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Antioch College Review and Evaluation

Introduction

Gateway Consultants Group Inc. ("Gateway") is pleased to provide you with this report summarizing the evaluation that we have preformed at your request concerning the financial condition and viability of Antioch College, a unit of Antioch University. We appreciate the opportunity to be of assistance to you and we very much appreciate the tremendous cooperation provided to us by the University Chancellor Toni Murdock as well as the Chief Financial Officer Tom Faecke, the president of the college, Steven Lawry, the various staff members whom we have had an opportunity to interview and the University's Counsel, David Weaver.

In the course of our assignment we had the opportunity to review financial records of the university over the past several years as well as discuss in detail with the chief financial officer and his staff the ramifications of the university's financial situation. We very much appreciate the opportunity to tour the campus with Michael Miller, the head of the college's Physical Plant and Facilities and meet in person with a significant number of the universities leadership team. We have also had the opportunity to review material on the website and explore the historic records of the university. Having said this, it is important to note that Gateway is not an auditing firm. We have not been able to do, nor do we believe it is part of our assignment, an independent audit of the financial data that has been presented to us. Thus we rely solely on the information provided by the University's management in presenting to you the following assessment.

Before setting forth that review and assessment, it is important for you and the University's Board to understand the perspective which Gateway brings to this assignment. The principals who have been assigned to this task have a history of work with small liberal arts colleges. In fact, Mr. Chema and Ms. Thibodeau served as President and CFO, respectively, of Hiram College during its turn-around period starting in 2003. Stan Hales has had a depth of experience with small liberal arts colleges serving as a professor, academic dean, and president of institutions in California and Ohio. Most recently he was president of the College of Wooster. Consequently, we believe that we have both an appreciation for the history and tradition as well as the tremendous contribution to student learning and engagement that small liberal arts colleges provide. We also have first hand knowledge of the financial stresses that are commonplace in the current decade. It is in the context of this background and experience that we present to you our assessment of your current situation.

Situational Overview

The College has faced weak enrollment and the resulting lower tuition revenues for a number of years. In 2004, the Antioch College Renewal Plan was finalized and the program and curricular enhancements have since been implemented. New student enrollment from 1999 – 2003 ranged from 170 – 190. Fall 2004 and 2005 saw new student numbers drop to 121 and 60, respectively. Fall 2006 grew to 133 first year students and transfers, and fall 2007 is expected to have 125. The projected total enrollment for 2007/8 is 389, including 82 AEA & non-degree students.

As enrollment revenue has not been able to cover operating expenses, large amounts of grant and donor dollars have been used to fund operations. In 2006/7 and 2007/8, more than $6 million will be used in each year to balance the budget, which amounts to nearly one third of the total revenue of the College. These funds are not expected to be available in future years, and the projected enrollments will not be sufficient to sustain the current expense base without them. Additionally, funds are needed above current levels to begin to address physical plant repairs and renovations needed to support admissions and retention efforts.

The College operates independently within the decentralized University system. Several key members of the College's senior staff are relatively new, or acting in an interim capacity. In addition to the non-tuition funding mentioned above, the College has been subsidized by the other schools within the system. This subsidy totaled approximately $920k in 2006/7. It is the goal of the Central Administration that all schools are self-funding, and provide adequate funds to support their own campus growth and improvements.

The University system's current projected cash flow analysis, prepared by the Central Administration, shows the system running negative by May 2009 due to significant losses at Antioch College. As a result of this analysis, Central Administration is considering having the College declare financial exigency this summer, and suspending operations at the end of the next school year. They would then investigate opportunities for the College to evolve into a financially viable operation. This investigation would include the possibility of developing an urban village concept at the current site of the Antioch College campus which would in turn form the basis for a new educational enterprise.

The Macro Higher Education Context

As Antioch College struggles to achieve enrollment the college finds itself in a very difficult climate for higher education in general. It is clear that a total student body for a residential college like Antioch needs to number approximately 1,000 in order to thrive financially, that is, be self sustaining through tuition revenue, provide the community experience students expect and provide funds for ongoing program development and physical plant improvements. Unfortunately, the demographic situation in the United States places constraints on the ability of any small college to grow at this time. Demographers estimate that the number of 18 year olds will peak at approximately 4.7

million in 2010. By 2017 this group of prime college age prospects will fall to 3.7 million nationally. In Ohio, population growth has been stagnant since 1970. The population of the state of Ohio in the 1970 census was 10.7 million people. By the year 2000 that population had grown only to 11 million. In the context of the overall growth of the nation this growth is minimal at best. Moreover, Ohio has not been sending high school graduates onto college at even the level of the national average. Consequently the local cohort of students, as well as the expected national pool, in the relatively near future, presents a significant challenge to growth for any small liberal arts college.

