



PARTHENON

Transitions in higher education

Safeguarding the interests of students



September 2018
By EY-Parthenon Education practice
Ernst & Young LLP

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Table of contents

Context and objectives	2
Executive summary	3
Part I: The problem	4
Part II: Current oversight and practices	7
Part III: A new metric	12
Conclusion	18
Methodology	19

Context and objectives

In the midst of a period of heightened financial risk for institutions of higher education and following the closures and mergers of several schools in the Commonwealth, the Project THESIS (Transitions in Higher Education: Safeguarding the Interests of Students) Working Group was formed by the Massachusetts Board of Higher Education in the summer of 2018. The Working Group, composed of members of the board and outside stakeholders, was charged with four key objectives related to nonprofit private institutions of higher education in Massachusetts*:

- (1) Defining the landscape of the trends and circumstances that create this unprecedented era of change and risk for private Institutions of Higher Education (IHE);
- (2) Reviewing current and potential methods to assess and monitor IHE fiscal health, including current financial reporting and transparency requirements used by federal, state and accrediting organizations;
- (3) Reviewing current and potential means to ensure IHE boards of trustees meet their fundamental oversight and fiduciary responsibility; and
- (4) Reviewing current and potential approaches to proactively mitigate risk in impending circumstances of closure or interruption of services that will maximally support student degree/program completion and the public interest

* Charge given to the Working Group by the Chairman of the Massachusetts Board of Higher Education and the Commissioner of Higher Education in Massachusetts.

Executive summary

EY-Parthenon supported the Project THESIS Working Group in addressing the first two objectives, and is also developing a potential metric intended to identify institutions at higher risk of being unable to meet their obligations to students today. Our findings are synthesized in this report:

- ▶ The report discusses the key findings emerging from the research and analysis aligned to the first two objectives, as well as a potential path forward. The Project THESIS Working Group, as the recipient of this report, will be able to use this fact-base to inform discussion about potential policy recommendations, for consideration by the Massachusetts Board of Higher Education by the end of this calendar year.
- ▶ The report makes three key points
 - ▶ First, publicly available data indicates that many institutions in the Commonwealth are in an increasingly precarious financial situation.
 - ▶ Second, existing metrics and oversight are insufficient to safeguard the interests of students in these changing times.
 - ▶ Finally, a new diagnostic tool may be better able to help identify institutions at risk of being unable to meet their obligations to students, and do so in a more timely manner than existing metrics.



Part I: The problem

Many higher education institutions are in an increasingly precarious financial situation, potentially putting students at risk

In 2013, Harvard Business School Professor Clayton Christensen, known for his studies of disruptive innovation, boldly predicted that “50% of the 4,000 colleges and universities in the U.S. will be bankrupt in the next 10 to 15 years.”¹ While reality has so far been less stark than the prediction, there has been mounting evidence of a problem brewing in higher education. In July of 2018, Moody’s Investors Service, a leading Wall Street bond rating company, released a report predicting a tripling of the number of closures of private nonprofit institutions in the coming years compared to the average of the last decade.²

In line with this trend, over the past five years, the Commonwealth of Massachusetts has seen an uptick in closure and merger activity: six institutions have completed closures, while another six have completed mergers, with some receiving substantial attention in the popular press. That this much activity has already occurred in Massachusetts is, in some ways, unsurprising: private institutions tend to be at greater risk of closure, and Massachusetts has a disproportionate share of private, nonprofit colleges and universities (hereafter referred to as nonprofit institutions of higher education or NPIHEs): 48% of the state’s institutions are NPIHEs, relative to the national share of 28%. Similarly, the majority of students (this includes both Massachusetts residents and out-of-state students) enrolled in higher education in Massachusetts are in these schools (56% versus 20% nationally, though over 50% of Massachusetts residents do attend public schools).

Analysis of a number of publicly available metrics reveals that anywhere from one-fifth to one-third of NPIHEs in the state show some signs of financial difficulty. Over the past several years, among Massachusetts NPIHEs:

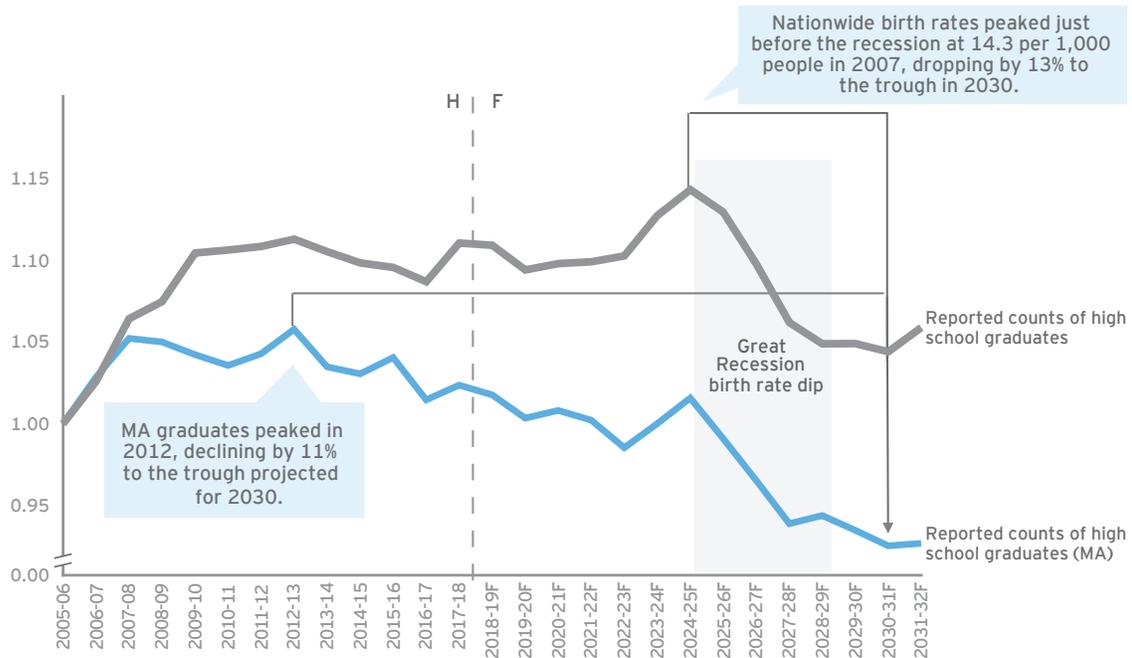
- ▶ 24% saw cumulative decreases in enrollment greater than 10% (up from 8% of NPIHEs over the prior five-year period) in the period of 2011–2016

