KENTUCKY COUNCIL ON POSTSECONDARY EDUCATION
FINANCE COMMITTEE

January 16, 2024 – 1:30 p.m. ET
Virtual Meeting via ZOOM - https://us02web.zoom.us/j/89129396618

Guest speakers from Ohio Department of Higher Education:
- David Cummins, Associate Vice Chancellor, Financial Planning and Oversight
- Fred Church, Vice Chancellor, Finance and Chief Data Officer

Next meeting: March 25, 2024 via ZOOM teleconference

MEETING MINUTES

Draft for Approval by the Finance Committee, January 16, 2024

Who:	Kentucky Council on Postsecondary Education
Meeting Type:	Finance Committee
Date:	October 23, 2023
Time:	1:00 p.m. ET
Location:	Virtual Meeting via ZOOM Webinar

CALL TO ORDER

The Finance Committee met Monday, October 23, 2023, at 1:00 p.m., ET. The meeting occurred virtually via ZOOM webinar. Committee Chair Eric Farris presided.

ATTENDANCE

Committee members in attendance: Jennifer Collins, Kellie Ellis, Eric Farris, Chole Marstiller, and Madison Silvert.

Committee member not in attendance: Jacob Brown and Elaine Walker.

Heather Faesy, CPE's senior associate for Board Relations, served as recorder of the meeting minutes.

APPROVAL OF THE MINUTES

The minutes of the September 11, 2023, Finance Committee meeting was approved as presented.

INTERIM CAPITAL PROJECT REQUESTS - KCTCS

Mr. Shaun McKiernan, Executive Director of Finance and Budget, presented five interim capital project requests from the Kentucky Community and Technical College System (KCTCS). Those projects were as follows:

1. Big Sandy CTC - Pikeville Nursing Renovation - $1,500,000.
   The federal funded project will upgrade facilities for the Pikeville Regional Technology Center nursing program and allow Big Sandy CTC to renovate classrooms and labs that will house the college's Nursing Education Program after its relocation from the Summit Building at Pikeville Medical Center.

2. Southcentral CTC - Franklin Simpson Center Roof Replacement - $1,200,000.
   The project will replace 41,300 square feet of roofing and will be funded with agency restricted funds.

3. Southcentral CTC - Signage - $1,200,000.
   The agency restricted fund project will construct a main campus sign to contain lettering and video boards. The project will include removal of the existing sign, site development, a decorative fence element, lighting, and landscaping.

4. Owensboro CTC - Mobile Healthcare Labs - $2,000,000.
   The project will be funded with federal grant funds and will purchase two mobile healthcare labs that will service sixteen counties in western Kentucky, providing access to education for students who may not choose to attend college due to location or life challenges.

5. Bluegrass CTC - Property Acquisition - $4,000,000.
   The agency restricted funds project will allow the purchase of an existing 80,040 gross square foot building on 15.42 acres (804 parking spaces) that is near the BCTC Winchester campus.

KCTCS representative, Andy Casebier, answered questions from the Council regarding the high expected expenses for the project at Southcentral CTC and the future needs for the project at Bluegrass CTC.

MOTION: Mr. Brown moved the Finance Committee approve the proposed interim capital project requests from Kentucky Community and Technical College system and recommend final approval by the Council at its November 17, 2023, meeting. Dr. Ellis seconded the motion.

VOTE: The motion passed.

KCTCS STUDY ON RESOURCE AND PROGRAM OPTIMIZATION

Dr. Larry Ferguson, interim president for KCTCS, discuss the results of a study conducted by Huron Consulting Group earlier in the year. KCTCS leadership engaged Huron Consulting Group to perform an assessment of the system's physical resources, programs, and administrative support structures to identify opportunities to improve business operations, cross-campus collaboration, and overall efficiency in alignment with the system's strategic plan. The study was conducted with the engagement of over 2,300 members of the KCTCS organization, including interviews with 70+ System Office and college employees, hosting 21 focus groups with 250+ participants, and facilitating 17 townhalls with approximately 2,000 attendees. Huron also gathered and analyzed institutional data and collected market and peer data to gain insight on additional opportunities.

The results of that assessment were presented to the KCTCS Board of Regents in June 2023. It resulted in a menu of 47 academic, space, and financial and organizational opportunities for KCTCS to consider, prioritize, and pursue. Compensation and Equity will be covered in a future report.

Dr. Ferguson answered questions from the Council about how employers were engaged in the study as well KCTCS's current plans for the suggestions that resulted from the study.

STUDENT DEBY IN KENTUCKY

Mr. Travis Muncie, Executive Director for Data and Advanced Analytics, and Dr. Chris Ledford, Associate Director for Data and Advanced Analytics, presented CPE's latest study on Kentucky student debt levels after graduation from one of Kentucky's public institutions. CPE staff conducted the study on graduate debt levels and how Kentucky's efforts around tuition caps, improving financial literacy, and increasing grant aid have impacted those levels. The study investigated debt trends over the past five academic years among graduates of Kentucky's public institutions. (Debt at graduation was defined as the total debt a student has taken on through the end of the academic year in which they earned their highest credential on record.)

The findings show that average debt levels for postsecondary graduates in Kentucky are declining. Moderating debt load of Kentucky's college students has been a key focus of campuses across the state, as well as CPE and state leaders. Specifically,

- Average debt for all graduates (including those graduating with and without debt) dropped 26.4% between 2017-18 and 2021-22.
- At four-year public universities, average graduate debt declined by 11.7% and 4.3% among only graduates with debt. The proportion of graduates with debt declined from 63.7% to 58.8%.
- At KCTCS, average graduate debt declined over the past 5 years by 33.7% and 8.4% among only graduates with debt. The proportion of graduates with debt declined from 48.8% to 35.2%.

Council members thanked the staff for their work in this area and stated they look forward to future reports surrounding affordability and debt.

ADJOURNMENT

The Finance Committee adjourned at 2:05 p.m., ET.

TITLE: Interim Capital Project Request - Elizabethtown Community & Technical College

RECOMMENDATION: Staff recommends that the Finance Committee endorse for full Council approval of a $3,500,000 interim capital project to expand the Science Building at Elizabethtown Community and Technical College.

PRESENTERS: Shaun McKiernan, Executive Director of Finance and Budget, CPE

SUPPORTING INFORMATION

On January 2, 2024, KCTCS officials requested CPE approval for a $3,500,000 interim capital project which was approved by the KCTCS Board of Trustees on December 8. The project will expand the existing Science Building on the Elizabethtown Community and Technical College (ECTC) main campus by 7,000 square feet and will be funded with institutional resources (i.e., agency restricted funds).

ECTC currently has a project underway to renovate their Science Building. This $6,400,000 project is funded in part with asset preservation pool funds. The primary focus of the renovation is to expand lab capacity and update lab design to enhance the learning environment and modernize facilities that support the following science programs: Physics, Microbiology, Biology, Anatomy Physiology, Organic Chemistry, and Chemistry.

The requested addition of $3,500,000 in funding is needed to expand the facility, which will allow for larger science labs. The additional funding will also be used to update the facade of the building.

Approval Process

House Bill 592 (2018) created a new provision in KRS 164A.575, which allows public postsecondary institutions to authorize capital projects not specifically listed in the state budget as long as the projects are funded with non-general fund appropriations, do not jeopardize funding for existing programs, and are reported by the institution to the Capital Projects and Bond Oversight Committee. The pertinent section of KRS 164A.575 is provided below:

(15) Notwithstanding KRS 45.760, the governing board may authorize a capital construction project or a major item of equipment even though it is not specifically listed in any branch budget bill, subject to the following conditions and procedures:

(a) The full cost shall be funded solely by non-general fund appropriations;
(b) Moneys specifically budgeted and appropriated by the General Assembly for another purpose shall not be allotted or re-allotted for expenditure on the project or major item of equipment. Moneys utilized shall not jeopardize any existing program and shall not require the use of any current general funds specifically dedicated to existing programs; and
(c) The institution's president, or designee, shall submit the project or major item of equipment to the Capital Projects and Bond Oversight Committee for review as provided by KRS 45.800.

The approval process for a capital project that exceeds $1,000,000 is as follows:

- The project must be submitted to the Council on Postsecondary Education for review and action;
- If approved by the Council, projects at KCTCS and KSU are submitted to the Secretary of the Finance and Administration Cabinet for review and action, and subsequently submitted by the Secretary to the Capital Projects and Bond Oversight Committee for review;
- If approved by the Council, projects at EKU, MoSU, MuSU, NKU, UK, UofL, and WKU are submitted by the requesting institution to the Capital Projects and Bond Oversight Committee for review, and a copy is provided to the Finance and Administration Cabinet as information; and
- Following review and action by the appropriate agencies, the project may be initiated by the requesting institution.

