Organizational sustainability: Financial strategies for the future

Conversations with chief financial and business officers across the country highlight a complex set of financial dynamics facing their nonprofit organizations. The Great Recession has had a lasting impact on funding levels for public colleges and universities. Higher education institutions, both public and private, are also facing pricing pressures to balance affordability and revenue shortfalls.

As a result, many institutions are looking for their endowments and fundraising efforts to support revenue shortfalls. However, managing and governing an endowment is a complex process and raising endowment spending rates could have the unintended consequence of reducing future payouts. And fundraising continues to become increasingly challenging with changing donor priorities and preferences and with peer institutions boosting their efforts.

These issues underscore the importance of aligning business models with long-term strategic plans. With this in mind, here are three areas that can help improve institutional long-term finances.

Enhancing endowment management and governance

Rethinking fundraising strategies

Accessing new funds and growth opportunities

Long-term sustainability?

Declining enrollment

1.3 million fewer higher education students enrolled in 2017 than in 2010.[1]

Steep tuition discounts

Average private college tuition discount rate at 44%.[2]

Reduced public funding

17% drop in national average state appropriation per public higher education student between 1991–2016.[3]

Sustainability is the goal

Leveraging new and innovative strategies can help enhance an institution's financial condition. A willingness to explore new ideas, adopt best practices and seek professional help when needed is key to success.

Enhancing endowment management and governance

Endowments are critical in supporting institutional missions. They help fund financial aid, teaching grants, research, capital projects and operational expenses. With a challenging fiscal environment, endowments are being asked to do more, ultimately placing greater pressure on its intergenerational sustainability. But, with an integrated approach to managing endowments, institutions can effectively navigate these challenges to sustain focus on advancing their strategic vision. Paying special attention to certain aspects of endowment management can make a big difference.

Lead with strong governance

A sound governance structure helps ensure the smooth operation of an endowment. Aligning different stakeholders, clearly identifying responsibilities and establishing a suitable investment policy is essential to effective decision-making. Endowments lacking the expertise or resources to implement a comprehensive governance policy may benefit from utilizing an outsourced provider to fill that gap.

Adopt responsible and sustainable investing

An endowment's ability to align its institutional mission and values with its investment activities has become an important area of focus for governing boards. Institutions are increasing their focus on the role environmental, social, and governance (ESG) criteria should play in the decision-making process and investment policies. More recently, for example, influential donors have called on endowments and private foundations to consider carbon-free investment policies.

Education on this topic is needed. The myriad terms used when referring to responsible and sustainable investing are confusing and can often be a barrier for those wanting to implement a strategy. Many trustees are also raising questions about how sustainable investment strategies fit with their responsibilities as fiduciaries.

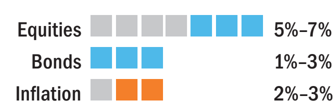
Why? Endowment management expertise is critical

Spending levels may threaten sustainability

Long-term 10-year average endowment returns are below 5%, yet 65% of institutions raised their endowment spending in dollar terms. The median increase was 6.5% which is well above inflation.[4]

Can endowments thrive with market forecasts?

10-year forecasted market and inflation returns[5]



But, endowment managers say they need a 7.4% long-term return to maintain purchasing power.[6]

Enhancing endowment management and governance (*cont.*)

Establish a sustainable spending policy

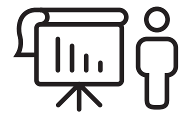
An endowment's ability to meet institutional goals is determined by both its spending policy and performance. Institutions have direct control over their spending policies, but less so over performance. An effective spending policy should address current funding needs, long-term strategic goals and properly account for the changing market environment. Endowment professionals can help craft a responsible spending policy that is dynamic and helps meet the institution's objectives.

Align asset allocation with spending policy

An endowment's asset allocation should target delivering the performance needed to help meet an organization's annual funding needs and sustainably growing the Fund. It's important to evaluate all available asset classes and investing styles to come up with a combination of investments that can help deliver targeted performance. This may mean exploring alternative asset classes, considering the benefits of active and passive management or evaluating how a socially responsible investment approach can potentially benefit an endowment.

An outsourced endowment manager can help you evaluate investment opportunities and also provide access to less widely available options.

Gaps in internal investment expertise could result in underperformance



Active and private equity asset classes can deliver alpha, but alpha generators are typically concentrated within top-quartile performers.