- ▶ 34% saw expense growth increase by 5 percentage points or more above revenue growth from 2011 to 2016³
- ▶ 30% received a C- or below on the “Forbes Financial Health Grades” list in 2017, up from 24% receiving equivalent Grade Point Average (GPA) in 2014⁴
- ▶ 14% received a Department of Education (DOE) Financial Responsibility Score of 1.5 or below in 2016, vs. 9% in 2011
- ▶ 31% saw a decline in average DOE Financial Responsibility Score in the 5-year period ending 2016 versus the 5-year period ending in 2011⁵

The Department of Education Financial Responsibility Composite score is a composite of three ratios derived from an institution’s audited financial statements. The three ratios are a primary reserve ratio, an equity ratio, and a net income ratio. The composite score reflects the overall financial health of institutions along a scale from -1 to +3. A score of -1.0 to .9 indicates that an institution is financially irresponsible, while a score of 1.0 to 1.4 flags an institution for monitoring. A score of 1.5 to 3.0 is considered financially responsible. A school that is considered “not financially responsible” can continue to participate in Title IV funding programs under provisional certificate, but it is subject to cash monitoring requirements.

Moreover, the demographic drivers that are contributing to this financial instability show few signs of slowing. One of the most significant factors contributing to financial difficulty among institutions is a decline in enrollment of domestic students of traditional college age. As shown in Figure 1, the number of high school graduates is projected to decline by over 6% nationally by 2030. This problem is especially acute in Massachusetts, where the number of high school graduates is projected to decline by 11% by 2030 from the peak in 2012. Given that 61% of students currently enrolled as first-time undergraduates

Figure 1: Total public and private high school graduates in the United States and Massachusetts, indexed to 2005



Note: Birth rate is calculated as number of births per 1,000 people.

Sources: Western Interstate Commission for Higher Education: Knocking at the College Door: Projections of High School Graduates, December 2016; The World Bank

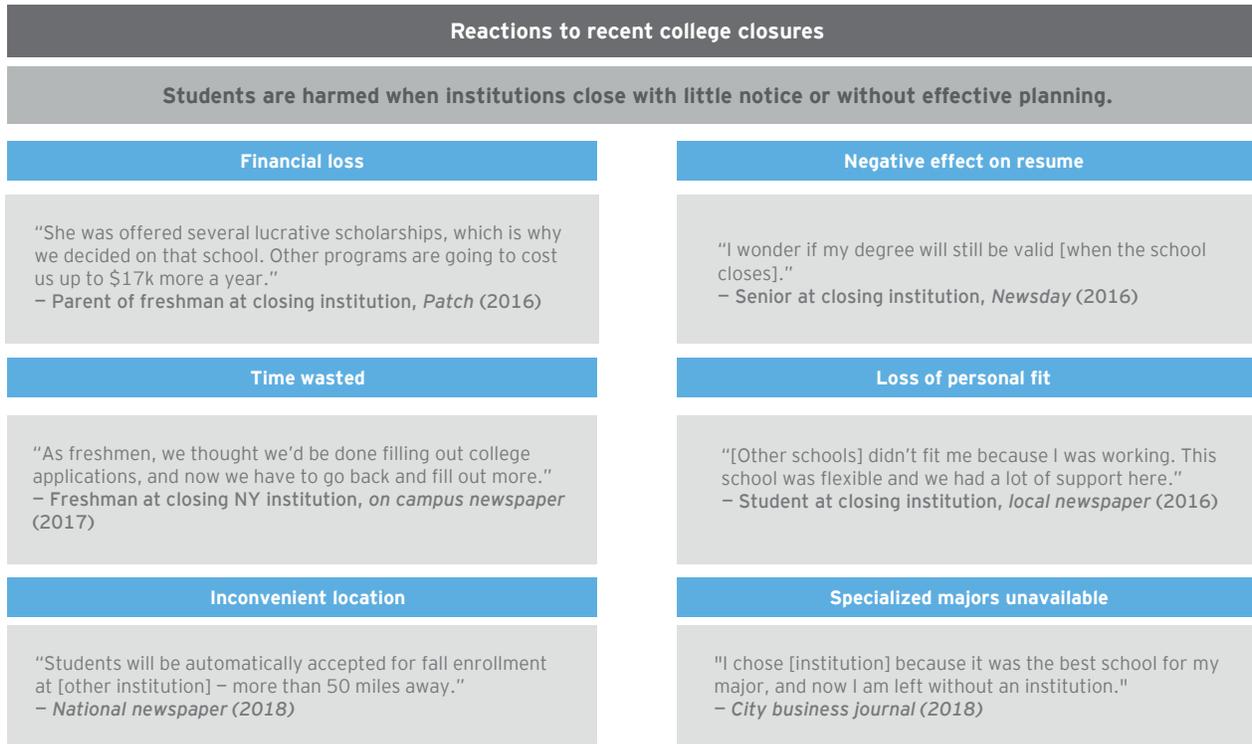
in Massachusetts hail from within the state, this decline could have a significant impact on all Massachusetts schools, but may in fact have a disproportionate effect on small NPIHEs, which generally serve “traditional” students in the 18-24 year age range and typically have a more local “catchment” area than the larger, more research intensive NPIHEs. The 26 NPIHEs in Massachusetts with under 1,000 students have seen an annual decline in enrollment of 3.3% from 2011 to 2017 relative to an annual decline of 1.6% for NPIHEs of this size nationally, and a decline of 2.0% for larger NPIHEs.⁶

On the other hand, the Commonwealth has historically benefited from its steady enrollment of international students—and unlike other areas of the country, Massachusetts (and the New England area more broadly) has been more resilient against the recent downturn in international student enrollment. Still, in the aggregate enrollment growth has been leveling off (except for highly

