

# Hampshire's Fiscal Reality 1965-2019

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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

# Greg Prince (1989 - 2005)

## 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.<sup>3</sup>
- Competition for students is increasing, **65%** of private colleges **missed** their enrollment goals in 2017<sup>1</sup>
- **Discounting is rampant** as competition for students increases<sup>2</sup>
- 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)

FALL 2018	FSP Target	Actual
May 2 Deposit Count	397	<b>320</b>
Oct. Census Count	345	<b>286</b>

## 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

JANUARY 15, 2019

**Hampshire College** announces it is seeking strategic partner and is considering question of whether or not to accept Fall 2019 class

JANUARY 22, 2019

## 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)

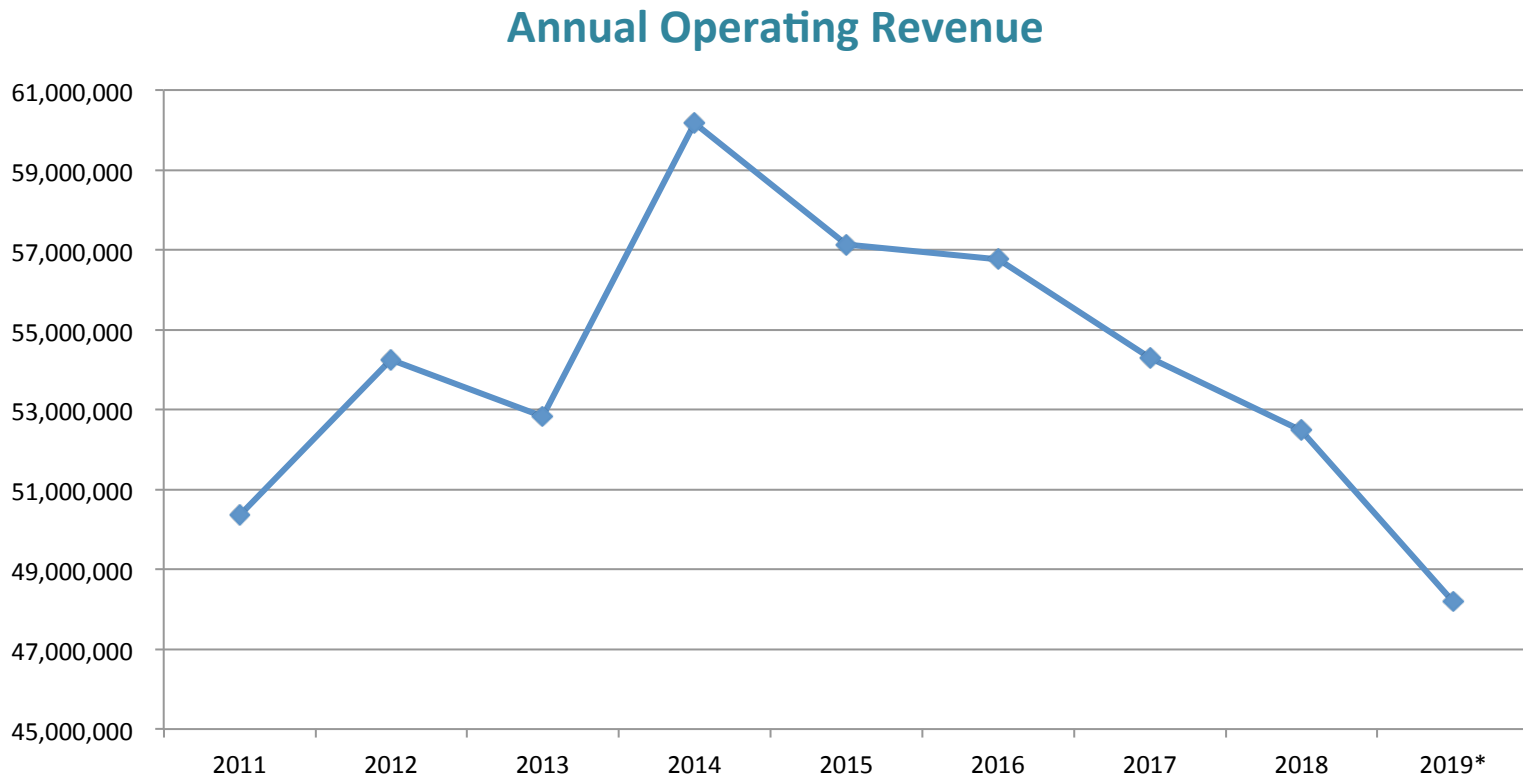
JANUARY 22, 2019

## Regulatory Environment Continues to Evolve

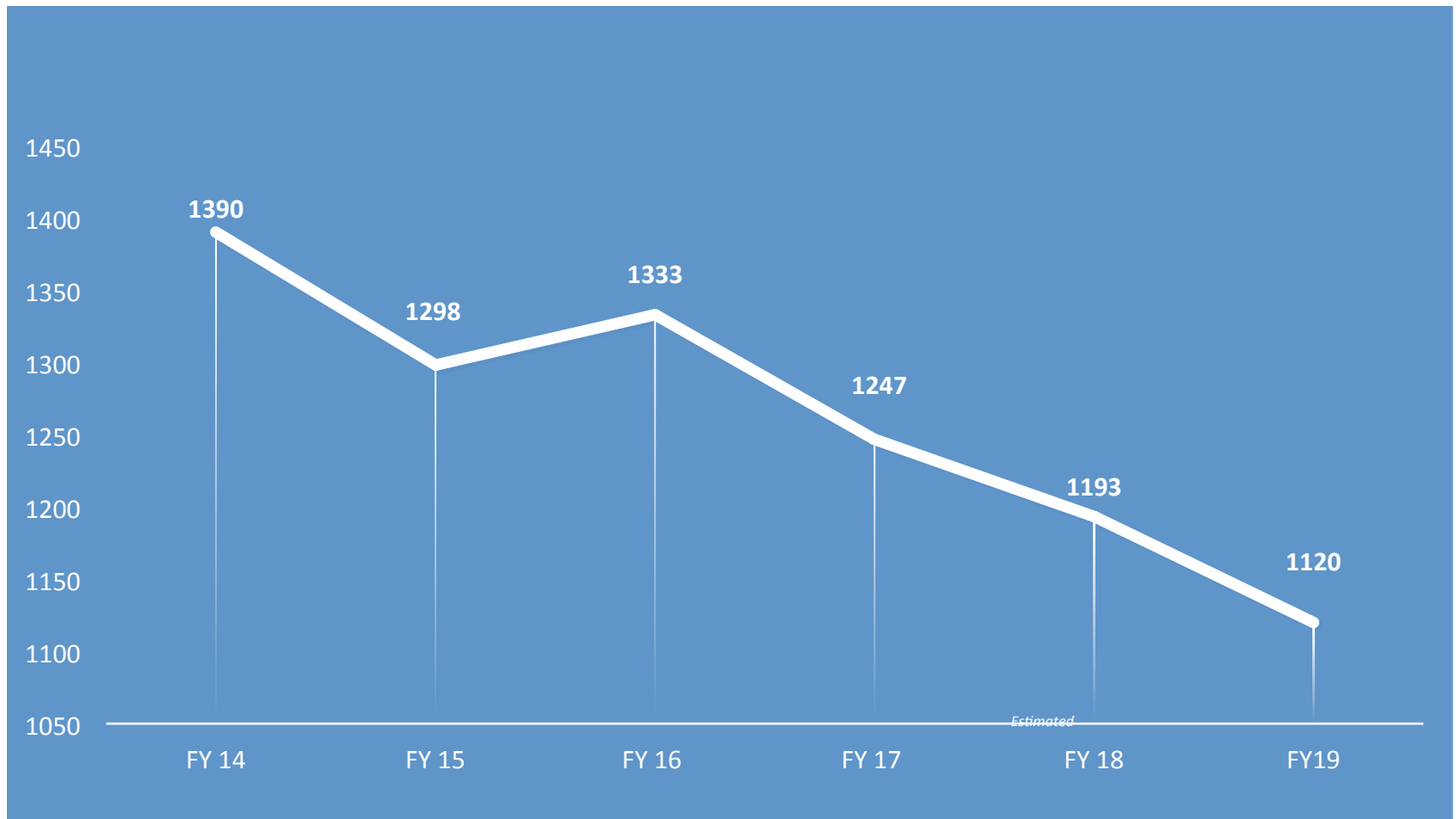
- Working Group of the Massachusetts Board of Higher Education releases final report, *Transitions in Higher Education: Safeguarding the Interests of Students (THESIS)*
- Recommends “**stress test**” for colleges to use prior to admitting incoming class

