

CAPPS 40th Annual Conference

Light The Way !!!

**Consolidation Or Closure? Optimal Outcomes
for Struggling Institutions and Opportunities
for Stronger Institutions**

**Hyatt Regency Resort & Spa
Indian Wells, California**

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OCTOBER 2, 2024

Some Schools Light Up Well Even After 400 Years

(Harvard University on the Charles River)



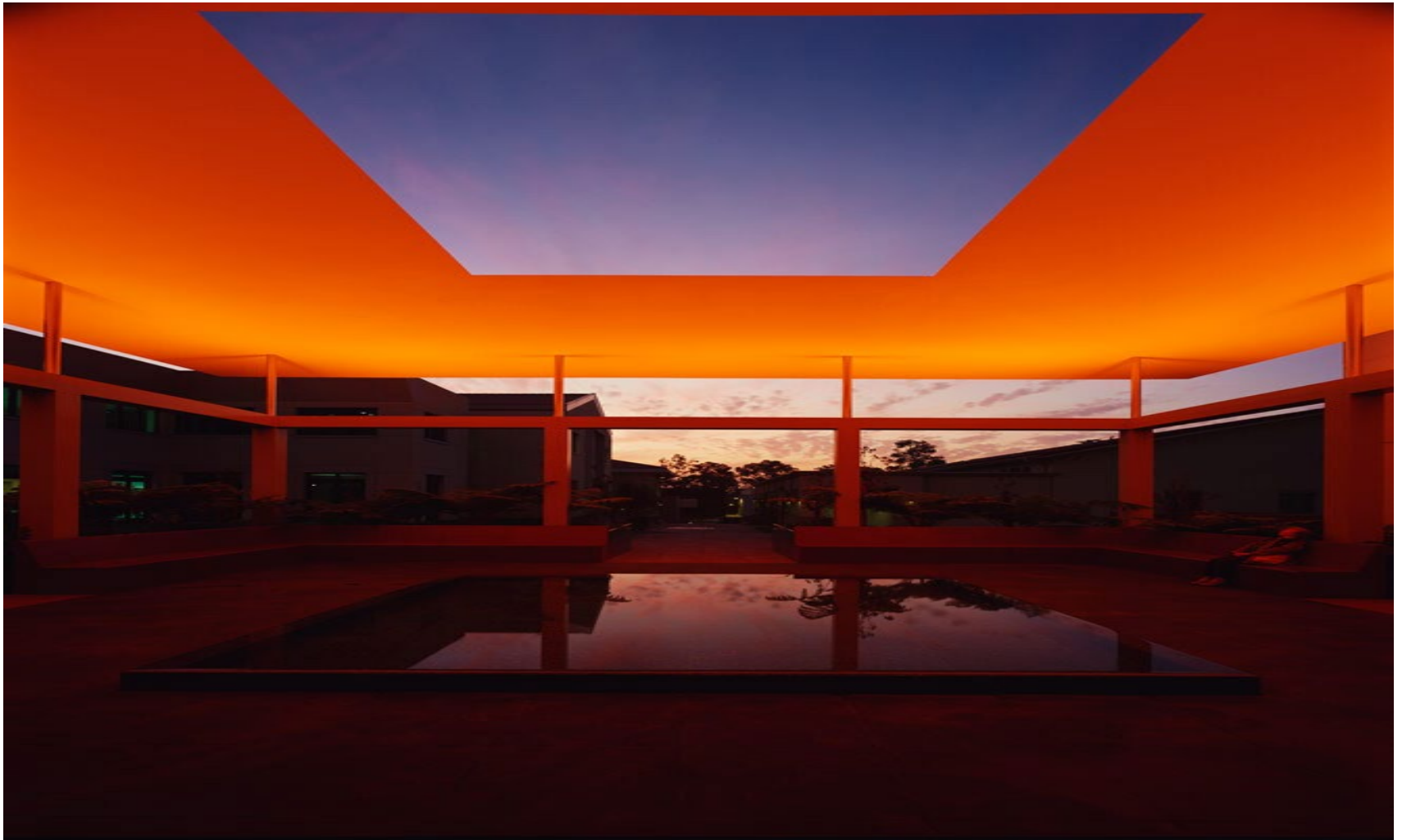
School Schools Celebrate Fall With Light

