BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Problems And Outlook Of Small Private Liberal Arts Colleges

Many small private liberal arts schools have extensive deficit operations, have borrowed substantially to cover current operating deficits, and have been delinquent in debt service payments to the Government.

To improve their financial condition, these schools increased recruiting efforts to increase revenues and improved management to cut costs. State and Federal programs assisted them.

The Congress should require the Secretary of Health, Education, and Welfare to periodically assess the condition of postsecondary education institutions, so that it can determine whether and the extent to which it should act to sustain schools experiencing financial distress.

UNITED STATES GENERAL ACCOUNTING OFFICE

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the financial condition of private higher education with emphasis on

--a segment of private higher education which is in serious financial trouble (and why),

--the actions being taken by troubled schools to remedy their problems, and

--the effect of Federal and State programs on troubled schools' financial status.

We undertook this review because of congressional concern regarding the financial problems experienced by the Nation's postsecondary institutions and the belief that these institutions represent an important national resource. If students attending private schools had to be accommodated by public institutions the additional costs to States (according to estimates) run as high as $5 billion annually.

The Congress has previously expressed concern over the lack of information on the nature and causes of financial distress.

Although the financial condition of many small private liberal arts schools which have experienced severe financial problems seems to be improving, we believe that the Congress should require the Secretary of Health, Education, and Welfare to periodically assess the financial condition of postsecondary education institutions so that it may have adequate information on which to base decisions regarding whether and to what extent institutions experiencing financial distress should be sustained.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report today to the Director, Office of Management and Budget; the Secretaries of Health, Education, and Welfare, and Housing and Urban Development; and the Director, National Science Foundation.

Elmer B. Staats
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

PROBLEMS AND OUTLOOK OF SMALL
PRIVATE LIBERAL ARTS COLLEGES

D I G E S T

Numerous studies have been conducted or planned which seek to determine why colleges and universities are in financial difficulty. Many studies concluded that all of higher education has suffered financial distress, but that private institutions have been the hardest hit.

The private college and university is a valuable resource: one study estimated that private institutions save taxpayers about $5 billion annually--the cost to the States of absorbing their enrollment into public institutions.

THE FINANCIAL CRISIS

A category of schools in most severe financial trouble during 1975-76 was the small private liberal arts college. Many have

--experienced extensive deficit operations,

--borrowed substantially to cover current operating deficits, and

--been delinquent in debt service payments.

School officials advised GAO that their problems were due to

--insufficient revenues attributable primarily to declining enrollments,

--inflation and rising costs, and

--lack of prompt and effective administrative controls. (See ch. 3.)

Many private liberal arts schools experienced financial problems because of overoptimistic expansion decisions made in the 1960s. Expansion was influenced by relatively inexpensive Federal loans provided by the Departments of Health, Education, and Welfare, and Housing and Urban Development. (See pp. 13 and 28.)

Enrollment declines created financial problems because these schools rely heavily on student-generated revenues. Because they increased tuition and fees to offset enrollment declines, the average difference in price between public and private colleges approximately doubled during the 10-year period, 1965 to 1975.

Many education officials believe that these price differentials became a disadvantage to private schools in competing for potential students with State-subsidized schools, especially the fast-growing, relatively low-cost community colleges. (See pp. 16 to 21.) One study, however, noted that because per capita disposable income of the American people also doubled for the same period the competitive position of private schools versus public sector schools remained about the same.

EFFORTS TO IMPROVE FINANCING AND ENROLLMENT

The small private liberal arts schools have imposed more stringent budgetary controls and have worked to recruit new students and raise funds. These efforts have been aided by such Federal programs to improve access to higher education as the

--Basic Educational Opportunity Grants Program,

--Supplemental Educational Opportunity Grants Program,

--College Work-Study Program, and

--National Direct Student Loan and Guaranteed Student Loan Programs.

Two States in GAO's review granted direct institutional aid to private institutions, and each State reviewed participated jointly with the Federal Government in the State Student Incentive Grants Program. (See ch. 4.)

College and education association officials believed that continuing Federal and State programs for higher education would contribute to strengthening the institutions' financial condition. They cited the need for Federal actions to provide direct institutional aid and tax advantages to encourage people either to attend or support private colleges.

Among the Federal institutional grants obtained by small private colleges were those from the Title III Strengthening Developing Institutions Program and the Fund for the Improvement of Postsecondary Education. Most Federal Government research grants for higher education go to major universities, both public and private.

Some small private schools believe they also have the capability to do some federally-funded research. It was suggested that a percentage of the National Science Foundation's appropriation be "set-aside" for research-eligible small private and public colleges and universities. Foundation officials said they prefer to consider, individually, each proposal to conduct research based on its merits and to fund the best proposals regardless of who submitted them. They also said that although small private liberal arts schools have not been consistent participants in Federal research and development activities, they have participated in the Foundation's general academic science activities at approximately the same rate as other institutions. (See pp. 46 to 48.)

OUTLOOK

Most school officials were guardedly optimistic about the financial future of their institutions. They expected both improvement within the next 5 years and that actions taken to correct prior institutional weaknesses would cause the improvements. (See p. 25.)

Because of the long-range influence of Federal loans for campus expansion and the difficulty in predicting national enrollment trends, future loans for higher education facilities should be approved only after carefully examining individual college needs, financial capabilities, and potential enrollment growth. (See p. 63.)

The guarded optimism of some private liberal arts schools toward future financial improvement might be short lived. The National Center for Education Statistics has projected that by 1980-81 declining enrollments at private colleges and universities will have begun. (See p. 63.) In addition, such economic conditions as the impact of increases in payroll taxes due to changes in social security legislation, minimum wage increases, growing energy costs, and the increasing costs to meet Federal social program regulations could adversely effect these schools' future financial condition. (See pp. 53 to 55.)

RECOMMENDATION TO THE CONGRESS

The Congress should require the Secretary of Health, Education, and Welfare to assess periodically the financial condition of postsecondary education institutions, considering standard indicators suggested by the National Commission on the Financing of Postsecondary Education. This information should provide the Congress with a reliable basis for determining whether and the extent to which a need exists to sustain postsecondary institutions experiencing serious financial distress.

COMMENTS OF INTERESTED PARTIES

Most reviewers of GAO's report, including the Department of Health, Education, and Welfare agreed that information on the financial health of our Nation's postsecondary institutions would be beneficial. However, they generally agreed that any increases in assistance to institutions experiencing financial distress should be provided through increases in present student assistance programs rather than through direct emergency type institutional assistance.

There was some concern that adequate indicators of financial distress do not exist to cover the diversity of institutions in the United States. GAO believes, however, that the financial indicators and many qualitative factors discussed by the National Commission on the Financing of Postsecondary Education could be the basis for further development by the Secretary of Health, Education, and Welfare.

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ABBREVIATIONS

GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development
OE	Office of Education

CHAPTER 1

INTRODUCTION

On June 23, 1972, the Congress enacted the Education Amendments of 1972 (Public Law 92-318) which expressed its concern for the financial health of our Nation's higher education institutions. The Congress stated that the Nation's institutions of higher education constitute a national resource which significantly contributes to the security, general welfare, and economy of the United States. Section 122 of the above legislation contained an interim emergency assistance provision to enable institutions in serious financial distress to determine the nature and causes of such distress and the means of alleviating it. The amendments established the National Commission on the Financing of Postsecondary Education.

Among its responsibilities, the Commission was directed to consider the nature and causes of serious financial distress facing institutions of postsecondary education. As a result of its study, the Commission concluded that:

> "Some postsecondary institutions, however, are already in financial distress; and, if present patterns and conditions of financing continue, there is a high probability that such distress will occur in several sectors of postsecondary education as well." 1/

In its December 1973 report, the Commission suggested numerous national standard indicators which could be used to determine the relative financial status of the different types of postsecondary educational institutions. Among the standard indicators were the composition and size of enrollments, changes in programs and activities, income and expenditure data, and quality of management.

WHY WE MADE THIS STUDY

We initiated this study because of the congressional concern regarding the financial problems experienced by our Nation's postsecondary institutions, particularly in the

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1/The National Commission on the Financing of Postsecondary Education, Financing Postsecondary Education in the United States, (Washington: U.S. Government Printing Office, 1973), p. 225.

private sector. In establishing emergency assistance legis lation for institutions of higher education under the Education Amendments of 1972, the Congress stated that:

> "* * * insufficient information is available on the basis of which the Congress can determine, with any degree of certainty, the nature and causes of such financial distress of the Nation's institutions of higher education * * *."

In its report, the National Commission on the Financinç of Postsecondary Education stated that:

> "In short, there has been a substantial number of reports issued during the past six years dealing directly or indirectly with the question of financial distress among collegiate institutions. Those who have studied the matter are far from unanimous, however, about the seriousness of the problem and the necessity for governmental intervention. Of special significance is the fact that the literature provides clear evidence that there is no agreement on a uniform definition regarding the nature of financial distress among postsecondary institutions, nor are there generally accepted standards or uniform criteria to ascertain its existence or extent. Thus, a careful review of these studies yields no clear understanding of the extent of financial distress or of its implications for public policy."

It appears that the problem of measuring the financial condition of postsecondary institutions persists. In its January 1977 report, "Financing Higher Education," the American Federation of Teachers made the following statements.

> "There are no widely accepted measures of the financial condition of an academic institution. Higher education policy analyses, wage negotiations, and court decisions on tenure all rely heavily on what may be arbitrary statements about current fund surpluses or deficits, statements which may bear little relation to an institution's actual financial health.
>
> "A much firmer base for assessing financial conditions is long-run financial equilibrium. * * *"

Accordingly, our study was made to disclose to the Congress:

--Which segment of private higher education is in the most serious financial trouble and why.

--What actions are being taken by the schools to remedy their condition.

--What effect Federal and State programs have had on the schools' financial status.

FEDERAL SUPPORT FOR HIGHER EDUCATION

Federal support for higher education began with the Northwest Ordinance, enacted in 1787. With this legislation, the Nation embarked upon a program of educational support unique in its commitment to State and local autonomy and its recognition of education as a public function of national concern. Federal assistance to institutions of higher education has been either direct, such as in the form of contracts, grants, and loans for construction, research, and special programs; or indirect, as in the form of aid to students attending these institutions.

Since World War II, certain legislation has been instrumental in furthering support for postsecondary education in the United States. This included the Servicemen's Readjustment Act passed in 1944 (commonly known as the GI Bill), which provided assistance for the education of veterans. The National Science Foundation Act of 1950 provided Federal support for scientific and educational activities involving the research and training of researchers in the sciences. The Foundation's appropriation in fiscal year 1976 for academic sciences alone was about $496 million. The primary (funding) recipients of this program have been major doctoral-granting and research universities.

In 1950 the Congress also enacted the Housing Act of 1950 (12 U.S.C. 1749). (See app. II.) Under this program, the Department of Housing and Urban Development (HUD) loaned $3.8 billion to our Nation's postsecondary institutions for the construction of 3,790 housing and related facilities. HUD expended an additional $17 million for annual interest grants to underwrite commercial interest rates on an additional 327 college housing and/or related facilities.

In 1958 the Congress passed the National Defense Education Act (20 U.S.C. 421), which provided fellowships, loans, and grants to improve teaching in the sciences, mathematics, and foreign languages. Under the Higher Education Facilities Act of 1963 (20 U.S.C. 1132c) 1/ the Office of Education (OE) of the Department of Health, Education, and Welfare (HEW) provided about $2.6 billion in Federal grants and low-interest loans to 1,875 colleges and universities for the construction of over 4,000 classroom, library, and laboratory facilities, costing about $10.6 billion. The Higher Education Act of 1965 (20 U.S.C. 1001) and the related amendments of 1968, 1972, and 1976 authorized financial assistance programs to assist disadvantaged college students. (See app. II.)

The Education Amendments of 1972 established the basic policy of the Congress with regard to Federal support of postsecondary education--i.e., that support would flow through students rather than going directly to institutions. Among the student-based programs enacted by the law were the Basic Educational Opportunity Grants Program and the State Student Incentive Grants Program.

The 1972 amendments continued several existing student assistance programs. Three of the programs--Supplemental Grants, College Work-Study, and Direct Loans--are referred to collectively as the campus-based programs because postsecondary schools' financial aid officers calculate student aid packages using these funds and other available student assistance. The Guaranteed Student Loan program enables students to borrow from banks and other participating lenders with the Federal Government, State agencies, or nonprofit organizations insuring the loans. (See app. II.)

The Basic Grants program, administered by OE, is an entitlement program, i.e.; it provides financial assistance for anyone who qualifies. The program is similar to the original concept of the GI Bill, which was also based on entitlement. It is designed to assist students enrolled in postsecondary education and is intended to be the "foundation" or starting point for packaging aid for needy students. These grants are intended to be supplemented by such other Federal student aid programs as Supplemental Grants, Work-Study, and Direct and Guaranteed Loans.

1/See app. II.

The State Student Incentive Grants program is to assist States and territories to initiate or expand grant and scholarship programs for postsecondary education students having substantial financial need. Each State agency selects grant recipients using financial need criteria established annually by that State and approved by OE.

Although emphasizing student assistance over institutional support, the Congress was concerned about the financial condition of higher education, particularly private higher education. During deliberations preceding enactment of the Education Amendments of 1972, proposals were introduced to provide students with some choice among institutions so that Federal support would not favor public over independent institutions by providing support for all or a significant proportion of student costs. Among them was a proposal to gear Basic Grant assistance to the cost of attendance at the institution of a student's choice by providing larger grants to students attending higher cost institutions. This measure was not enacted primarily because of the fear that it might encourage tuition hikes.

Two measures which were enacted were the "one-half cost limitation provision" in the Basic Grant formula which was added because many Members of the Congress feared that without this limit, the Basic Grant would encourage students to attend low-cost public schools, where the Basic Grant covered a large proportion of total costs of attendance. Second, the provision in the College Work-Study program which provided preference to "low-income students" was changed to provide preference to students "with the greatest financial need." It was thought that this would allow middle-income and possibly some high-income students who chose to attend high-cost institutions to become eligible for assistance. 1/

Section 1001 of the amendments also provided for cost-of-education payments to higher education institutions. Such assistance was to be a fixed amount per student based on the number of undergraduate students attending a school as well as the number of students receiving basic educational grants under the same legislation. For example, if the number of students attending was not over 1,000, the payment was to be $500 for each recipient. However, this provision was never funded.

1/Congress and the Colleges: The National Politics of Higher Education, Lawrence E. Gladieux and Thomas R. Wolanin, Lexington Books, D.C. Heath and Company, Lexington, Massachusetts, 1976.

The Education Amendments of 1976 (Public Law 94-482) continued, for the most part, previous education programs. The amendments modified or increased certain eligibility requirements, grant ceilings, and administrative allowances which might assist some schools in administering Federal student assistance programs.

The Federal agencies providing the largest amounts of funds for higher education activities in fiscal year 1977 were OE ($3.1 billion), the Veterans Administration ($2.8 billion), and the Social Security Administration ($1.2 billion).

Proposals to increase student assistance

Recently, many proposals have been introduced in the Congress and made by the Carter administration to increase student assistance, especially to middle-income students. Many sponsors of such proposals have contended that middle-income students have been squeezed out of college, however, the most recent Bureau of the Census figures show that a rise in student enrollment from middle-income families began in 1976, although the rise did not reach the previous high. Generally, the administration favors increasing student aid through the present student assistance programs, specifically the Basic Grants, Guaranteed Student Loan, the College Work-Study programs. The administration's proposal would enable students from families earning up to $25,000 to become eligible for Basic Grants and students from families with incomes up to $45,000 to become eligible for Guaranteed Loans. The estimated increase in student assistance under the administration's proposal is $1.46 billion.

Closely allied to increases in the Basic Grant program is a proposal included in the November 1977 report on the hearings before the Task Force on Tax Expenditures, Government Organization, and Regulation 1/ on College Tuition Tax Credits, Committee on the Budget, U.S. House of Representatives. This proposal would provide grants to all students through a GI Bill concept for nonveterans. Cost estimates for this type of program differ depending on allowances and student eligibility. If monthly benefits are set at $100 for full-time students, the estimated cost is $6.2 billion.

1/Task force, chaired by the Honorable Paul Simon and including several members of the House Committee on the Budget, convened to hold hearings on the subject of college tuition tax credits and to set forth alternative policies for consideration by the Committee on Ways and Means and the Committee on Education and Labor, U.S. House of Representatives.

Various measures have been proposed to provide relief to students and their families in the form of tax allowances. The most often mentioned allowance would be in the form of a refundable tuition tax credit for certain educational expenses paid by individuals for themselves, their spouses, or their dependents. Among the considerations involved with these proposals is the effect they will have on the competitive balance between public and independent institutions. Opinions differ regarding these measures. For example, the following opinions were expressed during hearings before the Task Force on Tax Expenditures, Government Organization, and Regulation on College Tuition Tax Credits in April and May 1977.

--Commission on Independent Colleges and Universities. Does not view tax allowances as reasonable or practical substitutes for existing programs of aid, but if properly structured, they could provide a practical means of stabilizing enrollments between public and private schools while enhancing student choice.

--National Student Lobby. Opposes tax allowances because (1) they do not provide enough aid to afford real relief, (2) the funds would go to parents with no assurance that they would be spent for education, and (3) the Guaranteed Loan program is a more appropriate form of aid for middle-income students.