# The Numbers

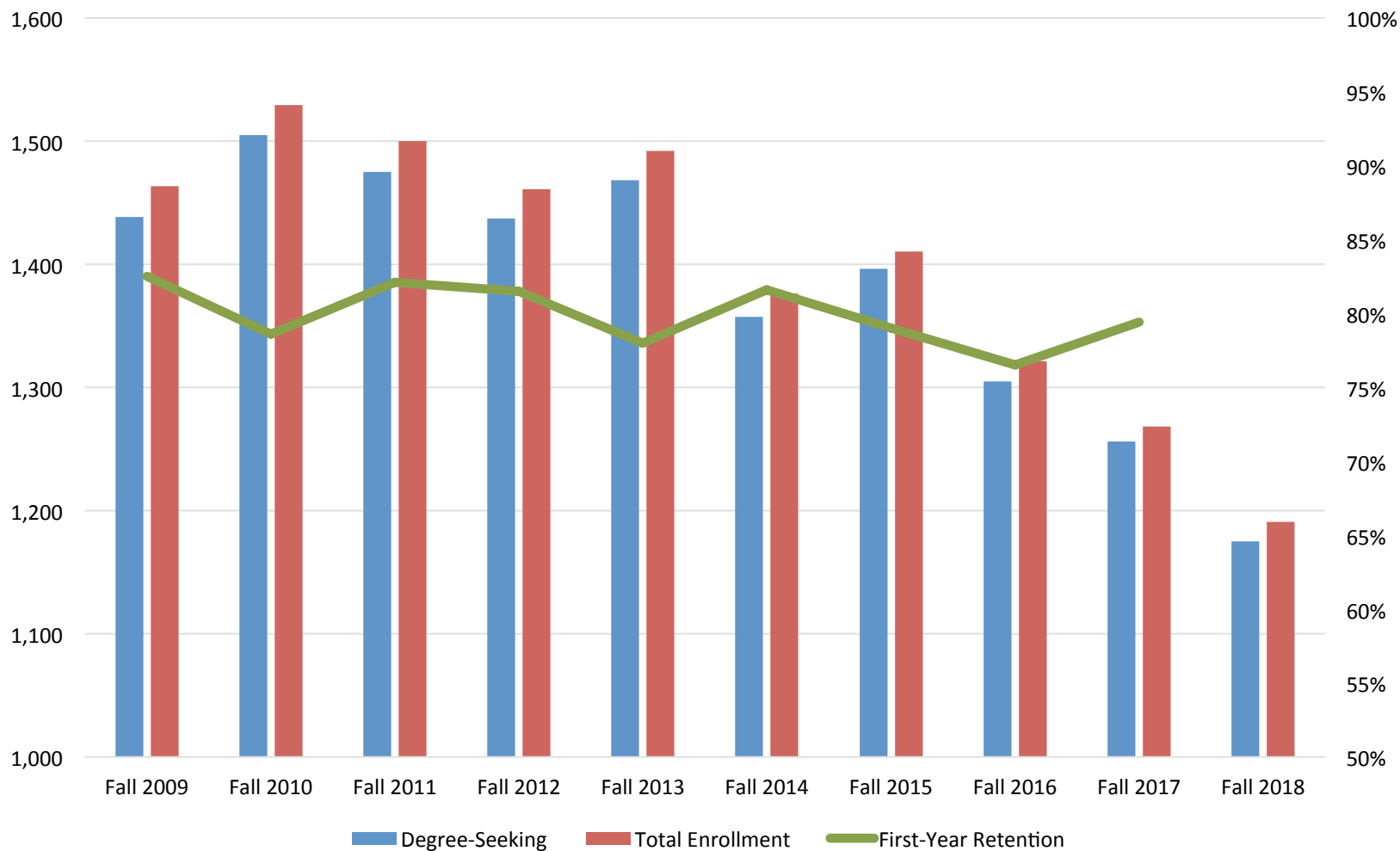
# Change in Operating Revenue (2011-2018)



