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Trends in College & University Closures

November 28, 2023

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Meet the Presenters

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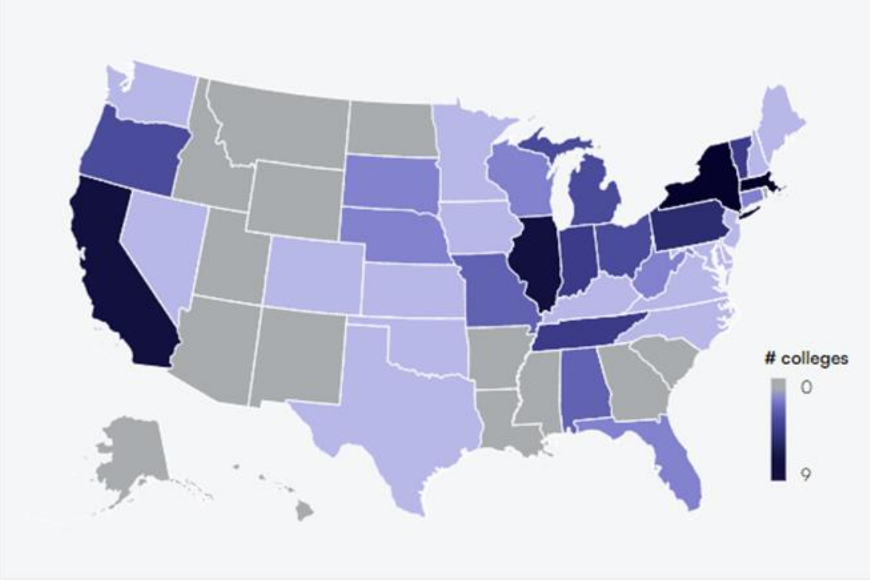
What Research Is There Concerning Closures?

- **As of August 2022 there were 1,655 private colleges and universities in the U.S.**
- **As of April 2023, around 250 colleges earned a C or below, per Forbes**
- 106 colleges have closed from 2016 through 2024 (planned) – https://www.highereddive.com/news/how-many-colleges-and-universities-have-closed-since-2016/539379/
- The prior 25 years (1991–2015) there were 119 closures
- Rate of closure has approximately tripled since 2015



Nami Sumida/Education Dive

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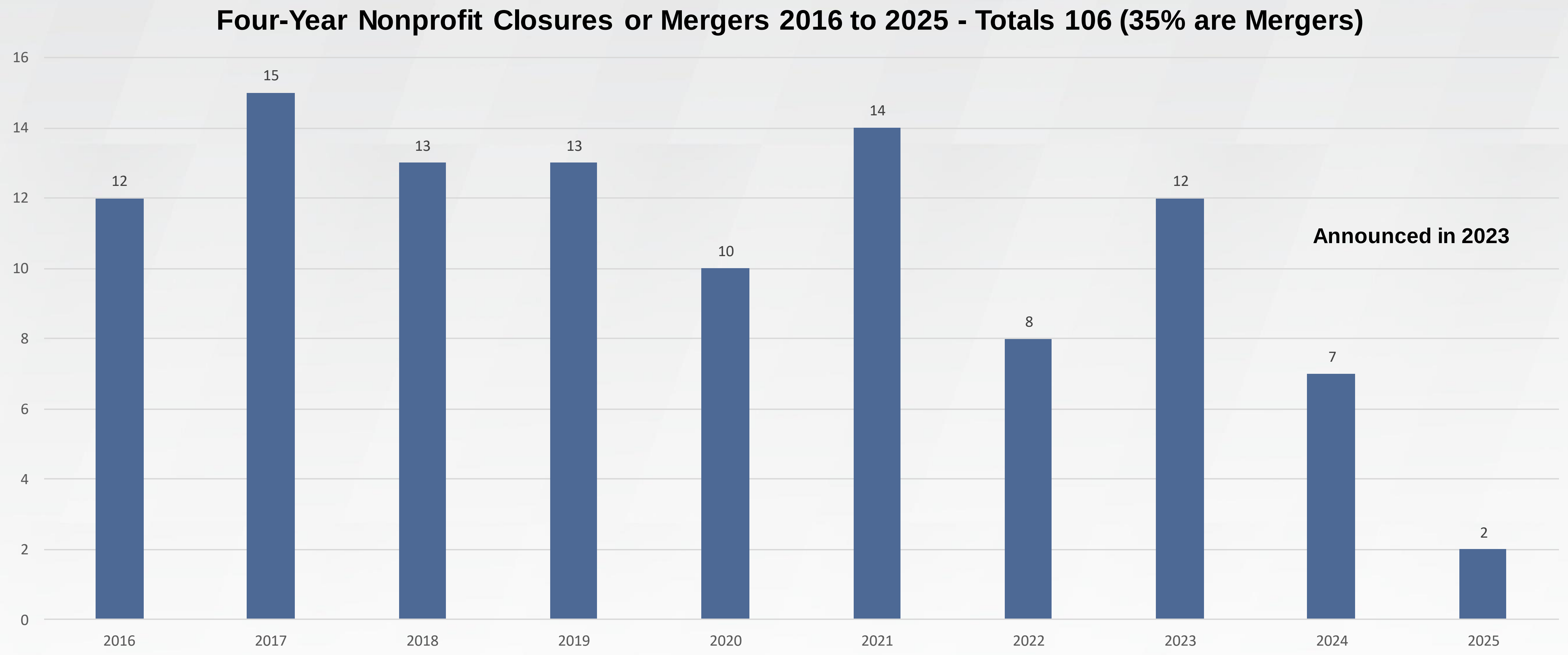
Four-Year Nonprofit Closures/Mergers 2016–2025



