



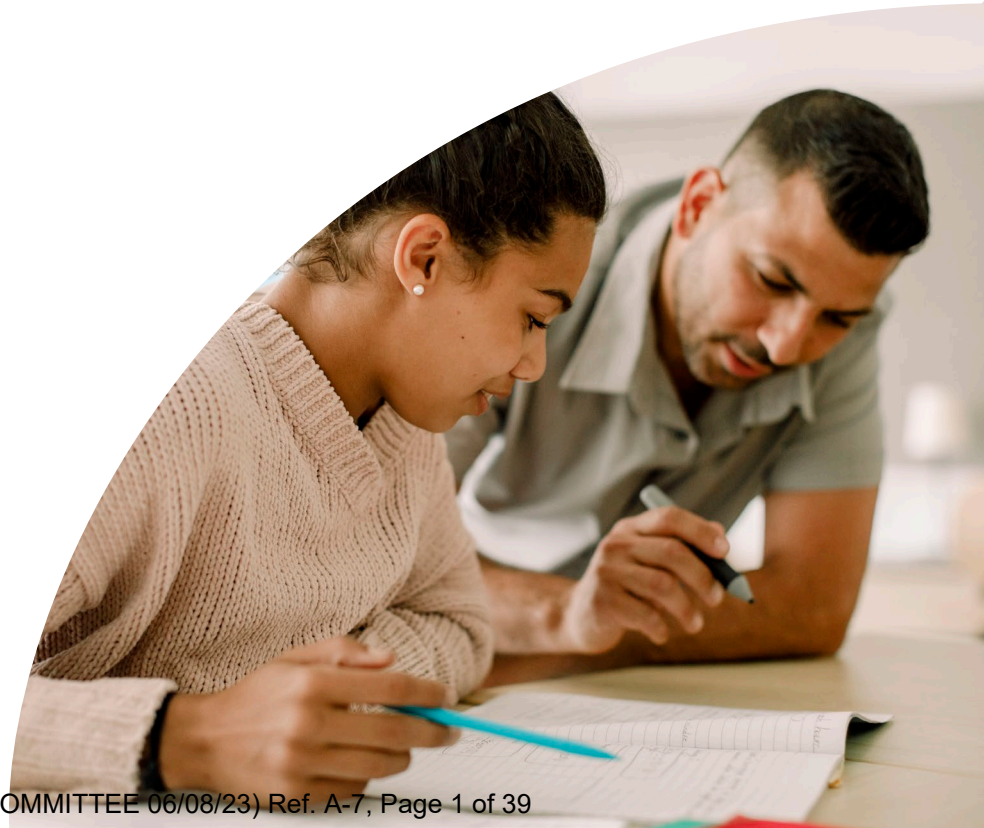
NSHE

# State of Higher Education in 2023

Nevada System of Higher Education

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June 8, 2023



# Speakers



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# Agenda

## 1. Opening remarks

- Notable items from September 2022
- What are other states doing?
- Questions to keep in mind

## 2. Higher education industry outlook

- Rating agencies overview
- Demographics
- Tuition & policy

## 3. Investing in education

- Growing equitable outcomes
- Student success: boosters, inhibitors & blockers
- Higher education as a booster

## 4. Q&A



MAY 3

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# Notable items from September 2022

Creating an equitable & sustainable future (growth)	Navigating the Great Reshuffle	Strengthening the campus
<ul style="list-style-type: none"><li>• A framework for educational equity</li><li>• Embracing a holistic ESG strategy</li><li>• DE&amp;I, ESG and the compliance function</li></ul>	<ul style="list-style-type: none"><li>• Workforce strategies for the new age</li><li>• Strategies for hiring and retaining talent</li><li>• Leadership strategies in a virtual world</li></ul>	<ul style="list-style-type: none"><li>• Student preferences help drive change</li><li>• M&amp;A accelerates in higher education</li><li>• Rethinking facilities and workforce expenses</li><li>• Supporting mission through technology</li><li>• The case for a customer-centric approach</li></ul>

# State of higher education: the road ahead



## Investing in growth

- Mission / financial review
- Strategic planning and action plans
- Positioning within the future HE landscape
- “Customer” strategies (growth, demand generation, retention / success, etc.)
- “Product” (program) portfolio optimization / rationalization
- Financial and operational modeling
- M&A / JV / transactions



## Investing in infrastructure

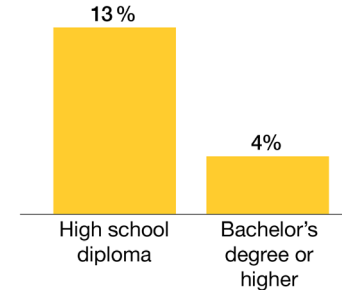
- Enterprise Risk Management
- Reserves planning
- Future readiness (BCP; cost containment)
- Board governance
- Operational effectiveness / efficiency (grants, fundraising, finance, procurement, HR, comms, risk management, etc.)
- IT / system optimization (ERP) and cyber security
- Cost of Education modeling

# The value of investing in higher education

There is clear ROI for increased investment in higher education:

- Local job creation
- Better health outcomes
- Increased tax revenues
- More civic engagement
- Research & Development
- Economic growth

**Poverty rates are three times higher for those with only a high school diploma**



Percent of individuals age 25 and older living in poverty, by educational attainment, 2021

# The value of investing in higher education (cont'd)

**Over their lifetimes, bachelor's degree holders make significant contributions to their communities**



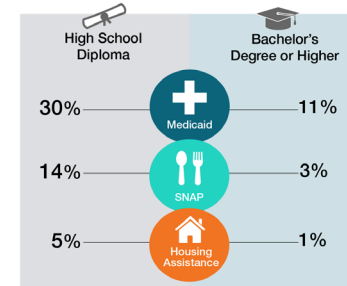
**\$278,000**  
More to their local economy

**\$44,000**  
More in state and local taxes

**\$771**  
More in annual charitable giving

Average lifetime contributions of bachelor's degree holders compared to an average wage earner with only a high school diploma

**Americans with a college degree are less likely to participate in public assistance programs**



Percent of individuals age 25 and older living in households that participated in various public assistance programs by education level, 2021

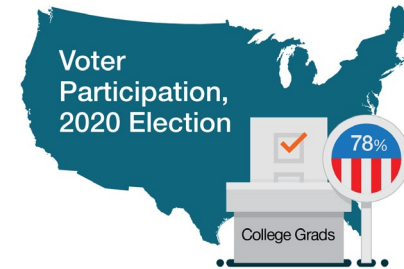
# The value of investing in higher education (cont'd)

**People with a college education are more likely to volunteer**



Between September 2020 and September 2021, 32% of Americans with a bachelor's degree formally volunteered in their communities, compared to 14% of high school graduates.