--Coalition of Independent College and University Students. Opposes tax allowances because they will upset the balance between private and public higher education by providing the public institutions a substantial comparative advantage by paying for a larger proportion of education costs.

Estimated costs for the first year of the various tax allowance measures are between $1 and $8 billion.

PRIVATE HIGHER EDUCATION

Numerous studies have been conducted or planned which seek to determine if and/or why colleges and universities are in financial difficulty. Many studies concluded that all of higher education has encountered financial problems, but also concluded that the hardest hit in the higher education community have been the private institutions.

The importance of private higher education was summarized in a recent Association of American Colleges study, which stated that:

> "Private higher education is an important--even indispensable--part of the American higher educational system. It adds diversity, it offers competition to an otherwise all-embracing public system, it provides a center of academic freedom removed from political influence, it is deeply committed to liberal learning, it is concerned for human scale and individual personality, it sets standards, it provides educational leadership, and it saves money for taxpayers. Not every private college or university achieves all of these results, but enough institutions do achieve some of them to make survival of a strong private sector a major goal in the broad public interest." 1/

About 1,600 private colleges and universities were operating in the United States during academic year 1976-77. They enrolled nearly 2.4 million students located in 49 States. (Wyoming had no private higher educational institutions.) These schools range in size from 21 (or less) students to more than 30,000 students. Their functions vary from specialized (professional) schools and liberal arts colleges to research and doctoral-granting universities with extensive graduate and professional programs. The schools are rural, suburban, and urban.

Carnegie classification

The Carnegie Commission on Higher Education developed a classification of institutions of higher education. 2/ The Commission identified categories of colleges and universities that were homogenous regarding (1) institutional functions and (2) characteristics of students and faculty. The Commission's classifications (for private postsecondary institutions only) were as follows:

1/Private Higher Education - First Annual Report (Association of American Colleges), 1975.

2/A Classification of Institutions of Higher Education, (Carnegie Commission on Higher Education), 1973.

Table 1

Carnegie Commission Classification of Private Sector Higher Education Institutions

	Institutions		Enrollment	
	Total	Percent	Total	Percent
Doctoral-granting institutions	65	4	665,000	31
Comprehensive universities and colleges	145	10	523,000	24
Liberal arts colleges I	144	9	180,000	8
Liberal arts colleges II	547	36	467,000	22
Two-year institutions	256	17	134,000	6
Specialized institutions	357	24	180,000	9
Total	1,514	100	2,149,000	100

As can be seen, the liberal arts schools constituted a significant portion of the private education sector, both in total number of institutions (45 percent) and enrollment (30 percent).

SCOPE OF REVIEW

We visited schools located in nine States in four geographic regions: (1) Maine (New England); (2) Florida, Georgia, and Tennessee (the Southeast); (3) Illinois and Wisconsin (the Great Lakes); and (4) California, Oregon, and Washington (the Pacific Coast). These four regions had the greatest number and concentration of institutions listed in delinquency or moratorium status on HUD or HEW facility construction loans. The significance of this is explained in chapter 3.

Our field work consisted of

--visits to 30 schools (29 private and 1 public) that (1) received a Federal (HEW or HUD) loan to construct academic facilities or college housing and (2) were not current on their repayment;

--visits to six other schools, including two liberal arts I and one liberal arts II colleges which appeared to be financially strong;

--interviews with HEW and HUD officials and officials of State education agencies;

--interviews with representatives of various higher education associations and consultant groups specializing in education;

--examination of HEW and HUD policies and procedures relating to construction and certain other institutional aid programs; and

--examination of legislation and congressional hearings.

We visited the following types of schools: 23 liberal arts II colleges, 5 liberal arts I colleges, 3 specialized schools of engineering or business, 2 2-year colleges, 2 comprehensive colleges, and 1 public community college.

Liberal arts II colleges were the focus of our review because of their overwhelming representation in categories of schools reported as closed or unable to meet financial obligations due the Government. Of the 23 liberal arts II schools visited, 19 were on Federal Reserve Bank listings of schools which were delinquent on HEW or HUD loans. Although we were unable to trace the financial conditions of 2 of the 19 schools because of reporting inconsistencies, we examined financial statements and interviewed various college officials at the 17 other schools to obtain the following information.

--The extent of the schools' current financial problems.

--The factors contributing to the schools' financial problems.

--The actions taken to improve the schools' financial conditions and the success of these actions.

--Whether the schools needed external help.

We believe that the problems noted are shared by many such schools, however, our findings might not be typical of all schools classified as liberal arts II colleges. Our examination included the 6 school years which began July 1, 1969 (fiscal year 1970), and ended June 30, 1975 (fiscal year 1975).

To determine the extent of financial problems encountered by schools and actions to alleviate these problems, questionnaires were sent to a sample of schools--including public and private liberal arts II colleges--and all schools, most of which were liberal arts II schools, that were not current on HUD or HEW academic facility or college housing construction loans as of September 1975. Appendix III includes a description of the questionnaire approach and a copy of the questionnaire. Institution administrators were questioned regarding their perception of their schools' financial condition, institutional and State actions to maintain or improve their financial condition, and the impact of Federal programs on their institutions.

We sent 332 questionnaires and received 283 (85 percent) completed questionnaires from institutions queried. 1/ About 90 percent of the returned questionnaires were from private colleges. All but 11 of the private colleges responding were liberal arts II colleges.

Because of the small number of schools responding to the questionnaire from other public and private school Carnegie Commission categories, these colleges were not included in the analysis.

As part of the effort, we reviewed selected 1977 and other studies dealing with the financial problems of private higher education and interviewed the authors or sponsors of several reports. Statistics were updated as they became available from such sources as the National Center for Education Statistics, HEW.

To gain additional insights copies of a draft of this report were provided for comment and/or officials were interviewed at such organizations as the American Council on Education, National Association of Independent Colleges and Universities, Carnegie Council on Policy Studies in Higher Education, Education Commission of the States, the Brookings Institution, and the Council for the Advancement of Small Colleges. Other officials prominent in the higher education field also reviewed the draft report as did HEW and HUD and the National Sience Foundation. Their comments were incorporated throughout the report as deemed appropriate.

1/See apps. IV and V for a response rate by type of institution and for a geographic distribution of schools which responded to the questionnaires.

CHAPTER 2

THE DILEMMA OF PRIVATE HIGHER EDUCATION

National studies have indicated that from one-fourth to one-third of private higher education institutions reviewed were experiencing financial difficulty. The interrelated problems experienced by the private sector during the late 1960s through the mid-1970s include declining enrollment growth, increasing tuition gap between private and public colleges and universities, and competing for students brought on by the rapidly expanding community colleges.

DECLINING ENROLLMENT GROWTH

The 1960s was characterized as the decade of the most rapid growth and development of higher education institutions in American history. Enrollment increased dramaticall because of the influx of post World War II babies into the college-age group and the increased emphasis given to education by space programs. Institutional development was furth encouraged by rising State government appropriations, increased private gifts and student fees, and massive Federal aid programs for education.

Table 2 illustrates postsecondary education's enrollment growth from 1950 to 1976.

Table 2

Public/Private Postsecondary Education Enrollment (Degree-Credit) Growth, 1950-1976

		Enrollment				Growth (note a) by	
		Public		Private			
Year	Total	Number	Percent	Number	Percent	Public	Private
	(000 omitted)	(000 omitted)		(000 omitted)			
1950	2,282	1,140	49.9	1,142	50.1	100	100
1955	2,653	1,476	56.0	1,177	44.0	129	103
1960	3,583	2,116	59.0	1,467	41.0	186	128
1965	5,526	3,624	66.0	1,902	34.0	318	167
1970	7,921	5,800	73.0	2,121	27.0	509	186
1975	9,732	7,426	76.3	2,306	23.7	651	202
b/1976	10,105	7,756	76.8	2,349	23.2	680	206

a/Index number: 1950 = 100

b/Estimated.

Note: Some figures may not add due to rounding.

As the previous table indicates, in 1950 student enrollment was nearly equal between public and private institutions. The distribution thereafter became disproportionate. Although total enrollment increased by about 7.8 million over the 26-year period, the private institutions' share of the student market decreased from about 50 to about 23 percent.

However, during the 10-year period ending in 1965 most public and private schools enjoyed a steady and substantial enrollment growth. This period witnessed the enactment of the Higher Education Facilities Act of 1963, which provided Federal financial assistance to colleges and universities for the construction of academic facilities. Many private colleges took advantage of the Federal programs. Grants and loans were obtained to expand campuses and accommodate the then actual and anticipated growing student enrollments.

The rapid growth of the public higher education sector enrollment continued as projected, but the anticipated rate of enrollment growth at private institutions did not materialize. Repaying loans became a formidable financial burden, especially for those private schools depending on revenues from anticipated but unrealized enrollment growth. A report 1/ by the Carnegie Foundation for the Advancement of Teaching observed:

> "For many institutions, expansion in the 'golden years' between 1958 and 1968 was, in part, financed by neglecting basic institutional needs * * * and, more significantly, by mortgaging their futures--expansion was financed by debt."

Regarding private schools, the report also concluded:

> "Some private institutions in all categories are burdened by decisions to grow that were made in the 1950s and 1960s, often in response to government urging. They incurred substantial debt and planned buildings without secured funds for future maintenance and operation, or realistic plans for debt service. No category of institutions has a corner on the bad effects of these decisions. The great public pressures put on institutions in the 1960s implied continuity of support for

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1/<u>More Than Survival - Prospects for Higher Education in a Period of Uncertainty</u> (Jossey-Bass, 1975).

expansion and induced decisions about enrollments and research which, in retrospect, seem less than wise."

During the 11-year period ending with 1976, the public sector's growth continued to be substantial. By contrast, the private sector's growth was minimal; in fact, enrollment decreased in 2 of the 11 years, as shown in table 3 below.

Table 3

Public/Private Postsecondary Education Enrollment (Degree-Credit) Growth for 11-Year Period, 1966-76

Year	Enrollment		Private	
	Public	Private	Rate of growth (note a)	Annual change
	(000 omitted)			
1966	3,940	1,988	100	
1967	4,349	2,043	103	+3
1968	4,892	2,036	102	-1
1969	5,415	2,069	104	+2
1970	5,800	2,121	107	+3
1971	6,014	2,102	106	-1
1972	6,159	2,106	106	0
1973	6,389	2,129	107	+1
1974	6,838	2,185	110	+3
1975	7,426	2,306	111	+1
1976	7,756	2,349	118	+7

a/Index number: 1966 = 100

Overall, enrollment growth in the private sector was minimal from 1968 to 1975 and the average enrollment at private colleges with enrollments of less than 2,500 students decreased from 1968 to 1975. (See table 4.)

Further analysis indicated that schools with enrollment under 1,000 experienced a decline in average student enrollment, from 480 in 1968 to 304 in 1975. Although the decrease could be due, in part, to the addition of schools with smaller student enrollments, the private liberal arts colleges surveyed showed that many (40 percent) of these small schools experienced enrollment declines within this timeframe.

Table 4

Enrollment Change at Private
4-Year Colleges and Universities

		Schools	Enrollment	Average
Universities	1968	65	704,054	10,832
	1975	65	714,045	10,985
4-year colleges (enrollment 2,500 and over)	1968	94	403,554	4,293
	1975	139	599,214	4,311
4-year colleges (enrollment under 2,500)	1968	1,043	829,009	795
	1975	1,149	903,339	786

Compounding the present dilemma facing small private colleges (enrollment under 2,500) of a declining student market share and a decreasing average student enrollment is a national projection of declining student enrollment for the 1980s. (See table 5.) While total enrollment (degree-credit and non-degree-credit) was projected to reach its peak nationally by 1983 at 13,643,000 students, it was estimated that total enrollment for the private sector would peak in 1980 at 2,467,000 and then would decline to 2,290,000 by 1985.

Table 5 (note a)

Projection of Total Enrollment Change
For Institutions of Higher Education 1976-85

Year	Total enrollment	Public	Private
1976	11,693,000	9,298,000	2,395,000
1977	12,146,000	9,716,000	2,430,000
1978	12,572,000	10,118,000	2,454,000
1979	12,928,000	10,464,000	2,464,000
1980	13,214,000	10,747,000	2,467,000
1981	13,477,000	11,012,000	2,465,000
1982	13,629,000	11,183,000	2,467,000
1983	13,643,000	11,232,000	2,411,000
1984	13,524,000	11,175,000	2,349,000
1985	13,360,000	11,070,000	2,290,000

a/Source: Projections of Education Statistics to 1985-86 (National Center for Education Statistics) 1977.

GROWING TUITION GAP BETWEEN THE PUBLIC AND PRIVATE SECTORS

College students, through their tuition and fees, pay for only a portion of the cost of their education. As table 6 shows, publicly controlled institutions derive a substantial part of their income from Government (especially State) appropriations.

Table 6 (note a)

Percent Of Estimated Expenditures By Institutions Of Higher Education By Source Of Funds (note b)

Source (note c)	1965-66 Public	1965-66 Private	1969-70 Public	1969-70 Private	1976-77 Public	1976-77 Private
	(percent)					
Federal	17.6	22.1	15.0	18.8	13.8	18.1
State	38.4	1.5	40.0	1.6	43.0	2.3
Local	4.1	.1	5.1	.7	5.4	.8
Other	39.9	76.3	39.9	78.9	37.8	78.8
	100.0	100.0	100.0	100.0	100.0	100.0

a/Source: Projections of Education Statistics to 1984-85 (National Center for Education Statistics), 1976.

b/Receipts were adjusted to equate them with expenditures.

c/Total expenditures include all funds expended for capital outlay, current expenditures, and interest. Expenditures from Federal, State, and local sources are institutional expenditures of all grants received from these sources. Expenditures from other sources include funds received by the institutions that were not received as grants from Federal, State, and local governments including student-provided tuition and fees paid by students and gifts from any source. Loans from any source are included under othe

HEW statistics also showed that 65 percent of the cost to educate a student at a private institution is covered by tuition and fees, whereas they cover 22 percent of such costs at a public college or university.

A May 1977 report on a study conducted under the auspices of the Association of American Colleges, which included 100 colleges and universities of various sizes, concluded that although the dollar difference in student charges between public and private schools has more than doubled from school years 1965-66 to 1975-76, the per capita disposable income of the American people (including the amount available for college expenses) has approximately doubled for the same period. The study concluded that the competitive position of the private versus public sector remained about the same over the 10-year period. Table 7 taken from the study report shows an analysis of changes during the 10-year period.

However, despite a doubling of per capita disposable income of the American people, the substantial gap between private and public tuition levels has been frequently cited as a reason for the troubled financial condition of some private institutions.

Although a substantial difference between tuition and fees at public versus private schools exists, the difference between students' room and board rates at the respective schools has been minimal. In 1977 HEW estimated that the average annual room and board charges for academic year 1976-77 for private schools would be $1,494 and for public schools would be $1,324. Both types of institutions generally establish such rates on a cost-to-operate basis. An existing room and board rate difference appears to represent economies of scale since most public universities and colleges are larger (on the average) than private schools.

Table 7 (note a)

Comparative Tuitions, Fees, Board, and Room
Public and Private Institutions
1965-66 to 1975-76

	Tuitions, fees, board, and room (note b)				Per capita disposable income (note c)	Tuitions, fees, board, and room as a percentage of per capita disposable income	
	Dollar amount		Dollar difference private minus public	Ratio: Private to public			
	Public	Private				Public	Private
						Percent	
1965-66	$ 983	$2,005	$ 1,022	2:04	$2,430	40	83
1970-71	1,288	2,740	1,452	2:13	3,348	38	81
1971-72	1,357	2,917	1,560	2:15	3,588	38	81
1972-73	1,406	2,979	1,573	2:12	3,837	37	78
1973-74	1,524	3,184	1,660	2:09	4,292	36	74
1974-75	1,708	3,592	1,884	2:10	4,642	37	77
1975-76	1,882	3,981	2,099	2:12	5,040	37	79

a/Source: W. John Minter and Howard R. Bowen, Private Higher Education, Third Annual Report on Financial and Educational Trends in the Private Sector of American Higher Education (Association of American Colleges), 1977, p. 63.

b/Projections of Education Statistics to 1984-85 (National Center for Education Statistics), pp. 106-7.

c/A Fact Book on Higher Education (American Council on Education), First Issue 1976, p. 31.

A report by the American Council on Education completed for OE cited the following comment of one educator:

> "Public institutions are not lower-cost but lower-priced: The true costs of educating students in the public institutions are paid by the public through taxes; the students themselves pay a subsidy-lowered price." 1/

The total cost to educate the liberal arts II college student could be about the same for both sectors. For example, at one State we visited, the total cost to educate a student at two of its public liberal arts II schools ranged from $4,200 to $4,400 per school year. This was comparable to private liberal arts II school costs in the State, which ranged from a low of $4,200 to a high of about $4,600. For school year 1975, however, the tuition range at two public liberal arts II colleges was $450 for resident students to $1,500 for nonresidents. Tuition rates for the same period at the private liberal arts II schools ranged from $2,000 to $2,600.

1/Four-year Baccalaureate Completion Rates: A Limited Comparison of Student Success in Private and Public Four-Year Colleges and Universities (American Council on Education), 1976.