Source: FORVIS Research, November 2023

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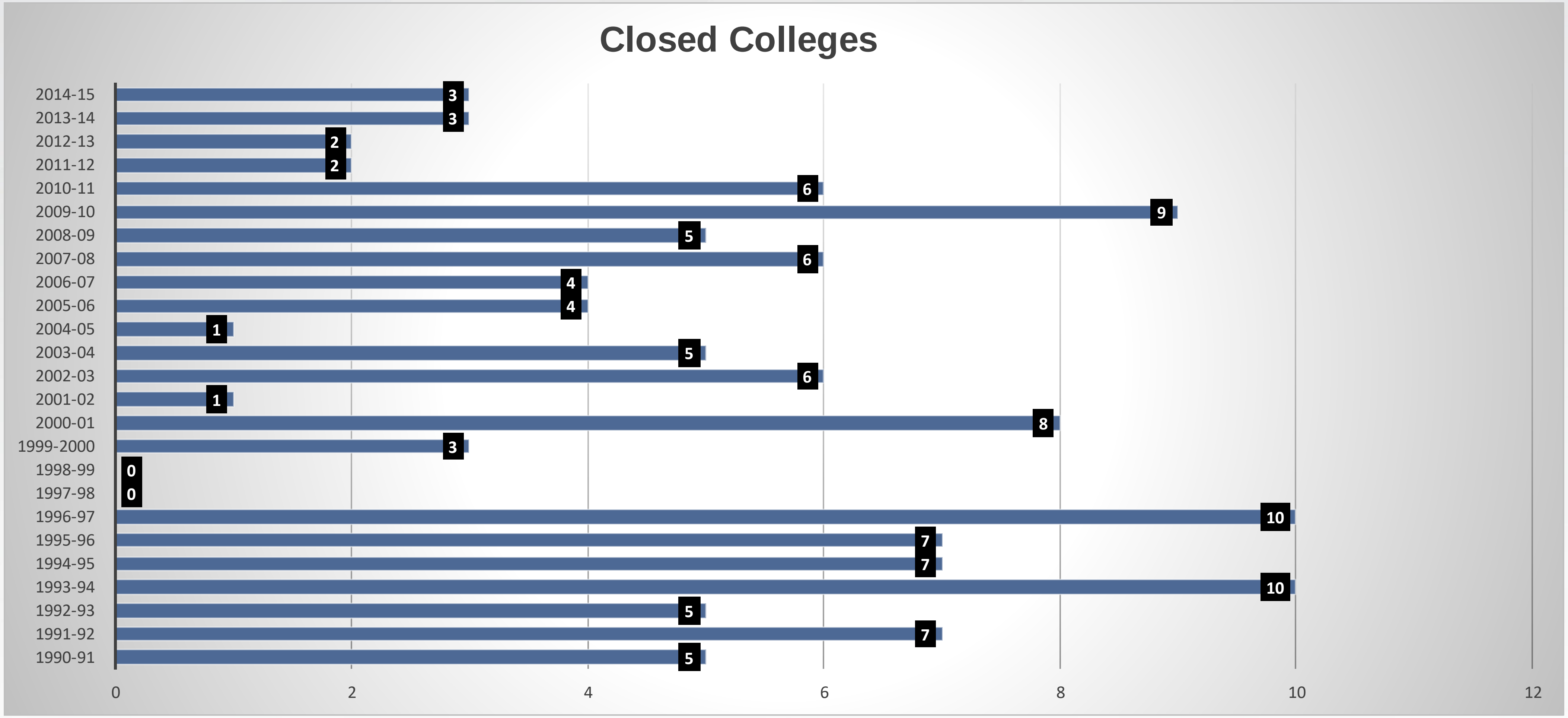
Four-Year Nonprofit Closures/Mergers 1990–2015



Source: NCES Table 317.50

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Closures – A Common Progression

- Reduced recruitment for each of a number of cycles
- Declines in NTR per student for each incoming class
- Increased reliance on temporary funding resources
- Rebound expectations precluding headcount cuts
- A deteriorating COMP/NTR ratio well over 70%
- Reduced donations by the core constituency
- Large operating losses and bank concerns
- Material decline in operating cash
- Seriously depleted financial ratios when compared to an average, moderately successful small college (approximately 1,900 residential undergraduate students)

