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Amid Volatility and Uncertainty, Should Colleges Spend Down Their Surpluses?

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The University of Connecticut has no shortage of unknowns to manage as it heads into the fall.

Like much of higher ed these past seven months, the university was caught off-guard and buffeted by an onslaught of funding cuts and policy changes at the federal level, partially contributing to an anticipated $134-million budget deficit at the end of the 2025-26 fiscal year — or around 5 percent of the combined annual operating expenses for UConn and its health system. And the recent expiration of UConn's collective-bargaining contracts with represented faculty and staff, as reported by the *Hartford Business Journal* last month, has only contributed to the stress levels of the university's employees and students.

In response, UConn moved to freeze spending and is considering job cuts for "non-permanent and temporary employees," President Radenka Maric wrote to employees in late June.

"Despite the very real challenges and hardships this will cause, our current financial picture does not leave us with a reasonable alternative," Maric said.

Right around the same time, Connecticut's legislature and Democratic governor adopted a 2026-27 budget that no longer maintained Covid-era appropriations to UConn and the Connecticut State Colleges and Universities (CSCU) system.

To provide a "glide path" to this new fiscal reality, Gov. Ned Lamont and his staff urged UConn and CSCU to tap their multimillion-dollar cash reserves in order to help finance operations. "It's been clear for several years now that our higher-ed units in this state have some structural issues," Jeffrey Beckham, Lamont's budget director, told reporters in May.

And while the governor's office recently announced that the state would not request additional spending cuts from its public institutions in the 2025-26 fiscal year, the CSCU system and UConn still said they intended to spend down reserves, or were considering doing so, respectively, when asked by local media. A request for comment by *The Chronicle* to Lamont's communication team went unanswered.

Cash reserves, much like the endowments of private colleges, have been the subject of perennial controversy for America's colleges — particularly those funded with state appropriations. Academe's financial experts argue that the accumulation of reserves is a necessary bulwark against uncertainty and potential declines in state and federal support. For more than a decade, analysts with KPMG, as well as other auditing firms, have recommended that colleges seek a primary reserve ratio, which is a measure of an institution's expendable net assets relative to its total expenses, of at least 40 percent. Such a threshold is likely "to give institutions the flexibility to transform the enterprise" — with the caveat that this measure is just one of many indicators of financial health, and that if the ratio falls outside established criteria, it doesn't necessarily indicate imminent financial distress.

To critics, however, when tuition-supported universities operating in service of the public good and receiving taxpayer financing amass ample reserves, it looks a lot like they're hoarding cash.

In any case, the push for UConn and the CSCU system to spend down their cash reserves comes at a precarious time for many colleges, when an institution can draw up forecasts for “50 different scenarios, and we don’t know which one is going to play out,” said Susan Fitzgerald, a managing director for Moody’s who oversees the firm’s credit-rating teams responsible for assessing, among other municipal-debt issuers, higher-education institutions.

Even before the Trump administration took aim at higher ed, much of the sector faced an uphill climb. Large swaths of universities — particularly those in the Northeast — will spend the next decade reckoning with the fallout of declining birth rates in their enrollment markets. This forces those institutions to compete in a shallower pool of prospective students, putting pressure on institutions to keep tuition rates affordable and attractive, which in turn forces net tuition revenues to diminish. And as more Americans transition into retirement and a fixed income, federal and state governments will be under ever-rising pressure to provide medical and mobility services, pensions, and other disbursements, even as the income-taxpaying population shrinks.

Which raises several questions: Might there be short-, medium-, or long-term downsides for depleting reserves now? What if universities forced to spend them down can’t rebuild those war chests as quickly as was possible during the last four decades — if at all? And what if the low-cash-on-hand public university becomes a new normal?

Save or Spend?

Colloquially known as “cash reserves” or “surplus reserves,” such funds generally encompass a college’s more-liquid savings, typically accumulated over some period as actual revenues exceed operating expenses. How they're formally categorized can vary widely across states, institutions, regulators, and credit-rating agencies.