## Average Annual Student Enrollment



## Enrollment and One-Year Retention Fall 2009 - Fall 2018





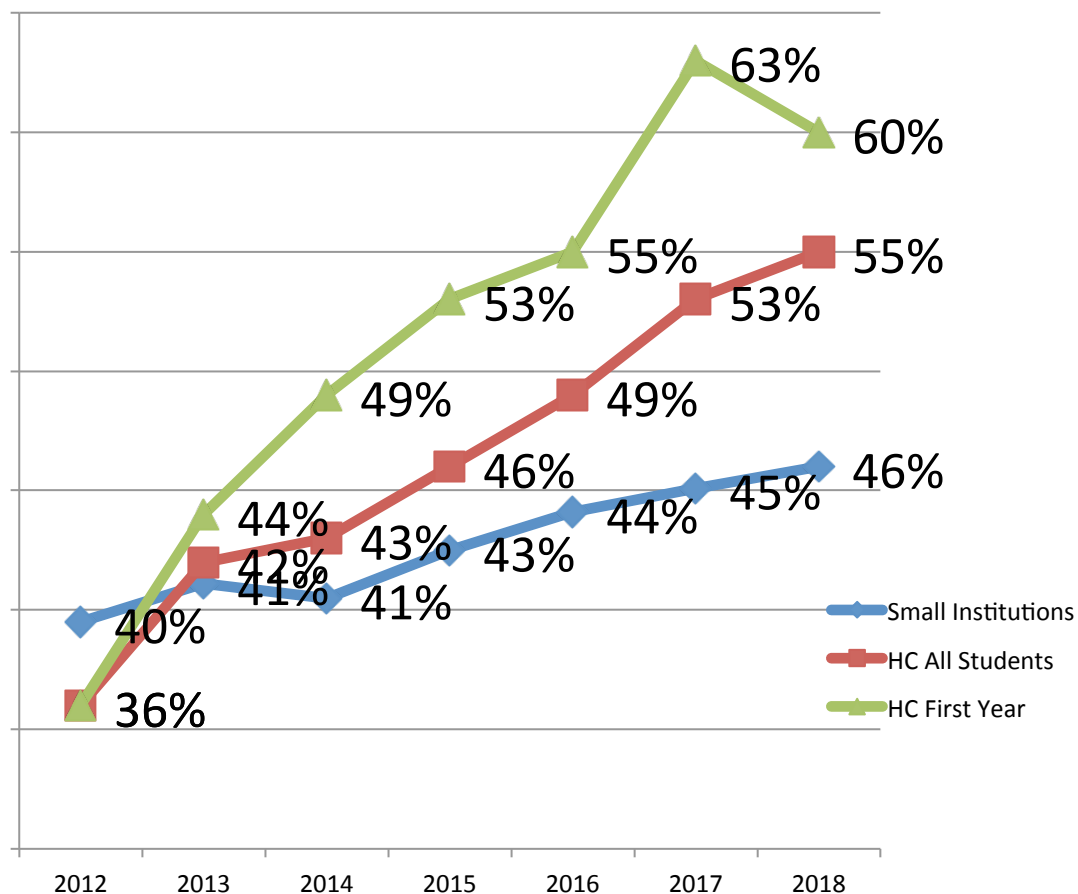
## Financial Sustainability Plan (FSP) - Longitudinal Targets

	<b>F18</b>	<b>F19</b>	<b>F20</b>	<b>F21</b>	<b>F22</b>
FSP App Target	2200	2600	3100	4000	4000
App Actuals	2319				
<b>FSP Deposit Target</b>	<b>345</b>	<b>400</b>	<b>430</b>	<b>415</b>	<b>390</b>
Deposit Actual	<b>286</b>				
FSP Discount Target	55%	52%	50%	45%	45%
Discount Actual	59%				

