

# Why some small colleges are in big trouble

Money is tight. Competition is brutal. Are some Massachusetts schools on the road to ruin?

By Jon Marcus | APRIL 14, 2013

**THE CHAIRS AND TABLES** in the dining hall at Atlantic Union College in South Lancaster are lined up neatly, as if lunch is about to be served. But the doors are locked, the giant clock on the wall has stopped, and the notice on the window is anything but welcoming: “This building has been secured and is off-limits until further notice.”



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This 129-year-old campus, just northeast of Worcester, looks like that of any other Massachusetts private college: tidy red-brick buildings with white trim and arched windows behind stone walls overhung by ancient trees. On closer inspection, however, many of the window frames are bent, the paint is peeling, and there's little sign of life but for the songs of birds.

After years of financial and academic troubles, Atlantic Union unceremoniously closed in 2011. By that point, its enrollment had fallen to just 450 — half its capacity — and attracting even that many students required huge payouts of financial aid. The college eventually ran out of money, almost all of its remaining 120 employees were laid off, and the students were dispersed to other schools around the country.

In May 2012, New Hampshire's 144-student Chester College closed its doors, joining Atlantic Union and a growing list of shuttered schools in Nebraska, Mississippi, and Tennessee. Now new and persistent warnings from inside and outside higher education suggest that more small private colleges, including some in Massachusetts, could be destined for the same fate.

Heavily dependent on recruiting students from within New England, these colleges collectively face a steep drop in the number of high school graduates, increasing sensitivity to cost, and new competition from online higher education and other cheaper alternatives. Their endowments, already thin, have suffered years of unpredictable returns, and they're being forced to pay out ever-larger proportions of their income from tuition for financial aid to fill seats. Several have already quietly suffered deficits in at least two of the past five years, financial records show — some at the time of the economic downturn, but several since then, too — including Gordon College, Pine Manor College, Regis College, Simmons College, Wheaton College, and Wheelock College.

"It is absolutely dire. Who it's dire for, I don't know, exactly. But there is going to be a contingent of these schools that are going to have a very difficult time surviving," says Jason Lane, who studies enrollment trends as deputy director for research at the Rockefeller Institute of Government at the State University of New York at Albany.

In an analysis of the financial records of 1,700 US colleges and universities, the Boston-based consulting firm Bain & Company estimated that one-third of them were on an unsustainable financial path, with operating costs increasing faster than endowment returns and other revenues could cover them. This is a problem the colleges can no longer solve, as they once did, by simply increasing tuition.

"For years and years, people were willing and able to pay, so no one ever had to mind the store from a cost perspective," says Jeff Denneen, who heads Bain's higher-education practice. "You had families with growing wealth and assets who were willing to take out home-equity loans and do other things to fund their children's educations. A lot of those factors have changed. Wealth has diminished this decade for the vast majority of families. People don't have the home equity anymore to fund these costs."

The Bain study, which Denneen coauthored, was criticized for putting the likes of Harvard University on its list of institutions on the wrong financial path, especially because the years the report covered — 2005 to 2010 — included the financial crisis that ravaged endowments. The Harvards of the world “have such vast resources that they could raise their tuition to whatever level they want and still attract students,” Denneen concedes. But less prestigious schools can’t. “There’s little doubt in my mind,” he says, “that a number of small tuition-dependent private colleges will go out of business in the next 10 years.”

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**CONCERN OVER THE FINANCIAL STABILITY** of colleges and universities is not an abstract issue in Massachusetts. Private colleges and universities spend \$15 billion a year in this state, not counting the broader economic impact of their students and employees.



BILL GREENE FOR THE BOSTON GLOBE

**Atlantic Union College in South Lancaster closed in 2011.**

But at the close of the most recent admissions season, 25 Massachusetts colleges and universities, or 1 in 5 of the total, were among the 446 nationwide that still had space available in the current class for freshmen or transfer students, according to the National Association for College Admission Counseling, or NACAC. Among them: the Boston Architectural College, Dean College, Elms College, Gordon, Hampshire College, Lesley University, Newbury College, Nichols College, Regis, Simmons, Wheaton, and Wheelock.