(Princeton University Bonfire)



Some Schools Offer Art Celebrating Light

(James Turrell's Skyscape at Pomona College, Claremont CA)



Sadly Some Schools Give Off Light Because They Are Burning Out

(Paradise Elementary School, 2019 CA Wildfires)



So, Even With a California Beach in Sight... Not All School Stories End With A Rainbow or a Pot of Gold



School Closures/Consolidations: Regular News

- ❑ College Closings 1 per week Hechinger Rpt 4-26-24
- ❑ *99 College Campuses Closed Over the Past Year—Is Yours Next?* Epoch Times 9-24-24
- ❑ EY-Parthenon: **10%** of all 4Yr schools **in peril**
- ❑ **20% at-risk** 19/20, lower in 21-22 due to 'Tylenol' effect of HEERF/PPP funds, **now reality is hitting**
- ❑ **REASON:** 30-year low **birth rate** in US and lack of trust in high-cost PSE degrees (Gallup – only 36%)
- ❑ Enrollments **down 14%** in 2012-2022
- ❑ Enrollments to **drop 15%** more in 2025-2029

School Closures/Consolidations: Regular News

- Gary Stocker of College Viability: more closings consolidations ahead until **supply and demand** reach equilibrium
- Worst Hit: **tuition dependent schools** – lacking large endowments or research/athletic revenue
- Some Resources:
- Institutional Viability Metric (IVM): measures finances, market demand, outcomes
- Calculator: [IVM Financial Health Score \(ey.com\)](#)
- College Viability group: [College Decision - College Viability](#) sells viability app: \$1500 Exec. Version

School Closures/Consolidations: Regular News

□ **Mergers across all sectors**

- Gannon-Ursuline Catholic universities LOI to merge, Higher ED dive 091724
- Jessup-Multnomah consolidation spring 2024
- Cambridge College– Baypath University June 2024
- Notre Dame Md – Md Univ. Integrative Health 2024
- Cox College: Alliance Healthcare Educ. MSU/Ozark '24
- PA College Health Sciences – St. Joseph's U.(01/24)

□ **Closings across all sectors** – examples:

- *Milwaukee Journal Sentinel* 09-17-24: 6 of 13 UW branch campuses closing - declining enrollments
- Delaware College of Art & Design (Fall 2024)
- Oregon College of Oriental Medicine (Sept 2024)
- AZ State, closing campus, less state funds, 9-24-24

School Closures

Examples in 2024

- ❑ Birmingham-Southern College - Alabama (May)
- ❑ Eastern Gateway Community College- Ohio (May)
- ❑ University of Antelope Valley (ordered by BPPE to close)
- ❑ Lincoln Christian University - Illinois (May)
- ❑ Magdalen College - New Hampshire (May)
- ❑ Johnson University - Florida (June)
- ❑ Hodges University - Florida (August)
- ❑ College of Saint Rose- New York (May)
- ❑ Cabrini University – Pennsylvania (May)
- ❑ Oak Point University – Illinois (May)
- ❑ Goddard College – Vermont (May)
- ❑ University of the Arts – Philadelphia (May)
- ❑ Notre Dame College - Ohio (May)
- ❑ Wells College – NY (May)

School Closures – Student Impact

- ❑ **What happens to students?**
- ❑ Per SHEEO study, 70% of students get little to no warning or help
- ❑ Nursing student at Stratford lost all credits, cried for hours, had to start over
- ❑ Only half transfer, and only half of them finish (1/4), per SHEEO study
- ❑ Per GAO study, transfer students on average lose 43% of their credits

Closures/Consolidations

Broad Based Impact

- ❑ One dire forecast: in next 10-15 yrs, 25% to 50% of colleges/universities, i. e., 1350-2700 institutions, will disappear - go bankrupt/close or merge
- ❑ National Impact: fewer students earn degrees, arguably reducing our intellectual capacity
- ❑ Global PSE Rankings:
 - ❑ South Korea #1: approximately **70%** age 25 to 34 adults with **PSE degrees**.
 - ❑ U.S. #12: **51%** of that age group with **PSE degrees**
 - ❑ U.S. is losing lost global leadership in STEM disciplines; prediction China will take lead in 5 years
 - ❑ U.S. students ranked 28th out of 37 OECD countries in math as of April 24, 2024

On Those Cheery Notes...Our Agenda Today

- 1. Warning Signs: Governance Response**
- 2. Turnaround Strategies: Viability/Time**
- 3. Consolidation/Merger/Acquisition: Strategy, Planning, Challenges**
- 4. Closure Reality: Planning/Execution**

I. WARNING SIGNS

Big Picture Goal – Governance Action

Warning Signs or Handwriting on the Wall?

