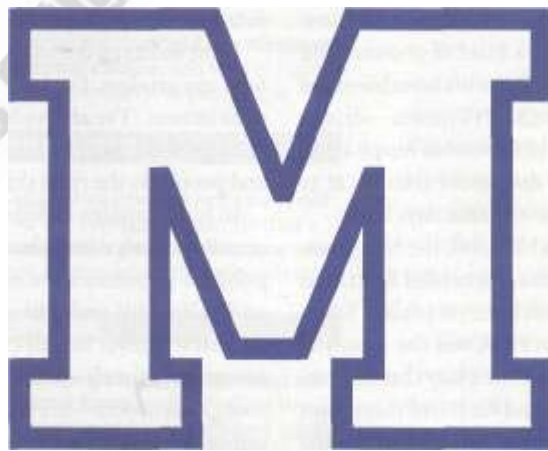


Hard Times on Campus

Even elite colleges can't escape the impact of the economic slump. Here's how one New England school is working to stay on top in the face of a smaller endowment, needier students, and the bursting of the higher-ed bubble.

By **Eugenia Levenson**
Photographs by Christopher Lane



MIDDLEBURY COLLEGE has been living large. Aside from icons like Old Stone Row—three sober buildings that date back to the 19th century—and Mead Memorial Chapel, today's sprawling campus would be largely unrecognizable to anyone who attended this rural Vermont college as recently as the 1990s. During the past two decades Middlebury has undertaken a massive construction campaign, part of a push to secure its place among the nation's top liberal arts schools. In the past 10 years alone the college has added a \$47 million science center and a \$40 million library, as well as a 2,100-seat hockey arena and apartment-style dorms featuring an environmentally friendly dining hall with rooftop vegetation. The latest multimillion-dollar trophy, the tortuously named Donald E. Axinn Center for Lit-

erary and Cultural Studies at Starr Library, opened last fall as a hub for several humanities programs. Among the amenities: a state-of-the-art screening room and a ceiling-high waterfall in the sun-filled lobby.

But these flourishes are already starting to feel like artifacts of another era. Middlebury's building boom was underwritten by double-digit endowment returns, generous donations, and, like much of the past decade's conspicuous consumption, record amounts of borrowing. The college's debt ballooned from just \$5 million in 1987 to \$270 million today.

Middlebury reaped great rewards from its spending spree. Even as annual fees for students soared, the number of applications climbed 43% over the past 10 years. "These were major, major construction projects that allowed for world-class faculty to be recruited and for world-class students as well," says Middlebury's treasurer, Patrick Norton. "Our rankings and ratings, if you go by those, exploded. We went from this little regional college to somewhere that's really the place to go."

But as Middlebury's endowment, which weighed in at \$885 million last June, shed \$200 million in the last six months of the year, the costs of the growth spurt hit home. Days before the Axinn Center's dedication in October, Middlebury's president, Ron Liebowitz, warned that projected deficits could require aggressive spending cuts. In January the college announced that top officers were taking pay reductions; it froze faculty salaries and launched a voluntary early retirement program. Several student services, including the freshman orientation program, are being scaled back. And that green dining hall, the one with the rooftop vegetation? It's scheduled to stop serving daily meals after next fall—it will be used for special events instead. Campus conversations, says student government president Hiba Fakhoury, have focused on "awareness and modification of behavior and expectations."

Across the country, colleges and universities of all kinds are grappling with the same problems confronting Middlebury. While public systems brace for more cuts in state appropriations, wealthy private schools are scrambling to plug massive budget gaps left by decimated (and partly illiquid) endowments, which lost up to 35% through December, according to a Moody's estimate. Schools from the University of Arizona to Harvard are suspending raises, eliminating jobs, or reviewing high-profile construction

projects. "Institutions never thought about the fact that, if there's a substantial fall in the endowment, we're going to have great cutbacks," says Ronald Ehrenberg, a Cornell University economist who studies higher education. "Especially in the private sector, higher ed has grown by adding new things without taking old things away. There's going to be a lot of soul-searching on campuses around the country, and colleges asking, 'What's essential?'"