Because this project was not previously approved by the Council and was not authorized in the enacted 2022-2024 Budget of the Commonwealth, Council approval is now required to authorize this project. KCTCS will not be debt financing any portion of this project; therefore, provisions of KRS 45.763 do not apply.

NEXT STEPS

Following Council action, staff will notify the president of KCTCS, the Secretary of the Finance and Administration Cabinet, and the Capital Projects and Bond Oversight Committee of the Council’s recommendation concerning this project.

KENTUCKY
COMMUNITY & TECHNICAL
COLLEGE SYSTEM

January 2, 2024

Mr. Aaron Thompson, President
Council on Postsecondary Education
1024 Capital Center Drive, Suite 320
Frankfort, KY. 40601

Re: Interim Authorization Request – KCTCS Capital Project

Dear President Thompson:

In accordance with KRS 164A.575, Kentucky Community and Technical College System (KCTCS) respectfully requests interim authorization for one project that is being funded with agency restricted funds.

The project is Elizabethtown Community and Technical College Science Building Expansion. The total budget is $3,500,000. The project will expand the Science Building by approximately 7,000 gross square feet which will create large science labs and an updated facelift to the building.

The design and construction of this project will be implemented through the Finance and Administration Cabinet as a capital project. KCTCS' Board of Regents approved this project on December 8, 2023.

Should you have any questions, please feel free to contact Andy Casebier at 859-256-3287.

Sincerely,

Buddy Combs

Buddy Combs
Acting Vice President

cc: Dr. Ryan Quarles, KCTCS President
Carla Wright
Shaun McKiernan
Andy Casebier
Sandy Adkins

TITLE: Interim Capital Project Requests – Kentucky State University

RECOMMENDATION: Staff recommends that the Finance Committee endorse for full Council approval two interim capital project requests from Kentucky State University – Blazer Library and Carver Hall.

PRESENTERS: Shaun McKiernan, Executive Director of Finance and Budget, CPE

SUPPORTING INFORMATION

On January 10,2024, Kentucky State University officials requested CPE approval for two interim capital projects, approved by the KSU Board of Trustees at their November 28, 2023, meeting. Both projects will be funded with Title III federal funds.

1) **Blazer Library Renovations - $1,700,000**. This project will replace windows, repair exterior deterioration, replace flooring, and update finishes at Blazer Library. Constructed in the 1960s, Blazer Library last had renovations and additions completed in the 1980s and 1990s. The building contains systems that have been unchanged since the original construction. Failing windows have caused water infiltration and structural issues that need to be addressed immediately to prevent the more damage and expenses. The building's finishes have outlived their useful lives.

2) **Carver Hall Building Modifications for Engineering Program - $2,700,000**. This project will replace outdated building systems and renovate all spaces to meet the needs of an engineering program, which KSU is establishing using a phased approach. Carver Hall was built in the 1960s and additions to the building were completed in the 1980s. The building still has original systems that are now at the end of their useful lives. Carver Hall currently houses the University's science programs, and the space includes offices, classrooms, laboratories, and a lecture hall. Asset preservation pool funds may be used for a portion of this project since Title III funds may not be used for improvements to office space.

APPROVAL PROCESS

House Bill 592 (2018) created a new provision in KRS 164A.575, which allows public postsecondary institutions to authorize capital projects not specifically listed in the state budget as long as the projects are funded with non-general fund appropriations, do not jeopardize funding for existing programs, and are reported by the institution to the Capital Projects and Bond Oversight Committee. The pertinent section of KRS 164A.575 is provided below:

(15) Notwithstanding KRS 45.760, the governing board may authorize a capital construction project or a major item of equipment even though it is not specifically listed in any branch budget bill, subject to the following conditions and procedures:
   (a) The full cost shall be funded solely by non-general fund appropriations;
   (b) Moneys specifically budgeted and appropriated by the General Assembly for another purpose shall not be allotted or re-allotted for expenditure on the project or major item of equipment. Moneys utilized shall not jeopardize any existing program and shall not require the use of any current general funds specifically dedicated to existing programs; and
   (c) The institution's president, or designee, shall submit the project or major item of equipment to the Capital Projects and Bond Oversight Committee for review as provided by KRS 45.800.

The approval process for a capital project that exceeds $1,000,000 is as follows:

- The project must be submitted to the Council on Postsecondary Education for review and action;
- If approved by the Council, projects at KCTCS and KSU are submitted to the Secretary of the Finance and Administration Cabinet for review and action, and subsequently submitted by the Secretary to the Capital Projects and Bond Oversight Committee for review; and
- Following review and action by the appropriate agencies, the project may be initiated by the requesting institution.

Because these projects were not previously approved by the Council and were not authorized in the enacted 2022-24 budget, Council approval is now required to authorize these projects. KSU will not be debt financing any portion of these projects; therefore, provisions of KRS 45.763 do not apply.

NEXT STEPS

Following Council action, staff will notify the president of KSU, the Secretary of the Finance and Administration Cabinet, and the Capital Projects and Bond Oversight Committee of the Council's recommendation concerning these projects.

ACTION ITEM 8A

ACTION ITEM
Approval of Blazer Library Renovations.

FACTS
Blazer Library was originally constructed in the 1960s, and renovations and additions were completed in the 1980s and 1990s. The building contains systems that have been unchanged since the original construction.

The building currently has failing windows, which have caused water infiltration and structural issues that need to be addressed immediately to prevent the creation of more damage and expenses. Additionally, the building's finishes have outlived their useful lives.

The renovation project will replace windows, repair exterior deterioration, replace flooring, and update finishes. Resultantly, Blazer Library will become a space that can be better meet the needs of students.

BUDGETARY IMPLICATIONS
The project is currently estimated to cost $1,700,000. Title III funds will pay for the entire project.

RECOMMENDATION
President Koffi C. Akakpo recommends that the Board of Regents approve the Blazer Library renovation project.

MOTION
Approve the use of Title III funds for the Blazer Library renovation project.

ACTION ITEM 8E

ACTION ITEM

Approval of Building Modifications for the Engineering Program.

FACTS

Carver Hall was originally constructed in the 1960s and additions to the building were completed in the 1980s. The building still has original systems that are now at the end of their useful lives.

Carver Hall currently houses the University's science programs, and the space includes offices, classrooms, laboratories, and a lecture hall. The University is in the process of implementing a phased approach to establishing an engineering program. This program will require spaces that are similar to those already found in Carver Hall.

The project aims to replace outdated building systems and renovate all spaces to meet the needs of an engineering program.

BUDGETARY IMPLICATIONS

The project is currently estimated to cost $2,700,000. The project will be paid for using Title III funds and asset preservation funds.

RECOMMENDATION

President Koffi C. Akakpo recommends that the Board of Regents approve the engineering program building modifications project.

MOTION

Approve the use of Title III and asset preservation funds for the engineering program building modifications project.

TITLE: 2024-2026 Biennial Budget Update

DESCRIPTION: Staff will discuss the development process and current status of the legislature's 2024-26 biennial budget.

PRESENTERS: Bill Payne, Vice President, Finance and Administration, CPE
Shaun McKiernan, Executive Director of Finance and Budget, CPE

SUPPORTING INFORMATION

Governor Andy Beshear presented his budget proposal for 2024-2026 on December 18. The plan does not increase or reduce the state's rainy day fund balance. Highlights for postsecondary education include:

<u>Operating Funds</u>

- 8% increase over the biennium for institutions for both mandated programs and funds to educate students. 5% across the board increase provided in 2024-25, 2% increase in 2025-26, plus $15,108,100 (about 50% of the increase) to cover fire and tornado insurance premium increases.
- Additional funding for KSU Land Grant Match as requested ($2,107,500 in 2023-24, $1,499,100 in 2024-25 and 2025-26)
- $10,500,000 in 2024-25 and $10,710,000 in 2025-26 provided for Markey Cancer Center
- Additional $4,000,000 each year for KCTCS's Kentucky TRAINS (helps employers train, retain, and upskill workers through customized programs)

<u>Capital Investment</u>

- Funding (about $150M) to complete projects authorized for the 2022-2024 biennium
- $400,000,000 in asset preservation, with a provision that institutions maintain asset preservation spending levels

<u>Other</u>

- KSU nursing and social work scholarships in KHEAA's budget ($500,000 in 2024-25, $750,000 in 2025-26)
- Loan forgiveness program for teachers ($20,000,000 per year), social service workers ($3,000,000 per year), and state employees ($20,000,000 per year).

