

# Small U.S. Colleges Battle Death Spiral as Enrollment Drops

Michael McDonald

April 14, 2014, 12:44 PM EDT

At a Dowling College campus on Long Island's south shore, a fleet of unused shuttle buses sits in an otherwise empty parking lot. A dormitory is shuttered, as are a cafeteria, bookstore and some classrooms in the main academic building.

"There's a lot of fear here," said Steven Fournier, a senior who lived in the now-closed dorm for his first three years. "It's not the same college I arrived at."

Dowling, which got a failing grade for its financial resources from accreditors last month, epitomizes the growing plight of many small private colleges that depend almost entirely on tuition for revenue. It's been five years since the recession ended and yet their finances are worsening. Soaring student debt, competition from online programs and poor job prospects for graduates are shrinking their applicant pools.

"What we're concerned about is the death spiral -- this continuing downward momentum for some institutions," said Susan Fitzgerald, an analyst at Moody's Investors Service in New York. "We will see more closures than in the past."

Moody's, which rates more than 500 public and private nonprofit colleges and universities, downgraded an average of 28 institutions annually in the five years through 2013, more than double the average of 12 in the prior five-year period.

## Enrollments Fall

Dozens of schools have seen drops of more than 10 percent in enrollment, according to Moody's. As faculty and staff have been cut and programs closed, some students have faced a choice between transferring or finishing degrees that may have diminished value.

Fournier, an aviation management major who grew up in Waterbury, Connecticut, said he considered transferring as Dowling downsized. With graduation coming in May he said he's applied for jobs with seven airports, though hasn't had any interviews, and is now looking outside his intended field.

### In this article

MCO  
**MOODY'S CORP**  
285.66 USD  
▲ +5.78 +2.07%

0237423D  
**COMMISSION ON HIGHER  
EDUCATI**  
Private Company

0358961Z  
**HARVARD BUSINESS  
SCHOOL**  
Private Company

7588899Z  
**NEW ENGLAND SCHOOL  
OF LAW**  
Private Company

“This has been very depressing,” Fournier, 23, said.

The number of private four-year colleges that have closed or were acquired doubled from about five a year before 2008 to about 10 in the four years through 2011, according to a study last year by researchers at Vanderbilt University in Nashville, Tennessee, citing federal data. Plus, among all colleges, 37 merged in the three years through 2013, more than triple the number from 2006 to 2009, according to Higher Education Publications Inc., a Reston, Virginia-based directory publisher.

## ‘Difficult Steps’

“There will clearly be some institutions that won’t make it and there will be some institutions that will be stronger because of going through these difficult steps,” said David Warren, president of the Washington-based National Association of Independent Colleges and Universities.

Harvard Business School professor Clayton Christensen has predicted that as many as half of the more than 4,000 universities and colleges in the U.S. may fail in the next 15 years. The growing acceptance of online learning means higher education is ripe for technological upheaval, he has said.

“I’m not sure a lot of these institutions have the cushion to experiment with how to stay afloat,” said Michelle Weise, a senior research fellow at the Clayton Christensen Institute for Disruptive Innovation, a think tank the Harvard professor helped establish in San Mateo, California.

Franklin Pierce University in Rindge, New Hampshire, said in January that it would discontinue six majors, said Lisa Murray, a spokeswoman for the school, which has about 1,400 undergraduates.

## Ratings Cut

Net tuition revenue fell 14 percent to \$30.3 million last year from 2009 as Franklin Pierce boosted financial aid to attract freshmen and keep students from transferring. Standard & Poor’s cut the Rindge, New Hampshire-based school’s credit rating last year to B, five steps below investment grade, from BB. Moody’s reduced its rating to B3 from B1 the year prior.

“Disheartening is certainly a valid term,” said Carl Brezovec, a math professor whose program will no longer be offered as a major, the second time it’s been cut in a decade.

Ashland University, a 136-year-old college in Ohio, reduced tuition by about \$11,000 -- and direct aid commensurately -- for the coming school year, with the goal that a lower-tuition/lower-discount model will eliminate sticker shock and lure students. In November, Moody’s downgraded Ashland’s rating to Caa2, eight levels below investment grade, saying the probability it will default has increased after three years of enrollment declines.

Steven Hannan, an Ashland spokesman, didn't return calls seeking comment.

## Enrollment Targets

Even wealthier schools are working to plug budget gaps. Yeshiva University in New York, which has a \$1.2 billion endowment, has been selling real estate around its campus.

Some colleges are looking beyond belt-tightening for more permanent solutions. Morgan State University in Baltimore, a historically black college, is targeting more Hispanic applicants and those of other ethnicities, according to Moody's. Chatham University in Pittsburgh, whose undergraduate program is women-only, said in February it was considering going co-ed to boost enrollment.

