



Academic Program Financial Modeling

February 22, 2022

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Learning Objectives

At the end of this session, you will be able to:

- Recognize what is putting the strain on the financial model in higher education
- Recognize how to create a path to financial sustainability
- Explain why academic program financial modeling is important to institutions
- List common practices in creating financial models
- Identify how costs of institutions can be understood in relation to revenue both historically and prospectively



Introductions



Matthew Borchardt

Principal
CLA



Leah Lindstrom

Manager
CLA



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VP of Academic Affairs
Clarkson College



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Controller
Clarkson College





Strain on the Financial Model in Higher Education

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Challenges Higher Education Institutions are Facing

Changing
demographics

Rising labor
cost

Decreasing
enrollment

Compliance

Online
instruction

Student
experience

Pressure to
discount



Polling Question #1

Which of these external factors is putting the most strain on your institution's business model?

- Decreasing public funding
- Declining enrollment
- Increasing compliance requirements
- Student expectations
- Rising labor cost



Polling Question #2

Which of these internal factors is putting the most strain on your institution's business model?

- Student retention
- Creating a sustainable discounting strategy
- Employee engagement
- Rising costs of student resources



An institution's financial model is strained when...

- Your core operations are not financially strong
- You are unable to control operating costs
- Your institution has never assessed the costs of its operation
- You do not know the cost of programs and departments
- You do not understand the return on investments
- You do not have clear or attainable strategic initiatives





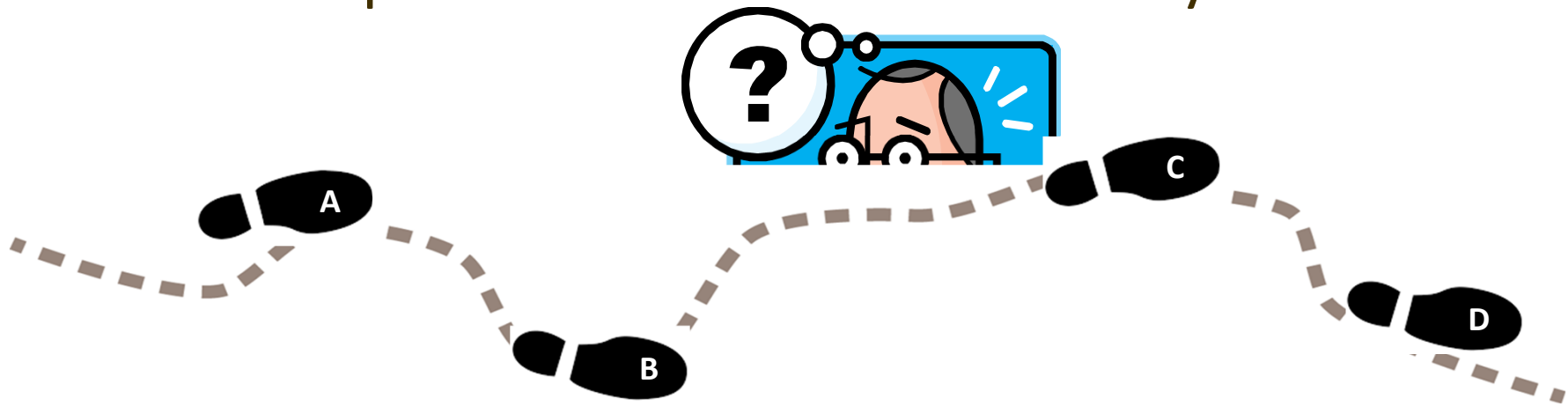
A Path to Financial Sustainability

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How would you create a path to sustainability?

What steps might you need to take or think about to create a path to financial sustainability?



Is The Future Out of Our Control?

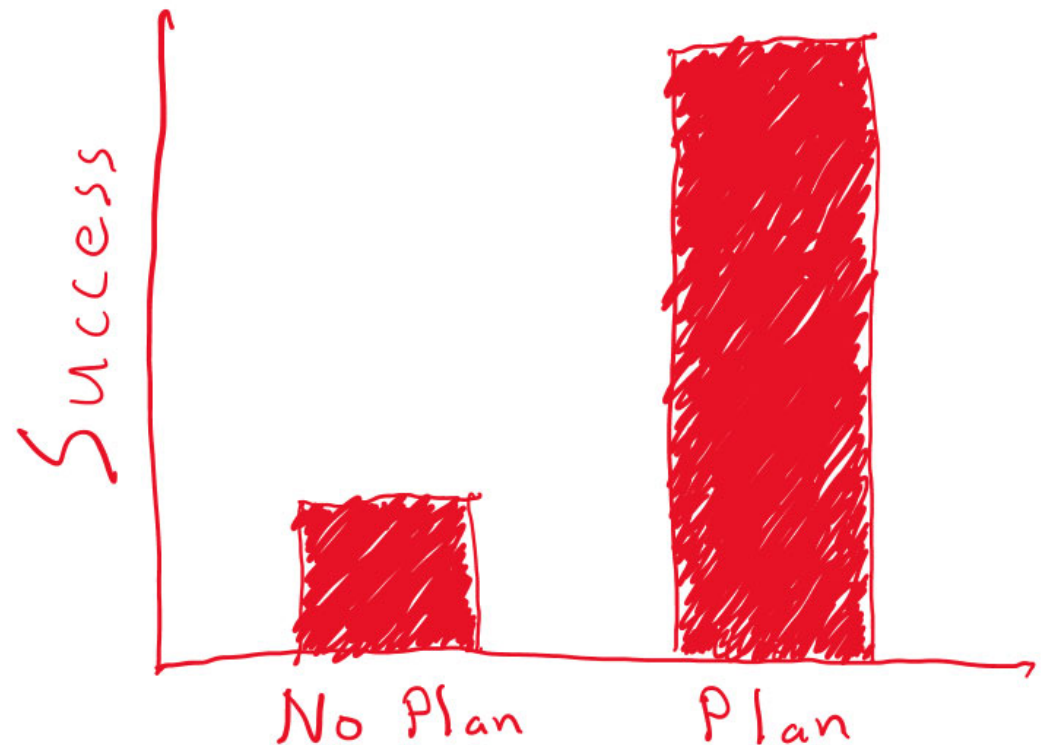


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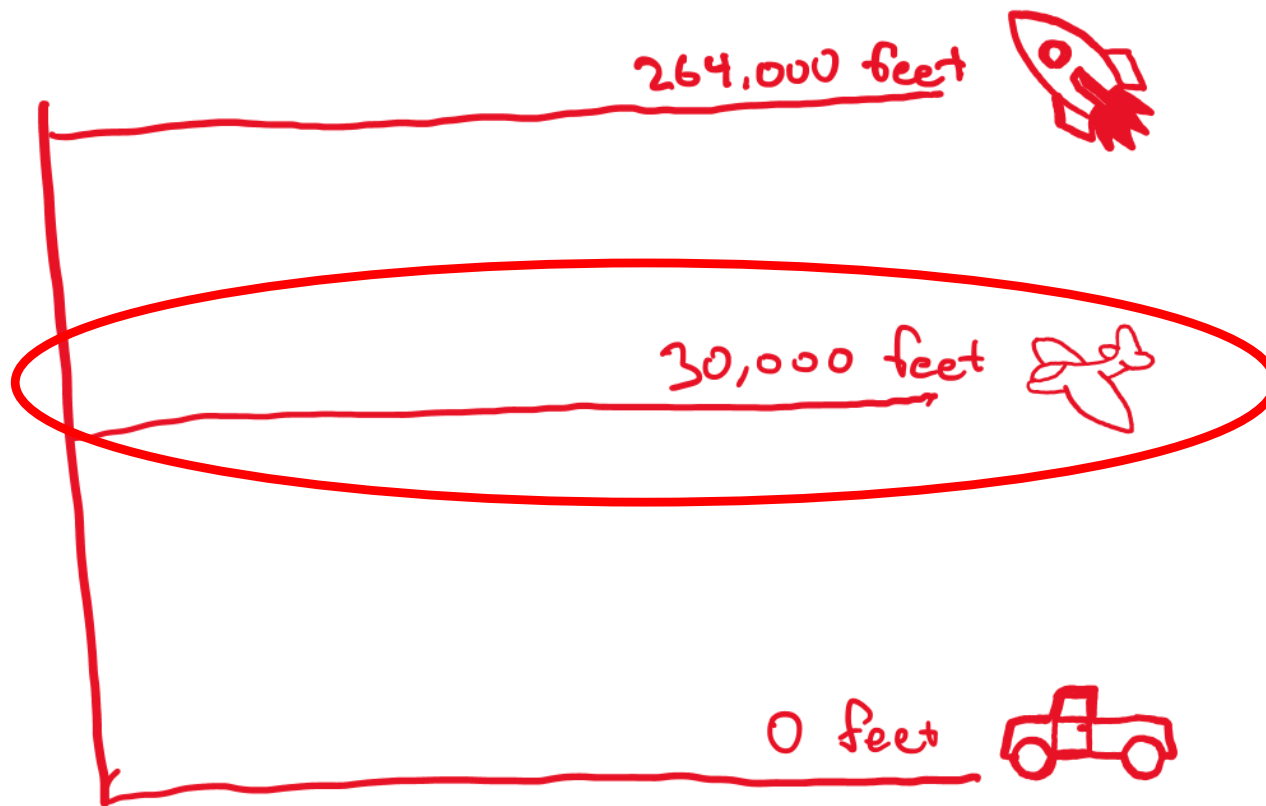
Why we Plan

