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In a Time of Uncertainty, Colleges Hold Fast to the Status Quo

Chronicle survey shows officials expect more financial fallout on campuses

By Goldie Blumenstyk

The financial meltdown that has caused seismic upheavals in many other corners of the economy hasn't changed much about how colleges operate.

College leaders may be thinking about new strategies for doing more with less, and a few are actually putting those new approaches into practice. But as the country passes the first year of a supposed New Normal, few signs of revolutionary change are apparent.

The absence of radical change is probably a measure of the resiliency of the higher-education sector, the cushion provided by federal stimulus funds, and the political difficulty of instituting swift changes at such complex and decentralized organizations.

"It's tough to be out there by yourself," notes Suzanne Walsh, senior program director at the Lumina Foundation for Education, which has been using its grants to encourage experiments on ways to educate students at lower cost.

It may also be a sign that the full effect of the economic fallout has yet to hit home on many campuses, a perception reflected in numerous interviews with anxious higher-education leaders and in the sobering findings of a new *Chronicle* survey. In the survey sent to chief finance officers at four-year colleges in September, 62 percent of the respondents said they did not think the worst of the financial pressures on their institutions had passed. Nearly two-thirds of them worry that 2010, 2011, or 2012 or later, will be even tougher.

"In some respects, people are doing what they should be doing in an economic downturn," says Paul E. Lingenfelter, president of the State Higher Education Executive Officers organization. They are aiming cuts at "soft spots" and protecting core academic programs and student aid. But as Mr. Lingenfelter and countless other observers of the sector note, even when the economy rebounds, the pressures on colleges will be greater and all the usual sources of support—states, donors, and students and their families—are likely to be less able to provide resources.

The challenge, says Mr. Lingenfelter, is for higher education's leadership to recognize that aiming to get back to pre-crash levels of financing or educational effectiveness is not enough. "We come across to the public as totally insatiable and resistant to change," he says. "We've got to improve productivity."

For most college leaders, managing in this new era of uncertainty has meant hunkering down. But observers say the coming months and years could require far more openness to change.

Where the Hurt Is

Certainly, for the tens of thousands of college students shut out of classes at the budget-squeezed systems in California and Florida; for the instructors at Oakland Community College and others in the Midwest scrambling to retrain a flood of former automobile-industry workers; and for the librarians and office workers at Harvard, Stanford, Vassar, and other wealthy private institutions who lost their jobs as endowment values plummeted, the financial travails of the past year have been anything but business as usual.

"It has reached a crisis level," says Eduardo J. Padrón, president of Miami Dade College, which has seen its budget shrink by 19 percent since 2007. In a state and county hit hard by the collapse of the housing market, Miami Dade has eliminated more than 230 jobs through attrition and layoffs, and this fall 30,000 students were unable to take all the classes they needed because the eight-campus system didn't have the money to hire the faculty and advisers to serve them.

Miami Dade, with 170,000 students, enrolls more minority students and more students who qualify for Pell Grants than any other undergraduate college in the country. "The lines are never ending," says Mr. Padrón of his institution. "Classes are full to the limit."

Miami Dade's situation was more dire than most, but only a minority of colleges made it through the past year untouched by the downturn. In the *Chronicle* survey, nearly one-third of respondents had laid off nonfaculty personnel in 2009, and nearly two-thirds of respondents said they had frozen salaries.

"For us," says Walter Harrison, who has worked in higher education since the mid-1970s and is now president of the University of Hartford, impacts like that "are startling."

Still, while most colleges continue to face financial pressures, the *Chronicle* survey and several other indicators suggest that the repercussions have not been as deep or far-reaching as many had feared. Not yet, at least.

While 40 percent of the 166 respondents to the survey said they had

frozen hiring for faculty and adjunct-faculty positions during 2009, and 60 percent had frozen hiring for nonfaculty positions, in each case fewer than 10 percent said that the hiring freeze was a total one. (Of the survey respondents, 30 were public, and the rest were private nonprofit institutions.)

Layoffs are unusual in higher education, particularly to the extent seen this past year. But fewer than 5 percent of respondents said they had laid off faculty members during 2009, and nearly 70 percent said they were "somewhat unlikely" or "very unlikely" to make any layoffs this academic year.

(Because higher education relies so heavily on contingent faculty members, some economists warn that looking at layoffs might not be as useful a measure of contraction as it is for other industries. In some cases, institutions may be dealing with tighter budgets by simply hiring fewer adjunct faculty members and offering fewer courses.)

Unpaid furloughs, which have emerged as an increasingly common cost-cutting tool for companies and state governments, were not a popular choice for colleges in the survey. Only 6 percent of respondents said they had imposed a furlough in 2009.

Just over 7 percent said they had reduced health-care benefits, and slightly more than 10 percent said they had cut retirement benefits. Statistics from TIAA-CREF, the nonprofit pension company that counts more than 2,200 colleges as clients, reinforce that finding. The company says 34 colleges have suspended retirement contributions in 2009, with another 72 reducing such payments.

Reports from Moody's Investors Service, whose ratings cover institutions that enroll 95 percent of students at public colleges and two-thirds of those at private institutions, also show only slight evidence of deterioration in colleges' finances.

While the number of "downgrades" to credit ratings in the first three quarters of 2009 was more than twice as high as for all of 2008 (26 versus 12) and the number of negative outlooks so far in 2009 also outpaced the number for all of 2008 (40 versus 20), the credit ratings for the vast majority of colleges remain unchanged.

"It's important to remember that this is an industry that has been in a golden era for a decade or more," says John C. Nelson, managing director for the Moody's group that evaluates colleges' creditworthiness. "It shows how just fundamentally stable the business model of the university is. They can absorb a lot."