According to a 1974 study by the National Council of Independent Colleges and Universities, the existence of private colleges and universities represents a savings to the American taxpayer as an alternative education resource. In 1970, 2.1 million students were enrolled in private colleges and universities, including approximately 467,000 students in liberal arts II colleges. The Council's study, using an estimated average of $1,400 representing the then current annual subsidy for each student attending a public college or university, concluded that it could cost taxpayers an additional $2.9 billion annually to educate students now enrolled in private institutions of higher education. A more recently completed report 1/ by the Carnegie Council on Policy Studies in Higher Education estimated that it would cost the States about $5 billion annually to absorb private enrollment into public institutions.

The reliance by private institutions, especially the small liberal arts II colleges, on tuition revenue has worked to their disadvantage, especially during periods of rising prices for essential materials and services, and increased faculty and administrative costs. To offset and cover such costs, private schools have increased tuitions and fees. Students who cannot afford high tuitions must either ask for additional financial aid or must seek other, less expensive alternatives such as community colleges or public 4-year colleges and universities.

THE GROWTH OF THE COMMUNITY COLLEGE SYSTEM

The 2-year college has existed since the 1800s. Community colleges which offer associate degrees, serve as (1) valuable extensions for high schools, (2) vocational training institutions, and (3) feeder schools for senior colleges.

The growth of the 2-year college in the 1960s and early 1970s has been characterized as one of the most dynamic movements in higher education. For example, in 1950, 299 public 2-year colleges existed, with an average enrollment of 560 students. By 1975, the number of public 2-year colleges had grown to 764, with an average enrollment of about 3,140 students. Some of the largest postsecondary institutions in the United States are 2-year colleges with enrollments ranging

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1/The States and Private Higher Education: Problems and Policies in a New Era (Carnegie Council on Policy Studies in Higher Education) 1977.

as high as 30,000 or more students. Table 8 shows the enrollment increase of 2-year colleges from 1950 to 1975.

As shown in table 8, the total degree-credit student enrollment for the 2-year college had surpassed the total enrollment of the private sector by school year 1975. Since both the 2-year colleges and 4-year postsecondary schools (both public and private) compete for the college-eligible high school graduate, the substantial increase in 2-year college enrollment influenced the enrollment growth of 4-year colleges.

Table 8

Comparative Growth of the Public 4-Year School, the 2-Year College, and Private School by Degree Credit Enrollment 1950-75

Year	Total	Public institutions 4-year schools	Public institutions 2-year colleges	Private	Public institutions (note a) 4-year schools	Public institutions (note a) 2-year colleges	Private institutions (note a)
	(000 omitted)						
1950	2,282	972	168	1,142	100	100	100
1955	2,653	1,211	265	1,177	125	158	103
1960	3,583	1,724	392	1,467	177	233	128
1965	5,526	2,886	738	1,902	297	439	167
1970	7,921	4,280	1,520	2,121	440	904	186
1974	9,023	4,734	2,104	2,185	487	1,252	191
1975	9,732	5,025	2,401	2,306	517	1,429	202

a/Index number: 1950 = 100.

The small private college was particularly vulnerable to prospective student losses to a rapidly expanding community college system because of the relatively low tuitions and fees charged by community colleges. Community colleges offered various programs, both for students who were undecided in their careers and to the working adult. In addition, the new community college system disrupted the geographic monopoly of many small private colleges in rural communities. For the first time, many private colleges were competing with "near by" public institutions.

Veterans, services personnel, dependents of disabled veterans, and survivors of deceased veterans who receive educational assistance benefits for higher education--about $2.8 billion in fiscal year 1977--from the Veterans Administration have relied extensively on public teachers' and community colleges for their postsecondary training. For example, college level training is the largest single category of training taken under the GI bill, accounting for about

72 percent of all GI bill recipients as of April 30, 1976. Of those enrolled in college, 82 percent were enrolled in public institutions. Of those attending teachers' colleges and community colleges, 99 and 90 percent, respectively, were enrolled in public facilities. According to the Department of Veterans' Benefits, rising educational costs have caused many program recipients to choose community colleges over the more expensive 4-year institutions and to choose public over private junior colleges.

CHAPTER 3

THE FINANCIAL CRISIS OF THE PRIVATE COLLEGE--WHICH ONES AND WHY

Nearly all studies attempting to assess the financial condition of higher education eventually conclude that private colleges are in a greater degree of financial trouble than public colleges. These studies have provided much information on the extent of the problem but generally have not specified the segment of the private sector affected the most.

We found that the small private colleges, specifically the liberal arts II colleges, have experienced the most seriou financial problems. Generally, these schools have experienced extensive deficit operations, have substantial borrowings to cover current operating deficits, and have been delinquent in debt service payments. School officials informed us that their problems were due to (1) insufficient revenues primarily attributable to declining enrollments, (2) inflatior and rising costs, and (3) lack of prompt and effective administrative controls.

THE TROUBLED PRIVATE LIBERAL ARTS II COLLEGES

Based on the numbers and types of schools delinquent (or having a moratorium) on their debt service obligation to the Government and the numbers and types of schools closing since 1970, private liberal arts II colleges have experienced the most serious financial problems. Federal Reserve Bank listings of delinquent obligations on HUD and HEW housing or academic facility construction loans showed that as of September 1975, a total of 74 schools (of the then nearly 3,000 public/private postsecondary schools of education in the United States) were either delinquent or had an approved moratorium on their Federal debt service obligations. By November 1977 and March 1978 for HEW and HUD, respectively, the number of such schools had increased to 93. The two departments had compiled this data for different dates. As shown in table 9, 49 of the 67 private institutions on the list as of September 1975 (about the time of our fieldwork) were liberal arts II colleges.

Table 9

Colleges or Universities Reported as Delinquent or in Deferred Payment Status on Federal Facility Construction Loans

	Total	Public	Private
Doctoral-granting institutions	1	0	1
Comprehensive institutions	6	4	2
Liberal arts I	6	(a)	6
Liberal arts II	49	(a)	49
Two-year institutions	9	2	7
Others	3	1	2
Total	74	7	67

a/Of 719 liberal arts I and II schools in the United States, only 28 schools were classified "public" by the Carnegie Commission.

Our analyses (see table 10 below) of information prepared by the National Council of Independent Colleges and Universities and OE of private schools which closed from 1970 through 1975 also disclosed that the schools most affected were the liberal arts II colleges. About 76 percent of the 38 private schools which closed were liberal arts II colleges.

Table 10

Analyses of Closed (note a) Private Schools, 1970 through 1975

	Total	Percent
Teacher preparation	2	5.3
Liberal arts I	1	2.6
Liberal arts II	29	76.3
Liberal arts (note b)	5	13.2
Other	1	2.6
Total	38	100.0

a/Does not include schools that merged, or became public institutions or 2-year colleges.

b/Data on these liberal arts colleges was not available to categorize them as either I or II.

Because of the overwhelming number of private liberal arts II colleges in the two analyses, we concluded that their financial condition was generally worse than other colleges and universities, and continued operation of these small schools was more likely to be jeopardized.

Some report reviewers questioned the selection of a group of schools for detailed analysis which was predetermined to be in the most financial difficulty because the schools might be atypical and because our findings would also be predetermined. However, we believe that sufficient other studies on the financial plight of private colleges are available to provide information on the nature of problems experienced by other types of Carnegie classified institutions. The purpose of our analysis was to determine the group of schools which has experienced the most severe problems, and the actions they have taken to alleviate their problems.

THE SEVERITY OF THE PROBLEM

We asked the schools which responded to our questionnaire to characterize the current financial condition of their institutions. About 25 percent of these schools perceived themselves to be in substantial or serious financial difficulty. The financial conditions of the small private colleges responding to the questionnaire are summarized in table 11.

Table 11

Perceived Financial Condition of Schools, Fiscal Year 1975

Schools' condition	Percent
Serious financial trouble	10
Substantial financial trouble	15
Moderate financial trouble	24
Some financial trouble	30
Little or no financial trouble	21

As could be expected, schools that were selected because of loan delinquency status perceived their financial condition to be in more serious trouble. Nearly 75 percent of these schools reported substantial or serious financial difficulty; while only about 16 percent of those randomly selected reported a similar financial condition.

The schools surveyed also indicated that their current financial condition is a cumulative effect of similar conditions over the past several years. About 70 percent of the schools in the most serious finanical trouble reported that their financial condition had deteriorated since 1970. Conversely, nearly 60 percent of those schools showing only minor or no financial trouble reported experiencing substantial improvement in their financial status.

Surprisingly, many of the colleges which viewed their current financial condition to be in severe trouble were generally optimistic about their financial futures. Nearly 65 percent of the surveyed schools indicated that their financial condition would improve during the next 5 years. This optimism was slightly greater among the schools having greater financial trouble, where about 78 percent of the schools reported an anticipated financial improvement over the next 5 years.

The majority of the schools surveyed viewed their current financial problems as controllable by the institutions themselves, but they reported some factors outside the influence of the schools that affect their ability to control their financial futures. About 50 percent of the small private schools in the most finanical trouble reported that these outside influences (inflation and the future decline in numbers of traditional college age students) would make it more difficult to improve or maintain their current financial condition. Several of these factors are discussed on pages 53 to 55.

Substantial operating deficits

Thirteen of the 17 liberal arts II schools whose financial conditions we were able to trace had deficits in unrestricted current fund operations in at least 4 of the 6 years (fiscal years 1970 through 1975) analyzed. The average annual deficit at these 13 schools ranged from about $36,000 to about $322,000, with the overall average annual deficit being about $150,000.

Table 12 (see p. 26) shows that 9 schools had average annual deficits of over $100,000 on total current operations. Of the 17 schools, 16 had average annual deficits in education and general operations. These operations most closely support the educational purpose of the schools. Conversely, most of the schools experienced more success with auxiliary enterprise operations (i.e., dormitory, food, and student services). Of the 17 schools, 11 had an average annual surplus from these auxiliary operations. One of these 11 schools had a surplus in its auxiliary enterprise operations for this period that exceeded its deficit in education and general operations. Therefore, 2 of the 17 schools were able to show a surplus in total current operations.

Table 12

Average Annual Deficits from Current Operations at 17 Troubled Private Liberal Arts II Colleges, Fiscal Years 1970 to 1975

	Total current operations				Current operations: Education and general operations				Current operations: Auxiliary enterprise operations	
		Deficit				Deficit				Deficit
	Surplus	$0 to $100,000	$100,000 to $200,000	Over $200,000	Surplus	$0 to $100,000	$100,000 to $200,000	Over $200,000	Surplus	$0 to $50,000
Number of institutions	2	6	5	4	1	7	5	4	11	6
Total				17				17		17

Although the operating statements for these 17 institutions generally present a bleak picture, there are some indications of improvement. At least four institutions which reported deficits in current operations during fiscal years 1970-74 showed surpluses for fiscal year 1975, and six institutions reported lower operating deficits for fiscal year 1975 than for fiscal year 1974. Although, in most cases, the amount of these surpluses and lowered deficits was relatively small when compared to the accumulated deficit of past years, it provided some optimism for the future.

The accumulated deficit for past operations represents a large obstacle to improvement. Nearly all of the 17 schools carried substantial cumulative unrestricted current operating deficits into fiscal year 1976. Generally, most of the cumulative deficit reported by these schools was accumulated between fiscal years 1970 and 1975. Fourteen of the 17 schools reported cumulative deficits in unrestricted current fund operation, ranging from $226,000 to $1.6 million as of June 30, 1975. Of the 14 schools, 8 had deficits of over $400,000, and 4 of these had deficits of over $1 million.

Two schools had operating surpluses, and sufficient cumulative financial data prior to fiscal year 1970 was not available at one institution to make a similar analysis.

At 12 of the 14 schools, the cumulative deficit represented at least 20 percent of the school's total unrestricted current fund operating revenue for fiscal year 1975. Four of these schools had cumulative deficits exceeding 50 percent of the fiscal year 1975 operating revenues and one had a deficit that almost equaled its annual operating revenue for fiscal year 1975.

Substantial borrowing to counteract current operating deficits

Much of the cumulative deficit at schools visited was financed through either (1) extensive short-term borrowing from commercial sources or special interest groups or (2) borrowing from "other" institutional funds. The schools often had lines of credit to back up debts until quarterly or semester tuition and other revenues were received. Other institutional funds ranged from relatively insignificant amounts to large balances.

At one school, the total cumulative deficit as of June 30, 1975, was about $1.5 million. Most of this deficit was covered by (1) short-term notes totaling $150,000, (2) $1.1 million borrowed from other institutional funds, and (3) other accounts payable and accrued expenses.

Seven schools had short-term notes payable exceeding $400,000 as of June 30, 1975, and two had borrowed over $700,000 from other institutional funds for current operations. Many of these other institutional funds are restricted as to use and, therefore, borrowings represent valid debts. Also, at least 12 schools had increased their total short-term notes payable during the period 1970 to 1975.

In most cases, money borrowed to cover deficits must be repaid. Many of the schools visited faced repayment of substantial sums of short-term notes in the next 1 to 3 years. In general, the institutions visited renewed or paid their short-term notes when due.

Unlike the rigid repayment schedule required on short-term notes, we found that repaying funds borrowed from other school funds or from groups interested in the schools' continued operation was of less immediate concern. Also, most of this borrowing was long-term and, in some cases, no annual payments were required and no interest was charged. In some cases, substantial long-term debt was payable to various special interest groups, primarily religious affiliates. At one school, the amount owed exceeded $700,000 as of June 30, 1975.

Extensive loan delinquencies
and deferments of payments

By the late 1960s, many small private colleges and other higher education institutions had built new dormitories, academic facilities, libraries, and physical education complexes. Expansion plans had been influenced by projections of increasing enrollments and Federal HUD and HEW facilities construction programs (see app. II) that offered both low-cost loans and grants to qualified institutions.

Under the conditions of the facility construction loan agreements, borrowers are required to (1) make annual principal and interest payments for up to 50 years and (2) establish and maintain a debt service reserve equal to at least 1 year's total annual principal and interest payments. As could be expected, the private/independent colleges sought a share of the available funds to finance their campus expansion projects.

Small private colleges responding to our questionnaire had investments in campus and facilities that averaged about $8.4 million. Nearly 76 percent of these schools were indebted to the Government in some form, with the average Federal debt totaling about $2.3 million. At 9 of the institutions visited, Federal loans for facilities represented at least 30 percent of the total plant investment in fiscal year 1975.

Most of this indebtedness consisted of loans from HUD, which averaged approximately $1.9 million. Most HUD loans were to assist the institutions in increasing their capacity to house and feed students. These facilities generated revenue and 68 percent of them generated enough revenue to equal or exceed the facilities' expenditures.

HEW indebtedness at these schools averaged about $1 million and involved many less schools than the HUD facility loans. HEW loans are generally not applied to revenue generating functions but are more likely to assist schools with financing academic facilities.

The many HUD facility loans suggests that the schools have incurred their primary indebtedness in the pursuit of increasing student capacity. At the time of the questionnaire, about half of the schools reported they could have accommodated 150 or more additional students without significant additions to the plant or faculty. This represents about 20 percent of their current average full-time enrollments of between 500 to 750 students; 26 percent of the institutions had unused capacity of over 40 percent, or over 200 students. Table 13 shows the ratio of unused capacity to full-time enrollment at the schools responding to the questionnaire.

Table 13

Ratio of Unused Capacity to Full-time Enrollment

Percent unused	Percent of schools
0	2
1 to 5	5
6 to 10	12
11 to 20	25
21 to 40	30
over 40	26
Total	100

The ability of schools to repay their Federal facility loans was tested in the questionnaire. Of the schools responding, nearly 25 percent were either delinquent or in moratorium status on loan principal, interest, or sinking fund payments. In addition, nearly one-third of these schools reported having asked HUD or HEW for a temporary delay--moratorium--in required principal, interest, or sinking fund payments.

All 19 of the financially-troubled liberal arts II colleges visited had at least 1 late or deferred principal and/or interest payment on a Federal loan for academic or dormitory facilities. The Federal HUD and HEW construction loan delinquency or deferment lists, dated September 1975, reported that total back payments owed by these schools ranged from $5,000 to $122,000. Eighteen schools requested deferments because their financial conditions made it difficult to meet annual debt service payments ranging from $13,000 to $194,000. The other school was late in making payments.

The ability of these 19 schools to meet HUD and HEW debt service requirements has not substantially improved since September 1975. As of January 1977, 13 of the schools remained on deferred payment status. Four schools had deferments of over $200,000, and the average deferment was about $139,000.

Some schools have reduced loan principal and interest past due on Federal facility loans by drawing on required facility reserves established to protect loan payments and for repair and replacement. In a few cases, these reserves consisted of endowment securities. For example, at one college about $135,000 in endowment securities held as reserve collateral was liquidated by HUD to satisfy debt principal payments due. Although this action served to minimize late payments, the impact on the college of lost endowment was considered by the school's officials to be a major financial disappointment.

At some of the schools visited, the approval of moratoriums on Federal debt service was helpful in keeping a weakening financial condition from getting worse. However, some of these schools' officials were concerned about what would happen if HUD or HEW determined that their schools' financial condition was once again sound enough to support the required Federal debt service. Our review of schools' financial records indicated that most of the schools were not in a financial position in fiscal year 1975 to pay off their total debt service due. In fiscal year 1975, most of these schools were still reporting operating deficits on their financial statements.

