

# COVID-19 Financial Contingency Plan Recommendations for FY21

Faculty Finance Committee (drafted 4/17/20, rev 4/20/20)

## Summary

A number of economists and higher education experts are predicting an existential crisis for American colleges and universities as a consequence of COVID-19. The New York Times reports that already “colleges have seen their endowments weakened” and “worry that fund-raising efforts will founder even as many families need more financial aid. They also expect to lose international students, especially from Asia, because of travel restrictions and concerns about studying abroad. . . . A higher education trade group has predicted a 15 percent drop in enrollment nationwide.”<sup>1</sup> Other universities are planning for the possibility of canceling in-person classes until Spring 2021, including the significant losses in room and board.<sup>2</sup>

In response to these challenges, many university leaders and professional organizations, including AACU, are recommending major cuts to non-essential expenses, especially in administration and athletics, in order to curtail the financial damage and maintain the integrity of the academic program.<sup>3</sup> Harvard University has already announced “that it would freeze salaries, forgo new hires, cancel discretionary spending, delay some capital projects, and cut pay for its top administrators as it wrestles with the financial effects of COVID-19.”<sup>4</sup> Major Division One institutions have begun cutting entire teams from their athletic programs, while dozens of other Division One institutions are negotiating to reduce millions of dollars in operating expenses and athletic scholarships, for as many as four years, in order to allow their universities to survive this crisis.<sup>5</sup> In addition, Stetson’s financial health rating has fallen in *Forbes Magazine*’s assessments of private institutions from 2.40 in 2017 to 1.96 in 2019.<sup>6</sup> Stetson is now in the group of privates that *Forbes* suggested are at risk of insolvency—before the Covid-19 crisis set in.

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<sup>1</sup> <https://www.nytimes.com/2020/04/15/us/coronavirus-colleges-universities-admissions.html?referringSource=articleShare>

<sup>2</sup> [https://www.cnn.com/2020/04/14/us/university-may-cancel-classes-fall-2021-trnd/index.html?utm\\_medium=social&utm\\_content=2020-04-14T20%3A00%3A35&utm\\_term=link&utm\\_source=fbCNN&fbclid=IwAR24LPIEi0PfmzjJNsOysVKHrFZjk9D1BOiknFyx7NldYnxKScB69ffaTEk](https://www.cnn.com/2020/04/14/us/university-may-cancel-classes-fall-2021-trnd/index.html?utm_medium=social&utm_content=2020-04-14T20%3A00%3A35&utm_term=link&utm_source=fbCNN&fbclid=IwAR24LPIEi0PfmzjJNsOysVKHrFZjk9D1BOiknFyx7NldYnxKScB69ffaTEk); <https://www.forbes.com/sites/richardvedder/2020/04/07/500-1000-colleges-to-disappear-survival-of-the-fittest/?fbclid=IwAR3V5PRQDSY5ymjFrgu5bemkqJbci7jkapSaG8k6vXQLD87n6CrxwnXo-qA#59670a9411a1>

<sup>3</sup> <https://www.aacu.org/sites/default/files/files/covid19-survey.pdf?fbclid=IwAR1jrHBE5ZKwQ6qgXx2coHxfCjb88eLHq19w-k0pHJTW4kF64G3rcBuPfs8>; [https://www.chronicle.com/article/How-Will-the-Pandemic-Change/248474/?key=Q-8a5P7D5OHujVB3ZSRDR8YIqzVhhrG4WqlQyT6qKf2atzsTBDG1dVErQV2T8\\_29RG01Si1HVVBUcFVESXZfTWNLYII0UEFJWbzMwTFVCZy01OXESdFdcj2ZiVQ&fbclid=IwAR2869wR6H0gVuRzbX95aCtfUX3tWL\\_RAHa1WxRoZcM-pOhxFfVghOq767A#.XpDIEOsjiwis.facebook](https://www.chronicle.com/article/How-Will-the-Pandemic-Change/248474/?key=Q-8a5P7D5OHujVB3ZSRDR8YIqzVhhrG4WqlQyT6qKf2atzsTBDG1dVErQV2T8_29RG01Si1HVVBUcFVESXZfTWNLYII0UEFJWbzMwTFVCZy01OXESdFdcj2ZiVQ&fbclid=IwAR2869wR6H0gVuRzbX95aCtfUX3tWL_RAHa1WxRoZcM-pOhxFfVghOq767A#.XpDIEOsjiwis.facebook)

