

Massachusetts Public Higher Education Financial Assessment Project

December 15, 2020



MASSACHUSETTS
Department of
Higher Education

Public Higher Education Financial Assessment

Today's presentation will provide an update on the second objective of the project

Objectives

Recommendations

1 Key indicators of fiscal health

▶ February BHE meeting

2 Recommend options to strengthen and streamline financial reporting

▶ Discuss context and initial observations

3 Cost and value optimization strategies

▶ February BHE meeting

Focus of today's presentation

Public Higher Education Financial Assessment

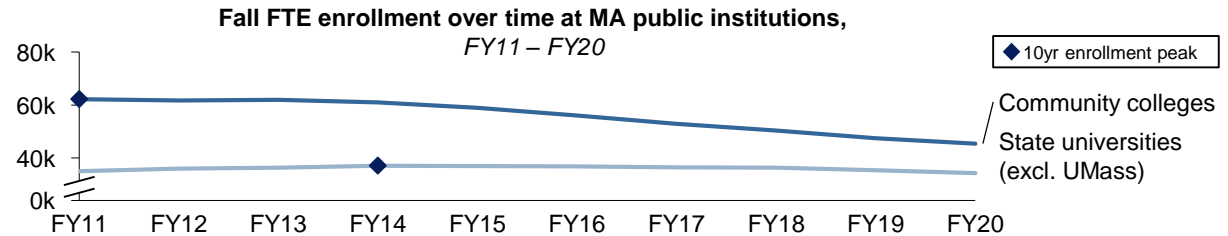
Financial pressures beyond FY21 could further erode cash reserves at public institutions, ensuring their stability is critical to serve Commonwealth students

Observation

1

Institutions have faced declining enrollment for the past 5-10 years

Supporting information



2

Some institutions face these pressures from a position of lower cash reserves

- ▶ In FY21, 4 community colleges have less than 3 months of liquidity in terms of average monthly cash outflows¹
- ▶ In FY21, 3 state universities have less than 4 months of liquidity in terms of average monthly cash outflows¹

3

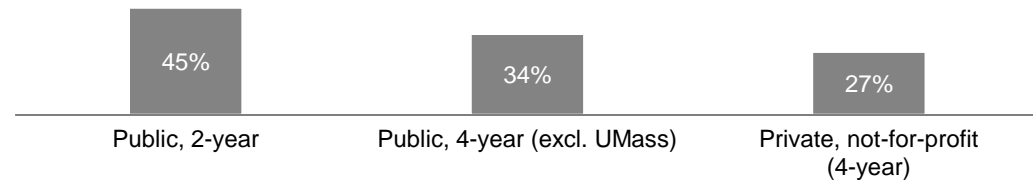
Financial pressures are likely to continue in the future

- ▶ Enrollment declines are likely to continue, MA high school graduates projected to decline ~10% in next ten years
- ▶ Massachusetts state appropriations have yet to return to pre-Recession levels, per-FTE appropriations in FY19 were ~10.7% below their pre-recession high

4

Massachusetts community colleges and state universities are critical to providing students with educational opportunities

