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Amid Financial Headwinds, Some Colleges Are Digging Deeper Into Their Endowments.

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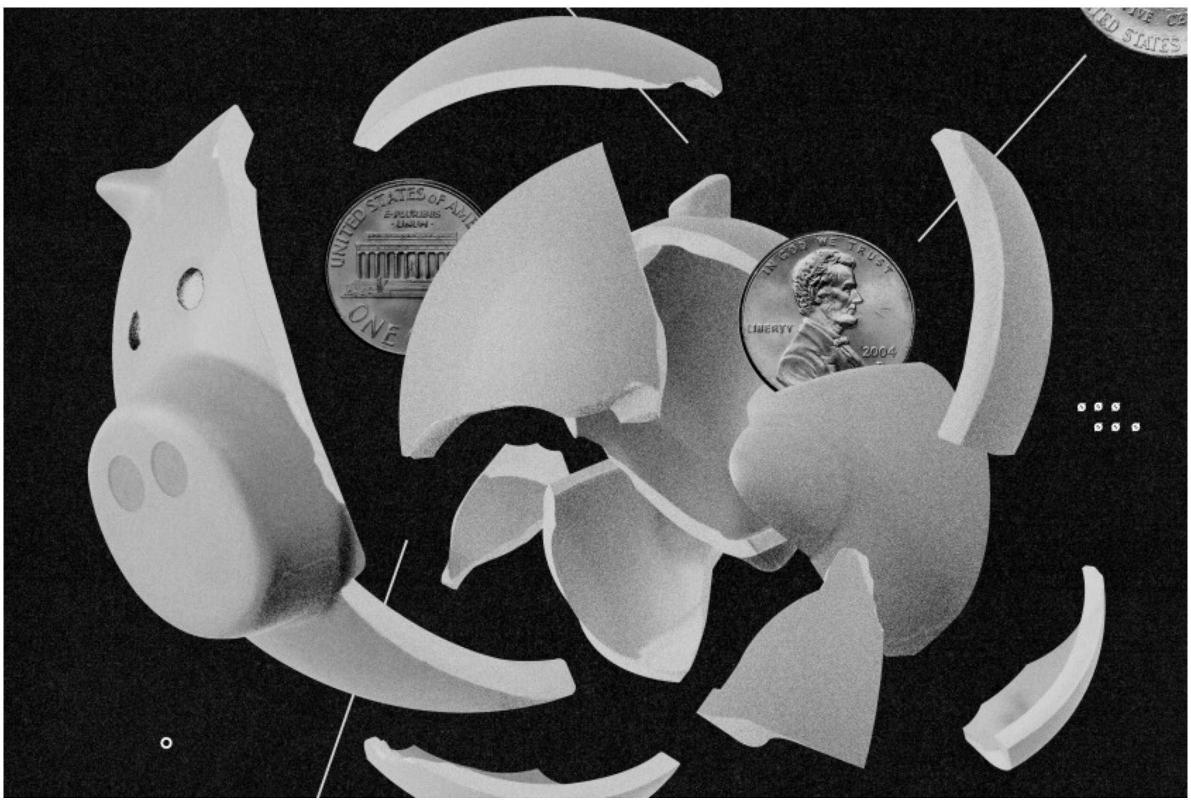

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Like nearly all colleges in the 2021 fiscal year, Webster University, a fixture of the Webster Groves suburb of St. Louis, saw the value of its endowment grow by historic margins, the product of the Covid era's white-hot investment returns on Wall Street. In that single year, Webster's endowment grew by an unprecedented 20 percent, peaking at around $157 million at the end of May 2021 — welcome news for the long financially beleaguered institution.

Since those early summer days of 2021, however, Webster's endowment-spending strategy has shifted from the traditional conservative-stewardship blueprint favored by much of higher education to a decidedly different model: In the 2023 fiscal year, the university transferred $12.5 million out of its endowment to secure a $10-million line of credit — functionally, the cash a university needs to run. Webster's board also authorized an additional $35.9-million draw "to support operations," in part motivated by the "pandemic and other difficult financial circumstances," a university representative wrote in a statement.

Two years after hitting its peak value, Webster's endowment had nearly halved on May 31, 2023, sitting at just over $86 million.

