

National Association of Independent Colleges & Universities

Innovative Strategies in the Face of
Existential Challenges

February 26, 2024

Disclaimer

The views expressed by the presenters are not necessarily those of Ernst & Young LLP or other members of the global EY organization.

These slides are for educational purposes only and are not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

Welcome to today's session

Session objectives and agenda

Time	Topic	Description
~15–20 mins.	Enrollment	<ul style="list-style-type: none"> ▶ What strategies are institutions using to address enrollment trends?
~15–20 mins.	Financial health	<ul style="list-style-type: none"> ▶ What levers are institutions relying on to support a sustainable future? How are they innovating?
~15–20 mins.	Partnerships	<ul style="list-style-type: none"> ▶ How are institutions partnering with others both inside and outside the sector?

Session participants



Kent Devereaux
President
Goucher College



Michael Alexander
President Emeritus
Lasell University



Kasia Lundy
Principal
EY-Parthenon
Ernst & Young LLP



Haven Ladd
Principal
EY-Parthenon
Ernst & Young LLP

Introductions

Kent Devereaux, President of Goucher College

Speaker



Kent Devereaux
President
Goucher College

Institution background

- ▶ **Type:** Private, four-year not-for-profit
- ▶ **Location:** Baltimore, Maryland
- ▶ **Founded:** 1885
- ▶ **Enrolled students:** 1,728
 - ▶ Undergraduate: 1,002
 - ▶ Graduate: 726
- ▶ **Student body:**
 - ▶ **% 25+ years of age:** 42%
 - ▶ **% underrepresented minority (URM):** 48%
 - ▶ **% Pell recipients:** 29%
- ▶ **Degrees and certificate programs:** 49

Introductions

Michael Alexander, President Emeritus of Lasell University

Speaker



Michael Alexander
President Emeritus
Lasell University

Institution background

- ▶ **Type:** Private, four-year not-for-profit
- ▶ **Location:** Newton, Massachusetts
- ▶ **Founded:** 1851
- ▶ **Enrolled students:** 1,639
 - ▶ Undergraduate: 1,247
 - ▶ Graduate: 392
- ▶ **Student body:**
 - ▶ **% 25+ years of age:** 18%
 - ▶ **% URM:** 33%
 - ▶ **% Pell recipients:** 32%
- ▶ **Degrees and certificate programs:** 34

