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Solvency

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Our Universities: Solvency

Maintaining solvency - fiscal health - is always a matter of priorities. Attitudes toward solvency are evident in actions. This is especially so with long-term decision making about the direction an enterprise moves. Solvent universities and other organizations always have lustrous focus.

Don't tell me where your priorities are. Show me where you spend your money and I'll tell you what they are."

James W. Frick

Eight universities in Illinois recently had credit ratings downgraded leading to potentially diminished solvency, and it is a national trend.

Solvency in universities is a state to which many aspire but few attain. Solvency enables an organization to meet current and future obligations based on income flow and assets. That is only accounting however. A complex organization such as a university, a commercial enterprise, or an arm of government finds its solvency related to the long-term ability to sustain itself fiscally through the value of opportunity, product or service provided. This view applies to education, automobiles, thoracic surgery, spiritual sustenance and police protection. Solvent enterprises sustain themselves only to the extent that they focus.

An analysis of nearly 1,700 public and private nonprofit colleges, recently unveiled by Bain & Company, finds that one-third of the institutions have been on an *"unsustainable financial path"* in recent years, and an additional 28 percent are *"at risk of slipping into an unsustainable condition,"* according to a Goldie Blumenstyk's piece in ***The Chronicle of Higher Education***. Alarmist? Possibly, but more likely, prudent.

Leaders assuage concerns by reminding us that we all are hurting. Salve is found by blaming the Statehouse. State revenue machines have ground to a halt to be sure. But in the end, universities make decisions to either spend money that they don't have, which requires bonding capacity and borrowing, or belt tightening.

Most elected officials won't ask state assisted organizations to stay within the bounds of solvency through mission focus. Instead, they encourage organizations to behave in a way that garners votes. Solvency is somebody else's problem. In Illinois, political pension promises are a glowing example of this inconsistency.

A university concerned about its bond rating finds the will, and the way, to focus every spending decision on academic priorities. The liberty and caprice greased by growth and now evaporated streams of dollars of the last half of the 20th century, are unsustainable.

Community colleges are not immune as their solvency is sinking like a rock. ***The Public Policy Institute of California*** reports that, since 2008, enrollments have decreased by 21% in the regular terms and 60% in the summer terms. These are the lowest enrollment levels in 20 years. All the while the number of high school graduates in the Golden State has increased by 9%. Not attending to these realities undermines solvency.

Many believe that new dormitories and campus edifices will attract students, thereby creating solvency through increased enrollment. And they are, in part, correct -- but so was Robert Frost -- *"Nothing Gold Can Stay."*

A radical refocusing of university purpose is required. A Model T university -- "You can have any color you want, as long as it's black," -- could provide educational opportunity through excellent faculty and engaged students in a cost-effective environment eschewing swimming pools, resort style student centers, concierge dorms, and the other accoutrements unrelated to intellectual attainment. Such refocusing creates solvency. For the record, Model T's originally minted in four colors from 1908 -- 1914, became available in "black only" to reduce costs: a policy maintained from 1914 -1926. Mr. Ford understood solvency.

Although extra-curricular activities and amenities should not be put aside, tough decisions regarding purpose, need, want and resources are called for. A million dollar coach or a new facility may work for Institution A, but be fiscally reckless for Institution B.

Moody's points out in a January 2013 report that federal budget cuts are only part of the problem. The Chicken Little sky-is-falling mentality of leaders who hide behind government budget difficulties, and the current boogey man, sequestration, is misplaced.

Standard and Poor's says that they will be *"watching tuition, grants, research funding, endowments, and operating appropriations,"* and acknowledges that mission changes are having a significant impact on the financial stability of many institutions. All of this explains, but none of it excuses. Solvency is a matter of fact, not a political talking point.

Solvency requires leadership.

And leadership can't just blame bonding agencies or lenders for underwriting bad paper. A few years ago, Wittenberg University in Ohio was downgraded to "junk bond" status by **Moody's** for "heavy tuition discounting": in essence, for providing too much scholarship and aid money in order to boost enrollment. As a consequence, President Mark Ericson stepped down in spite of the community's high regard for him.

"All that Glitters is not Gold."

Our universities must look within -- to leadership -- and accept responsibility for charting directions that support educational purpose, or pay the piper. University solvency hangs in the balance: And boldness, honesty, and transparency are the mandate of the hour.