<sup>4</sup> <https://www.bostonglobe.com/2020/04/13/nation/harvard-announces-hiring-salary-freezes-president-top-leaders-take-25-percent-pay-cut/>

<sup>5</sup> <https://sports.yahoo.com/with-budgets-tightening-will-more-college-sports-be-cut-204423901.html>

<sup>6</sup> <https://www.forbes.com/sites/schifrin/2017/08/02/2017-forbes-college-financial-grades-n-through-z/#4b49ea6f6358>; <https://www.forbes.com/sites/schifrin/2019/11/27/dawn-of-the-dead-for-hundreds-of-the-nations-private-colleges-its-merge-or-perish/#7f9af10b770d>

In light of the public health and financial repercussions of COVID-19 and Stetson's own internal financial challenges, the Faculty Finance Committee has therefore developed a contingency plan based on the external national environment for higher education, as indicated above; internal information provided by the CFO and VP for Enrollment Management; and the committee's own careful analysis of Stetson's financial situation and budgetary commitments over the past decade. Per the charge of our committee, this contingency plan puts forward a number of recommendations for consideration by the current and incoming President as well as the Trustees. These recommendations would avoid virtually any cuts in full-time personnel across the university, academic or otherwise, and entail utilizing as little of Stetson's cash reserves as possible.

These recommendations clearly prioritize the academic program over across the board cuts, for seven reasons:

1. Academics lie at the core of Stetson's small, private non-profit educational mission.
2. Classroom instruction, whether face to face or virtual, is the chief financial driver of the university.
3. Non-academic expenditures have grown exponentially faster than academic expenditures at Stetson since 2010.<sup>7</sup>
4. Many non-academic expenses are contingent on students being in residence, which may not be the case in August and perhaps throughout the Fall semester.
5. Such commitments cost tens of millions more than they return in revenue but are supplementary to our academic mission.
6. Many of these expenditures are proportionally greater than Stetson's operational peers and exponentially greater than the vast majority of small (under 3,500 students), modestly endowed (under 350 million) private institutions.
7. The approach that prioritizes the academic program appears to be the norm for other universities already tackling this crisis (see articles cited above).

## I. Core Budgeting Principles:

1. Preserve Stetson University's core academic mission
2. Prioritize retaining people (i.e. look for cuts that do not result in firing full-time employees, across the entire university).
3. Protect the endowment and preserve liquidity as much as possible (i.e. only use cash reserves to avoid more drastic and damaging long-term cuts to the academic program, since it's much harder to revive a cancelled academic program and rehire/reappoint tenure-track faculty than it is to restore a few million in unnecessary game day costs or unfunded athletic discount).
4. Minimize cash outflow intelligently: reduce expenditures in areas that generate less revenue and in which re-starting is relatively less onerous than in other areas.

## II. Three External Scenarios

### A: The Best Case

1. COVID-19 infections in Florida peak this spring and don't come back.
2. Social distancing is gradually lifted over the summer and students are able to return next fall, which guarantees room and board as well as tuition.

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<sup>7</sup> That our university, despite implementing a hiring delay on March 31<sup>st</sup>, continues to advertise multiple full-time positions in non-academic staff/administration, not directly related to recruitment and retention, is particularly concerning. See <https://stetson-careers.silkroad.com>

3. Unemployment is 8 to 10 percent by fall.

In this scenario, total undergraduate enrollment, counting FTIC/Transfer/returning students, might only drop 5% from our normal 3150 Fall target (i.e. 150-160 students, including 80-100 students below our 1050 FTIC/Transfer target) and discount might only need to increase 2-3% to 65% or so.

