

Policy on Closing an Institution

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Background

A decision to close an educational institution is a serious one that requires thoughtful planning and careful consultation with all affected constituencies. Planning and consultation is equally important when implementing a closure that results from loss of state authorization or licensure, or for other reasons. Every effort should be devoted to informing each constituency, as fully and as early as possible, about the conditions requiring consideration of a decision of such importance.

Most institutions of higher education are entities established under the provisions of state or national law, and as such may have legal responsibilities (holding title to real property, for example) that may necessitate its continued existence after the educational activities of the institution have been terminated. In most cases an institution's existence and educational activities will not be terminated simultaneously. This policy makes only incidental reference to such organizational responsibilities and always in the educational context. It is imperative that a governing board, considering closing an institution under its care, should be guided not only by the following policy and by the state or appropriate authorizing education authorities, but also by advice of legal counsel.

Before a decision to close an institution is finalized, the governing board should consider carefully such alternatives as merging with another institution, forming a consortium, or participating in extensive inter-institutional sharing and cooperation. As much as possible, the determination to close an institution should involve a consultative process, but responsibility for the final decision to close rests with the governing board.

The decision to close requires specific plans for appropriate provisions for students, faculty and staff and for the disposition of the institution's assets. Failure to plan adequately will increase the inevitable distress to students, faculty, and staff.

Involuntary closure, or the threat of involuntary closure, resulting from loss of state licensure or authorization or from withdrawal of accreditation, will necessitate similar planning.

Policy¹

When a decision to close an institution has been made, or when involuntary closure of the institution is imminent, the institution's governing board must fully inform all affected constituents of the potential or expected closure as early as possible, and make provision for student completion of programs and the securing of student records. The institution, through its chief executive officer and governing board must also promptly notify the Commission, and must develop a Closure Plan and submit it to the Commission for substantive change review

¹ This policy complies with 34 C.F.R. § 602.24(c) and the Higher Education Act § 496(c)(3) as amended by the Higher Education Opportunity Act (2008).

prior to closure.² A teach-out plan should be included in the Closure Plan, and teach-out agreements should be submitted to the Commission for action when the closing institution provides one hundred percent of instruction in at least one degree program. Institutions ordered on Show Cause may also be required to complete a Closure Plan, develop a preliminary closure plan, or make other preparations for closure.

Institutions which develop a teach-out plan that involves another institution at which the students will complete their program shall only be approved by the Commission if (1) there are teach-out agreements between institutions that are accredited or pre-accredited by a federally recognized accrediting agency, (2) the agreements are consistent with applicable standards and regulations, and (3) they provide for the equitable treatment of students.

An institution considering closure must address in its Closure Plan the following elements, each of which is discussed in more detail below:

- Student completion;
- Disposition of academic records and financial aid transcripts;
- Provisions for faculty and staff;
- Disposition of assets;
- Obligations to creditors;
- Coordination with the Accrediting Commission for Community and Junior Colleges;
and
- Key governing board obligations.

Closure Plan Elements

A. Student Completion

Institutions considering closing, and institutions implementing a closure after loss of state authorization or licensure, or for other reasons, must provide for the academic needs of students who have not completed their degrees and educational programs. Arrangements for transfer to other institutions will require complete academic records and all other related information gathered in dossiers which can be transmitted promptly to receiving institutions. Agreements made with other institutions to receive transferring students and to accept their records must be submitted to the Accrediting Commission for Community and Junior Colleges (ACCJC) for approval. Where financial aid is concerned, particularly federal or state grants, arrangements must be made with the appropriate agencies to transfer the grants to the receiving institutions. In cases where students have held institutional scholarships or grants and there are available funds that can legally be used to support students while completing degrees and educational programs at other institutions, appropriate agreements must be negotiated. Where such arrangements cannot be completed, students must be fully informed. Institutions considering closing must use as their guide the equitable treatment of students by providing for the educational needs of students who have not completed their degrees and educational programs.

When a student has completed 75% of an academic degree and educational program in the closing institution and chooses to continue at another institution, arrangements shall

² Please refer to the Policy on Substantive Change.

be made to permit that student to complete the requirements for a degree and educational program elsewhere, but to receive the degree and educational program from the closed institution. The receiving institution must provide an educational program that is of acceptable quality and reasonably similar in content, structure, and scheduling to that provided by the institution that is closing. Such arrangements should also include provision for continuation of the institution's accreditation by the Commission for this purpose only. These steps normally require the institution to continue as a legal organization for 12 to 18 months beyond the closing date, but any such arrangements must be established in careful consultation with the appropriate authorities and with their written consent. The institution that is closing must demonstrate that it shall remain stable, carry out its mission, meet all obligations to existing students, and demonstrate that it can provide students access to the programs and services without requiring them to move or travel substantial distances. The institution must provide students information about additional charges and costs, if any.

