

Higher Education: 9 Trends to Follow in 2020

By Daniel M. Campbell, Partner

From deregulations to mergers to relaxed ethical standards, higher education issues and challenges continue to make headlines, especially in the current election cycle. Nonprofit Christian higher education institutions face unique challenges of their own.

Here are nine trends to monitor that will impact Christian higher education in 2020:

1. Deregulation.

In October 2019, the United States Department of Education (USDE) published [its final regulations for accreditation and state authorization for distance education](#). The regulations, which include the elimination of geographic boundaries for regional accreditation, will go into effect on July 1, 2020.

The new regulations also make it easier for colleges to get program approvals or make institutional changes and loosen compliance standards for accreditors, among other changes. The USDE says the new rules “reduce regulatory burden on institutions that wish to develop and implement innovative programs” and “significantly reduce the regulatory burden associated with preparing and submitting accrediting agency petitions for recognition or renewal of recognition since some of this review will now occur through a site visit, thereby eliminating the need to upload perhaps thousands of pages of documents.”

What to watch for: Will there be movement of membership between regional accreditors? Will regional accreditation be viewed as less desirable as a result? How might this impact how regionally-accredited institutions view credits from nationally-accredited institutions?

2. Regulation.

There have been a number of recent regulation changes institutions need to be aware of and planning for. This includes the Financial Responsibility Standards for Private Nonprofit Institutions, effective July 1, 2020.

Participating institutions face new reporting and audit requirements beginning with fiscal year-ends in 2020.

The FASB recently issued a series of accounting standard updates that directly impact higher education institutions. Those standards affect the recognition of revenue and support as well as the recording of leases. They also require additional disclosures.

In addition, the U.S. Department of Education finalized new borrower defense rules on September 23, 2019. These regulations have significant implications for institutions that participate in federal student aid programs, including required self-reporting when certain triggering events occur.

What to watch for: Will the USDE issue clarification on the definition of acquisition indebtedness? Will the USDE issue clarification regarding the delayed implementation of the lease accounting standard update?

3. Effects of the presidential election.

As we've all heard, it's a presidential election year. Election-year cycles affect the economy and investment returns. The election and economic consequences will impact consumer confidence.

What to watch for: Will the financial markets continue their volatility in the short-term? Will consumer confidence impact enrollments in faith-based private institutions?

4. Improved financial health of the industry.

In January, the Council for Christian Colleges and Universities (CCCCU) released its Financial Ratios & Benchmarking Study 2019. According to the study, the median composite financial index (CFI) score was 3.3, suggesting that half of CCCCU schools have an opportunity for strategic investment to achieve mission objectives. The CapinCrouse Data Warehouse, which includes theological schools as well as Christian liberal arts institutions, measured the CFI for participating institutions

and found the median to be 3.7. These measurements are in conflict with negative trends in financial health in some regions.

In December, Moody's Investors Service [upgraded its outlook for higher education to stable](#) after two years of listing it as negative. Revenues in nonprofit private institutions are expected to increase between 3% and 4%. Standard & Poor's and Fitch Ratings continue a negative outlook for the higher education sector.

What to watch for: Will tuition-reliant institutions be able to maintain financial stability?

5. Mergers and acquisitions.

Forward-looking institutions will continue to seek opportunities to acquire or be acquired. Belmont University in Nashville announced its second acquisition recently. While Moody's Investor Services has recently upgraded their outlook on the sector (see the previous point), they have indicated they expect 15 institutions to close in 2020.

Inside Higher Education has published [this list](#) of recent closures.

What to watch for: Will small private colleges continue to resist the need to combine forces with more stable institutions?

6. Tighter resources and more competition for students. z

Enrollments at private four-year institutions continued to be stagnant for a fourth consecutive year, according to [this study](#) by the National Student Clearinghouse Research Center. According to [Statista](#), total college enrollments peaked in 2011 and will remain under 20 million through 2028, with just 5.3 million expected to enroll in private colleges.

What to watch for: What programs and activities are of specific interest to students who were born in this century? What programs and activities are growing institutions investing in?

2020 is shaping up to be another year of significant change within the higher education industry.

7. Operating margin trends are declining, but offset by strong investment returns for June 30.

The CCCU benchmarking study also revealed the median net income ratio was -0.1, indicating that half of CCCU schools lost money on the business of higher education in 2019; the CCCU three-year average (2017 – 2019) was 2.4. However, June 30 fiscal year-ends benefited from investment returns (10.45% as measured by the S&P 500) while May 31 institutions did not (3.78% per S&P 500). The *2019 NACUBO-TIAA Study of Endowments* (NTSE) showed that the 774 participating institutions' endowments returned an average of 5.3% (net of fees) for June 30, 2019 year-ends. These findings suggest that endowments are key to operations and financial strength.

What to watch for: How should institutions invest to protect against market pressures and volatility?

8. Increased sharing of costs and functions.

More institutions are looking to reduce expenses by sharing administrative costs and functions with other institutions. Examples include [the Five Colleges of Ohio](#) and the [LAMP Consortium](#), 15 educational organizations sharing technology and distance education costs.

What to watch for: Christian higher education institutions will benefit from seeking similar sharing initiatives with peer institutions.

9. Relaxed ethical standards for recruiting admitted and enrolled students.

The National Association for College Admission Counseling (NACAC) has removed provisions from its [Code of Ethics and Professional Practice](#) that prohibited institutions from:

- offering exclusive incentives for students who have applied for or been admitted under early admissions programs;
- recruiting first-year undergraduates who have committed to another institution; and
- recruiting transfer students.

The provisions were removed because they may violate antitrust laws. The U.S. Department of Justice (DOJ) has been investigating NACAC for possible violation of these laws.

What to watch for: How aggressive will public institutions be in attempting to poach students from private institutions in their locality?

Focusing on Success

The topics above indicate that there is no shortage of demands pulling at your time and attention. 2020 is shaping up to be another year of significant change within the higher education industry.

Success will result in institutions that continue to have the freedom to educate the next generation of Christian leaders and are able to execute their mission of sending learned graduates into the world with the goal of advancing the Gospel. It will also help provide an unwavering focus on removing distractions that risk reducing the impact of Christian colleges and universities.

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