National Center for Inquiry & Improvement

BRIEF 2

Acting Boldly to Build Financial Solvency

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While the COVID-19 pandemic has had a devastating impact on rural community colleges, leaders at most institutions have long been aware that their business model is unsustainable. While stimulus funds are helping in the short term, college leaders should use these critical investments not just to manage the present but also to plan for the future. To survive the current crisis and thrive in the post-pandemic world, college leaders must explore innovative approaches so they can steer their institutions to mission-focused financial solvency and long-term sustainability.

Acknowledging Today's Reality

As noted in The Big Picture, enrollments at most rural community colleges are unlikely to grow, and a combination of factors make expecting significant new funds from higher tuitions and fees unrealistic. State funding, moreover, likely will grow more slowly than inflation.

All of these factors put more pressure on institutions. Yet forward-thinking college leaders should acknowledge that they cannot simply wish for a different reality. Long-term solutions will not be found in hiring more recruiters; contracting additional lobbyists to influence state budgets; or continually trimming faculty, staff, programs, and services. Instead, leaders can best serve their colleges by being open to bold ideas and implementing creative solutions in the areas they can control. These solutions include exploring methods to address the threat of unchecked inflation in primary cost drivers and looking for opportunities to improve performance in existing activities.

About the Rural College Leaders Series

Across the United States, a divide is widening. Many rural areas are losing population and job opportunities as economic expansion becomes concentrated in urban areas. Community colleges, already experiencing declining enrollment across the country, face even greater challenges in the wake of the COVID-19 pandemic. Yet challenges also bring opportunities for change. Innovative rural community colleges are finding new ways to rethink their structure; update their programming; and better engage students, employers, and communities.

This series of briefs, told from the perspective of rural college leaders, shows how colleges aim to regain control of their regions' talent pipelines, serve as engines of economic improvement, and thus provide opportunities for both individual upward mobility and regional stability.

The series includes:

- **The Big Picture**
- **Brief 1:** Creating a College-Going Mindset
- **Brief 2:** Acting Boldly to Build Financial Solvency
- **Brief 3:** Cultivating Partnerships to Support Students' Basic Needs
- **Brief 4:** Diversifying Faculty at Rural Colleges
- **Brief 5:** Redesigning Advising and Support Services
- **Brief 6:** Collaborating to Create Regional Economic Opportunity

Understanding the Impacts of Unchecked Inflation

A critical first step toward fiscal solvency involves understanding the impacts of inflation on primary cost drivers. The financial landscape is changing quickly, and budget forecasting requires a forward-looking view that accounts for these changes.

To build and maintain solvency, college leaders should take a close look at the impact of inflation and its compounding effect on operations. To do so, college leaders need baseline information that can help them determine if their core operations are stable or stuck in a fiscal death spiral. Then leaders should rethink the way they assess the operating realities of their institution so they can realistically plan for the future.

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Managing budgets only from year to year results in short-term perspectives and decisions that are detrimental to long-term sustainability. Instead our budgets should include longer-term views of historical expenses and revenues as well as forecasts for the future. Viewing inflation from this longer-term vantage will allow college leaders to understand future realities and opportunities.

Though there are many ways to prepare and use forecasting reports, we recommend that any process include the following steps:

- Look at trends in both revenues and expenditures. Explore the actual changes for each by source — state funding, local funding, tuition, grants, community partnerships, etc. — for the past five to 10 years. Then use this information to forecast budget information for the next five to 10 years.
  - Which revenue items in your budget are increasing? Which are decreasing? For each budget source, apply inflation equal to that observed over the recent past.
  - For expenditures, separate major cost drivers such as personnel, technology and equipment (based on the planned replacement schedule), utilities (including broadband), capital and maintenance, institutional debt, and auxiliary or contract services. Include realistic estimates of annual inflation. And be honest about the rising

THE EQUITY IMPERATIVE

Wherever U.S. rural colleges are located, they share the conviction that they exist in large part to build communities, interrupt persistent poverty cycles, and promote the economic upward mobility of their students. Today, community colleges across the country are renewing their focus on equity and how it intersects with this mission of providing opportunity. Efforts related to improving diversity, equity, and inclusion have a variety of motivators, including a commitment to social justice, pressure from students, and the pragmatism of ensuring a sound future workforce. Whatever their origins, these efforts are as important in rural America as they are in urban areas.

