

# HIGHER EDUCATION COVID-19 RESPONSE: CLARIFY YOUR INSTITUTION'S FINANCIAL PICTURE

The immediate impacts of COVID-19 have resulted in prompt and thoughtful actions by institutional leaders; many actions have required substantial resource shifts to promote community safety, learning outcomes, risk reduction and financial stability.

The first financial impacts to receive attention are the declines in operating revenues (auxiliaries, summer programs, athletics, etc.) and, as relevant, the associated refunding of student payments. Just as pressing, however, is the meltdown of endowment values, and the risks associated with capital calls, tripped debt covenants and short-term bond refinancing. Challenges, including the potential for significantly reduced appropriations and continuing enrollment uncertainty, call for immediate responses with both short-term strategies and longer-term transformation considerations.

In a [recent white paper](#), Huron outlined a three-phase framework for higher education's evolution through this pandemic and impending recession. In this framework, the sector enters first into a triage phase, then transitions to a period of stabilization while it begins to explore opportunities for fundamental transformation.

Here are examples of financial actions that leaders should consider as they navigate through each of these phases.

<b>TRIAGE</b> <i>Rapid response to urgent pandemic-related needs</i>	<b>STABILIZE</b> <i>Shift resources to midterm stabilization</i>	<b>TRANSFORM</b> <i>Implement change to ensure long-term success</i>
<ul style="list-style-type: none"> <li>Quantify and forecast revenue shortfalls and delayed cash receipts</li> <li>Review debt covenants</li> <li>Curtail spending and hiring</li> <li>Evaluate accounts receivable, including pledge receipts</li> <li>Evaluate liquidity issues impacting balance sheet and operations</li> <li>Inventory contracts</li> </ul>	<ul style="list-style-type: none"> <li>Develop cash flow projections</li> <li>Involve campus constituents in decision making and execution</li> <li>Assess potential changes to spending policies</li> <li>Prioritize, defer or cancel planned capital expenditures</li> <li>Evaluate debt capacity</li> <li>Arrange short-term borrowing</li> <li>Evaluate endowment liquidity</li> </ul>	<ul style="list-style-type: none"> <li>Develop and implement an integrated budget and financial planning model, with reporting tools and forecasting capability for projecting scenarios</li> <li>Evaluate and align the academic and research portfolio</li> <li>Evaluate alternative service delivery models (e.g., realignment, outsourcing)</li> <li>Consider merging with or acquiring strategic partner(s)</li> </ul>

## Triage: Take Immediate Action to Address Financial Risks

As leaders respond to urgent needs in the triage phase, there are multiple immediate actions that will be required. To start, leaders should turn to scenario models to forecast the near-term net revenue and cash flow picture to effectively size the impact of strategic and operational changes. Variables in these models should include the institution's own COVID-19 responses, as well as anticipated student and third-party responses. Institutional leadership should also conduct a careful review of debt covenants to ensure compliance with ratio maintenance and notice requirements, seeking advance waivers from creditors if ratios will not be met or if material adverse change disclosures are needed. At the same time, leaders should evaluate:

- Accounts payable payment frequency, extending payment time frames if appropriate.
- Accounts and pledges receivable for potential write-downs.
- Current balances of cash and investments, including liquidity measures.
- Investment vehicles for potential private equity capital calls.
- Derivative financial instrument requirements, understanding circumstances that would trigger collateral posting.
- Business interruption insurance coverage levels and exclusions.

Institutions should also strategically collaborate with contractual partners to quantify potential liabilities arising from guaranteed minimum revenues in public-private partnerships and assess commitments required pursuant to union contracts, outsourcing contracts and other contractual arrangements. Delays in the receipt of federal and state funding are also likely. Considering all these variables, leaders should prepare to respond as needed to accreditors, ratings agencies and state authorities regarding their financial plans.

## Stabilize: Implement Changes to Weather the Storm

A focus during the stabilization phase will be to create an understandable cash and investment report that leaders can use to gauge institutional liquidity and to make time-sensitive decisions. Developing more extensive cash flow monitoring and projections will provide a clear picture of the institution's financial standing. Institutions may need to explore available borrowing options to optimize operating liquidity. Other critical stabilizing steps include:

- Prioritizing spending that provides a return on investment.
- Redirecting funding to support transformations in academic delivery models.
- Exploring fiscal policies such as hiring freezes, procurement limitations and purchasing card restrictions.
- Evaluating capital and major maintenance projects planned for summer, prioritizing those affecting health and safety.
- Assessing planned equipment purchases to identify those that may be cancelled or deferred.
- Evaluating waiver, discounting and endowment spending policies for potential changes.

Another critical function for financial leaders during this period will be to manage campus expectations with respect to the next fiscal year's budgets while course-correcting any planning processes that may be already underway.

## Transform: Reimagine the Future

As leaders consider their opportunities for longer-term transformation, it will be necessary to rethink the institution's approach to resource planning, allocation and management. Institutions need comprehensive budget planning models that deeply engage stakeholders with the right set of data and incentives. Such budgeting models allow for an intentional focus on adjustments to the institution's academic and research portfolio to ensure a sustainable program mix and appropriate matching of resources with institutional priorities.

Models should include multiyear financial plans, accurate reporting tools, transformative scenarios and contingencies so that leaders can be prepared for any future service disruptions and, most importantly, stay ahead of the macroeconomic changes sweeping across higher education.

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**Authored by** Andrew Laws, Laura Humberger and Robert Spencer

Read the full white paper and access other educational resources on our [COVID-19 resource page](#). For more information, [contact us](#).