Closing Time

*When enough is enough*
Today’s Presenter

Jeff Spear
Founder, Practice Leader

CFO Colleague
A word About CFO Colleague

Jeff Spear

Founded in 2013, CFO Colleague is made up of thirteen professionals who share a passion for higher education in general and Christian higher ed particularly. Our work includes service as interim Controllers and CFOs, gauging efficiency in the form of a marginal revenue analysis of academic programs, instituting a state of the art forecasting tool called COMP4cast®, assessing dining programs, assisting in the achievement of accreditation success, improving financial aid strategy and compliance and assessing operational performance of institutions and their subsets.

https://cfocolleague.com
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First question

Are we seeing a more than normal number of schools closing?
I. The Research

- As of August 2022 there were 1,655 private colleges and universities in the US
- As of April, 2023, around 250 colleges earned a C or below, per Forbes
- 106 colleges will have closed from 2016 through 2024 (including planned)
  

- The prior 25 years (1991 – 2015) there were 119 closures
- Rate of closure has approximately tripled since 2015
The Research

Four-Year Nonprofit Closures or Mergers 2016 to 2025 - Totals 106 (35% are Mergers)

Source: FORVIS Research, November 2023
Fun Fact

Jeff Spear
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Most colleges that closed were not under Department of Education sanction when they did so.

This reflects the substandard nature of the department’s financial responsibility ratio set.

Do well on the Primary Reserve component and you are home free.

Do poorly and there is little that can be done to fix it.
Second question

What factors contribute to the closure decision?
II. The typical progression

- Reduced recruitment for each of a number of cycles
- Declining NTR per student for each incoming class
- Increased reliance on temporary funding resources
- Rebound expectations precluding headcount cuts
- A growing COMP/NTR ratio that exceeds 70%
- Reduced donations by the core constituency
- Large operating losses and bank concerns
- Material decline in operating cash
- When we can’t help: An operating deficit that exceeds 40% of total comp or one that approaches total faculty comp alone
The typical progression

- 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 a particular event.
The typical progression – Cazenovia College (NY)

In a news release, the college said the population of college-aged individuals continues to shrink, making it hard for small private colleges like Cazenovia to maintain enrollment levels. Since its peak with nearly 1,000 students on campus, Cazenovia’s enrollment has dropped by over 40%.

It said the “business realities that led to this extremely difficult decision” were accelerated by the global pandemic and skyrocketing inflation.
The typical progression - Can we (CFOC) help?

CFO Colleague looks at a number of issues, with **one statistic** being the most significant

1. What is your history from a recruitment standpoint? Track the last seven fall semesters.
2. Where has your NTR fared for the past seven years? We look at the audited financials.
3. How much compensation has been paid over the same period? Audits / internal info
4. Graphing COMP/ NTR? Was it 70%? (blank layout)
5. Are there sufficient cash resources to mount a revitalization plan?
6. **Operating Deficit / COMP (the one statistic)**
   a. If it’s < 25%, we believe the school can be saved (provided there is some cash)
   b. Over 25% and < 40% is possible but will likely present profound challenges
   c. Over 40% and we wish them the best as they plan to close down
Third question

Have high school graduation rates increased or decreased?

a. How are small churches faring?
III. Demographic Notes - *Did the population really shrink?*

**COVID: INTERSECTS WITH SLOWING AND DECLINING NUMBER OF U.S. HIGH SCHOOL GRADUATES**

Demographic notes — *who stands to win?*

- Schools that adjust programs to student and market demands
  - Creating new programs or certificate/credential programs
  - Reducing and/or eliminating ones that no longer appeal or attract students
  - Focus on *taking education to the student*, versus requiring the student to come to you
- 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.
  - *What pond are you fishing from and what kind of fish do you offer?*
Demographic notes – *selective versus non-selective*