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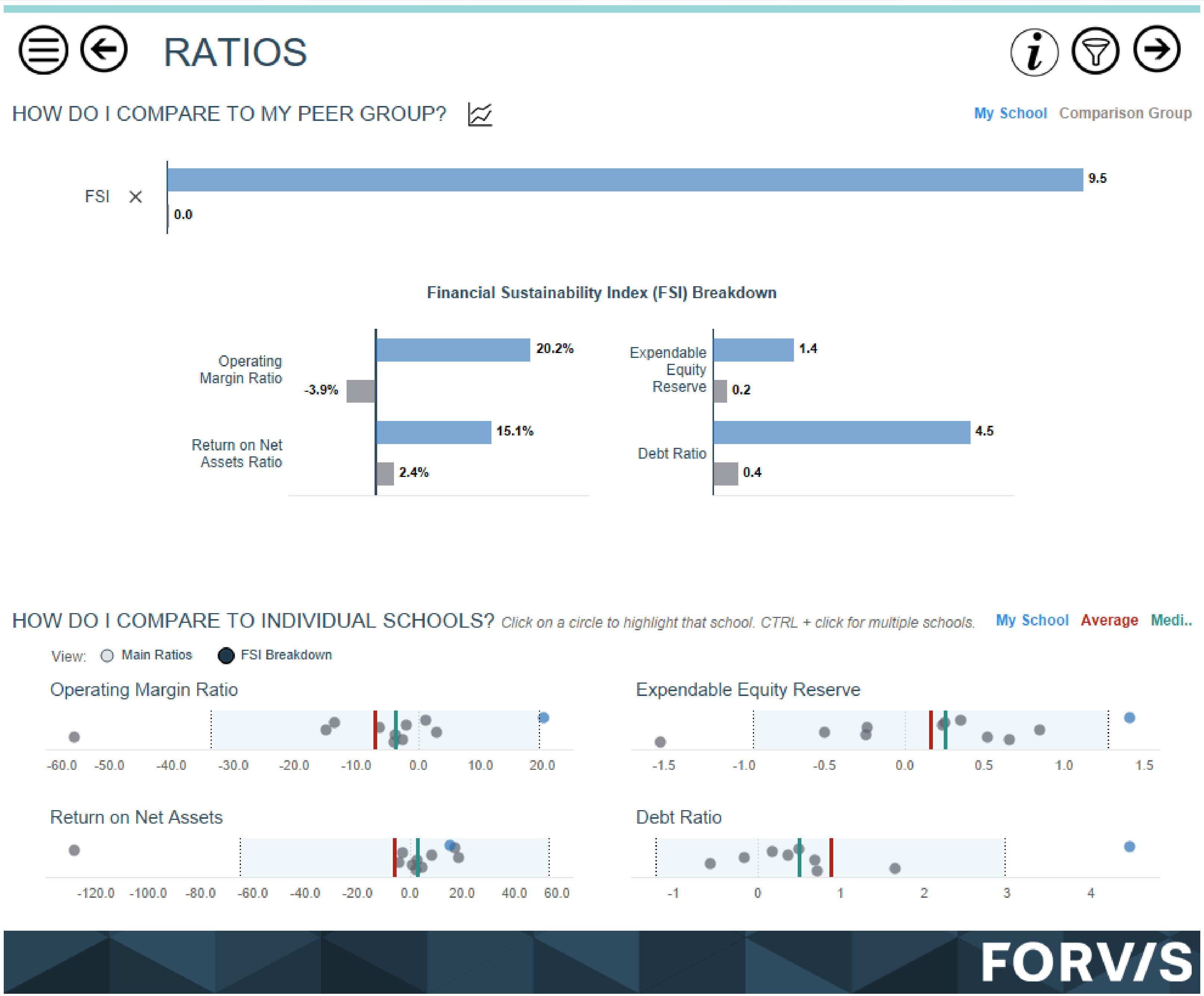

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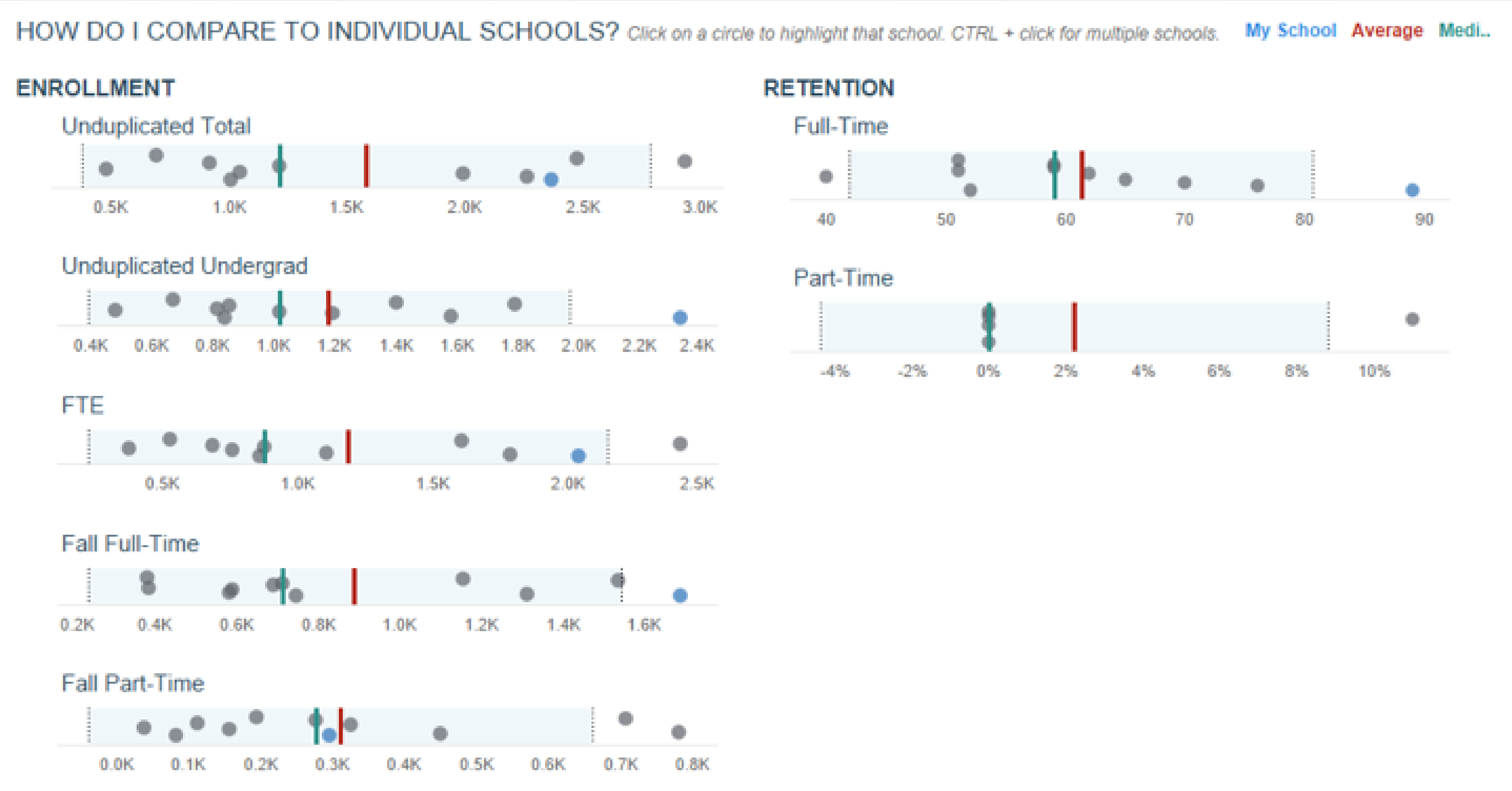
Enrollment & Retention of Closed Schools