Optimistic projection for Fall 2019 class: **315**

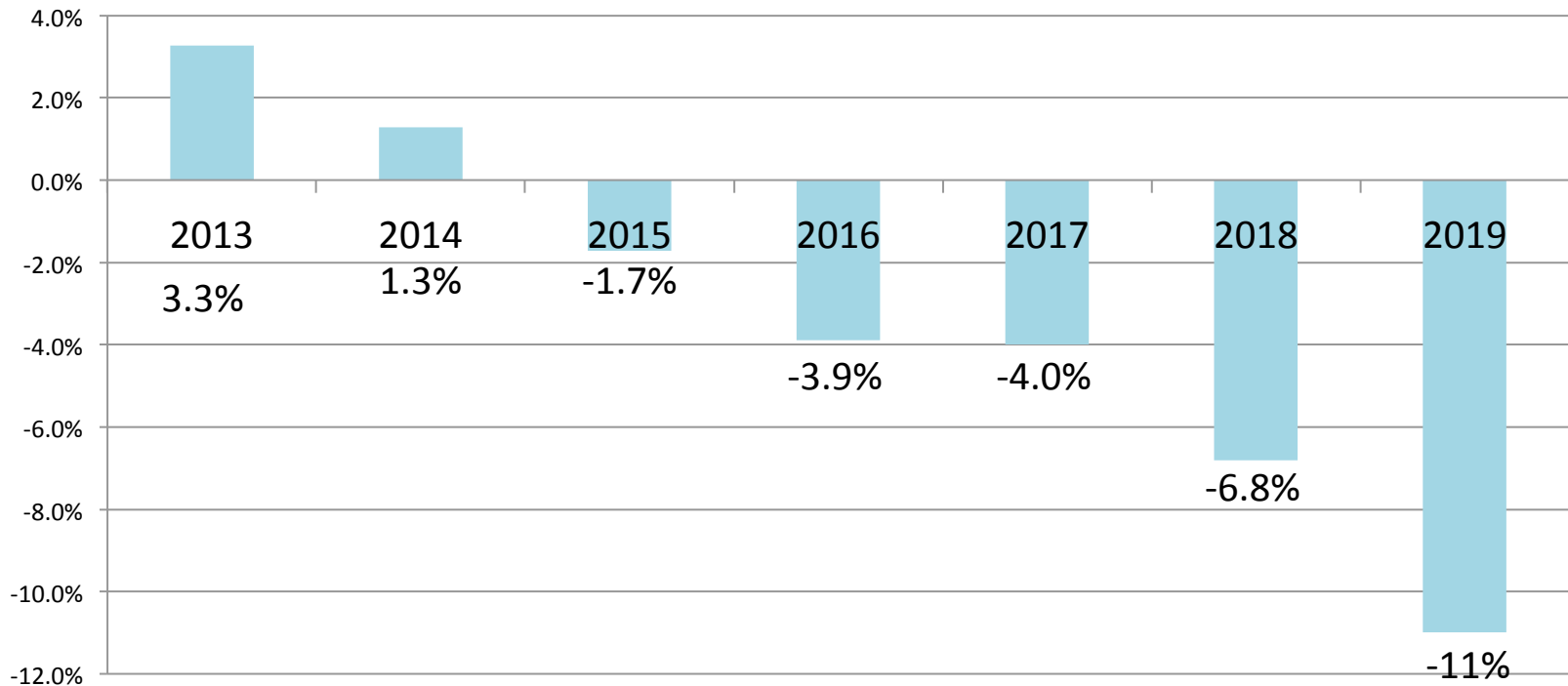
**Full pay students have gone from 7% (2014) to <1% (2018)**

## Tuition Discount Rate F2012 – F2018



NECHE goal: <50% immediately

## Net TRB Revenue Change by Percentage



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

## **FY20**

Will discuss verbally

**Enroll a Fall 2019 Class ?**

**YES**

**NO**

# Enroll a F19 class

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## POSITIVE Considerations

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

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## NEGATIVE Considerations

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- 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

# Do not enroll a F19 class

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## POSITIVE Considerations

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- NECHE – demonstrates we are working on issue; likely no probation
- Demonstrates institutional responsibility to applicants
- May be more attractive to strategic partner given above

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## NEGATIVE Considerations

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- Impacts on the academic program
- Smaller student body would require significant reductions to staff/faculty



## 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?