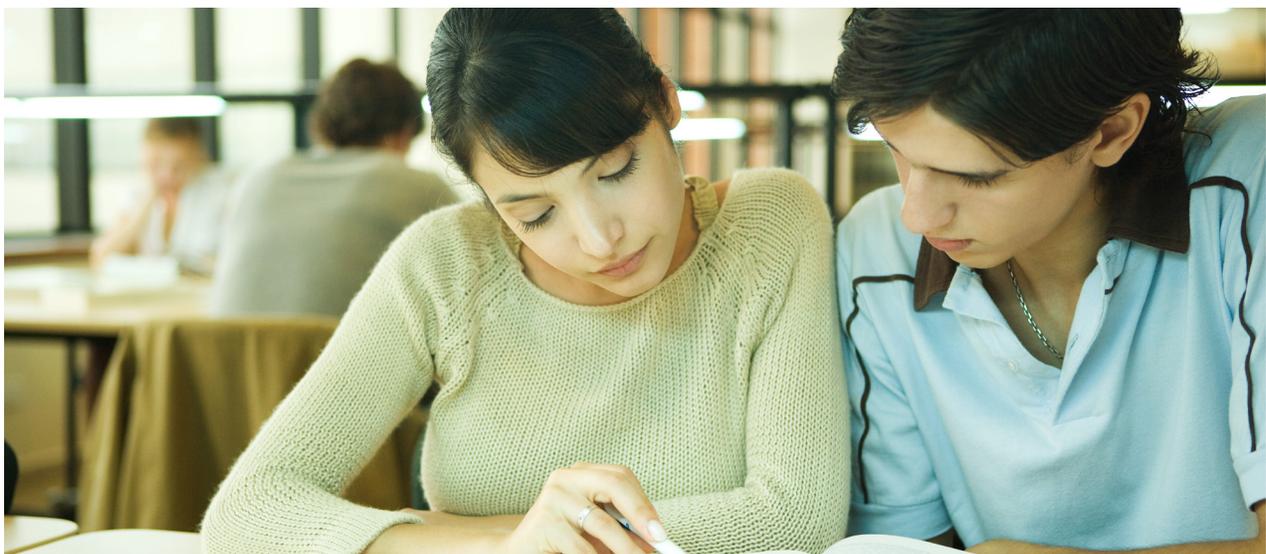
selective institutions), and the number of international students today is insufficient to compensate for the upcoming decrease in traditional-age Massachusetts high school graduates.

Given these shifting demographics, some level of reduction in the capacity to serve students in the Commonwealth may be inevitable. With that in mind, it would likely be prudent to safeguard the interests of students in attendance at institutions which are no longer sustainable, as these institutions seek pathways to either sustaining their mission through partnerships, alliances or mergers, or closing responsibly and with dignity. When schools close – and particularly when they close suddenly – it can lead to a number of damaging consequences for students, as highlighted in Figure 2. The question, then, becomes how to better protect these students and make sure that they and their families can make informed choices in this ever-shifting landscape.

Figure 2: Reactions to recent college closures



Sources: *Boston Globe*, Fox 42 KPTM, Oregon Public Broadcasting, ABC 10News, *Patch*, *Newsday*, *BSU Daily News*, *VT Digger*, *Boston Herald*, *Boston Business Journal*



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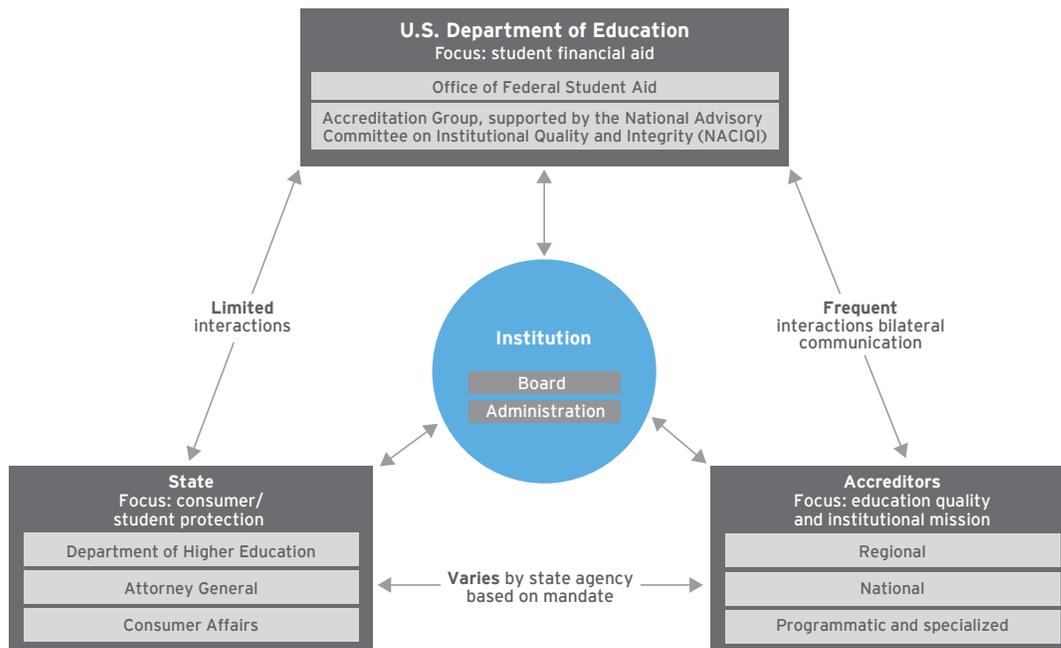
Part II: Current oversight and practices

Current oversight and metrics are insufficient to safeguard the interests of students in these changing times

Oversight of NPIHEs involves three main entities, with varying levels of interactions, illustrated in Figure 3. The U.S. Department of Education primarily focuses on federal student financial aid, such as Pell grants. The DOE also produces the Financial Responsibility Composite Score. This score was intended as a way for institutions to demonstrate that they are maintaining the standards of financial responsibility necessary to participate in Title IV federal financial aid funds.⁷ Over time, the DOE score has evolved into a metric that is frequently considered by accreditors and states alike to gain a high-level assessment of the financial health of the institutions under their purview.

The Composite Financial Index (CFI) is comprised of four financial ratios, which have varying weights within the index. It includes an institution's primary reserve ratio (35%), its net income ratio (10%), its return on assets ratio (20%), and its viability ratio (35%).⁸

Figure 3: Oversight actors



Note: As a general rule, accreditors require institutional teach out plans during closure and withdrawal of status following two years of probation
 Source: EY-Parthenon interviews and analysis

Accreditors also have fairly frequent interaction both with the DOE and with the institutions themselves. As Figure 4 shows, there are six regional accrediting bodies across the United States in addition to national and specialized program accreditors. Almost all consider the DOE score as part of their financial review of schools, but also focus on a holistic review⁹ of financial position (which can involve reviewing a range of financial documents rather than putting stock in a single score) to determine whether institutions have the resources to fulfill their missions. Additionally, some accreditors use the CFI, or a modification of it, to examine institutional financial health and flag schools that might be of concern.

