

REPORT OF THE WSCUC TEAM

SPECIAL VISIT

to

Claremont School of Theology

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Submitted by

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The team 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). The formal action concerning the institution's status 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.

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Section I

Overview and Context

A. Description of Institution and Accreditation History

Claremont School of Theology (CST) is a freestanding seminary that is affiliated with the United Methodist Church (UMC) and describes itself as "ecumenical and interreligious." CST evolved from Maclay College of Theology, which was founded in 1885 at San Fernando, California and moved, in 1894, to the campus of the University of Southern California (USC), then affiliated with the UMC. When USC severed its ties to the Methodist Church in 1956, CST became an independent corporation related to the UMC, and relocated in 1957 to its present site in Claremont, California. As of Fall 2019 CST enrolled 375 students in Master of Arts (MA), Master of Divinity (MDiv), Master of Theological Studies (MTS), Doctor of Ministry (DMin), and Doctor of Philosophy (PhD) programs.

CST was first accredited by the WASC Senior College and University Commission (Commission) in 1971. Since that time CST has had an uneven accreditation history, resulting in various sanctions, with the School's fragile financial condition being a common theme. In 2008, in an effort to enhance its ecumenical mission and improve its financial situation, CST established--with Jewish and Muslim partners--the University Project which, in 2011, created Claremont Lincoln University (CLU) with CST serving as the incubator. However, not only were the desired outcomes not realized, but numerous problems resulted and, in 2013, CST began the process of separating from CLU.

Following Special Visits in September 2013 and December 2014 the Commission--in its Action Letter of March 4, 2015--acknowledged efforts by CST to restore financial sustainability, but found it in non-compliance with Standard 3, specifically CFR 3.4,¹ issued a Warning, and scheduled a Special Visit for spring 2016 to address concerns about financial sustainability and planning. That visit occurred March 10-11, 2016 and, in its Action Letter of July 8, 2016, the Commission noted the progress made since the visits in 2013 and 2014 and commended CST in a number of areas, including the implementation of a planning process designed to address the

¹ The 2014 visit was under the 2008 Handbook on Accreditation and the CFR was 3.5. Under the 2013 Handbook it is 3.4.

institution's financial situation, but also noted significant current and projected deficits, found CST in non-compliance of CFR 3.4, continued Warning for one more year, and scheduled another Special Visit for fall 2016.

That visit occurred on December 6-7, 2016 and, in its March 9, 2017 Action Letter, the Commission again noted that significant progress had been made and again commended CST for its efforts to come into compliance with CFR 3.4. While noting that CST was still in non-compliance with Standard 3, the Commission also found that, as provided by WSCUC policy and consistent with federal provisions, "good cause" existed to extend Warning for an additional two years to spring 2019, and scheduled another Special Visit for spring 2018, which occurred April 17-18, 2018. In its subsequent letter of July 20, 2018, the Commission again offered commendations in various areas, continued "Warning through the end of the two-year extension for good cause to February 2019" and scheduled a Special Visit for late fall 2018, focused on CFR 3.4. Following the December 12 Special Visit the Commission, in its March 4, 2019 Action Letter, removed Warning; issued a Formal Notice of Concern; reaffirmed accreditation for a period of six years; scheduled the next reaffirmation Accreditation Visit for fall 2024 and the Offsite Review for spring 2024; scheduled a Mid-Cycle Review to begin May 1, 2021; and scheduled another Special Visit for fall 2019 to address:

1. final resolution of court issues;
2. implementation of the sale/lease of CST land;
3. progress on becoming part of Willamette University; and
4. current financial status.

B. Description of the Team's Review Process

The site visits of December 2016, April 2018, December 2018, and December 2019 have been conducted by the same team and have, consistent with WSCUC Action Letters, been narrowly limited to CFR 3.4 and focused on interrelated issues discussed in Section II of this report.

The team met via conference call on November 5, 2019 to evaluate the CST report, agree upon topics for further inquiry, develop lines of questioning, identify additional supporting documents, and finalize the visit schedule and team assignments. The visit started with a team meeting the

afternoon of December 11 and concluded at 5:30 p.m. on December 12. Due to a family emergency, the chair participated by phone conference call.