We believe success
is **CREATED!**

Disclaimer: Goal is not to actually “predict”
the future, just understand the possibilities



Don't Overthink It (Keep It Simple / Thoughtful)



**A disciplined
process at the right
level**

**“Not too high, not
too low, just right”
Goldilocks**

Polling Question #3

What do you see as the best way to improve your institution's operating margin?

- Start new academic programs
- Increase retention rates
- Increase tuition rates
- Increase donor and grant funding
- Reduce inefficiencies/redundancies
- Eliminate or consolidate academic programs



Polling Question #4

What new academic development potential do you see over the next three years?

- Healthcare
- STEM programing (science, technology, engineering, and math)
- Humanities/Liberal Arts
- Education
- Trade programs

Your institutional will be on a path to financial sustainability if...

- Revenue streams are grown and diversified
- You deliver great value, highly efficient
- Program cost are understood in relation to revenue
- A strong balance sheet has been built, to invest to meet market demands
- Informed decisions can be made
- Operating productivity is improved / costs are reduced



A Path to Sustainability



Understanding
the Gap



Identifying Key
Drivers



Identifying
Strategic
Initiatives



Communication





Case Study in Creating a Path to Sustainability through Financial Modeling

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Story of Clarkson College

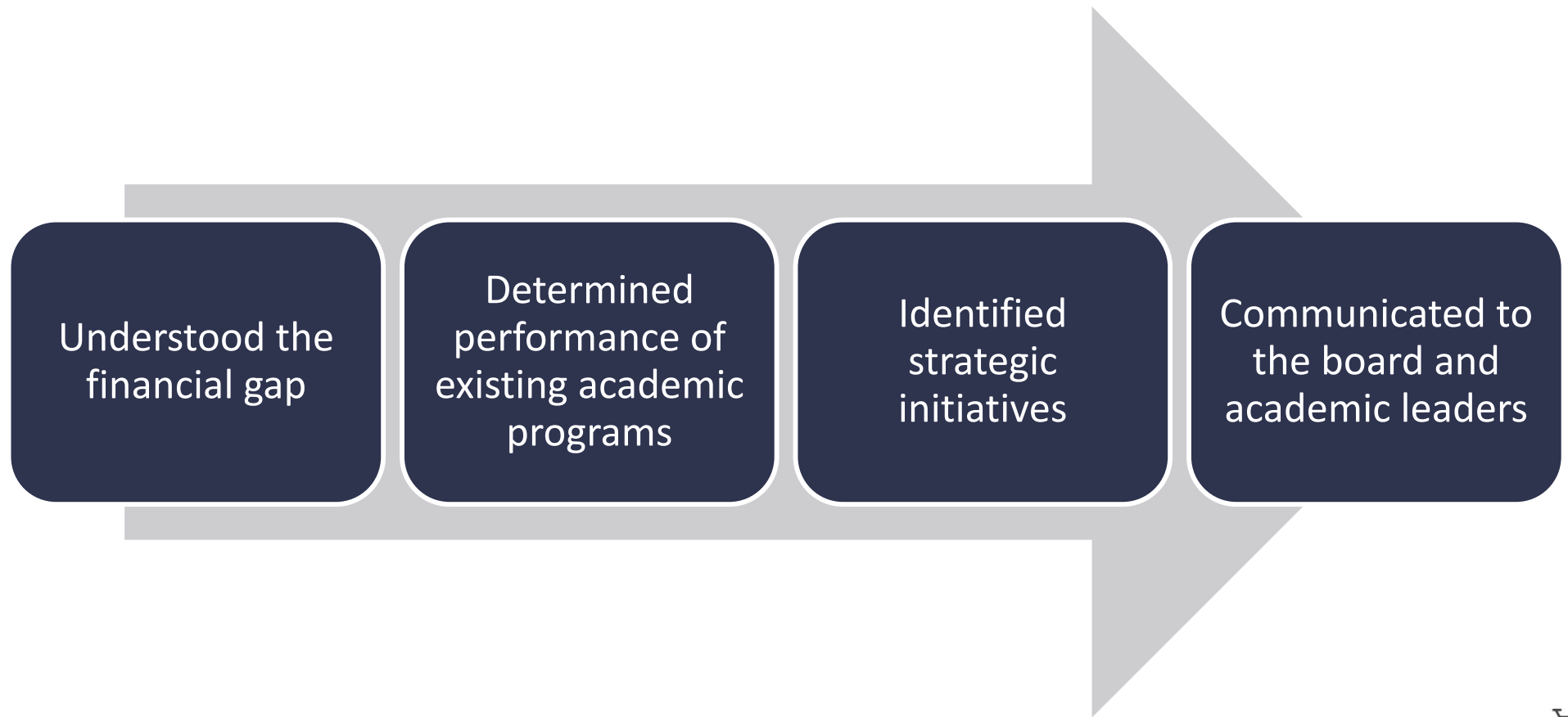
- Private non-profit healthcare institution
- Enrollment ~1200
- Associates through Doctoral programs: Nursing, Physical Therapist Assistant, Radiography, Medical Imaging, Healthcare Business, Community Health, Psychology, Healthcare Education and Leadership
- Over 50% of student body is online as most of our programs are online only
- Have 1,459 student placements per academic year with 1,136 clinical sites across 45 states
- Commitment to service and professional development
 - Community Advancement and Professional Development office serve over 6,000 customers per year (BLS, ACLS, CNA, MA, CE, etc.)
- www.clarksoncollege.edu/about



Story of Clarkson College

- Active engagement by academic and student affairs directors in the budget process and credit hour projections
 - Programs have good history of meeting credit hour projections
 - Departments do a good job of holding to projected budgets, understand their expenses, and are fiscally responsible
- However, we needed CLA's help as we were experiencing a perfect storm:
 - Declining engagement in recruitment starting in 2020
 - Decreased funding support available
 - Increased tuition prices
 - Increased employment expenses
 - Increased scholarship expenses outside of endowment funds
 - Increased depreciation expenses

