UTAH SYSTEM OF HIGHER EDUCATION

MEMORANDUM

March 22, 2024

Financial Ratio Report

Annually, the Commissioner's office prepares a report for the Utah Board of Higher Education to use to assess institutional financial health. Three measures are reported for each degree-granting institution, the viability ratio, debt burden ratio, and composite index. These measures are adopted from the KPMG publication, *Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks, 7th Edition,* using industry standards and formulas. Measure definitions are as follows:

- **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 debt events using internal resources diminishes. Notably, this metric serves as a proportional stock metric that reflects the relative size of an institution's debt in the context of its overall asset footprint and is best evaluated in conjunction with other debt affordability metrics such as debt burden ratio and debt service ratio.

- **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 for financial resources to pay back debt.

- **Composite Index —** this calculation combines and weighs 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 single ratio to be offset by another ratio result, thereby allowing for a more holistic evaluation of an institution's financial health. A composite index of 3.0 or greater represents the industry standard for sound institution financial health.

Ratios Not Meeting Standards

Utah Tech University

Utah Tech University's (UT) composite index has continued to trend below the 3.0 threshold, which is primarily attributable to the institution's recent issuance of long-term debt to support student housing projects. Net revenues and reserve funds have been identified to ensure annual debt coverage going forward, including a general revenue pledge and bond default insurance. Nevertheless, conservative projections suggest that UT's viability ratio will continue to remain below the industry standard of 1:1 over the next five to ten-year budget window, which will create a persistent drag on the institution's composite index value.

With credible long-term population projections showing a 110% increase in the college-age population in Washington County through the year 2060, strategic financial planning to successfully address UT's current and future growth challenges should continue to be a priority for the institution and the Board.

Mountainland Technical College

Mountainland Technical College (MTECH) added about $1.6 million in new building leases in Fiscal Year 2023. The Governmental Accounting Standards Series (GASB) Statement 87 requires institutions to recognize lease agreements in the reporting of long-term debt, and as such, these lease additions are negatively impacting MTECH's viability ratio and composite index value. With nearly $4 million in new ongoing state tax appropriations beginning in Fiscal Year 2025 (13.5% increase), MTECH's net assets should outpace lease liabilities and stabilize its financial ratio report readings moving forward.

Noteworthy Ratios

Snow College

Between FY19 and FY21 Snow College has had several financial measures below industry standards. In the last couple of years, we have seen a positive upward trend for the institution, by increasing their expendable net assets and reducing their long-term debt. These changes have had a significantly positive impact on their ratios.

Commissioner's Recommendation

The Commissioner recommends that the Board consider freezing new debt issuances for Utah Tech University until a comprehensive budget stress test analysis of the institution has been completed and integrated into a long-term strategic growth plan.

Attachments

Financial Ratio Report – FY19-FY23

Financial Ratio Report Appendix

UT Annual Financial Report Bonds Payable and Other Long-Term Liabilities

UT Financial Ratio Response

UT Housing Expansion Projection

Annual Report on Institutional Revenue Bond Indebtedness

Population Projections