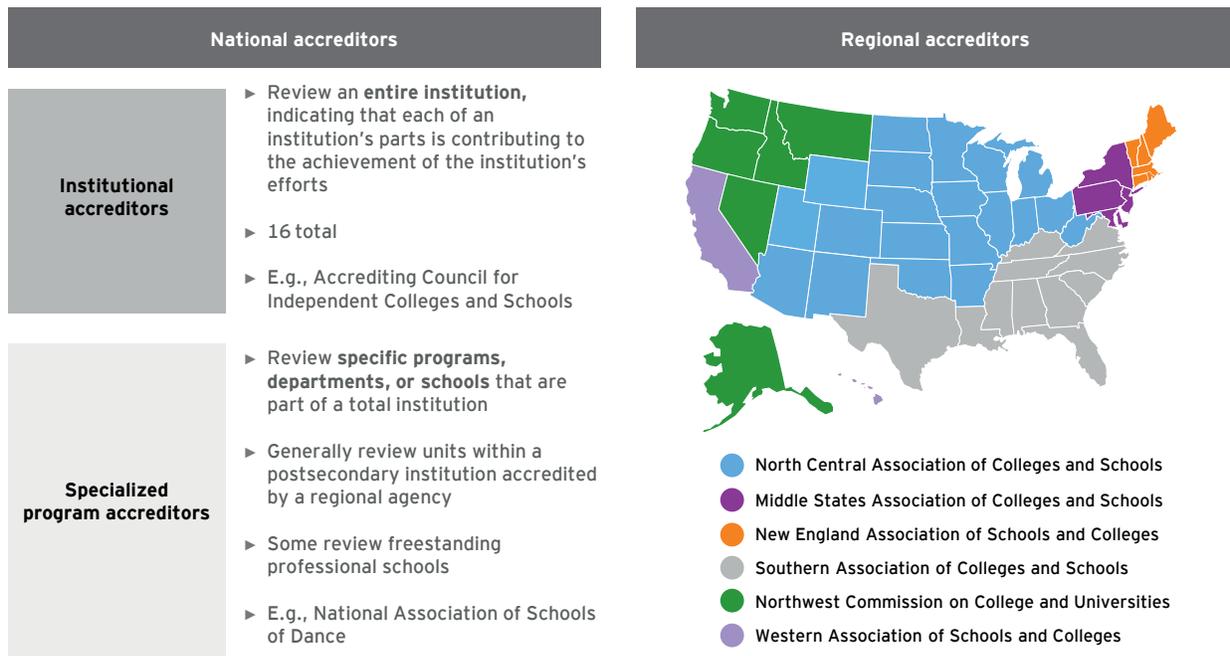
Regional accreditors typically coordinate with NPIHE governing body (trustees) and leadership to understand, among the many different issues to which they pay attention, whether there are any challenges related to enrollment and overall financial health. Accreditors require schools to assemble plans to address these risks if identified (though if the challenges are not proactively

raised by school leadership, they may be identified only through fairly infrequent data submissions). Most accreditors do not rely on any single specific metric—leaving wide discretion and significant variation in how to handle serious financial issues. Accreditors report that they typically do not raise financial issues with other entities (state or federal) until late in the process, when they must withdraw accreditation or a school must close.

Finally, the third relevant set of entities are at the State level and can encompass the Departments of Higher Education and their Boards, as well as the Attorney General's office. These entities are largely focused on student and consumer protection, but levels of oversight over private nonprofit higher education differ by state. To help Massachusetts consider its plans going forward, this report evaluates the practices of several comparable states, as outlined in Figure 5.

These states were selected as comparable given their high concentration of private colleges. Based on this

Figure 4: Accreditor overview



Note: US Department of Education, Database of Accredited Postsecondary Institutions and Programs

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sampling of states, some have broad oversight over private institutions, while others may have a number of exempt institutions from jurisdiction of the State Department of Higher Education based on religious mission, years of good-standing, or characteristics of the charter. States also differ in terms of their relationships to accrediting bodies – while some coordinate fairly closely with accreditors and are aware of their oversight practices, others generally do not coordinate with accreditors unless a school has begun to enter closure proceedings. Finally, states have access to a number of oversight practices, which could include reviewing the annual report of schools, authorizing and re-authorizing institutions or programs, approving new programs, and setting eligibility requirements for state financial aid. Some of these available oversight practices could help states better monitor institutional financial health (e.g., setting eligibility requirements for institutions to access state-funded student financial aid, which could include providing additional financial transparency to the state).

However, states are often statutorily unable or unwilling in practice to use these oversight levers.

Quite simply, many states do not see oversight of private institutions as their role. “We don’t have a systematic way of monitoring private institutions—we don’t see that as our role,” one state higher education representative commented in an interview. Another noted, “Public institutions are our primary focus” and described little appetite for getting involved with private institutions. Most higher education representatives saw the role of monitoring private institutions as falling to accreditors. They also voiced a concern that more public scrutiny of private institutions could inadvertently destabilize schools that are already struggling. States do see a clear role for themselves in instances of outright closure, including preserving student records and verifying teach-out plans – but there is little consensus on what the right role for the state should be prior to closure, and how long before closure the state should intervene.

Figure 5: Overview of state oversight practices

These findings are based on a select sample of states with relatively high concentrations of private institutions, with which EY-Parthenon was able to arrange phone interviews to understand the varying levels of state oversight and enforcement.

		Ohio	New York	Virginia	South Carolina	Massachusetts
Oversight practices	Review annual report	✓		✓	✓	
	Authorize institutions and provide licensure	✓	✓	✓	✓	✓
	Approve programs	✓	✓			✓
	Reauthorize institutions or programs	✓		✓		
	School eligibility requirements for financial aid	✓			✓	

Note: *Oversight reflects assessment of breadth of private institutions covered by state oversight (e.g., how many are exempt) and level of oversight practices; VA refers to authorization as certification and must be recertified annually; OH reauthorization timed in line with relevant re-accreditation process; SC only authorizes out-of-state entities and refers to it as licensing.