However, the school officials questioned were generally committed to repaying the Federal debt accumulated through their campus expansion projects. Some stated that they were planning to include both current debt service and repayment of deferred or delinquent payments in future budgets. However, several college presidents suggested that the Government consider forgiving the Federal facility construction debt accumulated by many colleges which expanded during the period of growing enrollment. These officials generally believed that such forgiveness would help maintain current improvement in their financial condition. One college official stated that the same Federal educational institution partnership which helped build "needed" facilities should also apply now that these facilities have become a financial burden on colleges which entered into that partnership.

REASONS FOR SERIOUS FINANCIAL TROUBLE

School officials generally referred to three factors which they believed to be the primary causes for their institutions' financial problems.

--Decline in full-time enrollment.

--Increases in salary and fuel costs and expanded debt service associated with facility construction projects undertaken in the 1960s.

--Inability to deal promptly and effectively with the financial problems which began in the early 1970s.

Also, several school officials cited inaccurate budget projections, poor financial planning, untrained or understaffed administrations, and too little effort to increase enrollment and raise funds from private and public sources. We discuss several problems beginning on page 53, which are outside the influence of private colleges.

Declining enrollment

Declining student enrollment and the subsequent decline in student-generated revenue (tuition and fees) were repeatedly cited by officials at the 19 financially troubled liberal arts II colleges visited as a major influence contributing to the financial problems experienced from 1970 to 1975. This was generally borne out by the financially troubled schools responding to the questionnaire.

Eighty-eight percent of the financially troubled schools considered that declining enrollment had a very large influence upon their current financial condition. Fifty-six percent of the more stable schools reported that declining enrollment had played a significant role in their continuing struggle for financial solvency. (See table 14.)

Table 14

Extent of Influence Enrollment Decreases Have Had on the Current Financial Condition

Extent of influence	Enrollment decrease: Financially troubled	Enrollment decrease: Financialy stable
	(Percent)	
Substantial to very large	88	56
Moderate	8	15
Some to no	2	11
Not applicable	2	18
	100	100

Of the 19 private liberal arts II colleges visited, 11 experienced enrollment declines from fall 1970 to fall 1975. Of these 11 schools, 8 had enrollment declines of over 20 percent, and 4 schools' enrollments decreased by 40 percent or more. Many school officials cited their institutions' inability to compete with lower tuition State-supported schools as the primary reason for the declines.

At most schools visited, tuition and fee revenue represented between 60 and 90 percent of total unrestricted revenue available for current education and general operating costs. Because of this reliance on student generated tuition and fee revenue, operating budgets of the liberal arts II colleges were highly vulnerable to declines in enrollment.

During the period of declining enrollment, all private liberal arts II colleges visited raised tuition to offset decreases in revenue. From school years 1970-71 to 1974-75, tuition and fees at these private liberal arts II colleges rose an average of about 50 percent. By substantially increasing tuition and fees, many schools marginally increased operating revenues to offset declining student enrollment, but they may have further diminished their competitive positions with lower-priced public colleges. Thus, while operating revenue from tuition and fees increased per student, the increased per student costs discouraged many prospective students from attending private liberal arts II colleges.

Rapidly increasing current operating costs

Some school officials told us that increased operating costs also caused financial problems. These officials cited (1) rapid increases in utility rates and salaries, (2) added debt and maintenance costs from new campus facilities, and (3) inflation as influencing the increase in operating costs. Also, many schools visited and many responding to the questionnaire said that they had increased the amount of student financial aid coming from the schools' unrestricted current funds.

Current operating expenses at the 19 institutions visited had, on the average, increased about 40 percent during the period 1970 to 1975. A majority of the increase was attributable to the three major operating expenditures--instructional costs, support services for the institution's instructional programs, and operational support for the day-to-day functioning of the institution. These three categories of operating expenditures averaged about 70 percent of total unrestricted current fund operating expenditures (expenditures from moneys not designated by institutions' governing boards for other than operating purposes) in fiscal year 1975 at institutions visited.

For the most part, the increase in operating costs experienced by these schools is reflective of the debt-financed campus expansion efforts undertaken in the 1960s. These added dormitory and academic facilities represented, in addition to a long-term commitment to annual debt service payments, a substantial increase in utility and maintenance costs, and staff and salary expenses. These are operating expenses which are influenced by inflation.

Instructional costs

Instructional expenses increased an average of 27 percent from fiscal year 1970 to 1975 at the 19 schools visited. At four schools, they rose over 75 percent. Officials at the four institutions attributed the increase to faculty expenses and the addition of some new academic programs. At seven schools where instructional expenses declined, school officials cited discontinuing programs and eliminating faculty positions as reasons for the decline.

Even when faculty salaries increased at these liberal arts II schools, officials stated that faculty salaries were still below the level of State colleges of comparable size and curriculum. At most schools visited, the average salary for full professors was below $16,000 and instructors received an average salary of less than $10,000. A study 1/ by the American Association of University Professors reported the national average salary for professors and instructors at public institutions was $18,260 and $10,750 respectively.

Academic and institutional support costs

Academic and institutional support expenditures increased an average of 35 and 57 percent respectively at the schools visited during the period 1970 to 1975. Some of this increase can be attributed to increases in salaries for administrators and staff which, however, were also generally below salaries for similar duties performed at State institutions.

Operation and maintenance costs

Expenditures for operation and maintenance at the schools visited represented about 13 percent of the total unrestricted current operating expenditures in fiscal year 1975. These expenditures increased an average of almost 100 percent since 1970. Officials at several schools said that some increases resulted from higher utility and fuel costs caused by inflation and campus expansion projects.

According to the National Institute of Education, utility costs paid by colleges and universities rose 17.8 percent in the year ended June 30, 1977.

Inflation effects

Inflation affected the financial condition of financially troubled and stable schools to a considerable extent. For example, about 83 percent of the schools responding to the questionnaire cited the extensive influence of inflation. No school indicated that inflation had only a slight influence. A major factor related to inflation was the increase in salary costs with 64 percent of the institutions considering it to have a great impact.

1/Two Steps Backward: Report on the Economic Status of the Profession, 1974-75 (American Association of University Professors), 1975.

Effects of increased student aid programs

Many schools visited had increased their student aid programs an average of 60 percent between 1970 and 1975. This experience was also common among other small colleges. Over half the schools responding to the questionnaire stated that their proportion of student financial aid had increased in the last 5 years, and many said that these increases had adversely influenced their financial condition. The expenditure of unrestricted current funds for student aid reduces the amount available for debt service and other current costs. However, some school officials said that the increase in institutional student financial aid was necessary to remain competitive with public schools. The use of unrestricted funds for student aid was described as helping to offset the greater and increasing cost of college advantage held by public schools.

Most schools responding to the questionnaire reported that in fiscal year 1975, over 50 percent of their students received some form of student financial aid and that over 20 percent of all student aid was funded from the schools' unrestricted current revenue. One college did not provide unrestricted student financial aid. Financial aid administrators at some of the schools visited said that institutional student aid had in recent years become a burden on the schools' budgets and was being reduced to free limited funds for other operating purposes.

Lack of prompt and effective administrative controls

Several officials at schools visited said budget deficits caused by unrealistic student enrollment projections, poor financial accounting, and understaffed administrative offices contributed to their financial problems. The schools were not prepared for the student enrollment declines which began in the late 1960s and early 1970s, and as a result, increases in revenues which were expected to be sufficient to repay construction debts and to cover increased operating expenses were not realized.

At one school, the president stated that actual enrollment, which peaked at about 1,250 students in 1970, was about 10 percent below what had been projected. Between 1970 and 1975, enrollment averaged about 1,100 and dropped to about

1,000 students in 1974. He commented that the school's budget could not absorb such miscalculations of student enrollment when expected revenue per student exceeded $2,000 annually.

The president told us that a general lack of control over the budget process caused the inaccurate revenue projections. There was essentially no review of budget submissions from the school's academic and administrative departments. This resulted in unrealistic enrollment projections and inaccurate estimates of annual expenditures due to omitted or underestimated normal operating costs. Budgets were annually presented to the board of trustees virtually unchanged even after enrollment had declined and deficits had been incurred for several consecutive years. The school's business manager said that in fiscal year 1976, the school took a more realistic look at enrollment and revenue projections in attempting to balance the school's budget.

At another school, the student tuition and fee-billing procedures resulted in accounts receivable from student tuition and fees rising from about $60,000 in 1970 to over $300,000 in 1975. The school's business officer expected these receivables to exceed $500,000 in 1976. The school's failure to collect on these past due accounts resulted in cash flow problems that necessitated increased borrowing through short-term notes to meet operating costs. In 1975 short-term notes totaled over $700,000. A substantial portion of the receivables was owed by graduates, and the school was annually writing off a portion of these receivables as uncollectable. Not until 1975 had this school instituted procedures to collect student accounts receivable before graduation.

Officials at several colleges said that recruitment efforts during the period of declining enrollment were either not well organized or totally dependent on some traditional referrals from alumni or church affiliations. According to officials at one such school, recruiting efforts were not begun until 1968, and not until 1975 was a formal recruiting and admissions program funded sufficiently to provide for a full-time director.

Inadequate fund raising efforts

Fund raising at many of the schools visited was also deficient. Very few schools had successfully organized major drives to raise operating funds during the early 1970s. An official at one school stated that no active fund raising program existed prior to 1974. At another school, fund raising was not active until 1976.

One traditional source of funds is alumni gifts. According to several officials, alumni gifts were not a significant source of funds because the schools were:

--relatively young, with small numbers of alumni;

--changing their image by becoming coeducational or offering nontraditional programs, and alumni did not identify with the "new" school; or

--predominantly for women, and studies indicate that women tend to contribute less to their alma maters.

CHAPTER 4

EFFORTS TO IMPROVE FINANCIAL CONDITIONS

While the financial condition of the 19 liberal arts II schools during our visits was not prosperous, many had improved their financial condition since the early 1970s. In fiscal year 1975, most schools reported less severe deficits than in previous years. Enrollment at these schools stabilized or increased. Many schools had strengthened budgetary controls, improved fund raising to obtain gifts and grants, organized alumni recruitment efforts, and began recruiting nontraditional college-age (i.e., ages other than 18 to 24) students. Other recent studies concluded that private institutions generally maintained stable financial conditions. This greater stability could be affected by economic uncertainties, legislative changes affecting higher education, and the future education decisions of prospective students.

Schools responding to the questionnaire relied on means similar to the 19 schools visited to improve their financial condition. These schools also resorted to reducing faculty costs to varying degrees, depending on their financial condition. The schools responding perceived that direct grants to institutions and to students and tax deductible contributions could provide the most benefit to them financially.

We believe that small colleges experiencing financial problems could benefit by considering actions taken by some of the financially stronger small private colleges to safeguard their solvent positions.

CURRENT FINANCIAL CONDITION

During our study, many schools reviewed had improved their financial condition from the early 1970s. Two other recent studies concluded that the private institutions maintained a stable position. A Carnegie Council study 1/ stated that

> "* * * Overall, the private sector in 1976-77 appears to be holding its own financially, but with great variations among institutions and with a possible reduction in the quality of some facilities and some programs. The current stability

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1/The States and Private Higher Education: Problems and Policies in a New Era (Carnegie Council on Policy Studies in Higher Education), 1977.

of the sector as a whole is due partly to self-help efforts by the private institutions and partly to increasing state and federal government responsiveness to the new need of the private sector for financial support."

Similarly, a report prepared under the auspices of the Association of American Colleges 1/ concluded in part that

> "The private sector held its own in 1976-77 in enrollment and admissions. There were no adverse changes and no great leaps forward. The future enrollment situation remains uncertain in view of the well-known demographic changes due in the 1980s and in view of the increasing interest of students in vocational education. However, up to 1976-77, the private sector has on the whole maintained its position in both numbers and academic qualifications of its students."

In fiscal year 1975, most of the small private liberal arts II schools we visited reported deficits which were less severe than in previous years. (A few schools reported surpluses.) The debt-service moratoriums approved by both HUD and HEW were significant factors in providing relief to these schools. School officials said their recent financial condition would have been worse if the moratoriums had been rejected and payments to HUD and HEW had been required.

According to Federal Reserve Bank delinquency lists for March 1978, several colleges had become current on their HUD construction loans. Of the 19 troubled liberal arts II colleges visited, 15 were delinquent on debts to HUD as of September 1975; 2/ as of March 1978, 11 of those were still delinquent. Eight colleges were delinquent on debts to HEW as of September 1975; 9 were delinquent as of November 1977.

1/W. John Minter and Howard R. Bowen, Private Higher Education--Third Annual Report on Financial and Educational Trends in the Private Sector of American Higher Education (Association of American Colleges), 1977.

2/Four of these were delinquent to both HEW and HUD.

ACTIONS TO INCREASE REVENUES

Schools visited and schools responding to the questionnaire tried to increase revenues by increasing enrollment by emphasizing recruitment and changes in program offerings at the schools, and increasing gift and grant moneys to reduce reliance on tuition and fees. Officials at the schools visited said that although many of them are qualified to conduct Federal research projects, they have been unsuccessful in obtaining significant amounts of such research funds.

Increased enrollment through recruitment and program changes

Over 60 percent of the schools responding to the questionnaire have made extensive use of marketing techniques in recruitment with considerable success. About 50 percent of the stable and 28 percent of the declining enrollment schools said that supplementing curricula with new instructional programs was most successful in increasing enrollment. The more solvent schools eliminated virtually no programs to improve their circumstances, but about 40 percent of the troubled schools eliminated programs. Schools with stable or increasing enrollment were significantly more successful in each of their efforts at attracting students.

As a result of their efforts to increase enrollments, several schools visited improved, but at others improvement was still needed. For example, enrollment continued to decline at 4 of the schools, 5 schools had been able to stop the downward slide--stabilizing at a new lower level--, and 10 schools had reversed the earlier pattern of enrollment losses and realized enrollment increases of 6 to 26 percent.

Among the several actions taken by schools visited were:

--actively recruiting students rather than relying on an inflow of students from traditional sources;

--concentrating on visits to high schools where past visits had been productive;

--contacting students interested in the school rather than making overall presentations to broad groups of prospective students;

--establishing or enlarging full-time recruiting staffs;

--keeping recruiting records to determine which methods, types of students, and areas resulted in the greatest success;

--working more actively with churches and parochial schools to stimulate the interest of potential students;

--seeking more students from public high schools and other more general sources, in addition to traditional church-related sources;

--mailing information to potential students identified on college entrance examination listings;

--encouraging alumni and students to provide names of potential students; and

--lowering entrance requirements.

Of the five schools which lowered entrance requirements, two found that the policy may have been counterproductive because students who could not meet the original admission standards had trouble maintaining normal levels of course work and had a high drop-out rate. Also, the school lost the respect of the better students. Two schools which lowered their standards subsequently raised them. Still, other schools have raised their admission standards in attempting to upgrade their quality.

Generally, school officials indicated their recruitment efforts had been at least moderately successful; however, if in the late 1970s the numbers of 18- and 19-year-olds completing college-preparatory programs decrease (as OE projects they will) and the tuition gap between public and private colleges continues to grow, private colleges could face increased difficulty competing for and attracting these "traditional" students. Nevertheless, potential students for the small private schools are being found in other population groups.

At six of the troubled schools visited, transfer students had increased between the falls of 1970 and 1975 while freshmen admissions had decreased. At one college, transfer students attracted by the college's continuing education programs consistently outnumbered freshmen since 1970. Officials from two other schools added that transfer students from 4-year public colleges were seeking a school with a more personal atmosphere. Community colleges have become a growing source of transfer students for some schools visited.

Over two-thirds of the troubled schools visited were emphasizing vocationally oriented programs or continuing education. Schools had added programs in physical therapy, business administration, environmental science, radio and television production and management, Muslim studies, physician's associate, music management, and resort management. Officials and publications indicated that most of these schools were maintaining a liberal arts emphasis within these vocationally oriented programs. Some of the programs had been successful in attracting students.

In addition to their efforts to attract new students as a means of increasing their schools' enrollment, officials at five colleges said they were working to improve their schools' retention rates. Much of the benefit of increased recruitment is lost if newly gained students transfer or drop out of school. Several schools were confronting this problem at the recruiting level by taking steps to more fully inform potential students about the school. For example:

--Several colleges conducted personal interviews with potential students and encouraged them to visit the campus for a weekend and, in some cases, live in the dormitories and talk to the students, counselors, faculty, and financial aid staff.

--One school, as a member of the federally funded National Task Force on Better Information for Student Choice, had developed a prospectus for its applicants. The prospectus included a listing of the strengths and weaknesses of various departments, an evaluation of library resources, and the best liked and least liked features of the college, based on student interviews.

Increased efforts to obtain gifts and grants

The liberal arts II colleges visited were working to reduce their dependence on tuition revenues by more actively seeking gifts and grants. Efforts were directed toward private, State, and Federal sources of funds. Since most schools visited were not making debt service payments and some were also incurring operating deficits, their fund raising efforts were directed toward gifts which were unrestricted or for operations or retirement of debt. Some school administrators said that these types of gifts were difficult to obtain because donors wanted to restrict gifts to specific uses.

The schools responding to the questionnaire also had increased efforts to obtain gifts to improve or maintain conditions. These efforts resulted in marginal success. Substantial efforts were also devoted to obtaining increased grants, with slight success.