After years of seemingly being willing to pay whatever colleges sought, students and their families have become intensely price-conscious. As tuition continues to rise ahead of family income, fueling student debt, a record 43 percent of freshmen nationwide surveyed by the University of California, Los Angeles in fall 2012 said cost had been a major factor in their college choices, up from 31 percent a decade ago. During the 2011-12 academic year, families spent 13 percent less on college than they did two years earlier, according to the student-lending corporation Sallie Mae, suggesting that they’re picking less expensive schools or getting more financial aid.

Fewer students are choosing private colleges, whose market share slipped from 22 percent in 2006 to 20 percent in 2011. Yet the number of applicants to the public University of Massachusetts Amherst, which costs less than half of what many area private colleges charge, is up 70 percent since 2005. “When times get tough, [parents] start saying, ‘This is just as good or maybe better, and it costs a lot less,’ ” says Jack Wilson, former president of the UMass system.

The bond-rating company Moody’s reports that 41 percent of private colleges are seeing their enrollments fall. Nearly half predict enrollment declines again in 2013. For Massachusetts private colleges, most of whose students come from within the state or region, this problem is compounded by a projected 10 percent decline in the number of New England public high school graduates through 2028. Meanwhile, in Massachusetts, a 15 percent decline is expected by 2020 in white non-Hispanic high school graduates, on whom many private colleges have historically depended. “Not only is the enrollment declining, the demographic of the student that often goes to those kinds of colleges is changing,” says Wilson, now a professor of higher education at the University of Massachusetts Lowell.

One way private colleges are trying to reverse this trend is by spending more money on financial aid to lure fence-sitting families. Nationally, private colleges pay out 37 percent of their tuition revenue as undergraduate financial aid, up from 34 percent in 2001. This is called the discount rate. Some Massachusetts private colleges now have higher discount rates than the national average, and the numbers are climbing. The discount rate at American International College and Wheaton is at least 42 percent, according to the most recent records filed with the IRS, around 45 percent at Pine Manor and Lasell colleges, 46.5 percent at Dean, and 51 percent at Elms.

Deeper discounts may be great for cash-strapped students, but they’re bad for colleges, which can dole out money for only so long before they run out of it. This cycle also means that, even as they keep increasing tuition, colleges are falling behind. In 2012, revenues at many institutions rose less than the inflation rate, according to Moody’s — and the problem was worst at small private colleges. “What has to be even more troubling for them is that, even at

50 percent discount rates, they're not filling their classes," says Bain's Denneen. The Council of Independent Colleges called in January for slowing the rise of discount rates, which it also described as unsustainable.

"The discount rate is killing them. It's absolutely killing them," says Denneen. "It's not affordable in the long term. The schools in this segment are getting 95 percent or more of their revenue straight from tuition, so every dollar they're giving away is seriously impacting their financial stability."

Some Massachusetts private colleges are looking farther afield for students, to high-growth places like Florida, Texas, and California — three states that together produce an estimated half of the nation's high school graduates. But they're competing with everyone else, including public universities on the hunt for higher-paying out-of-state students. And in their pitches to prospects, Massachusetts private colleges somehow have to overcome the fact that they cost, on average, 20 percent more than their private competitors in the rest of the country. Their tuition, room and board, fees, transportation, and other expenses averaged \$50,692 in 2012, compared with the national figure of \$42,224.

Hunting for students out of state has dramatically driven up the cost of recruiting. Private colleges now spend an average of \$3,043 to recruit every student who enrolls, NACAC says. That's 40 percent more than five years ago. "It's expensive to recruit [in places like Florida and California], especially when there's only a trickle of interest," says former Bentley president Joseph Cronin, now a higher education consultant. "How many people in those states want to come to ice-cold New England, where we greet spring with 6 inches of snow?"

