Avoiding the Path to Closure

By Glenn McLaurin and Jennifer Ramey

Even before the COVID-19 pandemic, many higher education institutions were confronting structural and operating challenges. While universities and colleges with strong market presences and diversified revenue streams fared well through the 2010s, smaller tuition-dependent institutions experienced growing threats to enrollment, financial performance and long-term viability. The emergence of COVID-19 exacerbated these conditions, creating volatility and uncertainty in enrollment, curtailing auxiliary revenues, and threatening state funding and philanthropic giving.

Higher education is facing a sea of change, with rapidly changing models for delivering instruction, challenges to justify tuition prices, and a growing gap between the wealthiest elite institutions and everyone else. Vulnerable institutions may find that, with their futures less certain, more critical introspection is needed to determine whether they are on a path to closure or if a proactive approach to identifying a merger or consolidation partner could prove a strategic move to ensure long-term sustainability.

Recent Closures, Mergers and Declarations of Exigency

Thought leaders and rating agencies have been predicting a wave of college closures for nearly a decade, and while such drastic events have not yet come to pass, each year a growing number of institutions have announced pending closures or mergers or declared financial exigency. The COVID-19 pandemic was not the sole driver of such events in 2020, but it accelerated an increasing trend.

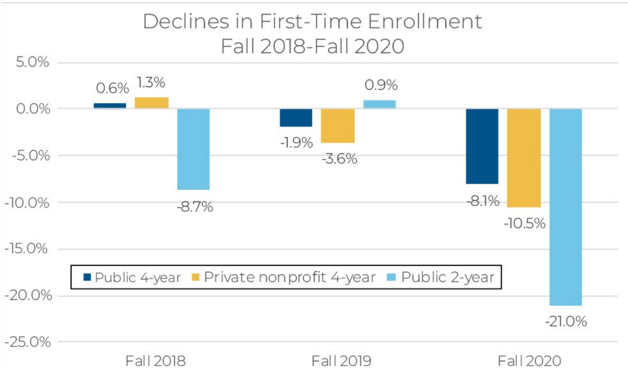
Between January 2020 and March 2021, at least 19 institutions announced plans to close or merge or declared financial exigency. Other institutions, however, wavered publicly on how to address their paths forward, including the San Francisco Art Institute and Notre Dame de Namur University, which both announced plans to suspend admissions of future cohorts before reversing their decisions. Similarly, the chancellor of the Vermont State Colleges System proposed, but subsequently withdrew, a proposal to close and consolidate several campuses. Enrollment declines, shifting demographics and expenses outpacing revenue growth were commonly cited as reasons for these actions.

These institutions, however, are far from the only ones facing revenue and enrollment challenges. In fall 2020, institutions faced sharper declines in first-time enrollment than in years past: Public four-year institutions experienced declines of 8.1%, and enrollment fell more than 10% at private four-year nonprofits.[1]

Institutions Announcing Closures, Mergers or Financial Exigency, January 2020-March 2021

STATE	SCHOOL	CONDITION	ANNOUNCED
Tennessee	Watkins College of Art	Merger	Jan-20
Oregon	Concordia University-Portland	Closure	Feb-20
Illinois	MacMurray College	Closure	Mar-20
Washington	Central Washington University	Exigency	Mar-20
Missouri	Missouri Western State University	Exigency	Mar-20
Ohio	Urbana University	Closure	Apr-20
Nebraska	Nebraska Christian College	Closure	Apr-20
Wisconsin	Holy Family College	Closure	May-20
Massachusetts	Pine Manor College	Merger	May-20
Missouri	Lincoln University	Exigency	May-20
Connecticut	University of Bridgeport	Merger	Jun-20
Delaware	Wesley College	Merger	Jul-20
Vermont	Marlboro College	Merger	Jul-20
Tennessee	Martin Methodist College	Merger	Sep-20
Oregon	Pacific Northwest College of Art	Merger	Sep-20
Washington	Cornish College of the Arts	Exigency	Oct-20
Washington	Pacific Lutheran University	Exigency	Dec-20
New York	Concordia College New York	Closure	Jan-21
Massachusetts	Becker College	Closure	Mar-21

First-Time Enrollments Dropped Significantly Over a 2-Year Period[2]



While the anticipated reopening of campuses in fall 2021 may alleviate some pain, long-term enrollment concerns still abound: Free Application for Federal Student Aid (FAFSA) completion rates among high school seniors have fallen for the second year in a row. As of April 30, 2021, 5.8% fewer FAFSAs had been submitted by high school seniors than in the prior year.[3]

With so many institutions facing financial concerns and negative enrollment trends, perhaps the question to ask is not “Why are these 19 colleges declaring closure or exigency or halting new enrollments?” but instead “Why have so few colleges made this declaration?”