Process Overview





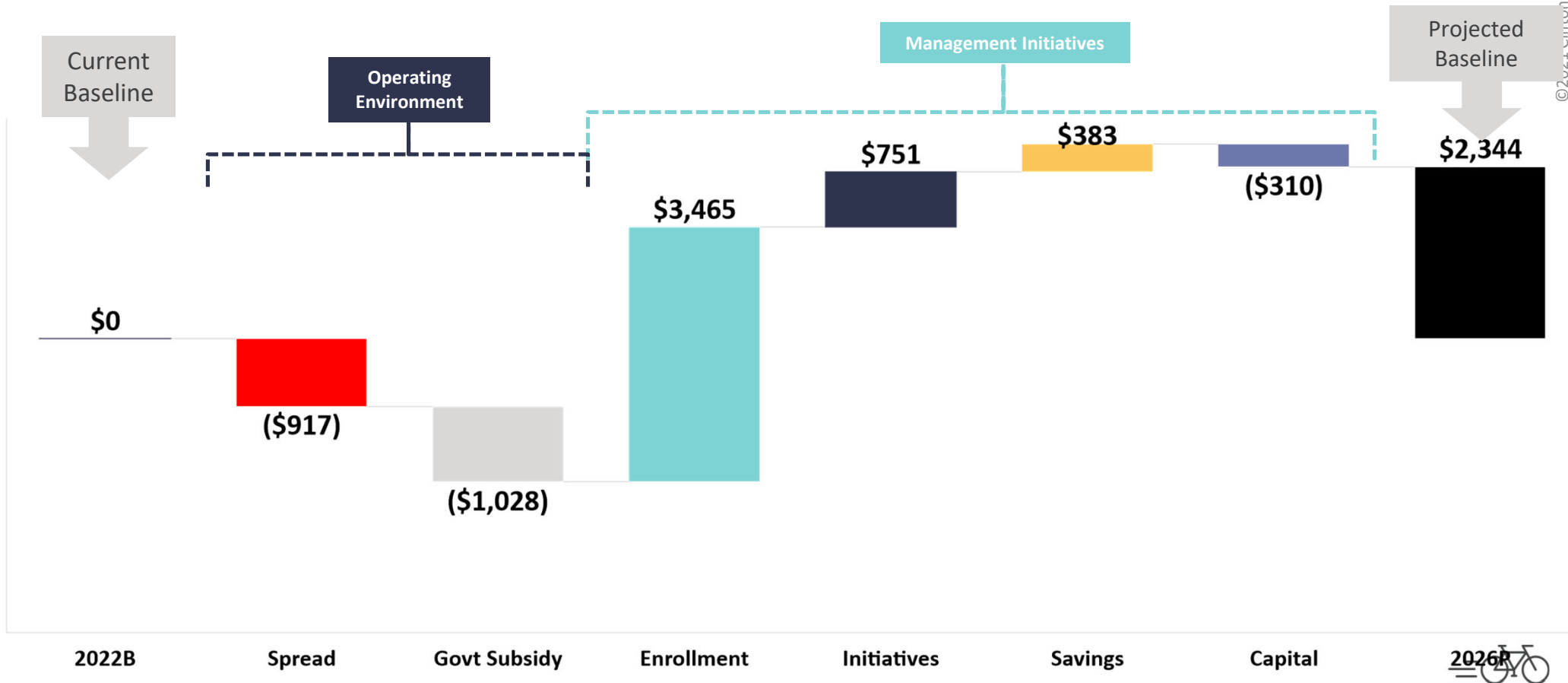
1) Understood the Financial Gap

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Key Assumption Impact Waterfall

2022 Budget vs. 2026 Projected Operating Margin



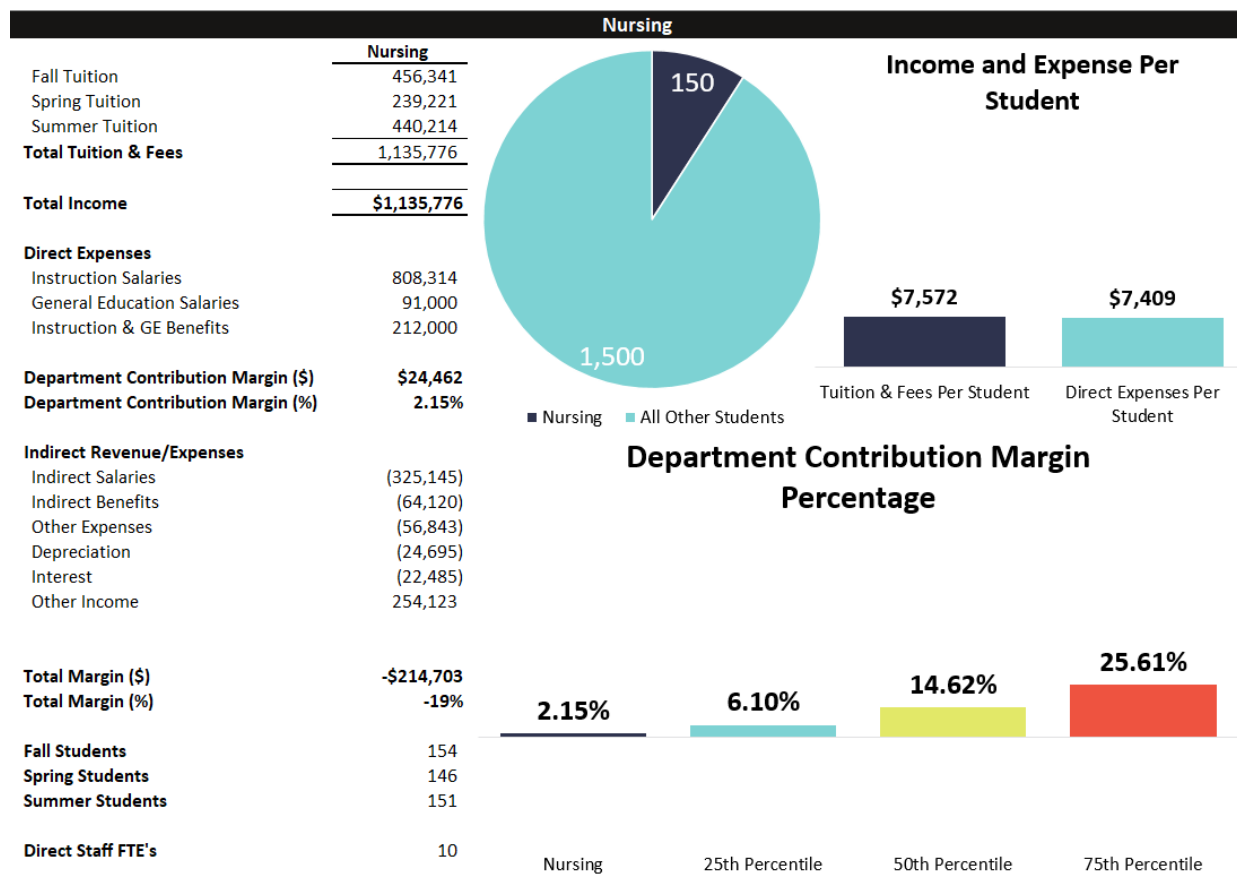


2) Determined performance of existing academic programs

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Department Contribution Margin Model

