

Tennessee State University Financial Exigency Workshop

Deanna McCormick, Consultant

January 31, 2025

Agenda for the Workshop

- Achieve a better understanding of what financial exigency is and the importance of timing of the decision
- Understand the expectations of the AAUP when declaring financial exigency
- Shared governance becomes shared responsibility as a University community
- Review of case studies of institutions and their strategies to move forward
- Potential consequences of not making the decision

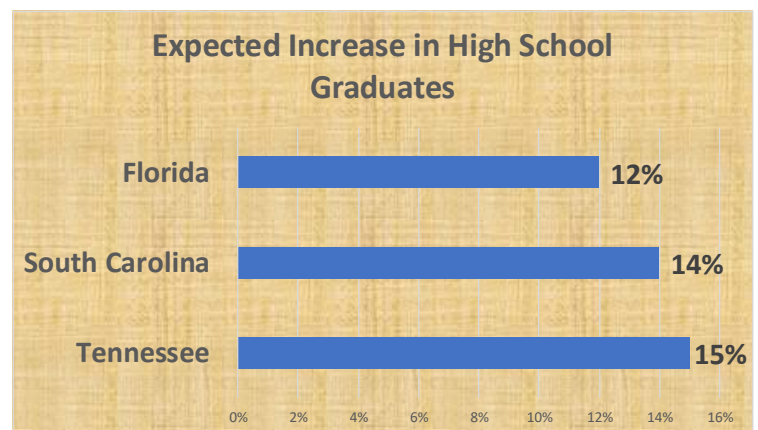
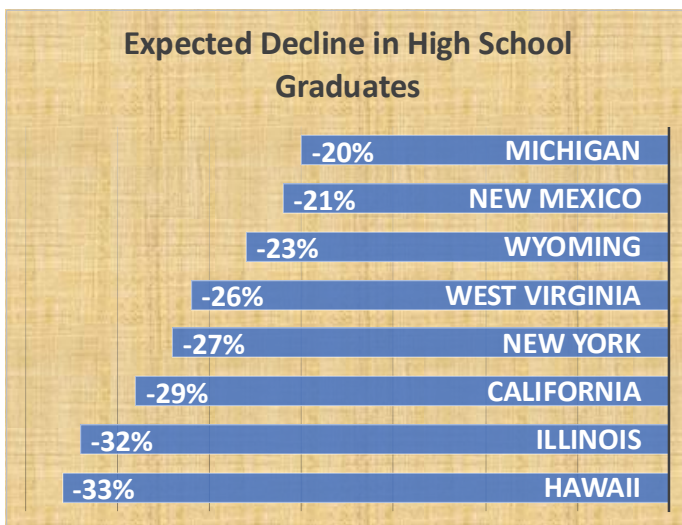
Current Climate for Higher Education

- Enrollment declines and the demographic cliff
- Net revenue (net student revenue) declining, institutions are bleeding cash and the impact of spiraling inflation causing increases in spending for necessities
- Reductions in state appropriations and the impact on student outcomes (persistence and graduation)
- Waning public confidence in the value of a degree
- Deferred maintenance
- Increased monitoring by accreditation/bond rating agencies



Enrollment

Research conducted by the Western Interstate Commission for Higher Education



State Appropriations

Questions about the level of state appropriations

- What happens to student outcomes if a state increases (or decreases) public funding for higher education?
- What portion of state higher education funding should be allocated to general operating support for institutions that may mitigate tuition rate increases for all students?
- What portion should be allocated to financial aid programs that target low-income students?
- To what extent do each of these finance strategies impact enrollment, graduation rates, credential completion, and other important outcomes?

Facts:

- FY 2023 – states allocated \$116 billion to higher education
- By FY 2024 higher education spending from state budgets was the 3rd largest category, increasing 3.6% over FY 2023

Confidence in the Value of a College Degree

Gallup poll

- 36% Americans were confident in higher education (2023)
- Down from 57% (2015)

Pew Research

- 40% Americans say a 4-year degree is not important to get a good job (2024)
- 49% Americans say a degree is less important than 20 years ago

Lumina Foundation

- 70% working age students will need a degree or other credential beyond high school to fill market needs (2024)
- Higher ed will need to adapt to the demand for changing skills as the workplace continually evolves

What is Financial Exigency

Financial exigency is defined as:

- Facing an immediate and imminent crisis due to a shortfall of funds to provide for maintaining program and services essential to the educational experience of students
- The budget can only be balanced by extraordinary means requiring reductions in force as well as academic programs

Financial exigency is similar to a reorganization bankruptcy where the labor force needs to be right-sized and the product line needs to be realigned based on market conditions with a reduction in expenditures and an increase in margin.