- ❑ When your CFO is avoiding meeting with you
- ❑ When your utility bill checks bounce and the next payroll is in doubt
- ❑ When the government sues you
- ❑ When you receive death threats in mail
- ❑ When campus police are in your office every morning.
- ❑ When your attorney becomes your best friend
- ❑ When staff start leaving
- ❑ When students/staff say word is on the street

I. WARNING SIGNS

Big Picture Goal – Governance Action

- Institutions, like individuals, behave in the same way
- As we notice **first signs of illness**, we either become alarmed and seek **early diagnosis/treatment** **OR** we **ignore** the symptoms and **hope it'll go away**.
- The **Ostrich Effect** is a common problem.
- This **cognitive bias** describes how people avoid negative information, including feedback that could help them face the situation, instead they bury their heads in the sand, like ostriches.

I. WARNING SIGNS

Big Picture Goal – Governance Action

- We can segment higher ed institutions based on how they respond to early warning signs:
 - Hypochondriacs
 - Ostriches
 - Early Doers
 - Late Movers
 - Inexplicable Optimists or Surrealists
 - Depressed and Doomed
- Lead Time Importance Ex. Holy Names U. Oakland closed May 2023 after 1 year of searching for merger partner failed and student body cratered from COVID

I. WARNING SIGNS

Big Picture Goal – Governance Action

- Early Recognition is crucial
- Early Acceptance/Action by School Governance:
 - Board/executive management
 - Disclosure to Key Stakeholders: investors and trusted key management
- Point: Don't wait till half the place is burned down to call in the fire department
- *Seen that in news stories past 10 years*
- David Vice: working right now on saving a school like that - **IBMC**

I. WARNING SIGNS

Big Picture Goal – Governance Action

1. Public Opinion

- Negative media coverage and social media criticism are signs of growing issues.
- An increase in poor reviews (Google, Yelp, BBB) and social media complaints (Facebook, Instagram, X,...) are indicative that something is wrong.
- Negative press coverage is a clear warning sign.
- A weak or non-existent public relations department is a weakness.
- Brand survey results signal that immediate action is needed.

I. WARNING SIGNS

Big Picture Goal – Governance Action

2. Institutional Culture

Toxic culture - often root of many institutional problems.
Early signs - include dissatisfaction that leads to high turnover rates and hiring difficulties

- **Students and Alumni:**

Student dissatisfaction can destabilize an institution. Early detection of issues is crucial.

- Alumni can either be supportive advocates or highly dissatisfied and vocal critics.
- Discontent can severely stress or even break the institution.

I. WARNING SIGNS

Big Picture Goal – Governance Action

- **Faculty and Staff:**

Cannot survive without content/motivated faculty. Underpaying/undervaluing faculty results in dissatisfaction, spreads to staff and students.

- Early warning signs strained relationship between faculty and leadership and faculty turnover.

- **Leadership and Boards:**

Leadership fragmentation leads to silos, causing confusion among staff and faculty. **Disunited leadership is a serious warning sign.**

- Pressure from board on leadership can result in frequent turnover, damaging institution.

I. WARNING SIGNS

Big Picture Goal – Governance Action

3. Enrollment and Admissions

- Enrollment trending downward for several years might be more than demographic shifts
- Cancellation and withdrawal rates increasing could reflect cause(s) beyond recruitment
- Transfer-in numbers decreasing while transfer-out numbers increasing serious warning sign
- Trying to compensate with international or athletic enrollments, or by adding new programs, might be warning sign
- Admissions staff turnover, if ongoing, a clear warning sign

I. WARNING SIGNS

Big Picture Goal – Governance Action

4. Core Activity: Symptoms that Are Warnings

- If core academic programs experiencing decrease in enrollments while other programs don't
- If core academic programs are pushed on schedule by auxiliary programs, that could be a sign of shifting focus away from your core programs
- If overly emphasizing new trendy programs (e.g., a bachelor's in cannabis management) at the expense of your brand identity
- If your graduation, retention, and placement rates have declining trend line