<u>CPE Agency Budget</u>

- 6% salary increase for 2024-25, and an additional 4% increase for 2025-26

- Continued oversight of Kentucky State University at $750,000 per year
- Pass through funds for a Psychiatry Residency Program at Pikeville Medical Center ($16,000,0000 to provide funding for four years)

On January 3, the Courier-Journal reported that the House budget was expected to be unveiled within the next two weeks.

TITLE: Higher Education Institution Financial Reporting and Oversight

DESCRIPTION: Staff will brief the committee members on the SHEEO report on assessing financial health and risk, and guest speakers from the Ohio Department of Higher Education will discuss their work in this area.

PRESENTERS: Bill Payne, Vice President, Finance and Administration, CPE
Ryan Kaffenberger, Senior Associate, Finance and Workforce Development

BACKGROUND

The State Higher Education Executive Officer organization (SHEEO) produced a report in October 2018 titled, "Monitoring and Assessing the Financial Health and Risk of Colleges and Universities." This publication notes that since the Great Recession, states have seen an increase in institutional closures, particularly private institutions, and in mergers and consolidations of public institutions. In a 2021 report, Ithaka S+R states that,

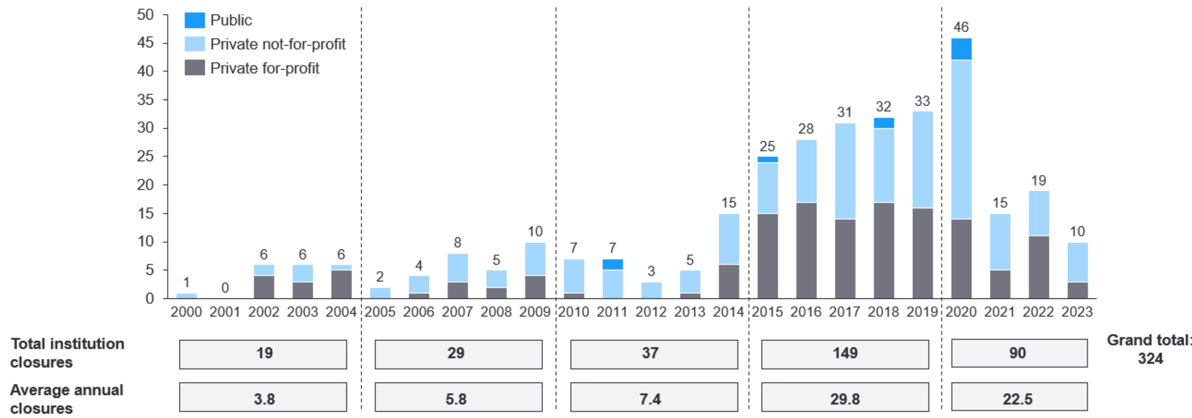
> "Across American higher education, institutional consolidations are on the rise. In particular, multiple state systems have proposed or completed mergers of regional universities and/or community colleges with the stated goal of increasing efficiency. The conditions prompting these consolidations have been mounting for years—among them a long-term downward trend in state support for higher education and demographic shifts away from traditional-aged college students, especially in rural areas where numerous public institutions are located."[1]

Examples of states completing consolidations and mergers in recent years include Georgia, Pennsylvania, and Wisconsin. Furthermore, a total of 324 public and private institutions have closed since 2000, with notable acceleration in recent years.[2]

The SHEEO report, which is attached, recommends that SHEEO agencies take steps to better assess the financial health of institutions to enhance transparency and accountability and protect students and taxpayers, who could be adversely affected if institutions face financial hardship or close.

[1] *Public College and University Consolidations and the Implications for Equity*, Ithaka S+R, August 30, 2021, https://sr.ithaka.org/publications/public-college-and-university-consolidations-and-the-implications-for-equity/
[2] *Part 5: Rise in institutional closures*, Kasia Lundy, EY-Parthenon, September 21, 2023, https://www.linkedin.com/pulse/part-5-rise-institutional-closures-kasia-lundy/

Figure 1. Count of campus closures of higher education institutions, by year of completion and sector, 2000-2023 YTD



CPE has begun developing tools to assess institutional financial health and risk from market pressures. Additional funds from the Governor and General Assembly have been requested to build capacity for this work. In the coming months, the Finance Unit will be conducting a review of financial oversight policies in a sample of other states. To help initiate discussions, staff invited representatives from the Ohio Department of Higher Education to today's meeting to give an overview of their agency's financial monitoring and oversight policies and procedures.

SHEEO

STATE HIGHER EDUCATION EXECUTIVE OFFICERS ASSOCIATION

MONITORING AND ASSESSING THE FINANCIAL HEALTH AND RISK OF COLLEGES AND UNIVERSITIES:

RECOMMENDATIONS FOR SHEEO AGENCIES

DAVID A. TANDBERG

OCTOBER 2018

TABLE OF CONTENTS

The author would like to thank Robert Anderson, Gloria Auer, Annahita Jimmerson, and Dustin Weeden at SHEEO; Robert Kelchen at Seton Hall University; Matthew LaBruyere at the Louisiana Board of Regents; Andrew Rauch at the Colorado Department of Higher Education; and Tammy Dolan at the North Dakota University System for their helpful comments and edits. All errors are solely the responsibility of the author.

INTRODUCTION

Accelerated by the Great Recession, and later by increased oversight and regulation of the for-profit sector, states have witnessed a wave of institutional closures. These institutional closures have tended to be isolated in the private for-profit and nonprofit sectors. However, there have been a number of examples of institutional mergers and consolidations within the public sector and examples of public institutions risking financial viability via reduced revenues and suffocating debt. In each case, some level of responsibility often falls on the state's higher education executive officer (SHEEO) agency (the state's governing or coordinating board). In the case of the private sectors, once the institution has closed, the SHEEO agency often has responsibility for coordinating teach-out agreements, the transfer of students, and archiving records (e.g., student transcripts and financial records), among other duties. For public colleges and universities, a SHEEO agency's responsibility is far greater and more direct. The agency bears shared responsibility for the success of the institution and its ability to serve its students. Central responsibilities of a SHEEO agency include helping ensure that public institutions are financially viable, that they are good stewards of their public resources, and that they have the resources they need to best serve their students.

Regardless of the sector, SHEEO agencies often have a general obligation to the state to act in the best interests of the state as a whole and for students specifically. This obligation to the public good may motivate, or even obligate, the SHEEO agency to be involved in monitoring an institution's financial viability; taking steps to improve their viability (where appropriate and, in particular, with public institutions); and being aware of (in advance) and responding to potential institutional closures. One action that can facilitate all of these responsibilities is tracking an institution's financial viability. Often called financial risk metrics or stress tests, the financial industry has developed a number of metrics and ratios that attempt to elucidate the financial strength of a college or university. Here we will discuss each of them, suggest some additional data sources and metrics, and then discuss how different SHEEO agencies, depending on their purview and resources, may attempt to more effectively monitor the financial health of their institutions so agencies may better engage the institutions, plan ahead, and serve their states.

FINANCIAL RISK RATIOS

First popularized in the 1980 handbook *Strategic Financial Analysis for Higher Education*, now in its 7th edition and titled *Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risk* (hereafter referred to as *The Handbook*), the use of finance risk ratios has become the standard in the field.[1] Over time, *The Handbook* has settled on four primary metrics which lead to a consolidated score, with one additional newer metric, that are believed to highlight particular aspects of an institution's financial health and which may help identify institutions at risk of serious financial trouble. These metrics were developed primarily for institutional analysts to help in strategic financial planning and to assess institutional financial risk. However, they can serve similar purposes for state and system level analysts as they attempt to assess institutions' financial health and risks. In this regard, it is essential that these measures are collected over time so that trends may be identified, and decisions made, based on the trend lines and not just the current ratio performance. This will allow for early intervention and planning. In chapter 10 of the most recent *Handbook*, details are provided on how the ratios can be used together to assess institutional health and aid in planning. The four primary ratios are:

1. PRIMARY RESERVE RATIO

This ratio measures the financial strength of the institution by comparing expendable net assets to total expenses.[2] The ratio is meant to explore whether an institution's resources are sufficient, flexible, and liquid enough to support its mission. It provides a financial snapshot of the institution's reserves and an indication of how long the institution could operate using its expendable reserves. Expendable net assets ought to increase at least in proportion to the rate of growth in the institution's operating size. If they are not, an institution may be exposing itself to financial risk. In this regard, the ratio compares the institution's operating commitments (operating size) to its expandable wealth (resources). *The Handbook* recommends a threshold for moderate financial health as 0.4X. The specific ratio is calculated in the following way:

$$\frac{\text{EXPENDABLE NET ASSETS}}{\text{TOTAL EXPENSES}}$$

2. NET OPERATING REVENUES RATIO

This ratio reveals whether the institution is living within its available resources by comparing revenues to expenditures (or more specifically, revenue use). This ratio relates to the other three primary ratios in that a large surplus or a large deficit directly impacts the amount of an institution's available funds. Large unexpected expenditures would be a sign of poor planning. Institutions ought to have some level of a surplus. *The Handbook* recommends 2 percent as a threshold. The specific equations are as follows:

1. For those who plan to begin conducting financial ratio analysis, we recommend reviewing the most recent version of *The Handbook* as it contains important technical details on the ratios and their calculations and recommendations for their use that are beyond the scope of this paper.
2. Some institutions and state offices calculate this metric using operating expenses rather that total expenses.