The nonprofit nature of colleges and universities and widely varying interests of trustees and principal stakeholders can lead to institutions enduring years of operating losses, despite experiencing mounting liabilities, declining operating income and falling enrollment. The decision to close or seek a merger partner can be politically fraught and ignite significant backlash, leading many institutions to avoid addressing their financial sustainability challenges head-on.

Closure announcements may come as a surprise to the broader campus community, but the reality is that by the time an announcement is made, these institutions have been on the path to closure for a long time.

Breaking a Cycle of Ineffective Efforts

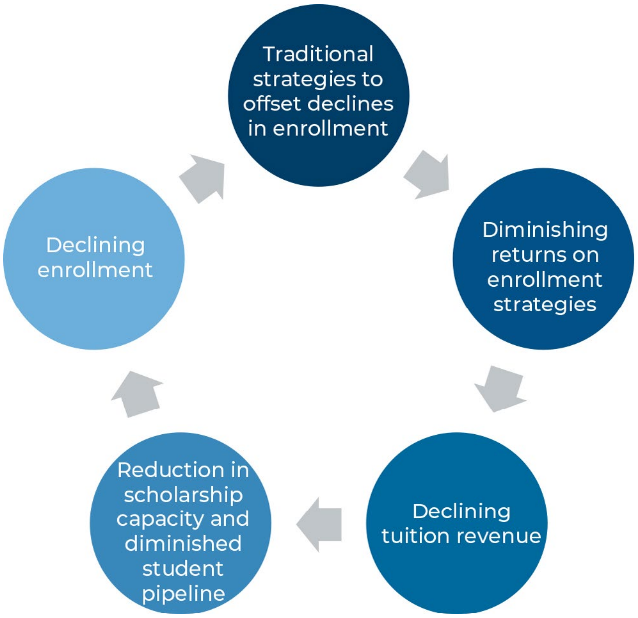
For institutions whose financial conditions have been further hurt by COVID-19, the goal for longterm survival should be avoiding the path to closure — or rerouting, if they are already on such a path.

The path to closure is defined by revenue shortfalls that exacerbate operating losses, leading to reductions in services and diminished capacity to recruit and retain students.

Various strategies can offset enrollment declines. Common measures over the past decade have included tuition rate increases paired with more aggressive tuition discounting, new academic program offerings and recruiting international students.

As returns on these strategies diminish, however, declining revenue eventually leads to reductions in administrative support and leadership turnover, which ultimately undermines the institution’s ability to invest in its core missions of instruction, research and service.

Declining Enrollment and the Path to Closure



Over time, even the most aggressive efforts may not be able to counter demographic and market positioning challenges. Institutions seeking to break this cycle may have to look beyond traditional strategies and consider alternatives like mergers or consolidations. Avoiding — or rerouting from — this path to closure in a strategic and effective manner requires a critical self-assessment.

Identifying the Warning Signs: A Self-Assessment

For institutions that may be on the path to closure, leaders' actions are driven far more by their sense of institutional efficiency, stability and preparedness than by specific financial ratios.

The following self-assessment can help leaders determine if they are, in fact, on a path to closure and, if so, provide guidance to shore up operations or explore new opportunities:

1. Are we efficient?

Efficiency looks different for each institution. Leadership can define these measures in terms of improved outputs rather than reduced inputs.

How do we, as an institution, define efficiency?

- Are there opportunities to take advantage of economies of scale?
- Have we leveraged institutional purchasing power to improve terms with vendors or explored consortium-based purchasing agreements?
- Do we understand where administrative and business process bottlenecks exist, as well as the root cause of these challenges?
- Have we searched for duplicative administrative services or identified self-service opportunities?