Two years ago a Mellon Foundation survey of 17 and 18 year olds found that only 7% of the students in these two cohorts were interested in attending a college that had fewer than 1,000 people. The same survey revealed that only two percent of the cohort were interested in attending a college or university in a rural area. Consequently, as Antioch looks to the future it has a pool of prospective students which represents only approximately 1.4% of the total universe that might be attracted to it.

In addition to these demographic trends, the financial base supporting colleges and universities is also very negative. In fact, a former chancellor of the University of Georgia System has described the financial structure of colleges and universities as "bankrupt". While that may be an extreme judgment, there is no doubt that funding streams for higher education are stressed. For a private university there are basically three revenue streams historically: tuition revenue; current philanthropy; and earnings on the endowment. It is unlikely that any of those streams can have significant growth for most colleges and universities.

Tuition has steadily risen during the past fifteen years to the point that the market can bare little further rate increase, except for the most sought after, elite institutions. Fortunately for Antioch, there is tuition growth potential by adding students. For institutions at full capacity, this will not be possible. Current philanthropy to higher educational institutions is now in a very competitive situation. Churches, colleges and local hospitals used to be the prime recipients of charitable giving. Today, there are thousands of worthy causes aggressively seeking donations. The higher education share is not likely to grow substantially in this competitive environment. Endowments have grown somewhat this year due to favorable market dynamics. However, no one really expects a return to the vigorous, explosive growth of the 1990s.

This suggests that higher educational institutions, including those in favorable financial positions, will have a very difficult time sustaining themselves in the near term. Higher education needs to develop new entrepreneurial revenue streams to make up for the relative low growth in traditional sources.

Situational Evaluation

Attracting a larger student body with a non-traditional liberal studies program like Antioch's will be a challenge given current potential student demographics and preferences. Currently, the admissions office is accepting approximately 85% of the students who complete applications, leaving little room for expanding student numbers through changes in selectivity. The College's price for tuition, room & board is in the higher range for Ohio private colleges. Even coupled with a relatively high discount rate, this sticker price is not likely to provide an opportunity for attracting new students. The chart below compares Antioch College to 3 other colleges that potential Antioch students are also considering.

	Antioch College	Hampshire College	Evergreen State College	Oberlin College
Tuition, R&B	$ 35,221	$ 42,885	$ 22,767	$ 45,344
Undergrads	402	1,400	4,124	2,800

Hampshire College, with a program much like Antioch's, has been successful in drawing a large enough student body to provide financial viability. Hampshire is able to offer students the benefit of the "5 College Consortium". Through this group that includes Amherst, Smith and Mount Holyoke Colleges as well as UMass, the College boasts it ability to offer 5,000 courses. The school also does a great job on its website laying out specific coursework plans for a great number of potential individualized majors. At the present time, Antioch does not have this value added consortium opportunity. However, looking downstream perhaps Antioch could evaluate the opportunity for creating a partnership with one or more schools in order to share course resources and offer a broader course offering. It is clear that Antioch need dramatic change. Incremental improvements will not be sufficient.

The Renewal Plan with its heavy emphasis on curriculum was not sufficient to stimulate substantial prospective student growth in the short term. There is clearly only a limited number of students who are interested in the Antioch context and the Antioch program.

In addition to the difficulties of attracting students based upon program, the college is also challenged by its physical plant. While the physical plant director has done an outstanding job renovating a dormitory and classroom space utilizing very limited funds, the college's current physical plant needs substantial repair and renovation and there is a need for new facilities if the college has hope of attracting and retaining students in greater numbers. We would point out that the enrollment problem is not limited to the ability to attract new incoming first year students or transfer students but also is significantly impacted by the relatively low retention statistics. Much of the retention problem may be attributed to the physical structures and the quality of life issues. In our judgment, in addition to providing for maintenance and repair to existing building infrastructure and the grounds of the campus, examples of needed improvements include the following:

- Renovated residence halls & dining facility
- Updated Library & Science Labs
- Repair & renovation to Art Building
- Web Site enhancements

- Enhancements in Campus Technology & Student Life

It is of course possible to turn this situation around. We know from our own experience that arresting enrollment decline is doable. Unfortunately it takes considerable amount of time as a college's revenue cycle is multi-year. And it takes dramatic change not incremental. Based upon the financial information that has been presented to us we seriously doubt that there is sufficient time to perform an orderly turn around. Nonetheless, we would like to suggest several options.

Options

The first option is, of course, to attempt to "turn-around" Antioch College. In our judgment this would require the two pronged approach of increasing revenues and reducing expenses. Expenses have already been significantly cut over the past several years. Staff positions have been eliminated, and capital expenditures have been minimized. It is our observation that the staff at both the college and the university level have worked diligently to make substantial budget cuts. Nevertheless, there are additional areas where expense reduction could be achieved. For example, administrative overhead by combining units of the university could achieve significant savings. Moreover it would be theoretically possible to reduce or eliminate the college's contribution to the retirement plan (TIAA/CREF) for college faculty and staff and save additional expenditures. While these draconian efforts are possible, they would likely not be sustainable and would only make sense if coupled with an aggressive and attainable plan for revenue growth so that sensible expense levels could be restored when revenues allowed.

