

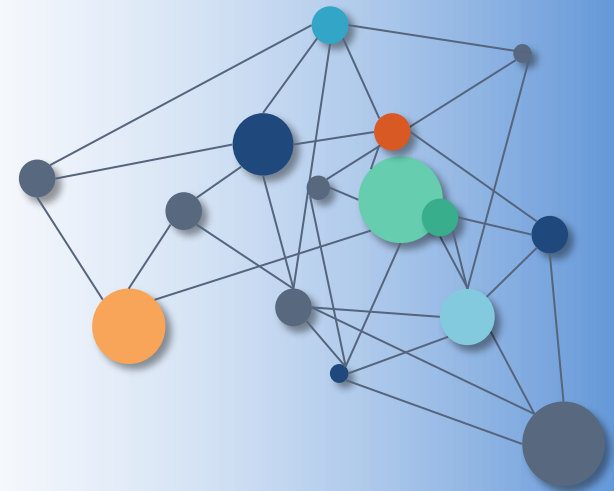
The Cone of Uncertainty: Planning a COVID-19 Response

WICHE LAC Meeting
September 23, 2020



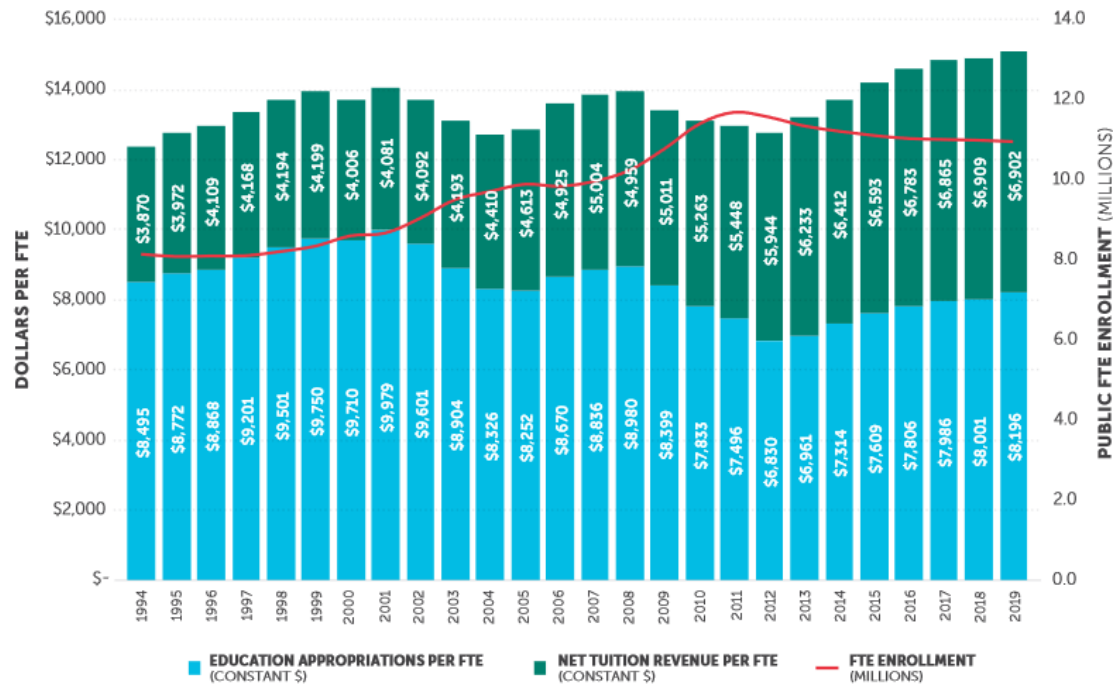
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Financial Crises Have Accelerated the Shift in the Burden of Funding Postsecondary Education

PUBLIC FTE ENROLLMENT, EDUCATION APPROPRIATIONS PER FTE, AND NET TUITION REVENUE PER FTE, U.S., FY 1994-2019 (CONSTANT DOLLARS)