**College graduates are more likely to vote**

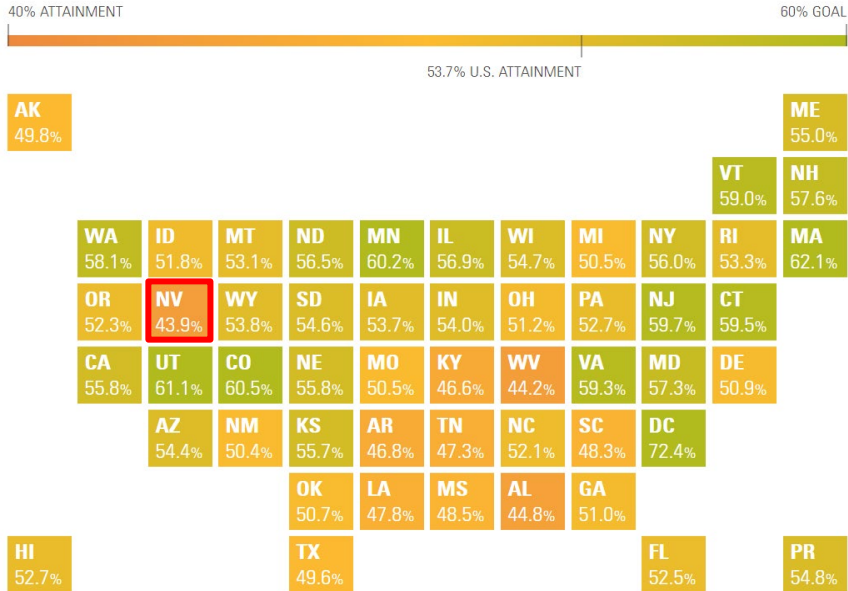


78% of Americans with a bachelor's degree reported participating in the 2020 election, compared to 56% of high school graduates.

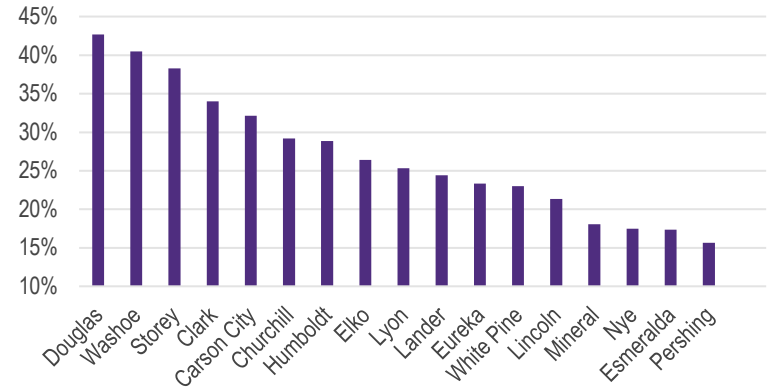


# What are other states doing?

Beginning in 2008, Lumina Foundation committed to catalyzing postsecondary attainment, setting a **national goal of 60% attainment by 2025**. **Currently, Nevada is the lowest** in the nation for postsecondary attainment.

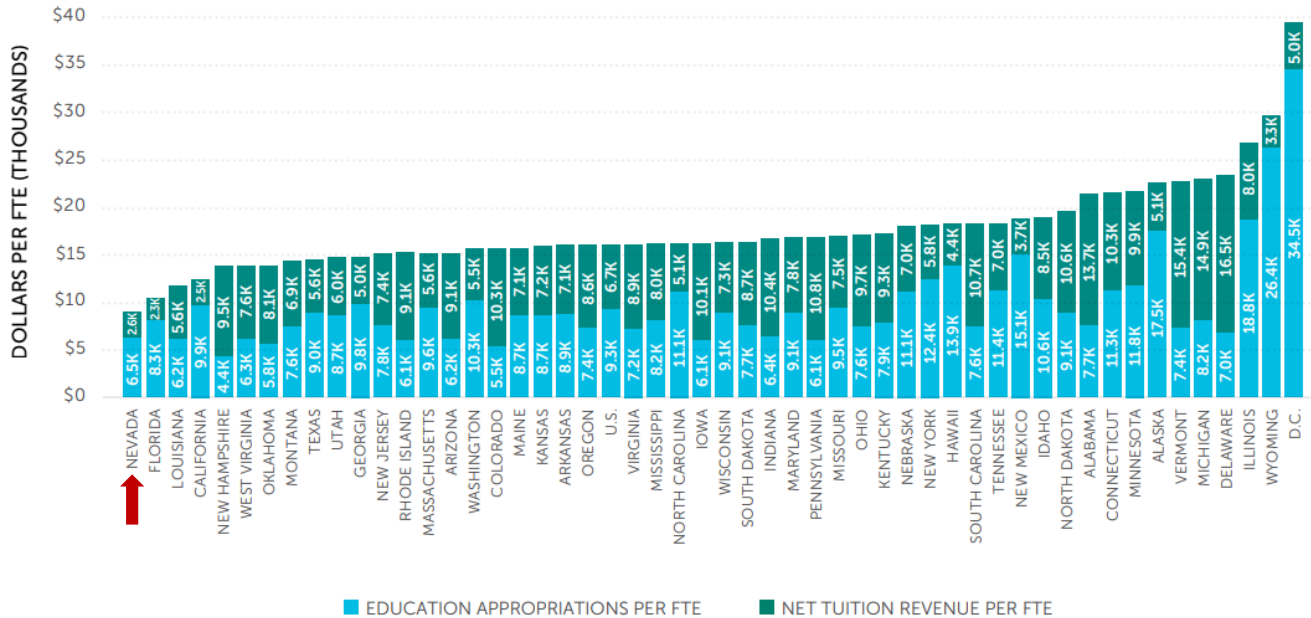


Lumina: NV County-Level Degree Attainment



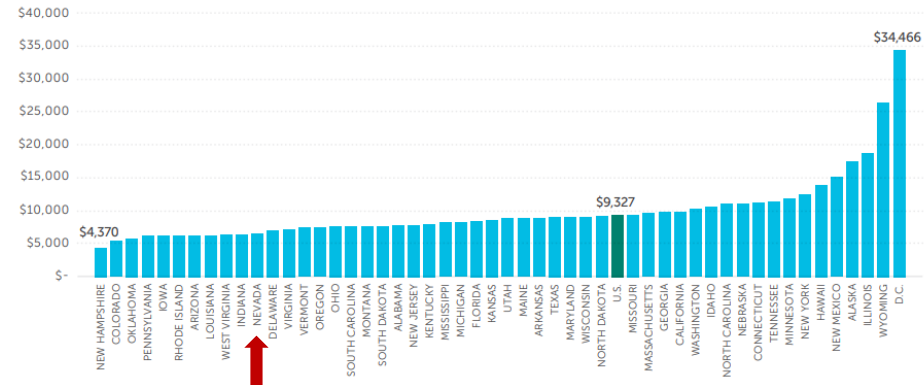
# What are other states doing?