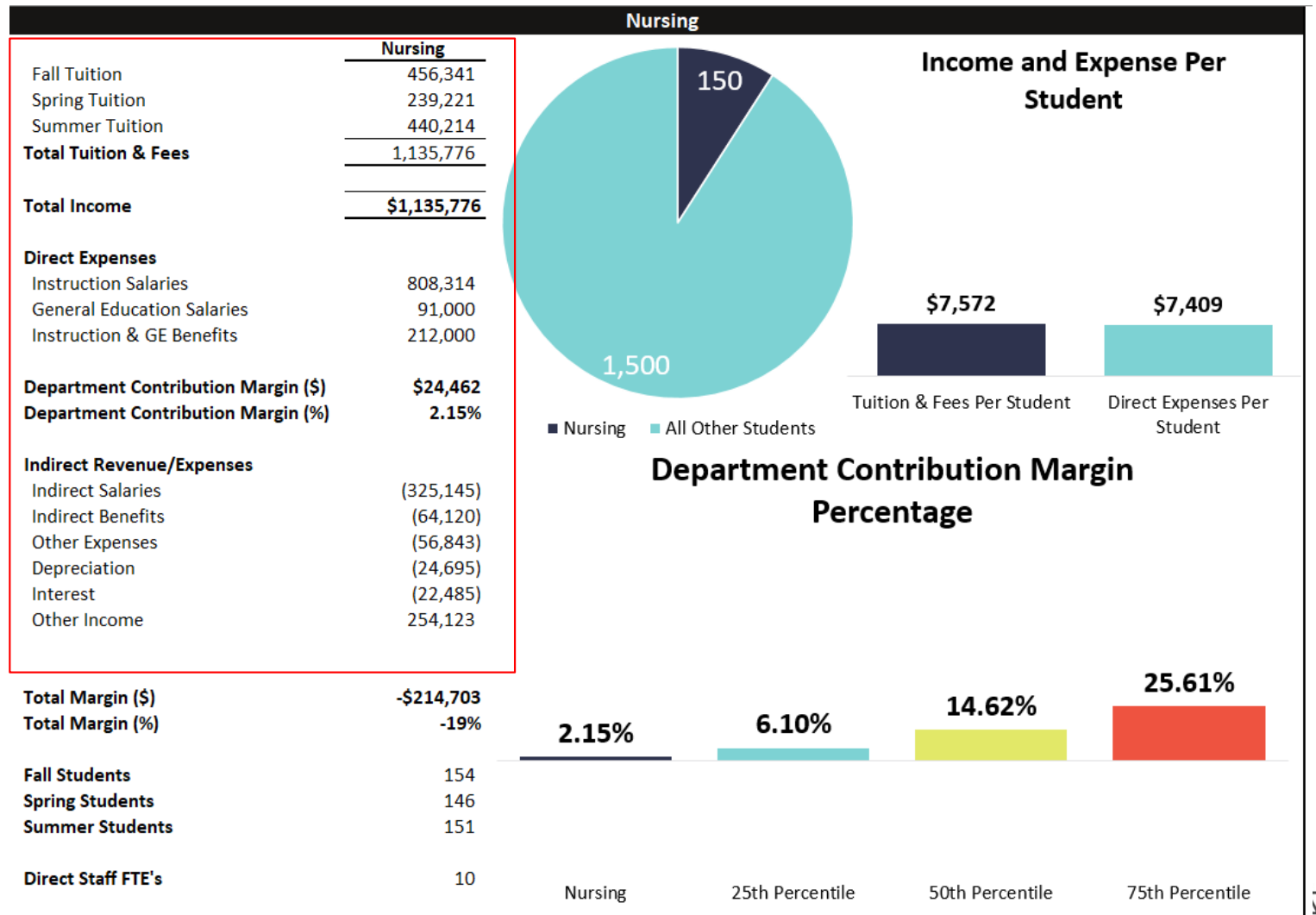


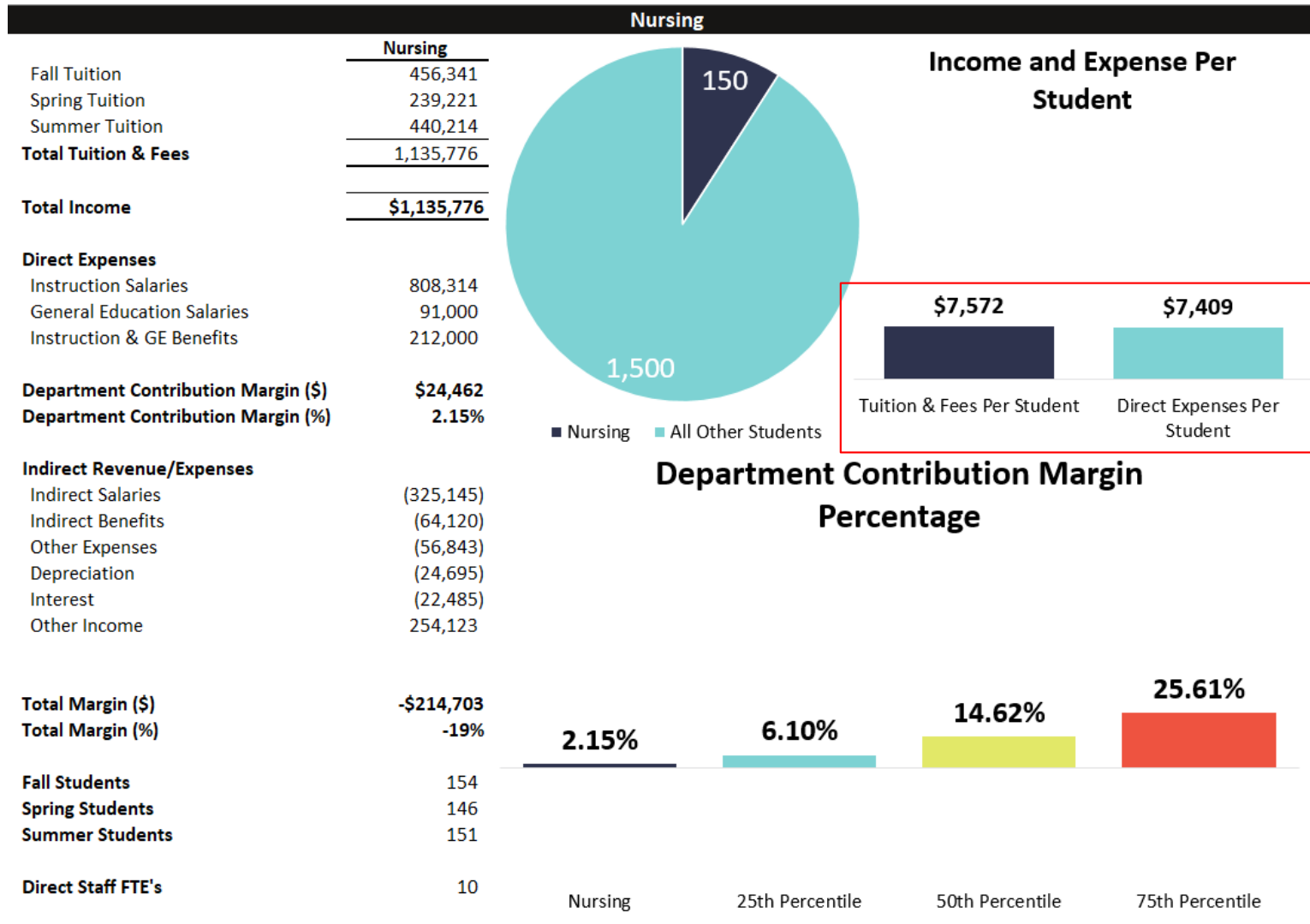
Department Profit and Loss Statement:

Direct Income includes tuition and fees

Direct expenses includes department instruction and general education salaries & benefits.

Indirect Revenue and Expense includes all overhead and other expenses and other income.



