2022 Financial Metrics Update

BACKGROUND

On October 7, 2021, the Finance & Administration Committee updated and adopted a set of financial metrics and operating ranges, as shown in Table 1, to assist in monitoring the financial health of the university over time and when the use of debt capacity is assessed or considered.

Table 1. Financial Metrics and Operating Ranges.

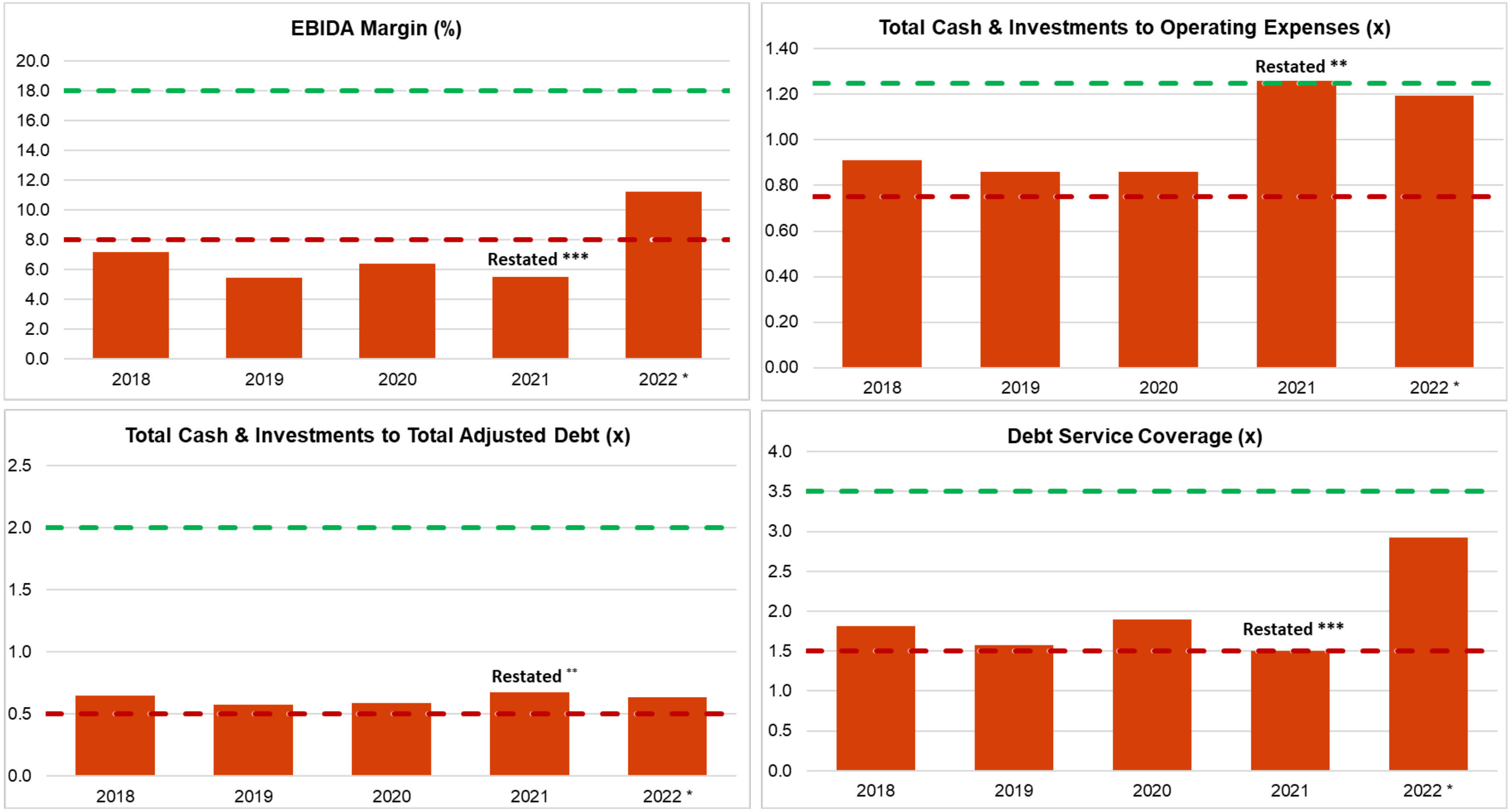
Ratio	Operating Ranges	Purpose
Operating Performance		
Fund Balance	10.0% - 20.0%	Measures the available operating balance relative to the size of the Education and General operations and reported in the quarterly management reports
EBIDA (Earnings before Interest, Depreciation and Amortization) Margin	8.0% - 18.0%	Measures the ability to repay debt from operating revenue as well as invest in academic programs and facilities to advance strategic objectives
Reserve Levels and Debt Capacity		
Total Cash and Investments to Operating Expenses	0.75 – 1.25 times	Measures level of available reserves to meet the university's operating expenditures
Total Cash and Investments to Adjusted Debt	0.5 – 2.0 times	Measures the ability to repay debt and pension obligations with available financial resources
Debt Affordability		
Debt Service Coverage	1.5 - 3.5 times	Measures the sufficiency of operations to cover debt service on a cash flow basis

