Transitions in Higher Education: Safeguarding the Interests of Students (THESIS) Working Group

Final Report & Recommendations

January 2019
MEMBERS

- **BHE Co-Chairs:**
  - Chair Gabrieli and DHE Commissioner Santiago
  - Robert Antonucci – past MA Commissioner for Education; past President of Fitchburg State; past AG installed President of troubled IHE that successfully merged
  - Alex Cortez – Member, BHE; partner, NewProfit
  - Katherine Craven – CA&FO, Babson; past head of MA School Building Authority and also of UMass Building Authority
  - Matt Hills – private equity investor and mgmt. consultant; past President, Newton School Committee
  - Ranch Kimball – past partner BCG; past Secretary of Econ Development; past Chair of Board of Wheelock College through its merger with BU
  - Paul Mattera – Member, BHE; Board Chair Salem State
  - Gabby King Morse – ED, uAspire Massachusetts

- **PARTNERS:**
  - EY - Parthenon
  - NEASC/NECHE
  - Attorney General’s Office
  - NEASC/NECHE regional accreditor collaborated throughout
  - Develop and analyze research on first two questions

PROCESS

- Full Working Group met four times
- Select Working Group members in ad hoc dialogues weekly
- Core Working Group at DHE led by Gabrieli/Santiago including legal, financial met regularly weekly since May
- Partnership phase over summer met weekly
- Parthenon phase over summer met weekly
- Parthenon members in ad hoc dialogues weekly
- Full Working Group met four times
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Initial Charge: Four Questions

What could DHE do about undermanaged risk?

How can we engage college Boards more in risk awareness and mitigation?

Are there current measures and monitoring processes that effectively identify and manage risk?

What is the nature and extent of the problem?
Risk of further financially driven closures is significant, ongoing, and likely growing. Current measures (e.g., Federal Financial Responsibility Composite Score) and monitors (USED, accreditors, DHE) are insufficient. The DHE should adopt a new process to identify and manage risk including:

- Effective, confidential screening strategy to focus resources and limit burden
- Active, confidential monitoring approach for significantly at-risk colleges
- Requirement for contingency planning and student notification no later than December 1st of each year if a school is judged financially uncertain to complete current and subsequent school year

Summary Conclusions
1. Pressures on higher education

Enrollment declines are likely to continue to disproportionately affect small schools.

**NATIONAL** Enrollment* trends by size for all degree-granting institutions, FY11-FY17

**MASSACHUSETTS** Enrollment* trends by size for all degree-granting institutions, FY11-FY17

small schools

*Enrollment includes both graduate and undergraduate, public and private

Note: Buckets are based on 2010 enrollment (not fluid buckets); only institutions with non-zero enrollment in both 2010 and 2016 were considered

Source: IPEDS
The problem could be exacerbated with the upcoming dip in enrollment likely to result from the falling number of high school graduates.

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


Total public and private high school graduates in the United States and Massachusetts, likely to result from the falling number of high school graduates.

The problem could be exacerbated with the upcoming dip in enrollment.
With 12 closures and mergers in the past 5 years, the Commonwealth is currently seeing the impact of these trends. Of these closures and mergers, 6 are completed institutional closures, 6 are completed closures due to mergers, and 1 is a pending closure due to merger. The closures include institutions such as Sanford Brown College; Marian Court College; Le Cordon Bleu; ITT Technical Institutes; School of the Museum of Fine Arts; New England College of Acupuncture; Boston Conservatory; Episcopal Divinity School; National Graduate School of Quality Management; Wheelock College; and Andover Newton Theological Seminary. Pending closures include the University of Phoenix and Atlantic Union College; and Andover Newton Theological Seminary. Pending closure due to merger is Andover Newton Theological Seminary.

*List may not be fully comprehensive of all activity.

Source: MA Department of Higher Education

Massachusetts Context: Observed Closure/Merger Activity in Last 5 Years

1. Pressures on higher education
Problematic financial health across multiple measures, with growing risk

1. Pressures on higher education

Of the remaining private institutions in MA, a substantial number show problematic financial health across multiple measures, with growing risk.

- **Note:** Forbes financial grades are based on endowment assets per FTE, primary reserve ratio, viability ratio, core operating margin, tuition as a percentage of core revenues, return on assets, admission yield, percent freshman getting institutional grants, and instruction expenses per FTE. MA private nonprofit 4-year institutions include Baccalaureate Colleges, Master's Colleges and Universities, Research Universities, and Specialty Schools from the Carnegie Classification system; Revenue includes temporarily restricted assets, graduate revenue, private gifts, and other revenue as defined by IPEDS. 