EDUCATION APPROPRIATIONS AND NET TUITION REVENUE PER FTE BY STATE, FY 2021  
(ADJUSTED)

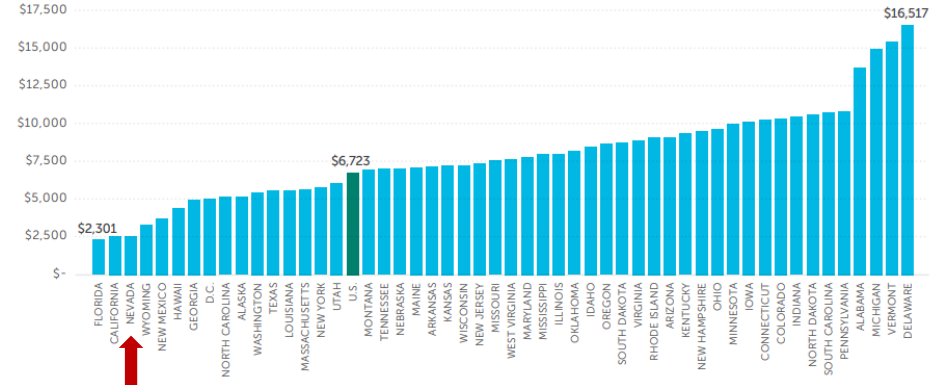


# What are other states doing? (cont'd)

PUBLIC HIGHER EDUCATION APPROPRIATIONS PER FTE BY STATE, FY 2021 (ADJUSTED)



PUBLIC HIGHER EDUCATION NET TUITION REVENUE PER FTE BY STATE, FY 2021 (ADJUSTED)





**Where are we as a State currently? What is our ideal future?**



**What barriers are inhibiting our State's ideal future?**



**What investments (in education) are required to realize that future?**

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# Rating agencies' HE sector outlook: an overview

1	2	3	4	5
Varied Outlooks	Consolidating Expenses	Alternative Programming	Consolidation	Communication
<ul style="list-style-type: none"><li>• Driven by three key determinants: End to pandemic-related relief funding; Capital markets volatility; Uptick in operating expenses</li></ul>	<ul style="list-style-type: none"><li>• Higher education was second only to hospitality in reducing expenses in the early period of the pandemic</li></ul>	<ul style="list-style-type: none"><li>• Online and hybrid courses as well as certification programs (can be credit positive but it depends on whether there is revenue sharing, avoids cannibalization of existing programs, etc.)</li></ul>	<ul style="list-style-type: none"><li>• Not anticipated to accelerate at a rapid pace (but more likely to occur with publics vs privates)</li><li>• Programmatic consolidation / elimination is occurring more frequently</li></ul>	<ul style="list-style-type: none"><li>• Rating agencies are focused on forward-looking strategic plans and communication of headwinds early</li></ul>

# S&P 2023\* from "stable" to "mixed"

## "Stable but Bifurcated"

### Positive Developments

- Substantial federal emergency funding to higher education since 2020 (>\$152 billion awarded)
- Return to campus learning in-person has led to increase in tuition and auxiliary revenues
- Highly selective institutions have reached an all time high in applications and low in acceptance rates

### Risks to Monitor








- 2023 operating margins are expected to be weaker than 2022 due to higher cost of salaries
- Enrollment pressures from troubling demographic outlook will increase financial aid to students and lead to net tuition revenue declines
- S&P's chief U.S. economist forecasts a shallow recession in 2023
- Growing gaps in credit quality is noted between higher rated and lower rated institutions

**Bottom line:** Higher education sector is facing significant risks regarding future enrollment levels, rising costs and a potential recession in 2023 with lower rated institutions at risk to close or merge contrasted with highly selective institutions in a strong financial position.

# S&P 2023 outlook factors (cont'd)

With the large number of potential risks to monitor, 2023 is a good time to evaluate enterprise risk management plans.

## What we are watching: Not-for-Profit Higher Education

 <b>Inflation and recessionary pressures</b>	Operating costs continue to be higher and could challenge institutions' cash flow and capital spending.	 <b>Credit quality bifurcation</b>	The gap between schools with greater flexibility and those with less fortunate continues to widen.
 <b>Enrollment and demand</b>	Amid rising tuition and fees, the value proposition debate has intensified, contributing to uncertainty about demand and enrollment making revenues more difficult to predict.	 <b>Consolidation and closure</b>	Consolidations and closures will continue at an elevated rate as schools re-evaluate programs and instruction modalities amid increasing competition.
 <b>Operations after federal relief funding</b>	Emergency stimulus funds filled budget holes and offset rising costs, but this safety net is mostly gone, and operating expenses continue to grow.	 <b>Event risks</b>	Cyber breaches, major management turnover, governance scandals, or weather events can reduce flexibility at a time of operating stress.
 <b>Balance sheet flexibility</b>	Ability of balance sheet ratios to cushion operating unevenness and capital spend despite market variability will determine rating stability.		

