



AMERICAN
BANKRUPTCY
INSTITUTE

2018 Northeast Bankruptcy Conference and Consumer Forum

Financial Advisors: The Challenges Facing Colleges and Universities

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AMERICAN
BANKRUPTCY
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**25th Annual Northeast
Bankruptcy Conference and
13th Annual Northeast
Consumer Forum**

Saturday, July 14, 2018

**OUR
PANELISTS**

Marjorie Kaufman



Lance Miller

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TABLE OF DISCUSSION

- 1** Major Trends Affecting Higher Education
- 2** First Meeting Between Troubled Higher Education Institution & Major Creditors
- 3** Financial Viability Assessment
- 4** Turnaround Options, Efforts & Investment Decisions
- 5** Going Concern Marketing Effort
- 6** Liquidation and Wind Down

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MAJOR TRENDS AFFECTING HIGHER EDUCATION



MAJOR TRENDS AFFECTING HIGHER EDUCATION

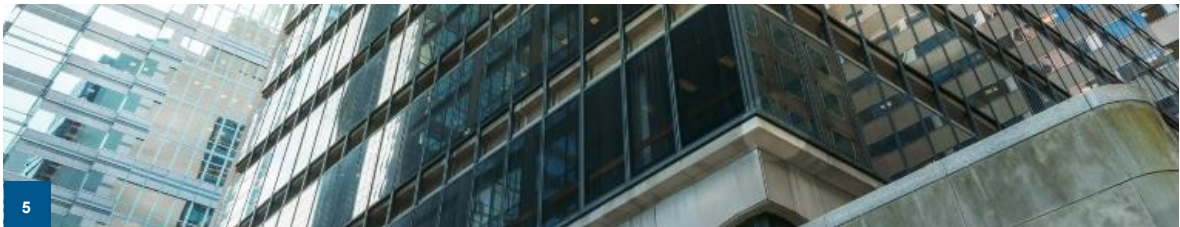
- + Significant declines in enrollment (mid and smaller sized institutions)
- + Escalating cost structures
- + Declining return on investment
- + Declining graduation rates
- + Balance of power within the institutions
- + Limited restructuring tools
- + Continued restructurings and regulation changes with for-profit institutions
- + Declining government funding for public higher education institutions
- + Need for Capital Improvements

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2

FIRST MEETING BETWEEN TROUBLED HIGHER EDUCATION INSTITUTION & MAJOR CREDITORS



FIRST MEETING BETWEEN TROUBLED HIGHER EDUCATION INSTITUTION & MAJOR CREDITORS

- + **Why?**
 - Practical Reason – Default(s) long-term debt
 - Underlying Reasons
 - Falling enrollment and corresponding declines in revenue
 - High fixed costs
- + **Who?**
 - Board of Trustees
 - C-Level Executives
- + **How?**
 - Quietly and confidentially
- + **When?**
 - As early as possible
- + **What?**
 - Creditor goals and perspectives
 - Institution goals and perspectives



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FINANCIAL VIABILITY ASSESSMENT



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FINANCIAL VIABILITY ASSESSMENT

- + Institution Used To Self-assessment Process and Accreditation
- + Creditors Often Desire Independent Assessment
- + Forbearance Must Account For Timing And Cost For Assessment Phase
- + Cash Flow
 - Need rolling weekly cash flow due to “seasonality” of cash receipts
- + Assessment Of Challenges Reviewed And Considered
 - System and data limitations
 - Profitability by program
 - Faculty tenure restrictions and labor costs
 - Tuition discounts and student demographics
 - Regulatory pressures
 - Accreditation
 - US DOE Title IV financing
 - State Education and Attorney General

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TURNAROUND OPTIONS, EFFORTS & INVESTMENT DECISIONS



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TURNAROUND OPTIONS, LIMITATIONS & INVESTMENT DECISIONS

- + Governance Challenges
 - NFP – Board of Trustees
 - Management
 - Faculty
- + Endowment and Fundraising Limitations
- + Labor Negotiations
- + Real Estate Limitations
- + Investment of Time and Capital Often Required for Turnaround
 - Consensual restructuring and turnaround process
 - Chapter 11 prohibition
 - Forced partnership between Creditors and Institution
 - Help of experienced advisors to navigate challenges and avoid loss of accreditation and maintain access to Title IV funding
 - Timing is critical
- + Evaluate merger or strategic alliance options with other universities
- + “Financial Exigency” declaration required to eliminate tenured faculty members

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GOING CONCERN MARKET



GOING CONCERN MARKETING EFFORT

- + Interview And Hire Investment Banker With Expertise
- + Timing And Cost
- + Regulatory Challenges
 - Accreditors
 - US DOE
 - State Education and Attorney General



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LIQUIDATION AND WIND DOWN



LIQUIDATION AND WIND DOWN

- + Closure Plan
 - “Teach out”
- + Student Records and Transcripts
- + Transitioning Students
- + Regulatory Requirements
- + Bankruptcy
 - Free and clear asset sales
 - Control under Chapter 11