September 13, 2023

Honorable Senator Richard J. Durbin
Honorable Senator Elizabeth Warren
Honorable Senator Richard Blumenthal
United States Senate
50 Constitution Avenue NE
Washington DC, 20510

Dear Senators Durbin, Warren and Blumenthal:

We are in receipt of your Sept. 11, 2023 letter and your email indicating your concern for the University of Idaho and the "risks that the UI may be taking on." This letter serves as the response that you requested be received by September 30.

First, we sincerely thank you for your concern about the University of Idaho and appreciate the many nice things said about us in your letter. As you point out, we have a strong record of graduates earning more than those with high school diplomas, particularly when compared to other institutions in our state. The U of I has the highest starting salaries of all public institutions in Idaho and the highest mid-career salaries as well. We are recognized as a Best Value public institution by U.S. News and World Report, and in fact, we are ranked No. 1 Best Value among all ranked institutions in the western part of the country and the second highest in the nation. As you would expect, our College of Natural Resources is one of the best in the country, supporting the nation’s forestry and rangeland resources, and our College of Agricultural and Life Sciences is partnering with the Federal Government to construct a world-leading Deep Soil Ecootron facility that will help our farmers protect the nation’s food supply and maximize carbon sequestration. Recognized by the Federal Government as one of the original Centers of Excellence, our College of Engineering is a leader in cybersecurity and we are proud of the work they do in nuclear engineering to support the Idaho National Laboratory. Our College of Business and Economics delivers one of the few commodity trading programs in the country, managing a self-sustaining portfolio and helping to support the nation’s commodity markets. On top of that, we also believe we have one of the best marching bands in the country!

Having said all that, I know you are more interested in our proposed affiliation with the University of Phoenix (UOPX). I will take a moment to mention all your questions (and more!) have answers on our Frequently Asked Question page that can be found at uidaho.edu/phoenix-faq. Your letter makes several references to past behaviors of the private education industry that we should address before responding to your questions. We have taken great care to review the recent procedures developed and implemented under the current management team that took over in 2017. Among other actions, the management team has improved processes to monitor interactions with potential students, to fully support students from inquiry to employment. Although UOPX has been one of the largest institutions of higher education in the country over the past 20 years, it has received borrower defense claims from a very small fraction of its
alumni, and it has responded substantively to each one presented to it. Moreover, after significant due diligence by world class regulatory and other advisors, we see no evidence regarding your concern that the UOPX will abuse students. UOPX’s quality is demonstrated by the recent reaffirmation of its accreditation by its institutional accreditor, the Higher Learning Commission (HLC).

Your letter also makes reference to our faculty and staff being concerned that the affiliation that would result from the proposed transaction could impact the U of I’s reputation. We have received a few comments of this nature from both employees and alumni, but on the ground here in Idaho, what we hear is that the vast majority of our employees and alumni support the transaction. They understand and appreciate the shared vision to improve access to higher education for all people. They also have dedicated elected officials to represent their views both locally and nationally.

Regarding your questions:

1a. What is U of I’s plan to improve outcomes for Phoenix students and address the seven programs at Phoenix that currently are failing the gainful employment rule?

A: Regarding the Gainful Employment rule, this is an area that clearly demonstrates that UOPX is very different today than it was several years ago when the first Gainful Employment metrics were calculated. The first set of GE rates were released by the U.S. Department of Education in January 2017. The earnings metrics relied on 2014 income/earnings and applied to those students who completed their program from July 1, 2010 to June 30, 2012.

Beginning in 2010, before the GE metrics were published, UOPX had started its process of creating a smaller institution focused on educating and re-skilling adult students, and it retired the 7 specific GE programs mentioned in your letter, among other programs. Specifically, 5 of the 7 programs were associate programs; 2 were bachelor’s programs and all 7 programs ended new enrollments beginning as early as 2010. This underscores the significant transformation UOPX has successfully implemented, including the reduction in associate degree enrollments by 95 percent and the practice of partnering with a growing number of community colleges nationwide, including the College of Western Idaho.