At the second school, the development officer said that although the school had received a large foundation grant, he believed that the school's liberal arts emphasis was a deterrent to attracting foundation money, which in his opinion was generally career oriented.

In the last few years States have become increasingly involved in student aid; all but one of the schools visited received State moneys for student financial aid. In the 1969-70 academic year, 19 States sponsored student grant programs. By academic year 1976-77, all but two States were offering State grants or loans, and one of them was awaiting legislative authority for a planned program. The State Student Incentive Grant Program authorized in 1972 provided stimulus for this rapid expansion.

According to the National Association of State Scholarship and Grant Programs, the expected 1977-78 student aid contributions by States was about $746 million. This is a 14.5 percent increase over the 1975-76 contribution of $651.4 million. The Association also indicated that about 53.8 percent of the 1976-77 dollars awarded went to students at private institutions.

A 1978 book 1/ in the Brookings Institution series of studies in higher education policy advocated a national student marketplace where a greater percentage of State aid to higher education would be student-based. By directing any increases in State outlays for higher education to student aid programs, it was believed that over time an equilibrium might be reached wherein States provide a substantial but lower percentage of public sector institutional support. This would be achieved by the Federal Government providing incentives to the States to allow portability of State student assistance grants and adequate financing through an explicit national policy.

1/Edited by David W. Breneman and Chester E. Finn, Jr. with the assistance of Susan C. Nelson, Public Policy and Private Higher Education (The Brookings Institution), Washington, D.C., 1978.

Besides grants and scholarships, 5 States sponsored work-study programs and 17 financed or guaranteed student loan programs as of January 1976. Furthermore, where constitutionally permitted, States have established programs of direct (institutional) aid which include

--making payments on the basis of degrees granted to State residents,

--providing appropriations for specific private schools,

--negotiating contracts for interinstitutional cooperative projects,

--aiding schools which provided special services to disadvantaged students, and

--making payments to private institutions based on the number of State residents enrolled or the number of courses taken by State residents at each institution.

For example, two States--Illinois and Oregon--gave direct grants/contracts to private institutions for State residents enrolled. In Illinois, the fiscal year 1976 payments were $100 per year for each freshman or sophomore and $200 for each junior or senior. In Oregon, it was $425 for every 45 quarter hours completed. The president of a troubled school visited was quoted in one report 1/ as saying that the State funds provided "the margin that frees the institution to concentrate on doing things other than just surviving."

Participation in statewide planning for postsecondary education is another area where there has been an increased awareness on the part of the Federal Government and the States of the need to consider all elements, including the private sector of postsecondary education. Section 1202 of the Higher Education Act of 1965 as amended by the Education Amendments of 1972 authorized the creation of statewide comprehensive planning commissions to include representatives from the general public and public and private postsecondary institutions. Initially, these commissions were believed to be ineffective by the postsecondary education community. Although OE believes that the States are primarily responsible for statewide planning of postsecondary education,

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1/The Impact of State Assistance on Oregon's Private Colleges and Universities (University of Oregon), 1974.

OE believes that the States have (1) an awareness of the need to consider all postsecondary elements and resources within a State, (2) communication among all groups involved in higher education, and (3) greater involvement of the private sector. OE did not request further funding of these commissions in its fiscal year 1979 budget justification.

In commenting on our draft report, the Deputy Commissioner of the Missouri Department of Higher Education said that he was concerned that OE was undoing the initiatives that established the 1202 commissions. He believes that by not requesting further Federal funds for the activities of the commissions and by deleting from its regulations the requirement for commission reviews of various proposals and projects from institutions within a State, OE will remove the coordination of Federal programs with State initiatives that had been achieved. He said that although the amount of Federal funds was small, it legitimized the participation of the commissions in many areas.

The following statistics from the 1976 report of The Carnegie Foundation for the Advancement of Teaching publication, The States and Higher Education, show an increased awareness of the need to include all postsecondary education in the planning process.

> "* * * In 1940, there were no commissions comparable to the present 1202 commissions * * *; today they exist in 46 States. * * *
>
> "In 1940, only one state (New York) had some form of planning or coordination or regulation that covered private colleges and universities; today 49 have such arrangements * * *."

The troubled liberal arts II schools we visited have sought Federal funding. In fiscal years 1974 and 1975, the most commonly sought were student financial aid funds and library resources grants, which were received by the 19 schools visited. The library grants, which were relatively small, were generally considered by school administrators to have only marginal impact upon their schools. The impact of student aid programs was rated much higher. At many colleges visited, the Federal share of student financial aid had increased at a faster rate than institutional aid.

Of the 19 schools, 9 obtained grants totaling about $1.8 million under the Strengthening Developing Institutions of Higher Education Program (Title III, Higher Education Act of 1965, as amended (20 U.S.C. 1051)) (see app. II) during fiscal years 1974 and 1975. Appropriations under the Title III program have totaled $110 million annually in recent years. These funds were used to develop and improve the schools' curricula, faculties, administrative capabilities, and student services. Administrators at most recipient colleges rated the program's impact on their institutions as substantial.

Two schools also obtained Federal grants from the Fund for the Improvement of Postsecondary Education. (See app. II.) This is a small grant program which totaled $11.5 million for fiscal year 1977. These funds were used to revitalize these schools' liberal arts missions by implementing curricula which respond to the students' individual needs and goals.

The Education Amendments of 1976 (Public Law 94-482) provided for certain programs which might, in the long run, assist private colleges and universities. The 1976 Amendments

--authorized a pilot program of State processing of Basic Educational Opportunity Grant applications provided that the participating States allow interstate portability of State student incentive grant funds for use at the majority of educational institutions outside the States, and

--established a program of grants to the States to design and develop a program to increase the proficiency of institutional and State financial aid administrators.

Difficulties in obtaining Federal research grants

A 1975 report prepared for HEW by the College Entrance Examination Board 1/ noted that Federal research support to colleges and universities helps educate students and, of primary importance, promotes and maintains faculty competence, and preserves the role of postsecondary institutions as critics in our society. The National Science Foundation Act of 1950, as amended, stated:

1/Federal Policy Issues and Data Needs in Postsecondary Education (College Entrance Examination Board), 1975.

"* * * it shall be one of the objectives of the Foundation to strengthen research and education in the sciences, including independent research by individuals, throughout the United States, and to avoid undue concentration of such research and education."

Six of the liberal arts II colleges we visited received grants (mostly small) in fiscal years 1974 and 1975 from the National Science Foundation, a major source of higher education research moneys. However, a 1975 report 1/ by the Education Commission of the States noted that most (84 percent) Federal research funding is received by universities. Supporting this contention, table 15 shows that public and private liberal arts II schools received only 0.2 percent of fiscal year 1974 research funds although such schools accounted for about 6 percent of the national enrollment and 20 percent of the Nation's schools

Table 15

Federal Research and Development Obligations to Liberal Arts II Schools Fiscal Year 1974

Source	Allotment to all schools	Liberal arts II public schools		Liberal arts II private schools		All liberal arts II Total	
	Amount	Schools	Amount (000 omitted)	Schools	Amount (000 omitted)	Schools	Amount (000 omitted)
Department of Health, Education, and Welfare	$1,129,171	5	$ 449	17	$1,101	22	$1,550
National Science Foundation	376,096	4	203	9	211	13	414
Department of Defense	184,491	2	66	4	168	6	234
Department of Agriculture	96,703	1	406	0	0	1	406
Atomic Energy Commission (note a)	94,371	0	0	3	26	3	26
National Aeronautics and Space Administration	91,957	1	8	15	616	16	624
Other	112,497	2	1,052	5	211	7	1,263
Total	$2,085,286	b/8	c/$2,184	b/37	d/$2,333	b/45	e/$4,517

a/Now a part of the Department of Energy.

b/Some schools received awards from more than one source.

c/Amounts to 0.10 percent.

d/Amounts to 0.11 percent.

e/Amounts to 0.22 percent.

1/Towards a More Effective Federal/State Partnership Related to Private Higher Education (Education Commission of the States), 1975.

Officials in two schools visited contended that although they were qualified to do certain types of research in the social and natural sciences, they did not have the administrative time or skills needed to comply with preparing requirements for a Federal research grant. An official of one school summarized this position as follows:

> "Because of the complexity of the various grant applications, many extremely small independent colleges find themselves unable to apply for research funds simply because they cannot afford to devote the time and manpower to such application procedures. The independent college is not seeking more than its fair share of such funds. It seems that a disproportionate amount of Federal research funds are [is] going to an extremely small number of major institutions. While it may be that many independent colleges lack the facilities and, in some cases, the expertise to secure such contracts, it would seem to me that this conclusion can be reached without a factual basis. It is my opinion that many invisible (small) colleges could and should be allowed to participate in various research and development programs on a 'set aside' basis."

National Science Foundation officials agreed that private liberal arts II schools were not consistent participants in Federal research and development activities, however, they said that funding research and development activities did not reflect the Foundation's total support for colleges and universities. These officials said that small liberal arts schools were actively engaged in the Foundation's programs of support for the general academic sciences. They believed that academic sciences' support provided many liberal arts schools with significant funds to carry on various activities. They said that these schools' success ratio (applications to awards) for general academic sciences support was .426 compared to an overall success ratio of .493 for all schools.

ACTIONS TO REDUCE EXPENDITURES AND IMPROVE MANAGEMENT

In addition to their efforts to balance institutional budgets by increasing revenues, school officials were working to reduce their schools' expenditures and to improve their management. Actions were taken to reduce or increase faculty and administrative staffs according to increases or decreases in student enrollment; some schools cut back on maintenance activities, some entered into reciprocal agreements with other schools to share facilities, and some have utilized cost analysis techniques for various school operations.

Continued reduction of institutional expenditures could have serious consequences. Where salaries were minimally increased, some schools were having difficulty in attracting and retaining high quality faculty; and where maintenance cutbacks have been incurred, facilities may become less than adequate. As one report concluded: "For some institutions, the price of financial stability may be erosion of quality and service." 1/

However, others have found that quality and service have been maintained at private institutions. For example, in commenting on the results of his studies on private higher education, Dr. Howard Bowen stated:

> "Overwhelmingly, the institutions reported improvement in the qualifications, competence, and performance of faculty. The percentage of faculty with Ph.D's has been increasing; the general competence of newly-appointed faculty exceeds that of those previously appointed; the inclination of the faculty to be innovative is increasing; the faculties are becoming more concerned with teaching and advising students than formerly, and there is even some evidence of gains in research and scholarship." 2/

The President, Higher Education Research Institute, Inc., in commenting on our draft report, also noted that recent research indicates that generally small private liberal arts colleges provide a quality education to their students.

Attempts to reduce faculty and administrative staff costs

Faculty salaries are a major operating expenditure for labor-intensive colleges. Even when enrollments are declining, reducing faculty size can be difficult. Administrators at several colleges visited said tenure policies reduced the

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1/Task Force on State Policy and Independent Higher Education (Education Commission of the States), 1977.

2/Dr. Howard R. Bowen, Are the Private Colleges Slipping? (Association of Governing Boards of Universities and Colleges), May/June 1976, p. 11.

schools' ability to change or reduce the faculty. Despite tenure, however, faculty size had been reduced at 13 of the schools visited, and in 7 cases, reductions were made in response to declining student enrollment. In response to recent improving financial enrollment trends, 11 schools visited were adding faculty. Administrators at two of those schools indicated that they were hiring faculty for new programs. Five schools were adding administrative staff.

Based on the questionnaire, 70 percent of the schools reporting serious or substantial financial trouble attempted to reduce faculty, while less than 20 percent of the financially more stable schools took similar actions.

Most schools which increased existing faculty salaries did so more slowly than the national rate of inflation. Accreditation review reports and administrators at these schools commented on the difficulty of attracting and retaining high-quality faculty when salaries are far below average.

Maintenance cutbacks

Four colleges visited cut back on maintenance activities. One school, which had deferred regular maintenance for 2 years, experienced a substantial increase in major maintenance and repairs in the third year. The president of another school said that maintenance cutbacks had resulted in declining quality of the physical plant. A needed upgrading of space and equipment in the science facilities was adversely affecting student recruitment and retention, and was jeopardizing that college's accreditation.

Educators have estimated that between $22 and $35 billion may be needed nationwide to offset the cost of maintenance work that colleges have put off since the campus expansions of the 1960s.

Reciprocal agreements enable schools to share facilities

Two schools had been able to reduce costs through reciprocal agreements with other schools. One school had agreements with two schools which allowed it to cut back in weak curriculum areas, while allowing its students to attend courses in those subjects at the two other schools. The second school was a member of a college consortium which gave students access to eight libraries.

Schools have utilized cost analysis

Three schools found cost analysis to be useful. Two of them found it more economical to award contracts for services they had been providing themselves. One school transferred the management of its cafeteria to a private contractor. The second hired contractors to provide both food service and the cleaning of buildings and grounds. The third school cut costs by providing in-house maintenance, which had previously been contracted.

As a result of these schools' efforts to improve their financial conditions, they became aware of weaknesses in their management procedures and systems. This awareness led to:

--More stringent budgeting procedures. Certain schools no longer permit budgeting for a deficit.

--More participation by boards of trustees.

--Long-range planning.

--Use of consultants, especially for one-time needs, such as improving recordkeeping systems, developing fund raising campaigns, and implementing grant projects.

ACTIONS OUTSIDE THE CONTROL OF SMALL PRIVATE COLLEGES THAT COULD HAVE AN IMPACT ON THEIR FINANCIAL CONDITION

External actions which could improve financial condition

Most colleges visited were interested in external assistance, but the type that would allow institutions to control the use of funds. These schools stated that almost all forms of external assistance would provide considerable help in improving their financial condition.

Table 16 (see p. 52) shows that both the financially troubled and the financially stable schools responding to the questionnaire believed that the most helpful actions external to their schools would be direct grants to institutions and to students and the continuation of tax deductible contributions. These were considered by nearly 80 percent of these small colleges to be an extensive help in improving their solvency, regardless of their current financial condition.

Significant differences between the groups in perceived impact are evident in only 3 of the 12 actions listed. The troubled schools stated that categorical grants to institutions and grants to States for distribution to institutions would provide extensive help in improving their financial condition. Those schools in favorable financial condition are less likely than troubled schools to consider these actions as helpful in improving their financial condition.

Table 16

Percent of Schools Citing Extensive Help From Actions External to the Institutions

	Degree of financial difficulty	
	Substantial financial difficulty	Little or no financial difficulty
	(Percent)	
Direct facilities grants to institutions	51	61
Direct grants to institutions	93	84
Direct grants to students	78	73
Facilities loans to institutions	14	34
Federal support student loan bank	49	44
Direct loan to students	47	46
Tax credit for student expenditures	66	57
Interest subsidies	54	38
Categorical grants to institutions	66	47
Grants to States for distribution to institutions	63	44
Grants to States for distribution to students	69	55
Tax deductible contributions	78	81

We also analyzed perceived differences between <u>public</u> and <u>private</u> schools responding to the questionnaire, regarding the extent to which Government assistance through some form of financial help would contribute to improving their financial condition. Table 17 shows a ranking of various Government actions these schools perceived to have an extensive impact on improving their financial condition.

Table 17

Schools Indicating Substantial Help From Federal Actions

	Percent	
	Public	Private
Grants directly to students	39	79
Income tax credit for student and/or family expenditure	39	60
Grants to States for distribution to students	29	60
Federally sponsored student loan bank	16	46
Other loans directly to students	16	59
Tax deductible contributions	45	81

External actions which could weaken financial condition

Although the small private schools were guardedly optimistic about their future financial condition, certain limits to this optimism are held by many of these colleges. For example, 39 percent of the schools responding to the questionnaire stated that outside influences (e.g., inflation) not within an institution's control would make it more difficult to improve or maintain its current financial condition.

A number of these schools were contacted in a subsequent attempt to further identify these outside influences. School officials said that "outside influences" included:

--increased minimum wage;

--increase in payroll taxes due to changes in the social security legislation;

--growing energy costs;

--increased administrative efforts to meet the compliance, reporting, and recordkeeping requirements of Federal programs addressing such activities as safety and health, 1/ students' privacy rights, 2/ the handicapped, 3/ and civil rights. 4/

Additional concerns were expressed by these same schools regarding the impact of proposed legislation, such as changes to the tax code, which would reduce or eliminate charitable contributions as a tax deductible item. As one administrator stated, this could have a "devastating" effect on (their) operations. (See also p. 57.)

Another concern regarding proposed changes to retirement legislation raising the minimum mandatory retirement age to 70 years could require retaining those higher salaried senior faculty electing to work until that age.

Similarly, the American Council on Education studied the impact of certain Federal programs on colleges and universities. 5/ The study included programs, such as equal employment opportunity, age discrimination, retirement benefits, occupational safety and health, environmental protection, and social security tax increases. The Council study stated that:

> "All these programs involve costs that are not explicitly recognized or provided for by any of the sources of financial support for institutions of higher education. These costs include increased administrative and legal expenses, increased wages and benefits to employees, additional tax contributions, physical plant investments, and increased operating expenses."

1/Occupational Safety and Health Act of 1970 (Public Law 91-596).

2/Family Educational Rights and Privacy Act of 1974 (Public Law 93-380).

3/Rehabilitation Act of 1973 (Public Law 93-112).

4/Civil Rights Act of 1964 (Public Law 88-352).