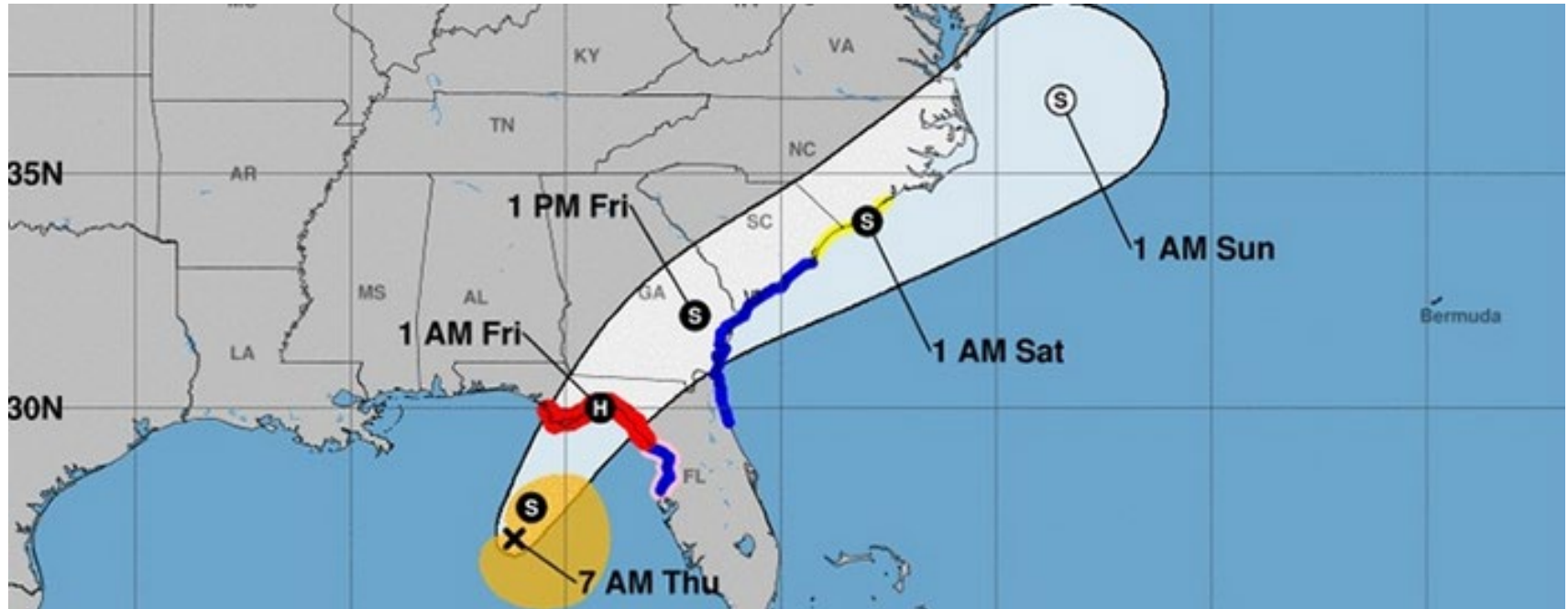
NOTES:

1. Full-time equivalent enrollment converts student credit hours to full-time, academic year students, but excludes medical students.
2. Education appropriations are a measure of state and local support available for public higher education operating expenses, excluding appropriations for research, hospitals, and medical education.
3. Net tuition revenue is calculated by taking the gross amount of tuition and fees, less state and institutional financial aid, tuition waivers or discounts, and medical student tuition and fees.
4. Constant 2019 dollars adjusted by the Higher Education Cost Adjustment (HECA).