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Tuition & Aid of Closed Schools

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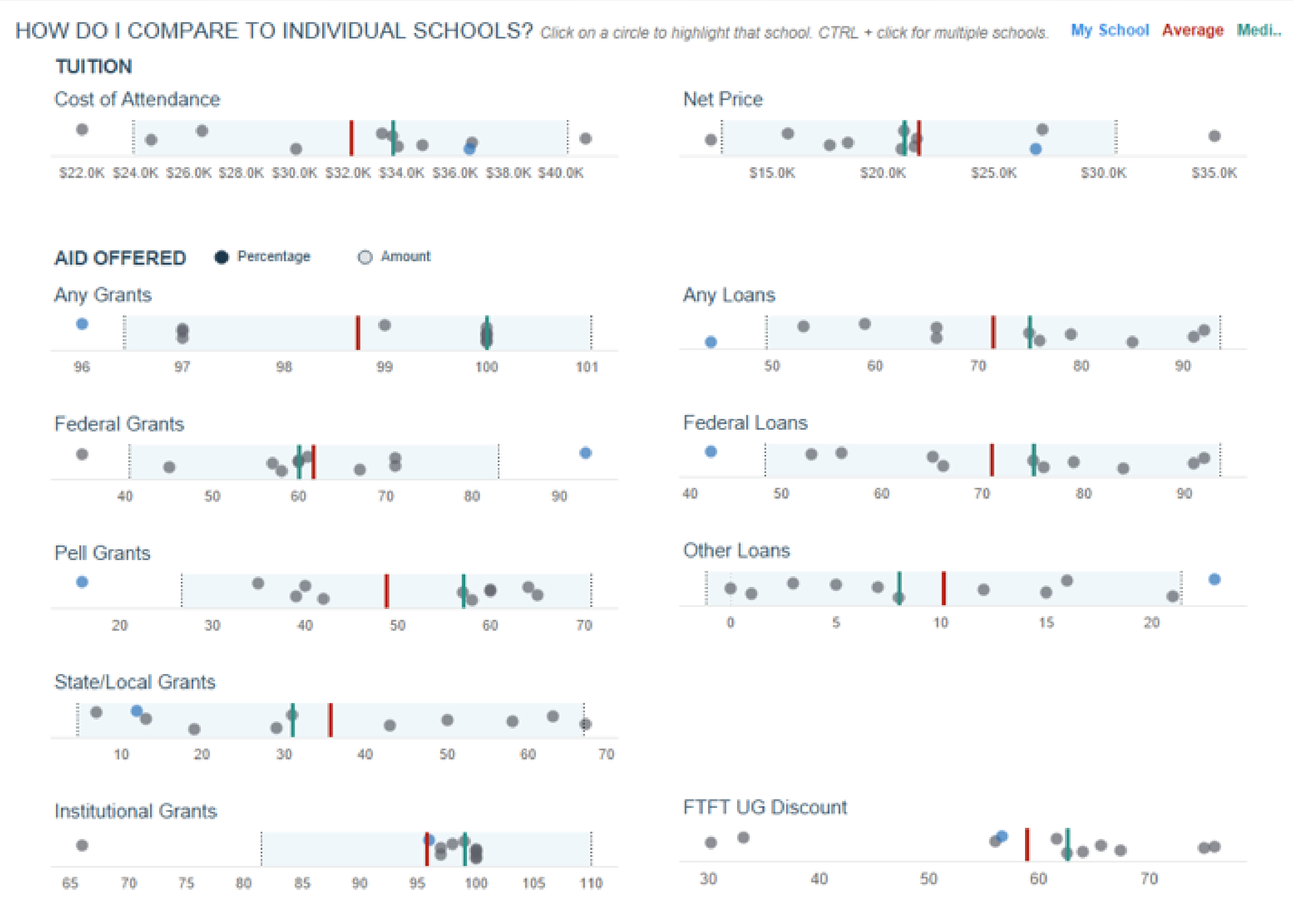

