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Cost Containment in Higher Education

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About CliftonLarsonAllen

- A professional services firm with three distinct business lines
 - Wealth Advisory
 - Outsourcing
 - Audit, Tax, and Consulting
- More than 5,400 employees
- Offices coast to coast
- Serving Higher Education institutions for more than 50 years



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Learning Objectives

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

- Describe why cost containment is an ongoing concern for higher education administrators
- Review different categories of costs — and respective opportunities within — to assess a variety of ways of keeping costs under control
- Identify best cost containment practices and how they could apply to your institution

Speaker Introduction

Matt Ceppi

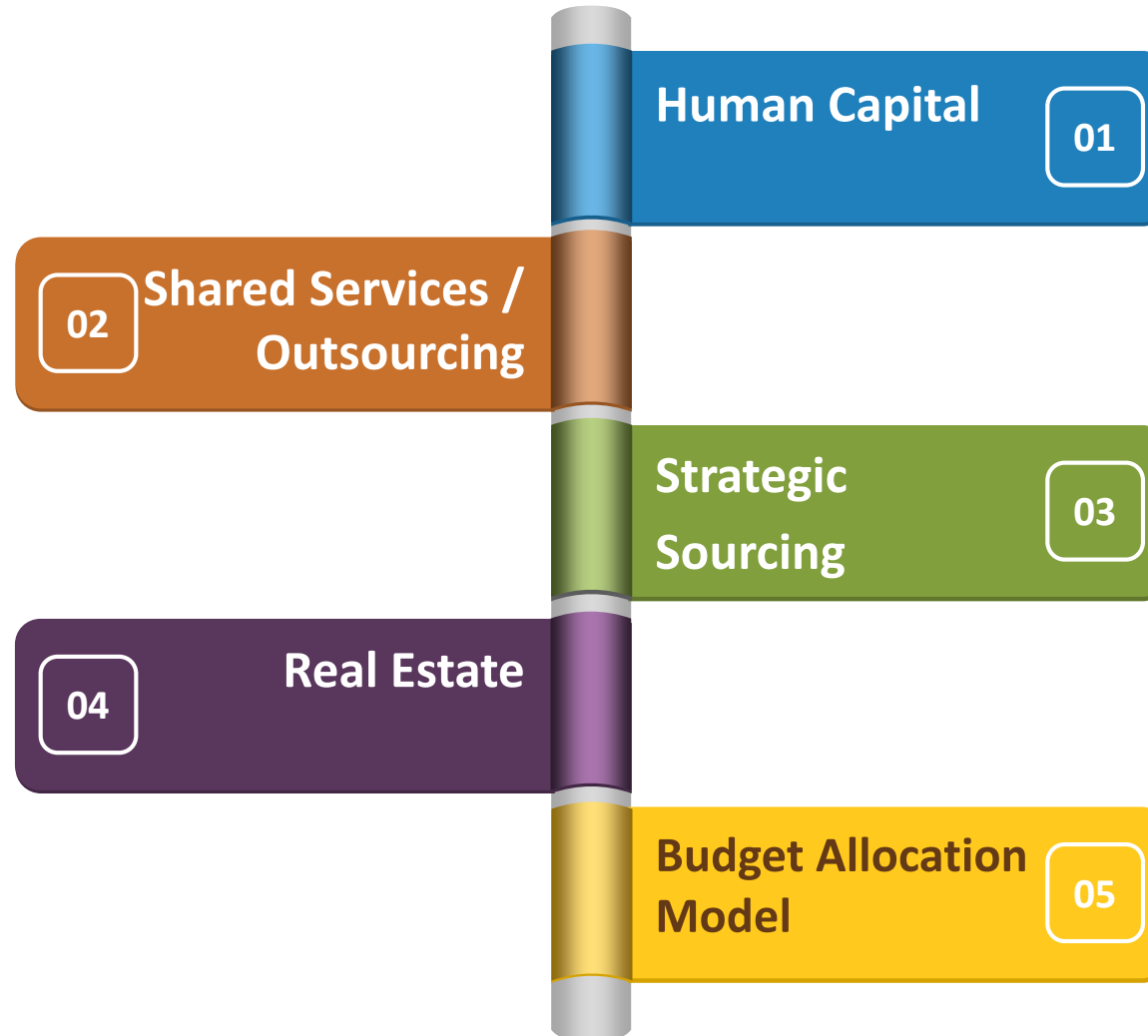
- Principal
- 20 years as higher education administrator and consultant
- Works with private non-profit colleges, state university, and community college clients to develop strategic business plans, sustainable finance models, strategies for revenue diversification and cost containment, and new resource allocation methods
- Lecturer on Human Capital Management and Organizational Leadership