Rethinking fundraising strategies

Nonprofit institutions count on the generosity of donors to supplement their revenue streams. The good news is that charitable giving remains strong. The bad news is that it's becoming increasingly challenging to win those dollars. It's important to adapt to the current environment and engage prospective donors by clearly communicating what differentiates your institution.

Forward-thinking fundraising approaches are necessary to sustain fundraising effectiveness and help achieve ever-increasing revenue goals. Below are a few approaches that can help field an innovative, modern and proactive fundraising operation.

Cultivate a broad range of donors

It takes time to develop relationships and deepen ties with all donors, from those with large to small capabilities to give. While it is tempting to primarily focus on more affluent individuals, it is important to build a broad donor base. Planned gifts, such as bequests and beneficiary designations, enable all donors to make a significant gift to your endowment or other long-term priorities. Often these are the largest gifts an individual will make to your institution.

Assess and understand your donor base

Changes are occurring today within each institution's donor base. We are witnessing a major generational change today as baby boomers move into their retirement years. Many higher education institutions increased their enrollments as the boomers went to college. Today, this means that a large number of alumni are reaching the age when they are in a position to consider making a significant gift, either on an outright basis or through a planned gift. Not only are their numbers large, but boomers are the wealthiest generation in the U.S., and they will continue to be so for the next 15 years.[7]

However, baby boomers are different from previous generations. They want to be more engaged in their giving, and want to understand the results that have been or will be achieved from their gifts. Institutions will be challenged to develop comprehensive stewardship plans to maintain strong relationships with these donors over their lifetimes. In addition, women will increasingly hold a larger percentage of wealth in the U.S. Their giving priorities and preferences are often different from their male counterparts and need to be understood and addressed.

Why? New fundraising approaches are needed

The impact of the Tax Reform and Jobs Act of 2017 isn't yet clear

$12–$20B

estimated decline in charitable giving due to fewer tax filers itemizing deductions.[8]

Charitable giving is healthy, but it's not equally distributed

28% ($12.2B)

share of total giving to higher ed received by Top 20 schools.[9]

While mega (>$10M) gifts moved the needle, few institutions benefited (204 in 2017).[10]

Rethinking fundraising strategies (*cont.*)

Implement a more strategic approach

Institutions should reassess their fundraising strategies and practices given changing donor demographics and preferences, and look for opportunities to leverage their efforts using recent technological advancements.

- **Take advantage of new giving options:** Donors today seek more flexibility and control over their giving. Do your current giving options support your donor preferences and desires? Are you considering new and different approaches? The practice of pursuing blended gifts (which combine an outright gift with a planned gift) or encouraging donors who want more flexibility in their giving to consider the use of a donor advised fund, can broaden opportunities.
- **Leverage your data:** Use data analytics and predictive modeling to enable you to better predict donor capability and readiness and more effectively target marketing and solicitation efforts.
- **Demonstrate your effectiveness:** Create engagement opportunities and improved reporting in order to demonstrate to donors the effectiveness of their gifts.
- **Implement comprehensive relationship management:** Coordinate ongoing donor stewardship through an assigned relationship manager—not multiple or competing contacts—to encompass your institution's total relationship with each major donor.

Changing demographics might mean missed opportunities

$59 trillion

U.S. wealth transfer projected between 2007 and 2066.[11] With women typically outliving men, women stand to inherit a significant portion of these assets.

Accessing new funds and growth opportunities

A recent survey found that 79 percent of college leaders see developing new resources as critical to their institutions.[12] Thinking about how to take advantage of strengths, resources and assets may uncover new income sources. Openness to new approaches is essential.

Consult with strategic financial professionals

Exploring different financing strategies for short- and long-term funding needs can help institutions better fulfill their mission. Working with trusted banking professionals, institutions may find they have more financing options available than previously thought. These different options could help improve an institution's working capital, liquidity, cash flow and overall financial position. Different financing structures could also facilitate capital expenditures necessary to fund new revenue opportunities.

Innovative balance sheet management[13]

Fundraising and spending from the endowment are not the only ways institutions can raise capital. Some institutions are beginning to monetize assets on their balance sheets as a way to free up resources and reduce expenses. Tactics such as the outright sale and leaseback of institution-owned real estate to public or private partnerships has become a more frequently used strategy. Equipment sale leasebacks are another creative financing solution to help improve liquidity or working capital.

