Financial Metrics – Establishing Operating Ranges

BACKGROUND

In March 2015, the Finance & Administration Committee approved ten financial and facilities-related metrics to track the University’s financial health and the condition and utilization of the University’s physical facilities. Staff was asked by the Committee to evaluate and propose operating ranges for each approved metric to provide a way for the Committee to carry out its fiduciary responsibilities. The data necessary to propose operating ranges for the two metrics related to the condition and utilization of facilities is currently under development. The eight approved financial metrics, the process that was used to develop the proposed operating ranges for the metrics, and the proposed operating ranges are delineated below.

APPROVED METRICS

As approved by the Committee in March 2015, the eight financial measures or metrics are:

**Financial Measures**

- **Viability Ratio**
  - \( \text{Expendable resources over debt} \) – Measures the ability to repay debt with financial resources and the ability to use debt to strategically advance the University's mission

- **Primary Reserve Ratio**
  - \( \text{Expendable resources over total expenditures} \) – Measures whether financial resources are sufficient and flexible enough to support the University's mission

- **Net Income Ratio**
  - \( \text{Surplus or deficit over operating revenue} \) – Measures the amount of annual surplus relative to the size of operations

- **Return on Net Assets Ratio**
  - \( \text{Change in net assets over total assets} \) – Measures economic return on the University’s assets

- **Debt Burden Ratio**
  - \( \text{Debt service over total expenditures minus depreciation plus debt principal payments} \) – Measures the University’s dependence on debt to finance its mission and the relative cost of borrowing to overall expenditures

- **Debt Service Coverage**
  - \( \text{Three-year average net operating income plus non-operating revenues plus interest and depreciation over debt service} \) – Measures the sufficiency of operations on a cash flow basis to cover debt service

- **Debt/Revenues**
  - \( \text{Direct debt over revenues} \) – Measures the amount of leverage relative to the size of operations

- **Fund Balance**
  - \( \text{Ending Education and General fund balance as a % of revenues} \) – Measures the available operating balance relative to the size of the Education and General operations
The University engaged its financial advisors, Public Financial Management, Inc. (PFM), to analyze peer data from universities that share an AA3 credit rating and provide guidance in proposing operating ranges for the eight financial metrics. PFM’s analysis, which will be presented to the Finance and Administration Committee on June 2, is included as Attachment 1.

The AA3 peer data ranges, along with the proposed operating ranges for each financial metric are:

<table>
<thead>
<tr>
<th></th>
<th>AA3 Peer Data Ranges</th>
<th>Proposed Operating Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Viability Ratio</td>
<td>52% — 223%</td>
<td>75% — 125%</td>
</tr>
<tr>
<td>Primary Reserve Ratio</td>
<td>35% — 92%</td>
<td>35% — 65%</td>
</tr>
<tr>
<td>Net Income Ratio</td>
<td>–1.1% — 7.6%</td>
<td>0% — 6%</td>
</tr>
<tr>
<td>Return on Net Assets Ratio</td>
<td>–1.0% — 9.6%</td>
<td>0% — 8%</td>
</tr>
<tr>
<td>Debt Burden Ratio</td>
<td>2.2% — 6.7%</td>
<td>2.5% — 6.5%</td>
</tr>
<tr>
<td>Debt Service Coverage</td>
<td>1.4 — 5.0 times</td>
<td>2 — 4.5 times</td>
</tr>
<tr>
<td>Debt/Revenues</td>
<td>29% — 94%</td>
<td>30% — 75%</td>
</tr>
<tr>
<td>Fund Balance</td>
<td>N/A</td>
<td>10% — 20%</td>
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</tbody>
</table>

**STAFF RECOMMENDATION**

Staff proposes that the Finance & Administration Committee adopt the proposed metric operating ranges as shown above.