Pell status of undergraduate students at MA higher education institutions, FY18



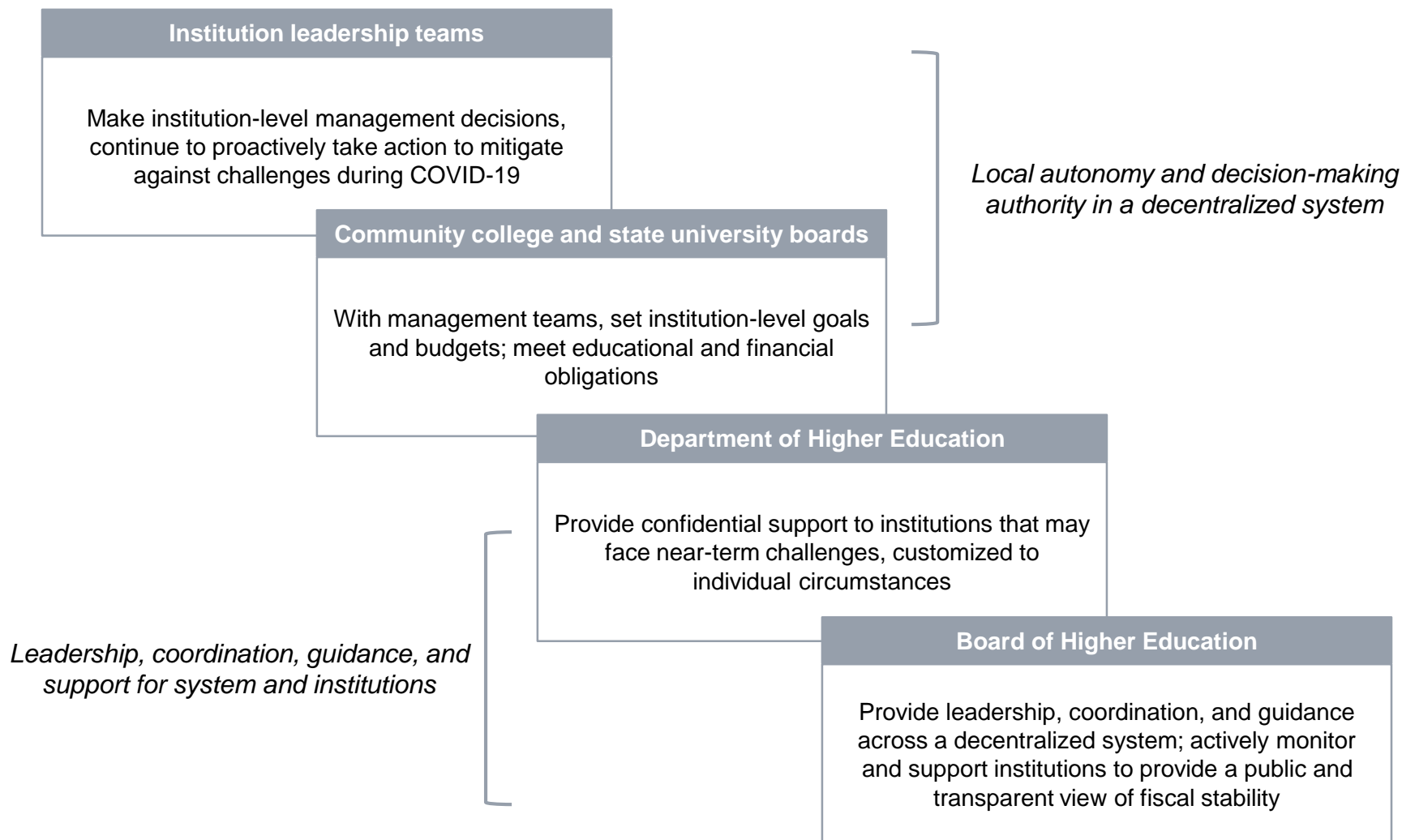
¹) Cash and investment liquidity includes cash, short-term and long-term investments which may or may not be quickly convertible to cash, as provided by the institutions; cash threshold calculated as projected average 3mo/4mo of cash outflows

Source: IPEDS, SHEEO, Western Interstate Commission for Higher Education, internal data

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The BHE, DHE, institutional boards, and leadership teams play interconnected roles in safeguarding the financial health of public higher education

Financial health of Massachusetts public institutions of higher education



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The BHE will adopt a policy and procedures that follow a set of design principles to retain institutional autonomy while fulfilling its responsibility to the public

Design principles of proposed BHE policy and procedures for public higher education fiscal health monitoring and support

Proactive and prospective approach

- ▶ Shift from reactive and in-arrears to proactive and prospective approach
- ▶ Consistent with BHE authority and mandate as well as approach to private institutions, critical during challenging conditions

Institution-level decision-making autonomy

- ▶ Chief authority and responsibility for fiscal prudence is duty of local boards and college/university leadership