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Revenue Composition of Closed Schools

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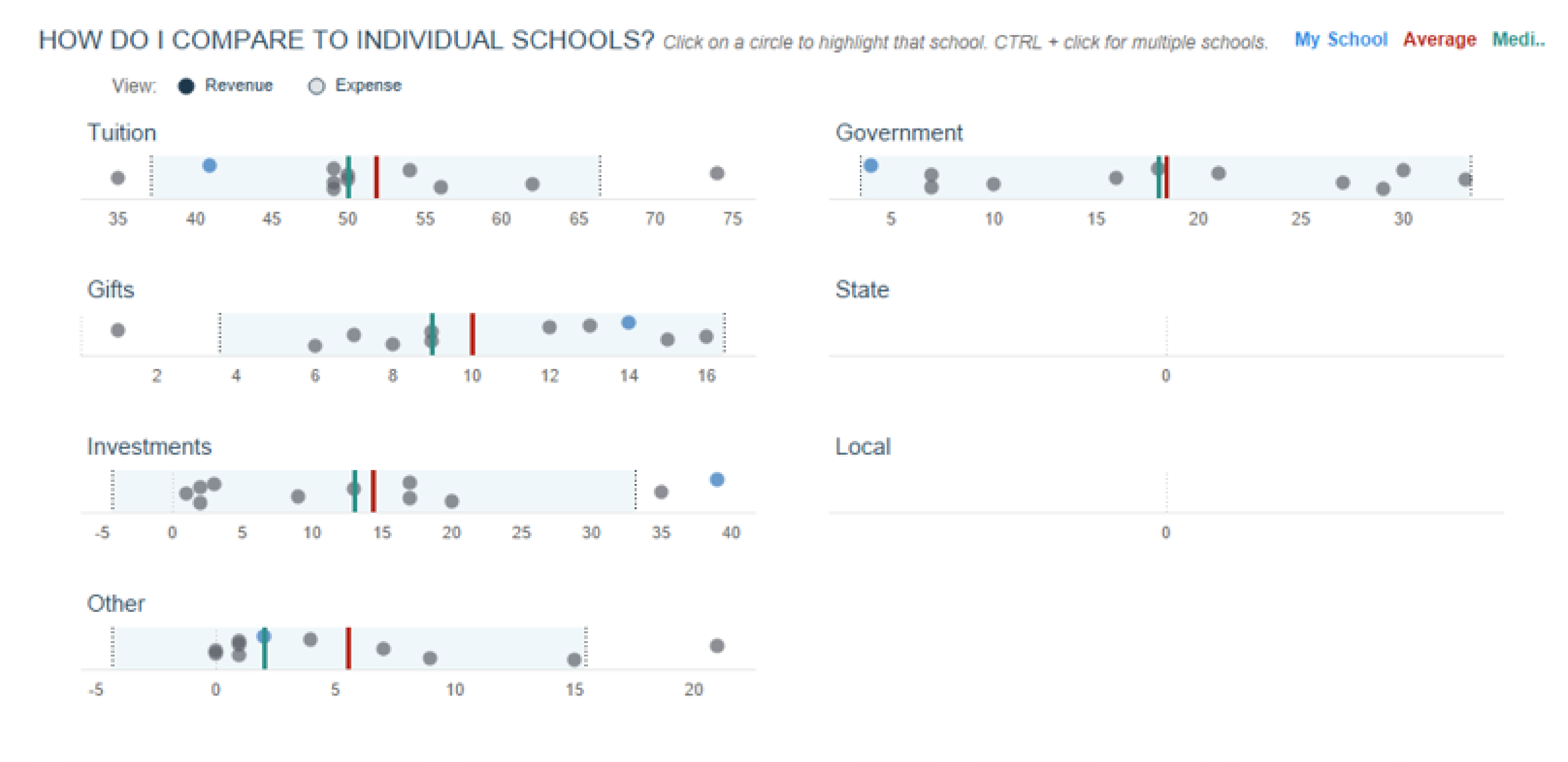

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Closures – A Common Progression

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- However … many keep going even with this previous fact set
- **Typically, it is a precipitous event that leads to closure**
  1. Accreditation sanctions, including loss of accreditation
  2. Expiration of bank forbearance
  3. Loss of revolving line of credit
  4. Imposition of HCM 1 or 2
  5. Adverse audit opinion
  6. Running out of cash
- Press releases will identify the prolonged decline in demand but will ultimately blame closure on the precipitous act

What Factors Will Impact These Institutions Going Forward?

