UTAH SYSTEM OF HIGHER EDUCATION

MEMORANDUM

March 27, 2025

Financial Ratio Report

Annually, the Commissioner's office prepares a systemwide report for the Utah Board of Higher Education to measure institutional financial health. Three ratios (viability, debt burden, and composite score) are reported that have historically proven good basic measures of higher education fiscal health. These measures are adopted from KPMG's Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks 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 stable or 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 single 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 that are considered to have a good financial position.

Institutional Controllers submitted all financial information from their audited annual financial statements and will have reviewed the results along with Chief Financial Officers, Budget Officers, and Commissioner's office staff. Explanations of institutions not meeting the standard are included below.

The Utah System of Higher Education's financial health continues to be strong, as both the simple average and weighted average composite indices measure well above recommended benchmarks. With composite indices approaching 5, KPMG characterizes the System's financial situation as positioned to focus on transformation and competing in a future state.

Institution Ratios Not Meeting Standards

- **Utah Tech University** — Even though the viability ratio for Utah Tech (UT) increased from 0.26 in FY 23 to 0.36 in FY 24, the school's composite index dropped from 1.88 in FY 23 to 1.51 in FY 24. To meet the demands of UT's rapidly growing student population, it was necessary to replace aging student housing and increase the number of available student beds. Bonding was required to meet these needs in a short period of time. As a result, the viability, debt burden, and composite index were negatively impacted. UT's pledged revenue sources continue to provide the necessary debt service and outpace the required debt coverage ratio. The viability ratio is expected to continue improving over the next several years as all bonded facilities become fully operational and timely debt service payments are made.
- **Mountainland Technical College** — Mountainland Technical College (MTECH) saw its composite index drop from 2.07 in FY 23 to 1.71 in FY 24. During FY 24, MTECH returned about $300,000 in Learn & Work grant funds that they were unable to spend in the required timeframe. Additionally, they exercised a purchase option of about $700,000 to acquire land for the Heber campus. Both events significantly impacted their primary reserve ratio, one of the key components that determine the composite index. With these events being one-time in nature, we expect MTECH's growth trajectory will improve these financial metric readings moving forward.
- **Southern Utah University** — Southern Utah University (SUU) saw its composite index decrease from 3.29 in FY 23 to 2.87 in FY 24. SUU's net operating loss increased by $19 million from FY 23 to FY 24, primarily due to an increase of $17.5 million in personnel expenditures. An increase in tuition revenues of $4.6 million partially offset the operating loss, and SUU continues to experience enrollment growth and demand for online courses. Ultimately, SUU's net position increased by $5.6 million in FY 24.

Commissioner's Recommendation

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

Attachments

Attachment 1 – Financial Ratio Report – FY20-FY24

Attachment 2 – Appendix – Financial Ratio Data