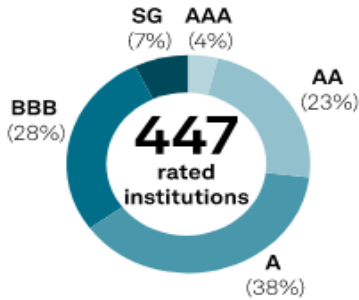


# S&P 2023 outlook factors (cont'd)

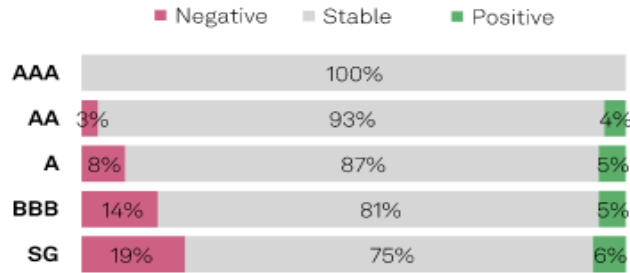
## U.S. Not-For-Profit Higher Education: By The Numbers

### Rated not-for-profit higher education characteristics

Rating category distribution



Outlook distribution



### Median tuition increase in FY21

**+2.8%** for rated **privates**

**+1.7%** for rated **publics**

**6.5%** annual inflation rate for U.S.\*

**11** new public ratings in 2022



### Average investment gain

**+27.0%** in fiscal 2021, versus

**-10.6%** in fiscal 2022

### Rating and outlook actions

Downgrades to upgrades

Favorable to unfavorable outlook revisions

**1.4 : 1**

**6.4 : 1**

\*For 12 months ended December 2022. Ratings data as of Dec. 31, 2022. Inflation data: U.S. Labor Department. SG--Speculative grade. Source: Investment return data per Wilshire Trust. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

# Moody's 2023\* from “stable” to “negative”

“Negative as revenue rebound stalls and expenses surge”

## Positive Developments

- Cash and investments for many institutions provide a financial cushion to weather future risks
- The COVID-19 pandemic impact on higher education was not as harmful as it could have been primarily due to federal relief aid
- Institutions with strongest financial position continue to get stronger

## Risks to Monitor

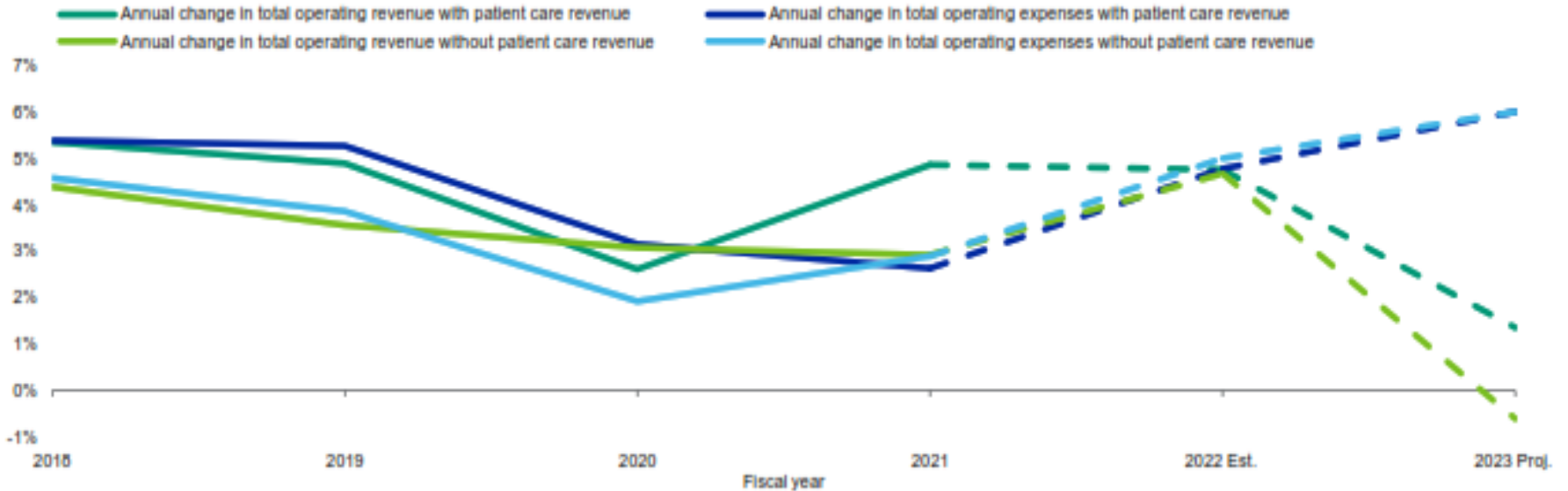
- Inflation and labor shortages will lead to higher costs and lower margins
- Social and cyber risks pose key risks
- Operating budgets for most institutions remained strained

**Bottom line:** “If revenue growth is at least equal to inflation; better macroeconomic conditions, including lower inflation; improved investment returns; and sound student demand and steady enrollment could return the outlook to stable.”

# Moody's 2023 outlook factors (cont'd)

Exhibit 1

Constrained revenue growth well below increasing expenses demonstrates challenges facing higher education



Fiscal years typically end at June 30.

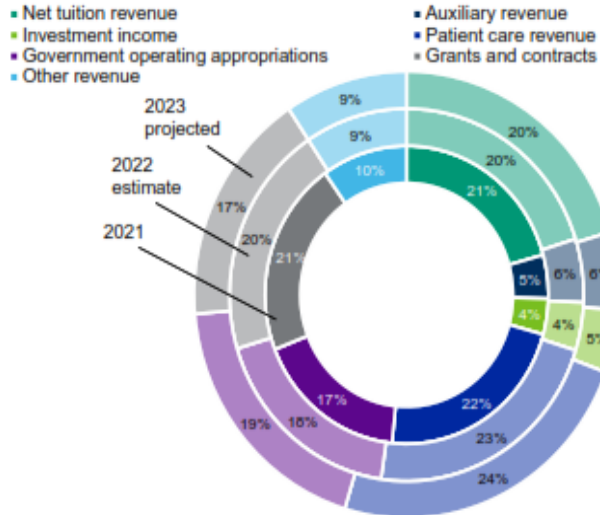
Source: Moody's Investors Service

# Moody's 2023 outlook factors (cont'd)

Exhibit 2

Public universities will endure more revenue strain than privates as federal pandemic aid winds down

% of total revenue by category by fiscal year



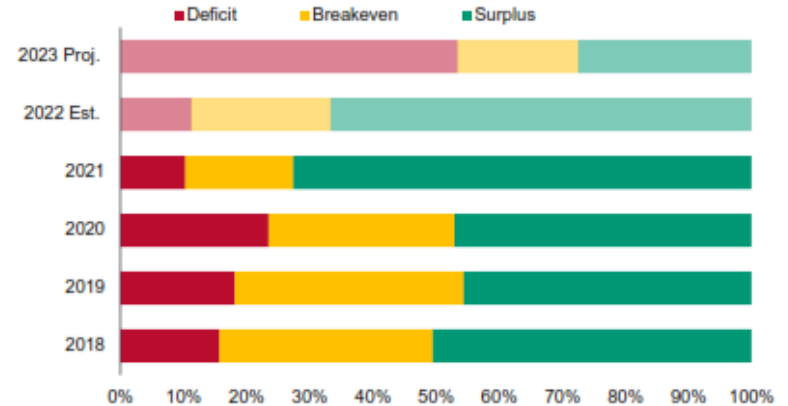
Federal pandemic aid is included in "Grants and contracts." Fiscal years typically end June 30.