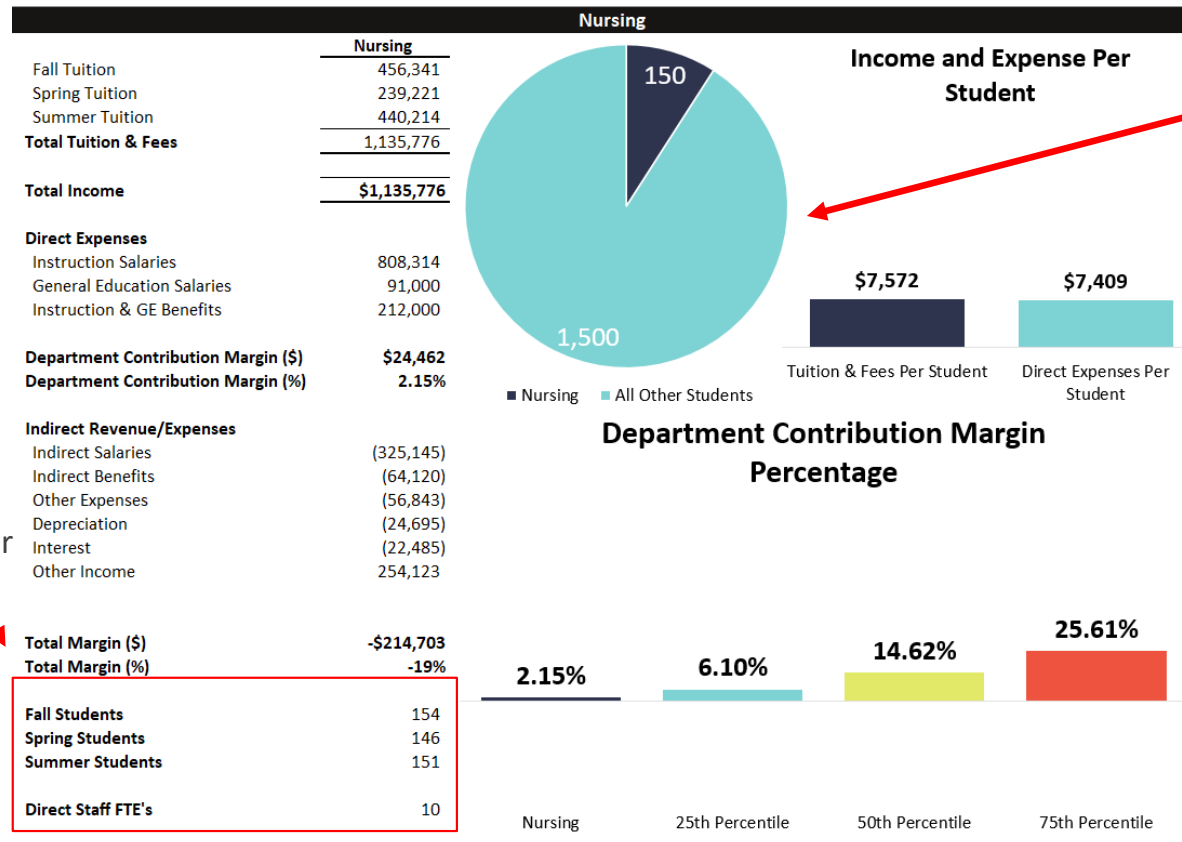


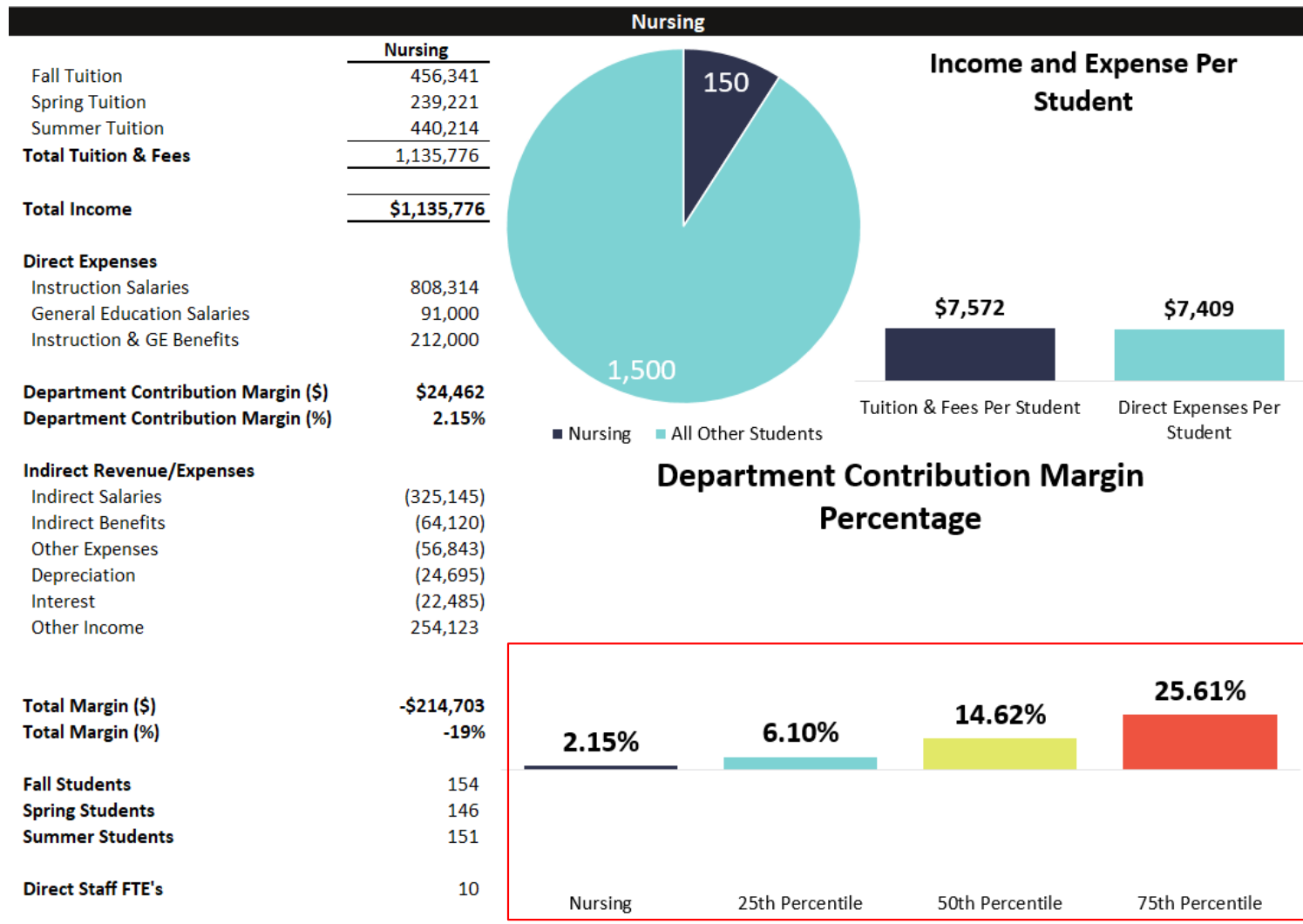
Income and Expense per Student: Tuition & fees per student and direct expenses per student for the department.



Department Students: Full-time equivalent students based on credits for semester

Direct Staff FTE's: Full-time equivalent staff for department instruction and general education.





Department Contribution Margin Percentage:

The department's contribution margin compared to the 25th, 50th, and 75th Percentile department contribution margins.





