Higher education:

COVID-19 and the associated economic crisis

EY-Parthenon Education practice

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Challenging times for higher education

The COVID-19 pandemic and associated economic disruptions come at a challenging time for the US higher education sector. Flat enrollments, intense competition over students, increasing tuition discounting, rising costs and shifting demand preferences were among the myriad challenges US institutions were already managing. In addition, approximately one in five private institutions was facing substantial financial risk before the onset of the global pandemic.[1]

Since the outbreak of COVID-19 in the US, institutions have been consumed with operational triage. They canceled study-abroad programs, cut athletic seasons short and requested students leave campus for an indeterminate period, among numerous other decisions. Within a week, almost all classroom learning shifted to a remote delivery model, often using commercially available collaboration tools as the foundation. This makeshift remote learning solution should not be confused with best-in-class online courseware, delivery infrastructure and supporting services, as high-quality online delivery is often the purview of scale institutions with sophisticated operations honed over years.

> With the most immediate triage completed, it is time to ask, “What should we expect?” and, ultimately, “What actions should we consider?”

What to expect?

In an unprecedented confluence of events, discerning what comes next requires some speculation. Typically, higher education enrollments are counter-cyclical, but it is unclear how that will evolve in this crisis. Historically, at the height of the Great Recession, despondency seeped into the psyche of prospective students, and enrollments flattened instead of accelerating as they had in previous years.[2] Today, many projections suggest that COVID-19 precautions may continue or, if they were to be lifted in the summer, may return next fall.

From a planning perspective, it is prudent to assume that:

- Ancillary revenues derived from summer programs will likely disappear.
- Institutions may face other financial challenges due to refunds associated with housing and dining and online learning, lost revenue from canceled university programs and events, and increased operating costs (e.g., switching to remote delivery).
- The impact on international students, while unknown, is likely to be substantial and negative.
- Student retention rates for many institutions may decline due to one or more of the following reasons:
  - The emotional hold on remote students is weaker.
  - Many of those students will experience subpar remote learning.
  - Many parents and students will view their current institution as a nonessential luxury.
  - Absolute financial strain (barring significant intervention by the government) will place higher education out of reach for some students.

- Fall semester first-time, full-time enrollment, while not something that most institutions could take for granted even before COVID-19, is even more unpredictable now.
  - Campus visits, which helped students and families make decisions, are no longer an option.
  - Some students may decide to postpone full-time college, especially if their families' circumstances demand it, or students may opt to work and study part-time instead.[3]
  - Other institutions will recruit and discount right up to convocation, including students already committed to or enrolled in another institution.[4]
- Many students may elect to enroll in online programs that allow them to be employed or be at home with family due to the unstable environment.
- Institutions that rely on endowment returns to support their operating model will see the value of that endowment reduced in the short to medium term and must anticipate higher volatility for the foreseeable future.

Prior to the crisis, increasing competition, changing student demand and rising financial pressures were driving inevitable change to the higher education sector and forcing mergers and closures on some institutions. The crisis will accelerate these trends. Revenue losses, combined with potentially increased operating costs, could overturn the traditional higher education business model and lead to a sector shake-up.

Not all institutions will survive this crisis.[5]

What are actions for consideration?

Institutions must navigate the crisis within their own context, but there are clearly emerging crisis management themes. Currently, most institutions are focused on surviving the disruption and establishing business continuity. As operations resume this week, universities and colleges will turn their attention toward enterprise resiliency late this spring and summer. By late fall, with at least one foot upon terra firma, they can begin to reframe their future.

Now

Establishing business continuity

First and foremost, institutions prioritized safety, communication and education continuity. They rapidly moved students out, confirmed that faculty and staff were safe, stood up business-continuity planning teams and crisis management centers, built out communications protocols, and initiated remote learning. Let us not underestimate the strain these tasks placed upon institutions. Having addressed the immediate needs of students and staff, understanding the risk of near-term institutional instability through a rapid assessment of student retention, the incoming fall cohort, and cash or liquidity realities is paramount.

