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Days of Reckoning

Recent closures make it more likely a trend of private college consolidation has started. Institutions feeling particular pressure are small colleges, those in the Midwest and Roman Catholic institutions located away from Catholic population centers.

BY

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17 Comments



Saint Joseph's College has been selling assets since it closed in the spring. Its website now includes art of campus.

Those forecasting a wave of college closures find themselves with a glut of recent anecdotes to support their story.

It has not been a good fall for small, private liberal arts colleges. Last week, St. Gregory's University in Oklahoma said it is closing at the end of the semester. The news came on the heels of a similar announcement by the Memphis College of Art in late October, an announcement that itself arrived just weeks after Grace University in Omaha, Neb., unveiled plans to shut down.

Flip back a little farther in the calendar, to when Saint Joseph's College in Rensselaer, Ind., decided in February to suspend academic operations at the end of the spring semester. Now, only 17 people work at the college as it tries to come up with plans for a future incarnation, even as it has been selling off its assets in hopes of raising funds to pay for those plans.

The spurt of closures would seem to support Harvard Business School professor Clayton Christensen's recent doubling down on his infamous prediction that as many as half of the country's colleges and universities will find themselves bankrupt or shuttered within 10 years. But it's not just college closures that are pointing to signs of significant stress among small private colleges.

Wheelock College plans to merge into Boston University. Marygrove College in Detroit said in August that it will shut down undergraduate programs after this semester. Wheeling Jesuit University in West Virginia and Holy Cross College in Indiana both decided this spring to sell land in order to stave off financial crises. The University of Saint Joseph in West Hartford, Conn., announced in June that it will start admitting undergraduate men next year.

Perhaps the better prediction to reference is one from Moody's Investors Service in 2015: that closures of small private colleges would be tripling and mergers would be doubling. Or maybe it's just better to warn that more cuts and consolidations are likely coming.

Skeptics can still argue that each campus closed, merger explored or acre sold is the result of unique and extenuating circumstances. They can say that we're examining unique data points that shouldn't be connected.

Look at the three most recent closure announcements. St. Gregory's is ending operations after a plan to receive a loan from the U.S. Department of Agriculture fell through. That's different from the decision made by Grace in Nebraska, which abandoned plans to relocate after a small incoming freshman class shattered financial projections. It also differs somewhat from the story at the Memphis College of Art, which blamed declining enrollment and real estate debt for its closure.

But at some point, the individual data points become part of a larger trend line. For however unique those three colleges may be, they have much in common as well. All enroll well below 1,000 students and hold small endowments.

So if the doom and gloom really are coming to pass, which institutions, in particular, are in danger of succumbing? A quick look at recent announcements shows that many colleges closing or cutting back are Roman Catholic, and many are located in the middle of the country -- the Midwest and Appalachia.

Those aren't necessarily independent variables, though. There is a large number of small Roman Catholic colleges in the country, and many are located in regions where demographics are shifting with declines in populations that have traditionally attended Catholic institutions. The Roman Catholic institutions are likely caught up in trends affecting higher education more broadly -- trends like enrollment challenges, tuition discounting and a lack of financial resources at small institutions.

"A lot of our national data really indicate that some of these small Catholic colleges, as well as small private colleges throughout the country, are really struggling because of their finances," said Heather Gossart, director of executive mentoring and coaching and a senior consultant with the National Catholic Educational Association.

Families are increasingly worried about tuition rates at colleges and universities, Gossart said. Some seek alternatives, such as public colleges that they think will be less expensive than Roman Catholic institutions. Others may not even consider small colleges because they don't think a college small in size can offer as much financial aid as a larger university -- regardless of whether that perception is true.

Many Roman Catholic colleges are doing very well, even if some are struggling, Gossart said. Yet she acknowledged a potentially grim future.