3) Identified strategic initiatives

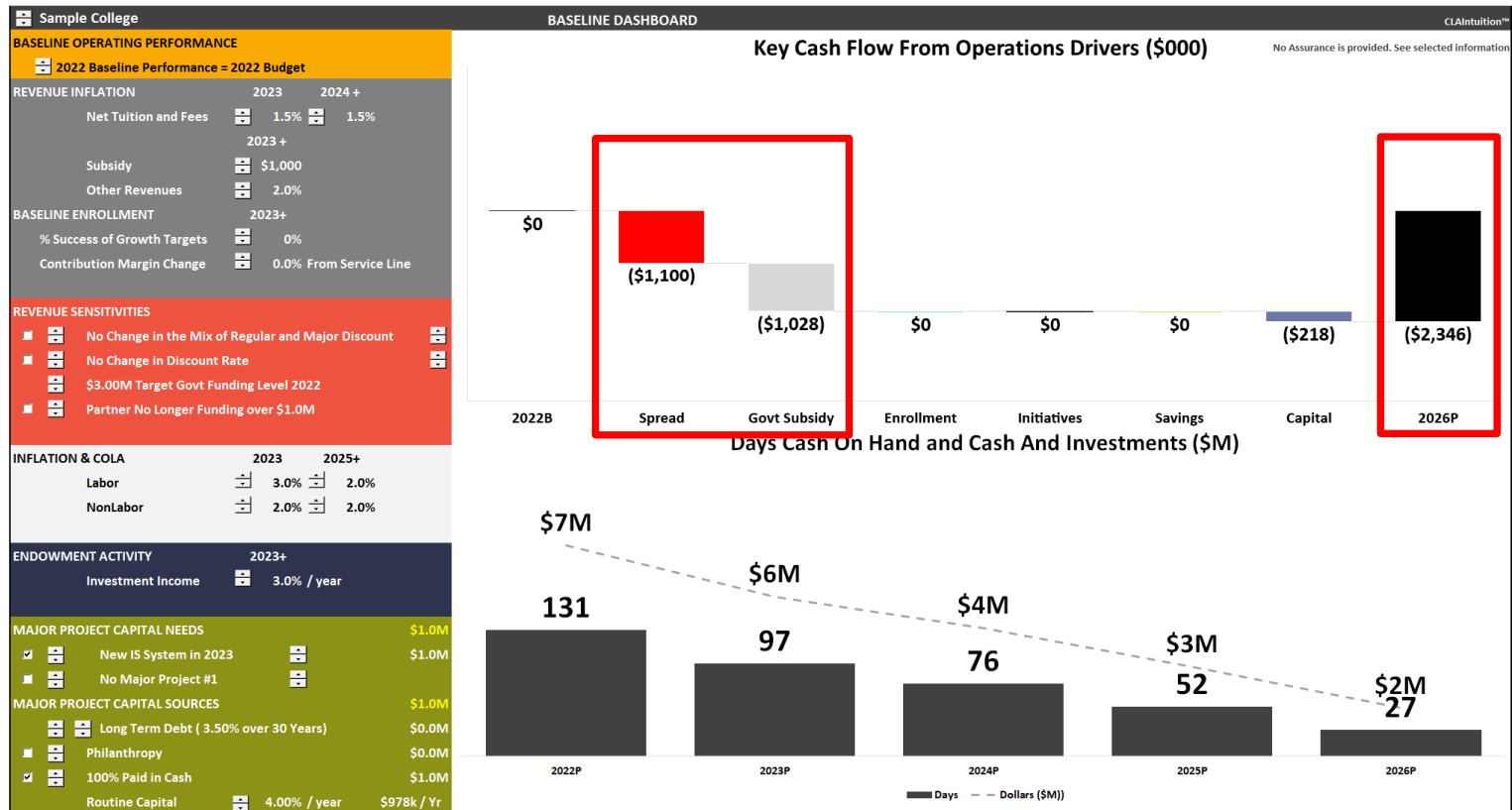
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Baseline (Ostrich - No Enrollment Growth)

Without any growth or management initiatives there would be a \$2.1M deterioration of operating performance.

This would be called the Ostrich or “Head in the Sand” scenario with no management action that highlights the environment the college is operating in.

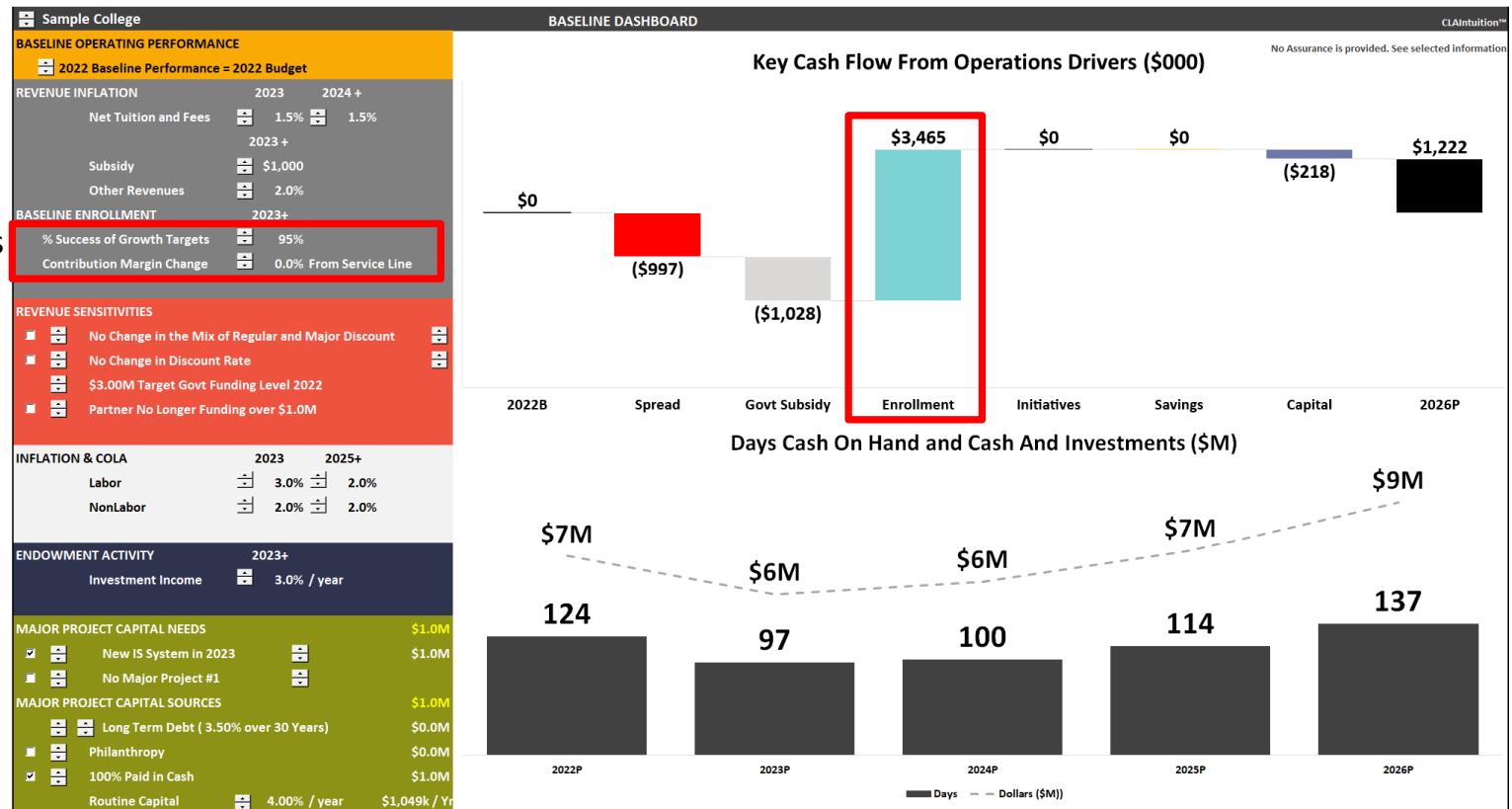


Baseline (With Enrollment Growth)

Utilizing MGMT's projection this is 75 new students by 2026 (Computer Sciences and Biology)

