MANHATTAN COLLEGE

OFFICE OF THE PRESIDENT

Title: A Context for Financial Planning / Next Year's Budget and Beyond

To: The Manhattan College Community

From: Brennan O'Donnell, President

Date: November 30, 2021

Annually, at its December meeting, the Board of Trustees receives from the administration its current thinking on the assumptions that will be used in building the budget for the coming year. Given the disruptions of the past two years and the continuing difficulties and uncertainty of our current moment, those assumptions, appropriately, are receiving especially close attention in this cycle. This year, more than ever, we are challenged to develop next year's plan in light of a larger picture—one that acknowledges that we have experienced a challenge to our financial position, and that charts a course in response to that challenge.

As this course of action is a matter of concern to everyone in our community, I wanted to take the time to provide some context for our current thinking. My remarks here can by no means encompass all of the complexity we face. They are intended, instead, to chalk out in bold outline the path forward and to invite comment from the community as we work during the coming weeks and months to translate assumptions into a budget.

Some background

In the years 2014 - 2020 the College established itself on firm ground financially, achieving average annual growth to net assets of $17 million per year, growing net assets 65% over that period, and generating sufficient funds to invest in significant facilities upgrades, including the Kelly Student Commons, complete renovation of three floors of Thomas Hall, the Gaelic Park Athletic Center, North campus classroom improvements and, most recently, extensive renovations to Leo Hall and the construction of the Higgins Engineering and Science Center.

In January 2020, this financial strength was reaffirmed by our bond rating agency, Standard & Poor's (S&P), which concluded that the College's financial position was "strong" and issued an A- rating. They described the College's history of following good financial management practices, several years of operating surplus through 2018, highly successful early Capital Campaign results, and an overall picture of sufficiency of financial resources as key elements warranting this strong rating.

In contemplating potential risks to be monitored, however, S&P noted some areas of vulnerability: overall FTE enrollment declines beginning in Fall 2018; decreased enrollment yield signifying an increasingly competitive environment; a high dependence upon tuition revenue; increased tuition discounting; and limited geographic diversity of prospective students. These risks were factors the College had already been aware of, and had begun to build into its strategic planning framework.

The onset of the pandemic exacerbated some of these underlying vulnerabilities while adding its own intense challenges. Among the most important pre-COVID challenges was significant staff turnover in the course of several years in admissions, resulting in a loss of historical knowledge, which is important for operations as well as for external relationships, especially with guidance counselors and key feeder schools. After the onset of COVID, the loss of our ability to visit high schools, attend college fairs, and meet with school guidance staff in-person, delayed our efforts to build and renew these relationships.

Among the most important of our new challenges was the cancellation of testing administrations for the SAT and ACT exams beginning in March 2020, which caused a major disruption to traditional college admissions protocols. Scores on these exams have historically played an important role in the assessment of a student's candidacy for admission. Manhattan College adapted by developing a Test Optional policy and an associated academic rubric to guide admissions decisions. Without a standardized test score, there was some risk of admittance of students who might not be as well qualified as in prior years, raising concerns about the retention and likelihood of success of these students. The rubric was intended to support selection of a qualified class comparable to prior years. In some of our schools, new academic requirements were added within the rubric which had the unintended consequence of decreasing the admit rate (increasing selectivity) resulting in somewhat fewer admitted and enrolled students. While Manhattan took a conservative approach to vetting students, some competitors were more aggressive in their admittance practices in the test-optional environment. In addition, the test-optional environment shifted our competitor set, as students expanded their range of applications to include schools from which they would likely have been excluded in past years based on SATs and ACTs.

Another significant challenge was the impact on residence halls occasioned by the shift to remote and, subsequently, hy-flex learning. The demand for housing by new first-year students had been showing signs of decline for several years pre-COVID, and dropped abruptly below 50% in the early throes of the pandemic. While new-student residency demand has rebounded to 62% this year, the smaller class size coupled with the significant loss of continuing students from our residence halls has been a considerable factor in revenue shortfalls.