**Bottom Line: In this scenario, the \$3.5 million-dollar bailout money and some modest combination of the first three tactics (described below) should be able to balance the budget.**

### B: A Likely Scenario

1. COVID-19 returns or lingers and social distancing must stay in place, but we are still able to operate, tentatively, as a residential university come August or September.
2. As a result of that uncertainty and/or a later start to the semester in terms of residential education, we lose substantial room and board and fewer students enroll at Stetson (total enrollment drops 10%, equivalent to 300-320 fewer students in the Fall).

In this scenario, Stetson could be down as many as 200 fewer students than our goal in the FTIC/Transfer cohort and another 120-150 returning students. FTIC discount might also creep up close to 65-67%.

**Bottom Line: Stetson would need to budget for a \$8-10 million revenue decrease.**

### C. A Worst-Case Scenario:

1. Covid-19 returns or lingers and social distancing must stay in place, as a result having students on campus in the fall is not possible.
2. The economy is even weaker and our enrollment at private residential colleges takes a massive hit.

In this scenario, Stetson could be **down 15-20% in enrollment** (450-600 students) and FTIC discount could be close to 70% to make up the decline in enrollment.

**Bottom Line: Stetson would need to budget for a \$12-15 million revenue decrease.**

## III. The Official Recommendation

Given the vast amount of uncertainty about things far outside of Stetson's control, we recommend that **Stetson should produce an operating budget that plans for anywhere from \$8,000,000 to \$15,000,000 in revenue loses.** This may sound drastic, but it is a prudent, conservative path that will help the institution get ahead of the loses rather than be dangerously reactive.

## IV. Proposed Tactics to Help Reduce Stetson's Operating Expenses:

Below is a list of possible tactics, arranged in a rough order of both ease and severity to the operations of the University.

1. **CARES Act Funds:** Use the \$3.5 million CARES Act money to make up the bulk of the costs. There are some strings attached, but at least half can go directly to making up for losses in operating expenses and the other half could go to funding discount to bring in students we couldn't otherwise recruit/retain with higher scholarships and hence net revenue.

2. **Deploy Cash Reserves:** Deploy some portion of our cash reserves: \$8 million in Operating Cash (\$5 million in DeLand, \$3 million in School of Law); another \$5 million in revolving line of credit; and, if necessary, \$16 million in restricted cash accounts (\$13 million in DeLand; \$3 million in the School of Law). While we would want to be conservative in spending money from the endowment/restricted funds, this gives us as much as \$26 million we could access if absolutely necessary.

3. **Defer “Renewal and Replacement”:**

Renewal and Replacement could be deferred, and the R&R fund could be re-deployed, providing another \$1-2 million.

4. **Curtail Expenses Outside of Academic Programming:**

Operating budgets could be trimmed across the university, following the principles above.

4.a. **Athletics:**

According to EADA, Stetson’s total athletic expenditures are **now approaching 21 million dollars**, nearly three times what they were in 2008 and among the highest of any of Stetson’s operational peers.<sup>8</sup> Many larger, wealthier and more successful NCAA Division I institutions are *already* cutting entire sports from their programs and planning for millions of dollars in reductions in expenditures for as much as four years.<sup>9</sup> **Up to \$7.5 million in annual expenditures could be saved using these measures.**

*Eliminate Gameday and Athletic Recruitment Expenses.* The University should be prepared to cancel seasons for various sports, if not the entire year (depending on NCAA requirements). **This would save upwards of \$3 million dollars.**<sup>10</sup>

Last year, the **university reported spent \$2.7 million on game-day expenses and another \$360,000 on recruiting.**

Therefore, if social distancing is imposed next year, neither of these can operate and we should be able to save \$3 million.

Even were the season to go forward, and we were required to participate due to NCAA rules, we could still spend hundreds of thousands less than we do (as indicated by any comparison of our Athletics budgets to those of other lower tier DI institutions).