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

**Selective Institutions**
- Wealthier Americans

**Less Selective Institutions**
- Higher % of Pell and 1st gen students

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**1. Household incomes have risen considerably since 1970, but those of middle-class households have not climbed nearly as much as those of upper-income households.**

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<tr>
<td>1970</td>
<td>20,604</td>
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<tr>
<td>CHANGE</td>
<td>45</td>
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Source: Pew Research
Demographic notes – *selective versus non-selective*

**Selective Institutions (AAA rated)**
- Wealthier families wanting rigorous programs for their kids
- **Student A** *(bright kid)* would pay full price at an elite school
- Typically wait-list for students
- 6 yr. graduation rate for AAA graded = 95.0% (median)
- Revenue diversity
  - Student-generated revenue at AAA graded schools = 33.5%
- More geographic diversity, strong program and market position, maintaining pricing power and value proposition

**Less Selective Institutions (speculative grade)**
- Tend to attract those who don’t persist as well
- **Student A** thinks these institutions should be free
- 6 yr. grad rate for speculative graded = 57.9% (median)
- Lack of Revenue diversity
  - Student-generated revenue at speculative graded schools – 81.6%
- Less geographic diversity, limited program offerings or market position, falling enrollment, tuition discount rates increasing
Fourth question

How are churches (particularly small ones) faring post COVID?
IV. How is worship service attendance?

[Graph showing historical trend of church attendance from 1940 to 2020.]

GALLUP
How is worship service attendance?

Changes in Church Attendance, by Political Party

Figures are the percentage who say they attended church, synagogue, mosque or temple in the past seven days.

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<th>2016-2019</th>
<th>2020-2023</th>
<th>Change</th>
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<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>pct. pts.</td>
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<tr>
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<td>40</td>
<td>-5</td>
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<tr>
<td>Independents</td>
<td>30</td>
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<td>-5</td>
</tr>
<tr>
<td>Democrats</td>
<td>28</td>
<td>25</td>
<td>-3</td>
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</table>
How is worship service attendance?

- Sunday School and youth-oriented services or meetings are primary instruments for training children.
- Serious Christian students often are from small churches committed to intentional discipleship.
- A decline in church attendance will affect Sunday School and can also impact youth meetings.
- Anecdotally, it was the smaller churches that suffered the most due to the pandemic.
- Do you have a grasp on the pipelines that send students your way?
- A decline in just one or two churches can be disastrous.
Fifth question

Presuming a school has some resources to create a runway (and is non-selective) what strategies can offset the trends?
What do we do if we are not selective?

B. Mounting a good offense by addressing the root cause of revenue declines

1. What programs are performing well?
   - Compare the distribution of majors for those graduating versus fall sophomores two years prior
   - NTR/Tuition % on one Y axis – Retention % on X, with higher NTR creating bigger bubbles
   - The upper right is the magic quadrant but high retention is the better gauge if outside of that

Source: Pew Research
What do we do if we are not selective?

2. Enhancing 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
What do we do if we are not selective?

3. 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 postcard with a QR code for their program of interest. All ministry inquiries receive a postcard about Youth Ministries
   • 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

- Answering the questions that families have about investing in higher education
- Stetson University has great web pages for academic programs*
- [https://www.stetson.edu/other/academics/undergraduate/religious-studies.php](https://www.stetson.edu/other/academics/undergraduate/religious-studies.php)

*New Gainful Employment and Financial Value Transparency Framework disclosures will be effective soon
What do we do if we are not selective?

C. Our defensive strategy:

**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 1.5 times Faculty FTE
  7. Overall staff compensation should not exceed 1.2 times faculty compensation
  8. Set targets for compensation based on relative amounts being spent currently
What do we do if we are not selective?

D. Crafting The Revitalization 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 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
What do we do if we are not selective?

**E. 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
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
Sixth question

Are you assessing the risk of closure on a semi-annual basis? Know the trends.
Thank you!

Be an in-the-know CFO. Get hand-picked higher-ed news and our latest insights delivered to your inbox every two weeks.
Closing Time

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