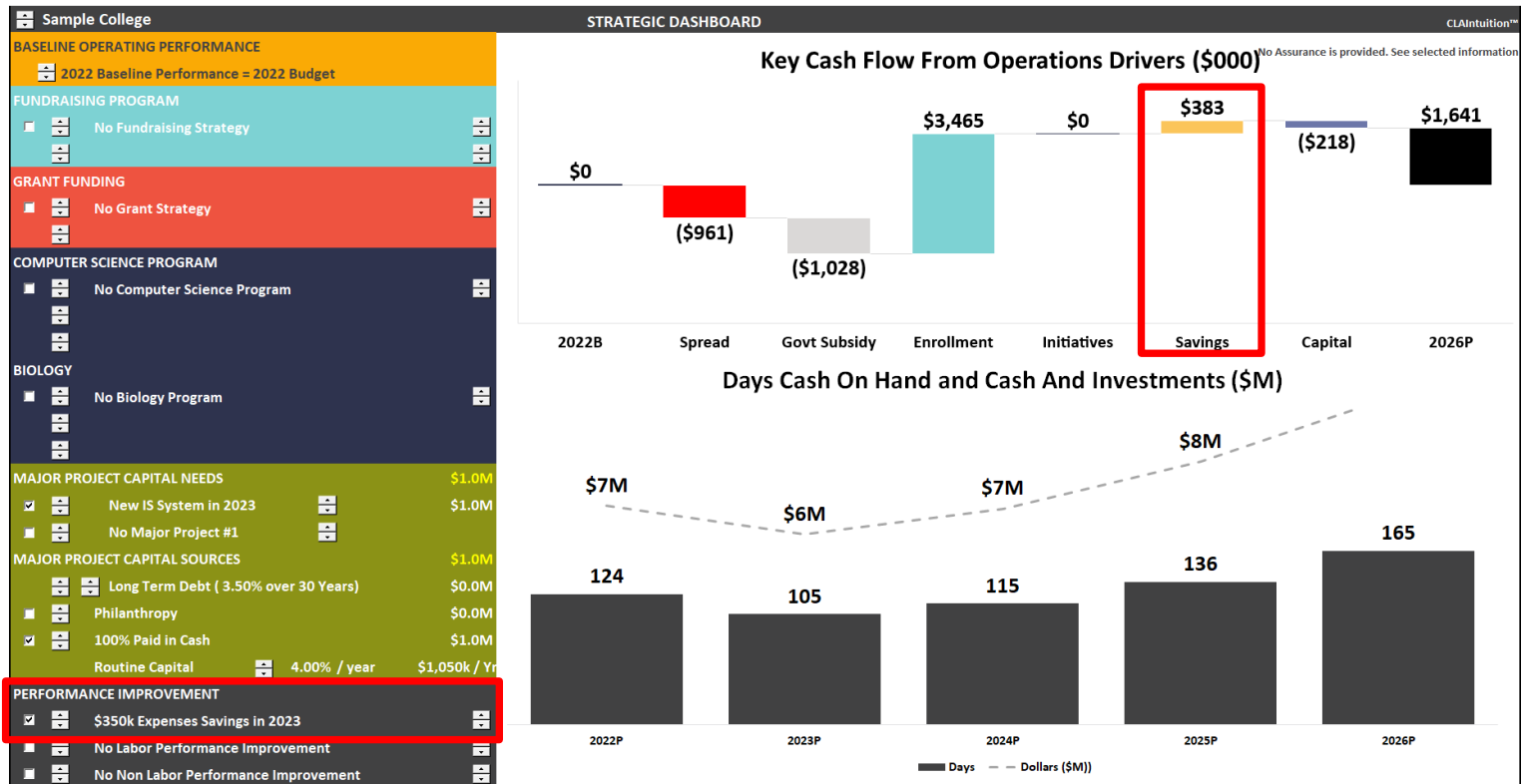
MGMT is assuming a 95% Success on the baseline growth

This growth will increase the operating margin by \$1.2M.



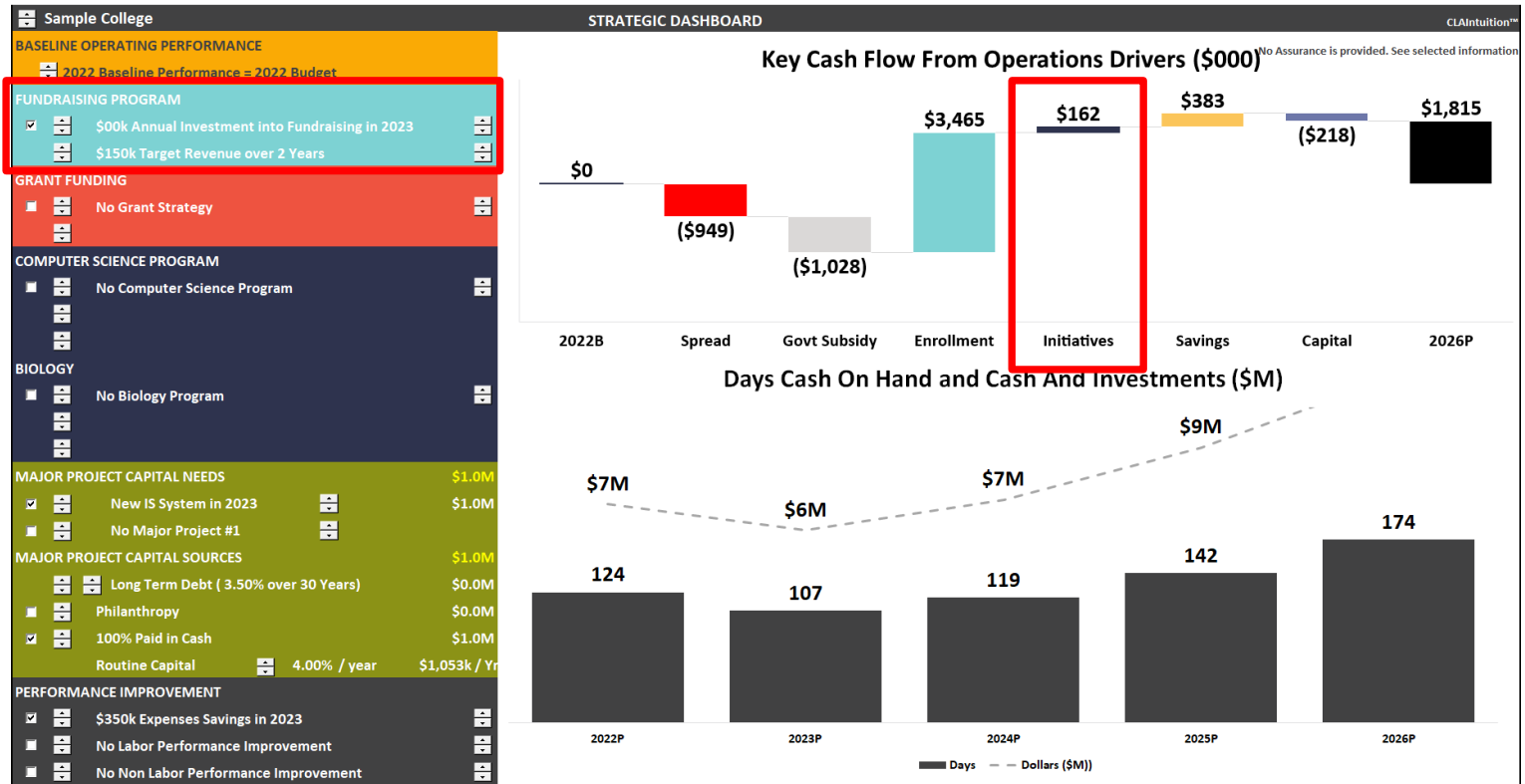
Baseline (Performance Improvement)

Management has identified an opportunity to save \$300k on an annual basis starting 2023.



Baseline (Strategic Fundraising Initiative)

Management has identified an opportunity to target an increase in their fundraising revenue by \$150k a year starting in 2023.



Baseline (Strategic Program Initiatives)