Explore new and innovative growth opportunities

Exploring innovative or even disruptive approaches may help uncover new revenue opportunities. These ideas may come from internal efforts, or interaction with peer institutions, think tanks and other professional parties. Active participation in research projects, thought leadership initiatives and leadership symposiums can also provide a forum to brainstorm and vet ideas.

Some of these opportunities could include:

- Exploring the benefits of alliances, consolidations, partnerships, mergers and acquisitions[14]
- Creating a supportive climate for strategic innovation[15]
- Making a stronger case for public funding by ensuring and clearly communicating that higher education is contributing to the public good[16]
- Assessing the impact of different business models on the potential for revenue growth[17]

Why? Inability to access new funds or revenues affects sustainability

Affordability concerns are real

>80% of higher ed presidents are concerned about:[18]

- Having enough institutional financial aid to enroll as many low-income students as they would like
- Enrolling their college's target number of undergraduates

Mergers are a consideration

1 in 8 CBOs had serious internal discussions about merging.[19]

Mergers doubled between 2010–2017 compared to 2000–2010 (24 vs 12).[20]

Some institutions may even close

Since 2009, nearly 100 private nonprofit schools have closed.[21]

Learn more

Click **here** for more information about how you can improve your institution's long-term finances.

Strength for the future

Organizations exist to fulfill the ever important mission. Putting changes and enhancements into action now is imperative for institutions to successfully navigate the increasing challenges they face. By taking action, organizations can position themselves to deliver on their missions now and in the future.

[1] U.S. Department of Education, National Center for Education Statistics, Digest of Education Statistics, Table 303.25. Total fall enrollment in degree-granting postsecondary institutions, by control and level of institution: 1970 through 2017.

[2] NACUBO, Press Release: Private College Tuition Discounts Hit Historic Highs Again, May 15, 2017.

[3] The Commission on the Future of Undergraduate Education, The Future of Undergraduate Education: The Future of America, 2017.

[4] NACUBO, 2017 NACUBO-Commonfund study of Endowments Press Release: Educational Endowments Report Decline in 10-Year Return Despite 12.2% Return for FY2017, January 25, 2018.

[5] Nuveen: A TIAA Company, 2018 Investment Outlook Ten Predictions, January 2018.

[6] NACUBO, 2016 NACUBO-Commonfund study of Endowments Press Release: Educational Endowments Report -1.9% Return for FY2016 as 10-Year Return Falls to 5.0%, January 31, 2017.

[7] Srinivas, Val and Goradia, Urval. *The Future of Wealth in the United States: Mapping Trends in Generational Wealth.* Deloitte University Press, 2015.

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[9] Council for Aid to Education (CAE), Colleges and Universities Raised $43.60 Billion in 2017, Press Release February 6, 2018.

[10] Marts & Lundy, A Marts & Lundy Special Report: $10M+ Gifts to Higher Education, February 2018.

[11] Boston College Center for Wealth & Philanthropy, Press Release: New Report Predicts U.S. Wealth Transfer of $59 Trillion With $6.3 Trillion in Charitable Bequests, from 2007-2061, May 28, 2014.

[12] Chronicle of Higher Ed, Filling the Funding Gap, 2017.

[13] To learn more contact Timothy King at **508-381-0621** or Timothy.King@EverBank.com or Fontaine LeMaistre at **904-623-2520** or Fontaine.LeMaistre@EverBank.com. Tim covers the Northeast and Mid-Atlantic and Fontaine covers all other areas.

[14] For more information read: TIAA Institute. Azziz, Ricardo, et al. Mergers in Higher Education: A proactive strategy to a better future? Sept. 2017.

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[17] For more information read: TIAA Institute and ACE. Soares, Louis, Patricia Steele and Lyndsey Wayt. Evolving Higher Education Business Models: Leading with Data to Deliver Results, March 2016.

[18] Inside Higher Ed, 2017 Survey of College and University Business Officers: A Study by Inside Higher Ed and Gallup & The 2017 Survey of College and University Presidents: A Study by Inside Higher Ed and Gallup, 2017.

[19] Inside Higher Ed, 2017 Survey of College and University Business Officers: A Study by Inside Higher Ed and Gallup

[20] TIAA Institute, Mergers in Higher Education: A proactive strategy to a better future? September 2017.

[21] TIAA Institute, Mergers in Higher Education: A proactive strategy to a better future? September 2017.