What data are needed to give leadership more time to execute our strategy?

- Can we track the enrollments, revenues and costs associated with each academic program? Are we prepared to subsidize select programs as part of our strategic mission?
- Do we have a data-driven understanding of our institutional space that will help us develop an integrated operating and capital planning budget, invest more strategically or address deferred maintenance?
- Do we understand the true costs of our research enterprise, and could we more effectively manage and reinvest our facilities and administrative (F&A) cost recovery?

2. Are we stable?

Institutional stability reflects both financial and nonfinancial measures and requires assessing both short-term and long-term enterprise risks.

- What is the institution's liquidity profile? How long can unrestricted resources, specifically cash and short-term investments, cover operating expenses?
- How dependent are we on a single revenue source, like tuition? Can we diversify our revenue streams?
- How much of our student pipeline comes from a single demographic group or geographic area or depends on the strength of a single program?

3. Are we prepared?

Whether the institution is in a position of strength or facing financial stress, leaders benefit by taking the time to evaluate how the institution may respond to worst-case scenarios — because there will undoubtedly be more unforeseen costs, instability and uncertainty in the future.

- Have we established communication channels with stakeholders to ensure that they understand the critical decisions necessary to address future financial challenges?
- Can we quickly respond to another transition from on-campus to off-campus living and instruction? Or can we support a mix of oncampus and remote learning? Should travel restrictions impact students?
- Which debt covenants must be maintained, and which debt obligations depend on specific revenue streams? Which capital plans can be paused indefinitely, and which deferred maintenance must be addressed to avoid critical failures?
- What are the first-, second- and thirdorder cost-cutting strategies that could be implemented in the event of continued budget deficits? To what extent will these capture short-term savings or risk creating long-term costs or reputational damage?

The answers to these questions may very well indicate that the institution is best served by seeking a merger partner. Doing so proactively affords leadership the time to find the right strategic partner and leverage when negotiating to protect faculty and staff and ensure the preservation of the mission. The failure to act until a liquidity crisis or untenable enrollment levels exist will increase the risk the institution will be forced to close.

APPROACHES TO MERGERS AND CONSOLIDATIONS

Reactive	Proactive
Common Features • Facing liquidity crisis • Violation of debt covenants or risk of default • At-risk accreditation • Enrollment below sustainable levels	Common Features: • Declining or weakening enrollment • Sufficient time and resources to plan for orderly transition and communicate with stakeholders • Specific, programmatic value for merger partner
Results In: • Difficulty finding merger partner • Limited ability to negotiate to protect faculty, staff, students, program offerings and mission • Rapid closure if no partners are identified	Results In: • Ability to be selective in identifying merger partner with complementary programs and mission • Greater ability to protect faculty, staff a nd students • Preservation of institutional legacy

The shifting higher education landscape will continue to serve as a challenge to the long-term viability of many institutions. Proactive leadership includes a willingness to engage in difficult conversations and conduct self-assessments now to ensure that, if a merger or consolidation is necessary, leaders are able to negotiate from a position of greater strength and find strategic alliances that best serve the institution's mission.

1. "Current Term Enrollment Estimates Fall 2020." National Student Clearinghouse Research Center, 2020. https://nscresearchcenter.org/wp-content/uploads/ CTEE_Report_Fall_2020.pdf.
2. "Current Term Enrollment Estimates Fall 2020."
3. 3 DeBaun, Bill. "#FormYourFuture FAFSA Tracker." Tableau Public, May 14, 2021. https://public.tableau.com/profile/ bill.debaun.national.college.access.network#!/vizhome FormYourFutureFAFSATracker/ComparebyCycle.

Key Takeaways

To strengthen their institutions' positioning for potential merger or consolidation opportunities, leaders should:

Think differently.

Approach a merger or consolidation from a forward-looking position rather than seeking an acquiring institution while your institution is facing the threat of pending closure.

Plan differently.

Proactively assess whether your institution is efficient, stable and prepared for worst-case scenarios.

Act differently.

Be willing to ask the hard, data-informed questions that could lead to the conclusion that the pursuit of a consolidation will enhance fiscal sustainability and ensure the attainment of your institution's mission.

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