“I think unless every one of our Catholic institutions begins thinking outside the box and looking at new and creative ways to recruit student populations and to create affordable tuitions, I think we are going to see the demise of some of our smaller Catholic colleges,” she said. “And it's tragic, because each one brings a charism from its founding congregation. It brings a measurable value to the community that it exists in. But the reality is that it comes to a point where some of these smaller institutions are no longer viable.”

There's another possible explanation for what seems like a large number of Catholic colleges closing or making major changes. Their shared religious identity -- the connections between board members and specific perspectives fostered by their common faith -- might make them more likely to be early movers when it comes time to respond to pressures. If that's the case, it could be an indication that other institutions are likely moving toward the brink but have yet to act.

“The history and the Catholic identity of many of our institutions gives them some tools to be more flexible in how they respond,” said Paula Moore, vice president for external affairs at the Association of Catholic Colleges and Universities. “For instance, they have the ability to reach out to, perhaps, other geographically close institutions that share a founding order, and therefore they can look to those other institutions and perhaps try to identify some economies of scale.”

Such connections might be helpful even for financial transactions. Wheeling Jesuit sold its campus to the wealthy Roman Catholic Diocese of Wheeling-Charleston to escape debt. Holy Cross College decided to sell 75 acres to the nearby University of Notre Dame to stabilize its finances shortly after speculation about its ability to stay open in the future.

Experts warned that property and asset sales can be an attempt at financial triage instead of a sign of a healthy recovery. They also pointed out that many colleges that were not Roman Catholic have merged or closed in recent decades.

No matter their religious affiliation, colleges under the most pressure tend to be saddled with a mix of problems like financial issues, academic programs that don't stand out, declining enrollment and difficulty fund-raising, said James M. Hunter, who is the chief academic officer and senior vice president for business development at Emerge Education, a consulting group. Many are also located in rural areas.

“Typically, there isn't just one issue, and therefore never just one solution to remedy the plight of small, private colleges,” Hunter said in an email. “In fact, I believe it is the interaction of internal and external factors, over time and really since 2008-09, that have caused a number of small privates to close or merge.”

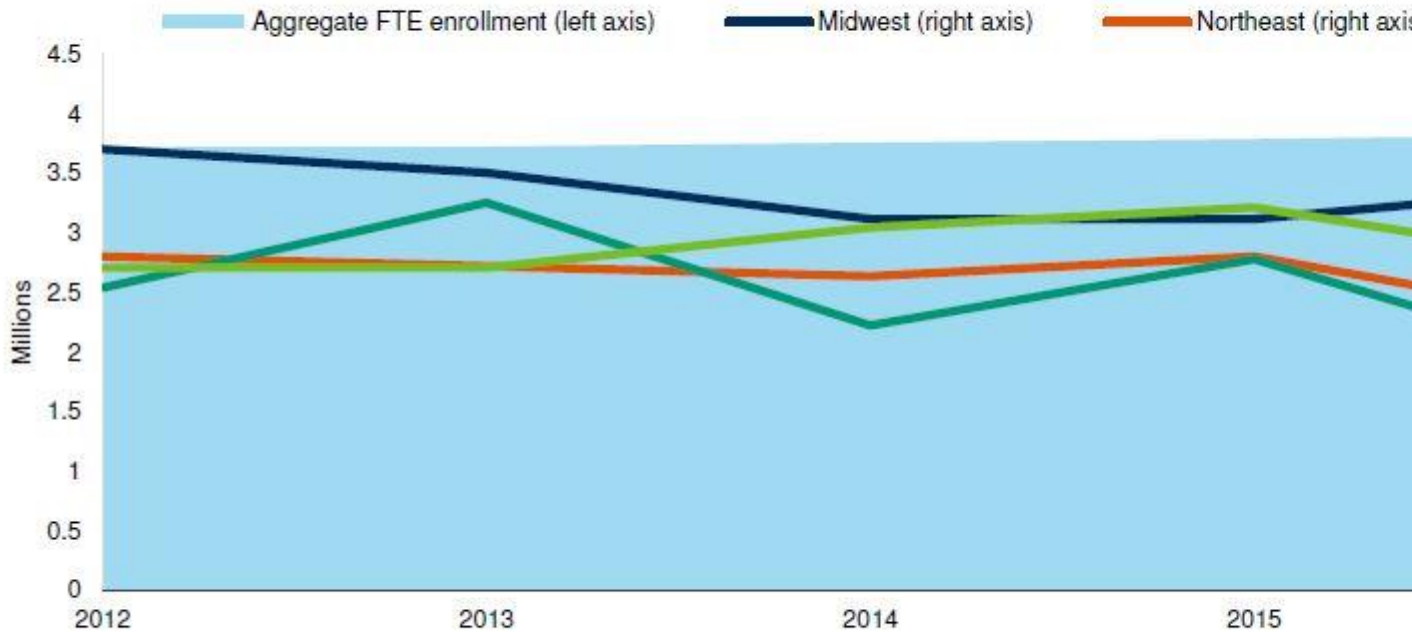
Signs point to the Midwest being under significantly more enrollment pressure than other parts of the country. Many Midwestern admissions officers, even at elite institutions, also reported struggling this year.

