

After (we hope!) the Crash

What do we know about what has happened to independent Higher Education in the crash?

Can we estimate how widespread its effects are?

What may be our vulnerabilities and opportunities going forward?

What do we know?

- The news reports
 - NYT, Chronicle, InsideHigherEd.com, FundFire.com, etc.
 - Current, incomplete, hard to verify
- Guidestar.org
 - 1-2 years old
 - Dated, fairly solid, hard to use
- IPEDS
 - 1 year old
 - Somewhat current, solid, limited
- Bottom Line: Information is dated and/or incomplete.

Independent Higher Ed Pre-Crash Sector Sample Profile

- 352 (52%) - positive score >50% - “adequate capital”
 - Probably credit-worthy
- 169 (25%) - positive score <50% - “borderline”
 - Credit vulnerable to downgrade
- 156 (23%) - negative score - “inadequate capital”
 - At-risk for credit loss
- “n” = 677

Creating a Post-Crash Model Independent HE Sector Profile

- Begin with College's Financial Investments
 - Exclude hard-to-value placements
- Add College's year-end cash
- Multiply by .65 to estimate value after drop
- Subtract College's bond, bank, mortgage debts - negative means potential liquidity and/or credit issues are more likely
- Divide by College's total financial assets
- Convert to a percentage
- Rank institutions from high to low

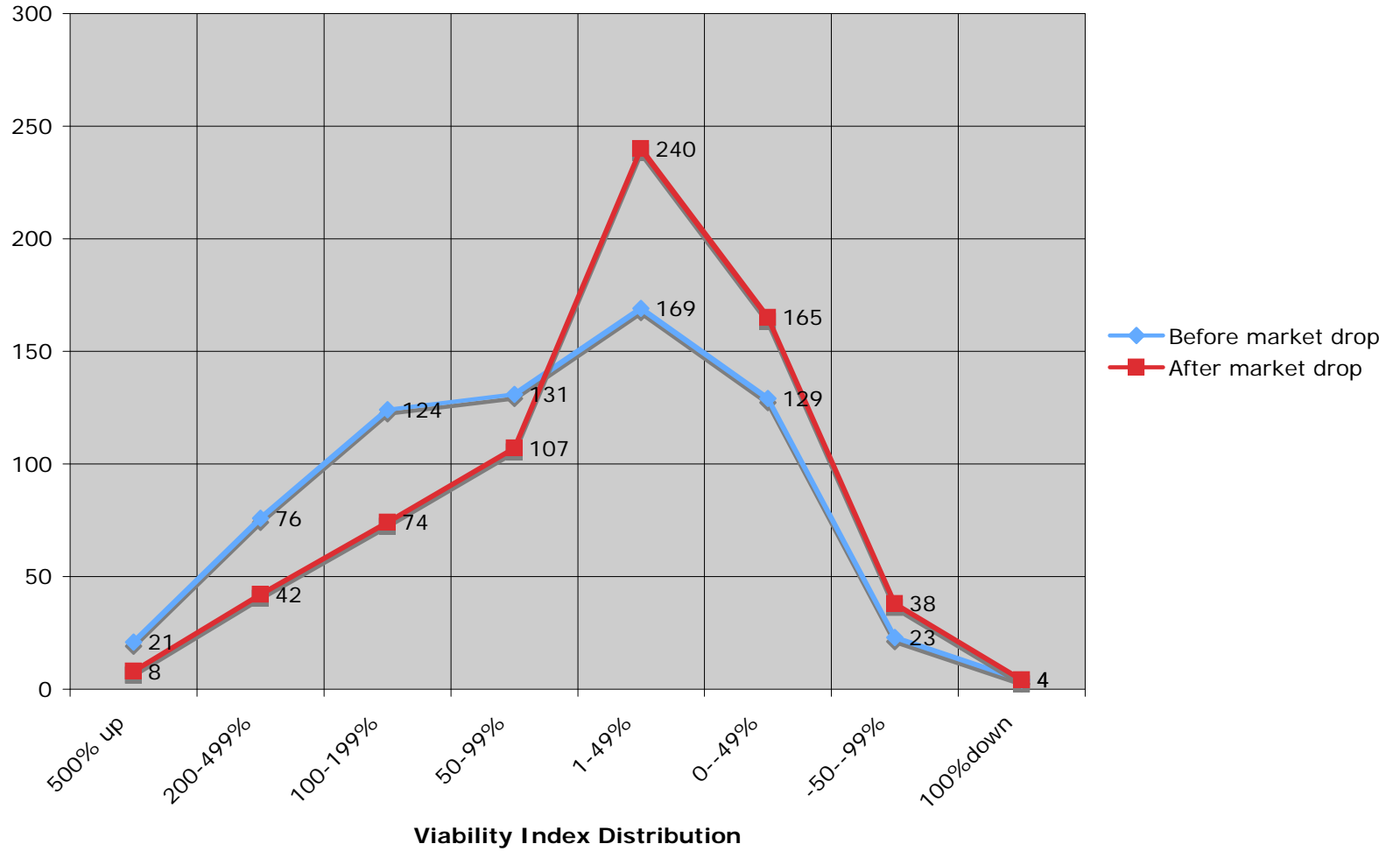
How 678 Colleges Compare on Post-Crash Model