SOURCE: State Higher Education Executive Officers Association



The Cone of Uncertainty in Hurricane Forecasting

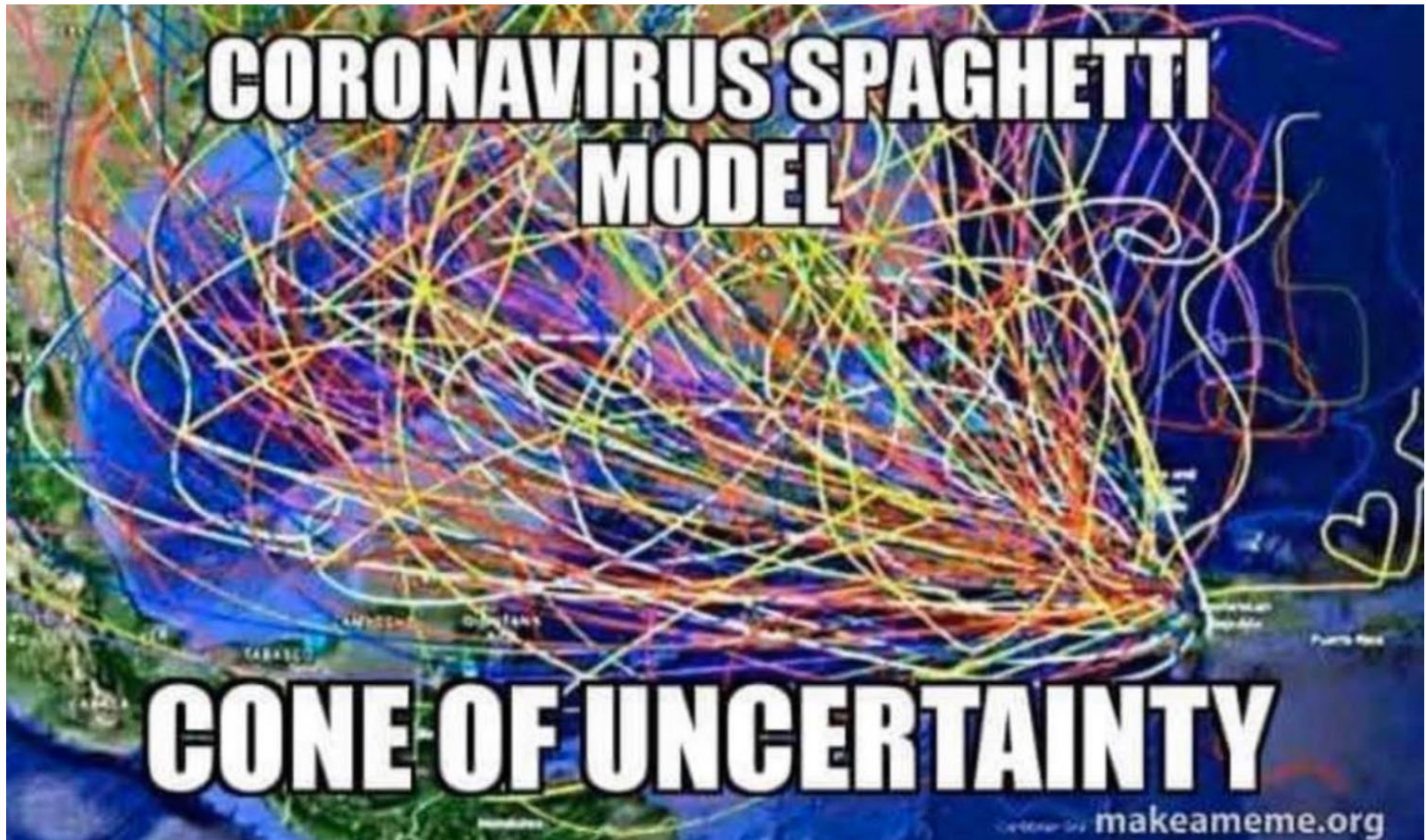


The COVID-19 Crisis is Different

- It has scrambled enrollment forecasting
- It resulted in major reductions in revenue (and additional costs) for auxiliary enterprises
 - Cannot make the assumption that they are self-supporting
 - General fund revenues have to be devoted to these functions—putting additional stress on funds for general operations
- It directly affected the educational delivery model as well as the business model