The Chronicle identified at least nine institutions that, like Webster, have withdrawn larger-than-typical sums of money from their endowments to stay in compliance with bondholders, cover operations, or even finance capital projects. Many of these institutions found themselves in tough financial straits for similar reasons, like dwindling enrollment and shrinking net-tuition revenue. Others were beset by more-distinct circumstances. But the representatives of nearly all of the colleges *The Chronicle* spoke with said they think that more institutions will join their ranks, as more and more small, less well-endowed institutions reject long-held truisms about endowment management — that any withdrawals of funds beyond the industry's preferred annual spending rate of 5 percent are to be categorically avoided — in favor of spending policies that are responsive to higher ed's now much more competitive marketplace.

St. Joseph's University, in Brooklyn, for example, has been using supplemental withdrawals from its $60-million endowment, along with controls on spending, to mitigate tuition-revenue pressure, with additional supplemental withdrawals expected through the 2025 fiscal year. "Because of the stress that so many schools are under right now, they would be foolish not to take a look at that unrestricted endowment," said Donald Boomgaarden, president of St. Joseph's, who added that an endowment is intended to be used in cases of emergency and times of stress so that an institution can survive. "I think that's something that's going to become more common for many institutions in the next ten years."

What Is an Endowment?

Endowments tend to loom large in the public's image of higher education, though they're often misunderstood. An endowment, first of all, is really a collection of funds. Consider Bowdoin College, in Maine, which maintained an endowment valued at around $2.4 billion at the end of June 2023. Within that endowment, Bowdoin counted 1,740 individual donor-restricted endowment funds, complemented by 142 endowment funds controlled by Bowdoin's board.

For most colleges, each of those funds is established with principal (donations), and then invested and managed (with some institutions outsourcing such work), with the intention of using eventual investment returns to finance some purpose that's been agreed upon by the donor and university; such money is restricted for a specific use alone. Other donations produce or are deposited into unrestricted funds, in which accumulated investment returns can be used for general operations or whatever purpose an institution might deem appropriate.

In academe, endowments are often defined by their extremes. Eighteen institutions, like Harvard, Yale, and Stanford Universities, hold at least $10 billion in their endowments. On the opposite end of the spectrum are small private colleges with modest endowments; some of these institutions raided their endowments just to survive, but all of them eventually succumbed to closure. Fontbonne University, which weeks ago announced it would cease operations in 2025, fits the bill. To fund scholarships, the university in 2020 petitioned Missouri's attorney general for access to $5-million worth of donor-restricted endowment funds.

As with Fontbonne, institutions can sometimes petition state authorities or courts to amend the conditions attached to donations so that they can be used. In other cases, colleges have cajoled donors to amend the terms of their endowment contributions to align with a board's interests. But such efforts have traditionally been viewed as something to avoid.

A handful of the institutions analyzed by *The Chronicle* disclosed in their most recent financial statements that there was "substantial doubt" about the their ability to continue "as a going concern" through the current fiscal year — a finding arrived at by accountants and management during the preparation of said financial statements, and one that dozens of higher-ed institutions and other for-profit corporations have earned before announcing their closure or bankruptcy. However, it's important to remember that such a notice isn't necessarily tantamount to a terminal diagnosis, given that several institutions which had previously listed similar disclaimers in their financial statements remain open today.

Regardless, the colleges contacted by *The Chronicle* rejected the implication that their changes in endowment management might be construed as the maneuvers of doomed institutions. Such changes, each argued in one way or another, were and will continue to be made strategically and informed by each institution's respective long-term vision.

'Difficult Financial Circumstances'

For Webster, the decision to transfer such large sums from its endowment came after a decade of bleeding red ink. Since the 2015 fiscal year, Webster's annual operating expenses have exceeded operating revenues, with annual deficits growing from $8.7 million in 2015 to over $41 million at the close of 2022-23. And in six of the last seven fiscal years, the university's operations have failed to generate positive cash flow, forcing Webster to both ransack its once-healthy cash reserves and buttress its day-to-day operations with cash financing. And dual efforts to find revenues in new markets and reduce the size of its work force have not proven to be fruitful enough.