- 231 (34%) - positive score $>50\%$ - “adequate capital”
 - Probably credit-worthy
- 240 (35%) - positive score $<50\%$ - “borderline”
 - Credit vulnerable to downgrade
- 207 (31%) - negative score - “inadequate capital”
 - At-risk for credit loss

Projected Overall Effect of the Crash

- Adequate-capital institutions (the “As”) drop from 52% to 34%, or -34%
- Borderline group rises from 25% to 35%, or +40%
- Inadequate-capital institutions (the “Bs”) rise from 23% to 31%, or +35%

Viability Index #s Before and After Market Drop



How Adequate-Capital Institutions Perform on Model

- 231 high-capital institutions had positive projections of +50% of net assets, ranging in dollar terms from \$39,000,000 to \$22,000,000,000. More than half of the 231 had projections from \$39,000,000 to \$100,000,000.

Average adequate-capital institution (Institution A):

- Undergraduate enrollment: 3,500
- Endowment and other investments: \$986,000,000
- End-of year cash on hand: \$52,600,000
- Bonds and mortgages outstanding: \$183,000,000
- Annual revenues/expenses/margin:
\$450,000,000/\$360,000,000/\$90,000,000
- Model Post-Market-Drop \$ Score: \$510,000,000
- Model Post-Market-Drop % Score: +52%

How Inadequate-Capital Institutions Perform on Model

- 207 inadequate-capital institutions have projected net financial asset balances ranging from a negative few hundred thousand dollars to nearly a negative \$400,000,000. More than half of the 207 had negative projections from (\$10,000,000) to (\$100,000,000).

Average inadequate-capital institution (Institution B):

- Undergraduate enrollment: 2,800
- Endowment and other investments: \$45,000,000
- End-of year cash on hand: \$9,000,000
- Bonds and mortgages outstanding: \$62,000,000
- Annual revenues/expenses/margin:
\$102,000,000/\$95,000,000/\$7,000,000
- Model Post-Market-Drop \$ Score: (\$24,000,000)
- Model Post-Market-Drop % Score: -52%

Operating Consequences of Capital Adequacy in a Declining Market

- To test how the current climate might affect the two sample schools, I made several assumptions:
- 1) Enrollment drops by 5%, with a loss of \$20,000/student.
- 2) Interest rates on all debt are variable and rise by five percentage points.
- 3) All debt is called and must be repaid in five years rather than 25.
- 4) Investment income drops by 20%.

Institution A operating margin drops \$52mm to \$38mm.

- 1) $.05(3500)(\$20,000) = \3.5mm revenue drop
- 2) $.05(\$183,000,000) = \9.2mm cost increase
- 3) $(\$183\text{mm}/5) - (\$183\text{mm}/25) = \$29\text{mm}$ cost rise
- 4) $.2(.05)(\$986\text{mm}) = \9.9mm revenue drop
- New annual margin: **\$38,000,000**
- Institution A refinances \$183mm debt or pays it off in five years.
 - It can then operate debt-free.
 - It can invest \$38mm/year over the pay-out period.

Institution B operating margin decreases \$16mm to (\$9mm).

- 1) $.05(2800)(\$20K) = \2.8mm revenue drop
- 2) $.05(\$62\text{mm}) = \3.1mm cost increase
- 3) $(\$62\text{mm}/5) - (\$62\text{mm}/25) = \$9.9\text{mm}$ cost rise
- 4) $.2(.05)(\$45\text{mm}) = \450K revenue drop
- New annual margin: **(\$9mm)**
- Institution B runs out of cash in one year and endowment in 2-3 more years paying down \$62mm debt.
 - It is at the mercy of creditors.
 - Its independence and viability are in question.

