and should be considered by each institution  
\*excludes UMass system  
Source: internal data

# Agenda

---

- 1 Recent Massachusetts higher education context
- 2 Updated FY21 observations
- 3 Next steps

## Additional FY21 Sensitivities

Next steps include working closely with campuses to understand how to manage through potential adverse scenarios and financial challenges

---

### Next steps

**1 Oct-20**

- ▶ Preliminary indicators show campuses have taken significant action to contain costs and preserve cash
  - ▶ State appropriations will continue to play a large role in future



**2 Nov-20 to n-21**

- ▶ Work collaboratively with campuses who may face liquidity challenges to understand risk mitigation plan
  - ▶ Support the continued sharing of strategies among campuses



**3 Beyond**

- ▶ Provide a December update on financial health including any revised cost decisions and options for continued reporting and tracking
  - ▶ Continue to support campuses through FY21 and FY22

# Questions?

