UTAH SYSTEM OF HIGHER EDUCATION

MEMORANDUM

March 24, 2023

Financial Ratio Report

Background

Annually, the Commissioner's office prepares a system-wide report for the USHE Board to measure institutional financial health. Three ratios (viability, debt burden, and composite score) are reported that have historically proven to be good basic measures of higher education fiscal health. These measures are adopted from the KPMG publication *Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks*[1] using industry standards and formulas:

- **Viability Ratio** — measures how many times an institution can cover its entire long-term debt obligation using its total expendable net assets. A ratio of 1:1 or greater indicates that an institution has sufficient expendable net assets to satisfy debt obligations. As the ratio falls below 1:1, the institution's ability to respond to adverse conditions from internal resources diminishes, as does its ability to attract capital from external sources and its flexibility to fund new objectives.

- **Debt Burden Ratio —** measures an institution's dependence on borrowed funds to finance its operation by measuring the relative cost of borrowing to overall expenditures. Industry standards recommend 7% as the upper threshold for a healthy institution. The higher the ratio, the fewer resources are available for other operational needs. A level trend, or a decreasing trend, indicates that debt service has sufficient coverage, whereas a rising trend signifies an increasing demand on financial resources to pay back debt.

- **Composite Index —** this calculation combines and weights four ratios (primary reserve, net operating revenues, return on net assets, and viability) into one financial metric. This allows a weakness or strength in a specific ratio to be offset by another ratio result, thereby allowing a more holistic approach to understanding the institution's total financial health. KPMG's publication establishes a threshold value of 3.0 for institutions considered to have a good financial position.

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[1] KPMG Institutes, *Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks, 7th edition,* http://nacubo.org/

Institutional controllers submitted all financial information from their audited annual financial statements and will have reviewed the results with chief financial officers, budget officers, and OCHE staff. In FY22, all the reported ratios were impacted with the implementation of GASB 87. This required some leases to be reported on the balance sheet as debt. Because this was not required in previous years, this impacts all the debt-related ratios in the report. The standards were not changed, but explanations of institutions not meeting the standard are included below.

Ratios Not Meeting Standards

Utah Tech University

Utah Tech's viability ratio dropped from 0.45 in FY21 to 0.27 in FY22. The school's composite index also dropped from 3.22 in FY21 to 2.69 in FY22. The institution continues to see rapid growth in its student body, which has driven the school to address aged or inadequate facilities to accommodate this increasing student base. This need, coupled with high construction costs, has negatively impacted the viability, debt burden, and composite index. To ensure they can make their debt service payments, Utah Tech put a bonding umbrella in place for the original Campus View Suites student housing bond that pledged all the institution's non-appropriated general (gross) revenues for repayment of bonds. Although the bonding umbrella is a good safety net, Utah Tech has been able to fund bond payments from specific user fees. The institution has also committed $500,000 annually to an institution bond reserve in addition to any bond reserve requirements.

Southern Utah University

Southern Utah University's composite index score dropped from 6.80 in FY21 to 2.96 in FY22. On June 30, 2022, the school issued $10.9M in bonds, which increased the long-term portion of that debt by $9.7M. Southern Utah University also saw an increase of $18.4M in its long-term debt due to implementing GASB 87. These two items resulted in a combined increase in long-term debt of $28.1M.

Noteworthy Ratios

Salt Lake Community College

Salt Lake Community College's viability ratio went from 16.87 in FY21 to 9.45 in FY22. This year's lower ratio is due to the school implementing GASB 87, and that ratio is still above the standard.

Southern Utah University

Southern Utah University's viability ratio dropped from 4.11 in FY21 to 1.75 in FY22. The two components of this ratio are the expendable net assets and total long-term debt. In FY22, the school saw an increase in net assets of $2,881,245 and an increase in long-term debt of $28,944,208. The viability ratio dropped because of the increase in their long-term debt from the $10.9M bonds that were issued and the $18.4M impact from implementing GASB 87. The ratio is still above the standard.

Commissioner's Recommendation

This is an information item only; no action is required.

Attachments