Source: Moody's Investors Service

Exhibit 5

Without strong cost control, a majority of public universities will post deficits in fiscal 2023

% of public universities' operating margins, fiscal years 2018-2023



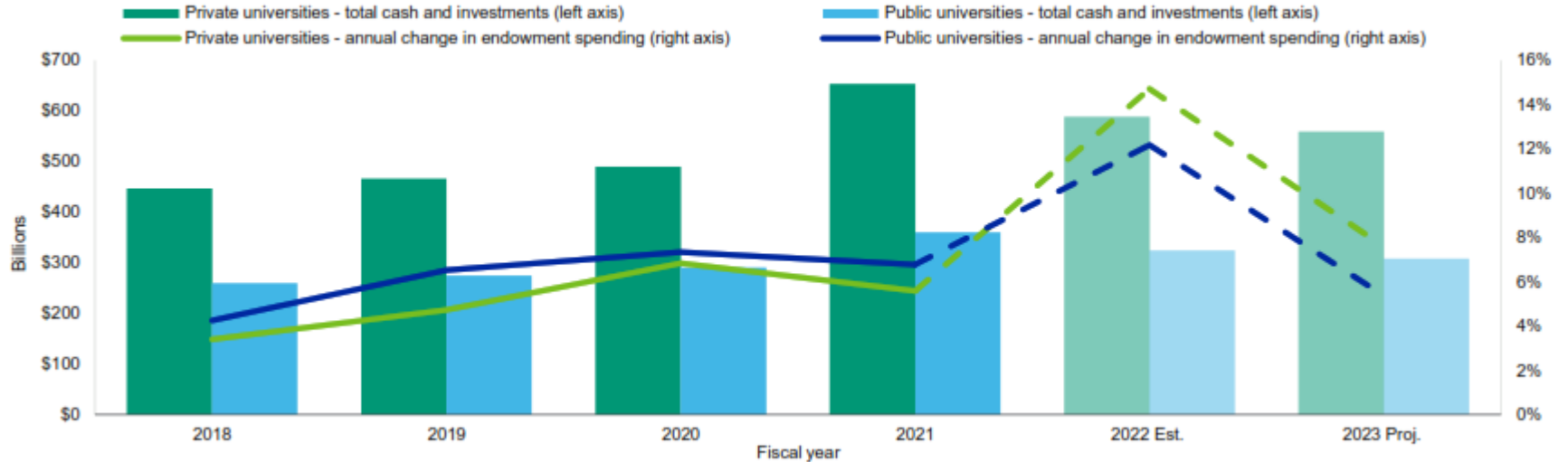
Deficit refers to an operating margin of less than 2%. Breakeven refers to an operating margin between negative 2% and 2%. Surplus refers to an operating margin greater than 2%. Fiscal years typically end on June 30.

Source: Moody's Investors Service

# Moody's 2023 outlook factors (cont'd)

Exhibit 7

Financial reserve growth will continue to provide a cushion even as endowment spending slows



Fiscal years typically end June 30.

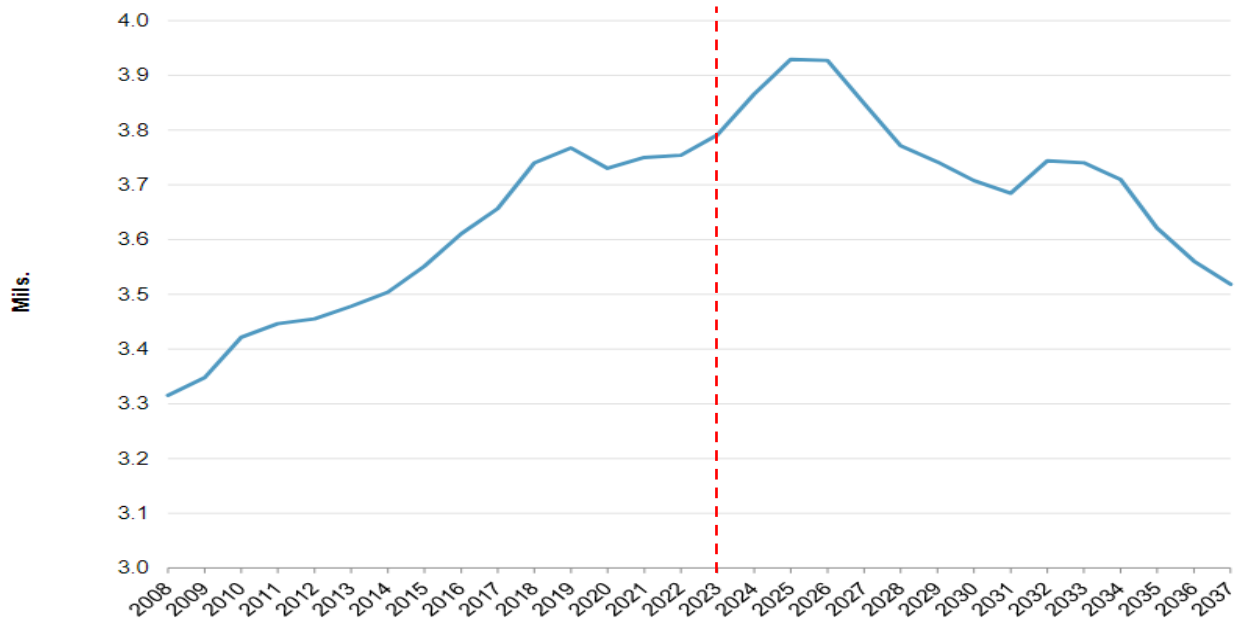
Source: Moody's Investors Service

# The demographic cliff – national projections

**Growth, Then Decline, In The Number Of U.S. High School Graduates**  
Graduates per year

This is the national outlook, with the West and South regions of the U.S. showing more growth and the Midwest and Northeast already leveling off and seeing some declines.