Next

Building enterprise resiliency

Late spring and summer will see institutions shoring up the structures they immediately put in place. Remote learning structures will need continual enhancement and support, and processes strained by remote staff will need adaptation. Some infrastructure will need scaling, and some may require repurposing or mothballing.

If cash was king before, it will soon be emperor, and many institutions will need to focus on liquidity and cash preservation. The impact of the crisis on covenants and composite scores is equally important to understand while parallel efforts are underway to secure exemptions from these, in addition to access to low-cost debt across the sector. Equally important, this will be the time to assess insurance gaps and begin the process of appropriately documenting claims and anticipated federal emergency funding.

Beyond

Reframing the future

As summer peaks, institutions will begin to reframe their future. First, quality online courseware will become standard, and all the infrastructure to support it — technology, course designers, sound studios, student support services — will need to be present at well-governed institutions.[6] The business processes for supporting students — bursars/financial aid offices, health — will be redesigned and capable of transitioning seamlessly between "present" and "remote" delivery.

This will also be the time that institutions take objective stock of their strategic position. It will be no time for sanguine futurists. Some institutions will need to seek stability in the structures of a more stable peer. Others may band together through shared services, collaboration and mergers to build scale. Some will become white knights and absorb institutions with questionable stability.[7]

While the higher education sector is in a clear crisis, it has endured reformations, revolutions, civil wars, global wars and more. Universities and colleges are resilient institutions with a critical role to play in society. They will undergo change, but they will endure.

Take action

The chart at right highlights and sequences several, but certainly not all, actions institutions will need to address over the next six to nine months.

	Now Establishing business continuity
1 Student experience/ continuity	‣ Get everyone to safety (duty of care) ‣ Shelter those who need to remain on campus ‣ Stand up crisis center and communication project management office (PMO) ‣ Establish remote delivery protocols ‣ Assess retention risks ‣ Determine risk to incoming class
2 Stakeholder care	‣ Assure safety of staff and community (duty of care) ‣ Create a crisis center and communication PMO
3 Infrastructure and operational support	‣ Modify and readjust remote operations as necessary ‣ Assess vendor/partner risk
4 Financial implications	‣ Understand short-term liquidity requirements ‣ Assess cash needs through summer and fall
5 Local, state and federal linkages	‣ Connect with political leaders to identify emergency funding opportunities in response to the COVID-19 pandemic

<table>
<tr><th>Next
Building enterprise resiliency</th><th>Beyond
Reframing your future</th></tr>
<tr><td>▸ Enhance remote learning with online learning tools
▸ Support faculty and students with technical/pedagogical challenges
▸ Address equity issues associated with remote learning
▸ Plan for remote/online in the fall as a contingency
▸ Deploy retention and accepted-student care teams</td><td>▸ Enhance online learning capabilities and migrate all courses to high-quality online offerings (vs. remote learning)
▸ Re-recruit existing/accepted students
▸ Target enrollment enhancements</td></tr>
<tr><td>▸ Adapt business processes for administrative staff
▸ Establish new norms for constituent care</td><td>▸ Adjust contracts
▸ Develop remote workforce options for both faculty and staff</td></tr>
<tr><td>▸ Enhance business processes around remote operations (e.g., systems, technology, training)
▸ Scale systems infrastructure
▸ Establish that cybersecurity protocols for altered technology infrastructure are in place
▸ Repurpose or dispose of unneeded property, plant and equipment (PP&E)</td><td>▸ Invest in online learning infrastructure (e.g., instructional designers, learning management systems (LMS), sound studios)
▸ Monetize non-core physical capacity
▸ Enhance business disruption planning</td></tr>
<tr><td>▸ Forecast liquidity and FY20 cash
▸ Assess impact to debt covenant ratios, potential covenant amendments, and Title IV access/composite score
▸ Reprioritize capital spend to extend liquidity runway
▸ Preserve cash and determine working capital actions
▸ Prepare for insurance and federal aid (e.g., FEMA) compliance
▸ Assess new debt</td><td>▸ Reforecast budgets/financial modeling
▸ Redeploy assets
▸ Strategize how to build out urban and rural broadband infrastructure to address remote working and learning</td></tr>
<tr><td colspan="2">▸ Communicate with key political leaders and educate them on the impact of the crisis and need for relief
▸ [For public universities] Advocate that universities be eligible for refundable tax credits that the Families First Coronavirus Response Act (FFRCA) provided for private employers
▸ Request regulatory flexibility including, but not limited to the following: support for graduate students and the cost for research activities
▸ Determine the feasibility of accessing capital through low- or no-interest loans
▸ Work with sector (higher education associations, state agencies) to secure low-cost loans, relief from covenants and composite scores, etc.</td></tr>
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Endnotes