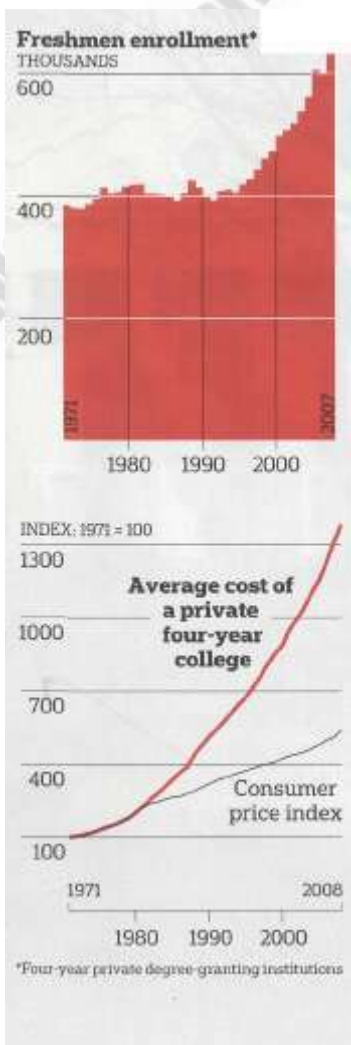
Cash-strapped families are already asking the same question, of course. In the past 30 years, sticker prices at private four-year colleges have climbed 7.4% a year—double the overall inflation rate. So far, though, the hikes haven't dampened demand, in part because the pool of college-bound students has been growing. Then there's the fact that ever steeper tuition bills were easier to swallow when house prices were soaring and credit flowed. Now that a deepening recession and escalating job losses have shocked American consumers into dropping some of their extravagant habits, the question is whether private education just might be the next to go.

The cost issue is especially critical at schools like Middlebury that compete for top students but lack the ample endowments of a Harvard, Stanford, or Williams. Middlebury continues to attract droves of applicants, but administrators here have cause for concern. For one thing, the college is more dependent on undergraduate tuition and housing fees than its richer peers. And traditionally, full-pay students have made up just over half of Middlebury's population. Now Kim Downs, Middlebury's director of student financial services, worries that the downturn may make some of them think twice. "Parents who were willing to pay the full ride at \$50,000 a year may now be looking at a four-year public at \$20,000," she says.

Then there are families who may qualify for partial aid but won't want to borrow to make up the difference in an uncertain economy. And although Middlebury is a top-ranked college, it may be vulnerable to the trade-down effect. Says Liebowitz: "There will always be families, even middle-class families, who don't qualify for financial aid but will be willing to pay extra for their kid to go to Harvard, Yale, Princeton. But as you go down the pecking order, there are inflection points, and we'd be blind and stupid to ignore that." Still, given the massive hit to the endowment, keeping fees flat wasn't an option for Middlebury this year. The pricetag will rise by 3.2% next fall, to \$50,780.

HIGH PRICES? NO PROBLEM!

College enrollments have soared even though tuition has climbed far faster than inflation for almost 30 years.





SPRING AWAKENING A WARM APRIL DAY DRAWS STUDENTS AND THEIR TEACHER OUTDOORS. COLLEGE OFFICIALS ARE STRIVING TO PRESERVE MIDDLEBURY'S NEED-BLIND ADMISSIONS POLICY, WHICH THEY SEE AS A CRUCIAL PART OF THE SCHOOL'S IDENTITY—ALONG WITH SMALL CLASSES AND A RURAL SETTING.



ONE OF THE DEFINING characteristics of elite schools is that they don't consider an applicant's ability to pay when deciding whom to admit. So money is one topic not on the table this crisp March morning as five staff members meet in the bare-bones conference room of Middlebury's quaint red-brick admissions

building. Instead, dean of admissions Bob Clagett is talking about clarinet players. A male student from a top public high school in Vermont has strong grades, a slew of activities, and a glowing report from his interview with a Middlebury alum, as well as high marks from both staffers who've studied his file. He also plays the clarinet, so Clagett asks one of the admissions counselors to pull up the list, with skill ratings, of all the clarinetists in this year's applicant pool. Meanwhile, he scans a sheet with the top 20 prospects provided by Middlebury's orchestra director. This candidate hasn't made the director's wish list, but his admissions profile rates his musical skills a six out of seven, which is enough to put him over the top. "We try to take kids from our backyard," Clagett explained to me earlier, and now he sounds pleased as he announces, "A clarinet player from Vermont? Very exciting!" On to the next file: It's midmorning, and the committee still has about 70 files to discuss today.

It's the least daunting of all the admissions statistics I'll hear

that day. Of the 6,905 high school seniors who applied for a spot in Middlebury's Class of 2013 (down 12% from last year's all-time record of 7,823), Clagett says 75% are capable of doing the work, and 30% receive top academic marks from the staffers who comb through their scores, essays, and recommendation letters. But the admittance rate hovers around 20%, so decisions often hinge on so-called hooks or handles that grab counselors as they pore over hundreds of applications from varsity team captains and yearbook editors. Applying from an underrepresented state can be a good hook, as can pursuing a rare hobby, like circus performing (this year, one applicant sent in a link to a YouTube clip of herself juggling and tumbling), or having a Middlebury graduate for a parent. So can a strong application from a student who would be the first in her family to attend college, or who comes from a high school where only 25% of his classmates are expected to earn a bachelor's degree.

