UTAH SYSTEM OF HIGHER EDUCATION
Building a Stronger State of Minds

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March 22, 2017

MEMORANDUM

TO: State Board of Regents

FROM: David L. Buhler

SUBJECT: USHE – Debt Ratio Analysis

Issue

Regent Policy R588, *Delegation of Debt Policy to Boards of Trustees*, requires that USHE institutions provide the Board with an annual debt report. This report is typically shared with Regents at the March Board meeting and is presented via debt ratio analysis. Using the most recent audited financial statements, the Commissioner's staff, in consultation with institutional controllers, budget officers, and chief financial officers, has prepared the annual report for Regent review

Background

The debt ratio analysis report highlights, by institution, three common ratios – viability, leverage, and debt burden – for each of the last five years. These ratios were chosen using the publication "Ratio Analysis in Higher Education: New Insights for Leaders of Public Higher Education" 5th edition. Definitions and a summary of recommended industry standards for each ratio is shown below and included in the attachments. When viewed together, the ratios help demonstrate the general health of debt practices at USHE institutions.

Viability Ratio: measures how many times an institution can cover their entire long-term debt obligation using the 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.

Leverage Ratio: measures the number of times that an institution's long-term debt can be covered using available net assets. A ratio of 2:1 or greater is recommended. Were this ratio to fall below 2:1, the concern would be that the institution might have difficulty paying its loan repayments should long-term economic conditions deteriorate.

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.

A few items of note for Regent review in this year's report are highlighted below.

- Snow College: The viability ratio is less than the industry standard of 1. This is due to the implementation of the GASB 68 standard. GASB 68 requires institutions to record a non-cash transaction, (related to URS liability) in its financial statements, therefor increasing long-term debt and decreasing expendable (unrestricted) net assets. In FY15 and FY16, the GASB 68 standard required the College to record an additional liability of $3,412,748 and $4,449,365, respectively. The cumulative effect on the College's net assets was a decrease by $3,212,320 in FY15 and $4,449,365 in FY16.

  When reviewing Snow College's financial statements, with the effects of the GASB 68 URS pension liability removed, the viability ratio in FY15 would have been 1.06 and in FY16 it would have been 1.12 respectively, meeting the industry standard. Moving forward, the state auditors have predicted that there will be a significant increase in Snow's Pension Liability in FY17 due to a decrease in the discount rate used by URS to calculate the URS pension liability (as disclosed in the footnotes to our financial statements). This will continue to have a negative effect on the net assets and impact the Viability Ratio in FY17.

- Dixie State University (DSU): The viability ratio is less than the industry standard of 1. In June 2015, DSU issued a general revenue bond in the amount of $21,315,000. At year end, the liability was put on the books which subsequently increased their long-term debt. The bond revenue was held in an escrow account and was not included in the Financials. The effect of this disproportional amount of debt to expendable assets caused their viability ratio to be skewed in a negative direction.

  Backing out the new bond debt, the viability ratio would have been 2.66, well above the threshold. The construction of the new student housing began in 2016. At June 30, 2016, $9,087,707 in Restricted Assets remained in the Escrow Account. These funds were not included in the calculation of the FY16 viability ratio, and the result was an artificially low ratio of .48. Calculating the ratio with the addition of the restricted assets mentioned increases the ratio to .80. While this number is still below the standard of 1.0, it shows an upward trend from the previous year. The construction of the new Student Building will be completed in FY17 and recorded on the Institutional Books. FY17 Viability Ratio is expected to be back above the standard.

- The University of Utah (UU): The debt burden ratio increased in both FY14 and FY15 to 6.5% and 6.0% respectively. This is due to the refinancing efforts the UU engaged in both FY14 and FY15. During these two years, the UU refunded a significant amount of debt. This resulted in a temporary elevation of its debt burden ratio. In FY16, the ratio fell to 3.0%, well within the threshold, but still slightly elevated as a result of the previous years' refunding.

  When recalculating the debt burden without the effects of the refunding, the FY16 ratio would be closer to 2.0%.

- Salt Lake Community College has no debt at Fiscal Year End, June 30, 2016. As a result, there are no calculable debt ratios for Salt Lake Community College in FY 2016.

Commissioner's Recommendation

This is an informational item; no action is required.

David L. Buhler
Commissioner of Higher Education

DLB/KLH/BLS/MWM
Attachment

Debt Ratio Analysis

Utah System of Higher Education

Viability Ratio	FY12	FY13	FY14	FY15	FY16
University of Utah	2.41	2.79	2.22	2.10	2.14
Utah State University	2.57	2.94	2.58	2.66	1.79
Weber State University	2.20	2.27	2.50	2.36	2.64
Southern Utah University	1.73	2.51	3.97	3.82	2.15
Snow College	1.00	1.01	0.94	0.72	0.73
Dixie State University	2.18	2.32	3.16	0.67	0.48
Dixie State University	Trustee Housing Funds Included				0.80
Utah Valley University	1.12	1.25	1.18	1.27	1.61
Salt Lake Community College	9.82	11.54	13.73	17.91	NA

Viability Ratio measures how many times an Institution can cover their entire long-term debt obligation using their total Expendable Net Assets. A ratio of 1:1 or greater indicates that an Institution has sufficient expendable net assets to satisfy debt obligations. This ratio should be

Leverage Ratio	FY12	FY13	FY14	FY15	FY16
University of Utah	5.27	4.55	4.05	3.77	3.87
Utah State University	7.74	8.27	6.35	6.84	5.22
Weber State University	5.00	5.72	6.14	6.32	7.82
Southern Utah University	6.46	8.18	9.42	8.79	5.88
Snow College	5.62	5.57	5.46	4.49	4.24
Dixie State University	13.60	14.82	21.99	6.18	6.78
Utah Valley University	4.60	4.84	4.80	5.70	6.47
Salt Lake Community College	21.72	36.62	49.22	66.00	NA

Leverage Ratio measures the number of times that an Institution's Long-Term Debt can be covered using available (unrestricted) Net Assets. Industry standard indicates the Institution should have a 2:1 ratio. Available Net Assets are defined as all Net Assets - Nonexpendable Net Assets. This ratio should be considered along with the Viability Ratio.

Debt Burden Ratio	FY12	FY13	FY14	FY15	FY16
University of Utah	2.0%	2.6%	6.5%	6.0%	3.0%
University of Utah		Net of Refunding			2.0%
Utah State University	1.4%	4.3%	3.6%	2.2%	5.0%
Weber State University	1.4%	1.6%	2.2%	2.0%	2.0%
Southern Utah University	2.7%	1.7%	1.6%	3.5%	1.0%
Snow College	1.5%	3.2%	3.4%	2.8%	3.0%
Dixie State University	0.9%	1.5%	1.4%	2.7%	2.0%
Utah Valley University	1.0%	1.9%	2.4%	1.7%	3.0%
Salt Lake Community College	0.7%	0.8%	0.6%	0.6%	NA

Debt Burden Ratio measures an Institution's dependence on borrowed funds to finance it's operation, by measuring the relative cost of borrowing to overall expenditures. The industry has established 7.0% as the upper threshold for a healthy institution. Debt Service is defined as Interest Expense + Principal Payments. Total Expenditure is defined as Total Expenses - Depreciation Expense + Principal Payments.

Industry Standards & Formulas

1:1

Expendable Net Assets / Long-Term Debt

2:1

Available Net Assets / Long-Term Debt

< 7.0%

Debt Service / Total Expenditure

Source: Excerpts from "Ratio Analysis in Higher Education," 4th Edition (Prager & Co., LLC)

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