Source: EY-Parthenon analysis and primary research

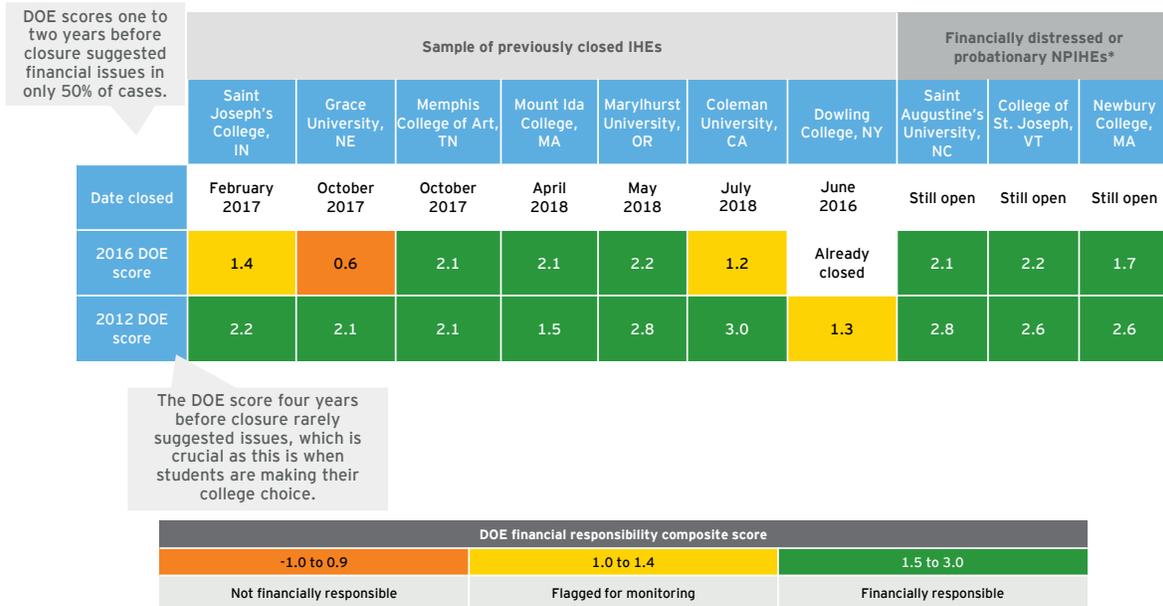
Ultimately, when it comes to safeguarding student interests and notifying them when a school may be in financial difficulty, it is not clear that any of these three entities – federal, regional accreditors, and state – have a clear responsibility to do so. Even if they did, the metrics that are typically used to evaluate financial sustainability today may be insufficient to flag risk in a timely manner, as exhibited in Figure 6. An analysis of a sample of recently closed or financially struggling schools suggests that the DOE score, which is typically considered by states and accreditors, flagged issues of financial difficulty in only 50% of cases—and even then, only one to two years prior to closure. Crucially, four years before the schools closed (when students were applying and making their decisions about which school to attend), almost none of these institutions had a DOE score that would have fallen into the territory of “financially irresponsible” or even “flagged for monitoring.” Instead, according to the analysis, the DOE scores suggested that these schools were financially healthy, even though they were ultimately

unable to fulfill their four-year commitment to most of the students they were admitting at the time. There are many reasons why the DOE score may be unable to adequately flag financial risk in a timely manner:

- ▶ It is a lagging metric
- ▶ It is somewhat vulnerable to manipulation. For example, a sale of institutional real estate during a financial cycle (e.g., fiscal year) or taking out loans to provide liquidity before immediately repaying them are potential ways to avoid falling below problematic DOE thresholds
- ▶ Some accreditors also only “flag” a school that has fallen below the threshold for multiple years in a row, creating unintended incentives for schools to get just over the threshold in the years directly following ones where they have fallen below

The current situation presents a conundrum for those who want to better protect students from the harms of closure discussed earlier. States and accrediting bodies evaluated

Figure 6: DOE scores for previously closed/financially distressed and probationary IHEs



*Financially distressed or probationary NPIHEs have been flagged by accreditors for probation or monitoring
 Sources: Integrated Postsecondary Education Data System (IPEDS); Inside Higher Education, “Too Late for a Fix?” August 8, 2018

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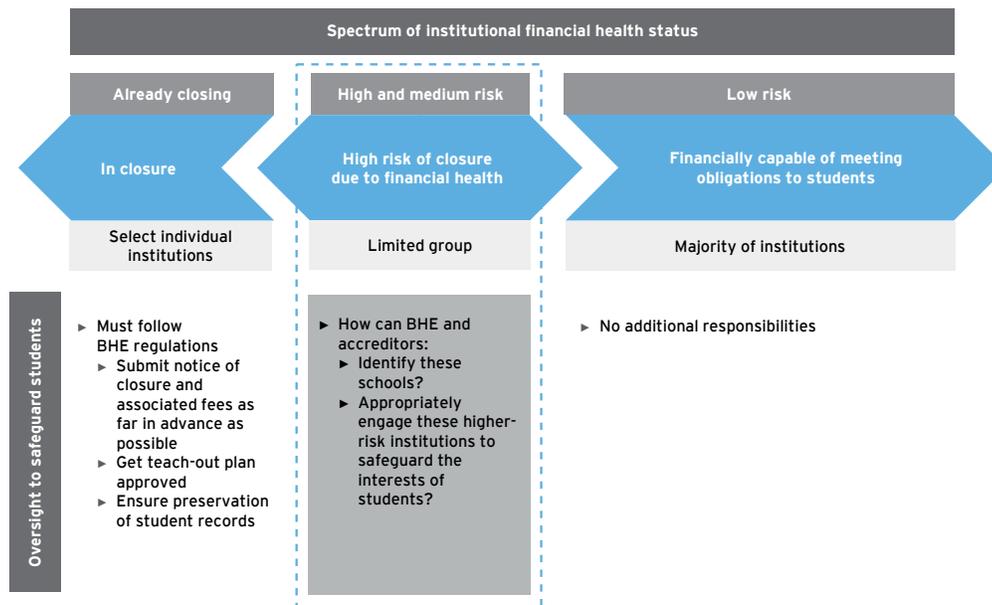
do not currently have regulations that proactively protect student welfare when schools are financially challenged at best, these policies often just result in a probationary period, which may or may not be communicated to students and families. But even if states and accrediting bodies had more proactive policies, the metrics traditionally used to verify that colleges are in good financial health demonstrate a significant lag and do not give nearly enough warning to students and families that they may be attending or planning to attend an institution with a risk of closure.

Massachusetts is also struggling with this challenge. In Figure 7, the role of the state when it comes to outright closures is clear – there are state regulations that lay out what the state’s responsibilities are when a college is closing.¹⁰ And, on the other hand, the state likely does not need or want to add regulatory burden to the schools that are a very low risk of financial difficulty – the majority of private nonprofit schools today. But the group in the

middle – schools that are at higher risk of closure due to financial health – is the one that raises the most questions about the state’s role. For this group of schools, the key questions are:

- ▶ How, and when, can the Massachusetts Board of Higher Education (BHE) and the accrediting agency, New England Association of Schools and Colleges (NEASC) identify these schools?
- ▶ How can they work independently or together to engage these higher risk institutions in discussions or plans to safeguard the interests of students?

Figure 7: Spectrum of institutional financial health status



Source: MA BHE

Part III: A new metric

A new diagnostic tool may be better able to identify institutions at risk of being unable to meet their obligations to students, in a more timely manner than existing metrics.

The metrics currently used, such as the DOE score, to monitor the fiscal health and viability of NPIHEs are not just lagging indicators that are potentially susceptible to manipulation, but they are also focused on institutional characteristics, not the potential impact on students. As state policymakers and accreditors continue to think about their role in a higher education landscape where the risk of school closure is increasing, a metric that puts students at the forefront may be what is truly needed.