Like many of the institutions *The Chronicle* analyzed, Webster has struggled with enrollment. Its worldwide headcount was cut in half over the course of a decade, from a peak of 21,000 students in 2010-11, with much of its hollowing out afterward attributable to an evaporation of well-paying graduate students. And though Webster's enrollment picture has improved, with 1,700 undergrads and 700 graduate students added since the fall of 2020 — thanks in significant part to the opening in 2019 of a satellite campus in Uzbekistan, which last fall enrolled 4,200 students — healthier headcounts haven't automatically translated to healthier balance sheets. Tuition for attendees of Webster's Uzbekistan campus is a fraction of the net price that the university's domestic students are charged.

Webster's debt is rated by Moody's Ratings to be non-investment grade, highly speculative "junk." The institution also disclosed in its most recent financial statements that its status as a "going concern" was at risk.

As for Webster's operations in the United States, Stephanie Dane, the university's interim chief communications officer, wrote in a statement that it anticipates "strong enrollment growth at the Webster Groves campus to continue into fiscal year 2025. Through a combination of continued strong tuition growth, with attentive cost control, we anticipate the Webster Groves campus to operate profitably."

A reclassification of donor-restricted endowment funds, Dane also wrote, occurred after the going-concern assessment was made, and so any doubts leveled then against Webster had now effectively been cured by the move. Like Fontbonne, Webster had to petition the state and courts in its bid to reclassify certain restricted endowment funds, so that the university might avoid violating its bond covenants for the second year in a row. Some donors revolted before eventually dropping their complaints.

“By simply reclassifying these funds, Webster will satisfy its loan requirements and most effectively steward donor resources while fulfilling the mission in which donors have invested. The University intends to continue using those reclassified funds just as their donors intended,” Dane wrote. Furthermore, Dane said Webster’s board had “committed that, as soon as it is practical, it will re-restrict endowment funds.”

Donors have shown that they understand why Webster has made the moves they have, and they’ve continued to support the institution, she said. ”Many donors who were personally contacted throughout the reclassification understood the financial situation and elected to unrestrict their funds prior to court action.”

Keeping Bondholders Happy

Like Webster, much of the University of Hartford’s recent endowment-management strategy has revolved around its obligations to bondholders, as the Connecticut institution has sought to stay in compliance with the requirements of investors. Last year, a $10-million accounting error resulted in Hartford being caught by surprise by a $17-million operating gap. This deficit resulted in Hartford falling out of compliance with its debt-coverage service ratio — a measure of the cash flow available to pay current debt obligations.

In addition, the error led S&P Global Ratings, a competitor to Fitch and Moody’s, to adjust Hartford’s credit rating downward into “junk” status, thereby obligating the university to begin honoring all-new capital-holding requirements spelled out in its agreement with bondholders. And so, in the 2023 fiscal year, Hartford's board authorized around $10.6 million in unrestricted endowment money to be used to establish a debt-service reserve fund. An additional $15.6 million was withdrawn to cover Hartford's operating deficit during the 2023 fiscal year.

We are operating in a very challenging environment.

Hartford's board intends to convert the $10.6 million deposited in its debt-service reserve fund back into endowed funds once S&P upgrades the institution's credit rating to satisfactory levels, Molly Polk, Hartford's vice president for marketing and enrollment, wrote in a statement. Polk also emphasized that Hartford has $183.5 million remaining in its endowment, and that the institution is current on all interest and principal payments, as well as all other financial obligations.

"In today's competitive environment, we will continuously explore and evaluate resources across the University to remain strong and sustainable," Polk wrote.

For other institutions, though, the choice to dip into an endowment is often motivated by a need to make good on debt-service obligations — like Wittenberg University, in Ohio. Despite eliminating programs and faculty positions during the pandemic, the university experienced negative operating-activity cash flows in the 2022 and 2023 fiscal years, leading Wittenberg to warn in its most recent financial statements that years of enrollment declines had raised "substantial doubt" about its ability to continue operating. Against that backdrop, Wittenberg in 2023 appropriated (on top of its traditional annual endowment draw) an additional $5.75 million from its $102-million endowment in order to meet cash-flow needs for operating expenses and debt service.