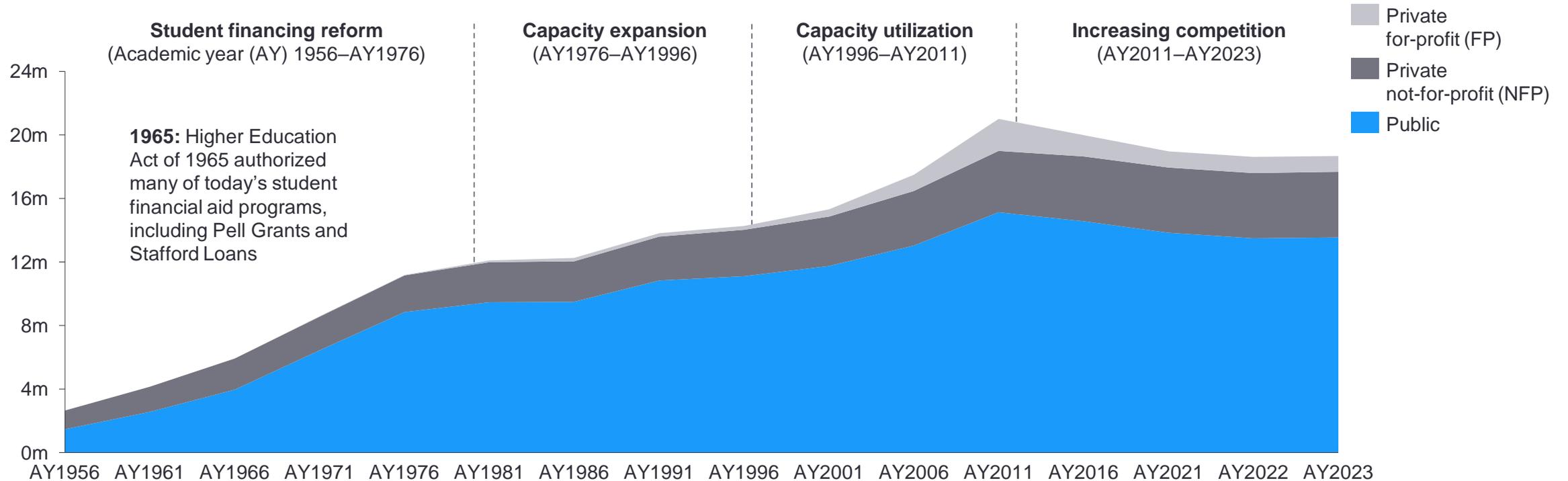
Agenda

Time	Topic	Description
~15–20 mins.	Enrollment	▶ What strategies are institutions using to address enrollment trends?
~15–20 mins.	Financial health	▶ What levers are institutions relying on to support a sustainable future? How are they innovating?
~15–20 mins.	Partnerships	▶ How are institutions partnering with others both inside and outside the sector?

Enrollment trends

The higher education sector is facing unprecedented enrollment declines

Higher education fall enrollment over time (headcount)¹



	1956–76	1976–96	1996–2011	2011–23
Enrollment compound annual growth rate (CAGR)	8%	1%	3%	-1%
Number institutions CAGR	2%	2%	2%	0.3%

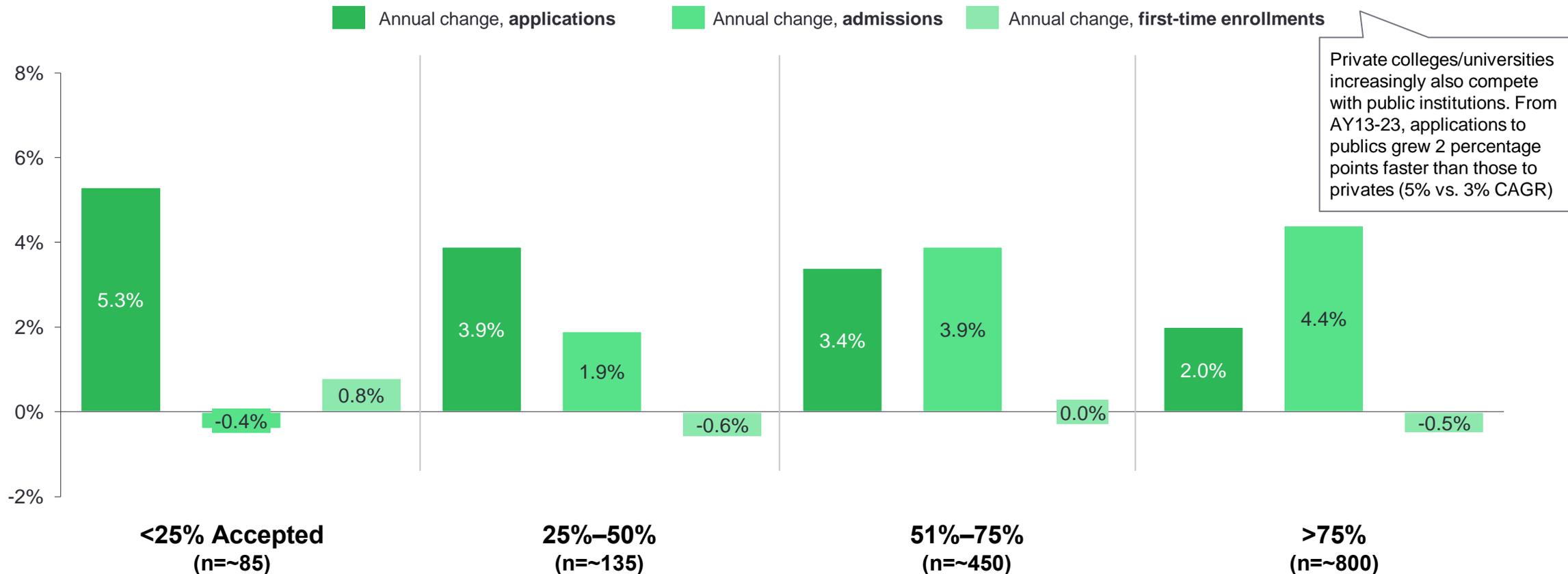
1. The data includes fall enrollment from US institutions that both grant degrees and participate in Title IV.

