The evolllution
A DESTINY SOLUTIONS ILLUMINATION

MONDAY MARCH 30, 2020

OPERATIONS AND EFFICIENCY

Coronavirus: My Warning to Colleges 14 Years Ago and My Advice Today

KENNETH HARTMAN
PAST PRESIDENT OF DREXEL UNIVERSITY ONLINE, DREXEL UNIVERSITY

Fourteen years ago, I authored an op-ed titled “Schools must learn to use Internet to quickly recover from a disaster,”stating:

“Imagine what would happen if a pandemic outbreak disrupts an entire county or city school district, forcing schools and area colleges to close indefinitely? Where would teachers and professors go to teach, and where would the students go to learn?”

Superintendents and college presidents must assess the readiness of their faculty to teach online, prioritize curriculum (not every course can be developed and taught online at once), determine the institution’s technical ability to host an online learning management system, and measure the level that all their students have the technology needed to participate in an online course and learning environment”

School board members and college trustees have the fiduciary responsibility to ensure that their institutions have comprehensive plans for online learning…and ensure their constituents (faculty, students, parents) that, in the event of a prolonged crisis, the business of educating students will continue, albeit in a different environment”

Unfortunately, that 2006 wake-up call to my higher education colleagues went largely unheeded at most institutions. Senior higher education administrators instead invested and borrowed billions of dollars to build new dormitories and classrooms to sustain a growth that never materialized.

Fast Forward to Today

Much has been reported in the past few weeks on how the COVID-19 outbreak has negatively affected thousands of college students. Hundreds of institutions in crisis mode have terminated all on-campus courses for the reminder of the academic year. Most are offering quickly transferred courses online. Nearly all have closed their dormitories and dining halls, suspended all study abroad programs and canceled all on-campus events (athletics, performances, commencement).

Much uncertainty still remains as to how colleges will offer online courses that require a laboratory or a supervised clinical experience, or how will students who depend on work-study pay for their tuition. Another outstanding concern is how colleges will reimburse students (or if they will at all) now forced to take online courses that are often taught at a lower tuition rate than on-campus courses.

Of urgent concern are the college seniors and graduate students needing to take the courses required to graduate this spring, who are not finding those courses being offered online, as most are traditionally taught in small classrooms by senior professors, who rarely teach online.

However, one aspect of this most recent interruption not being reported outside of higher education is the near-term and significant financial impact the COVID-19 will undoubtedly have on these institutions and their students, due to the unexpected additional costs and loss of revenue — even if (hopefully) the outbreak is contained by the start of the upcoming fall term.

The **unexpected costs** to nearly all institutions will be unprecedented, including:

Online courses

The cost to develop a single high-quality online course (one that complies with the new U.S. Department of Education "regular and substantive interaction" regulation and ADA compliance) can be between $10,000-$15,000. Now, multiply that cost by 100 to 200 new courses. Add to that the online platform's higher licensing fees due to for greater student usage of the online platform and additional applications required to teach a course online.

In 2012, The U.S. Department of Education ordered Saint Mary-of-the-Woods College in 2012 to repay $42 million dollars in federal grants and loans when a DOE audit found their online courses failed to comply with DOE engagement regulations. The college eventually won an appeal of the decision, but not before spending over $800,000 in legal fees.

Student health services

There would also be a cost associated with unbudgeted increases in student health services, extra cleaning services and supplies, technology to enable all employees to work from home, and other necessary operating expenditures to ready thecampus for returning students, employees, and perspective students seeking admissions interviews and campus tours.

Refunds for students

The cost to reimburse students for unused room and board will be staggering. Michigan State University (MSU), for example, announced this week that every student currently paying room and board fees will receive a $1200 refund that can be taken as cash or applied towards next year's room and board. MSU has 16,000 students living on campus, so the final cost will likely surpass $19 million dollars. No doubt some parents will take legal action to obtain a larger refund.