5/The Costs of Implementing Federally Mandated Social Programs at Colleges and Universities (American Council on Education), 1976.

Some of the conclusions reached by the Council study include the following.

> "As new mandated programs were added over the 1965-75 decade, the costs increased considerably faster than increases in instructional costs or in total revenues. Thus, to cover these mandated costs, institutions have had either to generate added revenues or to cut expenditures.
>
> "Administering these federal programs is itself costly, having increased over the decade from a negligible share to as much as one-eighth to one-fourth of general administrative costs.
>
> "By far the greatest cost increases result from increases in social security taxes: i.e., taxes on employment. Inasmuch as colleges and universities are highly labor-intensive, employment taxes fall especially heavily on them."

The study hypothesized that private institutions may bear relatively heavier cost burdens in implementing social programs than do public institutions which may be able to appeal to State legislatures for assistance in meeting some of the costs. This differential impact may contribute to the widening tuition gap between public and private institutions.

Also, the Commission on Federal Paperwork in its April 29, 1977, report on education, stated that:

> "Smaller independent colleges, which receive the major portion of their income from students, fear that additional costs of paperwork will require increases in tuition."

THE FINANCIALLY SOLVENT SCHOOLS: SOME REASONS FOR THEIR CONDITION

Three financially solvent schools were visited to discuss the reasons for their strength with their administrators. Included were two selective independent liberal arts I schools and one church-affiliated liberal arts II school. The schools were located in Maine, Washington, and California and had student enrollments ranging from about 1,100 to 2,100. These schools had little trouble maintaining established enrollment ceilings.

The three schools visited were characterized by strong and conservative management of educational resources. For example, generally no construction took place unless funds were readily available. One school recently turned down a $75,000 grant from a national foundation because the proposed project would have required an additional $225,000 from the school, which it was not able to provide at that time.

The two liberal arts I schools have strong recruiting programs. Enrollment at these two schools was stable or increasing during the period from 1969 to 1976. One school, still highly selective in its recruitment with a 10:1 application to acceptance ratio, established a strong recruiting program which featured alumni involvement. The alumni contact prospective students, "sell" them on the school, and are involved in screening applicants.

The financially solvent liberal arts II school has enjoyed steady enrollment increases over the past 6 to 7 years. According to the school's president, its student surveys disclosed that students enrolled because of the school's church-related tradition, strong liberal arts approach, and close faculty/student contacts. Unlike liberal arts I schools, the school relied heavily on word-of-mouth recruiting. During the visit, we were told that the school had a substantial backlog of admissions applicants and a high retention rate for enrolled students.

The three schools also had strong development programs which resulted in sizable endowment balances at two of them. The size of endowments can be a function of age; however, at one school, the endowment increased from about $2 million in the early 1960s to about $30 million as of fiscal year 1976. School officials stated that a sizable foundation grant which required matching funds at a 2:1 rate provided the impetus for the growth of the endowment funds to the present level. A result of its development effort was a booklet for alumni and other interested people explaining ways to plan charitable gifts and save on taxes.

Despite relatively strong financial conditions, officials at two liberal arts I schools are concerned about projected national declines in enrollments, and they have taken actions to improve their positions. For example, one school is conducting an analysis to better identify its students' backgrounds and reasons for enrolling. Both schools also continue to increase alumni involvement in both national and local recruiting efforts. In recognizing the growing tuition differential between the public and private sector, the liberal arts I schools have also attempted to raise more money to build up their scholarship fund for needy students, and to continue to improve the quality of their education programs.

Officials at all three schools were concerned about possible Federal tax law changes affecting charitable contributions. The three critical tax provisions generally mentioned by education officials are

--the deduction of charitable contributions of individuals and corporations,

--the deduction of the fair market value of appreciated securities and real estate, and

--the unlimited estate tax deduction for charitable gifts.

A Carter administration proposal, although not affecting the deduction for charitable contributions, would eliminate or reduce deductions for medical expenses, casualty losses, sales, gasoline, and personal property taxes. Projections indicate that such changes would reduce the percentage of taxpayers who itemize from about 24 to 16 percent. This might reduce the incentive for people to contribute to charities. However, another proposal has been introduced (H.R. 11183) to allow taxpayers to deduct gifts to charity whether they elect the standard deduction or itemize their deductions. If tax laws are changed and charitable contributions and itemization of deductions become less attractive to donors from a tax standpoint, then the strength of many schools (including small private schools) could be eroded. School officials might then be forced to use endowments to fund current operations.

A president of one of the financially strong schools suggested the following alternatives that officials at schools facing immediate financial problems might take to alleviate their condition.

--Identify the institution's strengths based on tradition and then work toward expanding and improving those strengths.

--Analyze the enrolled students to determine who has been, is, and could be served by the instituition's approach to education and program offerings.

--Identify faculty and administration composition and streamline operations. For example, it was suggested that smaller colleges might not need Ph.Ds to teach certain classes and that, in some cases, faculty members could perform some administrative functions, thus reducing professional administrative staff.

--Emphasize the student social process on campus and highlight such activities. Students and their parents are again looking at the campus social environment as a positive factor in selecting the college to attend.

The president stated that strengthening a financially troubled institution would be difficult and would require decisions and changes that might encounter resistance from many segments of the involved institution. Accordingly, a governing board that was committed to improvement and pragmatic in its decisions would be needed.

CHAPTER 5

SUMMARY, CONCLUSIONS, AND RECOMMENDATION

SUMMARY

Several national studies have concluded that one-fourth to one-third of private higher education institutions reviewed were experiencing financial difficulty. However, two recent studies of private institutions concluded that, generally, they have held their own financially. Our review indicated that the schools experiencing the most serious financial problems are private liberal arts II colleges and universities. However, the financial condition at many of these previously troubled schools has improved due to actions they have taken to (1) increase revenues, (2) improve management of available educational resources, and (3) make their schools more attractive to prospective students. State and federally funded higher education programs have also been an important factor in the liberal arts II schools' somewhat improved financial condition.

The financial crisis

At the time of our fieldwork (1975-76), many private liberal arts II colleges were in arrears on their debt service payments to the Government and also had substantial excess capacity that could accommodate more full-time students (see p. 29) without significant additions to plant or faculty.

Most schools became heavily indebted because of facility construction and expansion projects initiated in the late 1960s to meet projected enrollment increases. Although national enrollments at public 4-year and 2-year community colleges grew steadily and substantially since the 1950s, enrollments at these private liberal arts II schools declined in the early 1970s.

To meet growing operating expenses and the increased long-term indebtedness associated with facility expansion, the schools raised tuition and fees to offset declining enrollments. Consequently, the difference in these costs between public and private colleges doubled from school years 1965 to 1975. This became a disadvantage to private schools competing for students with State-subsidized institutions--especially the fast-growing, low-priced community colleges.

Many school officials acknowledged that overoptimistic expansion projects, ineffective management of resources, and a general lack of efforts to upgrade recruitment and to develop private and public financial support all contributed to their financial deterioration.

Efforts to improve

Many small private schools have tempered the effects of the "new depression in higher education" attributable to the late 1960s and early 1970s. Based on information compiled by the National Center for Education Statistics, the number of 4-year privately-controlled institutions which closed rose from 3 in academic year 1971-72 to a peak of 13 in 1974-75, and then decreased to 6 in 1977-78.

The most pressing short-term financial problems experienced by the small private liberal arts schools during this period have been tempered by

--more stringent budgetary controls and intensive efforts to recruit new students,

--the increase in private gift-giving, and

--the addition of occupational programs to satisfy a wider variety of student interests and needs.

Individual institution efforts to stimulate financial improvement have also been aided by State and Federal programs, particularly those programs directed at improving student access to higher education. Many States have programs of institutional and student aid, and most States provide student aid funds to private schools. According to OE, States are aware of the need to (1) consider all postsecondary elements and resources within them and (2) involve private institutions in planning for higher education within them. Federal higher education student assistance programs have also had a major positive impact on the financial condition of small private schools. (See pp. 43 to 46.)

Outlook

Most school officials contacted during the review were guardedly optimistic about their future, and they anticipated that actions taken to improve prior institutional weaknesses would cause financial improvement. Most expected their financial situation to improve within the next 5 years. Two recent studies reached similar conclusions. (See p. 38.)

College officials at most schools responding to the questionnaire stated that continuing Federal and State programs for higher education would contribute to improving their institutions' financial condition. College officials cited the need to continue or increase Federal tax advantages and to encourage the general public to either attend or support private colleges.

Opinions of the Carter administration and many Members of Congress and education associations differ on the best means to provide students with greater access and choice to postsecondary institutions. Some favor increased funding of existing student assistance programs, and others favor tax incentive measures or new programs. (See p. 6.)

Officials at private institutions are concerned about future increases in energy costs and the costs of complying with such federally mandated social programs as social security tax increases, privacy legislation, antidiscrimination legislation, and improving access for the handicapped. (See pp. 53 to 55.)

Some Federal alternatives for small private colleges

Schools could apply for funding through HEW grant programs. Included are the Title III Strengthening Developing Institutions Program and the Fund for the Improvement of Postsecondary Education; however, both of them are relatively small.

The Strengthening Developing Institutions Program assists developing colleges in strengthening their academic, administrative, and student service activities so that they may participate in the higher education community. Most of the small liberal arts colleges we observed could have benefited from such assistance in their efforts to improve their recruiting and administrative programs. Some schools received developing institution funds which, according to school officials, had a very positive impact on their efforts.

The Fund for the Improvement of Postsecondary Education provides grants and contracts for innovative projects in postsecondary education that demonstrate more effective approaches in the delivery of educational programs. Since many small liberal arts colleges are taking or considering actions which relate to the Fund's objective of innovative approaches to educational programs, they might benefit from such projects. Two of the schools visited did apply and were awarded grants from the Fund.

The Government also awards substantial numbers of research grants to the higher education community. Research support is beneficial to colleges and universities as a means of helping educate students and promote and maintain faculty competence.

Officials at some small private liberal arts colleges stated that their institutions could do research for the Government. Apparently, research in the social sciences, mathematics, and some of the natural sciences could be accomplished by many of these schools. However, most of the Federal research funds go to major public and private universities.

A school official suggested that a "set-aside" program involving a percentage of the National Science Foundation appropriation, for example, be established and made available only to research-eligible small public and private colleges and universities. This would enable some of these schools to acquire Federal research project funds without which they might otherwise be unable to compete for with larger, more comprehensive schools.

National Science Foundation officials, however, remarked that the set-aside concept is foreign to the best interests of the Foundation and the Government. They said that the Foundation prefers to consider the merits of each proposal individually and fund the most qualified proposals regardless of who submitted them.

CONCLUSIONS

Although many private liberal arts II schools have experienced serious financial troubles, many have improved their financial condition. The change and the guardedly optimistic outlook held by these schools is due, in part, to their own corrective actions.

Although primary responsibility for financial improvement is at the institutional level, several Federal grant programs are available which could assist schools in their efforts to improve (1) the Title III Strengthening Developing Institutions Program, (2) the Fund for the Improvement of Postsecondary Education, (3) or research grants from the National Science Foundation. Although the Title III program and the Fund for the Improvement of Postsecondary Education are relatively small, and small private liberal arts II colleges have not received large National Science Foundation research grants, these Federal programs might enable some of these schools to make improvements.

The Government has accommodated many schools in serious financial trouble by granting moratoriums on debt-service payments for academic facilities and college housing loans. However, the extensive Federal debt owed by many schools is a continuing obligation that will affect their financial condition for the next 40 to 50 years.

Because of the long-range influence of Federal loans for campus expansion and the unpredictability of national enrollment trends, future higher education facility loan programs should require a more careful examination of individual college needs, financial capabilities, and potential enrollment growth before approving a loan. Such precautions might prevent awarding loans that are secured on essentially the hope of enrollment growth.

For some private liberal arts schools, the general feeling of guarded optimism toward future financial improvement might be shortlived. The National Center for Education Statistics stated that by academic year 1980-81, a declining enrollment trend for private colleges and universities will have begun. The problem will be further compounded when in 1983-84 enrollment in the public sector will begin declining. (See table 5, p. 15.) In such an environment, competition with lower-priced public colleges and universities for prospective students could become especially severe for small private liberal arts II colleges.

Limited budgets, already stretched by many schools to capacity, will be tested to provide additional funding needed to sustain programs, curriculum improvements, and teaching innovations--long a tradition of private liberal arts education. The future financial viability of many private colleges is further complicated by the prospect of continuing inflation. Changes in social security tax legislation and the minimum wage; Federal requirements in the area of assistance to the handicapped; and safety, students' privacy rights, and antidiscrimination programs will likely add to the administrative and operational burdens of these schools.

The Congress has stated that institutions of higher education are a national resource. Although private institutions have generally stabilized their financial condition (as noted during our review and other recent nationwide studies involving higher education), this could change in the near future. Declining student enrollments, decreasing revenues, and spiraling operating costs created, in part, by Federal program requirements could adversely affect the financial condition of many of these institutions.

The Congress needs to consider the impact that such legislation as aid to the handicapped, safety requirements, antidiscrimination, privacy, and social security taxes has on institutions of higher education.

RECOMMENDATION TO THE CONGRESS

The Congress should require the Secretary of Health, Education, and Welfare to periodically assess the financial condition of postsecondary educational institutions. In undertaking such assessments the Secretary should consider the several national standard indicators for determining the financial status of the different types of postsecondary educational institutions which were suggested by the National Commission on the Financing of Postsecondary Education in its December 1973 report. 1/ The Commission recognized that there was not a consensus on basic requirements for distress analysis or key indicators, financial or non-financial, for postsecondary education; however, it suggested several preliminary indicators of institutional financial status, general enterprise-wide indicators, and indicators of external conditions which it thought could be used to analyze the financial status of institutions over an extended time period.

COMMENTS OF INTERESTED PARTIES

In commenting on our draft report, experts within HEW and the postsecondary education community doubted that adequate indicators of financial distress presently exist, even though HEW has been trying to develop them because it realized the importance of assessing the financial health of the Nation's various postsecondary educational institutions. These HEW officials said that because of the diversity of institutions in the United States it is difficult to arrive at a consensus of what constitutes financial health. HEW officials also cautioned that the usefulness of a strictly financial analysis of postsecondary institutional health would be limited because many qualitative factors such as quality of management and programs also affect an institution's ability to survive.

We believe that the National Commission on the Financing of Postsecondary Education recognized that there were many qualitative factors that must be measured, and it made

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1/Financing Postsecondary Education in the United States (Washington: U.S. Government Printing Office), December 1973, pp. 218-219.

suggestions in this regard which could be the basis for further development by the Secretary of HEW. We believe that if the financial condition of certain institutions deteriorates, the Congress should have the best available information on the extent and nature of institutional problems so that it may make the most informed judgments regarding the need and extent to which it might assist such institutions, either through existing programs or through new legislation.

Most reviewers of the report agreed that information on the financial health of our Nation's postsecondary institutions would be beneficial; however, they generally agreed that if the Congress decided to increase assistance to institutions in financial distress that the best method of assisting these institutions would be through increases in present student assistance programs rather than through direct emergency type institutional assistance programs, such as those authorized by the Education Amendments of 1972 (see p. 1), which they believed to be unworkable.

Some reviewers believed that the report makes a case for stronger recommendations to the Congress than to require a study by the Secretary of HEW. We believe, however, that the guardedly optimistic outlook of officials at institutions we reviewed and queried indicates that actions taken by schools to improve their situations have been at least partially effective, and, therefore, it would be proper to periodically reassess the situation of institutions to determine whether continued improvement or stabilization occur or whether the projected significant enrollment declines imperil certain categories of institutions.

It should be noted that some educators believe that institutions may have purchased their stable financial positions at the expense of eroded educational quality. However, recent studies indicate that, generally, small private liberal arts colleges still provide quality education to their students.

GLOSSARY

Accreditation	the process whereby an agency or association grants public recognition to a school, institute, college, university, or specialized program of study which meets certai[n] established qualifications and educational standards as determined through initial and periodic evaluations.
Comprehensive colleges	private institutions with at least 1,500 students or public institutions with at least 1,000 students which offer a liberal arts program plus at least one professional or occupational program such as engineering or teacher training. They may offer masters degrees, but have extremely limited or no doctoral programs.
Current funds	all funds which are not designated by the institution's governing board for other than operating purposes.
Debt service	the amount required to pay the interest and the part of the principal due on a debt.
Liberal arts I colleges	institutions with liberal arts programs which were above average on selectivity compared to other liberal arts colleges (based on average test scores of their entering students) or were among the 200 leading baccalaureate-granting institutions in terms of graduates receiving Ph.Ds at leading doctoral-granting institutions. They include colleges which were not classified as comprehensive because of low enrollment or low numbers of nonliberal arts degrees granted.

Liberal arts II colleges	institutions with primarily liberal arts programs which were not classified as comprehensive or liberal arts I.
Moratorium	an officially sanctioned suspension of payment which is applied for by the higher education institution and is granted based upon the financial circumstances of the institution.
Restricted funds	money given to the institution for a very specific purpose and which must be used only for that purpose.
Unrestricted funds	money that the institution's management may use for any purpose it deems necessary.