Decisions made by institutions between now and the peak U.S. high school graduations in 2026 will be paramount to future financial operations.



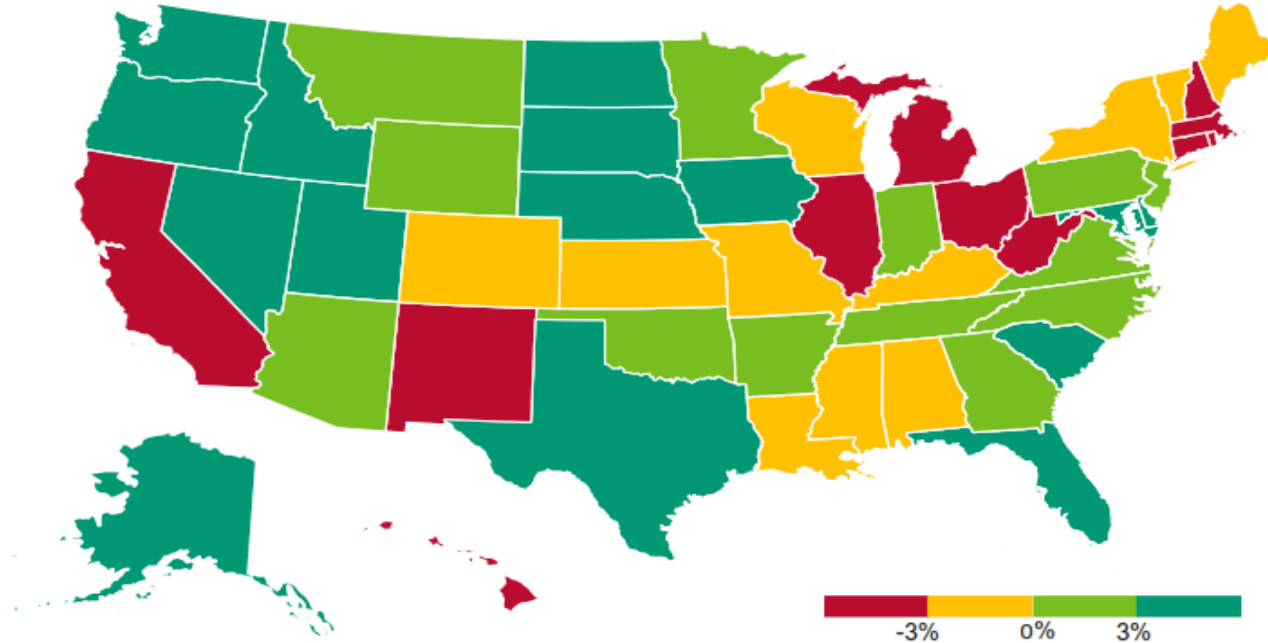
Source: Western Interstate Commission for Higher Education, "Knocking on the College Door," 2020.  
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# The demographic cliff – State by State projections

Exhibit 4

Declining high school graduates in some states will intensify college and university competition for students

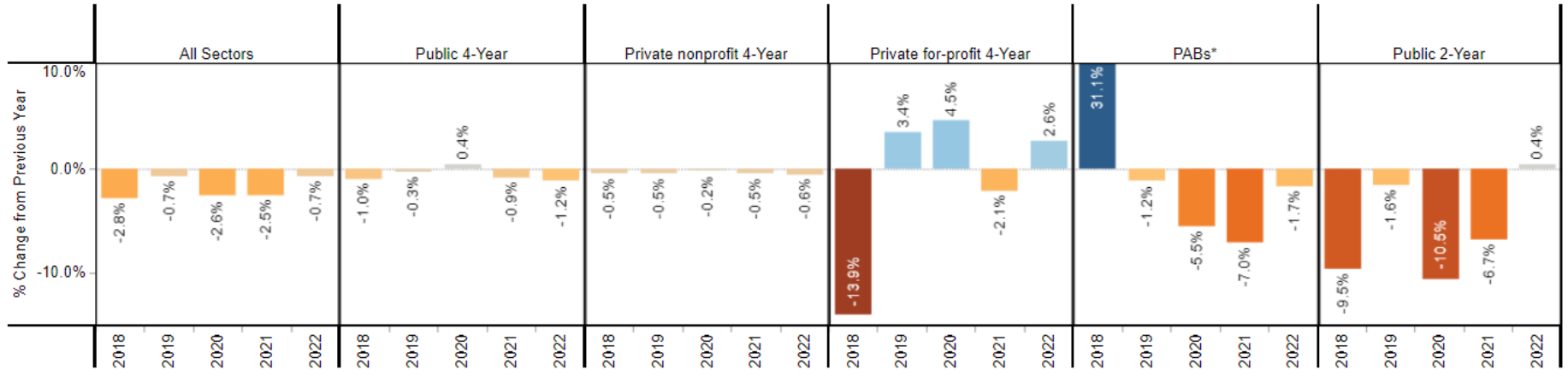
% change in high school graduates for academic year 2020-21 versus 2027-28



Source: Western Interstate Commission for Higher Education

# Enrollment changes – by sector

Percent Change in Total Enrollment from Previous Year by Institutional Sector: 2018 to 2022



\* PABs are “primarily associate degree granting baccalaureate institutions”