I. WARNING SIGNS

Big Picture Goal – Governance Action

Core Activity *continued*

- If you are not fully compliant with accreditation standards
- If your programs do not pass Gainful Employment thresholds
- If your competitors are advertising in your backyard
- If seriously behind in using IT advancements compared to your competitors, it is a warning sign
- If you have poor customer service

I. WARNING SIGNS

Big Picture Goal – Governance Action

5. Regulatory and Compliance Issues

- If you have received letters of non-compliance from regulatory bodies (i.e. DOE, State Ed, VA, Accreditation Agency), it is a warning sign
- If your compliance department is understaffed or experiencing high turnover, it is a warning sign
- If you have local police or fire departments raising concerns...
- If any regulatory agency has taken any adverse actions against your institution
- If non-compliance is a result of underperforming staff or lack of leadership, you have a problem

I. WARNING SIGNS

Big Picture Goal – Governance Action

6. Financial Analysis: Possible Warnings

- If your DOE **composite score below 1.0** and/or if any of DOE's new **trigger conditions** (from 34 CFR 668.171) apply to your school), requiring an LOC due to assessed financial instability, that could be a warning sign
- Even without triggers, if your comp score is in the Zone (1.0-1.49) or below 1.0, leading to provisional certification and LOC (composite score below 1.0) and/or HCM1 or HCM2 (Zone score and below 1.0), that could be a warning sign
- If your student default rate is near/above 30%
- If your 90/10 ratio is close to 90.0%, it is a warning sign

I. WARNING SIGNS

Big Picture Goal – Governance Action

□ **Cash Flow:**

- What source of institution's financing?
- Any Endowment or Government grants or other income to supplement tuition revenue?
- Relying solely on tuition revenue renders school vulnerable, which is a warning sign
- If significant reliance on endowment type funds, do you have reserves at least 3-5 times the annual operating budget? If not that is a warning sign
- If endowment type income covers 30-50% or more of the budget that is a warning sign

I. WARNING SIGNS

Big Picture Goal – Governance Action

Cash Flow *continued*

- If you continuously spend more than you budgeted, that is a warning sign
- If your auditor is raising flags, that is a warning sign
- If you have any loan default situation, that is a warning sign
- If your financial ratios (profitability, liquidity, solvency, efficiency) show any signs of trouble, that is clearly a warning sign

I. WARNING SIGNS

Big Picture Goal – Governance Action

7. Legal Issues

- Are there any lawsuits filed against your institution, particularly those initiated by agencies (e.g., USDOE on BDR claims, FTC on consumer disclosure, etc.)?
- Are you involved in other lawsuits, e.g., students and employees, and is there a trend in their frequency?

Summation: Like USDOE FR triggers, greater number of warning signs, greater urgency to act

II. Turnaround Strategies – Viability/Time

Checkpoint: 12 Months or More From When You Expect to Reach Point of Inability or Unwillingness to Keep Funding **Persisting Operating Losses**

Board Strategic Personnel Actions:

- Special board meetings to address coming crisis
- Form special strategic board committee
- Hire turnaround consultant?
- Replace CEO/President and/or COO?

Board Directed Timely Actions (KISS)

- Increase revenue
- Cut expenses
- Sell...or...buy...or sign off?

Roseann Barr on weight loss – eat less/move more

II. Turnaround Strategies

- ❑ **Situational Assessment & Analysis:** Thorough internal/external analysis, with stakeholders' analysis
- ❑ Based on results, 1 of 3 courses of action:
 1. Improving Overall Performance and Standing (Turnaround)
 2. Consolidation: Merger and Acquisition (Part III of this program)
 3. Orderly Closure (Part IV)
- ❑ **Action Example:** *The Next Wave of College Cuts is Already Here*, Higher Ed Dive (9-30-24): institutions ax majors and lay off employees to address rising costs and declining enrollments

II. Turnaround Strategies

Warning Signs

1. **Public Opinion**
2. **Institutional Culture**
3. **Enrollment and Admissions**
4. **Core Activity**
5. **Regulatory and Compliance Issues**
6. **Financials**
7. **Legal Issues**