The team met with the CST president; 14 of the 28 trustees; chief financial officer; vice presidents of academic affairs/dean of faculty and advancement/communications; the faculty policy committee; and the enrollment team. The team also met with CST's legal counsel and the local CEO of the Yalong Investment Group LLC (Yalong) and talked, via conference calls, with the president, provost, and accreditation liaison officer of Willamette University and CST's external auditor. One confidential email was received and reviewed by the team, but the content did not fall within the purview of the team.

C. The Institution's Special Visit Report

CST's report, including appendices and other requested documents, was submitted in a timely manner, is well-written, and addresses the issues identified in the Commission's March 4, 2019 Action Letter, noted above. The narrative candidly reports both the progress made and the obstacles encountered since the December 2018 visit and is supported by detailed analyses and projections of the institution's financial situation and by documentation of the ongoing efforts being made to assure CST's short and long-term viability.

Section II

Evaluation of Institutional Response to Issues Identified in the Commission's Action Letter of March 4, 2019

A. Sale/Lease of Campus Property

For almost four years CST has worked diligently to solve its financial deficiencies and assure its sustainability through the sale or lease of its campus, but has been blocked at every step by legal proceedings. Initially the Claremont University Consortium (CUC) expressed interest in purchasing a portion of the campus for an amount considerably below the appraised value.² When CST refused the offer CUC argued that a Right of First Offer restriction in a 1957 grant deed and a related 2001 agreement, was still enforceable and, thus, compelled CST to sell its property to CUC for substantially less than market value. CST countered with a legal action against CUC and Claremont Graduate University (CGU)—and both entities filed counter claims against CST.

The trial--initially scheduled to begin on March 6, 2018—actually commenced on September 24, 2018 and, in a ruling filed January 23, 2019, the Court ruled that CST may sell its property at market value, but gave CUC/CGU the right of first refusal of the same amount and terms and conditions as offered by another buyer. However, the Court also ruled that the educational use restriction in the 1957 Grant Deed survived as "equitable servitude" and, therefore, the property can only be used by a "*bona fide* educational institution of collegiate or post-graduate grade." In response to the ruling, CUC/CGU appealed the decision. A decision by the Appellate Court is not expected until sometime in the summer of 2020.

On February 5, 2019, CST entered into a ground lease of its property--with option to purchase--with Yalong, a China based company involved in various educational development efforts. Set to commence on July 1, 2020, the lease provides CST with total payments of \$24 million, with pre-payments of \$10 million and \$1.2 million per year for the life of the lease which expires February 4, 2040. The lease includes an option to buy the CST property for \$35 million once CST obtains a final judgment in its favor.

² CUC changed its name and acronym to The Claremont Colleges, Inc. (TCC, Inc.) on January 1, 2018.

With the decision on the appeal not expected until sometime in 2020, CUC/CGU filed a Preliminary Injunction Motion (PI Motion) on April 8, 2019, seeking to prevent CST from entering the lease/sale agreement, which had already been executed. On April 19, 2019 the Court opined that a lease is not considered a transfer of property and denied CUC/CGU's *ex parte* application to move forward the hearing date on the motion. In response, on May 3, 2019 CUC filed a new lawsuit against both CST and Yalong on the basis that the lease violates the restrictions on the property. CST responded by serving a Motions for Sanctions and filing a Demurrer, Motion to Strike, and a Motion to Stay all discovery until the other motions are adjudicated. CUC responded by filing a First Amended Complaint that negated the Demurrer and Motion to Strike and preempted the filing of the Motion for Sanctions. CST responded by filing its Demurrer and Motion to Strike in relation to the first amended complaint and served, and eventually filed, another Motion for Sanctions.

On December 12, 2019, the Court affirmed its December 5, 2019 tentative ruling sustaining CST's Demurrer in its entirety, and dismissing all claims against CST without leave to amend. Yalong also filed a Demurrer, but it did not include the same arguments, so the case against it is still pending.

On September 16, 2019, CUC filed another PI Motion which attempted to represent the lease as a "Sale Agreement," and, thus, prevent the lease agreement, and prevent CST from receiving lease payments. On October 17, 2019, the Court issued a final ruling denying the PI Motion.

