Hampshire’s Fiscal Reality
1965-2019

Joint Assembly to Staff, Faculty, and Trustees

January 31, 2019
Patterson / Longsworth Years (Pre-1970)

• Hope for Ford Foundation to provide $6 million gift to help found Hampshire once a matching donor could be found.

• October 7, 1965 Harold Johnson makes $6 million pledge to provide start up funds match Ford Foundation commitment.
“It is exceedingly difficult to operate successfully, in a financial sense, without the benefit of endowment income.”

MAKING OF A COLLEGE, p. 155
The Making of a College
Financing Hampshire College, p.153 - 168

- Hampshire will need $29,000,000 to plan and build campus for 1440 students and 90 faculty
- $14,000,000 from H. Johnson & Federal funds
- $15,000,000 left to be raised from private sources, which were, “not yet apparent”
Hampshire’s Early Financial Model

• Founded with $15 million unmet need for capital projects (Making of a College, p. 159)

• No endowment

• Revenue from tuition and fees funded the operating budget

• Small faculty, 16:1 faculty student ratio

• No plan for addressing deferred maintenance/capital projects over time

• High faculty turnover planned by design
Adele Simmons (1977 to 1989)

Enrollment crisis

• Reduced selectivity in the Admissions process to increase class size

Needed to reduce expenses

• Pay cuts for faculty and staff
• Zero TIAA contributions for full year
• Hiring freeze

Used endowment funds to close budget deficit for two consecutive years

Potential risk of defaulting on our debt covenants

- Our "freeboard" was less than $1,000,000.

Worried about deferred maintenance and low compensation

Admissions was critical

- Tried to build back from the low enrollment in the 1980s, where we had around 800 or 900 students.
- Needed to become more selective in our admissions
- Community accepted a reduction in compensation
- Tuition discount rate of 25% - 30%
- Endowment assets sometimes used to meet annual budget shortfalls
Ralph Hexter (2005 to 2010)

- 2008 Recession
- Increased recruitment
- Reduced selectivity to increase class size
- Unmanageable work load for faculty and staff
Jonathan Lash (2011-2018)

Needed to differentiate
  • Attempted to focus on four pillars; unsuccessful

Needed to improve enrollment, retention and quality
  • Thrivers Study
  • Mission-Driven Admissions / Ban SAT
  • Intentionally downsize

Campus unrest
  • 2016 Spring all-community meeting
  • 2016 Fall election unrest and flag incident

Sustainability
  • RW Kern Center, Healthy Food Transition, 100% solar
Jonathan Lash (2011-2018)

2017 Financial Sustainability Plan

• VSIP
• Bridge to Retirement
• 1.5% reduction in retirement contribution
• Aggressive investment in marketing, recruitment, and retention (using funds from our endowment)
• Planned decrease in discount rate
• Identification and assessment of other revenue generating ideas
• Evaluated tuition reset and recommended not to proceed
• Faculty leadership involved in developing plan and plan shared broadly with all faculty
External forces suppress our ability to generate revenue from tuition

- Demographic trends. **Fewer** high school **graduates** in Northeast, more financial need.³
- Competition for students is increasing, **65%** of private colleges **missed** their enrollment goals in 2017¹
- **Discounting is rampant** as competition for students increases²
- Families focus on quantifiable return on investment
- Cultural trends: teens increasingly less prepared for self-guided study
APRIL 2018

Mt. Ida announces it will close in May 2018

- Accepts Fall 2018 Class with full knowledge of financial troubles
- No teach out plan for students
- No plan for staff and faculty
**APRIL 11, 2018**

*Mim accepts* position of president

**MAY 2, 2018**

*Jonathan updates* Mim on yield

**2018 Financial Sustainability Plan (FSP)**

<table>
<thead>
<tr>
<th><strong>FALL 2018</strong></th>
<th><strong>FSP Target</strong></th>
<th><strong>Actual</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2 Deposit Count</td>
<td>397</td>
<td>320</td>
</tr>
<tr>
<td>Oct. Census Count</td>
<td>345</td>
<td>286</td>
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</table>
SUMMER 2018

Heightened Regulatory Environment

May 2018

- MA Dept. of Higher Ed announces intent to investigate
- MA Attorney General announces it will seek tougher oversight of private colleges

June 2018

- AG’s office pursues Mt. Ida debacle

July 2018

- Governor Baker announces he is proposing legislation to protect incoming students
AUGUST 2018

Executive Committee Retreat

- Understanding new fiscal reality
- We have had declining enrollment, suppressed revenue, and low retention for fourth year in a row
- Test $30M fundraising campaign for the year
- Need to consider variety of strategic options
AUGUST 2018

Wheelock College

Wheelock College announces partnership with Boston University as Wheelock College of Education & Human Development

• Students easily transitioned into new entity
• Some faculty and staff move into new entity
SEPTEMBER 2018