Public confidence in fiscal health

- ▶ Ensure public confidence in fiscal health of system, segments, and institutions

Identification of campuses that may require deeper analysis/support

- ▶ Identify key high-level metrics such as cash reserves and near-term liquidity as data points to monitor
- ▶ Metrics are early indicators if campuses may require deeper analysis or support

Collaboration with institutions and segments

- ▶ Collaborate with campus and segmental leadership while meeting fiduciary responsibilities

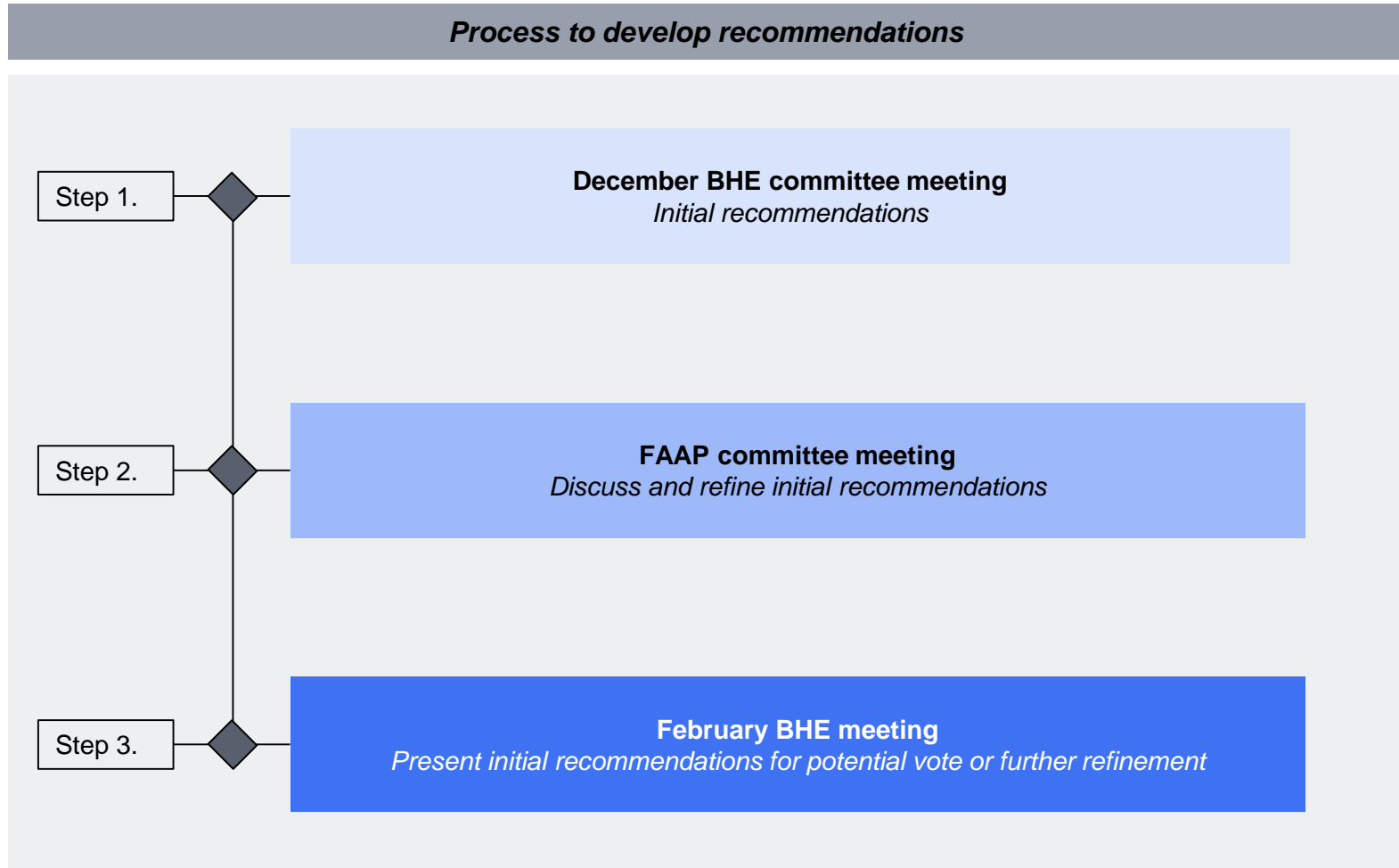
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Other public systems recommend metrics and thresholds to assess financial health, targeting liquidity and/or reserves in relation to expenses or budget

