

Navigating the COVID-19 Crisis: Higher Education Strategies for Managing Resources

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“Reality is setting in: COVID-19 is here to stay. The financial impact is just being calculated, but the losses from room-and-board refunds and decreased revenue from executive education, the spring sports season and auxiliary services will be considerable. As bad as it may seem right now, it is about to get worse.”

- Chronicle of Higher Education (April 20, 2020)

Addressing the financial challenges brought on by the coronavirus outbreak will require colleges and universities nationwide to make many tough decisions as they grapple with how to contain or reduce costs. What cost-containment “levers” are available to pull? What are the short- and long-term impacts of implementing these approaches? Can the private sector provide operational efficiencies? What assets can potentially be monetized to boost liquidity?

Management and Budget Consulting

Our team of professionals, led by former and current local government officials and university finance professionals, focuses on effectively managing and budgeting public resources. We have supported successful, large-scale public-sector turnarounds beginning with the City of Philadelphia and the Government of the District of Columbia in the 1990s, and continuing with the cities of Pittsburgh and New Orleans in more recent years. We deliver organizational and operational analysis and multi-year financial planning services on a daily basis and have assisted major public sector and higher education entities with a broad range of complex management and budget concerns.

This dilemma is not unlike those that have faced many state and local governments over the years. When revenues come up short or when unanticipated costs arise, these entities must often identify and implement strategies to effectively and efficiently manage resources. As higher education institutions chart a path forward, they can – and should – draw from the best practices and proven cost containment strategies employed in the public sector.

PFM is uniquely qualified to assist colleges and universities during this unprecedented time. As advisors to your institution, our Higher Education Financial Advisory team develops a keen understanding of the plethora of challenges you face, and our Management and Budget Consulting practice has been helping major government and nonprofit clients develop successful fiscal recovery and sustainability strategies for more than 25 years.

The following provides a summary of PFM's experience and expertise in helping clients create and implement strategic cost-containment approaches.



Organizational, Operational and Staffing Reviews

PFM's consulting team's operational efficiency studies and organizational and staffing reviews – conducted at both the departmental and enterprise-wide levels – have helped clients to identify opportunities to streamline their operations, reduce costs and improve effectiveness.

Examples include¹:

- **Treasurer's Office Organizational Review — University of Massachusetts System:** Conducted an organizational review of the System's Treasurer's Office to identify the optimal organizational structure and to recommend potential changes to its functional clustering; study included benchmarking the structures, responsibilities and operations of comparable systems and identifying organizational and operational best practices.
- **Agency Performance and Accountability Commission - Performance Audit of the Office of Management and Enterprise Services — State of Oklahoma:** Engaged by the State's Agency Performance and Accountability Commission, conducted a comprehensive performance audit of the Office of Management and Enterprise Services, including central accounting and payroll, information technology, purchasing, building management and assistance with developing and implementing the Governor's budget.
- **Payroll Processing Review — City of Fort Worth, Texas:** Assisted the City with an evaluation of its current approach to payroll, including how the functions are structured and staffed, existing systems used in the process, how various departments interact and how the City's processes and outcomes compare to its peers.

In total, the consulting team completed organizational reviews and other related projects for over half of all U.S. states, a majority of the nation's 20 largest cities, and with county-level jurisdictions large and small.

Compensation Strategies

PFM's consulting team works with many of the nation's largest public employers to develop strategic approaches for managing workforce costs while maintaining competitiveness, and has extensive experience in collective bargaining environments.

Examples include¹:

- **Arbitration Support — University of Maine System:** Evaluated faculty compensation levels and provided testimony on behalf of the System in binding interest arbitration.
- **Collective Bargaining Support — Commonwealth of Pennsylvania:** Since 2003, advise the Commonwealth on collective bargaining issues, including analysis of compensation levels, paid leave strategies and other benefits.
- **Labor Negotiation Support — Washington, D.C.:** Since 2017, support District government with quantitative analysis and compensation benchmarking for labor negotiations with multiple large District bargaining units.



Alternative Delivery/Public-Private Partnerships (P3s)

Potential approaches to leverage private sector capital and experience may include the monetization of non-core assets through asset sales, long-term ground leases or concession agreements, full P3 concessions that transfer financing, delivery and operating responsibilities to the private sector, and/or the outsourcing of certain operations and maintenance services to the private sector.

PFM has developed a proven approach to simplify and deconstruct alternative delivery/P3 projects to their base components: governance, project design and delivery, operations and finance. This approach has enabled our clients to evaluate the specific details of proposed projects in a transparent manner. As a Securities and Exchange Commission (SEC) and Municipal Securities Rulemaking Board (MSRB) registered municipal advisor with a fiduciary obligation to place the best interests of our clients first, PFM maintains an agnostic approach to evaluating the potential benefits and considerations of strategically leveraging the private sector. In recent years, multiple P3 projects in higher education have experienced financial challenges, and certain projects have not delivered on achieving an institution's goals. PFM evaluates potential projects in the context of the institution's long-term best interests, and we have demonstrated that we will advise our clients against proceeding with a proposed project if we do not believe it provides value that is consistent with an institution's strategic goals.

Examples include:

- **Utility System Concession — University of Idaho:** Advising on the finance and governance aspects of a potential public-private partnership with a qualified private entity to manage and operate the University's on-campus utility systems via a long-term concession agreement. Under the contemplated partnership, the University would receive an upfront financial consideration that would be used to fund an endowment dedicated to support certain strategic initiatives. The concessionaire will provide operational and management expertise, and develop/implement creative solutions for on-campus utility system enhancements and efficiencies.
- **Parking System Concession — Eastern Michigan University:** Advised the University on the diligence, procurement and implementation of a public-private partnership related to its parking system assets. The University received a \$55 million up-front consideration in return for entering into a 35-year concession agreement with a private partner that is responsible for the cost-efficient operation and management of the parking system.
- **Real Estate Monetization — Temple University:** Advised the University on its evaluation of a potential multi-use development on a parcel of University owned land. The contemplated project considered an agreement with a private developer that included: (1) non-recourse market-rate development under a long-term ground lease agreement resulting in financial consideration to the University, and; (2) private sector expertise, efficiency and risk transfer for the on-time, on budget development of University academic and clinical operations space.

Higher Education Alternative Delivery/P3

Unique in the industry, PFM maintains a financial advisory practice that is solely focused on providing advice to institutions of higher education on alternative delivery/P3 projects. Our practice includes former public university, private developer and institutional investor professionals. We leverage the resources within PFM to form teams that include asset-specific experience and regional presence to provide us with a broad perspective on the nuanced details of proposed projects. As a leading financial advisor to institutions of higher education, PFM has the ability to evaluate, and advise on the implementation of, projects that utilize the private sector, and also clearly analyze potential impact on an institution's financials, governance, credit and character.



- **Innovation District Development — George Mason University:** Advising the University on potentially partnering with a private party to design, build, finance, operate and maintain a new Institute for Digital Innovation. The proposed project, which was key to Northern Virginia’s bid for Amazon’s second headquarters, will co-locate academic research and educational programs, corporate innovation labs, innovation-centric convening and community programs, high-growth companies, related incubator and accelerator programs and retail amenities.
- **Student Housing — Board of Regents of the University System of Georgia:** Transaction Advisor on the diligence and potential implementation of a public-private partnership of a student housing portfolio that included a total of 15,334 beds located at nine campuses for seven of its institutions.

To learn more or discuss in greater detail, please contact us:

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