



March 1, 2022

VIA ELECTRONIC MAIL

Dr. Barbara Gellman-Danley
Higher Learning Commission
230 South LaSalle Street, Suite 7-500
Chicago, IL 60604-1411

Dear President Gellman-Danley:

I am in receipt of your letter dated February 22, 2022, regarding Henderson State University (“University”) and a possible Financial Distress designation from the Higher Learning Commission (HLC). I am writing to share our observations and concerns related to your letter and possible future actions. It is our hope to provide a sustainable future for Henderson State University, reimagine college that can work for all students, but also, build the tools to help others including regional accreditors that can respond to systemic challenges across higher education.

From the outset of our efforts to reimagine the University and implement significant financial change, we have endeavored to be fully transparent in our efforts. All of the information regarding our immediate situation and our strategic efforts may be found at <https://www.hsu.edu/pages/creating-the-future-of-college-reimagining-henderson>.

On February 2, 2022, I initiated contact, communicated directly, and provided notice of our intent with our HLC liaison Jeff Rosen. This occurred before we formally declared financial exigency. This outreach was intended to provide cooperative notice to HLC and to further reinforce that spirit of transparency with all constituencies of the University. I communicated directly why exigency was being utilized as a change-making tool and desired to make clear to HLC our situation, even though the recent team visit had not identified some of these critical issues at a significant level. Mr. Rosen affirmed the steps required and indicated that these strategies would be helpful and informative to others as institutions respond to our current challenges.

Finally, during my discussion with Mr. Rosen on February 2, 2022, I formally requested the opportunity to speak directly with you to further discuss the rationale for our actions and our vision for the future. I never received a response to this request, but instead received the letter of February 22, 2022, without ever having the opportunity to discuss these critically important matters. Even though we have outlined the exigency process and made all of our plans/data publicly available, the steps outlined by the Higher Learning Commission do not align to the immediacy of our work or provide support to our efforts. I am now reiterating my request to visit directly with you.

Leaving aside our prior communications, we need to provide a short overview and timeline of how the University arrived at this point. In the summer of 2019, the University determined that its financial position was so weak that it was going to be impossible to meet all of its financial obligations. It was during this time the University entered into a Memorandum of Understanding (“MOU”) with the Arkansas State University System (“ASU System”). Through this MOU and beginning in late summer 2019 (following the resignation of the former campus President), the ASU System worked with campus

officials to implement immediate and significant budgetary and process changes. A search for a permanent campus CEO was formally launched in the first quarter of 2020, with the expectation that transformative modifications to campus operations would be necessary and forthcoming. The unforeseen global pandemic interrupted the search process, and interim leadership was retained to lead the University. In early summer 2020, a FY2021 balanced budget was developed for the University that did not include deficit spending. Unfortunately, the pandemic resulted in significant enrollment losses in AY2020 and AY2021 of over 25% that negatively impacted the University's budget. Fortunately, federal stimulus funds were available to assist in offsetting these losses.

In November 2021, I was named as the next Chancellor of the University. Ironically, this announcement was actually made while an HLC site visit team was on campus for the University's comprehensive evaluation. When I officially began my role on November 15, 2021, my immediate focus was to begin implementing processes to transform the University to a position of financial strength and long-term sustainability that can effectively serve students. As your letter mentioned, these efforts included a formal declaration of financial exigency to afford the University greater flexibility in making the important decisions and develop a strategic resource allocation model necessary to move the University forward.

Before we address the current state of the University, I think it is important that we first identify portions of your letter which are factually incorrect. First, your letter states that cost-savings measures were recently announced to "avert a cash shortfall of \$12.5 million in the current fiscal year ending June 30, 2022." Unfortunately, while this amount has been repeated in multiple media reports, it is not accurate. A gap of approximately \$12.5 million would exist *if* federal stimulus funds were not available in this fiscal year. However, those stimulus funds are available in this fiscal year and HSU's share of those funds is approximately \$6.0 million. While it is true that a deficit was poised to exist in this fiscal year even with inclusion of stimulus funds, the Strategic Cash Flow Financial Planning Proforma (with updated versions publicly available at <https://www.hsu.edu/pages/creating-the-future-of-college-reimagining-henderson/>) shows this amount to be far less than the reported \$12.5 million.