Also, on August 28, 2019 the Court--in a tentative ruling--granted a motion filed by CST on March 26, 2019 that CUC/CGU be required to pay a portion of CST's legal fees incurred during litigation related to the sale of its property and, on November 5, awarded legal fees to CST in the amount of \$396,811.50.

Interviews with CST legal counsel stated that CUC has already appealed the ruling on the fee motion and the preliminary injunction motion and expects CUC to file an appeal in relation to the Demurrer. CST expects to have all these appeals adjudicated by late 2020. It is unlikely the

Supreme Court would hear the matter, but if it did the time for final adjudication will be significantly extended.

Another legal issue--unrelated to CUC--is that the relocation of CST's restricted endowment funds from California to Oregon, as envisioned in the affiliation agreement, has yet to be authorized by the State of California. If CST is unable to move these funds it will need to maintain a corporate entity in California that would function as a foundation that supports CST's programs in Oregon.

B. Update on Financial Issues

The most significant improvement in CST's finances since the team's December 2018 visit occurred when it received \$10.0 million in prepaid rent (represents 100 months of rent prepaid) from Yalong in two installments in February and April of 2019. The lease applies \$3.0 million to the first 30 months of the lease, with the remaining \$7.0 million applied to the last 70 months of the lease. The \$10.0 million received in prepaid rent allowed CST to repay \$5.3 million of the approximately \$7.0 million it had borrowed from various sources during 2018 to ensure adequate operating capital during CST's transition to becoming an affiliate or component part of Willamette University. The balance of the \$10.0 million received should, based on CST's latest cash flow projections, allow adequate cash flow to help cover operating expenses through March of 2020.

The team notes that the approximately \$7.0 million borrowed came from individuals and organizations affiliated with CST including a United Methodist credit union, three United Methodist conferences, one district within one of the three United Methodist conferences, CST faculty and staff members, members of the CST board of trustees, and CST donors. The team also notes that the \$1.7 million unpaid balance of the approximately \$7.0 million borrowed represents funds borrowed from members of the board of trustees and donors. Finally, the team notes that CST intends to repay the \$1.7 million balance in the current 2019-2020 fiscal year and will seek additional loans totaling \$2.0 million from the three United Methodist conferences that it borrowed from in 2018 in order to help cover operating expenses through the end of the

current fiscal year ending June 30, 2020. CST is also intending to draw on its \$1.0 million line of credit for cash flow purposes during the current fiscal year.

The team notes that the affiliation agreement requires Willamette University to approve any additional borrowing by CST. A telephone interview with the Willamette president indicated that he does not object to this additional cash flow borrowing.

The receipt of \$10.0 million in prepaid rent did not, however, dramatically impact operating results for the 2018-2019 fiscal year that ended on June 30, 2019. A review of CST budget reports and draft audited financial statements for the 2018-2019 fiscal year indicate that operating expenses of \$10.5 million exceeded operating revenues of \$7.8 million by \$2.7 million or 34.6%. The operating loss of \$2.7 million increased the unrestricted accumulated operating deficit by 9.3% to \$15.1 million as of June 30, 2019. The operating loss also decreased the size of the CST's total net assets by 10.5% to \$22.6 million as of June 30, 2019. Finally, total endowment assets were reduced by 7.3% to \$10.1 million, which is net of accumulated losses of \$13.1 million from previous year's operating deficits and is also far less than the \$30.0 million plus in total endowment originally envisioned to be transferred to Willamette University when CST becomes an affiliate or component part of the university.

CST budget projections for the current 2019-2020 fiscal year indicate an operating deficit of \$4.2 million that will further increase the size of the accumulated operating deficit and further reduce the size of the endowment. Interviews with senior administrators revealed that a three-year budget projection has been formulated that shows CST generating net income in fiscal years 2020-2021, 2021-2022, and 2022-2023. Interviews with senior administrators also indicated that budget projections beyond the 2019-2020 fiscal year were difficult to formulate due to various uncertainties.