Inequities have been built into our educational systems for decades. For example, while four-year graduation rates at rural high schools outpace the national average, rural students of color graduate at rates lower than the national average. Moreover, historical inequities persist across American health, employment, and justice systems.

Rural colleges may be serving populations that include first-generation students, low-income students, students of color, adults re-entering higher education, gender nonconforming students, and others. While each community is different, every college has current and potential students who face barriers that other students do not. To stay true to its mission, each college must acknowledge and purposefully work to break down these barriers and close opportunity gaps.

costs of critical functions. For example, when was the last time the annual service agreement for your ERP or construction/maintenance costs increased by less than 5 percent? When in doubt, apply estimates from the Bureau of Labor Statistics.

- Compare the topline estimate of ongoing costs to the projections of ongoing revenues. If revenues exceed costs, you know your finances are healthy. If costs exceed revenues, then the opposite is true, and your campus is already caught in an operational death spiral. The good news is that once you have built your budget in this way (accounting for inflation), you will be able to more accurately assess the implications of changes in revenue, changes in costs, and your own budgeting decisions.
- Most important, once this budgeting work is completed, use the information to begin a collegewide conversation to clarify the college's mission and purpose looking ahead, not backward. What role does your college need to play, and what resources are necessary to accomplish that outcome? Is your college appropriately organized to achieve it? What is the opportunity cost of doing nothing and simply trying to maintain the status quo?

Institutional history is critical for understanding what led to your campus's current realities, but this is the bottom line: When revenues lag behind inflation, maintaining the status quo is a dead end. Again, with the fiscal breathing room created by recent stimulus funds, now is the time to reshape institutions for successful futures.

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Improving Performance

Next, colleges should explore opportunities to improve performance in their primary cost drivers. Chief among these cost drivers is academic affairs.

When facing financial stress, most colleges make one of two decisions. They either (1) reduce the entire budget across the board (spread the pain equally); or (2) cut entire programs, especially ones that appear to require higher-than-average resources — even though those programs also may have higher-than-average labor market value. Both options are less than ideal in today's world.

After a year of remote learning, students and colleges alike have adapted to technology-enhanced instruction. Capitalizing on students' growing comfort with remote learning, profit-driven online colleges will market to more students, including those in your service areas. This is the new reality. But it does not have to be distressing news for community colleges.

The competitive advantage of rural colleges remains — and likely always will be — location and programmatic relevance to local labor markets. Focus on courses and programs with high labor-market value in local economies.

No online college will ever try to compete with your experiential programs in, say, applied health sciences, construction trades, or agricultural technology. Thus, community college leaders should emphasize these locally relevant programs — even when those programs demand higher-than-average resources.

Below are steps that can help save costs and improve performance:

- **Incorporate real-time labor market outcomes** into program outcome reports, and focus your attention on programs that (a) achieve higher-than-average incomes and (b) correlate highly with the needs of local industries. If your state does not produce reliable labor market data, consider using the services of a vendor.
- **Develop a program review and discontinuance procedure** that reliably and consistently allows for the objective evaluation of program enrollments, progression, completion, personnel, and costs. Weight the criteria according to your institution's mission and priorities and begin the process of paring down programs to those that are critical to the college's mission.
- **Explore partnerships with other higher education institutions** (local colleges and universities, school districts, or online providers) to deliver curriculum that is not unique to your college's mission or critical to a high-value program. This approach can be effective for courses that are part of a traditional general education curriculum, particularly if they allow your institution to focus its attention on programs with local relevance, such as nursing health sciences, applied engineering or technologies, or first responder training.
- **Talk with local high schools** and see if they can partner with you to deliver certain programs, such as those in career and technical education (CTE). For example, can your college and a local high school share the cost of expensive equipment or jointly fund instructional positions?
- **Pair complementary programs,** such as adult basic education or English as a second language (ESL), with CTE programs to allow students enrolled in these programs to expand their registration and develop skills that improve their wages. Many skills-based courses in, for example, construction trades or hospitality can be taught in languages other than English. With this approach, these courses can be taught as noncredit continuing-education-style courses, rather than traditional credit-bearing ones. This approach can help students more quickly move into higher-paying jobs, such as work as emergency medical technicians (EMTs).
- **End traditional stand-alone developmental education** if you have not already done so. The data is clear: Stand-alone developmental education is an underperforming drag on college operations. Though specific strategies for alternatives to developmental education are beyond the scope of this brief, there is no operating upside to continuing the practice. It is resource intensive; has poor results; and perhaps most disturbingly, is disproportionately less effective for historically underserved populations.