The overall financial impact of these past 18 months has been a 33% reduction in residence hall occupancy, a decline of 11% in overall enrollment (new and continuing), an increase in financial aid budgets, and a loss of income from auxiliary sources that, combined, produced a reduction of about $16 million in net revenue from FY2020 to FY2022. As our community knows well (and all too painfully) these revenue shortfalls required us to reduce expenses accordingly in FY2021 and FY2022. Thanks to the sacrifice, patience, and hard work of the College community, the core[1] of our Lasallian educational mission—augmented of course by the Federal funds we received—we were able to end both FY2020 and FY2021 with small net operating surpluses. Throughout the period, that is, we have been able to stabilize our financial position and operate within our means.

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[1] The *Declaration on the Lasallian Educational Mission: Challenges, Convictions and Hopes,* Brothers of the Christian Schools, Generalate, Rome, 2020, page 65

The path forward

Simply "operating within our means," however, is not where we want or need to be for the long run. Cost-reduction measures intended to be temporary—compensation reductions, held-positions, reduced funding for facilities—need to be addressed as quickly as possible. As we emerge from the worst of the pandemic, then, the major focus of our financial plan needs to be the restoration of revenue levels from our core operations, augmented by the development and diversification of new revenue sources.

While we will need to continue to monitor expenses closely, the way forward is not through further expense reduction but through building our capacity to invest in our people, programs, and facilities.

Key financial goals / timelines

Full recovery will be a multi-year effort. Over the next three years, we will set as a minimum goal a 4.5% increase per year in net operating revenue. Achieving this will not be easy, and will require the expertise and energy of the entire community. Below are some of the most important multi-year goals that are motivating our annual planning [with brackets suppling commentary / context]:

1. Restoration of Human Resources[2]:
Central to our Mission and values as a Lasallian Catholic community are the people who daily bring to life and embody the Mission. During these unprecedented times, the faculty, staff, and administrators at the College have borne a heavy burden, seeing their compensation reduced while also being called in many cases to fill needs in areas where cuts were made or vacant positions are being held. Our ranks have been depleted, and we have lost good colleagues over the course of the past two years.

Restoration of funding for salaries and benefits in our current-year budget is a first step in this reinvestment. As we plan for next year and beyond, we need to generate the resources to sustain and complete that restoration and to return to a program of regular increases. In addition, we need to prioritize funding for currently open positions in crucial areas, support strategic initiatives (especially in revenue-enhancing initiatives) and take advantage of opportunities to restructure positions to strengthen our ability to support our students and programs.

2. Undergraduate Enrollment[3]:
Beginning with the class entering in F2022, we will position ourselves to recruit consistently first-time, fulltime classes of at least 750 (F2023 – F2024), increasing to 800 thereafter[4]. [*Average incoming classes, F2015-F2019 had been 789, but with wide variation, from 767 to 905; this conservative target accounts for continuing disruption in the competitive landscape and projected decreases in coming years of high-school graduates in our region. It will also assist in multi-faceted efforts to gradually reduce discount rate.*]

3. Residence Halls Occupancy:
We will increase occupancy in residence halls, over four years, to pre-COVID levels (moving from the current 1300 to 1400 in F2022, and 1650 by F2024). To achieve these levels, we will set a goal

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[2] Strategic Priority I: Academic Excellence
[3] Strategic Priority II: Student Success
[4] Strategic Priority III: Community Engagement

for our incoming freshman class of a 65% resident/commuter ratio for F2022 and 67% for F2023 and F2024. Meeting these goals will help to fund currently delayed plans to reinvest in our residence halls, enhancing their role in recruitment and retention efforts.[5]

Working to draw back students to our residence halls, we need to make sure we offer a residence-life experience that students find preferable to off-campus options. We will redouble our collective efforts, building on the work of the Diversity Council working groups, to ensure that our campus is—for residents, commuters, faculty, administrators, and staff—a welcoming, inclusive place pervaded by care for one another grounded in an ethos of respect for the dignity of each and every human being.

4. First to Second Year Retention[6]:
We will reverse the downward trend in first-to-second-year retention (from the mid-80% range to 76% for last year's entering class), setting goals of 80% for the class entering F2021, and returning to the mid-80% range over the next three years.