Of course, being a first-generation college hopeful or coming from an underperforming high school is also an indication that the student may need financial aid. But Clagett and his colleagues ignore that factor. "We won't know until we mail out the letters what proportion of our students are needy," says Clagett.

That's a luxury Middlebury may not always be able to afford. In the past 10 years its annual financial aid outlays have increased by 167%, to \$33 million; last year, the average aid package came to \$35,000. Most private colleges can't sustain

this policy and admit at least a part of their class with an eye to applicants' finances, a so-called need-aware approach that should give wealthier kids even more of an edge this year. Middlebury does take need into account when admitting students from its waiting list, and recently adopted the practice in international admissions. That's partly because non-U.S. students tend to be needier, although the college has tried to attract more affluent applicants by stepping up its recruitment efforts in areas such as Western Europe and Hong Kong. How long will Middlebury be able to remain need-blind on regular admissions? President Liebowitz has said that any change in its financial aid policy would come only as a last resort. "Different schools have different levels of sacrifice they're willing to make

in order to remain need-blind," he says, "and the tolerance at our school is very high."

ALTHOUGH THE ADMISSIONS office has yet to feel much impact from this recession, the financial aid staff is dealing with the fallout daily. These days director Downs and her staff spend a lot of time reassuring families of enrolled students that additional aid will be available if parents lose jobs or investments shed value. And while the office hasn't been deluged with requests for bigger aid packages, there has been a steadily growing stream. Consider the appeals that came up at a staff meeting last month. One was from a formerly full-pay junior whose father saw his salary reduced by 20% in October and then lost his job in De-

TOP DOLLAR, LESSER SCHOOL

Solving an education mystery Why do second- and third-tier colleges cost as much as Harvard?

MYROLLS-ROYCE is a lot more expensive than your Buick. A pint of Ben & Jerry's costs double the A&P generic brand. That makes sense. But when it comes to college tuition, the difference between the Harvards and the Podunks is not nearly so great. Yale will charge \$36,500 next year. Harvard, MIT, and Pomona are in the same ballpark, as you would expect. Yet so are the University of Richmond, Bucknell, and Kenyon. Due respect to those good schools, but they don't offer the same level of faculty, facilities, or cachet. Moreover, a range of lower-ranking schools, including Allegheny and Manhattanville, charge \$30,000 or more.

Yes, you can get a fine education at hundreds of American colleges; not every Nobel laureate or *Fortune* 500 CEO graduated from Stanford or Amherst. But nobody would seriously argue that a degree from a middling university confers the same benefits as an Ivy League school or comparable elite. So how do they get away with charg-

ing practically the same price?

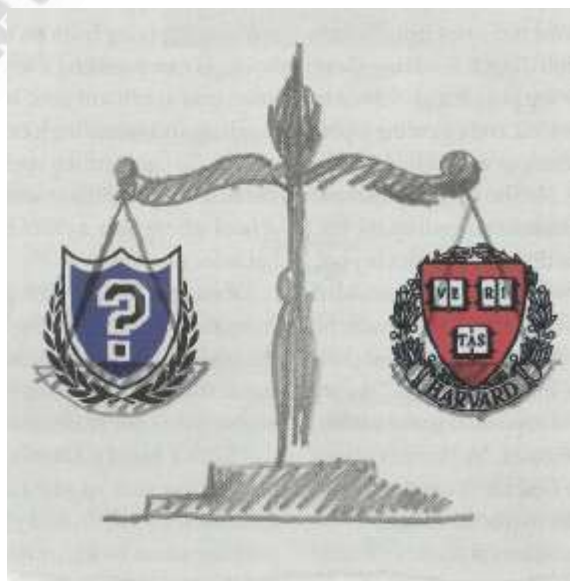
One answer is that they do it because they can. That's partly because supply has remained low as demand has skyrocketed—there was a "baby boomlet" in the late '80s/early '90s, and roughly two-thirds of high school graduates now go to college, up from about half in the late 1970s. And while there was a surge of interest in state schools this year as the economy tanked, many

parents are still willing to pony up for a private degree. For parents like that, in fact, price may be part of the appeal. It's what's known in college circles as the "Chivas Regal effect"—a lofty price is a sign of status; discounting would tarnish the image.