A Moody's tuition survey released last week found that enrollment growth is projected at less than 1 percent across public and private universities nationwide in 2017. But 61 percent of institutions in the Midwest reported enrollment decreasing this fall. The portion projecting decreases in other parts of the country proved to be much lower, in the 40 percent range.

Exhibit 4

Enrollment remains relatively stable sector wide; Midwest is most pressured

Percentage of public and private universities with declining total full-time enrollment by region



FTE stands for full time equivalent

Source: Moody's Investors Service

Nonetheless, higher education leaders resist viewing widespread consolidation as a fait accompli.

“We continue to believe -- and we think we’ve documented it pretty well -- that most small colleges have the capability to be resilient in the face of these challenges,” said Richard Ekman, president of the Council of Independent Colleges. “There are a small number of colleges that are in very serious trouble, but there are also a significant number of small colleges, 20 percent of them, that are just soaring. They’re doing very well.”

CIC earlier this year released a report showing colleges and universities have recovered significantly since the Great Recession. It also showed colleges with fewer than 1,000 students have performed worse financially than larger institutions.

Several colleges and universities have been closing every year for decades, Ekman said. Still, he acknowledged that there seems to be a slight uptick so far this year.

“I don’t know that it’s the beginning of a trend, but I certainly hope not,” he said.

The current spate of closings doesn’t necessarily mean more will follow faster, said Peter Stokes, managing director at Huron Consulting Group. But it should serve as a wake-up call telling colleges and universities they need to be smarter about facing mounting challenges.

There are likely ways for many to navigate those challenges. New types of student can be welcomed to classes, whether they be minority students who have traditionally been recruited in smaller numbers, adults or others who have historically been underserved. New donors can sometimes be found. Debt can often be managed better. Programs can be better tailored and colleges can carve out more unique identities instead of blending into the crowd.

A key question remains whether it’s too late for some colleges to successfully follow new strategies. Another is whether their leaders will tell themselves that their colleges have a unique story that couldn’t possibly end in closure -- until the many pressures build into a crisis and it’s too late.

“Everybody’s got their own history and story to tell about the poor decisions they’ve made,” Stokes said. “If you pan back and look at the big picture, they made those decisions in a particular context, and in the context of a particular business model -- and that business model is increasingly threatened.”

Look at all of the institutions that have closed or been forced to make painful changes, and a profile emerges. Their enrollment has tended to be measured in the hundreds, they have been dependent on tuition to fuel

their operating budgets and they have been saddled with significant debts or deferred maintenance.

Time will tell if the recent burst of consolidations truly is the start of a wave, or the escalation of one that's been building for some time. It is now becoming clear, however, that the early stages of a wave probably wouldn't look like dozens of colleges shuttering at once. It would look like a significant handful of closures and painful changes dripping out over time.

It would look like the last several months.