Source: Moody’s; IPEDS; Forbes; US Department of Education.

Declining enrollment

- 24% of MA private nonprofit 4-year institutions saw decreases in enrollment by over 10% between 2011 and 2016, up from 8% of institutions during the prior 5 year period.

Revenue growth not keeping pace with expense growth

- 34% of MA private nonprofit 4-year institutions saw expenses increase by 5pp or more above revenues in 2016 compared to 2011.

Low Forbes financial grades

- 30% of MA private nonprofit 4-year institutions with Forbes financial health grades received a 1.75 GPA or below in the 2017 report, up from 24% in 2014, the earliest available scores.

Declining US Dept. of Ed financial responsibility scores

- 14% of MA private nonprofit 4-year institutions saw a decline in average DOE financial responsibility scores during the prior 5 year period.

- 31% of MA private nonprofit 4-year institutions saw a decline in average DOE financial responsibility scores over 5pp.

- 2014 the earliest available scores in the 2017 report.

- 30% of MA private nonprofit 4-year institutions received a 1.75 GPA or below in the 2017 report.

- 14% of MA private nonprofit 4-year institutions with Forbes financial health grades received a 1.75 GPA or below.
Students are harmed when institutions close with little notice or without effective planning.

Reactions to Recent College Closures

Oversight can play an important role in preventing or managing these closures. Over sight metrics can help lead to a number of damaging consequences for students.

<table>
<thead>
<tr>
<th>Negative Effect on Resume</th>
<th>Financial Loss</th>
<th>Time Wasted</th>
<th>Loss of Personal Fit</th>
<th>Inconvenient Location</th>
<th>Specialized Majors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students will be automatically accepted for fall enrollment at other institutions. More than 50 miles away.</td>
<td>Students are harmed when institutions close with little notice or without effective planning.</td>
<td>she was offered several lucrative scholarships, which is why we decided on that school. Other programs are going to cost us $40,000 a year.</td>
<td>&quot;As freshmen, we thought we'd be done filling out college applications and now we have to go back and fill out more.&quot;</td>
<td>&quot;It was the best school for my major, and now I'm left without an institution.&quot;</td>
<td>&quot;Student at closing institution, local Newspaper (2016)&quot;</td>
</tr>
<tr>
<td>&quot;I wonder if my degree will still be valid when the school closes.&quot;</td>
<td>&quot;I chose [institutions] because it was the best school for my major.&quot;</td>
<td>&quot;As freshmen, we thought we'd be done filling out college applications and now we have to go back and fill out more.&quot;</td>
<td>&quot;Other schools didn't fit me because I was working.&quot;</td>
<td>&quot;School was flexible and we had a lot of support here.&quot;</td>
<td>&quot;Senior at closing institution, Newsday (2016)&quot;</td>
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When it comes to oversight of institutions of higher education (IHEs), there are three main types of entities involved, with varying levels of interaction:

1. **Institution Administration**
   - Focus: Institutional Quality and Integrity (NACIQI)
   - Responsibilities: Accreditation, governance, and compliance

2. **State Agencies**
   - Focus: Consumer/Student Protection
   - Responsibilities: Licensing, regulation, and enforcement

3. **National and Regional Bodies**
   - Focus: Education Quality & Institutional Mission
   - Responsibilities: Accreditation, programmatic, and specialized recognition

- **Oversight and Metrics**

  - **Federal Law** requires accreditors to require institutional teaching plans during closure and withdraw institutional status following 2 years of probation.

- **Note:** Source: Interviews with accreditors and state agencies, secondary research

The interactions between these entities vary by state agency based on mandate.
Regional, National, and Programmatic Accreditor Role in Financial Health Assessment of Institutions

- Analyze annual IHE submission, considering relevant metrics.
  - Focus: Education quality & institutional ability to meet mission.
  -Primary Power: Determines accreditation status and sanctions when not meeting standards.
- Financial Health Metrics Considered:
  - Varies by accreditor and institution type, typically holistic review of annual report, enrollment, endowment, draw changes, etc. and may include CFI or DOE Score.

Oversight and metrics

2. Oversight and metrics

Accreditors monitor financial health through a number of data points and may include CFI or DOE Score. According to accreditor and institution type, typically holistic review of annual report, enrollment, endowment, draw changes, etc. and may include CFI or DOE Score.

