

# Structural Change Site Visit Report

Northcentral University

September 28, 2018

## Team Roster

*Fran Horvath, California State University, Monterey Bay*  
*Thomas Fleming, Loyola Marymount University*  
*Tomas Gomez-Arias, California State University, Stanislaus*  
*John Hausaman, WSCUC Staff*  
*Lori Williams, WSCUC Staff*

The team conducted its review and evaluated the institution under the 2013 Standards of Accreditation and prepared this report containing its collective evaluation for consideration and action by the institution and by the WASC Senior College and University Commission (WSCUC). Formal action is taken by the Commission and is described in a letter from the Commission to the institution. This report and the Commission letter are made available to the public by publication on the WSCUC website.

## TABLE OF CONTENTS

<b>SECTION I. Overview and Context.....</b>	<b>3</b>
<b>A. Description of the Institution and the Proposed Change .....</b>	<b>3</b>
<b>B. Description of the Team’s Review Process.....</b>	<b>4</b>
<b>SECTION II. Evaluation of the Proposed Change .....</b>	<b>4</b>
<b>A. Issue 1: Governance.....</b>	<b>4</b>
<b>B. Issue: Finances .....</b>	<b>5</b>
<b>C. Issue: Communications .....</b>	<b>7</b>
<b>SECTION III. Commendations and Recommendations.....</b>	<b>7</b>

## **SECTION I. Overview and Context**

### **A. Description of the Institution and the Proposed Change**

Northcentral's mission is:

*Northcentral University educates professionals throughout the world and provides an accessible opportunity to earn a U.S. regionally accredited degree. Northcentral mentors students one-to-one with highly credentialed faculty via advanced delivery modalities. Northcentral commits to helping students achieve academically and become valuable contributors to their communities and within their professions.*

#### Overview

Northcentral University (NCU) is a completely online, for-profit institution in which each course is taught in a one faculty to one student format. All faculty have earned doctorates and there are no physical residency requirements. Founded in 1996, NCU offers 37 degree programs in business and technology management, education, psychology and marriage and family therapy, mostly at the post-baccalaureate, masters and doctorate level with a few at the baccalaureate level (education, business and psychology). Fall 2017 total FTES numbered 6,845 of which 6,806 were graduate students, emphasizing the very small nature of the undergraduate programs. Graduation rates (found [here](#)) vary substantially depending on the program.

NCU was originally accredited through the Higher Learning Commission, being located in Prescott and then Prescott Valley, Arizona. NCU transferred its headquarters to San Diego and received initial accreditation from WSCUC in 2015. Much of the administrative activity of the institution continues to occur at the Arizona site.

#### Current Proposal

The current proposal is an acquisition of NCU by the National University System (NUS), located in La Jolla, CA. NUS has two institutions accredited by WSCUC. Currently, NCU is a California corporation under NCU Holdings LLC which is owned by Rockbridge Growth Equity and Falcon Investment Advisors. The transition is made somewhat more complex by the transition of NCU into a non-profit entity (as are all NUS institutions). The design of this transition was created by NUS based on their interest in maximizing tax savings.

Roughly a decade ago, NUS acquired WestMed College with the intent of entering the health education arena. Eventually, NUS made the decision to teach out WestMed program but retained the entity. In this transaction, the academic assets of NCU will be donated to WestMed which will change its name to Northcentral University. Personnel from the current NCU will operate the institution in the same manner as it currently does but in non-profit status. The "old" NCU will become the for-profit National Education Partners (NEP). NEP will act as a non-accredited entity to the "new" NCU providing non-academic services. More details on these actions will be covered later in this document.

## **B. Description of the Team's Review Process**

All three team members who participated in the original review of the proposal and subsequent phone interview also took part in the site visit. The team identified several areas for which additional materials were requested in advance of the visit as part of the sub-change action letter (Appendix A). These materials principally revolved around various financial and budgetary issues as well as the organizational structures before and after the acquisition. The materials were provided to the team on September 4, 2018. The team reviewed the documents in advance of the visit and worked via phone and email to develop a set of questions for the site visit.

The team collaborated with the NCU ALO to develop an agenda which would cover all topics thoroughly and provide access to sufficient personnel from the institution as well as staff and students in order to investigate the issues (see Appendix B).

On September 28, 2018, the visit team, together with the WSCUC Vice President who acts as the NCU liaison and the Director of Substantive Change, came together at the site of the National University System offices in La Jolla, CA. Meetings were held with the leadership of both NCU and NUS, representatives of the Boards of Trustees, and NCU faculty, staff and students. The visit team elected not to visit the NCU offices in San Diego, CA since they are solely administrative in nature.