UConn makes a distinction between "current unrestricted funds" and unrestricted assets earmarked for campus maintenance and debt retirement. Other institutions categorize certain revenues as "held in reserve," "discretionary," or some other status. In theory, each approach caters to the needs of different audiences, typically lawmakers writing budget bills or administrators looking to gauge whether their campus is operating smoothly.

"Cash reserves take a number of different forms across higher education. Sometimes they can have money set aside potentially to support a capital project or for a rainy day. In other cases, depending on the university, it's going to be the accumulation across small reserves across hundreds of individual budget units," said Robert Kelchen, a professor and the department head of educational leadership and policy studies at the University of Tennessee at Knoxville.

All of this is why institutional defenders argue that UConn's $665-million cash-reserve fund, as of June 2024, needs to be considered in the context of the $3.2-billion enterprise that includes Connecticut's flagship public university campus, its health system, and its four extension locations.

After all, the past few years have shown the value of having healthy reserves. In the earliest stages of the Covid-19 pandemic, when access to cash flow became uncertain, the institutions with the largest reserves were often best poised to ride out the crisis.

And, much like a traditional consumer sets aside some savings for a later desired purchase, colleges regularly earmark "unrestricted" reserves with the intention of using it to fund critical operations in the future. Finally, such reserves provide reassurance to creditors and bondholders, which can translate into tens of millions saved in debt-service expenses on 30-year multimillion-dollar bond deals, for instance.

But building up cash reserves carries the expectation that some day that money will be spent. Critics argue colleges can't have it both ways: If no crisis can ever prove significant enough for a well-financed college to even contemplate tapping its underlying reserves, then such funds don't really qualify as "reserves." And these critics also contend that hoarding liquidity for a better future — and accumulating ever-greater amounts of wealth — will eventually rankle faculty and staff members who must endure years of frozen wages, benefit reductions, and program eliminations.

'Slush Fund'

One of the most prominent cash-reserve disputes in recent memory centered on the University of Wisconsin system in 2013, when Scott Walker, a Republican, occupied the governor's office. After news reports surfaced revealing the system holding around $1 billion in cash reserves, one Republican state representative called the UW system leaders "educational crooks" and "con artists." The decision by one of the system's own regents to characterize the reserves as a "slush fund" only stoked further controversy. Some legislators jabbed UW officials for failing to be fully transparent about the reserve's size when the system had sought more generous consideration in appropriations, while other Republican lawmakers called for a future tuition freeze.

Sometime thereafter, state auditors released an analysis of UW's reserves underpinned by a more sophisticated methodology and classification system for assessing anticipated use of reserve assets. This after-action audit of the UW system calculated the system's reserves at $212 million, with the largest share originating from UW-Madison, to the tune of $123 million, or 20 days of discretionary/reserve cash relative to operating expenses. While a large amount of those funds had technically been classified as "discretionary" or "undocumented," auditors were told by Madison administrators that large amounts of money had been banked because of concerns over federal research funding.

"UW-Madison officials indicated to us that its federal indirect-cost reimbursement program revenue balance has been allowed to accumulate in preparation for potential declines in federal grant revenue as a result of federal budget constraints," auditors wrote.

State lawmakers and Walker, with input from the UW system, ultimately finalized a more rigorous surveillance process to better assess cash reserves across UW's system office and over a dozen campus units.

Fast forward to the present day, and the state of play for the UW system is mixed. The system's collective cash reserves have fluctuated moderately since 2013, when it held 147 days of cash on hand relative to operating expenses. The ratio bobbed up and down until the 2021 fiscal year, when the system reported 177 days of cash on hand. Come July 2023, and UW's cash-on-hand ratio had dipped below 100; and by the end of June 2024, the system reported just 90 days of cash on hand.

At the flagship campus in Madison, reserves clocked in at $22.4 million last June, a steep decline from a decade earlier. And as enrollment losses continue to grip UW's other campuses, the cash reserves of a handful of them have not proved adequate. UW-River Falls ended the 2024 fiscal year with less than three days of discretionary/reserve cash on hand; at UW-Parkside, a single day; and UW-Oshkosh couldn't report any sort of positive cash balance. And since 2022, the UW system has announced plans to close or transition to online six satellite locations associated with its extension campuses.

