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Money & Management

From the issue dated January 28, 2000

Georgetown's Growing Pains: Eager Applicants, Troubled Finances

Money-losing medical center and a limited endowment hamper an up-and-comer

By MARTIN VAN DER WERF

Washington

Perhaps the bluff on the Potomac River is indeed blessed, because the recent past could have meant disaster for Georgetown University.

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Georgetown's Competition

The Georgetown University Medical Center has lost more than $200-million in the past three years, draining its cash reserve accounts. The provost's job has turned over six times in 10 years, and most of the rest of the top management team has left as well. The computer system frequently crashes, and librarians, short of money and space, send students crosstown, to the Library of Congress, to do research.

Conservative Roman Catholics decry what they see as Georgetown's heathenism, while faculty members criticize what they see as students' hedonism. And the university is bracing for another round of budget cuts.

In the minds of the nation's youth and professoriate aspiring to America's top universities, however, none of that matters. Georgetown has climbed into an elite group of American universities, a rise that was unthinkable 20 years ago. It is one of only 18 colleges and universities that accept 30 percent or fewer of their applicants. Many of those applying are also applicants to Ivy League institutions.

The university's emphasis on foreign service, public policy, and international business is a perfect match with Washington. Students who want to study in those disciplines see one of Georgetown's strengths as the chance to combine classroom

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The university has developed a reputation for producing leaders in those fields, including President Clinton. From 1984-97, 17 of its graduates received Rhodes scholarships, the fifth-most of any American university.

The newfound limelight, however, is illuminating Georgetown's shortcomings. It does not have the modern facilities, the long-standing academic reputation, and the proven fund-raising history of any of its new, elite peers.

Georgetown, in short, is having growing pains. The newfound demand for its programs seriously strain its ability to provide them. And all of this has developed during the term of a president, the Rev. Leo J. O'Donovan, who had no previous administrative experience.

"Even in the best of circumstances, it would be hard to manage," says Stephen A. Schillo, who was chief financial officer on the main campus until 1997, when he left to become vice president for finance and administration at Gannon University.

Against that backdrop, Georgetown is facing a series of decisions that will help determine if it can stay with academe's lead pack.

It has been negotiating for nearly a year to sell the Georgetown University Medical Center to MedStar Health, a nonprofit hospital chain based in Columbia, Md. An agreement seems likely, which would be a crucial success for Georgetown. The hospital's losses have dragged down the balance sheet of the entire university.

In fiscal 1999, while the large universities that most frequently compete for students with Georgetown gained an average of 10.7 percent in total financial resources, Georgetown lost 3.9 percent, according to Moody's Investors Service, which rates the creditworthiness of institutions. (The return on financial resources measures the performance of all university assets during a year, excluding the value of plant and equipment.)

The poor financial return is something that Georgetown can ill afford when it already has the smallest endowment of the most-selective universities.

In February 1999, Georgetown issued $100-million in bonds to replenish its cash accounts. That same month, the university's

bond rating was downgraded by Standard & Poor's. Moody's downgraded Georgetown's rating in December 1998 to A2, the average for all private institutions.

More scrimping may be ahead. The sale of the medical center would require cutting administrative costs by $32-million, Father O'Donovan says. About $27-million of that sum would come from the hospital's administrative costs, says Daniel R. Porterfield, Georgetown's vice president for communications and public affairs. If the deal is made final, Georgetown would retain its medical school, and doctors primarily engaged in research would remain university employees. MedStar would take over the hospital's clinical operations and probably some of its administration. Mr. Porterfield says he does not know how many jobs will have to be eliminated as part of the transaction.

The university also may soon be preparing to search for a new president. Father O'Donovan, a Jesuit priest who has led the institution since 1989, is 65 years old. He is committed to steering the university at least through the current $750-million fund-raising campaign, which is scheduled to end in June 2001. While he has said he has no plans to retire, his role after the campaign ends is uncertain.

"I don't know how Georgetown does it," says Samuel H. Barnes, director of the Georgetown Center for German and European Studies. "It's the poorest of the elite institutions in finances, but also in academic reputation. It is not a top-10 or even a top-20 school in terms of the ranking of most of its academic departments."

While Georgetown's undergraduate program and law school have been consistently ranked by surveys as being among the top 25 in the nation in recent years, other programs, particularly in the graduate school, have middling reputations. In the latest rankings of doctoral programs by the National Research Council, released in 1995, only linguistics, among 14 ranked Georgetown programs, was in the top 20. Two institutions with which Georgetown competes for students did much better. The University of Pennsylvania placed 19 of 27 programs in the top 20, and Duke University had 17 of 32 programs in the top 20.