These uncertainties include: 1) the status of litigation over the potential sale of the CST campus in Claremont to Yalong; 2) the ability to borrow and repay funds necessary for cash flow after March 2020; 3) the timing of the full implementation of the affiliation agreement with Willamette University; 4) enrollment levels in Salem; 5) fund raising in a new region with

different United Methodist conferences; 6) the costs of relocating the CST campus to Salem; 7) the costs of CST operations once relocated to Salem; and 8) the costs of teaching out the remaining students in Claremont during the 2020-2021 fiscal year.

Interviews also indicated efforts to improve CST financial position including: 1) reducing future operating costs through the utilization of administrative services provided by Willamette University; 2) seeking the recovery of legal fees from CUC; 3) conducting a grant funded comprehensive alumni survey; 4) collaborating with Willamette University staff to formulate alumni and major giving initiatives; 5) implementing in fall 2019 a new Global PhD in Contextual Theologies with Chang Jung Christian University in Taiwan; 6) exploring the development of approximately eight new degree programs in cooperation with Willamette University); 7) reducing/right sizing the enrollments in CST PhD programs; and 8) exploring contingency planning options should the sale of the Claremont campus and/or the affiliation with Willamette not occur.

Despite CST's progress and efforts to secure its future as an affiliate or constituent school within Willamette University, the numerous uncertainties impacting the short and long-term future of CST, when coupled with a deteriorating financial position and the lack of cash flow projections for the teach out of the remaining students on the Claremont campus during the 2020-2021 fiscal year, has the team concerned about its financial stability and sustainability (CFR 3.4). For example, it is now clear that the \$35.0 million proceeds from the potential sale of the Claremont campus will likely be insufficient to fully replenish CST's diminished endowment (estimated to be reduced by approximately \$30.0 million) and also cover all of the other costs (estimated between \$10.0 million and \$14.0 million) currently faced by CST including those associated with the sale of the Claremont campus, the move to the Salem campus, post-employment payments to CST faculty and staff impacted by the move of its campus, and current and future cash flow debts. Also, team interviews with CST's independent external auditor indicate that he remains concerned with the long-term financial viability of the institution, especially if it is unable to become an affiliate or component part of Willamette University. The auditor continues to have the management of CST submit, for inclusion in the notes to the audited financial statements, its plans to stabilize the institution. Finally, CST's three-year composite financial

responsibility score of 0.6 through the 2016-2017 fiscal year, as posted on the website of the U.S. Department of Education, remains below 1.5, which is the lowest score possible to still be considered financially responsible. Based on recent CST operating results, this composite score is unlikely to improve.

C. Update on WU Affiliation and Program Development

For CST, a successful merger with WU will require more than financial prudence and effective management. A welcoming atmosphere, a match of institutional cultures, and detailed program planning will all be important if CST is to continue its mission in a new setting. The team noted in interviews that plans for transitioning from Claremont--including an effective teach out, the de-consecration of the chapel, and an April service of leave-taking arranged for alumni--are also key to a strong transition and seem to be well in place.

CST was warmly welcomed this fall as it began offering classes on the WU campus. An August 23rd ceremony celebrated the coming together of the two schools. Later, the WU opening convocation highlighted CST's contributions and introduced faculty and staff to the newcomers. Tree planting, faculty social events, and ceremonial occasions offered opportunities for constituents of the schools to deepen acquaintance and set the table for the two schools to merge not merely operations but cultures and missions.

Careful planning for and implementation of a variety of educational programs is also critical to the move. Eight new degree, dual degree and certificate programs are being explored including the BA/MDiv, MDiv/MBA, MDiv/JD, an MA in Counseling, and a Contemplative Studies program. Physical space to accommodate CST's faculty and administrative functions is being developed at Salem United Methodist Church immediately adjacent to the WU campus, while courses will be accommodated in existing WU classrooms. CST is in the early stages of preparing for major new programming. Much of the work of prioritizing, rationalizing, and aligning resources with new educational initiatives lies ahead.

The team found a highly energized group of administrators and faculty stretching human and fiscal resources to stay on top of the most pressing merger-related tasks. The Affiliation

Committee, made up of five CST representatives and five representatives of WU, held its first quarterly meeting in July 2019 and its second in October. An Annual Work Plan is currently being produced; the group plans to turn its attention next to the question of how communications will be handled. The Transition Committee of the CST Board of Trustees is set to vet its findings. Three related subcommittees are also meeting, as are several small groups of administrators involved with plans for timelines, teach outs, and the new degree programs. Key administrators meet every week by teleconference to work on implementation and integration plans, punch lists, and flow charts, and master lists preoccupy administration and staff.

