



# Financial Analysis Review Phase 1 Updated: 9/18/2020



Pennsylvania's  
**STATE SYSTEM**  
of Higher Education

The **POWER OF INTEGRATION** is highly dependent on...



Creation of the vision for space in the market with combined resources



Entry into new markets and enrollment growth

**Organizational efficiencies** are necessary but insufficient and include:



Rationalization of the academic program array



Operating efficiencies

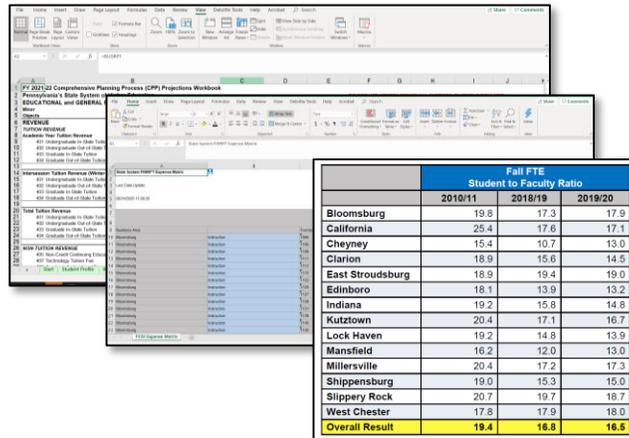
# Financial Analysis Phase 1 Methodology

The Analysis is a high-level assessment of standalone and integrated institutional viability.

## Model Inputs

The model layers in various data, analyses, assumptions, and user inputs

- 1 Comprehensive Planning Process (CPP)
- 2 Functional expenditures
- 3 Employee complement expenditures



## Model Outputs

The model, in addition to functioning as a consolidated “database” of institutional data, provides one main output:

- 1 Standalone and integrated revenue and expenditure summaries through 2025-26

INSTITUTIONAL VIABILITY (2025-26)	Financial/ Enrollment Scenario:	Conservative	S:F RATIO METHOD:	HISTORICAL AVG
Institution(s)	2023-2025 FTE (Annualized) Enrollment Change		2023-2025 Average Operating Margin	
	Adjusted Projection	CPP Projection	Adjusted Projection	CPP Projection
BL	-4%	0%	-4%	1%
CA	-4%	2%	-5%	-2%
CL	-4%	0%	-6%	-1%
ED	-4%	8%	2%	12%
SL	-4%	0%	-3%	-1%
LO	-4%	3%	-1%	3%
MA	-4%	1%	-15%	5%
CA/CL	-4%		-5%	
CA/CL/ED	-4%		-3%	
CA/CL/ED/SL	-4%	N/A	-2%	N/A
ED/SL	-4%		0%	
LO/MA	-4%		-4%	
LO/MA/BL	-4%		-3%	

## Key Model Assumptions

- Change in enrollment, tuition rates, and state appropriation
- Treating CPP raw data as ‘source of truth’ for base years
- Permutes trajectories (“Lower-Bound”, “Moderate”, and “Upper-Bound” scenarios) that impact institutional viability
- ‘Institutional viability’ is assessed according to consideration of the following variables:
  - Enrollment
  - Operating Margin
  - Primary Reserve Ratio
- No change in services that touch students

# Baseline Assumptions for Projected Scenarios

## The team modeled three scenarios:

- 1 **'Lower-Bound'**: Highest reductions in revenue and lowest cost savings potential
- 2 **'Moderate'**: Trend data from FY 15/16 through FY 19/20 referencing financial indicators
- 3 **'Upper-Bound'**: Lowest reductions in revenue and highest cost savings potential

1. Lower-Bound
2. Moderate
3. Upper-Bound



Standalone Analysis

Integration Options

- Comparative projections are based on institution-provided CPP data as of 9/14/2020.
- FY23/24 through FY25/26 projections assume that an integrated entity would come into existence beginning in in FY22/23.
- Additional revenue and expenditures, including savings, 'flows' through outer projection years.
- Enrollment, tuition and fees, appropriations, and compensation trajectory assumptions were used to inform projections.
- Operational savings were not calculated for standalone projections.