## **SECTION II. Evaluation of the Proposed Change**

The six items covered in the action letter of August 22, 2018 are highlighted below along with additional issues that arose during the visit. These six items have been organized across three broad concepts of governance, finances and regulatory issues and communication

### **A. Issue 1: Governance**

From the meetings conducted during the site visit and the review of the materials provided by Northcentral University, the team reached the following observation regarding governance of the institution:

- Item 3 of the action letter requested a detailed organizational chart including the Board members and leadership of each of the entities involved in the transaction, including the SMG and NEP. This was provided and further discussion during the visit clarified the organization.
- The proposed new board of trustees will be shared with the rest of the non-profit institution in the National University System. Although membership will be identical, different members will act as chair when meeting as the board for each individual entity, and they are expected to act in the interest of the specific institution considered. Two members of the current Northcentral University board have been nominated to the existing board(s) in the National University System. NEP will have a separate, one-person board.
- Northcentral University will have an affiliation agreement with the National University System. Northcentral University's leadership will report and be accountable to its board of trustees, which will be ultimately responsible for its budget and strategic decisions. Communication with the National University System is expected to be constant and

collegial, but not subsidiary. As a non-profit, there is no expectation of a financial return for the National University System.

- Northcentral University and NEP will operate as arms-length client and service provider, respectively. They have developed service agreements to establish clear responsibilities, and changes to physical spaces are in progress to separate staff at both institutions. However, the team repeatedly heard that “nothing will change” in the way staff work with each other once they become part of different organizations.
- One concern about governance arose based on some confusion among Northcentral University’s faculty regarding three major issues:
  - The role of the faculty in developing and controlling the curriculum. While they were familiar with their role in developing courses, they were unfamiliar with the curriculum development process beyond the course level, and their role in that process. In contrast, staff and administration offered a very clear description of the process and faculty involvement.
  - The role of faculty in the governance of the institution, either in the present configuration or after the proposed change.
  - The nature of the proposed affiliation with National University System, and whether it will mean teaching for National University, one of the entities in the National University System.

## **B. Issue: Finances and Regulatory Issues**

The site visit meetings and additional items provided beforehand provided evidence regarding these issues.

- Item 1 of the action letter requested a plan describing the NUS plans to convert NCU to a non-profit institution, including details on the financial and tax implications both entities may realize.
  - The action plan of NUS call for converting NCU from a for-profit institution to a non-profit as part of a tax planning arrangement to preserve for the present time the net profits earned by NCU in order to invest them into the on-going non-profit institution.
  - This will be accomplished is by using a current non-active non-profit corporation owned by NUS. Specifically the plan as describe will transfer assets associated with the educational activities from the current NCU, which is currently exists as a for-profit institution, into a dormant corporation (WestMed).
  - Upon completion of the transfer, the dormant corporation will change its name to NCU and the for-profit entity will change its name to NEP. The non-transferred assets and activities will serve as an OPM (Online Program Manager) to provide the administrative services to NCU, the non-profit institution.
  - By structuring the transaction in this manner, NUS is deferring taxes associated with the conversion of a for-profit entity into non-profit entity. This future transaction will be a NUS transaction and not a NCU transaction. The new NCU would not appear to have a tax liability associated with any future transaction.

The timing and other factors associated with a future transaction are under the control of NUS and subject to its corporate tax planning.

- One financial plus identified by NCU in converting to a non-profit entity is it will then become eligible to apply for grants, which will be used to expand the educational opportunities and expertise of NCU and its faculty.
- Upon the approval of the sub change NCU will begin to recruit for a CFO. The CFO position is a critical one and it is expected the CFO will interact with the other CFOs within the NUS organization.
- Item two of the action letter requested a clarified budget, with forecasts for the next three years for both NCU as a standalone entity in its current status, and as part of NUS.
  - NCU provided a three year budget which shows it continuing to generate significant growth and profitability. Discussion with NUS personnel indicated that the budget appears to be a bit optimistic and for its internal purposes tempered it a little. After the NUS adjustments, the NUS leadership believes NCU will continue to grow and expand at a profitable rate and they did not have concerns.
  - NCU expects to add a fundraising function (Advancement) to its operations which will provide additional revenue.
  - The costs that will be provided by NEP are covered by a master service agreement at pricing that was stated to be the same as currently exists in the for profit corporation which has all of the institution under a single entity.
- Item four of the action letter asked for the reason(s) for NCU's placement on the Heightened Cash Monitoring list and impact the proposed changes may have on this status.
  - It is expected that that transfer of ownership into a non-profit will improve the ratios for the HCM. By transferring assets into the new corporation rather than stock to a new legal entity the ratios will improve for the HCM monitoring. It was pointed out this strategy was utilized when City University of Seattle was set up in a similar manner.
- Item five of the action letter requested details on extended employment agreements including the total number impacted, their roles, and the plans for and impact on NCU of those agreements going forward.
  - Copies of the employment agreements for all NCU leadership positions were provided in advance of the visit. The key employees for both NCU and NEP will have one-year employment agreements to keep the management teams in place. From discussions with them as a group they appeared to be looking forward to their new roles; however, it was indicated they expected to be doing the same things as they currently perform, just under a different corporate structure.
  - NUS leadership indicated during the visit they hope for a retention rate of 85% of NCU personnel but understand some loss is inevitable.
- Item six of the action letter requested an update on the pre-acquisition review application to the U.S. Department of Education regarding the transaction.
  - The visit team interviewed General Counsel for both institutions who indicated that DOE is awaiting WSCUC approval but sees no impediments after that is received.

