December 6, 2019

USHE – Debt Ratio Analysis

During the March 2014 Regents Finance & Facilities Committee review of R588 Delegation of Debt Policy to Boards of Trustees, several members recommended the Commissioner’s office prepare a system-wide debt ratio analysis for presentation in future meetings. The following document contains the financial ratios that historically have proven good basic measures and are recommended the KPMG publication, “Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks 7th Edition.” Each ratio is defined and presented by institution using industry standards and formulas.

Institutional Controllers submitted financial information from their audited annual financial statements, and will have the opportunity to review the results along with Chief Financial Officers, Budget Officers, and OCHE staff. Additional work is currently underway to include a composite index calculation for inclusion in the final debt ratio analysis for the January Board meeting. The current information is preliminary and subject to change.

**Commissioner’s Recommendation**

Information item only; no action is required.

Attachment
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.

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. 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.