Factors Leading to Financial Exigency

- Continuing financial deficits
- Decreases in state appropriations
- Struggle to maintain enrollment leads to unsustainable institutional financial aid to students
- Student success outcomes declining (retention and graduation rates)

Myths of Financial Exigency

- Not a death sentence nor institutional self-destruction
 - Moody's 2015: Financial exigency is a credit positive tool for struggling institutions
- Financial exigency violates shared governance and ignores faculty perspectives
- Financial exigency allows institutions to rapidly reduce academic costs
- Financial exigency allows institutions to immediately revamp their academic program portfolio

Key Factors in Declaring Financial Exigency

- Waiting too long can only make the situation worse and may cause a university closure as the financial crises can worsen causing more restructuring
- Public institutions are more likely to declare exigency than privates
- Upcoming decisions about restructuring will be difficult (process of program elimination is significant and very labor-intensive; data).
- Before declaring financial exigency, an institution must understand the process as well as the implications for this classification with state and federal agencies, accrediting bodies, students, faculty, staff, alumni and the surrounding communities.
- Public perception that a university is failing to meet its obligations
- Strategies:
 - Level with the campus community
 - Share appropriate and accurate data
 - Tell the truth about financial realities
 - Initiate a fair and deliberate process for restructuring academic programs and administrative units

Shared Governance = Shared Responsibility

Governance: a model where faculty, staff, administration and students (when appropriate) participate in decision-making

Components:

- Ethical conduct/constituent engagement
- Transparency
- Accountability
- Building consensus
- Celebrating achievements

Expectations outlined by AAUP Policy

AAUP began to address the development of financial exigency policies in the early 1920's

Definition: “A severe financial crisis that fundamentally compromises the academic integrity of the institution as a whole and cannot be alleviated by less drastic means.”

Highlights:

- Condemns “acting like exigency”
- Faculty can request via a formal request a special committee to investigate the process
- Emphasis on respecting the norms of academic governance relative to consultation with the faculty on budget matters
- “Censure” – serious violation of recognized principles of academic freedom and tenure

Expectations outlined by AAUP Policy

Provision on academic tenure

“Termination of permanent long-term appointments because of financial exigencies should be sought only as a last resort, after every effort has been made to meet the need in other ways and to find for the teacher other employment in the institution. Situations which make drastic retrenchment of this sort necessary should preclude expansions of the staff at other points at the same time, except in extraordinary circumstances.”

Southern University (2011)

Characteristics:

- Southern University is a public historically black land-grant university in Baton Rouge, Louisiana and opened its doors in 1881 in New Orleans
- Between 1970 and 1990, the university consistently enrolled over 10,000 students and secured the title of being the largest HBCU in the nation
- Fall 2022, 8,266 students including graduate students; fall 2023, total enrollment was 6,571; 68% female; 87% black or African American
- In 2025, in-state tuition and fees at Southern University were \$9,290, and out-of-state tuition and fees were \$10,479

Southern University (2011)

Why did Southern University declare financial exigency?

- State appropriations dropped from \$55 million to \$33 million between FY2009 and FY2012
- Enrollment and corresponding retention rates declined steadily over the previous 5 years to approximately 7,300 students (from 10,000 students) in the late 90's
- The institution asked faculty to take voluntary furloughs which was refused

Southern University (2011)

Strategies after Declaration

- 10% reduction in salary for all faculty & staff
- Elimination of faculty/staff positions with some faculty choosing to retire
- Mergers of some colleges and schools
- Freezing vacant positions
- Freezing all non-critical expenditures

Lincoln University (2020)

Characteristics:

- Public, historically black land-grant university in Jefferson City, MO that was founded in 1866 by African-American veterans of the American Civil War
- The institution was the first black university in the state. In the fall 2023, the university enrolled 1,799 students.
- Undergraduate, graduate and continuing education programs
- Unionized faculty
- 98% revenue comes from state appropriations and tuition and fees

Lincoln University (2020)

Why did Lincoln University declare financial exigency?

- Financial exigency declared in May after COVID restrictions on state spending and significant enrollment declines
- Since the COVID-19 pandemic hit, summer 2020 enrollment was down 42% from 2019, while fall enrollment in 2021 was down 25% from the same time the prior year
- Instruction at the institution had been online since March 23
- The change in instructional delivery, general uncertainties surrounding the future as a result of the pandemic, actual and projected enrollment trends prior to COVID-19

Lincoln University (2020)

Strategies after Declaration:

- 25 faculty members were terminated
- Journalism and Social Work programs were placed on academic monitoring
- Additional academic programs were closed
- No confidence vote from the faculty senate
- Alumni called for the ousting of the President

Henderson State University (2022)

Characteristics:

- Founded in 1890 as Arkadelphia Methodist College
- Only 4-year aviation program in Arkansas
- Focus – high demand careers
- Approximately 2,400 students
- Professes every student will get a scholarship (based on GPA as Henderson is test-optional)

Henderson State University (2022)

Why did Henderson State University declare financial exigency?