"As with many colleges and universities, especially small ones, we are operating in a very challenging environment," Michael L. Frandsen, president of Wittenberg, wrote in a statement. "Emerging from the pandemic, we faced flat revenues, rising costs, and increasing competition for a declining number of students interested in attending college."

The additional draw from the endowment, he wrote, will also allow the university to make investments toward experiential-learning opportunities, new programs in career development, and additional student-support resources.

The 7-Percent Solution

In contrast to Webster, Hartford, and Wittenberg, Columbia College Chicago chose to amend its endowment-spending policy in order to appropriate more money annually. Prior to the change in policy, and to counteract years of what Lambrini Lukidis, Columbia's associate vice president for strategic communications and external relations, called "planned deficit" spending starting in 2019-20, the institution relied on its cash reserves as "part of an ongoing effort to invest in the college and its students." For four straight years, Columbia failed to produce positive cash flow, which reduced its liquidity reserves from $98.2 million at the close of the 2019 fiscal year to $38.1 million come August 2023.

Around the same time, Lukidis said, the college's leadership set out to "develop ways to improve the academic experience by creating an easier pathway towards graduation and adjust course offerings (consolidate under enrolled sections) based on declining enrollment after the pandemic." Adjunct faculty, by contrast, faulted Columbia for proposing to increase class sizes while also admonishing administrators for cutting the course schedule and reducing opportunities for adjuncts to pick up classes and cobble together a satisfactory paycheck.

"This action led to the labor dispute with the part-time faculty," Lukidis wrote, referring to a 600-person, 49-day strike — purportedly the longest such work stoppage by a group of adjunct instructors in the nation's history — that "ultimately increased the institution's deficit to its current $38 million." Prior to the strike, Columbia's campus newspaper, *The Columbia Chronicle*, reported that the institution had anticipated the budget gap for fiscal year 2024 would be closer to $20 million. In early February, President Kwang-Wu Kim announced the college would freeze hiring, implement spending cuts that could potentially affect 125 positions, and raise tuition. Days later, Kim announced he would step down as president this summer.

Last week, Columbia laid off more than a third of its professional staff, according to the *Chicago Crusader*. The job cuts had been preceded by news that Columbia intended to hire a consulting firm to advise it on restructuring, reported *The Columbia Chronicle*.

In tandem with the moves announced by Kim, Columbia plans to transfer additional money from its $200-million endowment to partly redress fallout from this year's deficit — specifically through the ratcheting up of its endowment-spending rate from 5 to 7 percent. Operating deficits are expected to run through 2026-27, according to S&P. Kim, in his public statements, did not indicate how long Columbia might rely on 7-percent annual withdrawals. Lukidis characterized the new spending rate as “not sustainable long-term,” and that Columbia had every intention of returning “to normal endowment draws” once budget cuts took effect to “better align spending with current revenues” and correct the college’s structural deficit.

La Salle University, in Philadelphia, also increased its typical endowment draw, and predicts it will return to a more-conventional and cautious endowment-management strategy — eventually.

> When we cut through all of the rhetoric, we need to be honest with our constituents.

Financial headwinds convinced the institution’s board to authorize a spending-rate increase to 7 percent from La Salle’s $70-million endowment (two-thirds of which carries donor restrictions). Despite receiving $12 million in federal Covid-relief money for institutional support, five years of enrollment losses have badly bruised La Salle’s finances. A total-headcount slide of 1,600 students between the falls of 2018 and 2023 led to four years of operating deficits over that period. La Salle’s debt is currently graded “junk” by Fitch, whose analyst wrote that the firm’s negative outlook for La Salle reflected the challenges ahead.

“La Salle will need to quickly pivot in order to reverse the trajectory of its recurring operating performance, to successfully execute on its strategic plan, and to thereby avoid further downgrades,” the analyst wrote.

Combined with a $5-million transfer from La Salle’s strategic-reserve fund, and buoyed by the $3.8-million sale of three properties, La Salle’s board in the 2024 fiscal year approved the increase in its endowment-spending rate. The board's investment committee plans to return to a 5-percent spending rule in the future, according to Brian Kirschner, La Salle's director of strategic communications.