Source: National Center for Education Statistics (NCES), NCES, <https://nces.ed.gov/>, "Integrated Postsecondary Education Data System (IPEDS)," IPEDS, <https://nces.ed.gov/ipeds/>

Enrollment trends

Less-selective institutions are increasingly admitting more students in an effort to stabilize size of incoming classes

Change in applicant volume and first-time enrollment by selectivity¹ of private four-year, not-for-profit institutions, AY2013–2023



1. Selectivity is defined by school acceptance rate as reported in 2022 (AY23).
Source: IPEDS; EY-Parthenon analysis

Enrollment trends

Polling question #1

1 What total enrollment change does your institution expect to see over the next ~3 years?

- A. Significant growth (6%+ annually)
- B. Some growth (1%–5% annually)
- C. No change
- D. Some decline (1%–5% annually)
- E. Significant decline (6+% annually)

Enrollment trends

Discussion and Q+A

Enrollment Q+A and discussion

Please enter questions you have for our moderators about enrollment trends in the chat

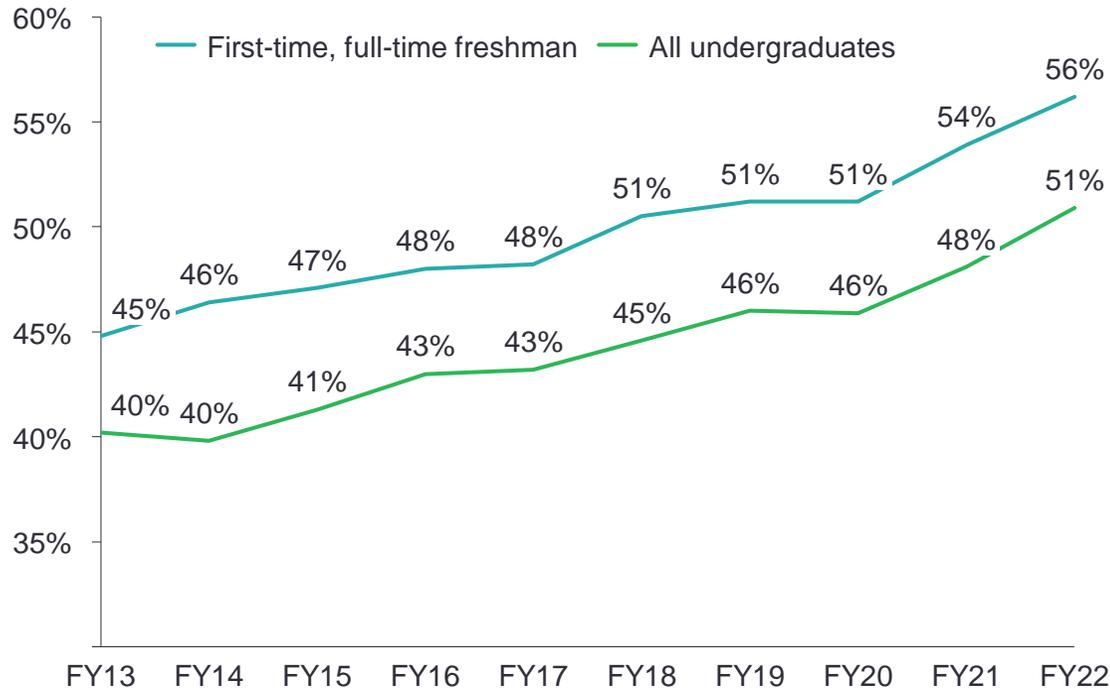
Agenda

Time	Topic	Description
~15–20 mins.	Enrollment	<ul style="list-style-type: none">▶ What strategies are institutions using to address enrollment trends?
~15–20 mins.	Financial health	<ul style="list-style-type: none">▶ What levers are institutions relying on to support a sustainable future? How are they innovating?
~15–20 mins.	Partnerships	<ul style="list-style-type: none">▶ How are institutions partnering with others both inside and outside the sector?