5. Adult Learner and Graduate Students[7]:
We will expand our reach and diversify our revenue sources by making sure that our academic programming is well-aligned with demand on all levels, and that any new graduate programs are tailored to the interests and needs of adult learners (including this cohorts' growing preference for on-line options).[8] New graduate programs approved for launch within the next year include an online MS in Accounting, an Accelerated Online MBA, and a Green Power & Sustainability Certificate. Growth in existing programs is expected by investing in marketing initiatives for specific programs. Together, these new and existing programs have the potential to increase our graduate revenue by 30% in the next three-to-four years, and acceleration of this growth is planned with additional graduate programs (new and enhanced) that are in the development pipeline.

6. Transfer Students[9]:
We will return to pre-COVID levels in recruitment of transfer students, setting goals for F2022 at 150 (a 20% increase over F2021), and at 175 for F2023, with continued increases in succeeding years. A very important effort will be removing barriers to transfer enrollment[10], as more and more students chose to pursue four-year degrees by starting at two-year institutions. We need academic-program articulation agreements with strong community colleges and with our global Lasallian network,[11] so that each of our schools can increase enrollment of transfer students through pathways that optimize time to degree completion.

We need to be as "transfer friendly" as we can be, including the continued strengthening of our reputation as a Military Friendly school. We aim to rebuild our Veteran Student population to at least 110 students.

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[5] Strategic Priority V: Campus Infrastructure
[6] Strategic Priority II: Student Success
[7] Strategic Priority II: Student Success
[8] Strategic Priority I: Academic Excellence
[9] Strategic Priority II: Student Success
[10] Strategic Priority V: Campus Infrastructure
[11] Strategic Priority III: Community Engagement

7. Marketing Aligned with Academic and Enrollment Management Goals[12]:
Key to the entire effort will be our ability to communicate the "value proposition" to prospective students. Part of that will involve new ways of aligning our Marketing efforts with Academic and Enrollment Management goals and operations. We *do* offer an excellent education and student experience; are we getting word out as effectively as we can in a rapidly changing competitive world?

8. Advancement and Auxiliary Revenue[13]:
We need to continue and to build on the success of our advancement efforts and to maximize use of our facilities to generate auxiliary revenue. *[While our current capital campaign exceeded its original goal well ahead of schedule, we are continuing to push forward especially in soliciting gifts in support of facilities improvements. With regard to auxiliary revenue, we anticipate a return to pre-COVID levels of $2.2 million per year with the restoration of summer rental income.]*

Good work is underway in all of these areas; we will need all of these efforts and more to come to fruition as we pursue our post-pandemic path to success.[14]

A closing, hopeful, note

We are going through difficult, anxious times. People are exhausted. The bonds of our community—and our country—have been tested and frayed. At the same time, it is important to acknowledge the tremendous strength of the College, starting of course with the excellence of the education, advising, and mentoring our students receive from our gifted and dedicated faculty. Our core is that work, and it remains strong. We are blessed as well with people in areas across the College who work hard and faithfully every day to foster the sense of community that is so important to our work as a Lasallian institution. Whatever we're going through now, these core values endure. And, as long as we keep our sights firmly on these values—as long as we stay true to our Mission—we will come through this difficult period of adjustment and realignment stronger than ever.

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[12] Strategic Priority V: Campus Infrastructure

[13] Strategic Priority IV: Financial Health and Sustainability

[14] **A note on the Self-Managed Work Teams:** I am aware that the role of the Self-Managed Work Teams that I wrote about in my June 22 letter may not be clear to the community. The teams were established in light of assessments that indicated areas of the College where we need improved processes in order to facilitate the goals of our strategic and financial planning. The charge of these groups is very specific and focused on operational effectiveness and efficiency. They formed in answer to questions such as: where are we encountering barriers to moving forward on strategic imperatives, and what needs to be done to dismantle those operational barriers, establish appropriate processes and procedures, and move in new directions? A list of work teams and their members will be circulated under separate cover.