Consequently, enrollment would need to grow substantially and quickly. It would be essential to enhance the college's admissions staff effort and to keep an excellent staff in place for several years in order to be effective. In addition, a highly effective website and marketing approach that meets the needs and expectations of today's 17 and 18 year olds, and their parents, is absolutely necessary. Showing how traditional majors and concentrations can be accomplished at the College may help to attract potential students unclear about the individualized major concept. In any case, every effort must be made to ensure consistency in the Admissions staff and message, and that message must be targeted to that segment of the potential student population that has a predisposition to the type of education provided at Antioch. As mentioned above, the college revenue cycle is long and it will take at least two years of consistency and excellence in the admissions effort before results are likely to be seen in the numbers of the entering class. Moreover, as also mentioned above, attention needs to be paid simultaneously to the retention of students once they matriculate. This will require, among other things, serious attention to the physical plant upgrades.

For this strategy to be successful a very significant level of current philanthropy need to be achieved to underwrite both the changes in enrollment effort and physical conditions. As we are sure you know, it is extremely difficult to achieve major grants in the face of an enterprise that appears to be spiraling downward.

Another option for the system might be to fold the College into Antioch McGregor. McGregor seems to be operating successfully, and has an existing administrative structure. Saving the cost of duplicated functions and efforts would be a plus. While the two faculty bodies are distinctly different, it might be possible to merge the two institutions and come out with a larger, better consolidated entity. This option, of course, assumes that all of the steps set forth in the first option would also be taken. While the merger might provide additional savings in the cost structure which would buy time, this option also assumes substantial increase in philanthropy to carry the college until the enrollment changes resulted in substantially greater tuition revenue. We are as skeptical about the success of this strategy as with just continuing an incremental approach towards improvement.

A third option, and the one preferred at this time by the university's management team, is to suspend the College's operation at the conclusion of academic year 07-08. In this option, the College would, prior to the beginning of the academic year declare "financial exigency" and indicate that starting at the end of the academic year the college would no longer continue to function for some extended period of time. During the period of suspension management would have the opportunity to develop new entrepreneurial approaches to providing an Antioch College experience. For example, a developer might emerge with the concept of developing a new urban village on the Antioch College site. A new higher education institution, a "reinvented Antioch" could be the center point of such a new town development. This period of suspension would also allow university officials to identify the program that a reinvented college needs to present to prospective students in order to be relevant to them. Finally the suspension period would allow for a cleansing of the ghosts that have plagued Antioch's recruitment efforts since the 1970s.

Of course, there are multiple risks inherent in this dramatic alternative. These risks include:

- System repercussions – impact of closure on other university entities' reputations
- Risk of legal actions against the University, the administration, and the Board of Trustees
- Difficulties in appropriately providing support for the existing student body. There would certainly be an immediate loss of students upon the announcement and further losses in the period between the announcement and actual shut down. Providing opportunities for the existing student body to graduate and/or continue their education would be a challenge.
- Impact on faculty and employees including costs of severance and benefits
- Issues relating to maintenance of buildings and grounds during the suspension period
- Issues relating to handling the debt of the college and the endowment
- Impact on the alumni

While all of these and other issues must be carefully considered by the administration and the Board of Trustees prior to exercising this option, it should also be pointed out that time is of the essence. We do not believe that a fourth option—doing nothing—is a real option. The financial assets of the institution and the good will of the institution are quickly dissipating. A decision needs to be made while there are still funds and good will available to allow for the execution of whatever plan is agreed to.

Conclusions

Based on our review of the Antioch situation we conclude as follows:
1. The College is in financial exigency
2. As a College is primarily a cash basis entity, a $5 million P&L loss equates to a comparable cash flow loss. The University system's current cash flow forecast, shows the system running negative by May 2009. While forecast of the actual month might be refined by further analysis and reconciliation of historical actual cash flows, the outcome is clear. Unless many millions of dollars from non-tuition sources can be found to cover the College's excess operating costs each year, the school will not survive.
3. Due to the very low enrollment at the College, incremental improvement will not succeed in rescuing the college. Dramatic changes are needed.
4. There is not enough time to grow out of the College's low enrollment and inadequate financial performance. There is a need to act soon.
5. Managements proposed suspension of operations plan is more likely to be successful in preserving the viability of the university as a whole and providing an opportunity to reinvent the College than other alternatives.

Next Steps

1. We would be pleased to meet with the Board of Trustees and to review our conclusions with them.
2. It is important to separate the substantive decision regarding the College's future from the details of how the Plan is to be accomplished. Once a decision is made we would be available to provide support and assistance with the implementation of the plan if you so desire.