This report introduces the concept of a teach-out viability metric, a screening metric that helps assess when an institution's financial challenges reach an extent that could cause the institution in question to not be able to deliver on the "promise" made to students upon matriculation. The teach-out viability metric (hereafter referred to as TVM) assesses a four-year institution's ability to provide the resources required to allow currently admitted and enrolled students to complete their degrees within a reasonable timeframe. It asks a simple question: can the school meet its existing obligation to its students?

The idea of a "teach-out" is a well-accepted one in higher education and is within the current regulatory province of the MA DHE. Federal, state, and accrediting bodies often require schools to develop a teach-out plan when they are faced with closure. A teach-out plan generally requires that schools ensure that students have access to reasonably similar programs, which they can complete in a reasonable timeline.¹¹ The plan must also include provisions for continuing to provide the necessary academic support services. Many schools, when faced with closure, will create a teach-out agreement with a nearby institution rather than host the teach-out on their own campus. For the purposes of the TVM described here, schools are assumed to teach out their students on their own campuses, which is the only teach-out scenario they could achieve without external action or assistance.



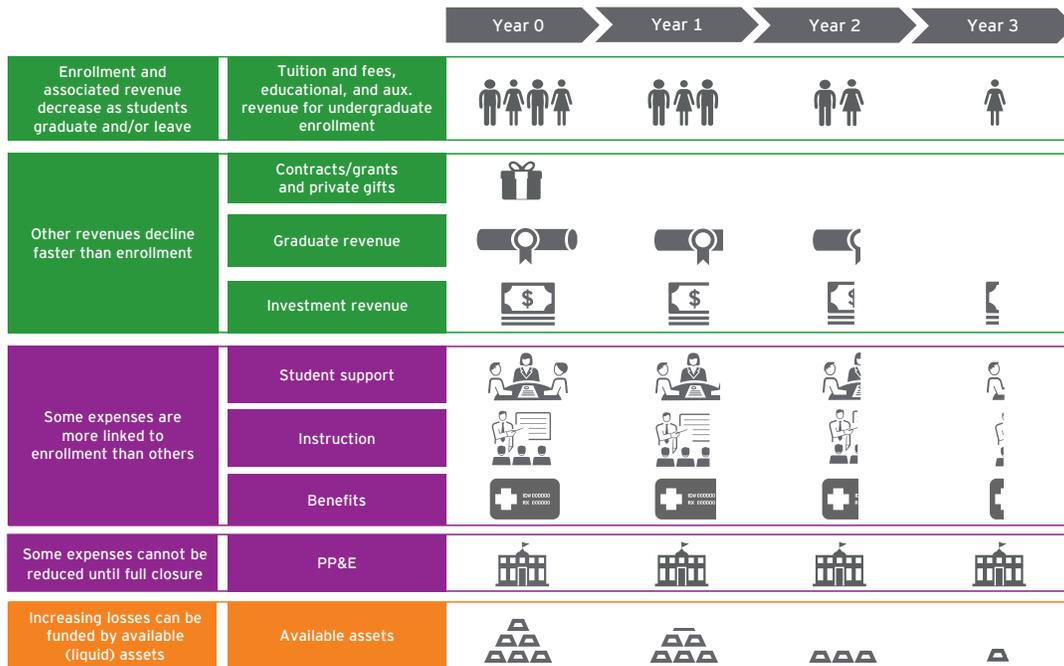
Preliminary analysis and simulations conducted with the TVM indicate that it could have promise as a proactive screening metric for NPIHEs. Moreover, it appears to offer a number of benefits:

- ▶ First, the TVM **could identify potential financial difficulty early**. Based on analysis of the same sample of recently closed institutions and institutions in probationary status, the TVM indicates the majority of these schools as potentially at risk, and does so about 3-4 years earlier than the DOE score would have.
- ▶ Second, the TVM **is intuitively understandable**. The metric indicates that institutions with operating profits and/or significant assets are generally more stable than those with operating deficits, low assets, or high reliance on one-time gifts – a more intuitive way of understanding financial issues than the more complex ratios that make up the DOE score.
- ▶ Third, the TVM also has a very specific purpose: it is intended to be an **assessment** of where institutions are **today** in terms of their ability to support a teach-out. It is meant to answer one specific question (“Can an institution meet its obligation to its current students?”), rather than analyzing all aspects of financial health. The metric is not meant to be a forecast of which institutions might fail in the future. Instead, it could be used by policymakers and accreditors as a **screening tool** to help identify institutions with which they should be holding additional discussions about existing financial challenges and potential plans to remedy the situation. It may be that these institutions have clear and reasonable financial plans. The TVM does not actually assess the likelihood that any institution’s specific plan will work. It is simply intended to serve as a trigger, or early warning indicator, that occurs early enough in the process to make the very creation and execution of potential plans more viable.
- ▶ Fourth, the metric aligns with the responsibility of the MA BHE **to prevent disruption to students**.

The TVM is assessed using a series of assumptions about an institution's changing enrollment, revenue, expenses and assets over the period of a four-year teach-out, as visualized in Figure 8. These assumptions have thus far been vetted with several private nonprofit institution Chief Financial Officers (CFOs) in the Commonwealth, and have been refined based on their insights. The initial reception to the metric has been positive, meriting additional exploration.

At this point in time, the TVM is calculated using publicly available IPEDS data on each institution. As such, it holds all schools to the same standard of having to meet their obligations to all their current students. This is useful in gaining an indication as to whether schools might be at risk of being unable to meet these obligations.

Figure 8: Overview of TVM methodology



Source: EY-Parthenon analysis; TVM

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Initial simulations and analyses of the TVM suggest that schools will likely fall into three main categories based on their ability to fully cover a four-year teach-out:

► **Low risk:**

These institutions can cover well over four years of a teach-out according to the analysis. Given their substantial assets and sustainable operating model, these schools show reduced risk of being unable to meet their obligations to students

► **Medium risk:**

Though analysis indicates these institutions exhibit some risk to meeting their full, multi-year obligation to all students, they are able to cover costs long enough (longer than two years) to establish, meet or revise plans that could either dramatically improve their financial position or proactively protect students (e.g., by having the students complete their degree at a nearby institution in stronger financial standing)

► **High risk:**

These schools are assessed at high risk of being unable to teach out their current students, as analysis indicates they can cover less than two years of a teach-out in their current financial situation.

These conceptual categories help to illustrate how the TVM could be used as a screening tool. This kind of framework can help avoid a “one-size-fits-all” approach that might apply the same level of “intervention” to all schools regardless of the level of risk involved.

