CFO COLLEAGUE
HIGHER EDUCATION FINANCIAL STRATEGY

30 BENCHMARKS FOR THE RESOURCE CONSTRAINED

The financial and operational benchmarks of a healthy institution

Having worked with over 200 higher education institutions, certain financial and operational characteristics have been observed that are common amongst those who are healthy.

Having worked with over 200 higher education institutions, certain financial and operational characteristics have been observed that are common amongst those who are healthy. While it would be wonderful if an institution met each of these standards, it is important to note that all of these or even a majority can slide below the ideal if a few of the benchmarks are way above expectation. For instance, if a private college or university generates 30% of its revenues from non-student sources, metrics based on net tuition can be more fluid.

As one can appreciate, the list reflects the genre in which CFO Colleague tends to be engaged. Many of our clients operate with lower levels of endowment and receive precious little from sources other than student net tuition, room and board; what we call “student revenues.” Compounding these resource constraints is a fall-off in demand from demographic and cultural influences, necessitating an annual effort to recalibrate operations.

Thirty Benchmarks

A. Commitment to healthy financial operations

01 Annual traditional net tuition per (NTR) student **> $15,000**

02 New freshman and transfers should exceed the number of students who exited (graduated, dropped out, transferred out, etc.) last year (**> 1.0** to 1 replacement ratio)

03 Non-counselor enrollment staffing = **1.2 to 1.5X** of admission counselors, with each traditional counselor bringing in ninety students, and 120 students for non-trad counselors

04 The new freshman discount rate should not be more than 5 percentage points greater than seniors

05 Non-student revenues (donations and unrestricted investment returns primarily) **> 12%** of operating revenue. (Student revenues include net tuition, fees and auxiliary revenues)

06 Endowment value **> 150%** of the annual operating budget.

07 Traditional student to faculty ratio **> 18:1** with **< 15%** of traditional classes having 12 or fewer students in them and load assigned to non-teaching appointments (release time) **< 5%**

08 Faculty: **< 10%** Instructor, **> 40%** Asst. Professor, **< 30%** Associate, **< 20%** Professor.

09 Staff/Administrator FTE divided by Faculty FTE = 1.5X Staff/Admin comp is 1.2X faculty

10 Non-traditional NTR **> 40%** of overall NTR

11 Non-traditional net contribution **> 40%** of NTR after facility and overhead costs.

12 Average non-traditional class size **> 15** students

13 Non-traditional classes taught as overload or by adjuncts **> 85%**

14 Annual overall cost of fundraising **< 50%** of unrestricted annual fund contributions.

15 Cost of external affairs (Advancement, PR, Alumni Relations/Publications, Institutional Marketing) **< 2%** of operating revenues

16 Auxiliary net contribution exceeds the costs of student life and athletic operations and then yields a surplus **> 5%** of auxiliary revenues

17 Annual wages + benefits (compensation) **< 70%** of net tuition revenue (NTR), with faculty comprising **32%** of NTR and staff/administrators **38%** (reflects benchmarks 9 and 18)

18 Total gross margin for all academic programs together (NTR less faculty compensation) / NTR **> 68%** of NTR

19 Student receivables **< 2%** of annual student revenue at year end

20 Accounts payable and accrued expenses **< 5%** of unrestricted expenses

21 Budget contingency **> 2%** of operating revenues

22 Capital spending plus net debt principal payments **> 120%** of annual depreciation expense

23 GAAP-based change in unrestricted net assets (surplus) **> 4%** of operating revenue

24 Total long-term debt + lease liabilities **< 50%** of annual operating revenue, with debt service (principal and interest) **< 4%** of operating revenue

25 Operating line of credit (LOC) **< 5%** of operating revenue

26 Unrestricted cash **> 20%** of annual operating expenses

B. Commitment to employees

27 Matching 403(b) contribution of at least **6%**

28 Employee health care costs covered by institution **> 80%** of premiums

29 Dedication of **> 20%** of operating surplus toward a summer bonus payment to on-going employees (end of July payout).

C. Commitment to discipline and planning

30 A budgeting and forecasting process that is typified by:

- projections being based on the lower end of the range of revenue expectations
- the uncoupling of budgetary assumptions from revenue goals for enrollment, financial aid and advancement (departmental goals exceed budget expectation)
- spending less than the overall expense budget
- a contingency that is > 2% of revenues (benchmark 21)
- a five-year forecast with full pro-forma financial statements, with projections of driving activities owned by those responsible (COMP4cast®)

Conclusion

To reiterate, these are not presented as hard and fast rules but if the vast majority of them do not meet minimal expectations and material sources of non-core revenues are not available to offset that performance, the institution is likely to need significant attention.

We are here to provide that assistance.