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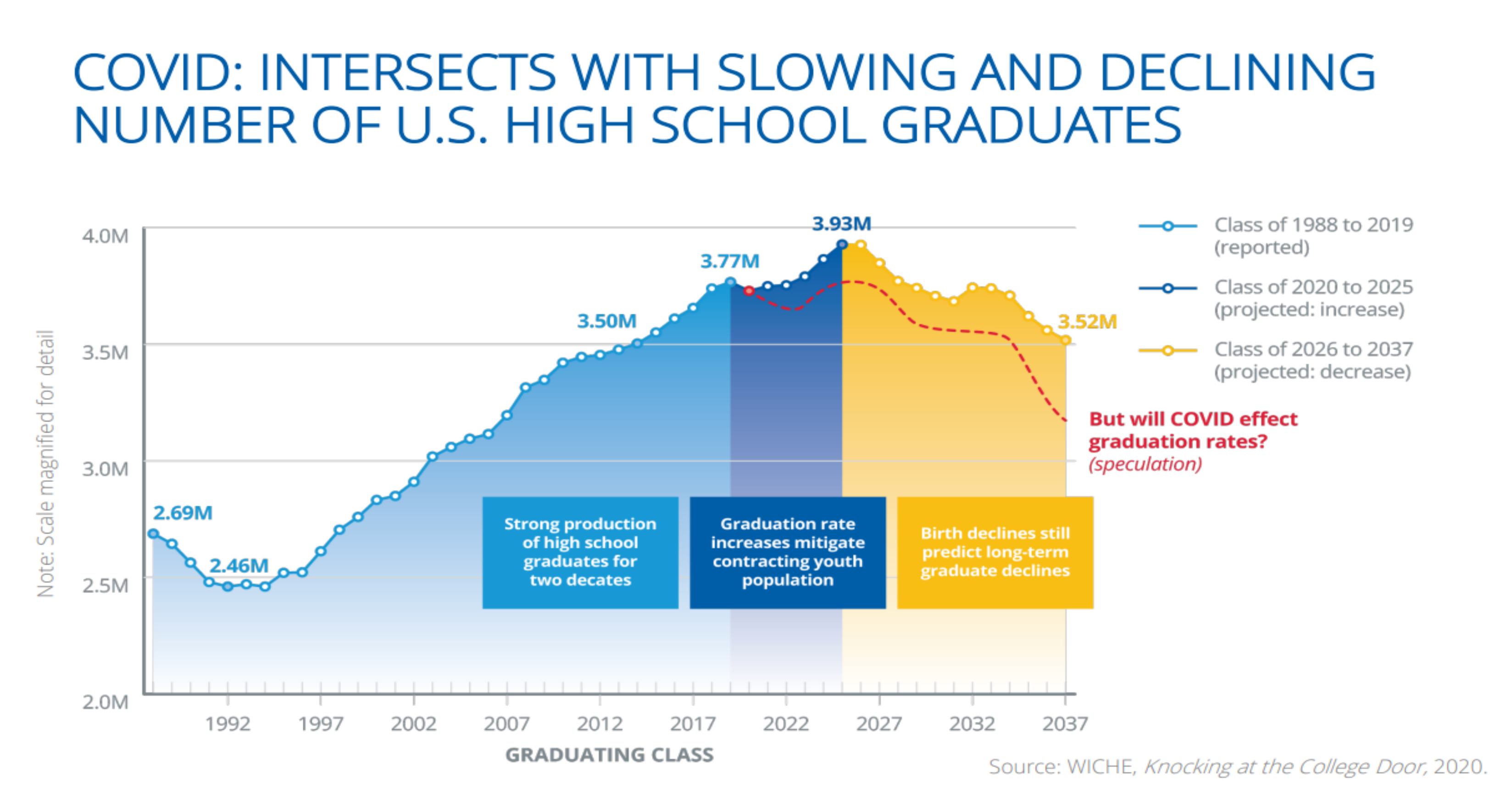
- Demographics – particularly in the north and especially in the northeast



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What Factors Will Impact These Institutions Going Forward?

- Debt aversion – after three years of stories about student debt, families are highly cost conscious
- The value proposition – There are well paying jobs where online school will be paid-for
- Culture wars – students wanting a school that reflects their values, which may differ from their parents
- Discount escalation and/or tuition resets that hardly affect enrollment
- The need for program review and re-evaluation
- The need for a multi-year financial plan
- The increasing cost to deliver education to today's "post-covid" students who have higher levels of need for remediation, mental health assistance among other needs

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What Factors Will Impact These Institutions Going Forward?

- Schools will need to adjust programs to student and market demands
  - Create new programs or certificate/credential programs
  - Reduce and eliminate ones that no longer appeal or attract students
- Moody's Analysis Notes
  - Data that takes into account mid-career wages and underemployment by bachelor's degree program shows a handful of programs that offer universities a significant opportunity to grow or stabilize enrollment, including computer science and engineering

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Which Schools Will Do Well & Which Schools Will Struggle Going Forward?