For public institutions:

$$\frac{\text{OPERATING INCOME (LOSS) PLUS NET NONOPERATING REVENUES (EXPENSES)}}{\text{OPERATING REVENUES PLUS NONOPERATING REVENUES}}$$

For private institutions:[3]

$$\frac{\text{EXCESS (DEFICIENCY) OF UNRESTRICTED OPERATING REVENUES OVER UNRESTRICTED OPERATING EXPENSES}}{\text{TOTAL UNRESTRICTED OPERATING REVENUES}}$$

3. RETURN ON NET ASSETS RATIO

This metric examines how well the institution's asset performance and management (for example, investment returns) support its strategic direction. Specifically, it helps determine if the institution is financially better off than in previous years by examining changes in economic return. An improving trend line would indicate that an institution is increasing its net assets. *The Handbook* recommends a threshold of 6 percent as a rate of return in excess of growth in total expenses. Institutions may desire to use a three-year rolling average to smooth year-to-year volatility in the market. This ratio is calculated in the following way:

$$\frac{\text{CHANGE IN NET ASSETS}}{\text{TOTAL NET ASSETS}}$$

4. VIABILITY RATIO

This metric assesses how strategically the institution's financial resources, including debt, are managed to advance the institution's mission. Specifically, it examines the availability of expendable net assets to cover its debt should those debts need to be settled.[4] This ratio looks specifically at what is most often the largest debt category: plant-related debt (facilities, etc.). *The Handbook* recommends setting the threshold at 1.25:1. The ratio is calculated in the following way:

$$\frac{\text{EXPENDABLE NET ASSETS}}{\text{PLANT-RELATED DEBT}}$$

3. The differences in the equations for public and private institutions are the result of different accounting standards and categories between GASB (for publics) and FASB (for privates).

4. Some institutions and state offices use all long-term debt rather than only plant-related debt.

COMPOSITE FINANCIAL INDEX

The four primary ratios can be combined into what *The Handbook* calls the *Composite Financial Index* (CFI). This index provides an assessment of an institution's overall financial health and financial risk. To calculate the index, the following steps need to be followed (for the specifics, please see chapters 10 and 14 in *The Handbook*):

1. Values for the four primary ratios are computed.
2. The values are converted into strength factors (a common scale).
3. The strength factors are then multiplied by specific weights.
4. The resulting figures are then totaled to equal the Composite Financial Index values.

While there is some flexibility in how the CFI is calculated, the general range of scores runs from -4 to 10. *The Handbook* recommends a general threshold value of 3. Scores at or close to -4 would indicate that an institution is in serious trouble and financial exigency likely exists.

The result is a single overall metric of an institution's financial health and risk that can be tracked over time. However, *The Handbook* argues that the CFI only measures the financial component of an institution's health and that other factors must be considered to assess the institution's overall well-being (some of those potential factors and measures are discussed later).

ADDITIONAL RATIO – THE LIQUIDITY RATIO

SHEEO agencies may also want to consider the *Liquidity Ratio* as recommended by the authors of *The Handbook*. The financial crisis revealed that sufficient liquidity (more than many institutions believed necessary) is a critical component of an institution's financial health.

The *Liquidity Ratio* helps answer the question of whether the institution has sufficient liquidity. If the institution does not have sufficient liquidity to conduct its operations, the other aspects of its financial health (discussed above) matter very little. A score of less than 1.0 indicates significant vulnerability that could jeopardize the institution's ability to fulfill its mission and successfully react to adverse conditions. The authors recommend setting a prescribed threshold above 1.0 at which corrective action would be required (perhaps 1.10 or 1.25). The specific equation for this ratio is:

$$\frac{\text{INSTITUTIONAL LIQUIDITY SOURCES (SPECIFIED TERM)}}{\text{INSTITUTIONAL LIQUIDITY USES (SAME SPECIFIED TERM)}}$$

Unlike the other ratios, the elements of the liquidity ratio are flexible and may depend on the specific institution and the intended uses for the ratio. Nevertheless, the authors of *The Handbook* make recommendations for which budget items analysts may want to include as "sources" and "uses." For those specifics, please refer to chapter 13 in *The Handbook*.

OTHER RATIOS AND CALCULATION NOTE

The Handbook also includes a number of other ratios a SHEEO agency might consider, including the debt burden ratio, return on net assets ratio, deferred maintenance ratio, and cash income ratio, among others.

One item to note in the calculation of the ratios discussed in this white paper is that in FY 2015 the Governmental Accounting Standards Board (GASB) began requiring public institutions of higher education to recognize net pension liability, pension expense, and pension-related deferred inflows and outflows of resources (see: *GASBE - Statement Number 68 - Accounting and Financial Reporting for Pensions*). This significantly alters an institution's expenses and liabilities. Currently, some institutions and SHEEO agencies have adopted the practice of calculating the ratios with and without GASB 68 (see the *Ohio Department of Higher Education* for example). Additionally, beginning with FY 2018, *GASB 75* requires the recognition of Other Post-Employment Benefits (OPEB), with similar implications as GASB 68.

OTHER FINANCIAL INFORMATION SOURCES

The context, structure, resources, scope of responsibility, and authority of each SHEEO agency will influence and, in some cases, determine its ability to collect the necessary financial data to calculate the ratios discussed above. The required level and detail of data and analysis to make use of these specific ratios may not be feasible or appropriate for all SHEEO agencies. Likewise, the necessary data may be more easily accessed for some institutions and sectors than for others. In order to use the ratios, a SHEEO agency will either have to collect the institutions' audited financial statements and calculate the ratios themselves, or they may have the institutions calculate the ratios and report the ratios to the SHEEO agency. If possible, collecting the financial statements may be the preferred method and, in that regard, the private for-profit and nonprofit institutions are already sending their audited financial statements to the U.S. Department of Education (USDE).[5] Another option is to calculate or collect the ratios for some institutions and then rely on various other sources of data and metrics for other institutions. If collecting the audited financial statements or collecting the ratios themselves from all or some of the institutions is not possible, then a SHEEO agency may want to rely on other sources of data and other metrics. Here we discuss some additional data sources and metrics.

IPEDS

The USDE's *Integrated Postsecondary Education Data System* (IPEDS) administers an annual *finance survey*. The purpose of the IPEDS finance survey is to collect basic financial information from items associated with the institution's General Purpose Financial Statements. The data are reported by the institutions to the USDE. The IPEDS data are publicly available and easily accessible. IPEDS provides a number of different finance variables, including data on institutional revenues and expenditures, which are then broken down into various levels of detail. While IPEDS does not necessarily include all of the specific data points needed to construct the ratios discussed earlier, the data they do include are extremely valuable.[6] A SHEEO agency would need to review what is available and decide which data points to consider and what metrics and ratios they may want to construct from the data. An obvious metric might be total revenues versus total expenditures. However, a SHEEO agency may also want to look at specific revenue and expenditure items. The most current IPEDS data tend to be two years old.

CREDIT AGENCIES

Other potential indicators of an institution's financial health may be credit ratings from Moody's, Standard and Poor's, or the Fitch Ratings. An example of the factors considered by credit agencies and the types of rankings they provide are available *here*. Each agency uses its own ratios and metrics. A downgrade can significantly impact an institution's ability to borrow, its interest rates, and the public's perception of its viability because the ratings are often publicized. However, some colleges do not have credit ratings.

5. Public institutions also submit statements, however they are not used for monitoring purposes in the same way that they are used for private colleges and universities.

6. Such as total expenses and expenses on instruction, research, public service, academic support, operation maintenance of plant, auxiliary enterprises, and more. They also include total revenues and revenues from tuition and fees, state appropriations, capital appropriations, sales and services, gifts, and more. Further, they have data on assets and liabilities, pension information, plant property and equipment, endowment assets, and the like.