### **C. Issue: Communications**

The visit team held separate meetings with faculty, staff, and students and alumni. The staff and student/alumni groups had some overlap with some staff taking classes at NCU. The following observations were made by the team:

- All groups indicated a high degree of transparency on the part of NCU with substantial use of online communications, town halls, emails and websites. Throughout the day, various groups commented on the extensive use of video tele-conferencing, emails, and an electronic Commons to stay connected, hold meetings and otherwise maintain communication for an organization that has faculty, staff and administration located across the country.
- All groups indicated the communication started in April, 2018 with multiple updates and the ability to ask questions. Members of all groups understood the basics of the purchase.
- Faculty appear to be supportive of the change, mostly because of the proposed non-profit status of Northcentral University, the ability to apply for grants, new research opportunities, and the affiliation with National University. There are still outstanding questions about salary and benefits but with the understanding that this will be resolved under NUS.
- Faculty did evidence some confusion about the difference between National University and the National University System.
- Students gave very positive feedback on NCU, the programs and the faculty overall. The stigma of a for-profit was mentioned frequently as a positive to the NCU move to non-profit.
- Staff also mentioned twice a year face to face meetings.

### **SECTION III. Commendations and Recommendations**

#### **Commendations**

- NCU and NUS are commended for a well-organized site visit which provided the visit team with access to all key constituencies.
- NCU is also commended for the transparency with which this transaction has been handled. Faculty, staff and students all felt consistently well-informed.
- NUS is commended for a thoughtful approach to the acquisition and transition that should minimize tax issues and provide NCU with a solid foundation as a non-profit within the system.

#### **Recommendations**

- Northcentral University should have the procedures in place to guarantee its appropriate level of autonomy of the institution and independence of the board (CFR 1.5, 3.9).
- The institution should develop appropriate expectations for scholarship and research among students and faculty consistent with the graduate nature of the institution (CFR 2.8).

- The institution should create and implement the processes for the faculty to take collective responsibility for the curriculum (CFR 2.4).
- The institution should make sure the faculty exercises effective academic leadership (CFR 3.10).

### **Confidential Team Recommendation**

The visit team recommends that this proposed acquisition and conversion to a non-profit by NCU should be approved. The institution has handled issues of governance and communication very well. The major concerns have been financial in nature. The plan appears to be well thought out and supported by substantial documentation to set up the future entities. The senior management team has a good understanding of the proposed action plans that need to take place to execute the financial transactions. It appears that NUS which will be the sole owner of NCU after the completion of the transaction has the financial capabilities to execute the plan.

## APPENDICES

### Appendix A



Page 1 of 2 NCU CoO

August 22, 2018

Dr. John LaNear  
Accreditation Liaison Officer  
Northcentral University  
2488 Historic Decatur Rd  
San Diego, CA 92106

Dear Dr. LaNear:

During a conference call on August 20, 2018, a panel of the WSCUC Substantive Change Committee reviewed a proposal from Northcentral University (NCU) for a Change of Ownership to the National University System (NUS) and Change in Legal Status. The proposed changes are considered a Structural Change as defined by WSCUC's Substantive Change Policy and Procedures.

The panel has acted to proceed to a site visit to consider this proposal. Prior to the site visit, the visiting team requires some additional information for their review. These items include:

1. An action plan describing the NUS plans to convert NCU to a non-profit institution, including details on the financial and tax implications both entities may realize.
2. A clarified budget, with forecasts for the next three years for both NCU as a standalone entity in its current status, and as part of NUS.
3. A detailed organizational chart including the Board members and leadership of each of the entities involved in the transaction, including the SMG and NEP.
4. A narrative describing the reason(s) for NCU's placement on the Heightened Cash Monitoring list and impact the proposed changes may have on this status.
5. Details regarding the individuals who maintain extended employment agreements including the total number impacted, their roles, and the plans for and impact on NCU of those agreements going forward.
6. The pre-acquisition review application to the U.S. Department of Education regarding the transaction.