Revenue Pressures

- Demographic shifts impacting enrollment
- Reduced international enrollment
- Downward pressure on tuition costs
- Reduced state subsidy at public institutions
- Debt capacity
- Endowment spending

Some levers we'll talk about today...

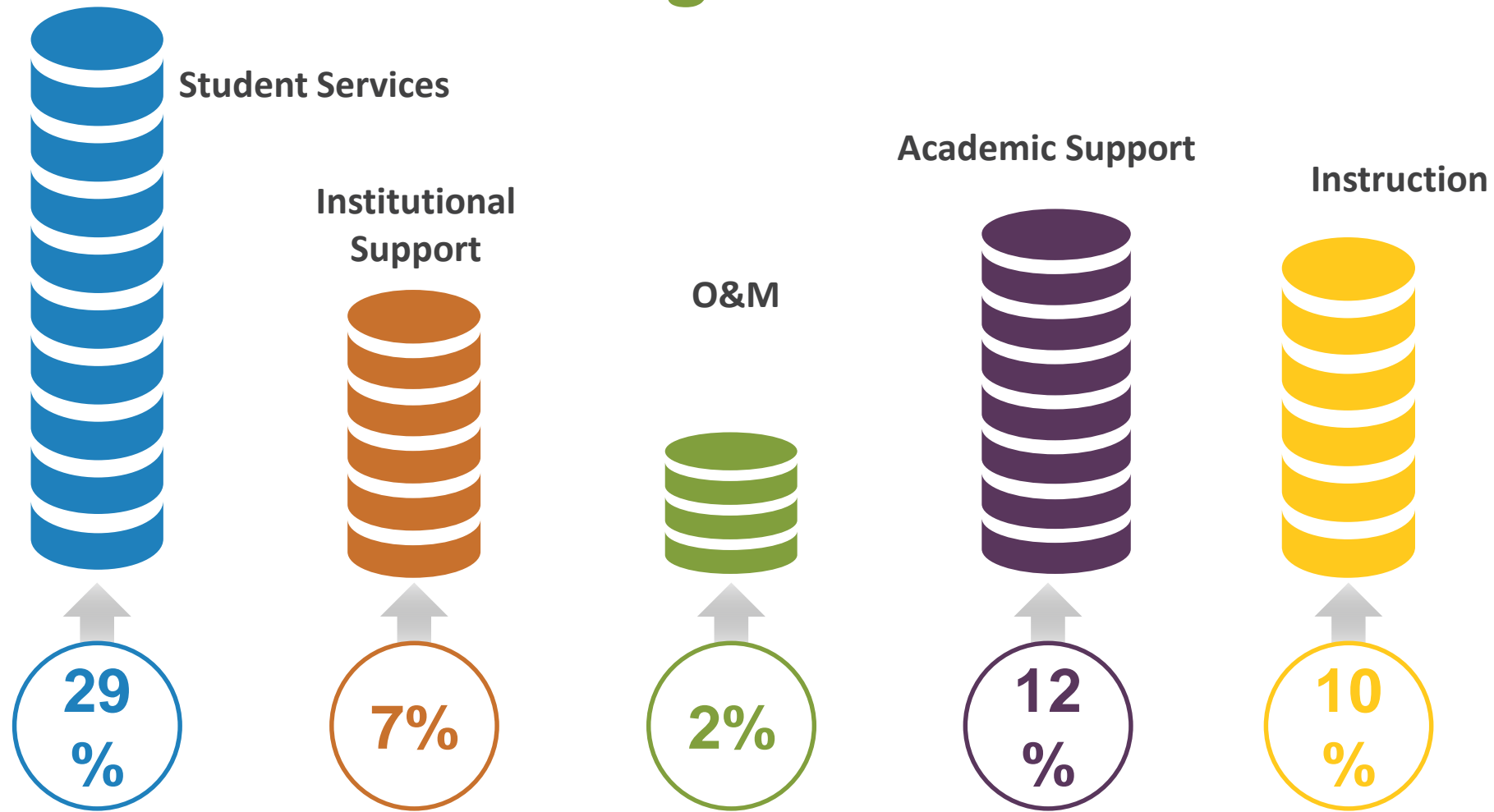


What is the end goal?

- Reduce operating cost structure without affecting quality or revenue growth opportunities
- Reimagine student support services and enhance the student experience to improve retention and academic success
- Engage other institutions or partners for shared or outsourced services
- Contain costs while maximizing profitability and sustainability of academic programs
- Develop a new integrated budget model that aligns with priorities
- Balance cost containment with opportunities to maintain and strengthen differentiation and leverage the unique strengths



Cost Containment in Higher Education



Spending per FTES Ten-Year Trend – Private Non-Profit Masters

Some Common Pitfalls

- Replacing vacancies without careful review
- New mandates = more people
- Long-time commitments on short-term dollars
- No plan for rightsizing through attrition
- Disconnect between academic plan and enrollment plan



Diagnostic

- Analysis of salary expenditures by function and cost center
- Organizational spans, layers, and portfolios
- Business process review
- Benchmarking



What to look for

- Growth in expenditures for particular function outpacing growth rate for other functions or peer institutions
- Frequent turnover (increased replacement / lost productivity costs)
- Complex organizations and layers
 - “Inverted pyramid” organizations
 - Number of organizational levels and staffing patterns not consistent with peer and comparable sized institutions
 - Relatively small spans of control



Example

- More than five to six levels in a typical organization from President to front-line staff
- 5-6:1 staff to supervisor ratios at smaller institutions, and 7:1 or more for larger institutions

What to look for in processes

- Non-value added steps: delays rework, rejects, storage, etc.