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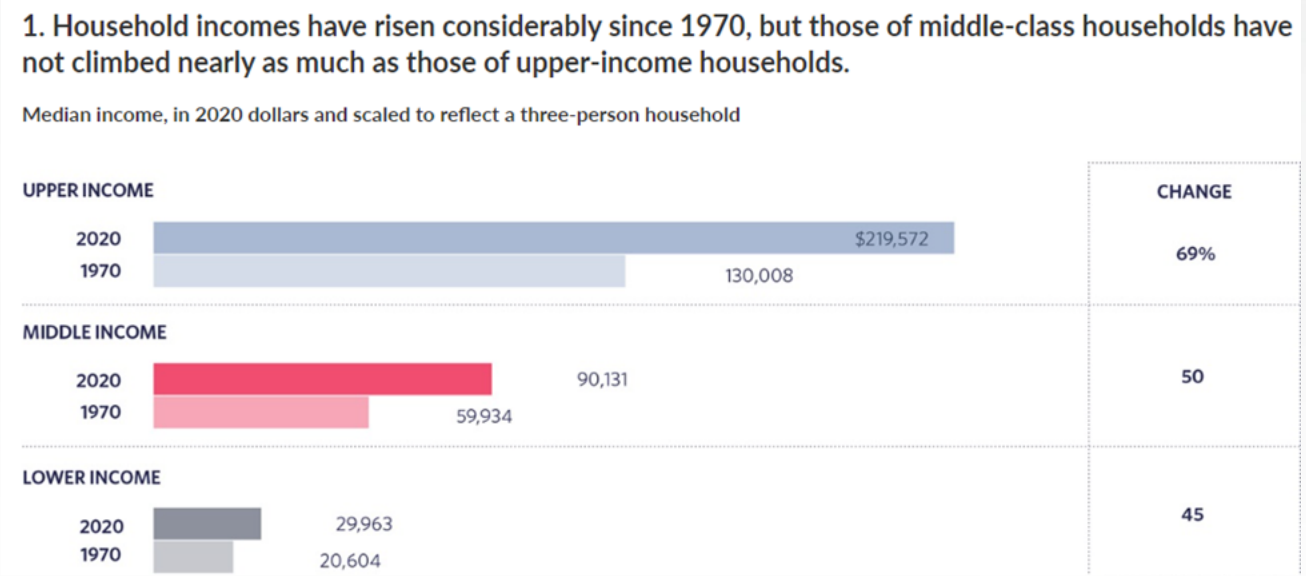
- Less selective institutions are more likely to struggle for the coming years while selective institutions enjoy relative stability

Selective Institutions

- Wealthier Americans tend to want rigorous programs or selective schools for their children

Less Selective Institutions

- Tend to attract more Pell recipients and 1st gen students



Source: Pew Research

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Which Schools Will Do Well & Which Schools Will Struggle Going Forward?

- Less selective institutions are more likely to struggle for the coming years while selective institutions enjoy relative stability

Selective Institutions

- Wealthier Americans tend to want rigorous programs or selective schools for their children
- Student A who would pay full price at an elite school
- Typically wait-list for students
- Six-year graduation rate 'AAA' rated schools – 95.0 (median)
- Revenue diversity
  - Student-generated revenue AAA schools – 33.5%
- More geographic diversity, strong program and market position, maintaining pricing power and value proposition

Less Selective Institutions

- Tend to attract more Pell recipients and 1st gen students
  - Lower retention rates and completions
- Student A thinks they should attend a lesser institution for free
- Six-year graduation rate speculative grade rated schools – 57.9 (median)
- Lack of Revenue diversity
  - Student-generated revenue speculative grade schools – 81.6%
- Less geographic diversity, limited program offerings or market position
  - Falling enrollment, tuition discount rates increasing

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Conclusions Concerning the Trends

- There have been a record number of institutions that have closed in the past seven years
- That number is accelerating each year
- Nearly 30% of a sample of private institutions are in financial distress
- Less selective institutions will face increased challenges for the foreseeable future
- Challenging programs and demonstrated outcomes represent the most appealing way to counteract declining demand

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Section II. What Do We Do?

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What Do We Do?

A. ***<u>Finding</u>*** the root cause of revenue declines

- Consider the five whys

- *Taiichi Ohno gives this example about a machine that stopped working (Ohno 1988, p. 17)*

1. **Why did the machine stop?**
   There was an overload and the fuse blew.
2. **Why was there an overload?**
   The bearing was not sufficiently lubricated.
3. **Why was it not lubricated?**
   The lubrication pump was not pumping sufficiently.
4. **Why was it not pumping sufficiently?**
   The shaft of the pump was worn and rattling.
5. **Why was the shaft worn out?**
   There was no strainer attached and metal scraps got in.

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What Do We Do?

A. ***<u>Finding</u>*** the root cause of revenue declines

- Consider the five whys

- What might be a parallel in higher education?

1. Why are we experiencing deficits?

We have not adjusted to lower student demand.

2. Why haven't we adjusted to lower student demand?

We don't want to lay off people.

3. Why don't we want to lay off people?

We believe there will be a rebound in student demand.

4. Why do we believe there will be a rebound in student demand?

Because we are told there will be demand for those who have good programs and are selective.

5. Why aren't WE seeing this rebound then?

We don't have in-demand programs and don't have a reputation for being selective.