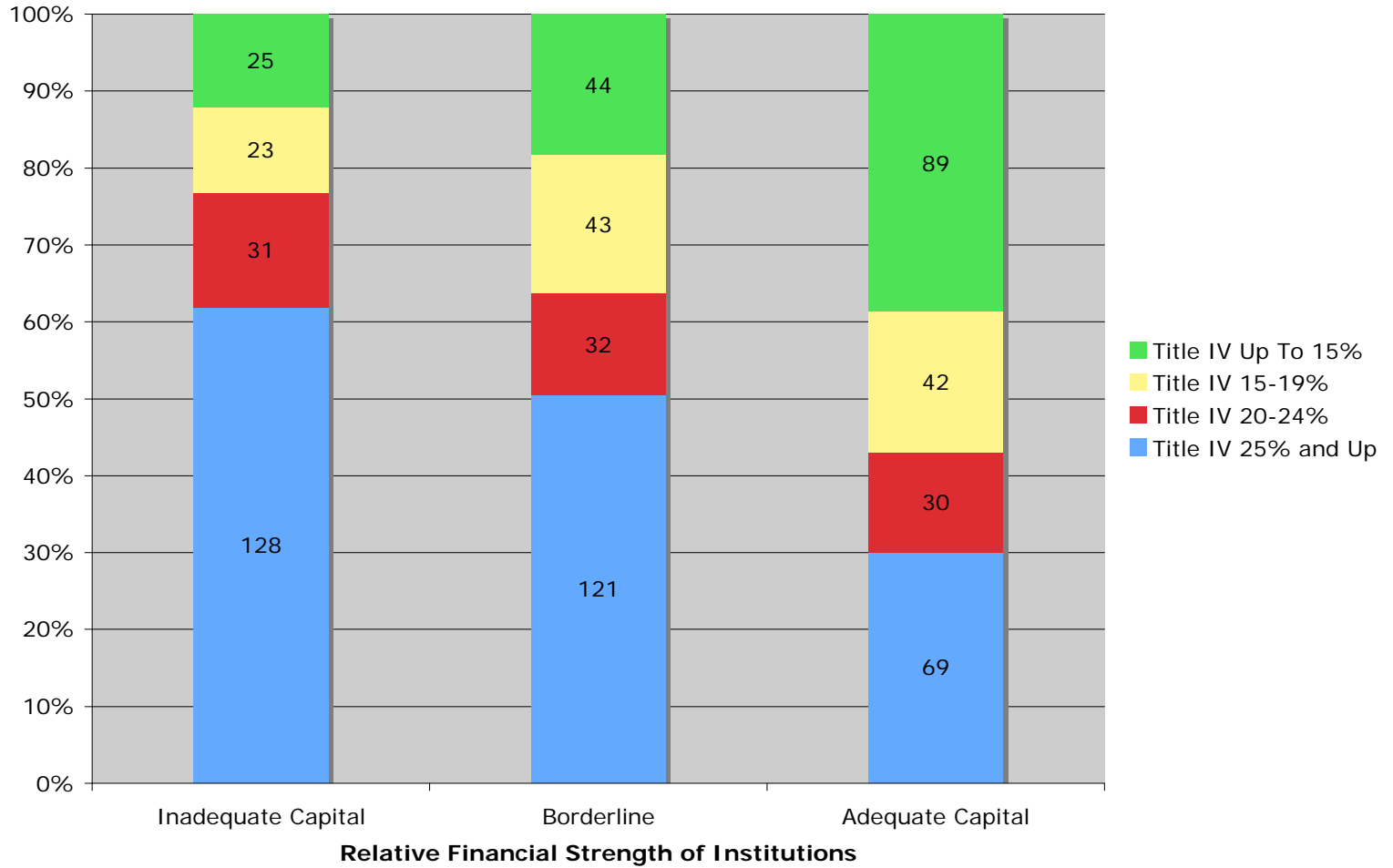
Carnegie Classifications

- Tend “inadequate capital” - Master’s and Doctoral (non-research-intensive)
- Tend “adequate capital” - Bachelor’s and Research-Intensive I and II

Geographic Clusters

- “Inadequate-capital”:
- Previous high-growth: AR, FL, NV, WA
- Appalachian: KY, TN, WV
- Rust Belt: IL, MI, NY, OH, PA
- Other: AL & MS, IA, KS, OK
- “Adequate- capital”:
- New England: CT, MA, ME
- South: GA, MD, SC, VA
- Upper Mid-West: IN, MN, NE, WI
- West: CA, CO, OR

Institutional Finances and Title IV Enrollment Levels



Lessons from Super Bowl XLIII

- Defense is critical
- Defense can offer exciting opportunities
- Offense should not be offensive
- Plan to be opportunistic
- Write your own script
- Avoid the inevitable
- Do not, ever, give up

Final Talking Points

The US needs Independent Higher Ed and needs us to:

- Develop/explain our public mission for students
- Be positive about our institutions and our sector
- Build trust in Independent Higher Education
- Be transparent but say what we don't know
- Emphasize long-term decision-making
- Pursue strategic investing, not random spending
- Avoid posturing and schadenfreude
- Make "mutual aid" a permanent, 2-way strategy
- Be as big as the cause is great