

Recession hit some Catholic colleges hard

Jerry Filteau | Nov. 17, 2010



Students walk on the campus of Newman University in Wichita, Kan. (CNS/Courtesy of Newman University)

The 2007-2008 recession and the market crash of 2008 hurt the endowments of many Catholic colleges, causing the U.S. government recently to label more than a dozen of them financially fragile.

Educational institutions across the country faced belt-tightening from which they are just now beginning to recover.

In the 2008-2009 fiscal/school year, 149 privately-run colleges and universities received a borderline or failing grade on the U.S. Department of Education's financial responsibility test. Of those, 13 were Catholic institutions.

The overall borderline/failure figure was up 23 percent from the previous year and up 70 percent from 2006-2007 -- a clear indication of how much the change was due to external market pressures rather than the actual performance of individual institutions of higher learning.

The Department of Education's rating is based on a complex weighted formula of ratios of net worth, assets to liabilities, and operating gains or losses. Scores can range from three to negative one. Schools with scores below 1.5 are still considered financially responsible but borderline cases in need of closer oversight, and those with scores below 1.0 are not considered financially responsible.

If a school falls below 1.0, it may have to post a letter of credit with the Department of Education in order to maintain student eligibility for Title IV federal student loans.

The worst financial rating among Catholic institutions was that of Ave Maria School of Law in Naples, Fla., with a rating of negative 0.4 in 2006-2007 and successive ratings of negative 0.9 each of the next two years. The *National Law Journal* said it was the only law school in the country to get a failing grade on its financial health.

Founded in 1999 by philanthropist and former Domino's Pizza magnate Thomas S. Monaghan, the school was in its last year in Ann Arbor, Mich., in 2008-2009. Its summer 2009 move to Florida had been planned for several years.

Ave Maria spokesman John Knowles declined to comment on the rating but sent *NCR* a brief statement from the school's president and dean, Eugene Milhizer, who said, "This represents no change in our fiscal health, and should not be cause for concern."

Milhizer noted that the school had graduated only seven classes so far -- not yet the base of accomplished, financially established alumni that often provide the bulwark of a law school's endowment and fundraising drives.

"Typical of recently founded institutions, Ave Maria School of Law has a low asset-to-debt ratio" -- a situation that is expected to change as the school grows and builds an endowment, he said.

The school's recent move to Naples "has already enhanced recruiting and fundraising efforts," he added.

The only other Catholic college with borderline or failing financial grades for the past three years is Elms College in Chicopee, Mass., just north of Springfield. It was rated 1.2 in 2006-2007, 1.4 in 2007-2008, and 0.8 in 2008-2009.

Cofounded by the Sisters of St. Joseph and the Springfield diocese in the early 1900s as a school to train women as teachers, in 1928 it became a college, and since 1998 it has admitted men. It currently has about 1,400 students, including more than 800 full-time undergraduates and more than 200 graduate students.

"A big part of it [the rating drop in 2008-2009] is the market," said Immaculate Heart of Mary Sr. Mary Reap, who took over as president last year after earlier heading Marywood University in Scranton, Pa., for nearly 20 years.

"When you're a small college, like many of our Catholic colleges are, when that market drops, it has tremendous impact on us," she said. "So everybody suffered from the economy -- but certainly the small colleges, because that return on your investment really affects the ratios that go into this [Department of Education] composite ratio.

"It just really drops that score, and there's not a whole lot of control that you have internally on that situation," she added.

Reap said, "As I look at this college and say, yes, it has been fragile from the viewpoint of the composite ratio -- and certainly you want to get your score to a stronger position because it is a critical factor for the future -- there are also a lot of other things one really has to look at, such as: Is your enrollment growing or declining? Well, our enrollment is growing. Are you attractive to new markets? Well, we are. We've opened a lot of new programs in a lot of new markets. This school has been very adaptable.

"There are lots of other signs here that the institution is alive and well, and in fact that it's growing," she said.

Elms has long specialized in offering college education to the children of predominantly blue-collar families in Western Massachusetts. Half its 9,000 alumni are from Massachusetts, including about 40 percent from the Pioneer Valley, the tri-county region of Western Massachusetts through which the Connecticut River flows. Many of its part-time undergraduates are adults trying to complete a college education while earning a living.

Like many small Catholic colleges founded by women religious in the United States, Elms has "a very small endowment" of about \$6 million to \$7 million, Reap said.

When she came in, she said, "we didn't have anyone in a position of vice president for [institutional] advancement, which is a critical position if you're going to strengthen your endowment. So as soon as I became

president I knew we were in need of searching for someone? to take up that task.

?As you know, in many of the small Catholic schools founded by women religious, we were the living legacy, we were the endowment, we were the capital fund for all the years that we contributed our services back to the institution,? she said. ?Like many of those small schools, Elms has made that transition, and now we do need to engage actively in capital fundraising.?