| | University of Massachusetts | University of California System | California Community Colleges | Pennsylvania State System of Higher Education |
|-----------------------------|---|---|--|--|
| Measure of financial health | 3+ mo. liquidity in terms of avg. operating spend | 2+ mo. liquidity in terms of avg. operating spend | 5% of annual budget reserved for uncertainty | 3-6+ mo. liquidity in terms of avg. operating spend |
| Details | <ul style="list-style-type: none"> ▶ Targets at least three months liquidity in terms of cash outflows ▶ Reports liquidity quarterly to unified board | <ul style="list-style-type: none"> ▶ Requires at least two months liquidity in terms of average operating spend ▶ Recommends 3-6 months of operating budget | <ul style="list-style-type: none"> ▶ Reserves 5% of annual budget for economic uncertainty ▶ Some campuses choose to maintain 10% of the annual budget | <ul style="list-style-type: none"> ▶ Three categories of financial health with associated monitoring and support plans ▶ Liquidity is assessed in conjunction with other financial and operational metrics |

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Initial recommendations will be discussed by the FAAP committee in preparation for a presentation at the February BHE meeting



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The BHE and DHE will confirm the design of a continuing financial monitoring process through the FAAP committee

Key Questions

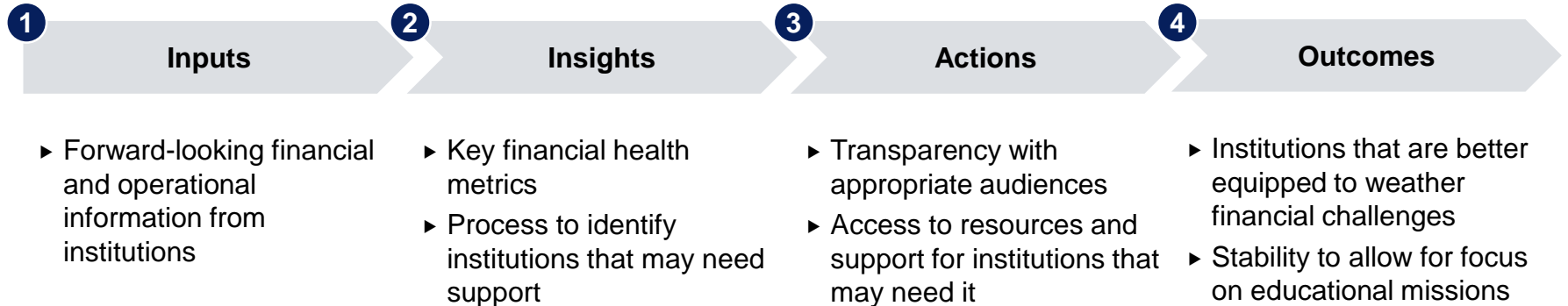
1. How do we sustain visibility into the financial health of public higher education institutions?
Who has access to what information?
2. How do we identify and work with institutions that may need more support?
3. Do the core design principles, data collection, and reporting dashboards support this vision?

Confirm and manage a set of policies and practices that answer key questions; determine a process that involves both DHE staff and board subcommittee (FAAP) with segmental representation

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Reporting will enable the monitoring of key metrics and provide the information necessary to support institutions

Financial health reporting model design



Collect data, analyze metrics, and take actions steps aligned to the goal of proactively supporting autonomous public institutions through potential challenges and ensuring public confidence in their fiscal health

Questions?

