Considerations for Reducing Expenses at Your Institution

By Junice Jones, Partner

Higher education has faced two severe economic hits in the last decade, with long-term ripple effects. The economic downturn resulting from the Great Recession quickly surfaced questions as higher education fought a financial and market slide over a period of months and years. The hit administered by the pandemic of 2020 has been much more abrupt, leaving higher education administrators scrambling to address the financial and human impact of COVID-19 on the campus and the student body.

How can institutions of higher education (IHE) maintain financial viability for future sustainability *and* continue to provide a valuable and memorable education for their students? How can the budget be addressed to assure this?

Prior to COVID-19, many IHEs were making the hard decision to slash their budgets to keep their doors open. As financial pressures continue to mount, a systematic and regular reassessment of major cost areas, purchasing processes, and vendor evaluations is important to ensure continued cost savings across the campus. Many small savings can add up over both the short and long run.

If your institution is preparing to tighten expenses, here are some opportunities to consider.

Purchasing

Purchasing programs can offer both short and long-term cost-saving opportunities. Start by asking:

- Who has an institution-issued credit card and is authorized to make purchases, particularly major purchases?
- What are the spending limits and approval processes?
- Who has access to check requests? Is that limited to an as-needed basis?

Carefully assessing your purchasing processes can expose opportunities to tighten up overall control of expenses and cash flow. In the short run, contacting vendors to delay payment terms, asking about payment programs, and requesting updated quotes for services from other vendors can all offer temporary cash flow relief.

Evaluating outsourced vendors as a whole, particularly for things like food service, maintenance, janitorial services, risk management, and information technology, may offer long-term savings for your institution. While the process of requesting quotes and proposals may be time-consuming, a new vendor relationship may offer better terms and the opportunity to lock in a lower payment rate for the first few years of the contract.

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Utilities

Utility-use reduction programs can provide immediate cost savings. Thanks to COVID-19, many institutions have now experienced operating with a workforce that is almost fully remote. Consider whether remote-work summer hours are an option to help reduce utility usage. The same thought could apply to other scheduled breaks where your institution has not already shut things down.

For long-term savings, consider these additional steps:

- Check with your utility provider to see if it offers incentive programs to provide credits against future utility expenses.
- Assess when the windows, motion-detection light switches, and HVAC systems were last checked. Are

the windows all energy-efficient? Have motion-detection light switches been installed to help save electrical costs?
- Research any local government programs that can help provide funding, grants, or loans for more efficient equipment that will reduce future costs.

Check with peers at other IHEs for their experience with similar programs.

Salaries and Benefits

Salaries and benefits continue to be the largest expense for an IHE, and also where institutions will typically feel the quickest and most intense relief when reducing expenses. Actions like furloughed staff, reduced or eliminated benefits, salary reductions, and hiring freezes are common when IHEs are looking to reduce expenses.

Today's CFO should be cautious of reduction fatigue among staff and faculty, and particularly staff more vulnerable to cuts and downsizing. Take a careful measure of the tolerance among the staff as a whole for these reductions. Evaluate mission-critical staff to determine the effect of reductions on them and their buy-in to your institution's mission and vision. When mission-critical staff members are reduced or become disengaged, the vision, mission, and culture of the institution will suffer.

Consider ways your institution can add value to staff positions in a manner that may help reduce overall expenses while maintaining job satisfaction. Some examples include:

- Implementing a wellness program to supplement medical benefits, with the goal of participation by staff (and faculty) to reduce medical premiums.
- Increasing work-from-home benefits as an added value to the position without additional cost.
- Providing merit bonuses rather than sustained pay increases.

Faculty pose an additional challenge, particularly those who are tenured. Carefully consider tenured positions and faculty contracts to ensure they work for the health of the institution overall, rather than any one degree or program area. Do faculty contracts allow your institution to make decisions that are best for your health and future sustainability? Does a termination clause exist for financial distress and is the marker of the distress clearly defined?

Long term, evaluating degree programs and faculty contracts can help your institution assess future health. What steps have you taken to assess the financial viability of all degree programs? What are the impacts of the programs on the mission of the school and on student satisfaction? These are not mutually exclusive elements. Rather, they work together to create a list of offerings that provides the highest combined financial return and student satisfaction.

For example, an institution may have built a foundation or reputation on a particular degree program, but that degree program may no longer be financially fruitful. The administration should consider:

- What would eliminating that program do to student satisfaction?
- Is there another option students can engage in to keep the spirit of that degree without the cost of an entire track?

In some cases, poor financial impact may be enough to make the decision on its own. In others, the reputational risk may be a heavier weight in the process. A program marginal revenue analysis for your institution will help with this difficult yet necessary process.

When times are uncertain and the pressure is intense, stepping back to see the full picture of mission and purpose is important to ensure cost-saving measures are undertaken in a way that ensures valuable and memorable student experiences and outcomes.

Please contact us with questions or to discuss how we can help support and empower your institution.

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Junice joined CapinCrouse in June 2008 and has 11 years of professional experience serving nonprofit clients. In addition to providing audit and accounting services for clients, she also provides consulting and advisory services to help organizations with the issues they face. Junice is a member of the internal quality control team at CapinCrouse.

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