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**MANY PRIVATE COLLEGES** are trying new strategies to stay on course. Regis, which already survived a brush with dangerously low enrollment and shaky finances in the early 2000s, went coed in 2007. Since then, its share of students from outside Massachusetts has more than doubled to 23 percent. It also expanded its graduate programs in high-demand fields such as nursing. "Graduate programs can be a cash cow for a university," helping subsidize

undergraduates, says Paul Vaccaro, the university's vice president for marketing, communication, and enrollment. Still, Vaccaro acknowledges the challenges. "If you just look at the demographics alone, there's far more competition for [undergraduates] than there's ever been and fewer students out there. Sometimes you see enrollments at certain other institutions and you do wonder, 'How are they going to be able to sustain this?'"

Simmons has so far decided to stay all-women, but it also has coed graduate programs that financial records show contribute \$24.3 million to the bottom line beyond what they cost to provide. One reason is that 81 percent of Simmons undergraduates get financial aid, while only 20 percent of graduate students do. "That's why you see so many stand-alone undergraduate institutions scrambling to create master's programs," says Simmons president Helen Drinan.

Small colleges need to do a better job persuading students that they'll get something practical for their money, Drinan says. "You have to turn the story from 'This is what it costs' to 'Here's what you'll accomplish with this education.'"

That's one reason Wheaton is adding a business and management major this fall, says spokesman Michael Graca. "For students and parents who are wondering about the value of a college education, the business major illustrates that the liberal arts at Wheaton is a good investment."

Wheelock is carving out a niche attracting transfer students, whom it recruits from two-year and community colleges and even, quietly, from other four-year schools, reaching out to former applicants and inviting them to reconsider. Like graduate students, transfers usually require less financial aid, helping the college fill seats while conserving money, says Adrian Haugabrook, vice president for enrollment management.

But other institutions have been slower to respond to the challenges. "This is an industry that has not found it necessary until now to employ the organizational disciplines that other industries have employed for quite a while," says Drinan, a former bank executive. "I absolutely believe, as Bain tells us, that not all these institutions are sustainable. There will be not only consolidations, but downright closings."

Private colleges desperately need to apply such business principles, says Heather O’Leary, a principal analyst at the Boston education consulting company Eduventures. “Are they all doing it? No. Some people on campuses are derisive of the concept that these institutions should be run like businesses. They feel they are somehow above that.”

Cronin remembers watching private college leaders at a conference listening to yet another expert tell them that their institutions were in trouble. “You could tell that everybody listening was thinking, ‘They’re talking about somebody else, not me,’” he says. “How worried should they be? ‘Quite worried’ would be the responsible answer.”

Back in South Lancaster, the ghost campus of Atlantic Union College haunts the town. “You saw all those jobs disappear over a matter of weeks,” says Orlando Pacheco, the Lancaster town administrator. “These were people who had roots in the community.” Local businesses like pizza shops took a hit, and there was a spike in vacancies at off-campus apartments.

“There were also a lot of things that are really tough to calculate in terms of dollars. And this was a small school when it closed,” Pacheco says. “If it were a bigger school, with a bigger budget, it would have absolutely been catastrophic.”

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## **SEATS TO FILL**

Massachusetts public and private colleges and universities that still had space in this year’s freshman class (and for transfer students) at the close of the 2012 admissions process.

American International College

Bard College at Simon’s Rock

Benjamin Franklin Institute of Technology

Boston Architectural College

Curry College

Dean College

Elms College

Fisher College

Framingham State University

Gordon College

Hampshire College

Lesley University

Massachusetts College of Art and Design

Massachusetts College of Liberal Arts

Newbury College

Nichols College

Regis College

Simmons College

Smith College

Springfield College

University of Massachusetts Lowell

Western New England University

Wheaton College

Wheelock College

Worcester State University

*Source: The National Association for College Admission Counseling*

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