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Coronavirus Has Choked Off Revenues for Private Colleges. How Much Cash Do They Have on Hand?

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6–8 minutes



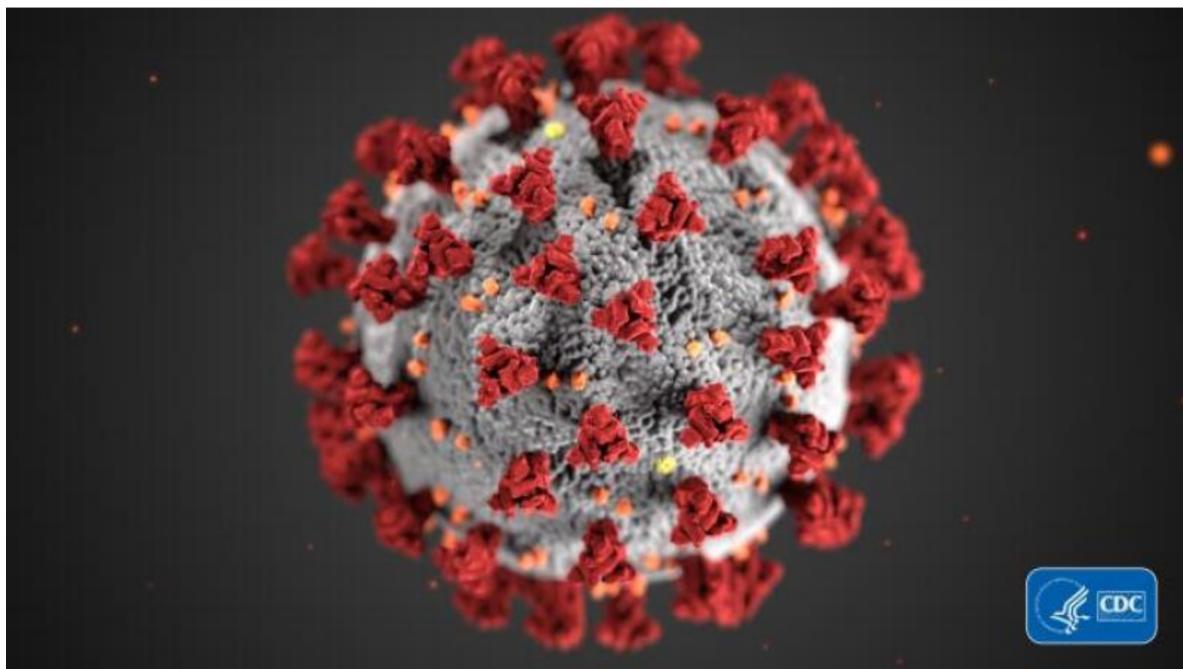
Michael Morgenstern for The Chronicle

Worst-case scenario, \$2.8 million.

That's about how large an operating loss Trinity University in Texas is [contemplating](#) at the end of this fiscal year as a result of the coronavirus pandemic.

Six months ago, no one could have forecast the extraordinary financial stress academe would be under at this moment — with housing refunds to deliver, a recession likely to be underway, and the frightful prospect that students may not be able to return to campus in the fall.

But, for the moment, Trinity may be better positioned than many institutions in the short term to weather the outbreak's fallout. In a letter to bondholders this month, the university disclosed that its "rainy day" funds — accounts holding unrestricted, readily available cash and other liquid assets — contain approximately \$26 million.



It's that kind of liquidity that private universities and colleges across the country will need to continue operations, as the nation struggles to get the virus under control. Some name-brand private institutions — think Ivy League colleges with hulking endowments — have more than enough cash to [make payroll](#) or issue room-and-board [refunds](#). But institutions with shallower pockets will have to establish or draw upon credit lines to keep the lights on.

[Certain observers](#) are predicting that higher education will see a wave of campus closures in response to the pandemic, with the spotlight falling on already-struggling small private colleges that have spent years treading water. Those institutions' stopgap efforts to keep cash on hand are one telling, if imperfect, way to assess their financial viability in the months ahead.

Kaitlyn Maloney, senior director of research at the consultancy EAB, said the university administrators she had spoken to are now concentrating on gauging the immediate economic fallout at their institutions, cutting and freezing expenses to buoy their financial reserves.

Every aspect of college and university business has been subject

to cuts and freezes, from [hiring](#) to [capital projects](#). At California Baptist University, the matching of employee retirement contributions has been [suspended](#), saving the institution an estimated \$1.4 million. The University of Bridgeport, in Connecticut, [laid off](#) many of its athletics staff members last week.

Summer is coming. Institutions traditionally rely on revenue from events like camps, conferences, and community programs to support some level of operations in the summer months, said Susan Menditto, senior director of accounting policy at the National Association of College and University Business Officers. But this year, officials need to assume those revenue streams will evaporate. And so many universities and colleges will be relying solely on their cash reserves to meet operating expenses and debt-service payments, at least until students and parents start paying tuition for the fall semester. And even then, it remains uncertain how student-consumers will behave come the fall.

Cash on Hand

There's no one metric to measure the effectiveness of surplus reserves. Moody's Investors Service estimates how many days a college could pay its operating expenses from monthly liquidity, while Standard & Poor's relies on a ratio that measures a college's reserves relative to expenses.

The Chronicle combed through publicly available documents from the two ratings agencies to survey how expendable resources might fare against standard operating expenses over a prolonged period of time.

While such metrics may be useful as a "temperature check" on an

institution, Menditto said she cautions against using any one number to extrapolate the overall financial health of an institution. Ultimately, demand for the product will dictate an institution's future, she said, and no financial figure can capture the specific options available to colleges and universities in these times.

In a written statement, a spokeswoman for Mercyhurst University, in Pennsylvania, said efforts to restructure academic operations, expand residential capacity, and upgrade infrastructure had led to increased operational spending. The university expects certain fixed costs to drop in the coming years.

"In addition, we have a number of tools available to us — including a substantial line of credit that we've not relied on since May 2016 — if we incur unexpected challenges in the wake of the Covid-19 pandemic," the spokeswoman said.

Other institutions contacted by *The Chronicle* either declined to comment or did not respond to inquiries.

March has seen at least four private, nonprofit institutions draw upon or seek the availability of lines of credit. Cornell University last Wednesday [alerted](#) bondholders that the institution had renewed a \$75-million line of credit. On March 10, Alvernia University [established](#) a \$15-million line of credit. DePaul University [told](#) bondholders it expected on March 13 to draw \$21 million on various lines. And on March 23 the investment bank JPMorgan Chase [provided](#) Ursinus College with a \$5-million line of credit.

Analysts welcome such moves. In its otherwise bleak forecast for higher education, in which it revised the outlook for the sector to negative, Moody's [said](#) colleges' move to shore up liquidity was a

“credit-positive action.”

Maloney, of EAB, said banks appeared to be able and willing to offer lines of credit to all but the most financially distressed colleges at the moment. Colleges unable to secure lines of credit might issue bonds or pull money from their endowments.

Relying on credit is appealing, especially — though not exclusively — in a time of crisis. “I’d much rather borrow against a line of credit at zero interest rate than take money out of the endowment,” said Kent John Chabotar, president emeritus of Guilford College and an expert on college finances.