- Frequently repeated steps: inspections, rework, etc.
- No control points: inspections & decisions



Academic Program Review

- Cost of instruction expenditures per FTES, SCU
- Application, Admit, Enrolled Yields
- Regional / Workforce Supply Demand Analysis

Opportunities

- Organizational redesign
- Shared services
- Program discontinuation or merger
- Automation / business process redesign
- Outsourced or co-sourced solutions

Outsourced / Co-Sourced Solutions

Typically Seen

- Dining services
- Bookstore
- Housing
- Landscaping & Grounds
- Custodial
- Facilities Operations
- Information Technology

Newer Trends / Opportunities

- Controller/ General Accounting
- Bursar
- Financial Aid
- Human Resources
- Payroll



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Other Areas of Concern

Strategic Sourcing

Common Pitfalls

- Decentralized purchasing
- No preferred vendor lists
- Low contract utilization or no master contracts for common goods
- No standards

What To Look For

- # of vendors
- % of purchases through direct pay vs. negotiated contract
- Contract utilization
- Categories of goods by vendor, negotiated contract, product
- Inventories

Opportunities

- Procurement Consortia
- Central / limited contracts for common goods
- Standards for equipment, supplies, goods
- Contract consolidation
- Close examination of telecom
- Policy changes

Facilities Utilization / Real Estate assets

- Schools/departments responsible for scheduling assigned spaces
- 10 a.m. – 3 p.m. peak scheduling
- Weekend, Intersession, Summer scheduling



Opportunities

- Better facility utilization (e.g. taking buildings offline during intersession)
- Transfer underutilized real estate and/or facilities to private sector (or lease) for other compatible uses
- Public Private Partnership Development could result in cost reduction in construction, operation and maintenance, debt costs)



Budget Model

- 52% of public institutions use incremental budgeting
- 32% use zero-based
- 22% use performance based
- 36% plan to change their model