*Reduce or Eliminate Athletic Scholarships.* **Last year Stetson provided almost \$6.5 million in athletics scholarships.** These should be reduced to the minimum allowed by the NCAA, where only men’s and women’s basketball require full scholarships (less than 2 million combined), and **we should eliminate scholarship stacking** (which allows DI scholarship-athletes to receive academic as well as athletic scholarships). Non-scholarship athletes, like

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<sup>8</sup> <https://ope.ed.gov/athletics/#/institution/details>. The best long-term solution would be to change Athletic Division to Division II or III, but that wouldn’t be necessary in the short-term to save millions.

<sup>9</sup> <https://sports.yahoo.com/with-budgets-tightening-will-more-college-sports-be-cut-204423901.html>

<sup>10</sup> Over the past decade, athletics expenditures at Stetson grew at an average annual rate of 9.8% while the DeLand budget grew at an average annual rate of 5.4%. If athletics had grown at the same rate as the DeLand campus overall, the athletics budget would have been \$4.1 million less this year. Our athletics budget could stand to be trimmed substantially without harm to the mission of the university. More background data is available here: <https://intranet2.stetson.edu/faculty-senate/wp-content/uploads/2020/02/Faculty-Finance-Committee-Interim-Report-1.10.20.pdf>

football players, would still be able to receive both academic and need-based aid. By eliminating or significantly curtailing athletic scholarships for the foreseeable future, we could actually **increase the university's net tuition per undergraduate** by millions of dollars.

#### 4.b. Non-Academic:

*1. Maintain Hiring Delay, Possibly Institute Freeze.* Given current staff turnover rates, a hiring freeze/delay may organically produce a healthy decrease in staff, which would contribute to savings without any further action by the institution.<sup>11</sup>

*2. Reallocating Staff Time to Recruitment.* If campus remains closed into the Fall semester, for those staff members employed in areas like “campus vibrancy” or “residential life and learning” Stetson should move their positions to recruitment, enrollment, and admissions.

#### 4.c. Administration:

*1. Maintain Hiring Delay, Possibly Institute Freeze.* The hiring freeze and attrition process should be applied here as well.

*2. Administrative Teaching Initiative.* Additionally, many administrators are former faculty members and may be able to teach courses, as originally suggested in the Friday Group Report, which could be another source of savings.

### 5. University-wide Hiring Freeze

The only positions that would be filled are those necessary for essential academic and student recruiting functions (i.e. teaching, admissions, and fund-raising/development). All or most non-academic hires in other areas should be delayed because it is preferable to cut positions through attrition rather than severance. We already have a hiring “delay” in place, which can be extended to a freeze.

### 6. Eliminate the Personnel Raise Pool

The raise pool could be eliminated, **saving approximately a \$1 million expenditure in FY 2020-21** (although this would not be necessary in the best-case scenario and possibly unnecessary in the second case, especially given the minimal amount it would save and importance for morale).

### 7. Temporarily Reduce Executive Administrative Pay by 25%

Harvard and other leading institutions have already begun reducing the salaries of higher-ranking administrators in order to preserve the much salaries of faculty and staff. The [Chronicle of Higher Education](#) notes that Stetson's President's salary has been above the median since 2010, as have a number of the salaries of Stetson's Vice Presidents and other higher-ranking administrators. Most faculty and staff salaries meanwhile remain below the median for our comparison groups. Given how many administrators Stetson now has making six figure salaries, this could easily save **1 million or more**.

### 8. Furloughs for Staff in Residential Services and Athletics

If the campus must remain closed next fall, and in lieu of laying off any full-time employees, staff in residential life and athletics could be furloughed until students (student-athletes) are able to return to campus.

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<sup>11</sup> Over the past decade, expenditures on Student Services have grown at an annual rate of 7.7% versus 5.4% for the DeLand campus as a whole. Had Student Services grown at the same rate as overall spending, the budget for it would have been \$1.5 million less last year. Source: Budget Office data provided to Finance Committee

