



For Immediate Release

May 19, 2023

Contact: Mike Keckler
208-332-1591 (office)
208-866-5734 (cell)
Mike.Keckler@osbe.idaho.gov

U of I's Affiliation with the University of Phoenix is a Good Business Decision

By Kurt Liebich, Board Member, Idaho State Board of Education

My term as president of the Idaho State Board of Education ended last month. The final months of my term were spent immersing myself in the details involved in negotiations between the University of Idaho and the University of Phoenix, which ultimately resulted in a groundbreaking transaction approved Thursday by unanimous vote of the Idaho State Board of Education, sitting as the Board of Regents of the University of Idaho.

I said at the conclusion of last Thursday's Board meeting that I think this is a huge homerun for our state. I'd like to take this opportunity to explain why this is a good and innovative business decision.

I have been involved in the forest products industry for nearly 30 years, serving as President and CEO for several companies. I currently sit on the Board of Directors for six for-profit entities. Over time, I've learned that the key to success is being able to forecast future trends and position a company or an institution either weather hard times or take advantage of an emerging opportunity.

I think the U of I's affiliation with one of the nation's largest providers of online higher education accomplishes both. And the people of Idaho, particularly adults

interested in going back to college to earn a degree or receive additional training, are going to be the benefactors of this.

Demographic trends indicate that traditional college-age student numbers are about to drop dramatically. Why? Because the Great Recession from 2007-2009 impacted the economic security of our society so significantly that many people decided not to have children, causing birthrates to drop considerably. We are just a year or two away from that smaller cohort of young adults reaching the age when they will go to college. Another factor to consider is the sharp decrease in the high school graduate going-on rate. This fall, we expect only 37 percent of Idaho high school graduates will go on to some form of traditional postsecondary education. That's a roughly a 13-percent drop since before the COVID-19 pandemic. This demographic enrollment cliff will impact every higher education institution in the country, and undoubtedly many will become insolvent.

In 2017, Governor C.L. Butch Otter's Higher Education Task Force recommended expanding online college delivery in our state. All Idaho institutions have responded to this recommendation and have significantly expanded their online offerings. The University of Phoenix's online platform is one of the best in the country and Idaho students, no matter their age, will be able to take advantage of that along with many other online course offerings already available across the state.

Concern has been raised about how quickly the Board moved to approve the transaction just 24 hours after it was made public. The acquisition involved a private entity, which required the U of I negotiation team to sign highly restrictive nondisclosure agreements (NDA). U of I President Scott Green and his team were allowed to brief the State Board during three executive session meetings throughout the process. Board members were well versed in the details before the vote. Frankly we all wish we had had a longer timeline but the NDAs, which are standard in transactions involving private business, prohibited that.

Here are details about how the purchase will be financed:

The Regents will be the sole member of a new not-for-profit corporation called NewU, Incorporated. It will buy assets and acquire some operating liabilities of the University of Phoenix converting it from a for-profit institution to a not-for-profit institution. NewU, Inc. will operate the University of Phoenix separately from the University of Idaho.

Public tax dollars will not be used in the transaction. The purchase will be financed through the issuance of bonds. NewU, Inc. will finance the \$550 million purchase price along with closing costs, working capital and reserve funds for a total bond issuance of \$685 million.

The seller will leave \$200 million in cash on the balance sheet on the closing date, which effectively decreases the purchase price to \$350 million. This is a highly attractive purchase price, given that the University of Phoenix is expected to generate nearly \$100 million in free cash flow profits net of the scheduled debt repayments.

It's estimated it will take NewU, Inc. over 20 years to repay the loan. If NewU, Inc. were to miss payments, the University of Idaho will be responsible for covering up to \$10 million annually. The State of Idaho and Idaho taxpayers will not be on the hook to make bond payments.

Finally, President Green and his staff went to great lengths to ensure proper due diligence of this proposed transaction. They hired Hawley Troxell, a renowned Boise law firm and Ernst & Young, a leader in the world of finance, to review the deal before it was brought to the Board for consideration. A Vandal alum, President Green also holds an MBA from Harvard, and he made his living executing complex business transactions before returning to lead his alma mater.

In private business, we strive daily to position ourselves for the future. The University of Idaho is now better positioned to deliver training and education to students throughout Idaho, no matter where they live. Idaho residents will have increased opportunities to pursue the degrees and certificates that will be required to meet Idaho's in demand career opportunities.

From my perspective, the online platform will pay dividends during changing times and that makes good business sense for Idaho. Is there risk in this bold and innovative transaction. Yes, there is. But, from my perspective there is a greater risk if we continue to educate students the way we have for the last 140 years. The world is rapidly evolving, and higher education must keep up with the trends. With the successful completion of this transaction, the University of Idaho, our state educational landscape, students and adult learners will be better positioned for the future.

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