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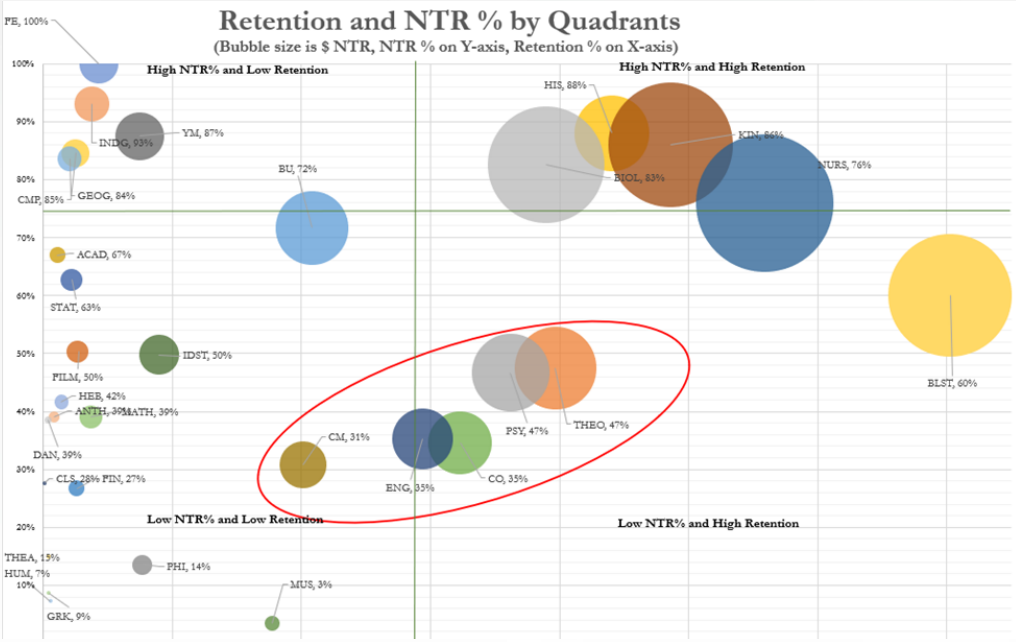
What Do We Do?

B. __Addressing__ the root cause of revenue declines

1. What programs are performing well?
   a) Compare the distribution of majors for those graduating versus new students
   b) Identify discount percentages on one axis and retention on the other, creating quadrants
   c) The Upper right quadrant is where you want to focus recruitment and capacity efforts.



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What Do We Do?

- How do we enhance NTR?
  - Fold smaller fees into tuition, to avoid nickel and dime mentality
  - Institute program fees for sophomores and higher for each major
  - Create aid categories where there is an overall limit for each one, to avoid stacking
  - Less focus on “buying” bright students who are otherwise attracted by top tier programs
  - Tuition freezes rarely provide a benefit. Inflation is high; price increases need to be realistic
  - Price resets require expensive and ongoing marketing investment to make a splash

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What Do We Do?

- Seeking students who are a good fit for the institution
  - Look at the zip codes for those who graduate. These are the places where you want to buy names
  - Purchase names of students who have shown an interest in top programs with high retention
  - The post card with a QR code for their program of interest. All business inquiries receiving a post card about the Accounting program
  - Updated program web pages to include
    1. An embedded video
    2. Pictures and testimonials from student and faculty member
    3. Logos of where they landed jobs or the grad schools they are attending
    4. Starting salaries*
    5. How to reach a faculty member

- Stetson University has great web pages for academic programs

**New Gainful Employment and Financial Value Transparency Framework disclosures will be effective soon*

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What Do We Do?

Adjusting the operations of the institution to match baseline revenues

- For institutions with lack of revenue diversity and no significant endowment
  1. Calculate the primary efficiency ratio of COMP/NTR
  2. If it is 70% or less, there are other reasons for poor performance
  3. Create a plan to reduce the ratio to 70% or below in the near term
  4. Perform an analysis of contribution margins from academic programs
  5. Sunset or jettison programs that generate too little net revenue to retain
  6. Plan to reduce staff headcount to equal or exceed 150% of Faculty FTE
  7. Overall staff compensation should not exceed 120% of faculty compensation
  8. Set targets for compensation based on relative amount being spent currently

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What Do We Do?

Preparing the plan

1. Ensure there will be sufficient investment in marketing the most appealing programs
2. Have a solid communications plan that includes the board, bank, and external community
3. Identify the runway of available of cash resources to be deployed in funding the plan
4. Get all the leadership team to sign off on the need and the mechanics of the plan

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What Do We Do?

Deploying the plan

1. Provide employees with the opportunity to self-select through a Voluntary Separation Incentive (VSI)
2. Identify the targets for each area and communicate progress weekly toward those targets
   - (admission has received 4 requests for the VSI out of their targeted 7)
3. Share that insufficiency in the VSI will lead to a reduction in force (RIF)
4. RIF is less generous. Communicate its benefits versus the VSI upfront
5. Legal, HR and other resources are part of the team to execute this plan
6. Ensure that all separation costs are accommodated within CY budget resources

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Summary

- We are all too aware of those who have closed their doors over the past seven years or so (numbers appear to be growing)
- Most are longing for some form of enrollment rebound but can find no data to support that premise
- Those struggling have been reticent to make material reductions in headcount but are now faced with a substantive imbalance in their operations
- Identifying the programs that are most successful, institutions can refocus its academic efforts toward successful, in-demand majors
- Weaker ones should be jettisoned and the work force reshaped, reflecting a new reality
- Encouraging staff and faculty to opt for a VSI, with a RIF looming in the background, can be an effective way to trim compensation costs
- The goal of this approach is two-fold
  - Enhance the appeal of the product
  - Realign spending with revenues

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Questions?

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