- Operating deficit \$12.5 million
- Debt increased 500% to \$78 million since 2001 primarily to build residence halls; annual debt service felt to be unsustainable based on current revenue
- Enrollment decline of 28% between 2019 and 2021; enrollment did not recover in 2022
- Years of deficit spending
- Received \$6 million advance from the state of Arkansas in July 2019

Henderson State University (2022)

Strategies after Declaration:

Touted as “having implemented one of the largest cost containments in the shortest timeframe in higher education”

- Implemented a Rapid Response Team that works across departments to reduce spending
- Conducted a campus wide survey for cost containment ideas
- Developed a Strategic Resource Allocation Model as well as an Academic Performance & Program Viability model and a new scholarship & financial aid model
- Significant involvement of faculty at all levels
- Implemented hiring freezes, furloughs, program reductions/eliminations

Prior to the Declaration

- Conduct a detailed review of the financial situation, including revenue, expenses, cash flow and projected future needs
- Examine the Board policy on financial exigency with comparisons to the AAUP policy
- Explore alternative funding sources
- Explore other cost containment options:
 - Curtail unnecessary expenses and review of Business Office policies and procedures
 - Freeze hiring for open positions
 - Reduce salaries
 - Offer early retirement incentives
 - Use of any existing reserves
 - Reducing intercollegiate sports programs

Prior to the Declaration

- Conduct an academic program review led by a core of faculty, including college deans, program division and department chairs, and program level faculty
- Be fully aware of the impact on students
- Understand the resistance movement
- Be prepared for reaction from the accrediting body

Prior to the Declaration

Establish an ongoing method of communicating with the University community

- Open forums
- Updates on the website
- Emails from the President, Provost and CFO

Establish an ad hoc Financial Exigency Committee - determine membership across the University and create a charge and a timeline for recommendations

Availability of credible financial data

- Utilize the Institutional Research Department and determine the amount of data available
- Common Data Set
- IPEDs data (can provide comparisons to peer competitor institutions)
- Admissions data (funnel from application to matriculation)
- Registrar's office data on enrollment

Benefits of Financial Exigency

- Avoids closure and can be an instrument for university survival and renewal
- Sharpen the mission and reinvest in the university (the 3 R's: Reimagine, Revision and Reinvent)
- Unusual cost saving steps can improve finances for the long-term
- Signals commitment and restores confidence in leadership

Potential Outcomes of Not Declaring Financial Exigency

- Limited options to restructure the University
- Increased pressure to reduce costs in areas such as non-tenured faculty, staff and other programs for students that might not be considered essential
- Reputational damage
- Legal complexities

References - General

Colleges on the Brink: The Case for Financial Exigency - by Charles M. Ambrose and Michael T. Nietzel

Colleges on the Brink is about the financial crises many colleges are facing in the post-pandemic era and how they can be resolved. The tools described require changing how colleges spend money while still maintaining core academic values. Ambrose and Nietzel discuss the conditions involving financial exigency and other major budget overhauls, and they outline how to maximize the likelihood institutions can regain financial health. The challenge these colleges face is to come back from the brink and become leaner, financially stable institutions, ready to provide the education students need.

Declaring Financial Exigency in Higher Education – How Do You Recover by Satasha Green, PhD

This book provides background information on financial exigency, legal and compliance obligations during exigency, and lessons learned and recommendations for practice regarding preparing for, declaring and recovering from financial exigency.

References – Case Studies

Henderson State University: Academic Performance and Program Viability Tool

https://hsu.edu/site/assets/files/3277/academic_performance_and_program_viability_docx.pdf

Henderson’s Strategic Resource Allocation Model

https://hsu.edu/site/assets/files/3277/1_27_22.pdf

References - Implementation

Meeting the Challenge of Program Prioritization

<https://www.academicimpressions.com/PDF/PrioritizationMD-Print-0413.pdf>

Prioritizing Academic Programs and Services: Reallocating Resources to Achieve Strategic Balance, Revised and Updated 2nd Edition, by Robert C. Dickeson

<https://www.amazon.com/Prioritizing-Academic-Programs-Services-Reallocating/dp/0470559683>

AAUP guidance on Financial Exigency, Academic Governance, and Related Matters

<https://www.aaup.org/report/financial-exigency-academic-governance-and-related-matters>

Resources – Higher Ed Consultants

Huron

<https://www.huronconsultinggroup.com/insights/avoiding-path-to-closure>

Edular

<https://klassapps.com/financial-exigency-in-2024-supporting-students-through-unforeseen-challenges/>

BCG

<https://www.bcg.com/industries/education/higher-education>

ForvisMazars

<https://www.forvismazars.us/industries/education/higher-education-consulting>



31



What else? Questions?

Thank you!

32