Second, you also state in your letter that "HLC is concerned that there appears to have been a deterioration in the institution's financial condition" since the comprehensive visit at the end of 2021. This statement is simply inaccurate. There have been no intervening events that have occurred since the HLC visit that have caused this deterioration. The financial condition of the University was similar and obvious during the comprehensive evaluation, and the University was very transparent and frank about the University's financial condition at every turn. There was even considerable discussion between the University and HLC about the impending hire of a new Chancellor and the resulting changes that would be forthcoming to transform Henderson. It is these transformative steps that led to the financial exigency declaration and not some other event that occurred after the HLC visit.

Finally, your letter further questions "whether the institution is at risk of an abrupt institutional closure." I can assure you it is not. Despite our financial exigency declaration, we have begun to see many positive financial signs for the University. For instance, the University finished FY2019 with seven (7) days cash on hand, as calculated by Moody's. The University improved to 38 days cash on hand at the end of FY2020, and 43 days cash on hand at the end of FY2021. As of today, we currently have 43 days of cash on hand with the ASU System standard of 60 days being the goal to remove ourselves from exigency. While HSU acknowledges that our liquidity is still not to the level I desire, it is important to note that we are making the required decisions to have our cash position trending in the correct direction.

In addition, our year-to-date admissions figures are 21.1% ahead of last year (as of February 25, 2022). Major changes to student recruitment, financial aid processes, and institutional scholarship allocation have been implemented over the past 12 months as well and the University is beginning to enjoy the accompanying benefits that were envisioned when these changes were made. We are taking other steps

as well such as examining costly long-term agreements and exploring options to refinance our annual debt service obligations, which have the potential to save the University millions of dollars on an annual basis.

We have made other structural improvements as well. First, the University has developed modified budgets to enhance our cash position. Financial and performance dashboards have been created to further inform our efforts so we can learn in real time how to make important data-driven decisions. Critical support services are also now available as a result of the merger into the ASU System, which include financial oversight, legal counsel, institutional research analyses, and utilization of academic performance tools and templates; all of which have significantly improved our operations models. Our state funding has been consistently stable with small annual increases. State policymakers extended the repayment obligation of a \$6 million State advance to 2028 to allow the University time to make the necessary long-term changes that are required. The University paid down \$250,000 at the end of fiscal year 2021 on this advance.

Our University fully recognizes that not only is our current operational model unsustainable, but indeed the prevailing model for higher education in general, is not viable for long-term success. This is precisely why we have taken such swift and aggressive action. The University plans to be a model for other institutions in developing stronger institutions.

Finally, I want to say that I think all financial exigency designations should be examined by HLC on a case by case basis and the unique facts of each institution should be considered and analyzed. Moody's Investors Service (Moody's) stated the following about a declaration of financial exigency: "Both the availability of the mechanism as a management tool and the results, realignment of expenses with revenue, are credit positive." (<https://drive.google.com/file/d/1CAzNFNGsYJnq3x8BxDZqt5zeQ1gUqEed>) Moody's also stated, "If such a declaration preserves liquidity and the ability to generate sufficiently strong cash flow to service debt and other obligations, our rating on a university could remain relatively strong." (<https://drive.google.com/file/d/143ZZSfwG69zignZp8aD9d4L3rT3eVSp7>)

In February of 2021, Moody's Investors Service revised the University's outlook to stable from negative. As of today, that rating remains in effect. As you know, this is not an insignificant occurrence for any university, but particularly one like ours. I submit that this action speaks directly to the long-term confidence in the University's fiscal management and aggressive efforts to defy higher education trends and establish a financial model that is sustainable for many years into the future.

I strongly believe that our commitment to transparency, our recent alignment into the ASU System, and our proactive strategic planning is proof of our commitment to strengthening our University. As we always have, we will continue to provide HLC with any information requested, but I am hopeful that we can work with the Higher Learning Commission to build a stronger University along with improving the processes for regional accreditation instead of being punitively sanctioned following previous accreditation reviews that did not fully recognize the challenges we face or the tools necessary to remedy these challenges. I urge HLC not to assign our University a Financial Distress designation and to continue to allow us time to put our institution in a place of long-term stability.

I look forward to visiting with you soon so that I can address any other questions that you may have.

Sincerely,



Dr. Charles Ambrose
Chancellor
Henderson State University