USDE FINANCE AND MONITORING METRICS

In order to safeguard students, and the public's investment in federal student financial aid, the USDE collects a number of financial metrics from institutions and has implemented several accountability rules that impact an institution's eligibility to participate in the federal student aid program. Loss of eligibility often means that the institution can no longer operate. These may be helpful metrics to collect regardless of what other data a SHEEO agency can collect, and may be particularly helpful if a SHEEO agency is unable to collect the data needed to calculate the risk ratios discussed earlier.

FINANCIAL RESPONSIBILITY COMPOSITE SCORES

As mentioned earlier, the USDE collects the audited financial statements from all for-profit and nonprofit private institutions that participate in the federal student financial aid program. They use the statements to calculate their *Financial Responsibility Composite Scores*. The composite scores are calculated based on three ratios: the primary reserve ratio, an equity ratio, and a net income ratio (details on how the ratios are calculated are available *here*). The composite score reflects the overall relative financial health of institutions along a scale from negative 1.0 to positive 3.0. A score greater than or equal to 1.5 indicates the institution is considered financially responsible. A composite score lower than 1.5 is considered failing. The USDE provides the composite scores on its website. However, the scores are not up-to-date (several years old) and two of the ratios are no longer commonly used (the equity ratio and the net income ratio).

The National Association of College and University Budget Officers (NACUBO) and others have criticized the composite scores and how they are calculated (see *here* and *here*). Nevertheless, the composite scores have meaning and impact, and if a SHEEO agency is unable to collect the audited financial statements or the ratios discussed above from either the private for-profit or the private nonprofit institutions in their state, the USDE's *Financial Responsibility Composite Scores* are a good option. Regardless, it is likely in the SHEEO agency's best interest to review the institutions' scores to be aware of any institutions in their state that are failing or near failing.

USDE MONITORING METRICS

A SHEEO agency ought to be aware of three different USDE fiscal accountability mechanisms. The first is *Heightened Cash Monitoring (HCM)*. A SHEEO agency should track any colleges or universities in their state that are subject to HCM. HCM means an institution is subject to additional oversight of its cash management regarding student financial aid dollars, including when and how an institution draws down their financial aid disbursements. Without reconciliation and correction, an institution may eventually lose financial aid eligibility. Being subject to heightened cash monitoring is not necessarily an indicator of poor financial health or increased financial risk (although those factors may contribute to an institution being placed on HCM). Institutions may become subject to heightened cash monitoring as a result of "compliance issues including but not limited to accreditation issues, late or missing annual financial statements and/or audits, outstanding liabilities, denial of re-certifications, concern around the school's administrative capabilities, concern around a school's financial responsibility, and possibly severe findings uncovered during a program review" (USDE, 2018). Even though HCM provides SHEEO agencies with another accountability mechanism, this accountability measure has received numerous *criticisms*.

The second accountability mechanism that SHEEO agencies should monitor is the *cohort default rate* for the institutions authorized in their respective states. Under USDE regulations, cohort default rates have been used as an accountability metric. Colleges posting default rates of over 40 percent in a given year lose access to federal student loans for a two-year period, and colleges with rates above 30 percent in three consecutive years lose access to all federal financial aid for two years. Losing access to federal financial aid often results in institutional closure. The rates are available *online*. The use of cohort default rates as an accountability mechanism has received *criticism*.

The third mechanism is the USDE's *90/10 rule* for for-profit colleges. Under this rule, to be eligible for federal student financial aid participation, a for-profit college must derive at least 10 percent of its revenues for each fiscal year from sources other than federal financial aid programs or be subject to sanctions (including loss of financial aid eligibility). SHEEO agencies may download the data on the institutions within their state *here*, although the data are several years old.

CONTEXTUAL, TREND, AND LEADING MEASURES

Regardless of which data sources and metrics (like those described above) a SHEEO agency decides to use, we argue that they ought to be used in conjunction with a number of other metrics to provide context and greater understanding. An institution's financial health may be impacted by a number of factors. These may include shifting revenue streams, trends in enrollments, and shifts in spending patterns. Collecting data on these factors and others over time, and then viewing them in conjunction with the metrics discussed above, will allow for a fuller picture, may provide explanations for an institution's performance on the ratios and metrics, and may preview future problems. For example, collecting data on a public institution's reliance on tuition and fees versus state appropriations may reveal that the institution is becoming increasingly reliant on tuition and fees. If that same institution is facing stagnant or declining enrollments, its revenue situation may not be sustainable. Potential metrics a SHEEO agency may consider calculating as a component of the institutional financial assessments include:

1. Total Enrollment (or full-time equivalent [FTE] enrollment)
2. Expenditures
    a. Total expenditures
    b. Total expenditures per FTE
    c. Education and related spending[7]
    d. Education and related spending per FTE
3. Revenue
    a. Total revenue
    b. Total revenue per FTE
    c. Total revenue from tuition and mandatory fees
    d. Total revenue from tuition and mandatory fees per FTE
    e. Total revenue from tuition and mandatory fees as a percentage of total revenue

    Additional revenue items for public institutions:

    f. State and local appropriations
    g. State and local appropriations per FTE
    h. State and local appropriations as a percentage of total revenue
    i. State and local appropriations relative to tuition and mandatory fee revenue
4. Expenditures vs. revenues (at a minimum, total revenue vs. total expenditures and possibly by various components)

Each of these metrics may be calculated using a SHEEO agency's own data system, from IPEDS, or collected specifically from the institutions for this purpose. The data points ought to be calculated annually and viewed as a time series.

7. Using the GASB reporting categories from IPEDS, education and related spending is often made up of expenses related to instruction, academic support, and student services. However, each SHEEO agency should feel free to define it in its own way.

RECOMMENDATIONS

We recommend that SHEEO agencies engage in some way to monitor the fiscal health and risk of the institutions within their states. This will mean different things to different agencies, and many are already doing this. We make the following recommendations for SHEEO agencies looking to begin or improve a monitoring process:

1. Decide on what data will be collected, from what sources, and on which institutions.
2. Decide on what metrics will be calculated from the data.
3. Calculate the metrics on an annual basis.
4. Establish metric thresholds and associated outcomes (e.g., financial monitoring, corrective action).
5. Create an institutional financial health and risk report(s) that displays the metrics as a time series. An agency may want to have separate reports for the public institutions, for the private nonprofit institutions, and for the private for-profit institutions.
6. Hold an annual meeting of the SHEEO agency leadership to discuss the results of the analysis and make any necessary decisions and plans.

As indicated, various SHEEO agencies are already tracking a number of the ratios and metrics recommended in this report. One coordinating board doing this is the *Ohio Department of Higher Education*. The Department calculates and reports the viability, net income, and primary reserve ratios, plus the composite score for each of their public colleges and universities. They also include additional metrics regarding institutions' assets, debt, revenues, and expenses.

An example of a governing board already engaged is the *North Dakota University System*. North Dakota has created a clear report that utilizes a number of the ratios and metrics recommended in this white paper, plus several additional ratios and metrics. Five years' worth of data are presented to identify trends, and they are presented in easy to understand charts and tables. Likewise, for each ratio and metric, a benchmark has been established and explanations are provided.

Particularly for coordinating boards, SHEEO agencies may also benefit from monitoring the fiscal health of private nonprofit and for-private institutions. SHEEO agencies have some leverage over private institutions (state student financial aid, licensure, approval to operate, degree/credential approval, etc.) that may be used to require the financial data (financial statements or the metric/ratios themselves). Alternatively, agencies can collect data and metrics on private institutions from the USDE (for example, from IPEDS and the Financial Responsibility Composite Scores).

CONCLUSION

As indicated earlier, SHEEO agencies often have a general obligation to the state to act in the best interests of the state as a whole and students specifically. Institutions can only advance the public good if they are financially sound. Likewise, taking a reactive stance to institutional financial crises and closures does not allow SHEEO agencies to best act in the public interest. Monitoring, on an annual basis, institutions' financial health and risks may allow SHEEO agencies to become aware of problems in advance, potentially act to improve institutions' financial health, and, when needed, plan for and respond to potential institutional closures.

RESOURCES

SHEEO agency chief financial officers and financial analysts may want to make use of the following resources:

Bunsis, H. (2015). Analyzing university and college financial statements. *Journal of Collective Bargaining in the Academy*, (10), 7. Available at: *https://thekeep.eiu.edu/cgi/viewcontent.cgi?referer=https://www.google.com/&httpsredir=1&article=1468&context=jcba*

This is an excellent basic introduction to college and university financial statements, financial analysis, and also the use of IPEDS for institutional financial analysis. This is a great place to start.