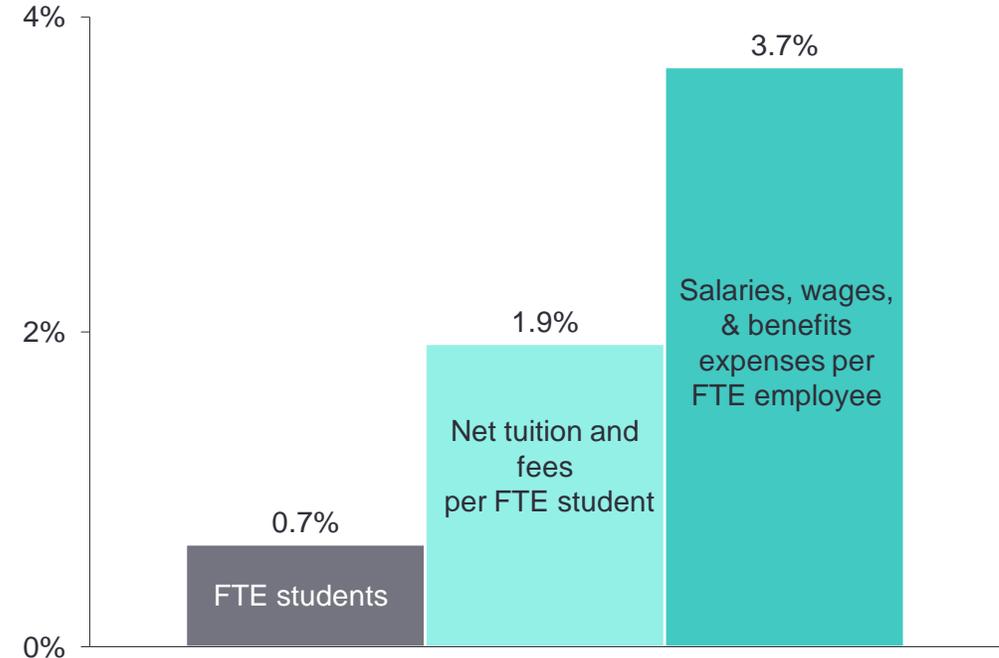
Financial health

Private higher education institutions are facing increasing financial pressures from tuition discounting and cost growth

Average institutional tuition discount rate, private not-for-profit colleges and universities¹
FY13–FY22



Compound annual growth rate (CAGR) of full-time equivalent (FTE) students vs. selected revenue and expense categories per FTE student/employee at private not-for-profit, four-year colleges and universities²
FY13-FY22



1. National Association of College and University Business Officers (NACUBO) analysis of ~340 participating private nonprofit colleges and universities – institutional discount rate calculated as total institutional grant aid awarded to first-time undergraduates as a percentage of the gross tuition and fee revenue the institution would collect if all students paid the sticker price.

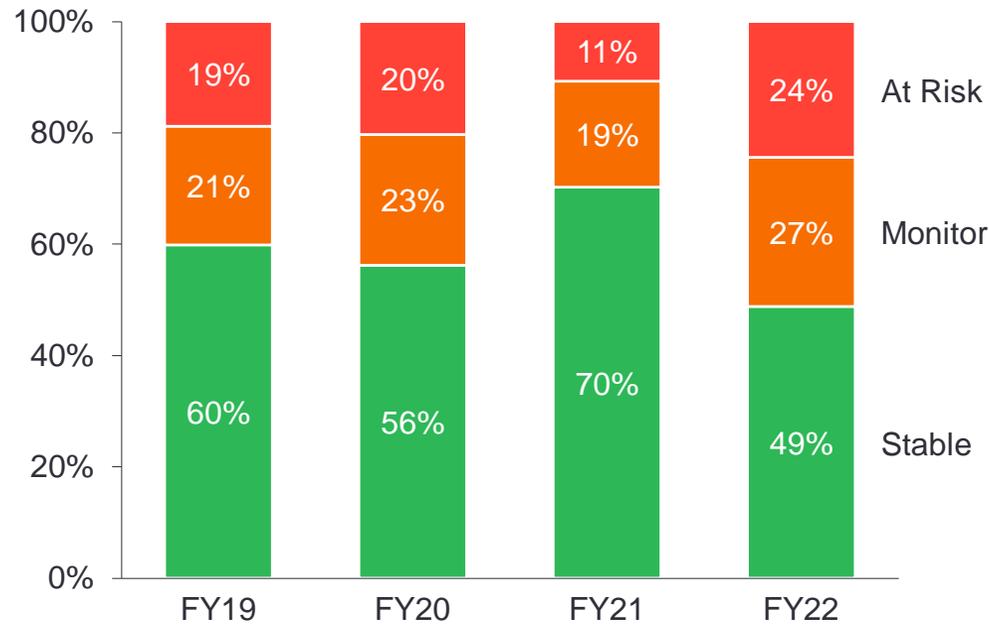
2. Includes 1,385 institutions with student, employee and finance data available in both FY13 and FY22.