Of course, many schools engage in one form of discounting: offering merit scholarships to attract highly qualified students. The Ivies and other

elite schools don't offer merit aid, but they provide generous packages to the nonrich: Last year at Yale, for example, students in families with incomes of \$160,000 or under paid less than half of sticker price.

The most intriguing question is why top private colleges aren't charging more. Many could hike tuition sharply and still fill their classrooms with qualified students. But if Princeton charged 20% or 40% more than its peers, it would risk not merely scaring off some families who didn't understand that they might not have to pay the "sticker price" but creating resentment among the moneyed class that paid full freight. "There would be outrage directed at the great wealthy institutions," says Ronald Ehrenberg, a Cornell economist. He says the elite schools have made a different calculation. "They undercharge and figure they'll get it back later in contributions from grateful alumni." Who knew those Ivy types could be so shrewd? —David A. Kaplan



ember. The thick case file reveals a family living beyond its means: more than \$100,000 in consumer debt and \$200,000 in educational loans. Although consumer debt isn't factored into Middlebury's calculation of need, the income drop warrants an additional \$9,000 in grants. Another family who didn't qualify for aid based on 2007 tax returns is appealing because the father was laid off last spring. The student enrolled as a freshman in February even though the family's income fell to \$70,000. So far, the parents have been using a credit line to make monthly payments while they waited for Downs's office to consider their case. "They're making a good-faith effort, but they seem like they're living on the edge," says an assistant director who has been in contact with the parents. When she runs the numbers again, factoring in the family's lower income, it turns out that they will have to contribute only \$5,700 for the semester, which means they will be refunded nearly a third of what they've already paid. The people around the table breathe a sigh of relief—the student will probably be able to return next fall.



PRESIDENTIAL POWER TO GET THROUGH LEAN TIMES, LIEBOWITZ HAS BEEN CUTTING COSTS AND PURSUING NEW REVENUE SOURCES.



HE BIGGER UNCERTAINTY this year is how many high school seniors will decline the admissions offer. With a sizable waiting list, Middlebury won't have any trouble enrolling a full class, but the knowledge that financial aid packages will play a greater role in decisions this year weighs on Downs's staff. At that same March

financial aid meeting they discuss the case of a student who was accepted under Middlebury's early-decision program, which generally fills just under half the class. Shortly after putting down the deposit, the father lost his \$200,000-a-year job at a *Fortune* 500 technology company, leaving the family with an income of \$85,000 from severance and unemployment benefits. Even with that lower income, under the financial aid formula—which also counts savings—the family is expected to contribute \$21,000. A staffer who's talked to the family is still worried that the student will start looking at offers from other schools. "Let

them know there's no limit to reconsiderations" if their situation changes, Downs tells her. That's the best that Middlebury can do for now.

Academic institutions are notoriously tradition-bound, and it's too early to tell how quickly, or how successfully, colleges will adjust to the new economic realities. But some are already experimenting. The University of North Carolina, for example, has expanded its online degree programs. Liebowitz, who first came to Middlebury as a faculty member in 1984, says he watched the college's amazing growth with a mixture of awe and concern. "I'd always thought the entire business model of higher education was a little suspect," he says, "especially for residential liberal arts colleges like Middlebury, because of what it assumes in terms of large endowment returns, large gifts from alumni, and tuition increases that go beyond inflation."

The financial squeeze has led him to focus even more intently on alternatives to the traditional sources of funding, and he believes the answer may lie in drawing on Middlebury's strength in foreign languages. The school's acclaimed summer immersion and study-abroad programs, established more than 50 years ago, already bring in additional revenues. In 2005, Middlebury took the unusual step of agreeing to acquire the Monterey Institute of International Studies, a California graduate institution that also specializes in foreign languages. Last year Middlebury launched a joint summer language academy with Monterey for middle school and high school students that is expected to turn profitable after the upcoming session. The college is also in talks with educational software companies to collaborate on a series of language products. "We could go to learners ages 23 to 90, and we know there's a huge demand from diplomats and journalists who come to our language schools," says Liebowitz. "It's not without risks. But the business model that we've been operating under is gone, and we have to start thinking a little bit differently."

This kind of approach is still mostly taboo in academia. But Liebowitz likes to point to another financial crisis that struck Middlebury in the 1880s, when enrollment dropped, funds dried up, and facilities fell into disrepair. Within several years, embattled trustees took a drastic step: They voted to admit women. It may be that a similarly seismic shift in higher education isn't too far off.