Assembly

- $3.4M deficit for the year announced
- Strategic Visioning announced
- Describe alumni engagement
FALL ACTIVITIES 2018

Fall 2018 - Alumni Engagement

• Importance of strategic visioning shared with alumni across the country
• Advancement team, Board leads, and Mim reach out to donors across the country
• No sense of urgency from donors, want to support special projects, not operations
OCTOBER 2018

Full Board Meeting

• Deep dive into College’s financial position

• Collaborative development of *grounding principles* for Strategic Visioning

• Discussion of *range of strategic options* including a strategic partner
OCTOBER 2018

Assembly

- College will receive a one time $3.6M dividend from one of our endowed funds
- We will use this $3.6M to balance 2019 budget and to fund professional development for faculty and staff
- Report out from the October board meeting
- Outlined upcoming strategic visioning, including need for *transformative* change and possibility of seeking a partner
OCTOBER 5, 2018

Receive progress report letter from NECHE

Need to report back progress on six items to NECHE in January 2019 (got extension to April 2019)

1. Hire a new president
2. Improve financial position and multi-year planning
3. Meet your enrollment, retention goals, and discount rate
4. Improve staff and faculty compensation
5. Demonstrate improved campus community climate
6. Data informed outcomes for Div II and Div III
November 2018

Regulatory oversight tightens

- **Class action law suit** against Mt Ida
- Board of Higher Education and others work on developing regulations and **consumer protection guidelines** for taking in a class
November 2018

Activities

• At Assembly discuss plans to constitute Board Advisory Task Force for Visioning work
• Discuss Faculty Innovation Group concept with Deans
• Begin to seek input and develop charge for committees
• Begin to have conversations with others in higher education about Hampshire’s distinction and value as possible a strategic partner
DECEMBER 2018

Newbury College announces closing

- Accepts Fall 2018 (including some Mt Ida students) with **full knowledge of financial fragility**
- Unclear teach out plan for students
- Unclear plan for staff and faculty
EARLY DECEMBER 2018 – PRESENT

Mim has conversations with....

- New England Commission of Higher Education
- Association of Independent Colleges and Universities in Massachusetts
- MA Department of Higher Education
- Attorney General’s Office
Hampshire College announces it is seeking strategic partner and is considering question of whether or not to accept Fall 2019 class
Green Mountain College announces closing

- Accepts Fall 2018 class knowing for the past 18 months that they were in financial trouble
- Teach out plan for students is minimal
- Not clear if there is a plan for staff and faculty transition
- Opportunity for students and some faculty at Prescott College, 2000 miles away (this is my understanding)
JANUARY 22, 2019

Regulatory Environment Continues to Evolve

- Working Group of the Massachusetts Board of Higher Education releases final report, *Transitions in Higher Education: Safeguarding the Interests of Students (THESIS)*
- Recommends “stress test” for colleges to use prior to admitting incoming class
The Numbers
Change in Operating Revenue (2011-2018)

Annual Operating Revenue

- 2011: $45,000,000
- 2012: $47,000,000
- 2013: $49,000,000
- 2014: $51,000,000
- 2015: $53,000,000
- 2016: $55,000,000
- 2017: $57,000,000
- 2018: $59,000,000
- 2019*: $61,000,000

*Data for 2019 is estimated.
Average Annual Student Enrollment

<table>
<thead>
<tr>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
<th>FY 19</th>
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<tbody>
<tr>
<td>1390</td>
<td>1298</td>
<td>1333</td>
<td>1247</td>
<td>1193</td>
<td>1120</td>
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Estimated
Enrollment and One-Year Retention Fall 2009 - Fall 2018

Fall 2009: 1,400
Fall 2010: 1,100
Fall 2011: 1,400
Fall 2012: 1,100
Fall 2013: 1,400
Fall 2014: 1,100
Fall 2015: 1,400
Fall 2016: 1,100
Fall 2017: 65%
Fall 2018: 60%

Degree-Seeking Total Enrollment First-Year Retention
## Financial Sustainability Plan (FSP) - Longitudinal Targets

<table>
<thead>
<tr>
<th></th>
<th>F18</th>
<th>F19</th>
<th>F20</th>
<th>F21</th>
<th>F22</th>
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</thead>
<tbody>
<tr>
<td>FSP App Target</td>
<td>2200</td>
<td>2600</td>
<td>3100</td>
<td>4000</td>
<td>4000</td>
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<tr>
<td>App Actuals</td>
<td>2319</td>
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<td></td>
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<tr>
<td><strong>FSP Deposit Target</strong></td>
<td>345</td>
<td>400</td>
<td>430</td>
<td>415</td>
<td>390</td>
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<tr>
<td>Deposit Actual</td>
<td>286</td>
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<td></td>
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<tr>
<td>FSP Discount Target</td>
<td>55%</td>
<td>52%</td>
<td>50%</td>
<td>45%</td>
<td>45%</td>
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<tr>
<td>Discount Actual</td>
<td>59%</td>
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Optimistic projection for Fall 2019 class: **315**