The **unexpected loss of revenue** to nearly all institutions could be unprecedented, including:

International students

There will be a loss of millions of tuition dollars from international students (including over 360,000 Chinese studentsannually), as many have been and will likely continue to be denied entry to the U.S.

The Institute of International Education reported this month that 76 percent of colleges have canceled recruiting and outreach events in China. The University of Delaware, for one, has already been impacted, reporting that 226 Chinese students were not able to return to campus this month for the start of spring term, which could result in a nearly $5 million revenue loss for both tuition and housing.

Nationally, U.S. colleges gleaned more than $9 billion dollars from foreign students each year. The fact is, many institutions are now financially dependent on international student tuition to balance their annual budget as well as reduce the annual tuition increase for domestic students (not unlike the airlines, which depend on filling first-class seats in order to offer the lower priced coach seats).

Auxiliary revenue

There will also be a loss of auxiliary revenue, as students, parents, and other customers demand (or could be entitled to) partial or full reimbursement for services not delivered, including room and/or board, student activity fees, tickets purchased to canceled athletic events. The College Board reports that room and board fees at public four-year institutions represents 43 percent of the student's total annual cost.

But here is the problem: in the past ten -years, hundreds of colleges have built luxury residence halls using private investor dollars (so-called "3-P financing"). These financial arrangements, however, require the college to guarantee a high occupancy rate that generates the revenue needed to pay the investor a predetermined fee each term. The same financial terms have been used by many colleges to build other campus facilities, like a new athletic or student center. Failure to collect the needed fees (housing, sporting event tickets, etc.) may require the college to find addition revenue to meet fiduciary obligations.

The Chronicle of Higher Education reported today that a growing number of institutions (University of Washington, Harvey Mudd College, DePaul University, Hawaii Pacific University) are issuing notices and/or conducting conference calls with nervous bond holders.

If students were wondering why some colleges canceled all on-campus courses over health concerns yet kept their residence halls open for the same students who — at the time — were sharing a common bathroom, they need only follow the money trail.

Financial aid

Loss of federal student financial aid dollars. For those colleges that canceled courses altogether, as they are required by federal law to reimburse (prorated) the government for terminated weeks remaining in the term, causing a loss of federal financial aid dollars.

Foundation

With loss to the institution's foundation, as significant turbulence and uncertainty in the equity- markets are negatively impacting college endowments. Most institutions' foundations will experience lower investment returns and may make alumni unlikely to make charitable donations. Lower and/or fewer endowments result in fewer funds to cover institutional expenses, including financial aid for their students.

Grants

A loss of faculty research grants, which often are taxed by institutions at between 50 and-75 percent to cover basic campus operating costs (i.e., lightings, heating), will be caused by travel restrictions, and newer and/or higher federal spendingpriorities.

Is it therefore any wonder why this week Moody's lowered its outlook for higher education to negative?

What Colleges Must Do Now

Colleges must act immediately to reduce costs and protect their sources of revenue. Among their efforts should be finding solutions to reduce instructional costs, which may include using third-party online course providers, leasing online courses from other institutions, or joining consortiums where online courses are taught by other colleges in the consortium.

Additionally, contracts with all third-party service providers (food, janitorial, etc.) should be closely reviewed and, where possible, renegotiated to obtain cost savings and/or reductions in response to the absence of students and employees.

Students and parents may be facing significant increases in college tuition this fall (perhaps 5 to10 percent) as well as increases in room and board because all colleges will soon be forced to reexamine and modify their 2020-2021 budgets. On top of that, family finances may have been adversely affected and will necessitate an open conversation about financial alternatives, like transferring to a less costly institution or moving back home and commuting to campus.

While we have witnessed great progress in the number of colleges offering online courses and online degree programs in the past 14 years, we still lack the level of quality and scalability needed to meet the next national emergency.

Let's hope that this will be the final wake-up call needed by colleges to reexamine the preparedness of their institution and their faculty to deliver online academic programs to all students.