Georgetown faculty members, however, see the university's reputation improving.

Wayne Davis, chairman of the philosophy department, says that in 1990, his department was placing only 12 percent of its Ph.D. graduates in teaching jobs. Now the placement rate is 85

percent.

The university is also getting much better job applicants, says Mr. Davis, who has taught at Georgetown since 1979. "In the early 80's, people applying here were, in my mind, rather low-level academicians. Higher-level people wouldn't come. By the late 80's, top people were starting to come. In the early 90's, w started getting the very top people from the best schools applying here."

The market was flooded with job candidates, but, unlike many other institutions, Georgetown was hiring.

The late Rev. Timothy S. Healy, Father O'Donovan's predecessor, was known for his personal involvement in almost every decision at the university. He hand-picked faculty members he wanted to hire, and he closed some graduate programs, such as physics and the School of Dentistry, if he believed that they would never achieve prominence.

"He would reject candidates that the department had already approved if he didn't think their work was good enough," says Mr. Davis. "Before, it was possible to get tenure at Georgetown with few, if any, publications."

From 1988 to 1998, under Father O'Donovan, the size of the faculty on the main campus, which excludes the medical and law schools, grew by 32 percent. But that buildup has come at a price at financially challenged Georgetown. Not a single building has been completed on the campus since 1989, and as a result, faculty members are forced to double up in offices, or take over lounges.

The campus -- an amalgam of ornate granite and red-brick buildings, hemmed in by the genteel neighborhoods around it -- has a cramped feel. Georgetown has capped enrollment, but there are more students every year knocking on the door.

In 1991, the university accepted 31.6 percent of its applicants. For the class entering in 1999, that figure was down to 23 percent.

They find a university where the infrastructure is straining. Georgetown has spent $18-million on information-technology improvements in the past two years, but the main network has proved to be slow and susceptible to viruses. In December, all faculty members were told that they must accept late work from students, because the computer system had been down so much.

"At Faculty Senate meetings, people will talk about how Georgetown cannot live up to the national rankings we are getting, because of our facilities, and that one day the secret is going to get out," says Diana Owen, an associate professor of political science. "Our students make this a great place. It's a privilege to teach them, because they are so good. But I have friends from other universities who see our working conditions, and they say, 'This is Georgetown?'"

The $750-million capital campaign, which has raised $470-million since it began in 1995, is designed to change that. The proceeds will be used, among other things, for a home for the business school, now spread through several buildings owned or leased by Georgetown; for a $38-million science center to replace a building constructed in the 1950's; and for a performing-arts center.

The campaign points up another area in which Georgetown has been slow to catch up to its peers. Georgetown's fund-raising effort was largely unorganized 15 years ago; today, in the heat of the current campaign, the development office hums with 175 workers. Georgetown's endowment was about $625-million at the end of fiscal 1998, which ranked it among the top 60 in the country. But its endowment per student, $51,257, didn't crack the top 170.

Until the 1990's, many well-heeled alumni had never been approached by the university for a contribution, says Hans P. Ziegler, a member of the Georgetown University Board of Directors and managing director of Sanford C. Bernstein & Co., an investment-management company based in New York.

"I don't think there is any question if we had to replay the movie, we would be further ahead if we had gotten a lot more aggressive with fund raising 20 years ago," says Mr. Ziegler, who is vice chairman of the capital campaign. "We didn't have any organized way to identify donors and keep in contact with them."

Three years into the campaign, Georgetown raised its goal from $500-million to $750-million. "That is a signal of Georgetown growing up," says Mr. Porterfield, the public-affairs vice president. "This campaign needs to be followed in pretty short order by a billion-dollar campaign."

In many ways, Georgetown, founded in 1789, is, indeed, just "growing up."

"I knew it when it was a fairly homogeneous institution back in the 50's," says the Rev. Brian O. McDermott, a Jesuit priest

who is also a member of the Board of Directors. He attended Georgetown but did not graduate. "There were many more Jesuits involved in the administration at all levels. People were expected to receive the Eucharist several times a week, dress for classes and for dinner."

Until the early 1970's, the directors numbered only about a dozen, half or more of them Jesuits. Then the board was broadened with more laypeople. It now has42 members, including ten corporate C.E.O.'s, and nine Jesuits.

Father Healy, who was president from 1976 to 1989, took to heart the admonition of Georgetown's founder, Archbishop John Carroll, who wanted an institution of diversity. Father Healy said his greatest accomplishment was increasing minority enrollment from 5.8 percent to 19.9 percent. The number of students who identify themselves as Catholics is 58 percent, but the university also employs several Protestant ministers, two rabbis, and a recently hired imam for Muslim students.