As Applied to Postsecondary Education Under COVID-19



COVID-19 Impact Model: Key Features

- Is heuristic. It allows investigating consequences within the realm of the cone of uncertainty
- Accounts for revenues from all sources
- State funds are the last dollar in—allows investigation of different state allocation strategies on:
 - Resulting adequacy of institutional funding—extent to which institutions in different sectors have sufficient funds to fulfill their varied missions
 - Affordability of education in different sectors for students of different income levels



COVID-19 Impact Model Inputs & Results

Adjustable Input Variables	
Enrollment	
	First-time, transfer-in, continuing
	Direct from high school, <25yo, 25+
	Attendance Status
	Residency
	Income Profile of Incoming Students
State Appropriations	
	Institutional Appropriations
	Student Financial Aid Appropriations
Federal Stimulus	
	CARES Act Institutional Allocation
	CARES Act Governor's Allocation
	Possible additional stimulus
Tuition Prices	
	Resident Undergraduate
	Resident Graduate
	Nonresident Undergraduate
	Nonresident Graduate
Auxiliary Revenue	
Expenditures	
	Instruction-Related Expenses
	Student Services
	Plant Operations & Maintenance
	Auxiliary

Estimated Results	
Enrollment	
	Undergraduate FTE
	Graduate FTE
Revenue (Total and per FTE)	
	Federal Stimulus
	State Appropriations
	Local Appropriations
	Tuition Revenue
	Total Instruction-Related Revenue
	Auxiliary
Expenditures (Total and per FTE)	
	Instruction-Related Expenses
	Student Services
	Plant Operations & Maintenance
	Auxiliary
Awards	
	Bachelor's Degrees
	Associate Degrees
	Undergraduate Certificates
	Auxiliary
Affordability	
	Unmet Need by Income Level

