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For Small Universities, Financial Vulnerabilities Should Never Be a Surprise

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Cases of distressed small colleges and universities are emerging with increasing frequency, highlighting the financial struggles of this sector of higher education. These cases also highlight the importance of having a disciplined process to assess the long-term financial effect of a university's strategies.

In 2003, Lisle, Ill.-based Benedictine University formed a partnership with what was then known as Springfield College in Springfield, Ill. The university invested heavily in programs and facilities at the Springfield campus, and achieved a high of 1,000 enrollees. However, a decline in enrollment to 500 is causing Benedictine to end undergraduate programs there, shift its focus to adult education, and consider selling the campus, according to a report in *Crain's Chicago Business*.[1]

At Sweet Briar College outside of Amherst, Va., fewer students have been willing or able to pay full tuition. To attract students, the 114-year-old women's college discounted tuition by an average of 62 percent, leaving the school with insufficient tuition revenue to cover operating costs, *The Roanoke Times* reported. To make up for the shortfall, Sweet Briar drew from its endowment funds, eventually depleting those funds to the point that the college was financially unsustainable. In March 2015, Sweet Briar announced it was closing.[2]

Some larger institutions are feeling similar pressures. Enrollment at Illinois Wesleyan University dropped 10 percent since 2010, and the university had a half-million dollar operating deficit in 2014, prompting a negative watch from Standard & Poor's.[3]

At one time, tuition was a relatively stable revenue source for small colleges and universities. Today, however, enrollment is declining at many smaller universities, causing them to offer deeper and deeper discounts. In 2014, 57 percent of schools with less than $100 million in operating revenue discounted tuition by at least 40 percent, according to Moody's.[4] As a result, many of these universities must lean more heavily on limited endowment funds to make up for tuition shortfalls, and run the risk of significant financial deterioration.

To avoid the fate of these struggling institutions, universities need a clear understanding of the long-term financial effects of the environmental pressures they face and the strategic responses they employ. Such an understanding allows an institution to establish guardrails that will signal the need for a change in strategy before the university encounters financial peril.

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For the schools mentioned here, an integrated strategic financial plan developed five years ago would have included several enrollment scenarios, shown how those scenarios affected liquidity, and modeled different approaches to maintain sufficient revenue and manage expenses. University leaders would have known, for example, how long they could make up for discounted tuition with endowment funds without undermining the school's financial health. Such a plan would have alerted university leaders to the need for a change in strategy before the university approached financial vulnerability.

These examples are clear reminders to all smaller universities of the need to take a serious look at their long-term financial prospects and future sustainability.

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[1] Strahler, S.R.: "Why More Rural Liberal Arts Colleges Are Giving Up." *Crain's Chicago Business,* May 9, 2015. http://www.chicagobusiness.com/article/20150509/ISSUE01/305099988/why-more-rural-liberal-arts-colleges-are-giving-up

[2] Pounds, J.: "Sweet Briar College to Close in August, Cites Financial Challenges." *The Roanoke Times,* March 3, 2015. http://www.roanoke.com/news/virginia/sweet-briar-college-to-close-in-august-cites-financial-challenges/article_6d44d193-79a6-54b3-a3a0-b36c4b35c685.html

[3] Strahler (2015).

[4] Strahler (2015).

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