- For example, accreditors and states should have little need to further scrutinize the low risk schools, as it is clear that these schools could meet their obligation to students. On the other hand, accreditors and/or states could ask high and perhaps medium risk schools to provide more recent data to assess their TVM since publicly available IPEDS data has an 18-24 month lag. In that amount of time, it is certainly possible for some institutions to have developed and even begun implementing plans to improve financial sustainability and ability to meet obligations to students. It is also possible for the TVM to have worsened over this period of time. Even assuming that the data categories would be the same as what each school is already required

to provide to IPEDS for federal reporting purposes, the value of calculating a more “real-time” TVM for a subset of schools needs to be weighed against the potential additional burden on schools and accreditors/states of collecting and analyzing the data.

- ▶ The schools in the medium risk category present opportunity and need for further attention from the Trustees and leadership of the schools, to address what the financial future of their respective school may look like. It is also the case that many schools may experience dips in their financial measures and be able to institute changes to their business models and finances such that they recover successfully. The TVM does not attempt to adjudicate how successful these changes or plans would be, but merely identifies the potential need for conversation between NPIHEs, Boards, accreditors and the state.

- ▶ Finally, schools in the high risk category likely warrant deeper and more urgent attention from states and accrediting bodies given their potentially much more limited runway.

The point, ultimately, is that the TVM is just one part of a larger solution. It could feed into a broader, more holistic process for states and accrediting bodies to engage more deeply with NPIHEs. A simulation of the TVM, as applied to all NPIHEs in Massachusetts, helps to create a picture of the characteristics of schools that may be at risk. As seen in Figure 9, the schools in the “high risk” segment are generally smaller, considerably less selective, and have a lower endowment per student. Perhaps of greatest concern, “high risk” schools enroll a disproportionate amount of students who receive Pell Grants. By federal rules, these students can access their Pell Grant money for only 12 semesters, which raises the importance of seamless post-secondary pathways for these students.

Figure 9: Characteristics of schools in TVM categories

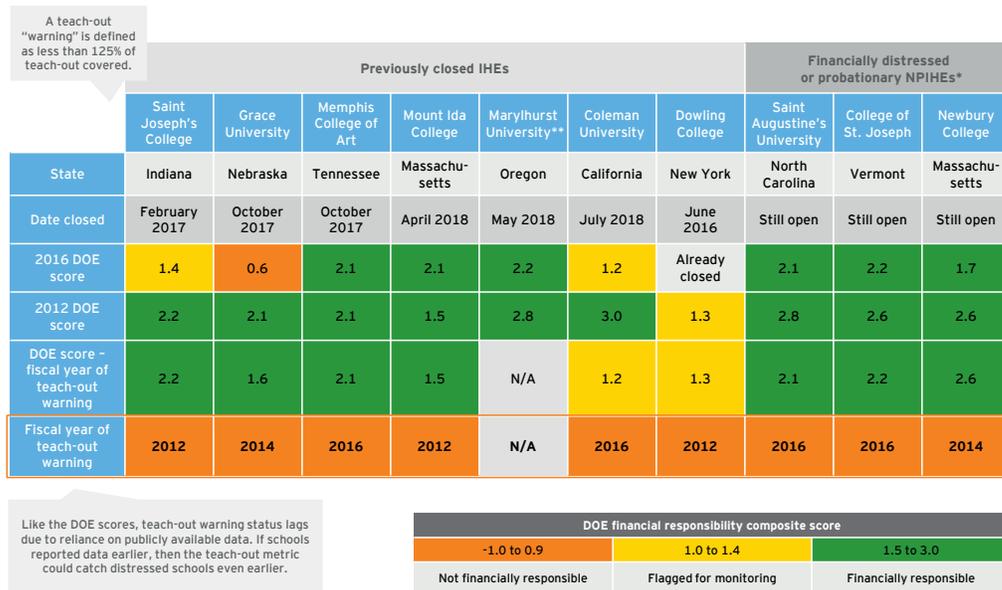
		Teach-out model category (Massachusetts schools)		
		High risk	Medium risk	Low risk
Descriptive characteristics	Average size (middle 50%)	1,000-2,100 students	1,000-4,500 students	1,700-4,900 students
	Average acceptance rate	77%	67%	54%
	Average yearly enrollment growth ('05-'16)	-1.2%	1.4%	1.0%
	Average endowment/FTE student	\$13,000	\$44,700	\$222,100
	First-time students awarded Pell Grants	46%	31%	26%
	Tuition and fees* as a percent of revenue	95%	82%	59%
	Liabilities as a percent of total assets	49%	45%	35%

Notes: 1) Schools without undergraduate students or with no recorded first-time enrollment have been removed from this analysis; excludes two-year institutions; tuition and fees include auxiliary revenue such as dorm and dining, as well as federal student aid; 2) Average size (middle 50%) is determined by 25th and 75th percentiles of NPIHEs in the category; 3) Average endowment/FTE student is determined by mean of endowment per FTE student for NPIHEs in the category; 4) First-time students awarded Pell Grants are determined by median of the percent of first-time students awarded Pell Grants at NPIHEs in the category

Source: IPEDS; TVM

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Figure 10: TVM applied to previously closed or financial distressed or probationary IHEs



*Financially distressed or probationary NPIHEs have been flagged by accreditors for probation or monitoring

**Marylhurst University generates an operating surplus per student, so the model predicts high levels of teach-out capability.

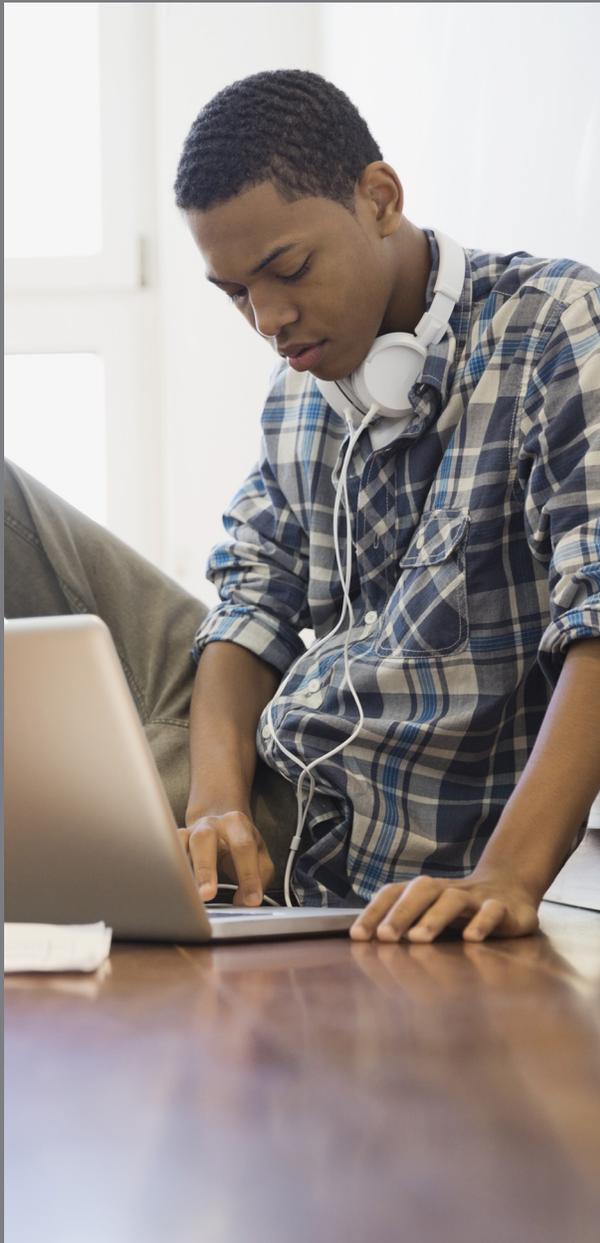
Source: IPEDS; Inside Higher Education, "Too Late for a Fix?" August 8, 2018; TVM