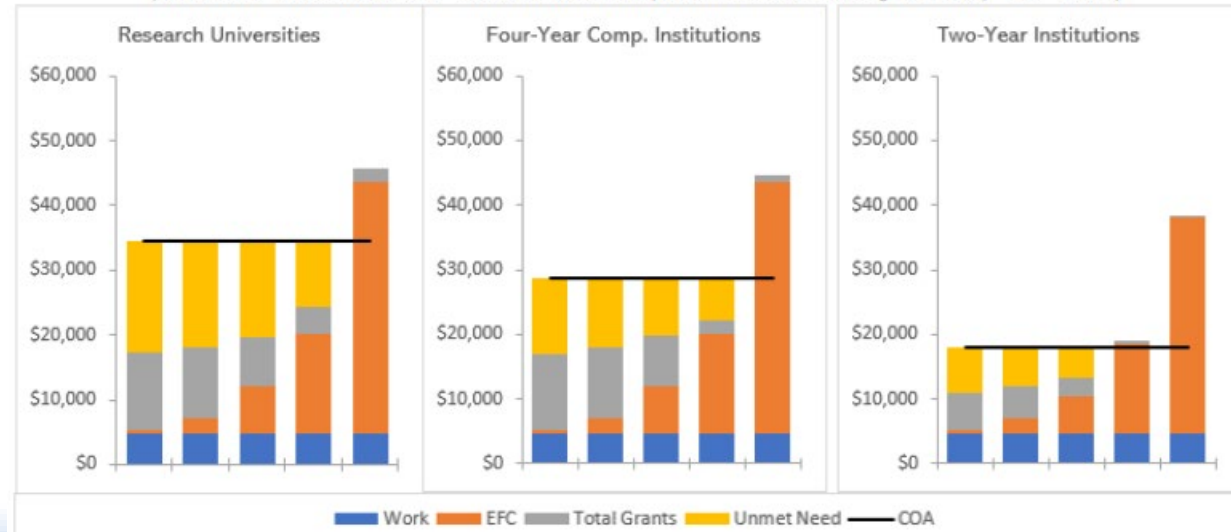


State A

		FY18/FY20			FY21			Difference			Percent Difference		
		Research	Four-Year Comp.	Two-Year	Research	Four-Year Comp.	Two-Year	Research	Four-Year Comp.	Two-Year	Research	Four-Year Comp.	Two-Year
Enrollment	Undergraduate FTE	226,253	30,989	315,824	212,731	28,958	297,651	-13,522	-2,031	-18,173	-6.0%	-6.6%	-5.8%
	Total FTE	280,053	34,389	315,824	263,841	32,188	297,651	-16,212	-2,201	-18,173	-5.8%	-6.4%	-5.8%
Revenue	Federal Stimulus				\$149,135,868	\$13,246,630	\$150,734,608	\$149,135,868	\$13,246,630	\$150,734,608			
	State Appropriations	\$2,418,343,168	\$293,308,724	\$1,107,490,563	\$1,616,325,353	\$178,734,750	\$878,332,616	-\$802,017,816	-\$114,573,974	-\$229,147,947	-33.2%	-39.1%	-20.7%
	Local Appropriations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	N/A	N/A	N/A
	Revenue from T&F + Grants Used to Pay T&F	\$2,662,804,929	\$250,073,166	\$1,046,248,261	\$2,390,019,190	\$212,928,087	\$957,799,210	-\$272,785,739	-\$37,145,079	-\$88,449,051	-10.2%	-14.9%	-8.5%
	Total Instruction-Related Revenue	\$5,081,148,097	\$543,381,890	\$2,153,728,824	\$4,155,480,411	\$404,909,467	\$1,986,866,433	-\$925,667,686	-\$138,472,423	-\$166,862,391	-18.2%	-25.5%	-7.7%
	Auxiliaries	\$782,613,069	\$68,193,859	\$68,878,465	\$698,178,061	\$60,419,987	\$61,471,077	-\$84,435,008	-\$7,773,872	-\$7,407,388	-10.8%	-11.4%	-10.8%
Total Instruction-Related Revenue + Auxiliaries		\$5,863,761,166	\$611,575,749	\$2,222,607,289	\$4,853,658,472	\$465,329,454	\$2,048,337,510	-\$1,010,102,694	-\$146,246,295	-\$174,269,779	-17.2%	-23.9%	-7.8%
Revenue per FTE	Federal Stimulus				\$565	\$412	\$506	\$565	\$412	\$506			
	State Appropriations	\$8,635	\$8,529	\$3,507	\$6,126	\$5,553	\$2,951	-\$2,509	-\$2,976	-\$556			
	Local Appropriations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
	Revenue from T&F + Grants Used to Pay T&F	\$9,508	\$7,272	\$3,313	\$9,059	\$6,615	\$3,218	-\$450	-\$657	-\$95			
	Total Instruction-Related Revenue	\$18,144	\$15,801	\$6,819	\$15,790	\$12,579	\$6,675	-\$2,394	-\$3,222	-\$144			
	Auxiliaries	\$2,795	\$1,983	\$218	\$2,646	\$1,877	\$207	-\$148	-\$106	-\$12			
Total Instruction-Related Revenue + Auxiliaries		\$20,938	\$17,784	\$7,037	\$18,396	\$14,457	\$6,882	\$0	\$0	\$0			
Expenditures	Instruction-Related Expenses	\$3,424,868,140	\$333,043,085	\$2,012,383,991	\$2,772,742,804	\$253,402,391	\$1,854,597,361	-\$652,125,336	-\$79,640,694	-\$157,786,630	-19.0%	-23.9%	-7.8%
	Student Services	\$331,894,971	\$54,126,984	\$377,123,000	\$274,834,004	\$41,183,582	\$347,553,637	-\$57,060,967	-\$12,943,402	-\$29,569,392	-17.2%	-23.9%	-7.8%
	Auxiliaries	\$779,825,388	\$70,394,537	\$84,748,219	\$673,855,021	\$53,561,070	\$78,103,296	-\$105,970,367	-\$16,833,467	-\$6,644,923	-13.6%	-23.9%	-7.8%
	Plant O&M Allocated to Instruction & Auxiliaries	\$195,488,793	\$15,749,817	\$163,306,849	\$195,488,793	\$11,983,559	\$150,502,316	\$0	-\$3,766,259	\$12,804,533	0.0%	-23.9%	-7.8%
	Total Instruction-Related Expenses + Auxiliaries	\$4,732,077,292	\$473,314,424	\$2,637,582,089	\$3,916,920,822	\$360,130,602	\$2,430,756,611	-\$815,156,689	-\$113,183,822	-\$208,805,478	-17.2%	-23.9%	-7.8%
Expenditures per FTE	Instruction-Related Expenses	\$12,229	\$9,685	\$6,372	\$10,509	\$7,873	\$6,231	-\$1,720	-\$1,812	-\$141			
	Student Services	\$1,185	\$1,574	\$1,194	\$1,042	\$1,279	\$1,168	-\$143	-\$295	-\$26			
	Auxiliaries	\$2,785	\$2,047	\$268	\$2,554	\$1,664	\$262	-\$231	-\$383	-\$6			
	Plant O&M Allocated to Instruction & Auxiliaries	\$698	\$458	\$517	\$741	\$372	\$506	\$43	-\$86	-\$11			
	Total Instruction-Related Expenses + Auxiliaries	\$16,897	\$13,764	\$8,351	\$14,846	\$11,188	\$8,166	-\$2,051	-\$2,575	-\$185			
Awards	Bachelor's Degrees	58,617	7,172	8,436	47,525	5,466	7,804	-11,092	-1,706	-632	-18.9%	-23.8%	-7.5%
	Associate's Degrees	1,736	1,441	70,831	1,404	1,091	65,298	-332	-350	-5,533	-19.1%	-24.3%	-7.8%
	Undergraduate Certificates	287	0	25,792	233	0	23,820	-54	0	-1,972	-18.9%	NA	-7.8%
	Total Undergraduate Awards	60,640	8,613	105,059	49,161	6,557	96,921	-11,479	-2,056	-8,138	-18.9%	-23.9%	-7.7%