All of the schools in the Vanderbilt study that closed in recent years were small, with fewer than 1,000 students and average assets of less than \$50 million. Most had endowments of about \$1 million. Many were religious, such as Bethany University in Scotts Valley, California, which shut in 2011. Some folded into other colleges such as Southern New England School of Law, whose assets were acquired by the University of Massachusetts in 2010.

## Investment Return

"We haven't hit bottom yet," said Glenn Harlan Reynolds, a law professor at the University of Tennessee in Knoxville and author of the book, "The New School: How the Information Age Will Save American Education From Itself." Students are shopping for a less expensive education as the cost of college has increased and the job market worsened, he said.

"It's a question of return on investment," Reynolds said.

Declining enrollment has forced many colleges to offer deeper tuition discounts to attract students, according to the National Association of College and University Business Officers. The average freshman discount rate rose to 45 percent in 2012 from about 40 percent in 2008, according to Nacubo.

Moody's found that expenses are outpacing revenue at 60 percent of the schools it tracks even as many try to slash their way to balanced budgets, according to Fitzgerald.

## Vanderbilt Estate

Dowling traces its origins to Adelphi University, a private nonprofit college based in Garden City, New York, that began expanding eastward on Long Island in the 1950s. In the 1960s, Adelphi bought a more permanent home -- the remains of a 900-acre estate in Oakdale that the grandson of railroad magnate Cornelius Vanderbilt built on the Connetquot River in the 1880s.

That campus became independent in 1968 and was named for Robert Dowling, a real estate planner who gave \$3 million to the institution.

Dowling sought to distinguish itself with practical training, targeting Long Island school teachers required by the state to get a master's degree.

In the 1990s, it built a second campus next to the Brookhaven Airport in nearby Shirley, which includes an aviation and transportation center as well as sports fields.

## Smaller Faculty

As the economy went into decline, enrollment at Dowling began to slide, falling 45 percent to 2,438 full-time-equivalent students last year from 2009, according to Moody's. While local budget cuts undermined the demand for teachers, the aviation center on the new campus failed to live up to its promise of attracting students from around the world.

To stay solvent, Dowling laid off staff, and through attrition and buyouts shrank the faculty to less than 80 from more than 120, according to Nathalia Rogers, executive chair of the full-time faculty. It borrowed from its endowment and sold land to one of its trustees, according to the school's annual reports.

"We were a training center for people who were no longer being hired and people already employed who didn't need degrees," said Norman Smith, who became Dowling's president in June and is its fifth leader in five years.

Smith came to Dowling after turning around Wagner College on Staten Island. That school almost closed in the late 1980s because of financial troubles, according to its website.

## Brookhaven Shuttered

Two weeks before Dowling's Fall term began, Smith shuttered much of the Brookhaven campus. Before he arrived at the school, much of the aviation program had been outsourced to a local company, which also bought the college's small fleet of planes. The satellite campus accounts for most of the college's \$55 million of debt, according to Smith, who said he's currently negotiating with creditors who hold bonds for the facilities.

Closing that campus reduced costs and bought time. Smith then initiated a marketing campaign to target students from beyond Long Island, which is helping to stabilize enrollment, he said. He's also working to rebuild the Board of Trustees -- down to 11 members now from more than 20 in years past -- and revive a moribund fundraising operation that has failed to bolster the school's \$2 million endowment.

Moody's downgraded the college in March to Ca from Caa1, warning of a "higher probability of default." Two weeks ago, preliminary results of a

### The day's biggest stories

Get caught up with the Evening Briefing.

Enter your email

Please enter a valid email address

Sign Up

By submitting my information, I agree to the [Privacy Policy](#) and [Terms of Service](#) and to receive offers and promotions from Bloomberg.

review by the college's accreditor, the Middle States Commission on Higher Education, found Dowling met standards on 11 points, mostly academic, while failing three, including financial resources.

“It really is a school that should be doing extremely well,” Smith said from his office on the second floor of the old Vanderbilt mansion, whose rich wood paneling and decor belie the financial disorder. “Given time, this school can be very successful, in the top 25 of small schools in the Northeast. We have to retool.”

Have a confidential tip  
for our reporters?

[GET IN TOUCH](#)

Before it's here, it's on the  
Bloomberg Terminal.

[LEARN MORE](#)

*(Updates with enrollment declines in sixth paragraph.)*

---

[Terms of Service](#) [Do Not Sell My Info \(California\)](#) [Trademarks](#) [Privacy Policy](#)

©2020 Bloomberg L.P. All Rights Reserved

[Careers](#) [Made in NYC](#) [Advertise](#) [Ad Choices](#) [Contact Us](#) [Help](#)