Management has identified two programs with significant growth opportunities

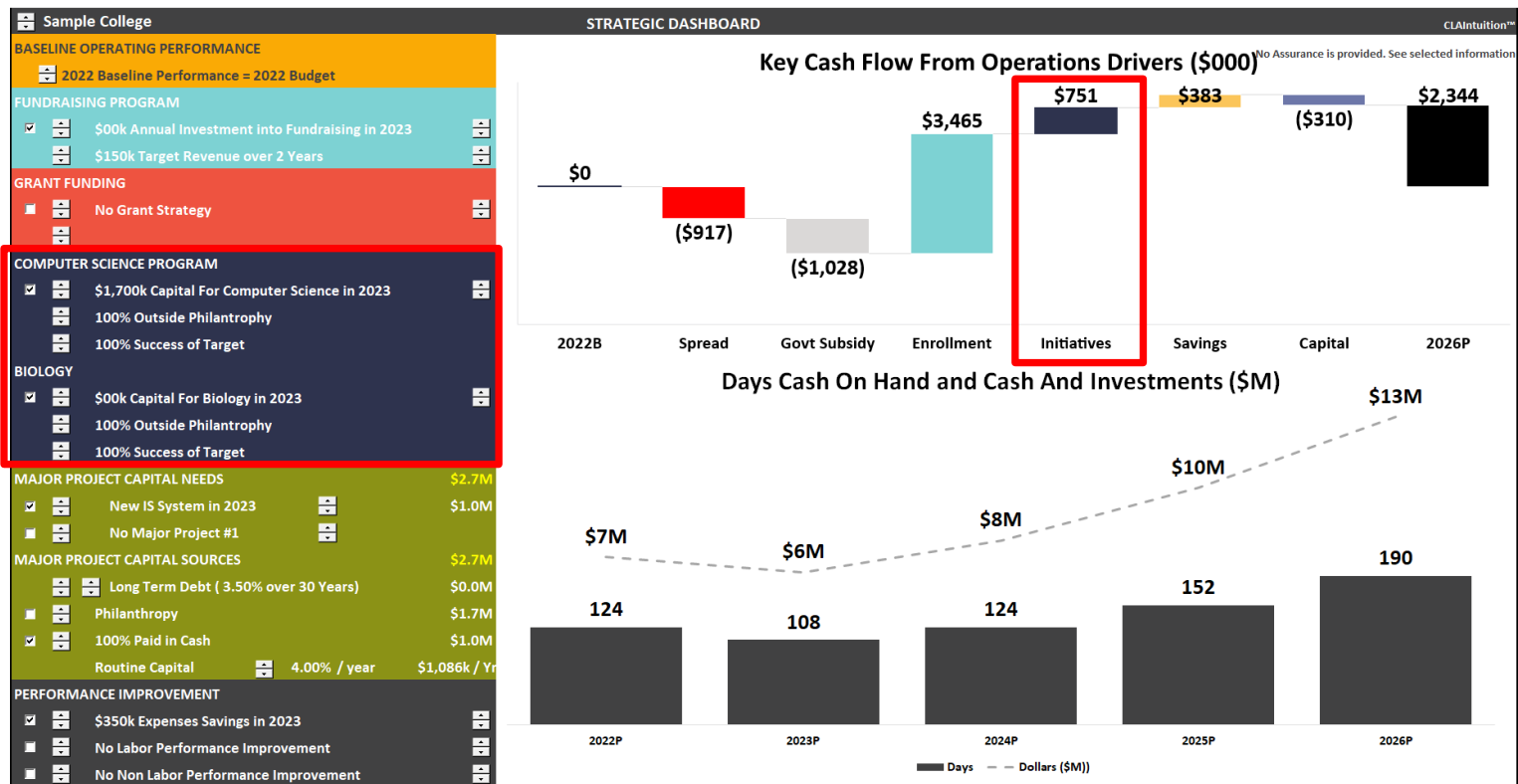
Computer Sciences:

- \$1.7M capital investment funded by philanthropy
- Increase 45 students by 2026

Biology

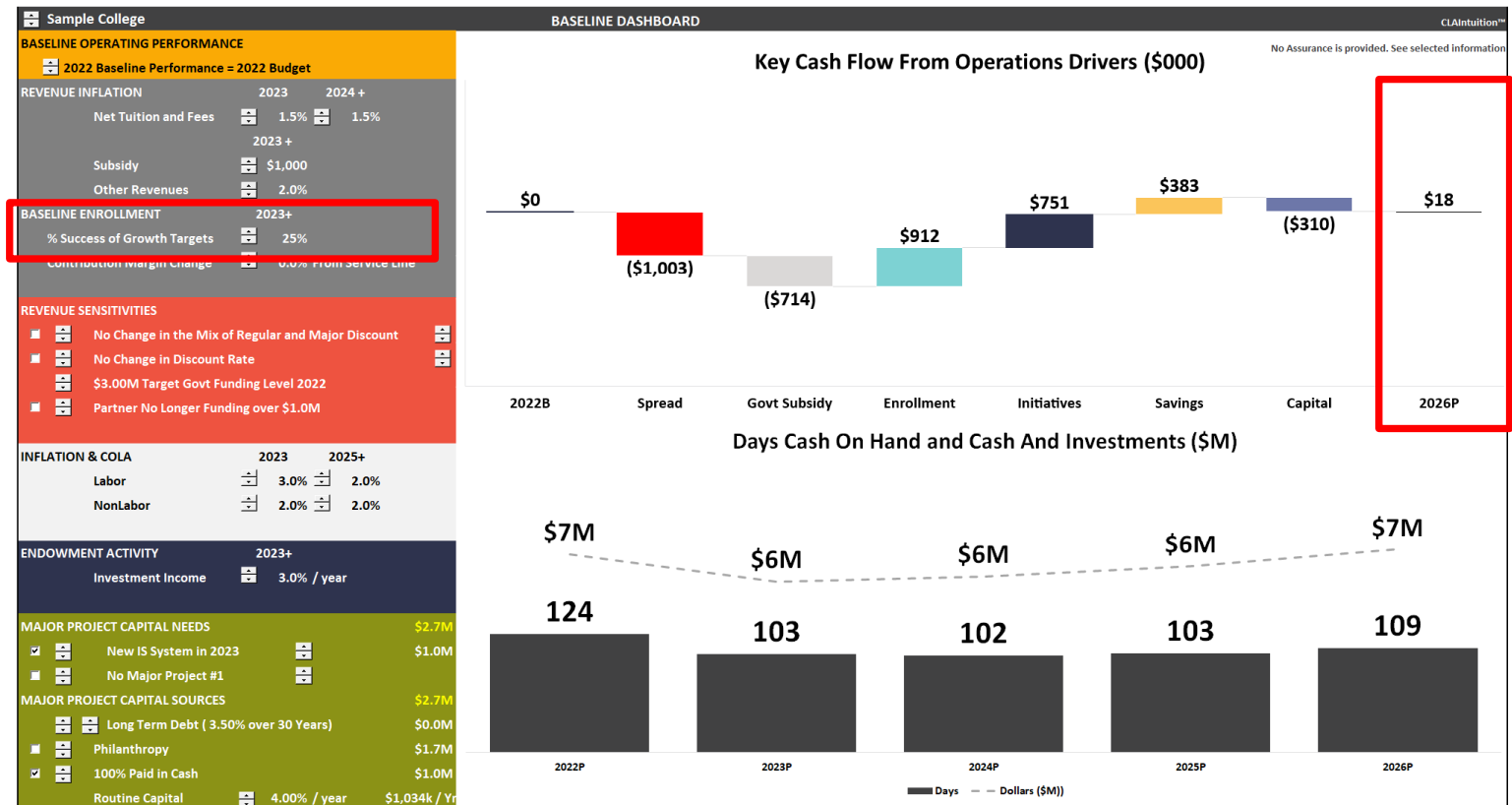
- No capital Investment needed
- Increase 30 students by 2026

These programs will increase the operating margin by \$589k by 2026



Stress Test (25% of Baseline Enrollment Growth)

Even at 25% of our baseline enrollment growth targets, the school achieves a breakeven operating margin by 2026





3) Communicated to the board and academic leaders

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Key Takeaways



Do Nothing

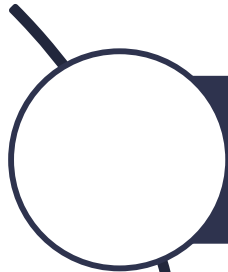


Plan and
Understand

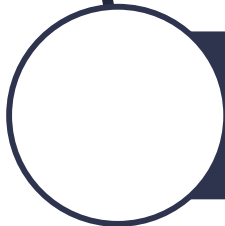


Lost in the Details

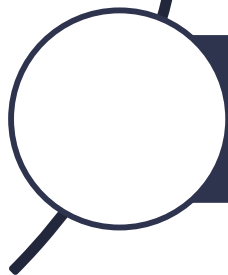
Next Steps



Who is one person on campus you could have a discussion with?



Does your institution know the financial implications of your strategic decisions?



Do you understand program costs in relation to revenues?



Questions

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