She said Elms has just entered early stages of fundraising to build a new science laboratory facility, ?so our major capital effort over the next two years will be to fundraise for that facility. It?ll be a small facility, about 8 to 10 million [dollars] at the most.?

Other Catholic institutions of higher education contacted by *NCR* also cited the 2007-2008 recession, with its effects on their endowment investment portfolios or property values, as the critical element that moved them from financially sound to financially fragile institutions in the Department of Education ratings.

The Thomas More College of Liberal Arts in Merrimack, N.H., founded in 1978 by a Catholic lay group, and with fewer than 100 students, got a financially sound 2.1 rating in 2006-2007 but dropped to 0.3 the following year and negative 0.8 last year.

Catholic colleges or universities that enjoyed a financially sound rating from the Department of Education in 2006-2007 and 2007-2008 but got borderline or failing ratings in 2008-2009 were:

- Belmont Abbey College in Belmont Abbey, N.C., a 134-year-old college founded by Benedictine monks, dropped to 1.0 last year after fairly healthy 2.1 and 1.7 ratings the previous two years.
- Chestnut Hill College in Philadelphia, founded in 1924 by the Sisters of St. Joseph, had very good ratings of 2.8 and 2.7 before dropping last year to 1.1.
- Wheeling Jesuit University, founded in West Virginia in 1954, was rated 2.7 and 1.8 before falling to 1.1 last year.
- The Dominican College of Blauvelt, founded by Dominican Sisters in 1952 and situated in Rockland County, N.Y., was rated 1.0 in 2006-2007 and in 2008-2009; no rating is available for 2007-2008.
- Newman University in Wichita, Kan., from superb ratings of 2.9 and 3.0 in the previous two years, dropped precipitously to a fragile financial rating of 0.6 in 2008-2009. (More on that below.)
- St. Mary of the Lake University, consisting primarily of the archdiocesan St. Mary of the Lake Seminary in Chicago, had high ratings of 2.6 in the two years before it plummeted to 0.6 in 2008-2009.
- The University of St. Thomas in Houston, an institution that includes a seminary and is run by the Basilian order of priests in collaboration with the Galveston-Houston archdiocese, dropped similarly from high ratings of 3.0 and 2.5 in the previous two years to 0.6 in 2008-2009.
- Dominican University in River Forest, Ill., had very high ratings of 3 and 2.7 the two years before it dropped to 1.2 in 2008-2009.
- Rockhurst University in Kansas City, Mo., a Jesuit institution with about 3,000 students, had a 2.0 rating the previous two years but dropped to 0.9 in 2008-2009.
- Ursuline-run Brescia University in Owensboro, Ky., formed in 1950, which has a bit more than 600 students, dropped from a 2.3 rating in 2006-2007 to 1.9 the next year and 0.6 last year.

Mark Dresselhaus, vice president of finance and administration at Newman University in Kansas, told *NCR* that his institution?s dramatic drop in the Department of Education ratings was due essentially to \$3 million in ?unrealized losses? in the university?s investment portfolio when the market crashed in 2008 -- that is, paper losses in the value of stocks and investments, which according to Department of Education audit rules had to be

reported as if they were real asset losses, even though the university continued to hold those investments and since then has recovered a substantial portion of their earlier value.

He said that for the fiscal year ending in June 2010, the university has, according to its preliminary calculations, moved back from its previous year's composite financial score of 0.6 to a more solid rating of 1.8.

Dresselhaus said that "because of the extraordinary financial situation" in the face of the recession and market crash in 2008, many colleges and universities had hoped that the federal government "would set aside for a year" the standards of financial strength or weakness used by the Department of Education.

In the middle of the financial crisis, Newman was also in the process of changing its student recruitment strategies, resulting in a temporary "weaker than average enrollment" in 2008-2009, but substantial growth in the current school year, he said.

He said the school's endowment portfolio has grown back to about \$17 million, roughly where it had been before the recession, but the downturn in the past couple of years meant a "real loss of revenue" that has forced the school to cut its yearly budget by several hundred thousand dollars.

Charlie McKinney, vice president for institutional advancement at Thomas More in New Hampshire, said the college's low ratings in the past couple of years have forced it to "pony up money and put it in escrow" to meet federal student loan requirements, but "we don't have cash-flow problems."

"We don't have a great deal of assets," and a decline in the school's property values because of the recession helped trigger the low ratings, he said.

The school, which has an annual operating budget of about \$3.3 million, has increased its fundraising sevenfold in the past four years and has begun to increase enrollment after a brief decline a couple of years ago, he said.

Two Catholic institutions that fell into the Department of Education's financially fragile or borderline categories in 2007-2008 came back into the financially sound category in 2008-2009. Rosemont College in Pennsylvania got a 2.0 rating in 2006-2007, dropped to 0.8 in 2007-2008, and came back up to 1.9 in 2008-2009. In the same three years St. Vincent de Paul Regional Seminary in Boynton Beach, Fla., had successive ratings of 2.1, 1.4 and 2.2.

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