UTAH TECH UNIVERSITY™

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Geoffrey Landward
Interim Commissioner of Higher Education
60 South 400 West
Salt Lake City, Utah 84101

Subject: Utah Tech Financial Ratio Response

Dear Commissioner Landward:

Purpose

The purpose of this memo is to provide additional information relative to Utah Tech University's current Viability, Debt Burden, and Composite Index Ratio.

Explanation

Utah Tech University (UT) is rapidly growing and evolving as Utah's newest comprehensive polytechnic university. UT's student-body growth along with aged, inadequate, or non-existent infrastructure precipitated UT's need for new facilities. UT needed new self-support operational facilities (new buildings that must be financed by bonds and repaid by user fees) as the State of Utah typically does not pay for these types of facilities. The new facilities constructed with bonding include three student housing buildings (1,450 student beds), a portion of the Human Performance Center (student recreation portion of the building), and improvements to Greater Zion Stadium's Eastside and Westside grandstands.

To meet growing demand for on-campus student housing, UT invested in the construction of three new student housing buildings. The buildings accommodate 1,450 students, replacing two 50-year-old dormitories that housed only 210 students. The new housing district accounts for $128.43 million of the total $159.25 million in bonded indebtedness. As each building has been constructed and placed in service, the beds have been 100% under rental contract early in the spring, far in advance of the building completion and start of school in August. Additionally, the buildings consistently have a "wait list" that Utah Tech has to cut-off when reaching several hundred students. The new student housing facilities have been a complete success, significantly contributing to the enrollment growth at Utah Tech.

The remainder of the bonding, $30.82 million, was issued for a portion of the Human Performance Center and improvements to Greater Zion Stadium. These bonds are being repaid with student fees and a $10 million gift, $500K per year, from Washington County.

To ensure UT is able to make its debt service payments, UT put a bonding umbrella in place for the original Campus View Suites student housing bond that pledged nearly all of the institution's non-appropriated general (gross) revenues for repayment of bonds.

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This bonding umbrella gives the University a debt coverage ratio far beyond the typical 1.1X. In fact, the debt coverage ratio for FY23 is 3.96X under the bonding umbrella. The advantage of the general revenue bond is to guard against technical default as the revenue committed to pay bond payments is not limited to the specific user fees. Although the bonding umbrella is a good safety net to support payment of the bonds, UT has been able to fund bond payments from the specific user fees. To further bolster payment of the bonds if needed, UT is committing $500,000 annually to an institutional bond reserve (currently $1,020,000). These funds are in addition to any reserve funds required as part of the bond agreements.

UT's need to bond to build these new facilities, over a relatively short period of time and during a period of increasing construction costs, negatively impacts the Viability, Debt Burden, and Composite Index ratios. On a very positive note, UT bonded for all these new buildings at a historically low weighted-true-interest-cost of 3.53%. As UT borrowed these funds with 30-year bonds, UT will financially benefit by repaying the bonds with significantly inflated dollars over the 30-year period. Further, as UT continues to grow into a larger economy of scale, the institution will improve these Ratios over time as the institution continues to increase tuition collections and State appropriations, resulting in increased revenues (Expendable Net Assets) relative to debt levels.

Sincerely,

Paul Morris
VP of Administrative Affairs