# Scenario Assumptions

Input Measure	CPP Projections	“Lower-Bound”	“Moderate”	“Upper-Bound”
<b>Enrollment</b>	University-provided	-2%	-1%	0%
<b>Tuition and fee rates</b>	OOC-provided (1%)	0%	0.5%	1%
<b>Financial aid</b>	OOC-provided (1%)	1%	0.5%	0%
<b>Appropriations</b>	OOC-provided (1%)	0%	0.5%	1%
<b>Total compensation (all groups)</b>	2.3% (blended salary/benefits)	2.3% (blended salary/benefits)	2.3% (blended salary/benefits)	2.3% (blended salary/benefits)
<b>Auxiliaries</b>	Return to ‘pre-COVID’ revenues informed by CPP			
<b>Capital expenditures &amp; debt principal payments</b>	University-provided	University-provided	University-provided	University-provided
<b>All other revenue/expenditures</b>	0%	0%	0%	0%
Integration Assumptions				
<b>Target S/F ratio</b>	Historical 2010 System average (19.4)			
<b>Executive savings</b>	50% / 66% / 75% based on # of integrating institutions	50% / 66% / 75% based on # of integrating institutions	50% / 66% / 75% based on # of integrating institutions	50% / 66% / 75% based on # of integrating institutions
<b>Savings in other administrative subfunctions</b>	40%	20%	30%	40%

**Notes:**

- 1) Savings were only calculated for integrated institutions
- 2) CPP tuition, fees and appropriations were provided by OOC as 5-year budget instructions
- 3) CPP integration includes executive and administrative savings, as well as limited faculty savings

# CPP Enrollment Scale

## *2020-21 Estimated Annualized FTE Enrollment*

University	2020-21 FTE Students
BL	7,914
CA	6,091
CL	3,839
ED	3,867
SL	8,812
LO	3,051
MA	1,650
CA/CL	9,930
<b>CA/CL/ED</b>	<b>13,797</b>
CA/CL/ED/SL	22,609
ED/SL	12,679
LO/MA	4,701
<b>LO/MA/BL</b>	<b>12,615</b>

# Projected Financial Viability Summary: CPP

## Preliminary Institutional Viability Assessments (FY2025-26)

Institution(s)	FY23/24-FY 25/26 Total Annualized FTE Enrollment Change	FY23/24-FY 25/26 3-Year Average Operating Margin	FY23/24-FY 25/26 3-Year Average Primary Reserve Ratio
	CPP Projections	CPP Projections	CPP Projections
BL	0%	1%	25%
CA	2%	-2%	7%
CL	0%	-1%	-10%
ED	8%	12%	17%
SL	0%	-1%	24%
LO	3%	3%	51%
MA	1%	5%	-46%
CA/CL	1%	1%	1%
CA/CL/ED	3%	6%	11%
CA/CL/ED/SL	2%	4%	16%
ED/SL	3%	7%	29%
LO/MA	2%	7%	23%
LO/MA/BL	1%	5%	26%

- The CPP integration scenarios suggest potential financial viability in outer projection years, which may be driven by high enrollment projections relative to historic trends.
- Individual results do not take into account the impact on universities as other universities within the System experience financial sustainability concerns.

Notes:

- 1) Integration financial viability metrics based on University/OOC inputs, plus projected executive, administrative, and limited faculty savings
- 2) No adjustments have been made to provide loans to meet cash needs or to address loan repayments.

# Projected Financial Viability Summaries—3 Scenarios

## Preliminary Institutional Viability Assessments (FY2025-26)

Institution(s)	FY23/24-FY 25/26 Total Annualized FTE Enrollment Change			FY23/24-FY 25/26 3-Year Average Operating Margin			FY23/24-FY 25/26 3-Year Average Primary Reserve Ratio		
	"Lower-Bound"	"Moderate"	"Upper-Bound"	"Lower-Bound"	"Moderate"	"Upper-Bound"	"Lower-Bound"	"Moderate"	"Upper-Bound"
BL	-4%	-2%	0%	-4%	-1%	2%	22%	29%	37%
CA	-4%	-2%	0%	-5%	-1%	2%	7%	16%	25%
CL	-4%	-2%	0%	-7%	-4%	0%	-22%	-14%	-5%
ED	-4%	-2%	0%	2%	4%	7%	-13%	-5%	4%
SL	-4%	-2%	0%	-3%	0%	4%	48%	56%	65%
LO	-4%	-2%	0%	-1%	2%	5%	55%	62%	70%
MA	-4%	-2%	0%	-15%	-12%	-10%	-104%	-99%	-93%
CA/CL	-4%	-2%	0%	-6%	-1%	3%	-7%	4%	16%
CA/CL/ED	-4%	-2%	0%	-3%	1%	5%	-7%	2%	14%
CA/CL/ED/SL	-4%	-2%	0%	-3%	1%	6%	12%	22%	34%
ED/SL	-4%	-2%	0%	0%	4%	8%	30%	40%	51%
LO/MA	-4%	-2%	0%	-4%	-1%	3%	-4%	4%	14%
LO/MA/BL	-4%	-2%	0%	-3%	0%	4%	12%	21%	31%

- The two integration sets (CA/CL/ED & LO/MA/BL) show signs of potential for achieving a shared vision within the market though combined resources while also allowing local branding to be maintained.
- The two integration sets show signs of potential financial viability in all but the “Lower-Bound” CA/CL/ED scenario.

Notes:

1) No adjustments have been made to provide loans to meet cash needs or to address loan repayments.

# Discussion