3. Revenue from tuition and fees per FTE student and nominal salaries, wages and benefits per FTE employee; employees include instructional and non-instructional.

Financial health

The EY-Parthenon Institutional Viability Metric (IVM) can be an early indicator of financial distress; 14 institutions that recently closed were rated “stable” by the Department of Education (DOE) but “at-risk” or “monitor” by the IVM

IVM rating distribution among four-year, private not-for-profit institutions, FY19–FY22



Of the 26 institutions that closed in 2020 and 2021 ...

~90%
were identified by the IVM as at-risk or monitor
(23 of 26, remaining three data was not available)

vs.

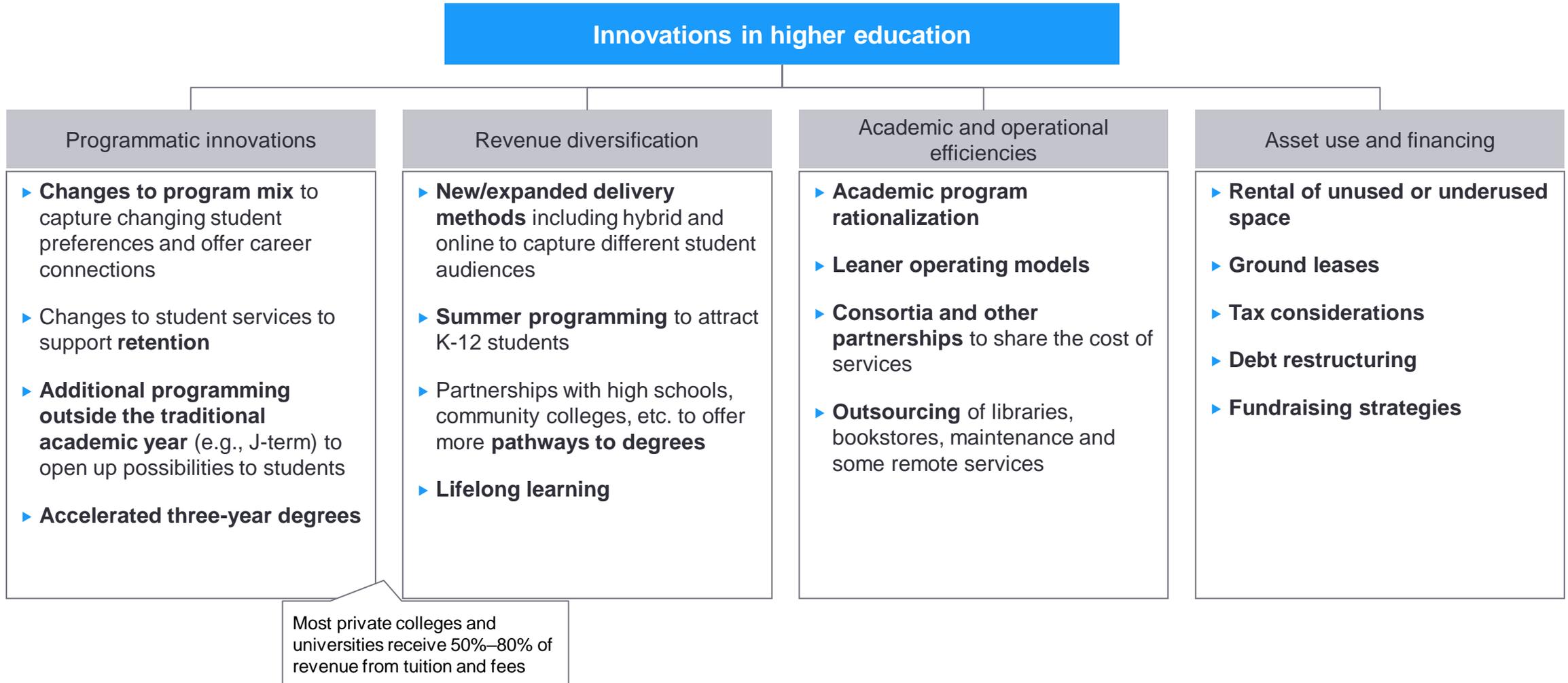
~27%
were identified by the DOE as at-risk or monitor
(7 of 26, five were unranked, 14 were rated stable)