B. Disposition of Academic Records

All academic records, financial aid information and transcripts, and other student or student-related records must be prepared for permanent filing, including electronic filing. Arrangements must be made with another college or university or with the state archives to preserve the records. Notification must be sent to every current and past student indicating where the records are being stored and what the accessibility to those records will be. Where possible, a copy of a student's record should also be forwarded to the individual student. The Commission must be notified of the location where student permanent records will be stored. All other business records of the institution must be retained in accordance with applicable laws and policy.

C. Provisions for Faculty and Staff

The institution must arrange for continuation of those faculty and staff who will be necessary for the completion of the institution's work up to and after the closing date. It should be understood that the institution can make no guarantees, but genuinely good faith efforts should be made to assist faculty and staff in finding alternative employment. In the event that faculty or staff members find new positions, early resignations should be accepted.

D. Disposition of Assets

Determinations must be made to allocate whatever financial resources and assets remain after the basic needs of current students, faculty, and staff are provided. Institutional assets must be used in ways that would honor the intentions of the original providers. When the financial resources of the institution are inadequate to honor commitments, including those to the Commission, the governing board shall investigate what alternatives and protection are available under applicable bankruptcy laws before deciding to close. If funds are insufficient to maintain normal operations through the end of the closing process, the institution should consider the possibility of soliciting one-time gifts and donations to assist in fulfilling its final obligations.

In the case of a not-for-profit institution, state or national laws regarding the disposition of funds and institutional assets must be meticulously followed. Arrangements for the sale of the physical plant, equipment, the library, special collections, art, or other funds must be explored with legal counsel. In the case of wills, endowments, or special grants,

the institution must discuss with the donors, grantors, executors of estates, and other providers of special funds arrangements to accommodate their wishes.

E. Obligations to Creditors

The institution must establish a clear understanding with its creditors and all other agencies involved with its activities to assure that their claims and interests will be properly processed. Insofar as possible, the institution shall assure that its final arrangements will not be subject to later legal proceedings which might jeopardize the records or status of its students or faculty. All concerned federal, national and state agencies need to be apprised of the institution's situation, and any obligations relating to estate or governmental funds need to be cleared with the appropriate agencies.

Every effort shall be made to develop publicly defensible policies for dividing the resources equitably among those with claims against the institution. One of the best ways of achieving this goal is to involve potential claimants in the process of developing the policies. Time and effort devoted to carrying the process to a judicious conclusion may considerably reduce the likelihood of lawsuits or other forms of confrontation.

It is impossible to anticipate in advance the many claims that might be made against remaining resources of an institution, but the following three principles may help to identify and prioritize possible claims and to set priorities:

1. Students have the right to expect basic minimal services during the final term, not only in the academic division, but also in the business office, financial aid office, registrar's office, counseling, and other essential support services. Staff must be retained long enough to provide these services. It may be appropriate to offer special incentives to keep key personnel present.
2. Reasonable notice must be given to all employees, explaining the possibility of early termination of contracts and that the reasons for retaining some personnel longer than others are based on satisfying the minimal needs of students and the legal requirements for closing.
3. Every effort shall be made to honor long-term financial obligations (loans, debentures, etc.) even though the parties holding such claims may choose not to press them.

F. Coordination with the ACCJC

The ACCJC and specialized accrediting bodies must be consulted and kept fully apprised of developments as the plan to close an institution progresses. Arrangements must be completed with the ACCJC in advance of closure in order to assure that a legally authorized and accredited institution awards degrees. A final report on the closing must be submitted to the ACCJC for its records. The ACCJC must also be notified of the location where student records will be stored.

G. Key Governing Board Obligations

The governing board must take a formal vote to terminate the institution on a specified date. That date will depend on a number of factors including the decision to file or not to file for bankruptcy. Another key factor is whether or not all obligations to students

will have been satisfactorily discharged. This is particularly important if the decision is made to allow students to graduate from the institution by completing their degree requirements elsewhere. If such arrangements are made, the governing board must take the legal action necessary to permit awarding degrees after the institution otherwise ceases to function. Normally, a formal vote to award a degree is made after all requirements have been met, but it is legally possible to make arrangements for a student to complete the requirements for a degree at another institution and to receive the degree from the closed institution. These requirements must be clearly specified along with a deadline for completion. Also the governing board must identify the person or persons authorized to determine whether or not these requirements have in fact been satisfied. Arrangements must be completed with the Commission in advance in order to assure that a legally authorized and accredited institution awards degrees.