1b. How will U of I ensure current U of I students continue to receive academic and student support services?

A: As you noted in your letter, the University of Idaho is a leading land-grant institution with over 130 years of success in producing students ready to lead industry. The University of Idaho is committed to its students and to the state. There is nothing about this transaction that would change that. We are a residential university serving primarily traditional college students. We continue to invest in student support. University of Phoenix is a primarily online university with world-class student support systems. The University of Idaho and our citizens will benefit greatly from making these systems available to our students through appropriate arrangements between the two institutions.
2a. What is U of I’s plan to cover potential liabilities it could acquire from Phoenix?

A: We must point out that the U of I is not purchasing or acquiring the UOPX. UOPX will be acquired by Four Three Education, Inc., a non-profit corporation that has already been granted a 501(c)(3) tax-exempt status by the IRS. Four Three Education, Inc. Will operate UOPX using its current name -- in other words, Four Three Education, Inc. will do business as (DBA) University of Phoenix. The fiduciary board of Four Three Education, which will govern UOPX, will have a majority of directors who are independent. The University of Idaho Board of Regents (which is the entity that operates and governs U of I) will serve as the sole member of Four Three Education, Inc. As such, the U of I will not be the “owner” of UOPX. Instead, U of I and UOPX will each be a separate education institution that is part of a separate legal entity. Additionally, the $200 million left on the balance sheet will not be provided to the U of I; rather, those funds will be among the assets that will be acquired by Four Three Education, Inc. as part of the transaction. Those funds will be used as working capital and for any other purposes needed by the University of Phoenix.

As stated in our FAQ, the issue of Title IV has been reviewed by top advisors. Student loan debt is certainly something we pay attention to at U of I. It is a conversation we have had with the new management of University of Phoenix and was considered as part of our due diligence. As a result of our careful due diligence, U of I leadership has full faith in University of Phoenix’s processes. In addition, we are conservative financially, and the U of I has evaluated these risks and believes that UOPX is well prepared for any potential contingent liabilities and other calls on working capital.

As you point out, there is $200 million in cash that will be left on the balance sheet as of day one. Additionally, UOPX has an established track record of producing positive cash flow. Those elements, combined with other financial tools protect against and mitigate the impacts of contingent risks. University of Phoenix will be actively managing these risks. Converting the for-profit institution to a not-for-profit institution will also help with your concerns regarding the for-profit sector. The taxes currently paid and the excess revenue currently distributed to owners will now be available for focus on student success at the University of Phoenix and contributions for student success at U of I. Students will be the most significant beneficiaries of our affiliation.

2b. Is the $200 million a contingent payment to cover anticipated liabilities?

A: As stated in our FAQ, we are conservative financially and so a number of financial tools will be used to mitigate any contingent risks and operational needs. There is no payment to the U of I, but there is $200 million in cash that will be left on the balance sheet by the sellers as of day one, and that money can be used for any operation needs encountered by the UOPX.

3. U of I has stated that it plans to fund the acquisition through bonds, but the state bonds will not be issued. Please provide additional details on the financing of the deal.

A: As stated in our FAQ:

This deal is self-financing, meaning the bonds will be issued by Four Three Education, Inc, DBA the University of Phoenix and will be backed and serviced by the revenues generated by the
University of Phoenix. The bonds are not issued by the U of I or the State of Idaho nor is there any default recourse to the U of I or the State of Idaho. The U of I may choose to back a portion of the bond principal and interest if needed to obtain a materially better interest rate (that could end up benefiting both the U of I and UOPX). We have selected Citibank to manage the issuance process. Considering fees, experience and other factors, we have selected Arizona IDA as the conduit issuer.

It should be noted that the expected cash flows of UOPX, even in a scenario with little to modest growth, are more than sufficient to manage debt service that is anticipated on the bonds while leaving considerable excess cash for reinvestment into UOPX and/or efforts UOPX chooses to pursue through its affiliation with U of I.