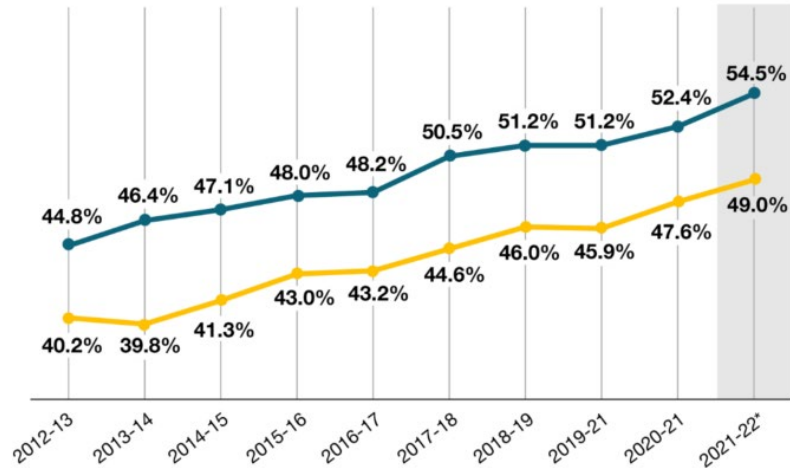


# Tuition discounting trends

## Average Institutional Discount Rates Continue to Climb

Average institutional discount rate, by student category

— First-Time, Full-Time Undergraduates — All Undergraduates

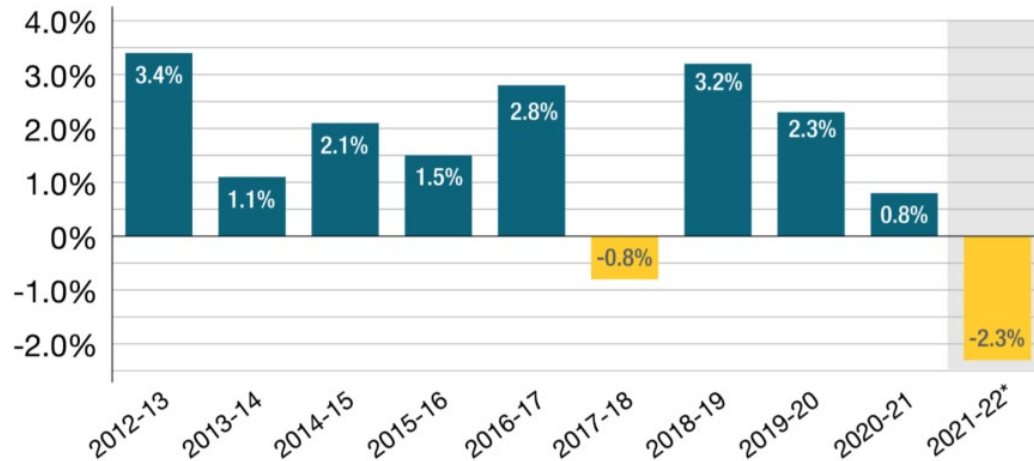


\*Note: Preliminary estimates.

Source: 2021 Tuition Discounting Study, NACUBO, May 2022.

# Tuition discounting trends (cont'd)

Annual Changes in Net Tuition Have Been Volatile  
Annual change in net tuition revenue from first-time undergraduates



\*Note: Preliminary estimates.

Source: 2021 Tuition Discounting Study, NACUBO, May 2022.

# Washington update

- ✓ The U.S. Supreme Court is hearing two cases challenging the Biden administration's student debt relief plan with rulings expected in June 2023
  - The Biden administration estimates are that 43 million borrowers are eligible for some debt forgiveness and 20 million could have their debt erased entirely
  - The White House says approximately 26 million people have applied for debt relief and approximately 16 million people had their relief approved
  - The Congressional Budget Office has said the program will cost approximately \$400 billion over the next thirty years
- ✓ COVID-19 National Emergency to end on May 11, 2023, many Title IV waivers will sunset on that date (or begin the sunset period)
- ✓ FASFA Simplification Act implementation deadline extended one year, to be implemented in 2024-25 award year (requires changes to the FAFSA and student aid determinations)
- ✓ With the nearly three-year payment pause that occurred in response to the pandemic, default rates on loans are now much lower, making cohort default rate data less useful
- ✓ An \$820 increase in Pell Grants was included as part of President Biden's March 2023 federal budget proposal that would impact the federal spending for fiscal 2024 beginning on October 1, 2023 if passed into law.
  - However, with a divided congress the budget will not pass as currently written and is subject to much negotiation.

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**Where are we as a State currently? What is our ideal future?**



**What barriers are inhibiting our State's ideal future?**



**What investments (in education) are required to realize that future?**

# Growing equitable outcomes



Grant Thornton's Framework for Educational Equity

Even among students who graduate with credentials, only a small subset graduate equitably (SEM)

The **Total Market (TM)** includes all individuals that are eligible for post-secondary education

The **Total Addressable Market (TAM)** includes individuals who apply to post-secondary education

The **Serviceable Available Market (SAM)** includes individuals who are accepted and enroll into post-secondary institutions

The **Serviceable Obtainable Market (SOM)** includes individuals who persist and complete their credentials

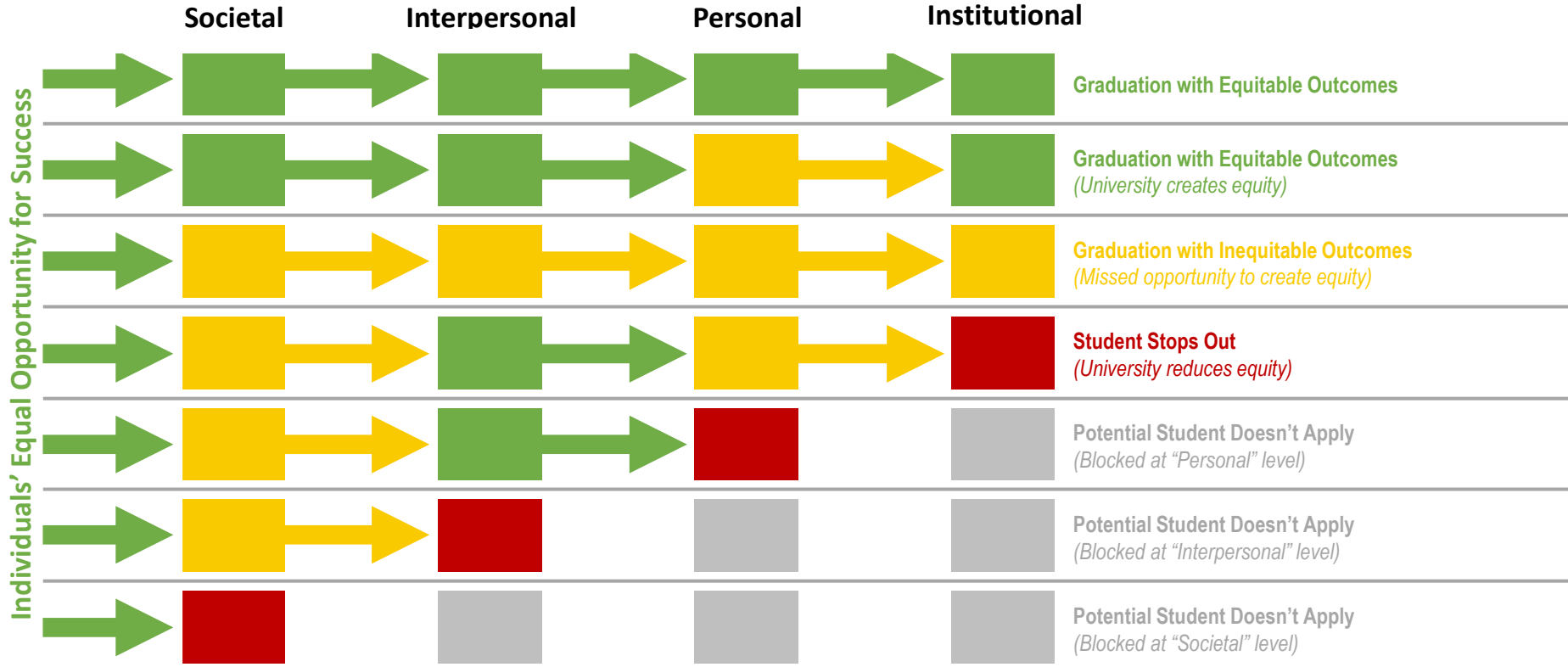
The **Serviceable Equitable Market (SEM)** includes individuals who equitably complete their credentials paving the way for an equitable future