Turnaround Strategies

1. **Legal Issues**
2. **Financials**
3. **Regulatory and Compliance Issues**
4. **Core Activity**
5. **Enrollment and Admissions**
6. **Institutional Culture**
7. **Public Opinion**

II. Turnaround Strategies

- **Assessment & Analysis** provides data for desired course of action (each case is different).
- **Usually Requires: Cash Flow + Time**
 - **Crisis Management**
 - **Efficiency Improvements**
 - Right-size
 - Cut labor costs:
 - Example 9-25-24 Baldwin Wallace University Ohio, faculty severance buyouts
 - Cut occupancy costs: lease renegotiations
 - Close under-performing locations/programs
 - **Debt Restructuring**

II. Turnaround Strategies

Usually Requires ... *(continued)*

- Cash Flow Management
- Revisiting Core Competencies
- Revenue Growth Initiatives
 - market/product matrix
 - fundraising
- **Operational Restructuring and BPR**
- Cultural and Organizational Restructure

III. Consolidation: Merger/Acquisition

1. Search for Consolidation ‘White Knight’

- *Chronicle* Small Colleges Story says three things help chances: (1) substantial assets, (2) real estate (3) State support
- But no State support for private FP/NFP colleges
- Some NFPs have real estate/substantial assets, but most FPs do not
- **Focus:** *location, program, people*
- **Start early** – this can take a lot of time

2. Mission Alignment/Stakeholder Acceptance

- * Available White Knight may not fully share mission
- * Need **time** to ‘sell’ it to stakeholders

III. Consolidation: Merger/Acquisition

3. “White Knight” and “Holy Grail”

- ❑ M&A is not known as an empathetic business.
- ❑ Many colleges in trouble may see sale-merger as last resort but it may be best way out.
 - Common sense says buyer would like to buy when price is down.
 - But when a college is down it might lose its appeal to the buyer.
- ❑ The risk of being dragged down by acquiring a dying school can overpower potential benefits
- ❑ Might attract ‘savior’ with earn-out as price: David Vice has experience here - [Intellitec](#)

III. Consolidation: Merger/Acquisition

4. What Attracts Buyers

- ❑ Target has a strong, distinct program, especially in a growth area (cybersecurity, forensic science)
- ❑ Target has a built-in alternate revenue stream (Lasell Village)
- ❑ Target has tangible assets greater than liabilities, attractive land, buildings, including assets not on the balance sheet (i.e. accounts receivable, leaseback agreements, and operating leases).
- ❑ Target has room to expand that buyer does not have (Regis)
- ❑ Desire or need for a new signature program (Nursing)
- ❑ Celebrity faculty

III. Consolidation: Merger/Acquisition

5. **Regulatory Timelines/Obstacles**

- 6 months or more with some accreditors/DOE
- Need for seamless Title IV/temporary AL
- Closure/Teach-out structure to attract consolidation partner with T4 immunity
- Student acceptance/loan discharge avoidance
- Trailing liability challenge for closing school
- Need for prompt closeout compliance audit to gain permanent AL approval

6. **Deal Term Challenges**

Asset Value vs Liabilities

Administration/Faculty –Reduction/Integration

Program alignment

IV. Closure Reality – Planning

1. **Early Recognition of Closure Outcome**

- Not 2 weeks/2 months before last payroll
- Orderly closure takes advance planning
- Meticulous planning/timing crucial to reach goal
- Much at stake and errors may cause significant and enduring consequences for all stakeholders.
- Allow one year to close from point of decision
- Milan M has done this twice: [NECI](#) and [TNCC](#)

2. **Goals**

- Preserve/maximize post-closure value for owners
- Minimize disruptions/repercussions with value to all stakeholders

IV. Closure Reality – Planning

3. **Students**

- Meticulously plan teach-out process to graduate all students able to graduate and transfer out all others
- Preferably teach-out in place
- Crisis management: Meet with all students to manage expectations and clarify the process
- Get students involved in the process

4. **Alumni**

- Open communication
- Manage expectations
- Get them involved to help i.e., career services

IV. Closure Reality – Planning

5. Faculty and Staff - Employee Wind-Down

- Amortize Layoffs – gradually and slowly, no massive layoffs (WARN Act – for 100 employee companies)
- Keep benefit plan contributions current or plan proper closure, keep payroll taxes current
- Crisis Management - Offer faculty and staff placement services
- Determine whether federal/state WARN Act applies and what requirements
- Once closure date set, shut down marketing, recruiting & admissions, reduce financial aid
- Keep Plan for skeletal post-closing staff for wind-down work i.e., transcripts & records custodian

