



# RESTRUCTURING & TURNAROUND

## Which Colleges and Universities Will Survive the Pandemic?

### AUTHOR

For more information on how A&M can help devise mitigation strategies related to Covid-19, contact:



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**institutions of higher learning will be forced to stem immediate revenue losses this fall and plan for transformative new models of higher education to ensure their existence in the future.**

The financial onslaught from COVID-19 has affected most sectors, but few have been rocked like higher education. It already faced a decade of significant challenges to its financial, operational and academic sustainability models, and many schools were experiencing severe stress on their liquidity. Now, they're feeling the end of the spear from COVID-19, which accelerated existing problems and exposed their risk.

The pandemic essentially disrupted all elements of school operations, forcing every college and university to quickly deal with these interruptions while planning ahead for a yet-to-be determined "new normal" where campuses are free of COVID-19. The bottom-line impacts to higher education from the pandemic will not be fully understood until an effective vaccine is universally available, but it is already a certainty that the fallout from COVID-19 will be massive.

Ultimately, institutions of higher learning will be forced to stem immediate revenue losses this fall and plan for transformative new models of higher education to ensure their existence in the future. It won't be easy, considering the present financial impact of the pandemic and simultaneous economic crisis. But now is the time — and may be the last chance — to plan for the worst-case scenario and take all necessary actions.

### An Uncertain Future

The pressure to step up financial strategies came with the sudden mid-term closure of nearly every campus in the nation with an immediate pivot to massive online distance learning. The future of the American campus is far from clear. California State University, the largest four-year public university system, recently announced that classes for the Fall 2020 semester will continue to be offered exclusively online. Others have followed suit, while many others have plans to re-open their campuses.

The Chronicle for Higher Education, which tracks 950 colleges on their coronavirus responses, says two-thirds plan to open in the fall, while a survey by the American Council on Education found 53 percent of college presidents say they are "very likely" to reopen in some form. This situation is dynamic, and opening for on-campus education this fall certainly entails meaningful risk. Campus experiences — classroom teaching, dorm life, food hall gatherings — simply don't lend themselves to optimal social distancing and will become the fundamental challenge facing university leaders.



## Scope of Financial Impact

The move to online learning immediately affected the bottom line of colleges nationwide, and large numbers sought help from the economic stimulus program. More than 850 colleges and universities applied for and received \$2 billion in funding by the end of April to relieve student financial burdens, and an additional 630 colleges applied for \$6 billion to cover institutional costs associated with COVID-19. These funds are a lifeline for many small liberal arts colleges and other schools that don't have endowments sufficient to support "COVID-19 costs" and rely heavily from semester to semester on revenue from tuition, room and board.

But even Harvard University, with its \$41 billion endowment, is trying to stem its reported \$750 million in revenue losses by freezing wages, hiring and capital infrastructure projects. If Harvard is taking such immediate and decisive measures as a direct result of the pandemic, small colleges must be reconfiguring business models to determine how far they can shrink before liquidity becomes unmanageable.

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A model by the college advisory firm Edmit indicates one-third of private, four-year colleges are at high risk following the onset of the coronavirus. It also suggests that colleges will lose 10 percent in revenue in the next year as attendance drops and forecasts that lost revenue in two years will reach 20 percent. The loss of student revenue will impact other funding sources, according to credit rating firm Moody's. Government funding for public universities and philanthropic gifts to both private and public institutions will likely be reduced in the wake of the economic crisis. These revenue cuts will strain all institutions of higher learning, but the largest debt issuers will be better able to survive the challenges.

Even so, every institution must be going through their own fact and circumstance-specific analysis now, considering the many alternative scenarios available for the Fall 2020 semester. Spring 2020 challenges may be viewed as elementary compared to anticipated Fall 2020 challenges with social distancing requirements and the unknown scope of the pandemic's 'second wave.'

## Putting Mitigation Strategies into Place

Whether the pandemic remains or reemerges forcefully this fall, institutions of higher learning must plan for immediate challenges. They must create campuses free of COVID-19 in the near future, absorb significant costs to survive the pandemic's massive impacts and look for relief from public policy leaders, who will be pressured to provide liquidity to the sector. Beyond those costs, universities will face the fallout from an unprecedented 50 million job losses in the U.S., as parents find themselves out of work and wondering how long before they can find employment. That will certainly affect their ability to afford tuition and related educational expenses.

**Universities will face the fallout from an unprecedented 50 million job losses in the U.S.**





As colleges and universities strategize to remain viable and sustainable, the immediate focus for the upcoming school year beginning Fall 2020 is to take all necessary actions to survive as the fallout from COVID-19 continues to evolve and more data becomes available. For the near-term, colleges and universities must:

- Reset and rebuild cash forecasting models;
- Re-examine budgeting processes to deal with decreases in enrollment and corresponding decreases in all categories of revenue;
- Reboot the budgeting process to effectively deal with reductions in revenue while stress testing at all conceivable levels of reduction;
- Scrutinize enrollment forecasts with as much accuracy as possible;
- Avoid overly optimistic assumptions in all areas and determine the actions necessary and the associated costs to make campuses safe;
- Enforce social distancing, which by definition is antithetical to normal campus experiences; and
- Establish realistic re-opening plans that are acceptable to all constituents, again, a difficult objective with younger students and older faculty.

In short, difficult decisions need to be made as every school considers salary and hiring freezes, furloughs, layoffs, reductions and/or eliminations in discretionary and capital spending, all while attempting to preserve the core mission and create safe campuses.

There are too many moving pieces and too many unknowns at this stage, so schools must plan for the worst possible outcomes to avoid potential closure. Those that fail to do so may find themselves in a “too late to survive” scenario. The post-pandemic “new normal” will not be fully understood before 2021 or 2022. Decisive actions, based on the most thorough fact base, taken in 2020, will determine which schools survive the pandemic.

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