SUMMARY OF SELECTED FEDERAL PROGRAMS TO

ASSIST POSTSECONDARY EDUCATION

CONSTRUCTION OF ACADEMIC FACILITIES

Loans for the construction of academic facilities were authorized by the Higher Education Facilities Act of 1963, as amended (20 U.S.C. 1132c). The program objective is to provide loans to institutions of higher education or higher education building agencies for the construction of academic facilities and to insure loans. At least 20 percent of the cost of developing the facility must be financed from non-Federal sources. Loans are also to be repaid within 50 years.

CONSTRUCTION OF COLLEGE HOUSING FACILITIES

The Housing for Education Institutions Program, under the Housing Act of 1950, as amended (12 U.S.C. 1749), provided Federal loans to educational institutions for the construction or purchase of housing or other educational facilities. Annual grants were also available under this program to reduce the cost of an educational institution's borrowing from other sources for such construction or purchase. Loans must be repaid within 50 years; annual grants are made over fixed periods not to exceed 40 years.

WORK-STUDY PROGRAM

The College Work-Study Program was authorized by the Higher Education Act of 1965, as amended (42 U.S.C. 2751). The program promotes the part-time employment of students--particularly those with great financial need--who require assistance to pursue courses of study at institutions of higher education. The program pays 80 percent of the earnings of eligible students in eligible jobs, which may be either at the institution itself (except in the case of proprietary institutions) or in work in the public interest for any public or private nonprofit organization under an arrangement with the institution.

NATIONAL DIRECT STUDENT LOANS

The National Direct Student Loan program was incorporated into part E, title IV of the Higher Education Act of 1965, as amended (20 U.S.C. 1087aa) by the Education Amendments of 1972. The objective of the program is to establish loan funds at eligible higher education institutions to permit needy undergraduate and graduate students to complete their education. The aggregate of loans for all years cannot exceed

--$10,000 for any graduate or professional student,

--$5,000 for a student having completed 2 years of a program leading to a bachelor's degree but not yet having completed degree work, and

--$2,500 for other students.

GUARANTEED STUDENT LOANS

Parts B and E, title IV of the Higher Education Act of 1965, as amended, authorized the Guaranteed Student Loan Program (20 U.S.C. 1071).

Under the Guaranteed Student Loan Program, loans are made to students by such participating lenders as commercial banks, savings and loan associations, credit unions, and educational institutions. These loans are insured by OE or by State or private nonprofit guarantee agencies which have reinsurance agreements with OE.

The maximum loan may not exceed $2,500 per academic year. Total loans outstanding may not exceed $7,500 for undergraduate or vocational students and $15,000 for graduate students.

Borrowers are expected to begin repayment 9 to 12 months after they cease to be at least a half-time student. The repayment period normally extends from 5 to 10 years with a minimum repayment of $360 annually. However, the Education Amendments of 1976 allow the borrower and lender to agree to payments of less than $360. Repayment may be deferred for full-time study. Also, if the student is seeking employment but is unable to find it, a one-time, one-year payment deferment may be allowed.

STRENGTHENING DEVELOPING INSTITUTIONS

The Strengthening Developing Institutions Program was authorized by the Higher Education Act of 1965, as amended (20 U.S.C. 1051-1056). Its objective is to assist developing colleges strengthen their academic, administrative, and student services' programs so that they may adequately participate in the higher education community.

Developing institutions may receive funds from OE for cooperative arrangements, National Teaching Fellowships, and Professors Emeritus grants. Cooperative arrangements can be between two or more developing institutions; better established institutions; and/or other agencies, organizations, or business entities with whom they can share resources. The program has two principal thrusts: namely, basic institutional development and advanced institutional development. The advanced program is predicated on the selection of a small number of developing institutions that are at the relatively advanced point where a substantial input of Federal funds over several years will move them rapidly toward the mainstream of American higher education.

Financial assistance in fiscal year 1975 ranged from $100,000 to $667,000 for basic institutional awards, and $1,000,000 to $3,000,000 for advanced program awards.

FUND FOR THE IMPROVEMENT OF POSTSECONDARY EDUCATION

The Fund For The Improvement Of Postsecondary Education was authorized by the Education Amendments of 1972, as amended (20 U.S.C. 1221d). The program provides grants and contracts for innovative programs in postsecondary education. The Fund provides project grants for activities sponsored by institutions and agencies which develop and demonstrate more effective approaches to the provision of postsecondary education. Priority is given to activities which relate to

--learner-centered change,

--increased cost-effectiveness,

--increased diversity, and

--needed structural change.

Grants have ranged from $4,000 to $300,000 and have averaged about $70,000.

STUDENT GRANTS (BASIC)

The Basic Educational Opportunity Grant Program was authorized by the Higher Education Amendments of 1972, as amended (20 U.S.C. 1070a). The program's objective is to assist in making the benefits of postsecondary education available to qualified students. All students must have been accepted for enrollment in, or be in good standing at, an eligible institution of higher education. This includes public or private nonprofit colleges, universities, vocational-technical schools, and hospital schools of nursing. Also, students must be enrolled on at least a half-time basis in an undergraduate course of study. They are eligible for up to 4 years of undergraduate study (or 5 years in some cases). Amounts of grants are determined by family contribution schedules, cost of education, and level of appropriation; during the review, these grants were limited to $1,400; however, subsequent increases were enacted.

STUDENT GRANTS (SUPPLEMENTAL)

The Supplemental Educational Opportunity Grant Program was authorized by the Education Amendments of 1972, as amended (20 U.S.C. 1070b). The program enables students of exceptional financial need to pursue higher education by providing grant assistance for educational expenses. Grants must be awarded by public or private nonprofit institutions of higher education. Colleges and universities must offer at least 2 years of baccalaureate study; business schools, at least a 1-year course of study; or a proprietary institution of higher education, at least a 6-month course of study. Grants are for undergraduate study and range from $200 to $1,500 per academic year, with a total limit of $4,000 or $5,000 for 4- or 5-year duration of payments.

ANALYTICAL APPROACH TO QUESTIONNAIRE SURVEY

As part of the review, we sent questionnaires to schools to obtain their observations on their perceived financial condition.

We analyzed groups of institutions within the Carnegie Commission on Higher Education private school classification (see table 1, p. 9) to show that combining the institutions into one called "private institutions" would not overshadow any uniqueness attributable to the Carnegie categories of private schools included in the private school sample. Predominantly black schools and seminaries, which appeared in the Carnegie liberal arts II universe, were excluded from analysis. Predominantly black schools' participation in Federal programs, such as the Strengthening Developing Institutions Program, was generally greater than other schools' and the seminaries could generally rely on stable religious community support. These schools had narrowly-defined entrance requirements; therefore, we believed that including these institutions in the analysis of the small private colleges' financial condition was inappropriate.

The financial, enrollment, and Federal program participation characteristics of the remaining private colleges were compared with relatively few significant differences revealed. Private liberal arts I colleges and private liberal arts II schools for men or women only were notably smaller in terms of enrollment, and a lesser portion of their student body received some form of financial aid. Although these schools differed on these two characteristics from the private liberal arts II coeducational colleges, they were very similar on other descriptive characteristics. Moreover, the analysis showed that many other categories of private colleges responding to the survey had similarities in such key variables as enrollment experience, financial characteristics, and actions taken to improve enrollment and financial condition. We, therefore, concluded that combining them into a single category--"small private college"--would be appropriate and would not confound results.

A copy of the questionnaire follows.

U.S. GENERAL ACCOUNTING OFFICE

SURVEY OF THE FINANCIAL CONDITION OF SMALL COLLEGES

DO NOT WRITE IN THIS BLOCK
STATE ___ ___ COLLEGE ___ ___

PURPOSE OF THE REVIEW

The purpose of this review is to:

(1) Identify the financial or financially related problems that our Nation's smaller institutions of higher education are encountering.

(2) Identify the types and effectiveness of the institutions' internal efforts to resolve the problems, and

(3) Obtain administrators' assessments of the various governmental and other programs presently available to assist education institutions.

INSTRUCTIONS

Throughout the questionnaire you will be asked to answer questions by checking the appropriate box. These boxes contain numbers for coding purposes. The preferred manner of responding is to simply place the check mark over the number.

Example: [1]
[2] ✓
[3]

Note on statistical presentation of response distributions:

All response distributions are presented as percents except Q.3, Q.6, Q.7, and Q.10. The latter three questions are presented as percents and as absolute numbers of responses.

I. GENERAL INFORMATION

1. Please indicate the name and location of your institution.

____
(Institution)

____
(City) (State)

2. We realize that the information requested here may have to be supplied by several individuals. You may wish to have various sections of the questionnaire answered by officials from appropriate administrative areas or you may wish to hold a meeting at which the consensus of these officials can be reached. In either case, we would like to have the name, title and telephone number of the person who will be available for further questioning.

____
(Name)

____
(Title)

____
(Area Code) (Telephone Number)

3. This institution is: (Check one)

Public

230 Private (See pp. 72 and 93.)

4. What is your institution's total investment (before depreciation) in plant and equipment as of June 30, 1975?

$ 8.4 million
(mean amount)

5. This amount is the: (Check one)

13 Appraised value

87 Book value

This questionnaire has been designed so that you can separate it if you desire to give each section to an appropriate school official.

If you choose to fill out the questionnaire in this manner, please be sure to reassemble all of the sections before returning it to the U.S. General Accounting Office.

II. LOAN INFORMATION

6. For each outstanding facility construction loan that you have from the Department of Housing and Urban Development (HUD) or the Department of Health, Education, and Welfare (HEW), please indicate.

[1] the source of the loan
[2] type of loan — direct or annual interest grant
[3] the project number of the loan
[4] the series of the loan
[5] the year of the loan
[6] the original amount of the loan (for annual interest grants provide the total amount of development costs approved by HUD or HEW)

If you do not have any such loans
24 Check here and go to Question 11.

	[1] Source (Check One)		[2] Type of Loan (Check One)		[3] Project Number	[4] Series	[5] Year of Loan	[6] Amount of Loan (Actual Amount)
	HUD	HEW	Direct	Annual Interest Grant				
(1)								
(2)								
(3)								
(4)								
(5)								
(6)								
(7)								
(8)								
Total	379	140	434	57				$2.3 million (mean)
%	73	27	88	12				

7. For each outstanding facility construction loan that you have from the Department of Housing and Urban Development (HUD) or the Department of Health, Education, and Welfare (HEW) please indicate the *status of the loan payments* to be applied to the principal, the interest, and the reserve or sinking fund (contingency for principal and interest, and repair and replacement combined). Do this by checking either current, delinquent, or moratorium (temporary suspension of payment). For each loan, please use the same line number used in the preceding question.

	Principal (Check One) [1]			Interest (Check One) [2]			Reserve or Sinking Fund (Check One) [3]		
	Current	Delinquent	Moratorium	Current	Delinquent	Moratorium	Current	Delinquent	Moratorium
(1)									
(2)									
(3)									
(4)									
(5)									
(6)									
(7)									
(8)									
Total	401	21	89	429	21	62	353	36	113
%	78	4	17	84	4	12	70	7	23

8. Have you ever requested or been granted a moratorium (temporary suspension of payment) on the facility construction loans mentioned above?

37 Yes (GO TO QUESTION 9)

63 No (GO TO QUESTION 10)

9. For each time that you have requested a moratorium, please supply the following information:
   [1] the project number of the loan
   [2] the series of the loan
   [3] the date of the moratorium request
   [4] the status of the request (denied, approved or pending)

[1] Check here if no requests have been made.

	[1] Project Number	[2] Series	[3] Date of Request (Month/Year)	[4] Status of Request (Fill In One)			
				Denied -1	Approved		Pending -4
				(Month/Year)	Date -2 (Month/Year)	Time Granted (Months) -3	(Check)
(1)							
(2)							
(3)							
(4)							
(5)							
(6)							
(7)							
(8)							

10. Consider the *HUD - financed* facilities that you have; for each one, indicate,
    [1] the project number, series and name of the facility
    [2] the type of facility (housing or dining)
    [3] the current age of the facility (in years)
    [4] the *current* operational experience as of June 30, 1975 for each facility
    [5] the operational experience when the facility was approximately half its current age

	[1]			[2]		[3]	[4] Current (Check One)			[5] Half Current Age (Check One)		
	Project Number	Series	Facility Name	Type of Facility (Check One)		Current Age (Years)	Revenues Exceed Expenditures	Revenues Equal Expenditures	Expenditures Exceed Revenues	Revenues Exceed Expenditures	Revenues Equal Expenditures	Expenditures Exceed Revenues
				Housing	Dining							
(1)												
(2)												
(3)												
(4)												
(5)												
(6)												
(7)												
(8)												
			Total	334	51		201	67	123	252	45	75
			%	87	13		51	17	32	68	12	20

This questionnaire has been designed so that you can separate it if you desire to give each section to an appropriate school official.

If you choose to fill out the questionnaire in this manner, please be sure to reassemble all of the sections before returning it to the U.S. General Accounting Office.

III. ENROLLMENT

11. What was your average full-time student enrollment for school year 1975-76 (excluding summer school)? (Check one.)

7	250 or less
22	251 - 500
26	501 - 750
20	751 - 1,000
13	1,001 - 1,250
6	1,251 - 1,500
6	1,501 or more

12. What was your average part-time student enrollment for school year 1975-76 (excluding summer school)? (Check one.)

28	50 or less
22	51 - 100
15	101 - 200
10	201 - 300
7	301 - 400
4	401 - 500
14	501 or more

13. What is the full-time equivalent (FTE) of part-time student enrollment indicated in Question 12? (assume approximately 12 credit hours per semester and 9 credit hours per trimester as full-time.) (Check one.)

35	25 or less
19	26 - 50
17	51 - 100
18	101 - 150
7	151 - 200
6	201 - 250
8	251 or more

14. What percent of your full-time student enrollment for the fall of 1975 resided in on-campus living facilities? (Check one.)

8	0 - 9 percent	13	50 - 59
6	10 - 19	16	60 - 69
6	20 - 29	14	70 - 79
6	30 - 39	13	80 - 89
13	40 - 49	5	90 - 100

15. Compare your enrollment for the school years 1970-71 and 1975-76. What has been the change from 1970-71 to 1975-76? (Check one.)

18	Increased greatly	(Go to Question 17)
32	Increased somewhat	(Go to Question 17)
10	Stable	(Go to Question 17)
21	Decreased somewhat	(Go to Question 16)
19	Decreased greatly	(Go to Question 16)

*16. To what extent have each of the following caused a decrease in student enrollment at your institution since school year 1970-71? (Check one box per item.)

	Not Applicable	Very Large Extent	Substantial Extent	Moderate Extent	Some Extent	Little or No Extent
(1) Tuition increases	5	5	22	20	33	20
(2) Lower tuition and fee charges at public schools	4	34	40	12	12	2
(3) Construction of new postsecondary institution(s) close by	10	14	20	15	28	23
(4) Increase in competition from other schools	4	17	23	25	23	12
(5) Discontinuance of programs	18	3	2	6	20	69
(6) Failure to offer new programs	12	4	12	14	27	43
(7) Change in traditional college-age students' attitudes about college	4	11	18	31	24	16
(8) Increase in entering academic requirements	19	0	2	7	13	78
(9) Decrease in entering academic requirements	20	0	0	7	3	90
(10) Loss of faculty	14	0	0	11	18	71
(11) Inadequate student aid	4	14	17	22	18	29
(12) Other (please specify)	29	72	14	0	7	7

17. To what extent have you used or are you using each of the following to attract more students? (Check one box per item.)

	Very Large Extent	Substantial Extent	Moderate Extent	Some Extent	Little or No Extent
(1) Clarification of the purpose of the institution	22	28	18	18	14
(2) Change in the purpose of the institution	8	6	7	17	62
(3) Increase in the use of marketing techniques in recruitment	28	32	20	14	6
(4) Attempt to attract new student markets (e.g., part-time, nontraditional age groups)	22	29	21	18	10
(5) Addition of new instructional program(s)	14	30	30	21	5
(6) Increase in institutional aid	11	19	26	27	17
(7) Other (please specify)	39	22	10	0	29

If you have attempted to attract more students, after completing Question 17, Go to Question 18. If you have not attempted to attract more students, check here 3 and Go to Question 19.

*(See note on page 81.)

*18. How much success have you had in attracting more students with the method(s) you have used? (Check one box per item.)

		Not Applicable	Too Soon to Tell	Very Great Success	Substantial Success	Moderate Success	Some Success	Little or No Success
(1)	Clarification of the purpose of the institution	13	19	8	13	25	28	7
(2)	Change in the purpose of the institution	48	18	5	13	17	19	28
(3)	Increase in the use of marketing techniques in recruitment	3	11	10	29	28	19	3
(4)	Attempt to attract new student markets (e.g., part-time, nontraditional age groups)	4	7	14	23	22	25	9
(5)	Addition of new instructional program(s)	4	10	12	29	26	21	2
(6)	Increase in institutional student aid	12	4	9	18	33	27	9
(7)	Other (please specify)	64	13	17	37	8	17	8

19. How many more full-time students could you accommodate without significant addition to faculty, housing, and classrooms? (Check one.)

2	None	16	100 - 124
3	1 - 24	7	125 - 149
7	25 - 49	9	150 - 174
7	50 - 74	9	175 - 199
8	75 - 99	32	200 or more

*The percent for Not Applicable is the number of respondents who answered Not Applicable divided by the total number of respondents. The percents for the remaining responses are the number who gave that response divided by the total number of respondents less those who answered Not Applicable and less those who did not respond to the question.