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Financial Health Assessment of Institutions

State Board, Department, or Commission of HE

- Analyze annual financial audits of private nonprofits to maintain integrity of Title IV eligibility

Oversight and metrics

While accreditors play a significant role in all parts of the process, USED and state agencies also play key roles at specific points.

Regular Review

- Financial Health Metrics Considered: DOE composite score
  - Focus: Student Financial Aid
  - Primary Power: Can withdraw Title IV eligibility
  - Title IV Eligibility

Closing & Teach-out

- Financial Health Metrics Considered: DOE composite score
  - Focus: Consumer/Student Protection
  - Primary Power: Manage licensure rules and reauthorization
  - Manage licensure rules

Monitoring Higher Risk Institutions

- Financial Health Metrics Considered: DOE composite score
  - Focus: Office of Federal Student Aid, Accreditation Group, and NACIQI
  - Title IV Eligibility

- Follow-up on student concerns
- Support with closure notifications

- Varies by state; can include oversight of segment of private nonprofits such as:
  - Support with closure notifications
  - Periodic general reauthorization

- Place on Heightened Cash Monitoring if DOE score falls below thresholds
- Sets maximum of 2 years on sanctions before ineligible for Title IV funding
- Oversees any state financial aid
- Manage student records if not by another institution
- Variates by state; can include:
  - Periodic general reauthorization
  - Follow-up on student concerns
  - Review licensure rule adherence

Source: Interviews with accreditors and state agencies' secondary research.
<table>
<thead>
<tr>
<th>Nonprofit Private Schools</th>
<th>Review annual report</th>
<th>Authorize institutions and provide licensure</th>
<th>Approve programs</th>
<th>Authorize institutions and programs</th>
<th>Reauthorize institutions or programs</th>
<th>School Eligibility Requirements for Financial Aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massachusetts</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>South Carolina</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Virginia</td>
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<td>New York</td>
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<td>Ohio</td>
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</table>

2. Oversight and metrics

These findings are based on a select sample of states with relatively high concentrations of private institutions, with Massachusetts having a lower level of oversight of private institutions than the other states. States have differing levels of oversight by various offices, with Oversight being an important factor in ensuring the quality and accountability of private institutions.
2. Oversight and metrics

The state and accreditors utilize the DOE score as one metric, which often fails to give stakeholders adequate notice of financial problems. Note: Saint Augustine's University was recently put on probation by accreditors.

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

<table>
<thead>
<tr>
<th>Financially Responsible</th>
<th>Flagged for Monitoring</th>
<th>Not Financially Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0 to 1.4</td>
<td>1.5 to 3.0</td>
<td>-1.0 to 0.9</td>
</tr>
</tbody>
</table>

**DOE Financial Responsibility Composite Score**

<table>
<thead>
<tr>
<th>Doe Score 2012</th>
<th>Doe Score 2016</th>
<th>Date Closed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.6</td>
<td>1.7</td>
<td>Already closed</td>
</tr>
<tr>
<td>2.3</td>
<td>2.2</td>
<td>Already closed</td>
</tr>
<tr>
<td>2.1</td>
<td>2.1</td>
<td>June 2016</td>
</tr>
<tr>
<td>2.1</td>
<td>2.1</td>
<td>July 2018</td>
</tr>
<tr>
<td>1.8</td>
<td>2.1</td>
<td>May 2018</td>
</tr>
<tr>
<td>2.1</td>
<td>2.1</td>
<td>April 2017</td>
</tr>
<tr>
<td>2.1</td>
<td>2.1</td>
<td>October 2017</td>
</tr>
<tr>
<td>1.7</td>
<td>1.4</td>
<td>October 2017</td>
</tr>
<tr>
<td>1.4</td>
<td>0.6</td>
<td>February 2017</td>
</tr>
</tbody>
</table>

**Sample of Previously Closed IHEs:**

<table>
<thead>
<tr>
<th>Financially Distressed*</th>
<th>Financially Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Saint Joseph, VT</td>
<td>St. Joseph's University, NY</td>
</tr>
<tr>
<td>College of the Holy Cross, MA</td>
<td>Providence College, RI</td>
</tr>
<tr>
<td>College of the Holy Cross, MA</td>
<td>University of Massachusetts, Boston</td>
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<td>University of Massachusetts, Boston</td>
</tr>
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</table>

The DOE score four years before closure rare suggested issues, which is crucial as this is when students are making their college choice. The DOE score one to two years before closure suggested financial issues in only 50% of cases.
Recommendation ratified by THESIS Working Group that "The risk of further challenges to viability at non-profit institutions of higher education (NPHES) leading to potential student disruption is significant, ongoing and likely growing."