4. How would U of I ensure that veterans are not targeted through predatory recruiting?

A: University of Phoenix did grow rapidly during the mid-2000s, including serving large numbers of military-affiliated students. At the time, military-affiliated students represented approximately 20% of total enrollments. Today UOPX’s GI Bill-supported student veterans represent about 9% of total enrollments.

U of I leadership has done due diligence to assess the current state of University of Phoenix’s practices and believes University of Phoenix has strong academic operations and a robust compliance-oriented approach. Furthermore, under this proposed affiliation the University of Phoenix’s governing body will be an independent board of directors appointed by the Regents of the University of Idaho. Shedding its for-profit status and moving to a non-profit, tax-exempt structure will lock in and reinforce the existing student-centric operating focus.

There are also other regulatory and statutory obligations to which the University of Phoenix will need to adhere to such as conditions set by the U.S. Department of Education under its change of control regulations that would require the University of Phoenix to comply with the 90/10 rule for a period of time and Public Law 116-315 which requires the U.S. Department of Veterans’ Affairs to conduct a yearly risked-based survey/audit during the three-year period beginning on the date an institution converts from for-profit to non-profit status. Current management has installed a strong compliance culture and related processes, so all of these facts present that there is no intent to evade the updated 90/10 rule or permit improper recruiting practices.

5a. If U of I purchases Phoenix, does it plan to enter into a service contract?

A: The University of Idaho is not purchasing University of Phoenix. The non-profit corporation, Four Three Education, Inc. will acquire all the assets of University of Phoenix. The acquisition by Four Three Education, Inc. will result in a clean break from the sellers. In other words, there will be no further business conducted with the seller, and a new, majority independent board will be selected to oversee Four Three Education, Inc. and the University of Phoenix. After the transaction, the U of I and UOPX expect to enter into arrangements to address various types of collaborations that commonly occur between higher education institutions, including with respect to licensing intellectual property, academic collaborations, program delivery, services delivery, alumni outreach and cultivation of potential donors, and continuations in support of affiliation.
5b. Would U of I carry over Phoenix employees, specifically employees who work in marketing and communications?

A: Upon close of this transaction the two universities will remain separate and independent, each with their own leadership and employees.

5c. Which entity would lead marketing and recruitment efforts, including setting enrollment targets.

A: Upon close of this transaction the two universities will remain separate and independent, each within its separate legal entity and each with its own leadership and employees. Leadership at UOPX will be responsible to its own governing board.

5d. Will the new entity have U of I or Phoenix branding.

A: Again, after the close of this transaction, the universities will continue to operate separately. There will be no marked difference in the operations of either entity upon close. Both will continue to provide higher education access and success opportunities to students. We may choose to cross-brand through an affiliation agreement where it makes sense. For instance, we intend to build education pathways between the U of I and UOPX for the benefit of Idaho students wherever they may be located, including professional development opportunities for Idaho industry.

Senators, we do appreciate your interest in the University of Idaho and our affiliation with the University of Phoenix. We hired world-class advisors to review University of Phoenix and its management and found a very different organization than the one you describe. UOPX has implemented strong compliance controls, has spent $600 million on student success and other IT systems over the past 5 years, and has a strong commitment to its mission to help adult learners educate and elevate themselves. Much of the data we see in the current UOPX student pipeline are better than their online peers and point to improved outcomes ahead.

We also believe the structure of our transaction answers many of the concerns you have raised with private education institutions in the past. The not-for-profit status of Four Three Education, Inc. will enable tens of millions of tax and dividend dollars to be redirected for the benefit of our students. The "clean break" from the sellers differentiates the structure of this deal from the Kaplan and Ashford transactions you cited. And there is a management team and majority independent governing board dedicated to their students and to compliance with law and regulations. We, therefore, welcome you to join us in celebrating this affiliation with us upon closing. An invitation will be forthcoming.

Sincerely,

C. Scott Green
President