The team appreciated the balancing act in which the faculty and educational program administrators are involved and noted the ambitious nature of the long-range planning done so far. Given the challenge of maintaining the quality of current academic and student services programs, even as new initiatives are being undertaken, the team recommends further refinement of the list of new programs contemplated. Of particular note is the need for increased resources that can be directed toward managing such programs as the teach out, the addition of new degree programs, and the creation of dual degrees. The new Global PhD Program in Contextual Theologies, offered in partnership with Chang Jung Christian University in Taiwan, is an example of a program that has the potential to stretch CST's resources. It will be important to resolve questions about the scope of each partner's responsibilities early in the program's development and align this and other new programming with faculty resources.

To relieve the administrative burden on faculty and current staff, the team suggests CST consider designating a project manager or hiring consultants to attend to the project management side of the merger. The "stable transfer of programs and personnel" has been identified as CST's highest priority for the immediate future. Achieving that might also mean the provision of a "whisperer" or other institutional support for employees stressed by the uncertainty, losses, and increased workload associated with the merger.

Finally, mid-term and end-term evaluations of the five new courses being offered at WU this fall might provide useful information of educational effectiveness in the new setting. Retention has been strong in this first cohort of twenty-four students (five of whom live on or near the Salem

campus). However, it will be important to gather educational effectiveness data, early and often, in order to make appropriate adjustments to the initial course offerings. Such data will also be useful in weighing decisions about new programs.

Section III

Commendations and Findings

As this team has found during all four of its previous visits, CST is comprised of committed individuals who care deeply about their institution and its mission and who are working diligently and in a well-organized manner to assure its future.

CST is commended for:

- continued presidential leadership and institutional commitment in difficult circumstances;
- the execution of an agreement with Yalong Investment Group for the lease and possible sale of the Claremont campus, including the receipt of \$10.0 million in lease prepayments;
- the repayment of \$5.3 million of \$7.0 million of loans that have provided working capital to CST during the 2018-2019 fiscal year;
- the execution and early phase implementation of an affiliation agreement with Willamette University that provides a blueprint for CST to become an affiliate or component school within the university;
- the pursuit of litigation to recover legal fees incurred in legal actions initiated by the Claremont University Consortium;
- the maintenance of enrollment strength and advancement achievement during a period of dramatic institutional change; and
- an ambitious agenda of new educational programs.

Findings

This visit focused narrowly on four inter-related topics critical to compliance with 3.4 Criteria for Review:

- ongoing legal issues which have prevented resolution of the lease and sale of the campus and transfer of restricted endowment funds to Willamette University;
- status of the lease/sale to Yalong;
- progress on becoming an affiliate or component part of Willamette University; and
- CST's current and projected financial status.

In CST's current situation what needs to be done is clear, but has been largely beyond CST's capability because of legal obstacles put in the way by other parties. In view of this, rather than making recommendations for addressing ongoing issues, the team has chosen to merely state its findings.

- While largely beyond CST's control, it is imperative that the legal impediments, which have now been going on for over six years, be expeditiously resolved in CST's favor.
- CST must further develop and expeditiously finalize its primary planning scenario of becoming an affiliate or constituent part of Willamette University by formulating cash flow projections to complement its three-year operating budget projections that include the completion of the teach-out of any students remaining enrolled through its Claremont campus.
- CST must demonstrate that it has--or will be able to borrow and repay--additional funds necessary to successfully implement its primary planning scenario of becoming an affiliate or constituent part of Willamette.
- CST must make every effort to retain key people, including, as quickly as possible, finalizing plans for incentives.
- CST must further develop contingent budget, cash flow, and borrowing/repayment projections if it is unable to become an affiliate or constituent part of Willamette as envisioned in its primary planning scenario.
- CST must also develop, or further develop, plans for the orderly cessation of its operations, including the teach-out of its students and the transfer of student records to another WSCUC accredited institution, if its primary or contingent planning scenarios cannot be realized.