Colorado Mountain College (CO) designed a "program health score" to allow for the easy and objective review of academic programs. Outcomes are ordered according to a green (healthy), yellow (some correctable weaknesses), or red (poor health) coding. The dashboard showing the program health scores and underlying data is available to all, including faculty and the public.

Increasing Retention

Improving retention is the surest path to better serving students, improving completion rates, and ensuring more equitable outcomes. Assuming that enrollments are not likely to grow, keeping the students already enrolled also is a path to greater financial sustainability.

A campus with flat enrollments probably should not charge higher tuition, as this approach can reduce demand among students with financial need and stymie their progress. Instead, campuses with flat enrollments should focus on helping students access and complete more courses each year. This improved productivity is accomplished when colleges expand opportunities for students to intensify their credit loads and persistence by offering courses in a predictable sequence or cadence, eliminating courses that are unnecessary for degree completion, and taking full advantage of the 12 months in a calendar year (not only the eight months in a traditional academic year). The natural result of these actions is increased retention and completion, assuming all other things are equal.

Of course, programming courses to run on a year-round basis is one thing. Encouraging faculty to teach in this format is another. Below are several options innovative colleges might consider to expand access to courses efficiently and on a year-round basis:

- Consider modifying faculty teaching loads to accommodate year-round or 12-month schedules as the standard, not as exceptions. These more flexible arrangements allow for greater adaptability in delivering courses to students when they are in greatest demand as well as provide faculty with improved opportunities to reach larger numbers of students in a given contract year.
- Develop hybrid positions that blend teaching and administration, thus allowing 12-month employees to participate in both aspects of the academic operation without requiring the individual to work excessively or to have separate employment agreements.
- Design shared faculty and staff positions with other organizations in your region, including K–12 systems and other colleges.

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Stretching Resources with Institutional Collaboration

As colleges seek new ways to manage resource constraints, many are turning to consortia. Colleges in a consortium can leverage resources, minimize duplication of efforts, and capitalize on various organizations' strengths. For example, a consortium might have one student record and billing account for students enrolled in multiple colleges; one course with one instructor for students at multiple institutions; and centralized back-office business processes, such as payroll, employee benefits management, and procurement. These shared services increase capacity and collaboration while containing costs.

Kilgore College is a member of the Texas Community College Consortium (TC3), a collective of seven community colleges working together for improved student outcomes, lower administrative costs, and enhanced insights for institutional data. On some measures, TC3 is one of the largest academic community college technology consortia in the country.

TC3 colleges have used their collective purchasing power to create significant savings in overall operating costs. For example, TC3 colleges secured a 10 percent discount on document imaging software. They secured a learning management software purchase agreement, saving the members 65 percent off the list price ($355,000 annually) while gaining increased distance learning functionality for students.

TC3 also has realized economies of scale through collaborative solutions that include:

- A multi-factor authentication solution;
- A shared institutional research position to support data reporting;
- An online central repository for TC3 colleges to access best practices;
- A shared student loan default service for TC3 colleges; and
- A shared database administrator for remote support.

TC3 currently is pursuing plans for centralized business office staff for processing transactions (e.g., payroll and benefits) and shared faculty.

Discussion Questions

- Does our college try to be all things to all people, or are budget decisions grounded in institutional return on investment (ROI) data and playing to our strengths?
- Has our college identified its niche, or are we involved in a struggle with other similar institutions for a limited potential-student base? What sets our college apart from other postsecondary institutions?
- Is our college focused on both its access and success (retention) missions, or do we have to recruit a whole new population of students each year or semester to maintain current enrollment?
- Does our college encourage innovation and calculated risk-taking (entrepreneurship), or does a fear of failure stop us from pursuing creative solutions?
- What partnerships might our college establish with other educational institutions (four year, two year, or K–12) to allow the college to gain efficiencies through consortia purchasing, centralized services, or shared personnel?
- Are there any partnerships that our college could establish with local businesses or industries? For example, are there potential partnerships that could allow for on-site access to specialized equipment for training purposes outside of regular business hours?

FOR RESOURCES RELATED TO THIS BRIEF, PLEASE SEE THE BIG PICTURE.