This questionnaire has been designed so that you can separate it if you desire to give each section to an appropriate school official.

If you choose to fill out the questionnaire in this manner, please be sure to reassemble all of the sections before returning it to the U.S. General Accounting Office.

IV. STUDENT FINANCIAL AID

20. What percent of the student body enrolled at your institution is receiving some form of financial aid from any source (your institution, Federal Government, State or local government, or other)? (Check one.)

1	0 - 9 percent	17	50 - 59
2	10 - 19	24	60 - 69
5	20 - 29	21	70 - 79
5	30 - 39	13	80 - 89
8	40 - 49	4	90 - 100

21. Considering all of the financial aid received by your students, what percent is currently funded from the total unrestricted income of your institution? (Check one.)

17	0 - 9 percent	8	50 - 59
22	10 - 19	2	60 - 69
20	20 - 29	1	70 - 79
20	30 - 39	1	80 - 89
8	40 - 49	1	90 - 100

22. How does the percent you indicated in Question 21 compare with the proportion for school year 1970-71? (Check one.)

21	Current is much greater than that for 1970-71
33	Current is somewhat greater than that for 1970-71
21	About the same
18	Current is somewhat less than that for 1970-71
7	Current is much less than that for 1970-71

This questionnaire has been designed so that you can separate it if you desire to give each section to an appropriate school official.

If you choose to fill out the questionnaire in this manner, please be sure to reassemble all of the sections before returning it to the U.S. General Accounting Office.

APPENDIX III

V. FINANCIAL CONDITION

23. How would you characterize the current financial condition of *your* institution? (Check one.)

- 10 Serious financial trouble
- 15 Substantial financial trouble
- 24 Moderate financial trouble
- 30 Some financial trouble
- 21 Little or no financial trouble

24. How does your current financial condition compare with that of school year 1970-71? (Check one.)

- 21 Very much improved
- 23 Somewhat improved
- 16 About the same
- 26 Somewhat worsened
- 14 Very much worsened

* 25. To what extent has each of the following influenced your current financial condition? (Check one box per item.)

	Not Applicable	Very Large Extent	Substantial Extent	Moderate Extent	Some Extent	Little or No Extent
(1) Increase in enrollment	37	18	31	14	20	17
(2) Decrease in enrollment	40	44	24	11	8	13
(3) Increase in operating costs due to inflation	1	47	36	12	5	0
(4) Increase in salary costs	2	25	40	25	9	1
(5) Decrease in salary costs	80	4	0	12	11	73
(6) Increase in gifts	20	13	20	29	20	18
(7) Decrease in gifts	60	5	12	25	16	42
(8) Increase in grants	27	10	16	22	22	30
(9) Decrease in grants	63	4	7	17	30	42
(10) Cost of new programs	12	6	15	23	31	25
(11) Decrease in contributed services	52	4	17	18	17	44
(12) Increase in number of students requiring financial aid	3	16	35	23	18	8
(13) Other (please specify)	72	36	52	9	3	0

*The percent for Not Applicable is the number of respondents who answered Not Applicable divided by the total number of respondents. The percents for the remaining responses are the number who gave that response divided by the total number of respondents less those who answered Not Applicable and less those who did not respond to the question.

*26. To what extent have you taken action on each of the following to *improve or maintain* your financial condition? (Check one box per item.)

	Not Applicable	Very Large Extent	Substantial Extent	Moderate Extent	Some Extent	Little or No Extent
(1) Increased tuition and fees	2	14	39	34	11	2
(2) Increased fund-raising activities	2	26	41	19	11	3
(3) Increased efforts to obtain grants	3	16	28	24	21	11
(4) Decreased institutional student aid	47	1	1	14	21	63
(5) Improved cost accounting system	10	8	22	23	34	13
(6) Increased recruitment	3	31	37	21	8	3
(7) Reduced faculty	21	6	14	24	27	29
(8) Eliminated programs	22	2	5	17	30	46
(9) Utilized consultants	16	2	14	19	38	27
(10) Other (please specify)	76	29	29	28	9	5

*27. How much success have you had in improving or maintaining your financial condition with each of the actions which you have taken (as specified in Question 26)? (Check one box per item.)

	Not Applicable	Too Soon to Tell	Very Great Success	Substantial Success	Moderate Success	Some Success	Little or No Success
(1) Increased tuition and fees	2	6	6	28	34	21	5
(2) Increased fund-raising activities	3	7	10	18	30	27	8
(3) Increased efforts to obtain grants	5	5	4	12	19	32	28
(4) Decreased institutional student aid	60	2	0	1	14	21	62
(5) Improved cost accounting system	14	6	4	19	23	30	18
(6) Increased recruitment	4	8	9	23	32	23	5
(7) Reduced faculty	29	1	6	14	19	30	30
(8) Eliminated programs	31	3	1	6	16	28	46
(9) Utilized consultants	23	7	3	8	18	33	31
(10) Other (please specify)	77	5	14	38	24	10	9

*See note on page 87.

APPENDIX III

28. What do you anticipate the impact of your actions (as indicated in Question 26) to be on the financial condition of your institution in the near future (next 5 years)? (Check one.)

- 8 Financial condition will improve greatly
- 57 Financial condition will improve somewhat
- 26 Financial condition will remain the same
- 8 Financial condition will worsen somewhat
- 1 Financial condition will worsen greatly

29. Which of the following describes the effect which factors outside your control (e.g., inflation) have on the financial condition of your institution? (Check one.)

- 61 Although outside influences affect the institution's financial condition, the institution should be able to improve or maintain its present financial condition.
- 39 Outside influences play an important role and make it difficult or impossible for the institution to improve or maintain its present financial condition.

30. What is the level of interfund borrowing (e.g., borrowing of funds from the scholarship or loan fund and placing them in the current unrestricted fund) for the following time periods? (Check one box per line.)

	Great Amount	Substantive Amount	Moderate Amount	Some Amount	Little or No Amount
(1) Current school year 1975-76	3	5	10	16	66
(2) School year 1970-71	1	8	10	16	65

*The percent for Not Desirable is the number of respondents who answered Not Desirable divided by the total number of respondents. The percents for the remaining responses are the number who gave that response divided by the total number of respondents less those who answered Not Desirable and less those who did not respond to the question.

*31. Indicate the extent to which each of the following actions external to your institutional efforts could help improve your financial condition. (Check one box per item.)

	Not Desirable	Very Large Extent	Substantial Extent	Moderate Extent	Some Extent	Little or No Extent
(1) Facilities grants directly to institution	13	36	23	15	12	14
(2) Institution grants directly to institution	8	61	30	4	3	2
(3) Grants directly to students	2	46	33	13	6	2
(4) Facilities loans directly to institution	20	15	12	18	26	29
(5) Federally supported student loan bank	4	21	28	26	20	5
(6) Other loans directly to students	3	20	29	24	21	6
(7) Income tax credit for student expenditures	1	38	23	19	13	7
(8) Interest subsidies	4	21	24	21	25	9
(9) Categorical grants to institutions	8	30	28	22	16	4
(10) Grants to States for distribution to institutions	14	24	28	17	17	14
(11) Grants to States for distribution to students	4	32	29	18	16	5
(12) Tax deductible contributions	1	57	24	13	4	2

*32. The Congress has enacted and supported extensive education legislation during the 1960's and 1970's. For each of the following selected legislative programs:

[1] assess the impact on your institution over the 2 school years 1973-74 and 1974-75 combined.

[2] provide your best estimate of funds provided to your institution over the 2-year period.

Program	[1] Program Impact (Check One)						[2] Funds Provided (est.) (Check One)						
	Did Not Participate	Little or No Impact	Some Impact	Moderate Impact	Substantial Impact	Very Large Impact	None	$1-1,000	$1,001-5,000	$5,001-25,000	$25,001-50,000	$50,001-100,000	Over $100,000
HIGHER EDUCATION:													
(1) Title I–Community services and continuing education	71	41	36	17	4	2	80	2	7	5	4	1	1
(2) Title II–College library assistance library training & research	14	8	53	23	13	3	14	1	34	39	1	1	0
(3) Title III–Strengthening developing institutions	62	16	7	17	33	27	68	0	1	8	4	7	12
(4) Title IV–Student assistance: Part A–Basic opportunity grants	1	2	8	23	38	29	1	1	2	20	24	27	25
(5) Supplemental educational opportunity grants	4	3	11	24	31	30	3	0	3	22	15	27	30
(6) State student incentives	38	12	18	19	29	22	43	3	8	13	6	8	19
(7) Special programs for students from disadvantaged backgrounds	62	29	32	16	16	7	72	3	6	6	3	1	9
(8) Payments to institutions of higher education	73	38	31	7	17	7	85	0	3	5	1	2	2
(9) Veterans' cost-of-instruction payments to institutions of higher education	38	34	38	14	10	4	41	13	18	20	4	2	2
(10) Part B–Subsidized insured loans	16	15	21	24	23	17	18	3	9	13	11	14	32
(11) Part C–Work-study programs	5	2	10	22	40	26	5	0	1	16	21	25	32
(12) Part D–Cooperative education program	75	19	39	19	17	6	84	1	2	5	5	3	0
(13) Part E–National direct student loans	4	2	10	20	39	29	4	0	3	11	16	17	49
(14) Title V–Education professions development	87	50	22	14	7	7	96	0	1	1	0	0	2
(15) Title VI–Financial assistance for the improvement of undergraduate instructions	65	24	34	21	16	5	72	1	6	18	2	1	0

* See note on page 90.

*32. (Continued)

	[1] Program Impact (Check One)						[2] Funds Provided (est.) (Check One)						
Program	Did Not Participate	Little or No Impact	Some Impact	Moderate Impact	Substantial Impact	Very Large Impact	None	$1-1,000	$1,001-5,000	$5,001-25,000	$25,001-50,000	$50,001-100,000	Over $100,000
(16) Title VII–Construction of academic facilities	84	10	16	10	32	32	92	0	0	0	1	0	7
(17) Part A–Grants for construction of undergraduate facilities	84	9	13	17	30	31	89	0	0	0	1	1	9
(18) Part B–Grants for construction of graduate academic facilities	94	0	0	0	100	0	100	0	0	0	0	0	0
(19) Part C–Annual interest grants	77	18	18	24	21	19	84	1	1	6	4	1	3
(20) Part D–Assistance in major disaster areas	92	67	0	0	0	33	100	0	0	0	0	0	0
(21) Title VIII–Networks for knowledge	92	0	0	0	0	0	100	0	0	0	0	0	0
(22) Title IX–Graduate programs	93	0	100	0	0	0	100	0	0	0	0	0	0
(23) Veteran's Education and Training	46	21	42	12	17	8	54	7	5	15	6	4	9
(24) National Science Foundation	52	31	38	22	6	3	58	3	15	16	3	3	2
(25) Social Security Survivors: Educational Benefits	18	37	44	15	3	1	21	10	25	32	7	3	2
(26) Health Resources Administration	85	13	25	19	12	31	92	0	1	2	1	2	2
(27) National Institute of Education	88	50	20	0	10	20	97	1	0	0	1	0	1
(28) Fund for Improvement of Postsecondary Education	88	37	9	0	27	27	96	1	0	0	1	0	2

33. For *State funding* received for institutional and/or student financial aid for school years 1973-74 and 1974-75 combined:
[1] assess the impact of the State financial aid programs on your institution
[2] provide your best estimate of funds provided over the 2-year period.

[1]

PROGRAM IMPACT (Check one.)

10	Did not participate
5	Little or no impact
10	Some impact
15	Moderate impact
34	Substantial impact
36	Very large impact

[2]

FUNDING PROVIDED (Check one.)

11	None
1	$ 1 - $ 1,000
3	$ 1,001 - $ 5,000
8	$ 5,001 - $ 25,000
6	$25,001 - $ 50,000
16	$50,001 - $100,000
55	Over $100,000

* See note on page 90.

*(Note for pages 88 and 89.)

The percent for Did Not Participate is the number of respondents who answered Did Not Participate divided by the total number of respondents. The percents for the remaining responses are the number who gave that response divided by the total number of respondents less those who answered Did Not Participate and less those who did not respond to the question.

This questionnaire has been designed so that you can separate it if you desire to give each section to an appropriate school official.

If you choose to fill out the questionnaire in this manner, please be sure to reassemble all of the sections before returning it to the U.S. General Accounting Office.

VI. STATE POSTSECONDARY COORDINATING PLANNING COMMISSION

Final analysis of questions on this page was not considered necessary for purposes of this review.

34. Is there a State postsecondary coordinating planning commission (1202-type commission) in your State? (Check one.)

    Yes

    No

35. Listed below are a number of objectives which could be carried out by the 1202-type commission. For each, indicate the priority with which it should be done. (Check one box per item.)

	High Priority	Moderate Priority	Low Priority	Should Not Be Done
(1) Insure formal coordination between institutions				
(2) Develop a comprehensive State educational plan				
(3) Identify the educational needs of the State				
(4) Review and approve proposed new programs and recommendations concerning existing programs				
(5) Administer Federal and State programs				
(6) Develop, implement, and monitor a comprehensive and standardized statewide data system				
(7) Explore and encourage cooperation between the public and private sectors				
(8) Other (please specify) ____________ ____________ ____________				

36. To what extent has cooperation with the 1202-type commission in your State been of benefit to your institution in the *past*? (Check one.)

    No experience with commission

    Little or no extent

    Some extent

    Moderate extent

    Substantial extent

    Very large extent

37. To what extent will cooperation with the 1202-type commission in your State be of benefit to your institution in the *future*? (Check one.)

    No contact expected

    Little or no extent

    Some extent

    Moderate extent

    Substantial extent

    Very large extent

38. Do you have any examples (good or bad) of 1202-type commission activities in your State?

    No

    Yes (please describe)

    ____
    ____
    ____
    ____

39. If there are any comments concerning any of the topics covered in this questionnaire which you would like to make, please do so on the other side of this sheet.

APPENDIX III

COMMENTS

SURVEY SAMPLE AND RESPONSE

School type	Sample	Response	Response rate (percent)
Private			
Liberal arts I	7	5	71
Liberal arts II			
Mixed	207	189	91
Men only	1	1	100
Women only	34	29	85
Two-year college	7	2	29
Doctoral/Comprehensive	3	2	67
Other	3	2	67
Subtotal	262	230	88
Liberal Arts II/Predominantly black	28	15	54
Liberal arts II/Seminary	10	9	90
Total private schools	300	254	85
Public (includes liberal arts II, comprehensive I and II, and two-year colleges)	32	29	91
Total	332	283	85

GEOGRAPHIC DISTRIBUTION OF SCHOOLS RESPONDING TO THE QUESTIONNAIRE

	Number of responses	Percent
New England States:	22	8
CONNECTICUT		
MAINE		
MASSACHUSETTS		
NEW HAMPSHIRE		
RHODE ISLAND		
VERMONT		
Mid Eastern States and The District of Columbia:	36	13
DELAWARE		
MARYLAND		
NEW JERSEY		
NEW YORK		
PENNSYLVANIA		
South Eastern States:	85	30
ALABAMA		
FLORIDA		
GEORGIA		
KENTUCKY		
MISSISSIPPI		
NORTH CAROLINA		
SOUTH CAROLINA		
TENNESSEE		
VIRGINIA		
WEST VIRGINIA		
Great Lakes States:	49	17
INDIANA		
ILLINOIS		
MICHIGAN		
MINNESOTA		
OHIO		
WISCONSIN		

	Number of responses	Percent
Plains States:	44	15
ARKANSAS		
IOWA		
KANSAS		
MISSOURI		
NEBRASKA		
OKLAHOMA		
Southwestern States:	13	5
ARIZONA		
LOUISIANA		
NEW MEXICO		
TEXAS		
Rocky Mountain States:	3	1
COLORADO		
IDAHO		
MONTANA		
NEVADA		
NORTH DAKOTA		
SOUTH DAKOTA		
UTAH		
WYOMING		
Far Western States:	31	11
ALASKA		
CALIFORNIA		
HAWAII		
OREGON		
WASHINGTON		
Total	283	100

PRINCIPAL OFFICIALS

RESPONSIBLE FOR ADMINISTERING ACTIVITIES

DISCUSSED IN THIS REPORT

	Tenure of office From	To
SECRETARY OF HEALTH, EDUCATION, AND WELFARE:		
Joseph A. Califano, Jr.	Jan. 1977	Present
David Mathews	Aug. 1975	Jan. 1977
Caspar W. Weinberger	Feb. 1973	Aug. 1975
Frank C. Carlucci (acting)	Jan. 1973	Feb. 1973
Elliot L. Richardson	June 1970	Jan. 1973
Robert H. Finch	Jan. 1969	June 1970
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
Patricia R. Harris	Jan. 1977	Present
Carla A. Hills	Mar. 1975	Jan. 1977
James T. Lynn	Feb. 1973	Feb. 1975
George W. Romney	Jan. 1969	Feb. 1973
NATIONAL SCIENCE FOUNDATION		
Richard C. Atkinson	June 1977	Present
Richard C. Atkinson (acting)	Aug. 1976	June 1977
H. Guyford Stever	Feb. 1972	Aug. 1976
Raymond L. Bisplinghoff (acting)	Jan. 1972	Jan. 1972
William D. McElroy	July 1969	Jan. 1972

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