EY-Parthenon developed this metric based on weighed performance across six indicators: Reserve ratio (25%), profit margin (25%), total enrollment CAGR (20%), net tuition and fees per FTE CAGR (15%), six-year bachelor's graduation (10%) and full-time retention (5%).

Financial health

Institutions have implemented a range of revenue and cost strategies to improve financial stability

ILLUSTRATIVE, NOT INTENDED TO BE COMPREHENSIVE



Financial health

Polling question #2

2 What best describes your institution's approach to its "business model" in the next 1–3 years?

- A. Adding, expanding and diversifying programs and operations
- B. Maintaining current programming and operations
- C. Reducing programming and operating costs to support stability and potential future investments
- D. Other

Financial health Q+A and discussion

Please enter questions you have for our moderators about financial health trends in the chat

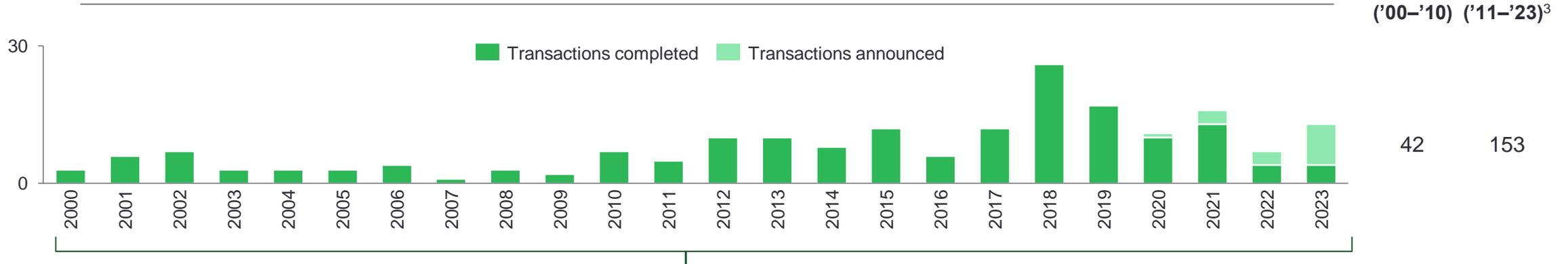
Agenda

Time	Topic	Description
~15–20 mins.	Enrollment	▶ What strategies are institutions using to address enrollment trends?
~15–20 mins.	Financial health	▶ What levers are institutions relying on to support a sustainable future? How are they innovating?
~15–20 mins.	Partnerships	▶ How are institutions partnering with others both inside and outside the sector?

Partnerships

Market pressures have led many institutions to close or seek mergers and affiliations

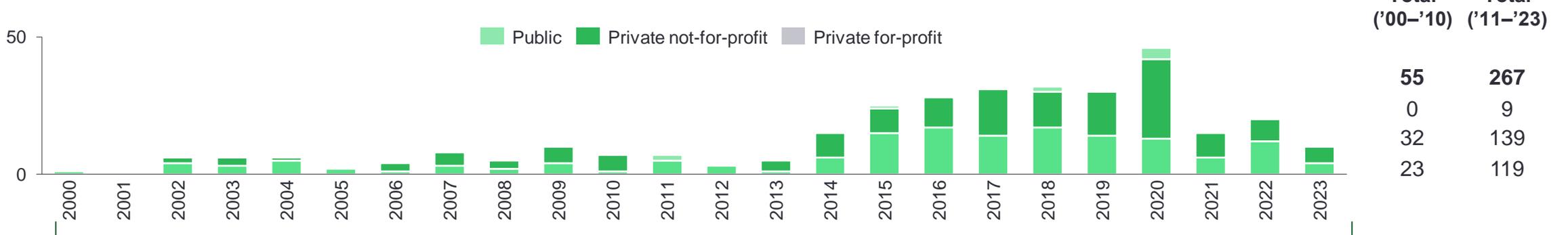
Count of mergers of higher education institutions, by year of completion¹, 2000–2023YTD²



