



Financial meltdown hits ivory towers

By JUSTIN POPE – 5 days ago

For many colleges, the last 15 years have been a golden age. Philanthropy and Americans' grudging tolerance for high fuelled an unprecedented boom — investments in everything from gyms, dorms and labs to faculty and expanded financial

Now, suddenly and like the rest of us, many colleges are faced with toning down their ambitions, at least in the short term.

The financial meltdown is forcing institutions to tear up budget plans and prepare for a simultaneous hit to their three main revenue sources — government funding, donations and tuition. At the same time, they're having to find more money for their major budget items — financial aid — or risk seeing students drop out.

"They're coming in and saying, 'I need a little more help,'" said Jerry Cebrzynski, financial aid director at Lake Forest College outside Chicago, which cut several class offerings and froze last year's operating budget in part to make more aid available. "We think we're seeing just the tip of iceberg."

Cebrzynski recently managed to find another \$5,000 for one family where the father lost his job and the mother has cancer.

"We'll do what we can with this year's budget and honestly operate with a deficit, a larger deficit than we thought," he said.

In many ways, colleges have an enviable position. They can afford to invest for the very long term. Many have endowments that cushion the blow of downturns, and demand for higher education holds up or even grows when the economy goes south. That's why you hardly ever hear of an accredited college going under.

But the financial events of recent weeks have been momentous enough to shake even sturdy ivory towers. Giant Boston University and tiny (but wealthy) Grinnell College in Iowa are among those delaying big projects, while numerous schools postpone fundraising campaigns.

"I'm not going to press people now for a lot of funding. The time just wouldn't be right," said John Fry, president of Franklin & Marshall College in Pennsylvania, who moved about \$1 million from other programs to bolster aid this year. Fry says a fundraising campaign will likely be delayed and scaled back, and it will likely focus more on financial aid.

Generally, Fry says F&M is in good shape, but he's glad it recently finished several big projects. Now isn't the time to start asking parents to pay substantially more next year would be "unseemly," he said, echoing the thoughts of several presidents interviewed this week.

The worries for private colleges include falling endowments and cost-conscious students passing them over for cheaper alternatives. For public universities, state funding is almost always cut in a recession.

On Thursday, Virginia Gov. Tim Kaine announced plans to cut college funding at least 5 percent, to help plug an expected billion budget hole over the next two years. Individual schools would see cuts of as much as \$10.6 million.

But for colleges, this isn't just a predictable replaying of past downturns. In the mild 2001 recession, for instance, colleges weren't badly hurt because home values held up, notes John Nelson, who follows higher education finances for Moody's Investors Service. But with home prices plunging, home equity may no longer be a reliable last resort for parents to tap to pay tuition bills.

A totally unexpected problem this time: interest rates in the variable rate bond market, where colleges borrowed cheaply in recent years, have jumped from 1 or 2 percent to as high as 10 percent. If credit markets don't thaw, some colleges could spend millions more than they planned simply servicing their own debt.

Most terrifyingly, earlier this month, about 200 colleges were shocked to find that a liquidity crunch prevented them from retrieving more than 10 percent of the \$1 billion they held in a supposedly safe short-term fund offered by investment manager Commonfund. Now up to 40 percent can be retrieved.

In tough times, the colleges with the largest endowments — there were 76 with at least \$1 billion last year — tend to fare best. They can spend money to scoop up talented students and faculty while everyone else buckles down.

And at a time when major gift announcements have virtually halted, it was just another day at the office for Harvard, with

week announced its largest individual gift ever — \$125 million.

But other institutions will have to find their own balance between their long-term missions and short-term reality.

"We don't want to forget our aspirations," said Thomas Ross, president of Davidson College in North Carolina, a relatively liberal arts school. "The minute you stop planning for the future and thinking big and having aspirations, that's the time you suffer the most.

"Are we going to have to delay some things? Maybe so," he said. "I don't know I would call it retrenchment so much as different pacing of activity."

Still, one of the strengths of American higher education is its variety, and one of the most exciting developments of the years was the sheer number of the schools of all shapes and sizes that, like Franklin & Marshall, have expanded their ambitions.

Now, like the rest of us, they will have to play it safer, at least for a while.

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