Recommendation ratified by THESIS Working Group that 

"Current standard financial metrics are insufficient for timely or fully identifying at-risk institutions. Current processes among the triad of accreditors, USED and state authorities are insufficient to ensure prevention/mitigation of future unacceptable disruption to students and others."
The challenge remains to identify high risk institutions and provide safeguards to students. The Spectrum of Institutional Financial Health Status:

- **Low Risk**: Majority of institutions
- **High Risk of Closure**: Limited group
- **High & Medium Risk**: Select individual institutions

**How can DHE and accreditation engage these higher risk institutions to safeguard the interests of students?**

- Identify these schools
- Appropriately engage these higher risk institutions
- Safeguard the interests of students

**Department of Higher Education Regulations**
- Follow Department of Higher Education regulations
- Submit notice of closure and associated fees as far in advance as possible
- Get teach-out plan approved
- Ensure preservation of student records
- No additional responsibilities

2. Oversight to Safeguard Students

Source: MA Department of Higher Education
How DHE can better proactively manage risk of student harm on a timely basis
Through improved financial health, NPIHEs can exit monitoring. This is achieved through the implementation of an 'Annual Intervention' strategy, which includes:

- **Annual “North Star” Intervention**
- **Active Monitoring**
- **Contingency Plan**

**Summary of Proposed Process**

**Intervention**

**Active Monitoring**

**All MA NPIHEs**
THESIS Working Group Recommendations

1. BHE Should Act
2. North Star Principle
3. Screening
4. Active Monitoring
5. Intervention
6. Partnering
7. Process
Recommendation 1

Launch new process for SY19-20

Act Now

Thesis Working Group Recommendations
Recommendation 2
Adopt a "North Star" Principle
- Protects students
- Clear demarcation

Theis Working Group Recommendations
Recommendation 3

Screen Smartly

- Focus DHE resources on relevant colleges
- Minimize burden on all colleges

**Proposed Screening Approach**

<table>
<thead>
<tr>
<th>Shows Promise</th>
<th>Requires no new data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aligns to policy goal</td>
<td>Needs testing and refinement</td>
</tr>
<tr>
<td>Novel</td>
<td>Concerns raised</td>
</tr>
<tr>
<td>+</td>
<td>-</td>
</tr>
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</table>

TVM
Guiding Principle for DHE Proactive Monitoring and Action with At-Risk Non-Profit Institutions of Higher Education

If by December 1st of any school year the IHE has a significant risk, as reasonably determined by DHE, of not having the financial capability to complete the current school year and the subsequent one, a full contingency transfer/teachout plan must be completed and approved by DHE and students must be notified of the IHE’s financial condition.

North Star

Guiding Principle for DHE Proactive Monitoring and Action with At-Risk Non-Profit Institutions of Higher Education
Recommendation 4

Actively Monitor Where Risk is Significant

- Sustain Confidentiality
- Engage IHE Board of Trustees
- Custom approach to fit circumstances

Thesis Working Group Recommendations
Recommendation 5

Intervene When North Star Threshold Crossed

- Notification of students and other stakeholders
  - No later than December 1st; the earlier the better
- Contingency planning
- Records
- Transfer/teachout
- Commissioner decision
- OSP recommendation
- Advisory and Review Council input
- Thesis Working Group Recommendations

The sis Working Group Recommendations
Recommenda tion 5
Recommenda tion 5
Recommendation 6
Partner Appropriately

- Overlapping responsibilities
- Critical partner for challenging situation (e.g., Mount Ida)
- AGO
  - Has agreed to partner to review TVM
  - Able to handle confidentially
- Recent significant shift in approach (e.g., Newbury)
-Aligned obligations
- NECHE

Recommendsation 6

The six Working Group Recommendations
Recommendation 7

Process

Move forward quickly, openly, humbly and adaptively

Legislation for confidentiality

Council (ARC)

Office of Student Protection and Advisory & Review

Financial aid

Regulatory and policy setting

Theis Working Group Recommendations
Recent Events

Hampshire College
- Role model
- Timely contingency plan preparation and student notification
- Ad hoc partnership between NECHE, AGO & DHE

Newbury College
- Proactive process