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# Catholic colleges are holding steady in recession -- so far

Michael Humphrey | Mar. 2, 2009

The campus of St. Michael's College in Vermont.

**W**hen universities like Harvard and Johns Hopkins make headlines for staggering financial problems based on the spiraling economy, it is safe to assume most colleges are suffering a similar fate. To some degree that's the case, but most Catholic colleges and universities have kept a steady ship in the tempest. So far.

"[The downturn] is affecting us the way it's affecting everyone else, in the endowment," said Jack Neuhauser, president of St. Michael's College, near Burlington, Vt. "We're probably down about a half-million dollars in what we can draw from the endowment. And there's the more subtle issue of how liquid those assets are. That's usually used for general operating expenses, but so far that hasn't translated into drastic changes."

An informal survey of Catholic colleges and universities of varying sizes and geography found there's great consistency in that sentiment. Pay and hiring freezes, cutbacks on capital improvement projects and general budget tightening has been the extent of the sacrifice.

There's plenty left to worry about, however. College endowments lost an average of 22.5 percent from July through November 2008, according to the National Association of College and University Business Officers. Catholic schools felt that pinch as much as non-Catholic ones.

"Over the past two weeks, I've been in five finance meetings," said Vincentian Fr. David M. O'Connell, president of The Catholic University of America. "That's compared to one a month in normal times."

Right now, it's all about the endowment for Catholic University, as well.

"Our losses are pretty standard," O'Connell said. "We've lost somewhere in the 30 percent range, about $70 million overall."

But loss in the endowment does not immediately equal crisis. The formula that matters is how each institution uses the proceeds from their endowment. Top-level institutions often rely heavily on those funds. Harvard, for instance, relies on its endowment to cover 35 percent of its operating budget.

Notre Dame, on the other hand, relies on its endowment for approximately 25 percent of its budget, according to

John Affleck-Graves, executive vice president for Notre Dame in South Bend, Ind.

"We've been very conservative in what we pay out," said Affleck-Graves. "And what people don't remember is the four years prior, we were seeing returns of 20 percent each year. But another steep decline in the market and we'll absolutely have to reevaluate."

Notre Dame's endowment contribution to the operating budget is high for Catholic schools. According to a recent Moody's Investors Service report, the average Catholic institution relies on tuition and auxiliary revenues for a median of 82 percent of its total operating revenues. Tuition income for this school year has remained steady.

The next wave: ability to pay

So far, not bad. And you learn fairly quickly that college administrators tend to be an optimistic lot. But if plummeting financial markets, which drove down endowments, were the first wave of the storm, then there's a possibility that the mix of consumer confidence and a lending slowdown could be the next major break.

"The real anxiety for us, since we're primarily tuition-dependent," said Neuhauser, "is whether families are going to wish to borrow money."

There's even some fear, though it's subsiding, that families won't be able to get loans if they want them. So far applications at the schools were not down significantly. And it appears the federal government is going to help education lenders. In late January, according to Bloomberg News, the U.S. Treasury committed up to $60 billion to shore up the student-loan market.

"Schools and students who rely on these loans were at dire risk of basically seeing these lenders have to leave the market," Charles Gabriel, managing director of Capital Alpha Partners, told Bloomberg News.

Even with loans in place, however, families who expected to pay at least some of the tuition out of their own pockets could be delaying college or looking for less expensive public schools. Some family college savings accounts, after all, were tied to the same markets that battered endowments the last six months.

"We will have to find places in our operating budgets to help students afford their education," Affleck-Graves said. "That means we'll have to find efficiencies elsewhere, but it's the No. 1 priority of our budget."

That's more possible for Notre Dame than for a school like The Catholic University of America. But O'Connell is ready to take up the cause of more student aid, as well. It will simply mean rolling up other projects for the time being.

"We have a capital project list that goes through 2012 in which we had several projects slotted," O'Connell said. "We'll have to put a halt to those until we have a better sense of how this is going to resolve itself."

Prudence pays off

O'Connell's answer is a good indicator in general of how Catholic schools operate. In the analysis of 55 Catholic colleges, Moody's listed as their key strength "strong operating performance, with solid cash flow generation and debt service coverage." That's the financial equivalence of good stewardship.

Examples abound, such as Notre Dame's building policy.

"We never start a building project until we have all of the funds pledged and 75 percent of the funds in hand," said Affleck-Graves.

St. Michael's has tried to keep open a line of communication with their community.

"We have a couple of principles that we announced to our community, as well as parents of current students and to parents of prospective students," Neuhauser said. "We said we were going to be as prudent as we could. We're going to manage expenses as best we could to keep tuition as low as possible. We're not going to do any capital projects that aren't funded with restricted money, unless it directly benefits students in the classrooms."

And for Catholic University, it means not going wild when it comes to technology and building improvements.

"There are renovations to our dormitories and classrooms that we would like to do," O'Connell said, "but we can make it with what we have for now."

Catholic education has a management ethos that might be valuable for other academic institutions in times like these.

"It's true of Catholic education in general," O'Connell said. "You see it in grammar and high schools too. There is something about management in our schools that makes it possible to do more with less."

But according to Catholic administrators, especially from small- and medium-sized institutions, the endowment model so mastered by Harvard and many other private schools should not be eschewed.

"Endowments still make sense for the long-term planning," Neuhauser said. "We are like a lot of other Catholic schools in that we're taking our fundraising efforts more seriously."

The Moody's report, which studied the 2007 fiscal year before much of the financial market turmoil, recognizes that Catholic colleges and universities are starting to think in that direction.

"The endowment gap with non-Catholic peers is slowly narrowing as Catholic higher education diversifies board membership to include alumni and others who can contribute larger amounts to the institution," the report states.

That doesn't come without its headaches, though.

"When I got here, the endowment was $39 million," said O'Connell, who has been president of Catholic University since 1998. "We built it up to $220 million. Seeing that money disappear is not easy to take."

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