[1] See EY-Parthenon's *The other looming educational debt crisis: institutional debt and safeguarding the interests of students: a new student-centered financial health metric for higher education institutions*, https://www.parthenon.ey.com/po/en/perspectives/the-other-looming-educational-debt-crisis--institutional-debt.

[2] EY-Parthenon's macroeconomic assessment of enrollment drivers uses "mean weeks of unemployment" as a proxy for this despondency factor, which showed substantial explanatory power as it continued to climb long after the recession hit its trough in June 2009. Mean weeks unemployed rose from 17 weeks in December 2007, when the recession began, to a peak of 41 weeks in July 2011, and then fell back only very gradually. Mean weeks unemployed is an indicator that by its nature responds with a lag to events in the economy. In the current episode, unemployment is likely to rise very sharply, coinciding with declining GDP, while mean weeks unemployed will again lag. It is possible that a despondency factor could again suppress enrollments this time around but could do so more quickly than last time, because of the severity and speed of the downturn and extreme uncertainty about the future. Mean weeks unemployed may not be the best indicator of that despondency in this episode.

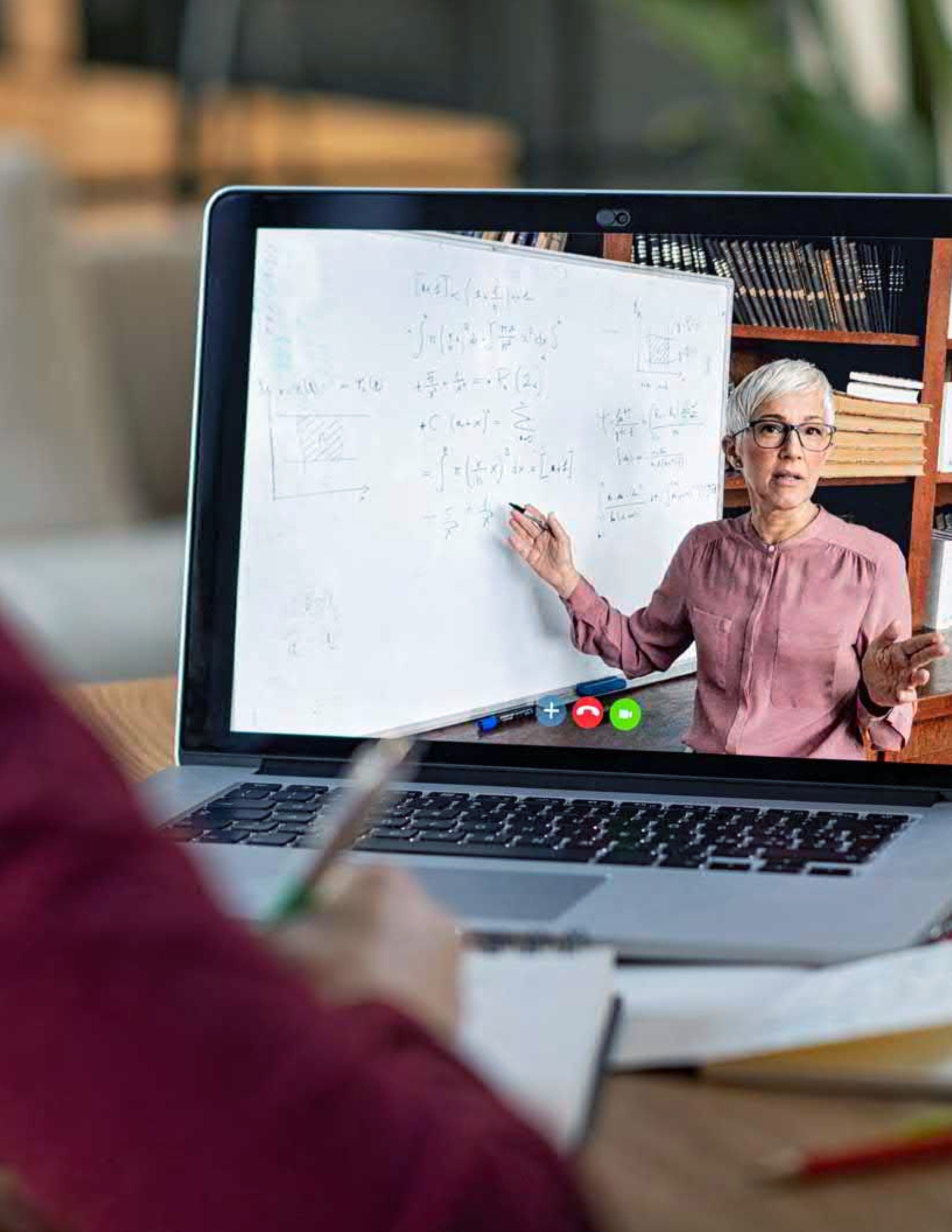
[3] Higher-ed consulting firm Art & Science Group found that one in six high-school seniors who expected to attend a four-year college full-time before the pandemic now say they may take a gap year, enroll part-time or consider a less expensive institution. See the firm's *Impact of the COVID-19 pandemic on college-going high school seniors*, March 2020.