"This spending policy is mindful of the University's historical objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, but reflects the University's near-term desire to maximize endowment income," Kirschner wrote in a statement. La Salle credited the endowment-spending change and its additional moves for alleviating "doubts about the University's ability to continue as a going concern," at least as of October 24, 2023.

At Guilford College, in North Carolina, a decision to increase its endowment-spending rate from 5 to 7 percent allowed it to pursue priorities important to the campus community, said John Wilkinson, the chief financial officer. The move translated to an additional $1.2 million available for faculty development and study abroad (up to $4.5 million in total, appropriated from a $77-million endowment). Without the additional breathing room, "we would've had to have gone through and done a lot of reductions in our spending," Wilkinson said.

At Guilford, though, only $2.5 million of its endowment comes with no strings attached, with the rest restricted for use by donors. And so, when Wilkinson speaks with potential contributors, he makes a pitch for unrestricted donations (either for immediate use, or to be invested in board-controlled endowment funds), while not sugarcoating the financial headwinds battering Guilford and other small private colleges. Such pitches, which might potentially put off some donors, are better than a strategy of omission, said

Wilkinson — a view he came to hold more firmly when he spoke with community members amid outcry four years ago over a proposal to phase out about 20 majors and lay off 16 tenured faculty members. Guilford's board eventually voted against the proposed cuts.

"What I heard was 'I wish somebody had told me this was going on, so I could have supported the institution,'" Wilkinson recalled alumni, donors, and others telling him at the time. "And I think that, when we cut through all of the rhetoric, we need to be honest with our constituents."

Self-Financing for the Future

Still, some institutions have tapped larger-than-normal shares of their endowments as a means of avoiding additional debt at a time when interest rates are sky-high.

For instance, Manchester University, in Indiana, turned to its $76-million endowment for financing, approving the use of $16 million from the fund to finance construction at the institution's Fort Wayne location, 35 miles east of its main campus. Though the financing did in part contribute to S&P revising its credit outlook for Manchester from stable to negative, the agency's rating analyst didn't outright cry foul at Manchester's decision to use endowment money to build and renovate.

"This expansion would continue the university's launch into new health sciences programs — nursing, doctorate of physical therapy, and doctorate of nutrigenomics — which we believe materially softens the balance sheet in the near term while supporting growing demand," the analyst wrote.

For Manchester, financing the Fort Wayne expansion via an endowment draw “allowed us to move forward more quickly, which in turn will allow us to train more medical professionals in a variety of fields sooner,” Clair Knapp, vice president for finance, wrote in a statement.

A different kind of facilities need motivated Clarkson University, in northern New York, to make a large endowment draw. Administrators needed funding to offset deferred maintenance costs, make repairs to campus facilities after a particularly brutal winter storm, and upgrade its power-grid systems. Rather than take on debt, Clarkson turned to its endowment of more than $200 million, Kelly Chezum, vice president for external relations, wrote in a statement. Chezum said Clarkson fully intends to repay any of the funds it has withdrawn back into the endowment.

Other institutions may have cause to follow suit. S&P has found that the average age of the campus plant (buildings, improvements, equipment furniture, and fixtures) across the rating agency’s 250-plus sample of college customers has risen every year since 2015 — an indication that a significant number of institutions are forgoing renovations or new development. And, in this high-interest-rate, high-inflation environment, deciding against construction can make sense on the balance sheet — at least in the short-term.

For Robert Kelchen, a professor of educational leadership and policy studies at the University of Tennessee at Knoxville, this moment stands in stark contrast to the financial picture of not long ago, when wealthier colleges were securing large, long-term “basically close to zero-percent interest rate” loans for campus construction by reassuring lenders, if worse came to worst, the endowment could act as collateral. Now, some smaller colleges are employing the same strategy, just “trying to get any loan whatsoever,” Kelchen said. Alternatively, colleges like Manchester and Clarkson seem set on avoiding bank financing and the bond market as much as possible, at least for now.

“It seems like colleges are just using whatever they can get unrestricted out of their endowment to avoid taking out a loan,” Kelchen said. “I think we’ll see more institutions either spending more out of their endowment to support operations, just because the financial landscape is challenging, or to try to use endowments as leverage to get access to capital.”