Examples of SHEEO agency financial reports:

Maine: *http://www.maine.edu/pdf/09RAums.pdf*

Mississippi: *http://www.mississippi.edu/finance/downloads/ihl_systems_ratios_and_trends_(2012_-_2017).pdf*

North Dakota: *http://ndus.edu/uploads/resources/8662/campus-financial-review.pdf*

Ohio: *https://www.ohiohighered.org/campus-accountability*

Hanover Research (2014). Financial reporting in higher education. Washington, DC: Author. Available at: *https://www.hanoverresearch.com/media/Financial-Reporting-in-Higher-Education.pdf*

This is an excellent resource for understanding financial reporting and planning in higher education. Provides details on the metrics discussed in this paper, plus details on additional metrics and ratios, including the Higher Learning Commission ratios and NACUBO's key performance indicators.

Salluzzo, R. E., Tahey, P., Prager, F. J., & Cowen, C. J. (1999). *Ratio analysis in higher education: Measuring past performance to chart future direction*. USA: KPMG LLP and Prager, McCarthy & Sealy, LLC. Available at: *https://www.prager.com/Public/raihe4.pdf*

Similar to *The Handbook* but focused specifically on independent institutions.

Tahey, P., Salluzzo, R., Prager, F., Mezzina, L., & Cowen, C. (2010). *Strategic financial analysis for higher education: Identifying, measuring & reporting financial risks*. USA: KPMG, Prager, Sealy, & Co., LLC, and Attain.

Tahey, P., Salluzzo, R., Prager, F., Mezzina, L., & Cowen, C. (2016). *Update to the 7th edition of strategic financial analysis for higher education*. USA: KPMG, Prager, Sealy, & Co., LLC, and Attain.

These two (the Tahey et al publications) together represent *The Handbook* and provide the most thorough and detailed explanation of the ratios, their calculation, and their uses. They also provide details on strategic financial planning and analysis. *The Handbook* should be on every CFO's bookshelf.

USDE (1997). *Methodology for regulatory test of financial responsibility using financial ratios*. Washington, DC: Author. Available at: *https://www2.ed.gov/finaid/prof/resources/finresp/finalreport/execsummary.html*

Explanation of the ratios used to construct the USDE's composite score.

STATE HIGHER EDUCATION EXECUTIVE OFFICERS

3035 CENTER GREEN DRIVE, SUITE 100, BOULDER, COLORADO, 80301
303.541.1600 • **SHEEO.org**

Financial Reporting and Oversight

Financial Reporting and Oversight

SHEEO Report

Monitoring and Assessing the Financial Health and Risk of Colleges and Universities

- David Tandberg, SHEEO, Oct. 2018

- In the wake of the Great Recession, states have seen an **acceleration of institutional closures, mergers, and consolidations**
- SHEEO agencies have:
  - A duty to protect students when private institutions close
  - A shared responsibility for the success of public institutions and their students
- These roles motivate SHEEO agencies to **monitor institutions' financial health and intervene as necessary** to promote the success of institutions and students

SHEEO

47.1%

The percent of students reenrolling in another postsecondary institution after experiencing a closure

7 out of 10

The number of students experiencing a closure without adequate notice and without a teach-out plan

- *A Dream Derailed? Investigating the Impacts of college Closures on Student Outcomes*, SHEEO & NSC Research Center, 2022

Financial Reporting and Oversight

SHEEO Recommendations and CPE Activities

Six recommendations for SHEEO agencies:

1) Decide on what data will be collected, from what sources, and on which institutions
2) Decide on what metrics will be calculated from the data
3) Calculate the metrics on an annual basis
4) Establish metric thresholds and associated actions/interventions
5) Create institutional financial health and risk report(s)
6) Hold an annual meeting of the SHEEO agency leadership to discuss the results of the analysis and make any necessary decisions and plans

CPE's current activities:

- Begun assessing public and private institutions' financial health and risk, however, this is done on an ad hoc basis
- Staff is developing case studies covering financial monitoring policies and practices in a sample of 4-5 other states
- Recommended to the General Assembly as part of the SJR 98 report that CPE receive increased authority
- Requested funds for additional personnel to focus on expanding this work in the 2024-26 biennial budget request

Source: *Monitoring and Assessing the Financial Health and Risk of Colleges and Universities: Recommendations for SHEEO Agencies,* Tandberg, David A., October 2018, p. 13

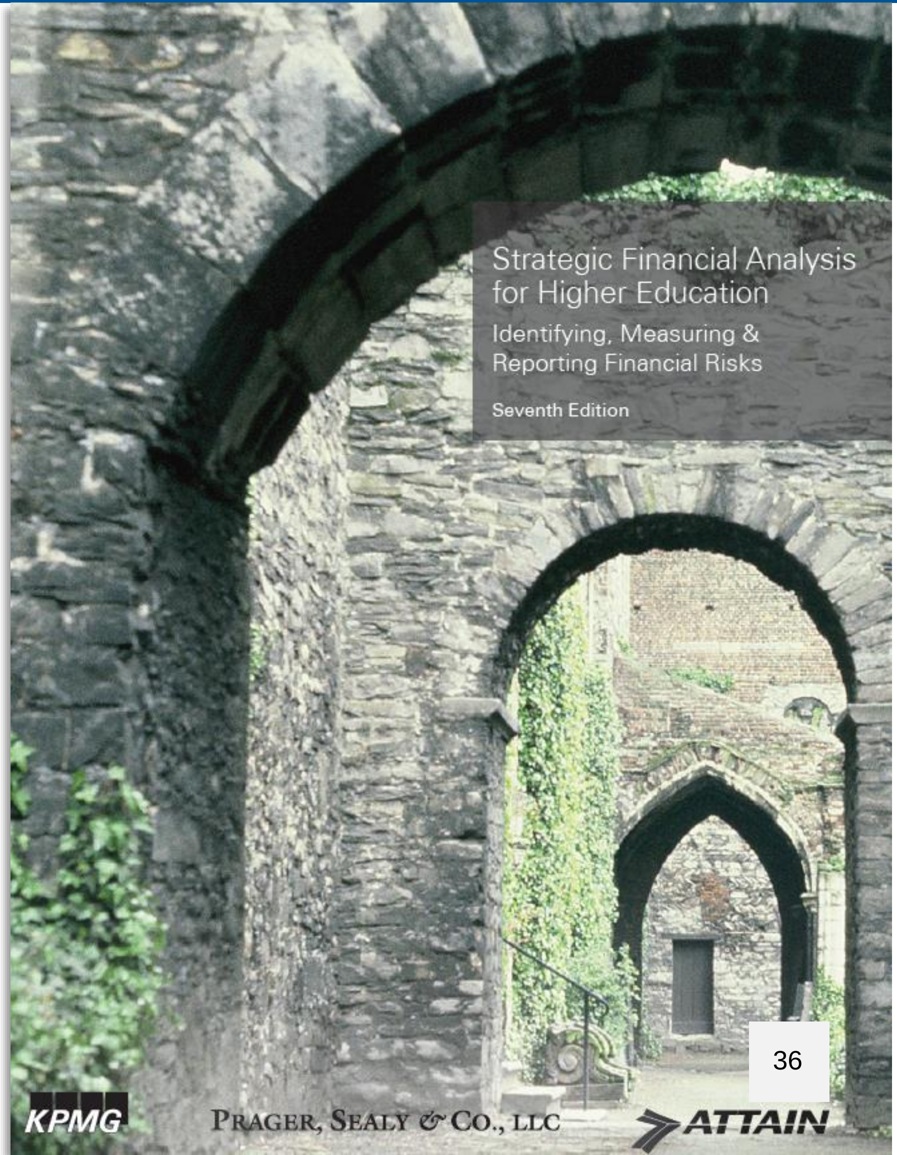
Financial Reporting and Oversight

Strategic Financial Analysis for Higher Education

Strategic Financial Analysis for Higher Education

- KPMG, Prager, Sealy, & Co., LLC, and Attain, 2017

- First published in 1980
- Currently in its 7th Edition
- Recognized as a best practices approach in higher education finance
- Used by trustees, senior managers, financial analysts, and credit analysts



Financial Reporting and Oversight

Core Ratios and Composite Financial Index

Note: For this illustration, the terms "net assets" and "reserves" are used interchangeably

Primary Reserve Ratio

Are resources sufficient and flexible enough to support the mission?

- Assesses an institution's financial strength by comparing expendable reserves to total annual expenses
- Expendable net assets / Total expenses
- Days of Cash on Hand

Viability Ratio

Are resources and debt managed strategically to advance the mission?