Total ('00–'10) 42
Total ('11–'23)³ 153

Total institution mergers 195

Count of institution closures of higher education institutions, by year of completion, and sector, 2000–2023YTD²



Total ('00–'10) 55
Total ('11–'23) 267

Total institution closures 322

1. Mergers include acquisitions, consolidations, alliances, subsidiaries and investments.
2. YTD as of August 2023.
3. Inclusive of transactions announced.

Partnerships

Partnerships can take many shapes, each of which comes with different trade-offs

Partnership models



Potential trade-offs for lower-transformation models may include:

- ▶ Insufficient impact, may not provide financial stability
- ▶ Capacity constraints at the institution (e.g., if the institution would need to launch/manage multiple initiatives at once to achieve goal)
- ▶ Risk of partners reducing/stopping participation or not meeting targets

Potential trade-offs for higher-transformation models may include:

- ▶ Change of decision-making authority for programs, pipeline, operations, etc.
- ▶ Changes/replacement to institution name
- ▶ Change in student body size/composition
- ▶ Program closures and/or discontinuation of selected services

Partnership

Polling question #3

3

Has your institution attempted a partnership in the last 1–3 years?

- A. Yes, it was successful
- B. Yes, but it did not actualize
- C. No, but would be interested
- D. No, and not interested

Partnership Q+A and discussion

Please enter questions you have for our moderators about higher education partnerships in the chat

EY-Parthenon bios



Kasia Lundy

Principal
EY-Parthenon, Ernst & Young LLP
Direct telephone: +1 617 692 0379 (cell)
kasia.lundy@parthenon.ey.com
Boston



Haven Ladd

Principal
EY-Parthenon, Ernst & Young LLP
Direct telephone: +1 617 478 7055
haven.ladd@parthenon.ey.com
Boston

- ▶ Kasia is a principal in the EY-Parthenon Education practice and has been with the firm for over 20 years. She also worked directly in higher education as Chief of Staff to three Harvard University presidents (2003–2009).
 - ▶ Since rejoining the EY-Parthenon practice in 2009, Kasia has focused exclusively on education sector engagements. Her work in the sector spans primary, secondary and higher education systems and includes higher education institutions (both public and private), school districts, state education agencies and private foundations.
 - ▶ Kasia's higher education engagements have included strategic planning, governance and organization structure design, revenue-generating strategies (online strategies, program development, alternative revenues), academic outcome improvement strategies, operational improvement strategies and M&A.
 - ▶ Kasia holds a BA in Economics from Harvard University and an MBA from Harvard Business School.
- ▶ Haven is a principal in the EY-Parthenon Education practice with a focus on the US market. Since joining the EY-Parthenon practice in 1997, he has advised management teams of districts, colleges, universities, companies and policymakers in the rapidly changing higher education market.
 - ▶ Haven's work focuses on the intersection of growth and outcomes in a variety of educational settings, including public K–12 districts and higher education institutions and systems. Functionally, his experience includes accountability, performance management, financial planning, organizational design, operations and strategic planning as well as M&A.
 - ▶ Haven is a frequent speaker and writer about higher education strategy and has led the strategy and execution of numerous mergers and alliances among higher education institutions.
 - ▶ Haven holds a BA in History and Literature from Harvard University and earned his MBA from Tuck School of Business at Dartmouth.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

About EY-Parthenon

EY-Parthenon teams work with clients to navigate complexity by helping them to reimagine their eco-systems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY-Parthenon teams focus on Strategy Realized – helping CEOs design and deliver strategies to better manage challenges while maximizing opportunities as they look to transform their businesses. From idea to implementation, EY-Parthenon teams help organizations to build a better working world by fostering long-term value. EY-Parthenon is a brand under which a number of EY member firms across the globe provide strategy consulting services. For more information, please visit ey.com/parthenon.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2024 Ernst & Young LLP.
All Rights Reserved.

2401-4417856
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com