Please submit these materials to WSCUC by September 4, 2018. The additional information can be uploaded in the appropriately labeled folder in the Box.com collaboration site. You will work with Konami Chisholm, WSCUC Accreditation Resources Coordinator, to schedule the site visit to the NCU main campus in San Diego, CA. A team comprised of members from the Substantive Change panel will conduct the visit, and in consultation with the WSCUC staff finalize the visit details. Fran Horvath, who chaired the panel will reach out to finalize the agenda.

In developing an agenda for this visit, the team will want to meet with stakeholders including:

- Senior leadership from NCU managing the transition (CEO, CAO, CFO, Student Services)

- Senior leadership from NUS managing the transition, including those who may be involved with the financial matters of NCU post-transaction.
- Representatives from the NCU and NUS Boards of Trustees
- Faculty leadership
- Students and alumni
- Sample of staff members from various functional areas of the institution.

The team may identify additional individuals or groups with whom they wish to speak and any additional documents they wish to review.

The primary purpose of the site visit under the structural change process is to explore in detail the proposed new change and to convey information to the Structural Change Committee for its consideration. The visiting panel members will write a report of the visit, the findings of which will be sent to you for correction of errors of fact. The panel will then review it and, if accepted, the complete proposal and supporting documentation, this letter, and the site visit report will be forwarded to the Structural Change Committee for its consideration. The Committee will then make a recommendation on the proposal for the Commission's consideration.

Please contact me if you have any questions or if I can be of help as the process continues.

Sincerely,



John Hausaman  
Director of Substantive Change and Committee Relations

Cc: Lori Williams, WSCUC Vice President  
Members of the Substantive Change panel  
George Burnett, Northcentral University President

## **Appendix B**

### **NCU/NUS Site Visit**

#### **AGENDA**

**Sept 28, 2018**

#### **9:00 Senior Leadership from NCU managing the transition:**

George Burnett, President/CEO;  
David Harpool, Provost/General Counsel;  
Karen Whitney, Chief Financial Officer;  
John LaNear, Senior Vice President of Academic Affairs;  
Angie Walker, Vice President of Human Resources  
Pat Pendleton, Chief Information Officer;  
Russ Natoce, Chief Marketing Officer;  
Ian Cooper, Vice President of Student/Financial Services;  
Jennifer Racer, Registrar;  
Colin Marlaire, Sr. Director of I.T. Service Delivery;  
Ray Rodriguez, Vice President of Academic Operations;  
Ken Boutelle, Vice President, Enrollment;

#### **10:00 Senior Leadership from NUS managing transition, including those involved with financial matters of NCU post-transaction**

Michael Cunningham, Chancellor of NUS  
Randy Frisch, General Counsel of NUS  
Dave Lawrence, CFO of NUS  
David Harpool, Provost/General Counsel of NCU  
Karen Whitney, CFO of NCU

#### **11:00 Regulatory Matters**

Randy Frisch, General Counsel of NUS  
David Harpool, General Counsel of NCU

#### **11:30 Faculty Leadership**

Faculty Senate members TBD (some in-person; others on conference call)

#### **12:00 TEAM LUNCH (Private)**

#### **1:00 Representatives from NCU and NUS Boards of Trustees**

Harold Greenberg, NCU Trustee  
Tom Page, NCU Trustee  
(Harold and Tom are San Diego based, but we could ask other members to dial into a call)  
Gerry Czarnecki, Board Chair of NUS

#### **1:30 Students and Alumni**

Conference call with students/alumni chosen from Student Advisory Boards/Alumni.

**2:00 Sample of Staff Members from Various Functional Areas of the Institution**

Jennifer Racer, Registrar  
Chelsea Young, Director of Center for Teaching and Learning  
Molly Gutterud, Director of Communications and Process Engineering  
Jessica Hensley, Director of Accreditation  
James Rodgers, Academic Operations Manager (Academic Affairs Office)  
Becky Neal, Human Resources Liaison  
Jennifer Whalen, Sr. Director of Student and Financial Services  
Kristin Bernet, Associate Librarian  
Angie Pacheco, Service Desk Manager  
Crystal Peck, Senior Enrollment Advisor  
Rob Conlon, Director of Quality Assurance  
Katja Walton, Academic Operations Manager (Graduate School)

**3:00 “New” NCU Leadership**

David Harpool, President  
John LaNear, Provost  
Colin Marlaire, Chief Technology and Learning Officer  
Chris Dunham, Vice President of Curriculum Development and Instructional Resources  
James Billings, Dean of School of Social and Behavioral Sciences  
Patricia Henry, Dean of Graduate School  
Andy Riggle, Dean of School of Education  
Robert Sapp, Dean of School of Technology  
Ray Rodriguez, Vice President of Academic Operations  
Jennifer Racer, Registrar

**4:00 Wrap up/open time**