[4] In December 2019, the National Association for College Admission Counseling agreed to allow member institutions to recruit students already committed to another school and pursue transfers of enrolled students.

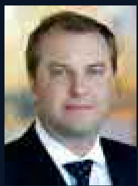
[5] Indeed, the first university to stop accepting new students is Notre Dame de Namur. "Notre Dame de Namur Not Accepting New Students," *Inside Higher Ed, March 24, 2020.*

[6] For an overview of "table stakes" in online education, see EY-Parthenon's *University strategy in a digital world: online and hybrid programs*, https://www.parthenon.ey.com/po/en/expertise/university-strategy-in-a-digital-world.

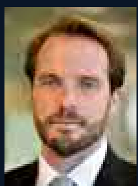
[7] More perspectives on cross-institutional collaboration and mergers can be found in EY-Parthenon's Strength in numbers: strategies for collaborating in a new era for higher education, https://www.parthenon.ey.com/po/en/perspectives/strength-in-numbers--higher-education-collaboration, and TIAA Institute's *Mergers in higher education: A proactive strategy to a better future?* Azziz, R., Hentschke, G.C., Jacobs, B.C., Jacobs, L.A., Ladd, H. (2017). New York, NY: TIAA Institute, https://www.tiaainstitute.org/publication/mergers-higher-education.



Authors



Robert Lytle
Global Head of Education
EY-Parthenon
Ernst & Young LLP
+1 617 478 7096
robert.lytle.@parthenon.ey.com



Haven Ladd
Principal
EY-Parthenon
Ernst & Young LLP
+1 617 478 7055
haven.ladd@parthenon.ey.com

Kasia Lundy
Principal
EY-Parthenon
Ernst & Young LLP
+1 617 478 6328
kasia.lundy@parthenon.ey.com

Seth Reynolds
Principal
EY-Parthenon
Ernst & Young LLP
+1 617 478 4607
seth.reynolds@parthenon.ey.com

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SCORE No. 08763-201US
CSG No. 2005-3491326
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