Shared Responsibility Framework

(Unmet Need=Cost of Attendance - Student Contribution (Amount based on Working 15 hrs/wk) - EFC - Grants)



Output Examples



COVID-19 Impact Scenario Insights

- Federal stimulus won't be enough, and Governor's Emergency Education Relief Funds represent critical additional backstops
- Nonresident enrollment shifts can have big impacts
- Auxiliary revenue and unbudgeted expenditures put major pressure on funding institutional missions and student completions
- Public comprehensives are generally more vulnerable across-the-board, but research universities are vulnerable from nonresident impacts and auxiliaries
- State need-based grant aid can help limit further erosion of affordability



Principles for Resource Allocation

- State funds as last dollar, spent with awareness of other revenue streams
- Equal priority to institutional needs (in the form of “frugal” funding adequacy) and to student affordability
 - Will require prioritization among institution types
- Maintain focus on state goals
 - Make institutional productivity part of the solution
 - Review and revise—but don’t scrap—performance funding, and ensure they prioritize populations in need
 - Incentivize collaboration, not just competition
- Don’t ignore the capital budget by adopting a broader definition of “capital” to be durable capacity not just physical facilities



A Prospective Framework for Understanding Institutional Operating Needs

Institutional Budget	<u>Category</u>	<u>Functions and Roles</u>	<u>Funding Responsibility</u>
	Other	Advancement, auxiliaries, athletics, etc.	Self-support
	Research and Public Service	Grants management, community engagement, museums, arts, extension services	Self-support
	Innovation/Performance Enhancement	Investments in continuous improvement in all areas	Mix
	Scale	Course sections, academic support, student services (tutoring, student health, organizations and activities, etc.)	Mix
	Maintenance/Renewal	Strategy and planning, deferred maintenance, program/curriculum renewal and relevancy, personnel and professional development	State
	Foundational	Senior leadership, governance, compliance, debt obligations, foundational systems (LMS, public safety infrastructure, etc.)	State



Final Thoughts

- Sensitivity to institutional context is critical and too easily overlooked in crisis
- COVID-19 has laid bare the need to attend to auxiliary budgets
- Look out: FY22 will present substantially greater challenges, and too few have begun to really address it