*Full pay students have gone from 7% (2014) to <1% (2018)*
Tuition Discount Rate  F2012 – F2018

NECHE goal: <50% immediately
Net TRB Revenue Change by Percentage

<table>
<thead>
<tr>
<th>Year</th>
<th>Change</th>
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<tbody>
<tr>
<td>2013</td>
<td>3.3%</td>
</tr>
<tr>
<td>2014</td>
<td>1.3%</td>
</tr>
<tr>
<td>2015</td>
<td>-1.7%</td>
</tr>
<tr>
<td>2016</td>
<td>-3.9%</td>
</tr>
<tr>
<td>2017</td>
<td>-4.0%</td>
</tr>
<tr>
<td>2018</td>
<td>-6.8%</td>
</tr>
<tr>
<td>2019</td>
<td>-11%</td>
</tr>
</tbody>
</table>

Net T,R,B is defined as Tuition, Room, Board and Fees minus institutional financial aid.
Assets

- Reputation and educational mission
- Exceptional students, staff, and faculty
- Prominent alumni
- 800 acres in South Amherst (100% solar)
- College Farm & Community Supported Agriculture (CSA)
- $52M endowment
- Three thriving Cultural Centers
  - Yiddish Book Center
  - Eric Carle Museum
  - Hitchcock Environmental Center
- Early Learning Center
- Five College Consortium
How have we balanced our budget?

**FY 16**
$1MM deficit Staff layoffs and operating budget cuts

**FY 17**
$1.5MM deficit closed through generous donations and staff layoffs

**FY 18**
Deficit of ~$2.3MM, closed through cuts/reductions + a few generous donors

**FY 19**
Deficit of ~$5.4MM, closed through sustainability plan (cuts/VSIP and endowment draw) + one time dividend from endowment

**FY 20**
Will discuss verbally
Enroll a Fall 2019 Class?

YES

NO
Enroll a F19 class

**POSITIVE Considerations**

- Preserve more staff/faculty jobs next year
- Unclear whether class will generate additional revenue or create great debt

**NEGATIVE Considerations**

- NECHE – likely probation this summer/fall; if can’t improve numbers, likely subsequent loss of accreditation
- BHE recommendation from *THESIS* – need 18 month teach out/contingency plan
- Threats to partner attractiveness
- Liability of promising 4-years to incoming class
- Probation status will hurt recruitment and retention

2/4/19 updated
Do not enroll a F19 class

<table>
<thead>
<tr>
<th>POSITIVE Considerations</th>
<th>NEGATIVE Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• NECHE – demonstrates we are working on issue; likely no probation</td>
<td>• Impacts on the academic program</td>
</tr>
<tr>
<td>• Demonstrates institutional responsibility to applicants</td>
<td>• Smaller student body would require significant reductions to staff/faculty</td>
</tr>
<tr>
<td>• May be more attractive to strategic partner given above</td>
<td></td>
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2/4/19 updated
Timeline Synthesis

• Hampshire was designed to have a tuition-driven business model
• We’ve faced financial challenges since day 1
  • Opened $15M short of the projected need for capital projects
  • Ford Foundation pulled back $3M
  • No endowment
• Adele faced extraordinary financial challenges
• Greg faced risk of debt covenant and grappled with low enrollment
• Ralph faced the 2008 recession
• Jonathan faced years of campus unrest + tension; and continuing financial struggles
Pivotal Moment in Time
Our current business model incentivizes us to cut back on financial aid and reduce our discount rate to increase revenue.

These continued reductions will make Hampshire increasingly inaccessible and unable to serve students from a wide array of socio-economic backgrounds.

Our recent experience demonstrates that we have not been successful in recruiting students who only require minimal aid and therefore by reducing our discount rate, our class size would be dramatically smaller.

If making decisions about how to generate revenue is in conflict with the values of our institution, **it is time to re-engineer our business model.**
Extraordinary alumni, community, and time to find a strategic partner

• We are witness to a moment of profound institutional change and transformation, the type envisioned in our founding documents

• As hard as this work is, this will be looked back on as the fulfillment of our promise to be an experimenting institution—and most importantly, to the continuation of our educational mission
Principles to guide our work

- Preserve our reputation and what is best about Hampshire
- Advance our educational mission
- Keep the interests of our students, staff, and faculty at the forefront
- Potential for long-term positive impact
- Fortitude to make difficult decisions
- Consider Amherst and the Pioneer Valley in our planning
Phases of the Work

- **Stakeholder meetings** (July through October)
- **Engage the community** (September through July 2020)
- **Committee Work/Quiet Phase** (Now)
- **Identify strategic partner** (by May 2019)
- **Transition** (July 2020)
Questions?