Uneven Meltdown

Also, the effects of the economic meltdown are widely uneven. In

states like Texas and North Dakota, for example, public colleges are flourishing. And for certain kinds of colleges, particularly lower-cost institutions where tuition and fees cover most of the expenses and there's capacity to spare, the sour economy that is prompting many students to start or return to college has been a boon.

While it's true that last autumn's collapse of the financial markets has shaken many of the country's richest and most prestigious institutions—it "forced layoffs and budget cuts at places that had never really known them," notes Mr. Nelson—the immediate and direct effect of those endowment declines do not extend very far. Fewer than 100 colleges depend heavily on their endowments to operate, Mr. Nelson says.

The falloff in taxes on consumer spending and income that has left a majority of states wrestling with crushing budget deficits is also producing pain for state universities and community colleges.

But according to preliminary data collected by the higher-education executives' group (with about 30 states reporting so far), the overall change in state financing of colleges from the 2009 fiscal year to the 2010 fiscal year amounts to about a 3-percent decline. Without the stimulus money, it would be about 4 percent. Nationally, state appropriations for higher education have declined only three times since 1992, most recently in the 2004 fiscal year, when spending was down by 2.1 percent, which suggests that while this year's decline is likely to be unusually large, it comes after many years of increases.

As the downturn hit, a number of colleges delayed the start of new construction. But some public institutions where budget problems forced a mid-stream halt have since been able to continue the work now that the federal stimulus dollars have come through.

"There's not really a crisis for public universities," suggests Mr. Nelson. And he adds, "Very few public universities are struggling with enrollment."

Indeed, enrollments have been surprisingly strong for both public and private institutions this fall. In some cases, however, those high enrollments came with a cost. Many colleges achieved their enrollment goals only by spending more of their tuition revenue on student aid.

Moody's expects that of the 320 private colleges it rates, the proportion that will report declines in net-tuition revenue this academic year will be the highest since the late 1980s, when colleges used student aid to keep up enrollments as the numbers of high-school graduates dipped.

In the *Chronicle* survey, 85 percent of respondents said they had met or exceeded their enrollment targets for the fall, but among those, 15 percent fell below their projections for net-tuition revenue. In other words, they got their class, but they spent more than they expected to land it.

For financially fragile colleges, high levels of tuition discounting can set off a devastating chain of consequences. Yet with national unemployment rates still hovering above 9 percent, even the institutions with the strongest balance sheets worry about the new budgetary pressures they will face.

"It's hard to think that the need for financial aid is going to abate," says David Wheaton, vice president for finance and administration at Macalester College. This year Macalester bumped up its financial-aid spending by 12 percent.

Public colleges have their own worries: What happens in two years, after the billions in federal stimulus money runs out?

Ohio's Wright State University, for example, has survived the downturn without resorting to layoffs or furloughs, thanks to strong enrollments, some delays in filling positions, and a voluntary retirement program. But 14 percent of the \$100-million it gets annually from the state is now financed from the federal stimulus. Come 2012, "we're not expecting to see that money," says Matthew V. Filipic, senior vice president for business and fiscal affairs.

One way the state hopes to fill that gap is a new financing formula, built around how well colleges do in keeping students on track to graduate. The hope is that improvements in those kinds of things can help to reduce overall costs of educating students.

Where colleges have had to make deeper cuts in response to immediate concerns, leaders say they have tried to focus the cuts in ways that minimize disruptions to students.

Vassar College, for instance, has cut the equivalent of 79 positions through attrition, a retirement-incentive program, and layoffs. The college's employee ranks have been cut by 10 percent, all on the administrative side.

"It's not a paradigm shift," says Catharine Bond Hill, the president. "It's an adjustment to the cost structure" in response to a large shock. Vassar, which relied on its endowment for nearly a third of its operating budget, had an 18-percent loss on its endowment in the 2009 fiscal year.

A Changed Landscape

The absence of radical restructuring is explainable, say policy makers. But it may not ultimately be sufficient.

Has that reality started to sink in?

Colleges have lots of fixed costs in facilities and personnel, and "turning that on a dime is not easily done," says Macalester's Mr. Wheaton. But he says he and his colleagues around the country recognize that the landscape has changed: "We've stepped through the looking glass, and now things are different."

Macalester, for one, is serious about planning for an uncertain future.

The college routinely develops budget scenarios that look six or seven years out, tossing in a range of variables such as the impact of a steep decline in endowment or smaller-than-expected freshman classes. The exercise lets the college imagine what it might look like under varying conditions.

"It makes us think about what dollars we bake into our cost structure now," says Mr. Wheaton. "If I can't live with it then, I won't do it now."

At Metropolitan State College of Denver, administrators say they have looked to the mistakes of past recessions to guide them in this one. After the recession of the 1970s, "there was no substitution of technology for labor," says Stephen M. Jordan, the president, in part because few colleges had the money to invest.

So during this downturn, one of the ways Metro State is trying to refashion itself to better provide services to its urban student body is by investing \$4-million in technology to improve how the institution runs. With the new software, students will have automated systems for scheduling appointments with their professors and advisers, and faculty members will be able to use computerized systems to assemble their dossiers for promotion and tenure. Metro State is also upgrading and reorganizing its data on alumni and donors, to better position itself for future fund raising.

The college decided to designate its \$10-million in stimulus money for these new investments instead of using it to fill holes in the budget. Says Mr. Jordan, "We're being intentional."

Jeffrey Brainard and Marisa Lopez-Rivera contributed to this story.

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