# Student success: key elements

Bringing support to the student				
Academics	Finances	Health	Sense of belonging	Post College
In order to graduate equitably, students must succeed in the classroom; institutions need to expand and increase accessibility to structures that can help students succeed academically.	Students need to be able to cover their basic needs and see the value of the investment they are making in higher education.	Physical and mental health is basic and important need, and has become a major Blocker to student success.	Students need to see others like them. They need to have a place where they feel accepted, and if a student doesn't find a niche or connect socially, they will either move to another institution or stop out.	Most students ultimately decide to attend higher education because they see it as a way to enhance their prospects in life. Institutions that can show a correlation between attendance and career prospects will gain a competitive advantage.

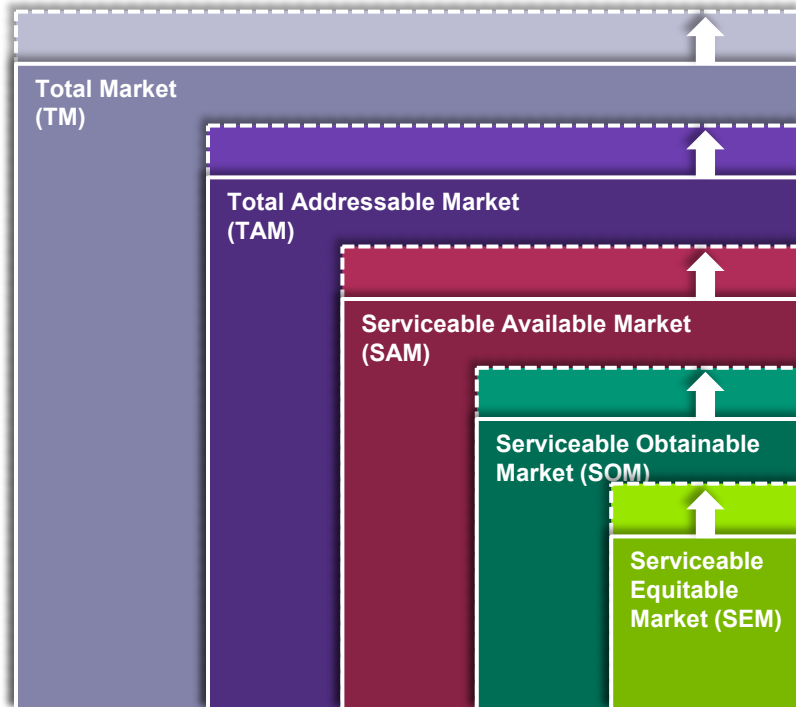
Creating and reducing barriers		
Booster	Inhibitor	Blocker
Boosters help an individual progress equitably.	Inhibitors allow a person to progress but inequitably.	Blockers prevent a person from progressing.

# Higher education: booster, inhibitor or blocker?

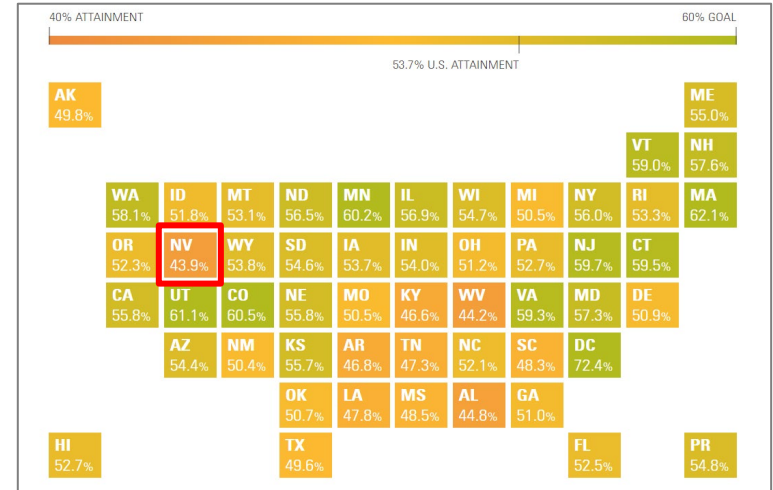




# Growing equitable outcomes: in Nevada



Grant Thornton's Framework for Educational Equity



Nevada is the lowest in the US for postsecondary attainment.



**Where are we as a State currently? What is our ideal future?**



**What barriers are inhibiting our State's (and potential students') ideal future?**



**What investments (in education) are required to realize that future?**

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# Questions?



# Additional higher education insights



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ARTICLE

**5 reasons that healthy boards need term limits**

Organizations need boards that keep evolving.



ARTICLE

**3 challenges put higher education leaders to the test**

Institution leaders need to start finding solutions today.



ARTICLE

**When should a not-for-profit have an exit strategy?**

Considerations for exit planning



ARTICLE

**4 ways to help recession-proof your not-for-profit**

You can make four strategic moves.



ARTICLE

**A tax how-to guide for private foundations**

Find out what tax-exempt foundations need to know.



ARTICLE

**Budgeting in uncertain times**

Scenario planning can broaden your view



ARTICLE

**Financial reports as a guiding light for your mission**

Key financial metrics can show the path to your mission.



ARTICLE

**How higher education can weather endowment declines**

What if sinking markets drag down your endowments?

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# Speakers



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