- Measures how much debt is covered by expendable reserves should the institution need to settle all its obligations at one time
- Expendable net assets / Plant-related debt

Return on Net Assets Ratio

Does asset performance and management support the strategic direction?

- Determines if the institution is improving its financial condition based on the most comprehensive measure of return
- Change in net assets / Total net assets

Net Operating Revenues Ratio

Do operating results indicate the institution is living within its available resources?

- Measures how operating results are strengthening or sapping the institution's net assets
- Operating income (loss) plus net nonoperating revenues / Total operating and nonoperating revenue

Composite Financial Index (CFI)

6 - 10	Thriving (6-10)
3 - 6	Surviving (3-6)
0 - 3	Barely Surviving (0-3)
-4 - 0	Financially Unhealthy (-4-0)

Financial Reporting and Oversight

The College Stress Test

The College Stress Test: Tracking Institutional Futures across a Crowded Market

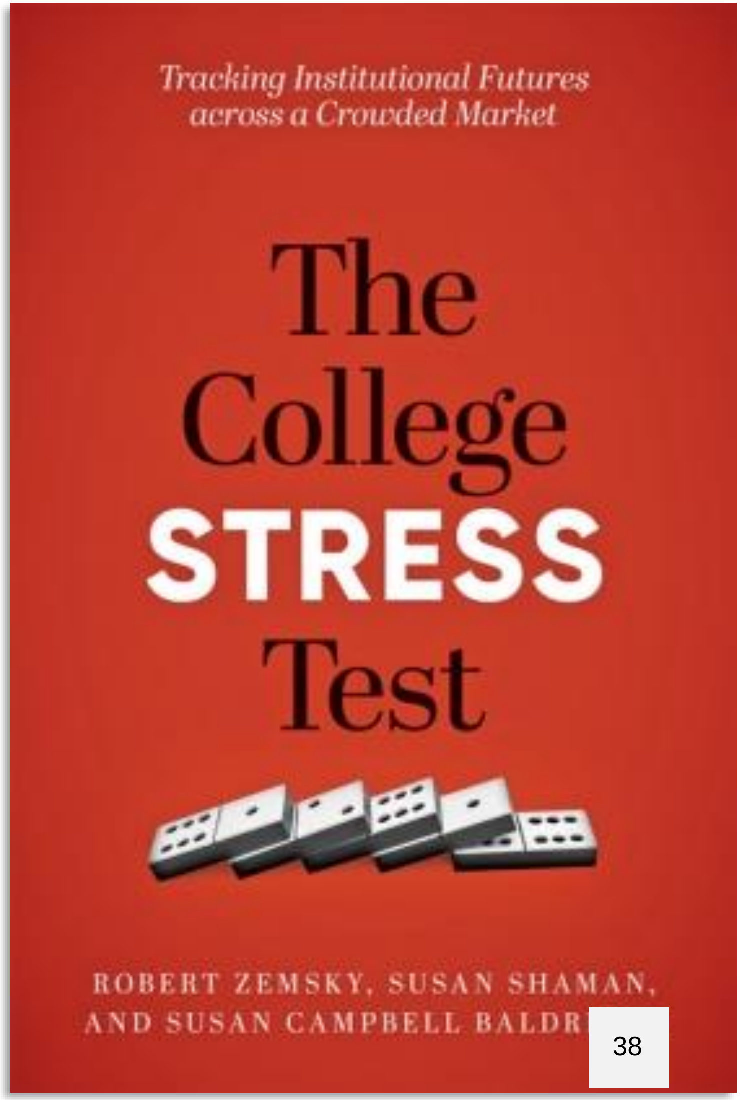
- Robert Zemsky, Susan Shaman, and Susan Campbell Baldridge

- Published January 7, 2020

- Using data from IPEDS (Integrated Postsecondary Education Data System), the authors construct a stress test for quantifying the market viability of over 2,800 institutions.

- The authors also provide step-by-step guidance for institutional analysts to apply the model to their institutions and monitor their level of market risk.

"Those interested in and **responsible for the fate of these institutions** will find in this book a **clearly defined set of risk indicators,** a methodology for monitoring progress over time, and an **evidence-based understanding of where they reside in the landscape of institutional risk**."



Financial Reporting and Oversight

The College Stress Test

Public 4-Year Components
First-time degree-seeking undergraduates
First- to second-year retention rates
Market price, adjusted for inflation
State appropriations, adjusted for inflation

Public 2-Year Components
Total entering undergraduate students
Tuition income to instructional costs ratio
State and local appropriations, adjusted for inflation

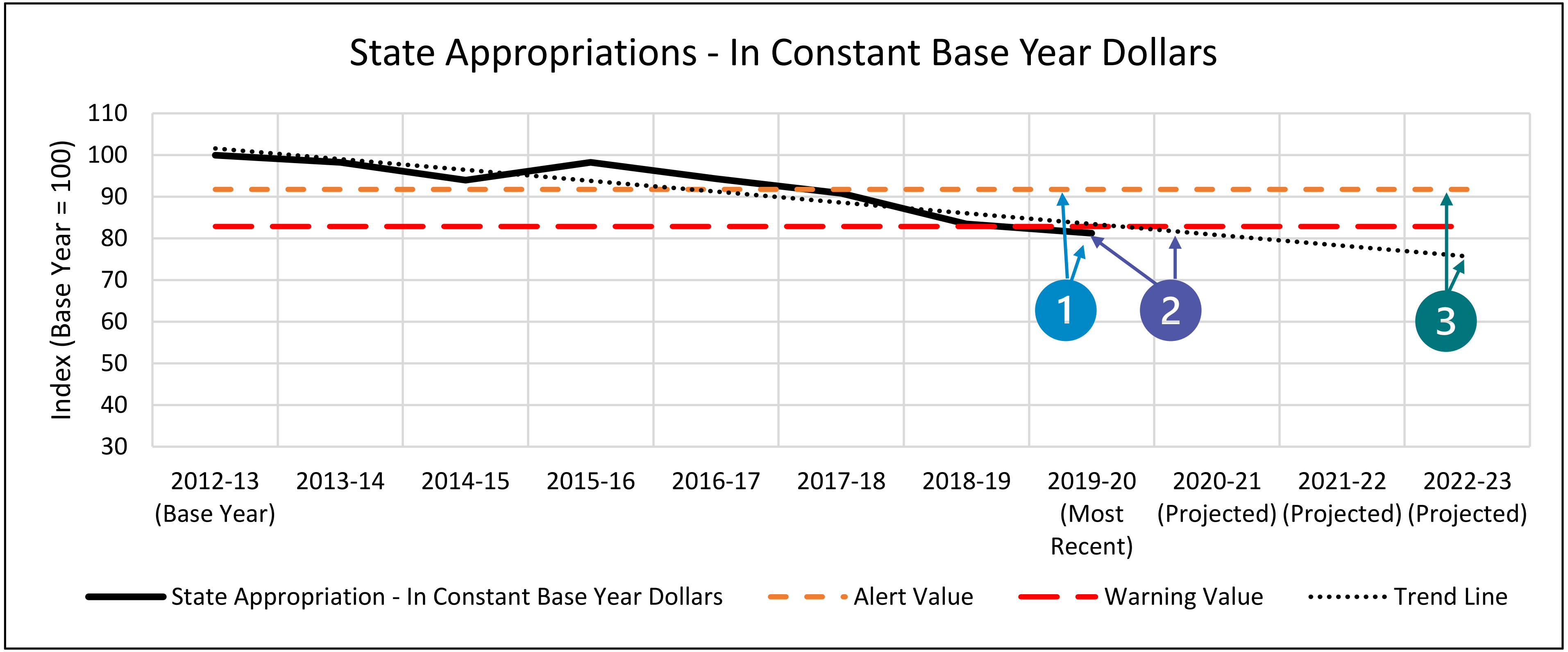
How it Works:

- Quantifies institutional viability into a single market stress score
- The final market stress test score is the sum of several components
- Trends in each component are examined over an 8-year period
- Trends are compared to alert and warning thresholds
  - Alert: lowest 20th percentile of the sector
  - Warning: lowest 10th percentile of the sector
- A line is fitted to the data to project components for the next 3 years
- Historical and forecasted data is compared to the thresholds to determine a component's risk score

Financial Reporting and Oversight

The College Stress Test

Example of Graphing a Component's Risk



1. Component reaches or crosses below the alert line (20th percentile of sector)

2. Component reaches or crosses below the warning line (10th percentile of sector)

3. Trend is negative and projected to reach or cross below the alert line by 2022-23

Financial Reporting and Oversight

CPE Finance and Policy Analysis Unit

CPE's goal is to form a new Finance Policy and Analysis Unit that will:

- Collect, store, and analyze institutional finance data
- Monitor and report key financial indicators
- Collaborate with campus staff to develop financial health assessment models and obtain necessary data
- Assist CPE's licensure unit by assessing the financial condition of private institutions
- Work with CPE leadership to develop responses when an institution is identified as financially distressed
- Use national data sources to place Kentucky statewide and institutional financial data in context
- Review and validate campus IPEDS finance survey submissions
- Conduct financial policy analyses and evaluations
- Other activities as identified through exploration of practices in other states

Up Next

Introducing the Ohio Department of Higher Education

Welcome

David Cummins

Associate Vice Chancellor, Financial Planning and Oversight

Fred Church

Vice Chancellor, Finance and Chief Data Officer

Ohio Department of Higher Education

Campus Accountability

History

- Senate Bill 6 of the 122nd General Assembly was enacted into law in 1997 to increase financial accountability of state colleges and universities by using a standard set of measures with which to monitor the fiscal health of institutions.