They may also have access to fewer financial resources if their school closes abruptly. This reality highlights the importance of placing students first and protecting their future.

As Massachusetts considers how to safeguard the interests of students in a new age of higher education, the TVM metric can be a potentially more effective screening tool and early warning indicator than current metrics, as illustrated in Figure 10. Utilizing the same sample of recently closed schools, the TVM flagged signs of financial difficulty among this group in almost all instances, and, in most cases, several years before the DOE score. This means that states and accrediting bodies would have had more notice and time to engage with schools to assist in creating plans that could better safeguard the interests of students.

The TVM metric offers a potential new way of approaching the issues discussed in this report, and could be part of a

broader strategy to safeguard the interests of students. It focuses on students first, and is a relatively simple but powerful commentary on an institution's ability to meet its obligation to current students. While there are many other factors that states and accrediting bodies may want to consider about an institution, the TVM could offer a simple way to identify institutions where there is potentially greater risk for students. More time to study and refine the metric is likely warranted before its implementation could be considered; at present, the metric has not been vetted more broadly or approved by the Board of Higher Education and, as such, identifying where schools fall within the risk categories is beyond the scope of this effort. However, given the apparent benefits of the TVM, it is well worth asking the question of whether this student-centered metric is one that could be seriously considered, and one that warrants further study and investigation to fine tune the metric for Massachusetts' needs.



Conclusion

We hope that through this research and analysis we have informed a strong, robust dialogue among institutions, accreditors and state offices, by shedding more light on the facts and current practices. In assessing the nature of the problem through this effort, it is clear that Massachusetts, and the rest of the country more generally, is entering a new age of higher education. Institutions will be faced with many challenges, and some may ultimately need to merge, restructure or close. As institutions face these challenges, students and their interests will inevitably be at risk, posing the question of who will safeguard students' interests and how this will be accomplished, as current metrics may be inadequate for the task. However, there is no one-size-fits-all solution here, and, as such, the next steps now begin for the Working Group to address complex questions such as:

- ▶ How can the interests of students best be safeguarded, and what can be done to help students and their families make informed choices in an ever-shifting landscape of higher education?
- ▶ How and when will the state and accrediting body work together to identify schools that might be at high risk of closure due to financial health?
- ▶ How will these bodies work together to appropriately engage institutions at a higher level of risk to safeguard the interests of students?
- ▶ How will the process – any process that is recommended – enable confidential conversations to take place between the institutions and accrediting or regulatory entities, to create sufficient space for plan development and evaluation, while also making sure that public interests are protected?

Methodology

The TVM utilizes data from a publicly available resource, the Integrated Postsecondary Data System (IPEDS). The assessment simulates a four-year teach-out, applying the same assumptions to all schools equally. For each school, the metric analyzes operating revenue and operating expenses, creating either an operating surplus or deficit at the end of each year. Deficits can be funded by liquid assets until these assets are depleted.

The revenue assessment includes tuition, fees and auxiliary revenue from undergraduate and graduate students, private gifts, state grants, “other” revenue, and investment returns. The metric assumes that a school will not admit any new students, but that current students continue to pay net tuition and fees through graduation (with the institution’s average retention rate applied to determine the number of students in each year). After the teach-out is announced in the first year, schools no longer receive private gifts or state grants.

The expense assessment is based on how quickly institutions can ramp down various operations as needed. Some costs at a university are more variable and will be reduced as students graduate, but others are more difficult to ramp down (e.g., instructional expenses, where there is a need to maintain programs). Along these lines, some expenses decrease faster during the teach-out period than others based on assumptions related to the cost structure needed to maintain programs through the last graduating class. Other expenses are assumed to stay constant throughout the teach-out period so that the institution can maintain buildings and other services.

Finally, throughout the teach-out period an operating deficit can be covered by accessing liquid unrestricted net assets or temporarily unrestricted net assets until those assets are fully spent down. The metric also enables schools to liquidate a small portion of physical assets at the end of the third full year of the teach-out, under the assumption that it would take time to liquidate these assets.



These assumptions were discussed with a small group of CFOs of private nonprofit higher education institutions in Massachusetts, and have also been subjected to sensitivity analyses. Ultimately, while some inputs into the metric are more sensitive than others, the output of the metric, the implied level of risk, does not materially change when these inputs are varied.

Endnotes

- ¹ <https://bothsidesofthetable.com/in-15-years-from-now-half-of-us-universities-may-be-in-bankruptcy-my-surprise-discussion-with-979f93bd6874>; <https://www.cnbc.com/2017/11/15/hbs-professor-half-of-us-colleges-will-be-bankrupt-in-10-to-15-years.html>.
- ² <https://www.insidehighered.com/quicktakes/2018/07/25/moodys-private-college-closures-11-year>.
- ³ Integrated Postsecondary Education Data System (IPEDS), National Center for Education Statistics (NCES).
- ⁴ <https://www.forbes.com/sites/schifrin/2017/08/02/2017-college-financial-grades-how-fit-is-your-school/#49ff4bdd7d68>.
- ⁵ <https://studentaid.ed.gov/sa/about/data-center/school/composite-scores>.
- ⁶ Integrated Postsecondary Education Data System (IPEDS), National Center for Education Statistics (NCES).
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- ⁸ <http://products.nacubo.org/index.php/leadership/update-to-the-7th-edition-of-strategic-financial-analysis-in-higher-education.html>.
- ⁹ EY-Parthenon interviews.
- ¹⁰ <http://www.mass.edu/foradmin/closures/home.asp>.
- ¹¹ https://cihe.neasc.org/sites/cihe.neasc.org/files/downloads/POLICIES/Pp13a-Teach_Out_Plans_And_Agreements_Policy.pdf.

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