"That lack of reserves has meant that substantial cuts have had to happen sooner rather than later," Kelchen said.

In search of additional sources of liquidity during the pandemic, the UW system in 2020 lobbied the Federal Reserve to expand access to a Covid-era emergency credit program open primarily to nonprofits, but not state-controlled educational institutions. UW also lobbied the state to allow the system to draw a line of credit and stabilize its cash flows if needed.

'New Financial Problems'

UConn has indicated it plans to tap some amount of reserves to support operations in the 2025-26 fiscal year.

How much money is calculated to be available depends on how the reserves are classified. The university at the end of the 2023-24 fiscal year maintained 88 days of cash on hand. But, in terms of unrestricted funds not currently earmarked, UConn calculated it held 29 days of operating funds at the time, below the board's recommended target of 90.

"Much of these funds are already committed. Using it to close deficits — and we will have to utilize a significant amount over the next two years to do that — will create new financial problems that didn't exist before and new unmet needs," President Maric warned in a message to the community in early June.

In contrast, the entire CSCU system reported 260 days of current and noncurrent cash on hand at the end of the 2024 fiscal year. Like in Wisconsin, Connecticut's lawmakers expressed astonishment that CSCU had continued to make appropriation requests while its reserves were accumulating.

"They're just hoarding money like the dragon in … *The Hobbit*," a Republican member of the assembly said of UConn and the CSCU system, according to the *Connecticut Mirror*. "The General Assembly's been swindled."

System officials attributed the outsized accumulation of cash to a more generous Covid-19 funding scheme put in place by the state, as well as a misalignment between the legislature's schedule, CSCU's budget process, and the start of the fiscal year on July 1. Still, CSCU's then-chief executive struck a conciliatory tone with lawmakers, and promised to tap its reserves in the coming months.

"We've heard the message loud and clear: that we need to be more expeditious in our use of reserve funds," Terrence Cheng, former chancellor of the system, told state lawmakers in March. "You'll see that utilized in our mitigation plans."

In June, CSCU's board voted to release $162 million of its reserves to meet operational needs. A request from *The Chronicle* for comment from the CSCU system office went unanswered.

Replenishing Reserves

UConn has tapped its reserves before. In 2013, university officials shared plans to do so in order to close a projected $30.8-million budget deficit. That echoed a similar move taken in 1995, when it tapped $15 million from reserves to balance its books for the year. In both instances, the university managed over the course of several years to rebuild its reserves to pre-deficit levels.

Other public universities have had similar experiences after dipping into reserves. *The Chronicle* identified 10 public universities or systems that, at various points between the 2013 and 2022 fiscal years, were able to increase their reserves relative to expenses beyond prior levels. In many cases they restored the relative level of their cash reserves, or even set new high-water marks. It often took several years.

But will UConn, and universities in similar positions, be able to restore their reserves as quickly over the next decade, if at all? At the University of Arizona, administrators and regents openly discussed the attainability of reserve restoration last fall. The university reportedly held 77 days of cash on hand at the end of the 2024-25 fiscal year, per a forecast released to the Arizona Board of Regents in June and as reported by *Arizona Luminaria*. Replenishing reserves to 143 days of cash on hand, the regents' minimum threshold, could take "a decade plus," John Arnold, the university's chief financial officer, testified. Depleting its reserves happened more quickly: Two years ago, officials for the university said that it held 149 days cash on hand.

"There are ways of increasing cash on hand [but] we don't want to put perverse things in place, and so, this is going to be a longer-term strategy," Suresh Garimella, Arizona's president, told regents in November 2024.

With regard to Connecticut, "it's a state where the financial situation looks pretty bleak," said Kelchen, of UT-Knoxville. "State budgets have been stretched for years during a time where nationwide state support for higher ed has been pretty good and the demographics are extremely unfavorable."

Kelchen predicted that more legislatures and governors would follow a similar path to the one tread in Connecticut. "The least painful way for state policymakers to deal with a budget issue," he said, "is just to ask the universities to fill it themselves."