- It directed the state's Office of Budget and Management and Ohio's higher education agency to develop a methodology for measuring the fiscal health of the state's colleges and universities.

- It also set the standards by which an institution can be put into fiscal watch and the measures they must take to be removed from fiscal watch.

History

- SB 6 was enacted in response to a financial crisis that occurred at Central State University in the mid-1990’s.
  - That event revealed that the state did not have the necessary authority to oversee such a crisis and assure its remediation.
  - In addition, it was realized that the state needed a methodology to assess the financial condition of the institutions, preferably before a fiscal emergency occurs.

Methodology

- The Ohio Department of Higher Education computes three ratios from which four scores are generated including the Composite Score.
- The Composite Score is a weighted summary score of all three ratios. This is the primary indicator of fiscal health.
- Using the year-end audited financial statements submitted by each public institution, ODHE annually applies these ratios to monitor individual campus finances.

Methodology

- The major inputs are:
  - Expendable Net Assets
  - Plant Debt
  - Total Revenues
  - Total Operating Expenses
  - Total Non-operating Expenses
  - Change in Total Net Assets

- These inputs, as well as the three ratios and the Composite Score based on the ratios, are posted annually on DHE's website. (Scores back to FY 2011 are currently available on the site.)
  - https://highered.ohio.gov/educators/budget-financial/campus-accountability-sa/campus-accountability

Methodology

- In addition, Senate Bill 6 requires state colleges and universities to submit quarterly financial reports to ODHE within 30 days after the end of each fiscal quarter.
  - **Schedule QF-2**: Quarterly Report of Financial Actions is submitted each quarter. It consists of multiple questions designed to uncover the presence of serious cash flow problems and to provide early warning of significant problems with the current year budget.
  - **Schedule QF-1**: Statement of Revenues, Expenditures, and Other Changes is submitted after quarters 2 and 3. Utilizing the same inputs referenced above institutions project their financial ratios for the current fiscal year, as compared to final actual data in each category for the prior two fiscal years.
- The quarterly reports are accumulated and reviewed by DHE staff, a summary of any reportable conditions, along with the institutions' reports are shared with the Governor and the state legislative leadership.

Methodology

Name of Institution | Cuyahoga Community College
Quarterly Report to the Ohio Department of Higher Education
Projection of Year-end SB 6 Ratios and Composite Scores
as of March 31, 2023

Prepared by: Dean Astorino
Email Address: dean.astorino@tri-c.edu

Balances for SB 6 Ratios and Scores ($ in 1000s):

	Projected FY2023	Actual FY2022	Actual FY2021
Expendable net assets (A)	**224,595**	213,520	179,124
Plant debt (B)	**271,668**	288,273	304,522
Revenues, operating + nonoperating (C)	**317,494**	353,696	357,585
Operating expenses (including interest expense) (D)	**313,544**	310,098	295,477
Increase (decrease) in total net assets (E)	**3,950**	29,596	62,108
Ratios:			
Viability Ratio (A/B)	0.827	0.741	0.588
Primary Reserve Ratio (A/D)	0.716	0.689	0.606
Net Income Ratio (E/C)	0.012	0.084	0.174
Composite Score:			
Viability Ratio (30%)	0.9	0.9	0.6
Primary Reserve Ratio (50%)	2.5	2.5	2.5
Net Income Ratio (20%)	0.6	1.0	1.0
SB 6 Composite Score (Excluding GASB68)	**4.0**	4.4	4.1

Methodology

Schedule QF-2: Quarterly Report of Financial Actions

Reportable Events -- During the time period covered by this report, did your institution:

		Yes	No
1	Request an advance of state subsidy?		X
2	Fail to make its required payments, as scheduled, to appropriate retirement systems (e.g. OPERS or STRS-Ohio)?		X
3	Fail to make its required payroll payments, as scheduled?		X
4	Fail to make its scheduled debt service payments?		X
5	Fail to make payments to vendors, as scheduled, due to a cash deficiency or a substantial deficiency in the payment processing system?		X
6	Relative to its original budget for the fiscal year, experience any actual or anticipate any projected financial changes (such as unbudgeted decreases in revenues or unbudgeted increases in expenditures) that will result in a substantially reduced fund balance or larger deficit this fiscal year?		X

Additional Questions:

	Current Year	Prior Year	Prior Year
What was the total student FTE enrollment for Fall semester?	8,163	9,063	9,868

	Current Year	Prior Year	Prior Year
What is the expected total student enrollment for Spring semester as budgeted for the fiscal year?	7,837	7,907	8,759

		Yes	No
	Do you have knowledge that any of the following circumstances have or may occur during the fiscal year in a significant way that will negatively impact your institution's annual SB 6 composite score?		X
1	An unanticipated decrease in operating cash and investments?		X
2	An increase in uncollectible accounts receivable?		X
3	Any unanticipated capital purchases?		X
4	Any unanticipated losses (e.g. casualty or investment)?		X
5	An increase in liabilities that do not occur during normal business operations (including new debt issues)?		X
6	Any other facts or circumstances that could negatively impact the SB 6 composite score?		X

If the answer is "Yes" to any of the above questions, please describe in a separate document the anticipated impact on your institution's year-end financial position, the reason(s) for the event, the action(s) taken by the institution to resolve the event, and the action(s) taken by the institution to prevent a reoccurrence of the event.

Process

- The inputs used to calculate the ratios, as well as the three ratios and the Composite Score based on the ratios, are posted annually on DHE's website. (Scores back to FY 2011 are currently available on the site.)

- The maximum possible Composite Score is 5.0.
  - A score of 1.75 or less for two consecutive years would result in an institution being placed on fiscal watch.
  - If the institution's score is 0.75 or less, it can be placed in "conservatorship."

- In addition, the third quarter estimated composite score is posted each spring to provide a timely update for each institution's score.

Process

- Fiscal representatives of the colleges and universities were deeply involved in developing the composite score methodology, so there was significant buy-in to the process.

- The ratios and composite scores are readily available on DHE’s website. The quarterly reports are widely shared – legislative leadership, governor’s office. Nonetheless, there is minimal interaction on this topic.

- The data and scores provide summary information that can raise the visibility if an institution is approaching a fiscal crisis.

Applications

- The composite scores help identify which institutions may be vulnerable and need to be watched. Multiple years can show a pattern. For instance:
    - Are an institution's expenses consistently exceeding revenues?
    - How much debt do they have relative to their assets? How does that compare to other similar institutions?

- DHE must approve pledges of fees in order for an institution to issue debt; the composite scores are a major data point in reviewing such requests.

Lessons Learned

- The ratios and the composite score provide a snapshot of an institution's fiscal condition; but the data may not necessarily expose an underlying problem.
- A requirement that an institution must have a very low score of 1.75 for two consecutive years to enter fiscal watch is a low standard.
- Two years provide the institution time to avoid fiscal watch, but it can also preclude the state from engaging as proactively as may be necessary.

Lessons Learned

- Per Ohio Administrative Code, there are other factors that can place an institution in fiscal watch prior to two years of a composite score of 1.75. These include:
  - Audit delays or irregularities
  - Reportable events such as delays in meeting payroll or paying vendors
  - Requested advances of state subsidy

- In addition, the state is currently revising this rule to add an institution being "subject to heightened reporting standards or special monitoring status" by the federal government or regional accrediting organization as a reportable condition.

Fred Church, Vice Chancellor of Finance & Data Management
David Cummins, Associate Vice Chancellor Financial Planning & Oversight

Department of Higher Education

25 South Front St.
Columbus, Ohio 43215 U.S.A.

614 | 466-6000
highered.ohio.gov