IV. Closure Reality – Planning

6. Regulatory Notices/Actions

- Extremely important to comply with all closing regulations i.e., Closing Audit, SFA, Approved Teach-out plans, IPEDS, FISAP..
- All accreditors, USDOE, and State Ed, require closure notice far in advance, sent to all stakeholders
- Announce closing when you decide, plan it!
- USDOE Closing School Discharge period is 6 months before closing day (last day of classes)
- Prepare ahead for T4 closeout compliance audit due 90 days from withdrawal from T4 or closing day
- Remember USDOE can get after you with BDR and Closing School Discharge years after you closed

IV. Closure Reality – Planning

7. **Records Storage**

*Academic transcripts – perpetual (Parchment)
Custodian is required, it can be an ex-employee or the state ed department.

*Title IV records – 3 years accessible

*Tax/Other Records – federal/state law

8. **Community**

- ▣ Manage community's perception and expectations
- ▣ I.e., issue press release to celebrate positive history of school and explain reasons for future closure

IV. Closure Reality – Planning

9. **Organizational Wind-Down**

- Asset Liquidation/Preservation for post closing - (shareholders value)
- Creditors - Negotiate debt with all creditors, you have an upper hand here!
- Consider Liquidation
- Avoid Costly Lawsuits
- Fixed Debts (personal guaranties?)
- Avoid Bankruptcy if you can
- Bankruptcy/receivership as last resort for debt relief if guaranties of persons/affiliates

Closure Reality – Planning

Closing Abruptly ☹️

- Without Teach-Out Agreements
- Chaos/disaster for students
- Bad look for school, sector, higher ed
- Potential student claims/loan discharges
- Bad for everybody!

CLOSING THOUGHT

- **Small Colleges** have a long history of being stubborn and resilient, but current financial headwinds are fierce enough that longtime survivors are at a real risk of closing, *Robert Kelchen, Univ Tenn, Prof Educ. Ldrshp, Chronicle 6-3-24*

Consolidation Or Closure

Making the Best of Tough Times

QUESTIONS ???

Thank you for attending and feel free to contact any of the presenters by email

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“WE ARE THE SCHOOLS”

Tune: Michael Jackson/Lionel Richie * New Lyrics: Ron Holt ©2012

□ Verse 1

□ **There comes a time**

□ **When people need a place to learn**

□ **Take a step up in life,**

□ **Take a fresh turn**

□ **There are dreams to pursue**

□ **With new careers and better pay**

□ **And hope to find their way**

“WE ARE THE SCHOOLS”

- **Verse 2**
- **They can't go on**
- **Just hanging on to the past**
- **Thinking yesterday's jobs**
- **Somehow will last**
- **Around the world, in every way**
- **We're seeing changes every day**
- **And the truth, you know**
- **Is all of us must grow**

“WE ARE THE SCHOOLS”

- **Chorus:**
- **We are the schools**
- **We teach the people**
- **We give them skills to change their lives**
- **And change their world**
- **There's a choice we're offering**
- **To learn and then to earn**
- **Teaching how to be your best and find success**

“WE ARE THE SCHOOLS”

- **Bridge #1**
- **We teach our students**
- **What to know and where to go**
- **Give them class, common sense and confidence**
- **They can reach their goals**
- **If we take them by the hand**
- **It's our job to serve as God commands**

“WE ARE THE SCHOOLS”

- **Chorus:**
- **We are the schools**
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- **And change their world**
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- **Teaching how to be your best and find success**

“WE ARE THE SCHOOLS”

- **Bridge #2:**
- **If you're feeling blue,**
- **And you've lost your way;**
- **We will stand with you,**
- **Help you find better days**
- **It's your future that we teach**
- **It's your dreams that you can reach**
- **Together we can, achieve your plan**

“WE ARE THE SCHOOLS”

- **Chorus:**
- **We are the schools**
- **We teach the people**
- **We give them skills to change their lives**
- **And change their world**
- **There's a choice we're offering**
- **To learn and then to earn**
- **Teaching how to be your best and find success**
- **REPEAT TWICE**