Some Catholic groups have agitated against what they consider the de-emphasizing of the Catholic identity of the university. They protested the lack of crucifixes in classrooms at Georgetown in 1997. The university agreed to put up crucifixes in most classrooms the following year. Students also protested a speaking engagement by Larry Flynt, publisher of *Hustler* magazine, last April.

University officials say they would have rather not had Mr. Flynt speak on the campus, but defended his right to be there. "We don't accept anybody's premise that we are somehow less Catholic because we are more diverse or more committed to academic freedom," says Mr. Porterfield. "That means sometimes a controversial speaker will be on campus."

Others see Georgetown heading down the same path as institutions such as Brown, Harvard, and Yale Universities, which began as religious institutions but shook off that tradition in the interest of greater pluralism. Father O'Donovan has been outspoken in his commitment to defending academic freedom in the face of *Ex corde Ecclesiae,* a statement by Pope John Paul II that calls for more accountability to the church at Catholic institutions.

"I think it is a stronger Catholic institution by having genuine diversity," Father O'Donovan said in an interview. "Our young Catholic people, as well as our Catholic faculty, are engaged in conversations, study, recreation, and projects with fellow students or colleagues of other backgrounds. That's the kind of

enrichment that a university should offer."

But J. Brooken Smith, a senior majoring in government who is editor in chief of *The Georgetown Academy,* an occasional publication that is critical of the administration, calls Georgetown "the quintessential case of a person wanting to serve two masters -- the secular people and the Catholics. You end up turning off both populations when you won't get off the fence."

The university has also been haunted by its failure to take action on several strategic decisions.

Father Healy recommended back in the mid-1980's that Georgetown sell its hospital, which he figured was at the top of its value. But the directors refused because it was such a big revenue producer at the time, says Mr. Ziegler, of the Board of Directors.

Later, Georgetown declined to acquire the 26-acre campus of Mount Vernon College, a small women's liberal-arts institution in a wealthy Washington neighborhood less than three miles away. The university did lend Mount Vernon $6.5-million in 1993 to avoid bankruptcy, with the college using its deed as collateral.

Lucyann Geiselman, who was president of Mount Vernon at the time, says she initiated talks with Georgetown about forgiving the loan in return for letting Mount Vernon become a women's college within the university. But she was turned down by Georgetown officials, who told her that "it wouldn't make sense for us to have a college for women -- it isn't part of our mission," she recalled.

She turned to George Washington University, which accepted the same deal and paid $25-million, part of which went to pay off the Georgetown loan.

"The Mount Vernon College situation was completely mismanaged," says Colin Campbell, a professor of public policy at Georgetown. "There are a lot of amateurs in management at this institution."

Georgetown has also been uneven in its policies about the standards expected of its students. A bluntly worded faculty assessment of the "intellectual life" on campus, issued in 1997, concluded that "too many of Georgetown's faculty are not sufficiently challenging," and that "Georgetown's undergraduates in a typical week study fewer hours, work more hours for pay, and party more hours than their peers at

comparable institutions."

Nevertheless, the study found, 42 percent of the grades awarded at Georgetown in 1994 were A's, compared with 26 percent in 1980.

In response, Georgetown has taken several steps. Students, particularly in the School of Foreign Service, are assigned to rigorous seminars at the beginning of their college careers, rather than later. The university has also increased the amount of time that advisers spend with freshmen.

Mr. Davis, the philosophy chairman, who co-wrote the report, says there has been no follow-up research to see if the situation has changed. However, he says, several recommendations have never been fully carried out, including new goals for grade distribution that would lower the number of A's.

In the face of all the criticism, Georgetown is rallying. The capital campaign is accelerating. The institution set a record in fiscal 1999 by raising $98-million. Georgetown says its alumni giving rate, historically no higher than 25 percent, is up to 33 percent.

"People here are, for the most part, happy to be here," says Mr. Barnes, director of the program in German and European studies. He is also a trustee at Duke. "The personal atmosphere, intellectually and socially, is a good one, a supportive one."

It looks as though the MedStar deal will come through as well. John A. Marzano, director of communications for the hospital chain, says he believes that a sale agreement will be made within 30 days.

"We are confident we can make Georgetown hospital as strong financially as it is clinically," he says.

The need to resolve the medical-center problem has brought the university together and "makes us a more mature academic community," says Mr. Porterfield. "Universities are not necessarily poised to handle multiple complex challenges at once, but we are."

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