Inside Higher Education 2016 Survey of College and University Business Officers

Common Pitfalls

- Incremental budgeting
- Expenditures not aligned with strategic priorities
- Initiatives launched without identified funding source
- Pro-rata budget reductions



Opportunities

- Zero-based budgeting
- Strategic Initiative Assessments (*should also include a discussion on what we'll stop doing!*)
- Financial modeling

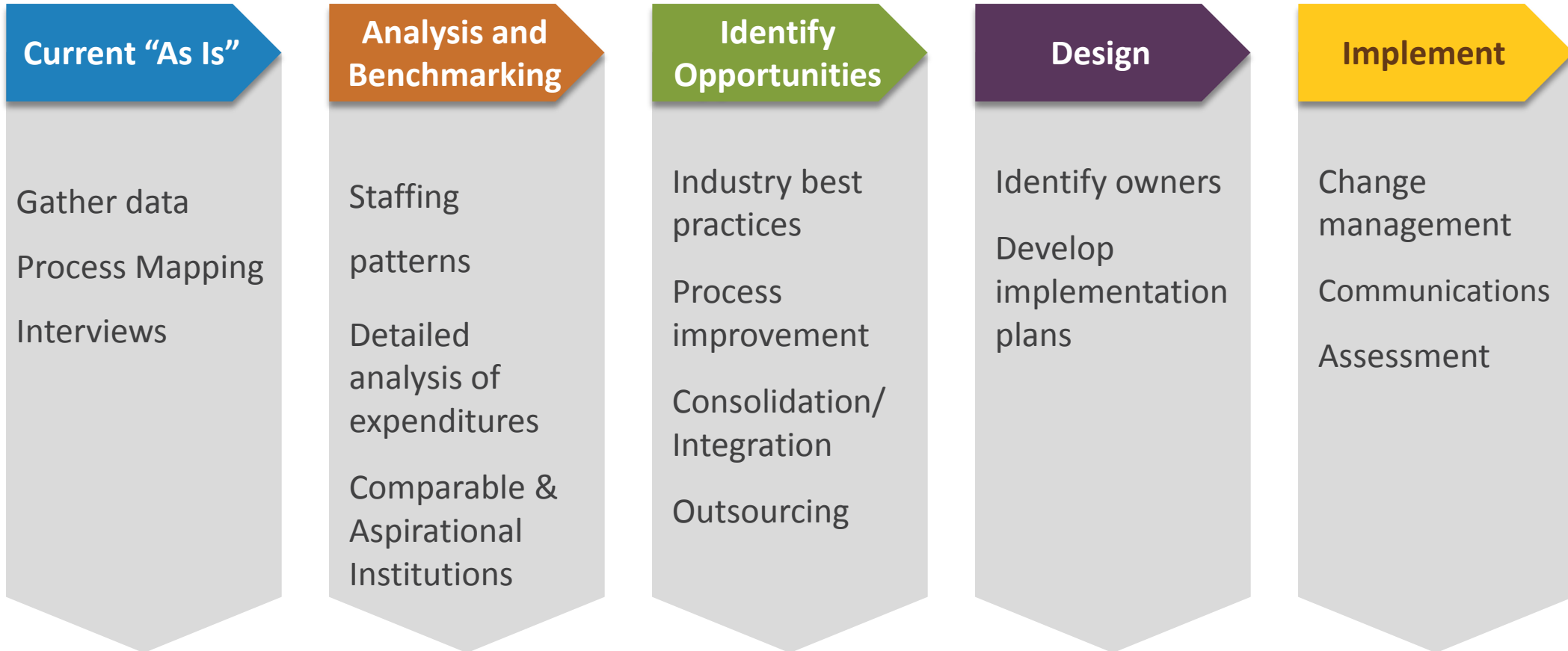




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Road Map

Road Map



How we can help

FINANCIAL MODELING

ENTERPRISE RISK MANAGEMENT

STRATEGIC BUSINESS PLANNING

INTERNAL CONTROL ASSESSMENT

REVENUE DIVERSIFICATION PLANNING

TAX PLANNING

COST CONTAINMENT ANALYSIS

BUSINESS PROCESS IMPROVEMENT



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