OSU uses ratio analysis as a key tool for the evaluation of the financial performance of the university and in communicating financial and operational performance outcomes to key stakeholders. The Fund Balance metric is measured and reported to the Board of Trustees through the quarterly operating management reports. The university's four key financial metrics (shown in Table 2)—EBIDA, Total Cash and Investments to Operating Expenses, Total Cash and Investments to Adjusted Debt, and Debt Service Coverage—are measured and reported annually.

ANALYSIS OF FINANCIAL HISTORICAL FINANCIAL METRICS

This update provides information on the financial health of the university as of June 30, 2022, including comparison of key financial metrics over time.

Table 2: Key financial metrics based on OSU's audited financial statements.



* Calculation will be adjusted by Moody's when their financial statement analysis is completed in 2023
** 2021 cash and investments now identify bond proceeds available for operations which positively impact these metrics
*** 2021 auxiliary enterprise revenue restatement impacts EBIDA Margin and Debt Service Coverage ratios

Operating Performance

EBIDA (Earnings before Interest, Depreciation and Amortization) Margin—EBIDA reflects the available cash flows generated by the university after paying operating expenses. These cash flows are available to pay debt service, reinvest in capital assets (deferred maintenance), invest in new capital projects and strategic initiatives, and to set aside reserves for uncertain events and future strategic opportunities. If cash flows and other available revenues like state capital appropriations are insufficient to meet cash needs, the university must draw on reserves.

Table 2 shows the five-year historical trend for EBIDA margin. The university's EBIDA margin is 11.2% for fiscal year (FY) 2022, which is within the Board's established range of 8.0% to 18.0%.

Net tuition and fees, auxiliary revenues, and sales and services revenues are generally driven by fee levels and enrollment. Tuition and fee rates (E&G fund revenues) have remained relatively stable for the past five years due to slightly increasing enrollment and modest increases in tuition and fees. In FY2022, Financial Aid Grants increased by $18.0M, primarily due to increases in Oregon opportunity grants, federal Pell grants, and federal Higher Education Emergency Relief Funding Act aid slightly offset by decreases in Ford Family Foundation scholarships and federal Supplemental Educational Opportunity Grants aid. Generally, auxiliary revenues (self-support fund revenues) follow similar trends as tuition and fees. However, in FY2021 auxiliary revenues decreased by $47.9M then increased by $64.6M in FY2022, due to the impacts of the global pandemic.

Grants and contracts (restricted fund revenues) are driven by researchers, research facilities, and availability of grants to support the research conducted at OSU. These funds have steadily increased over the past five years until FY2022, which saw a slight decrease. State operating appropriations are approved by Oregon's legislature, and allocated to individual Oregon Public Universities by the Higher Education Coordinating Commission. State operating appropriations have increased slightly over the past five years. Endowment spending is driven by performance of the endowment, fundraising outcomes, and the endowment distribution policy.

Reserve Levels and Debt Capacity

Cash and Investments to Operating Expenses—This metric measures the level of available financial resources to meet the university's operating expenditures. Table 2 shows the five-year historical trend of total cash and investments available to meet operating expenditures. At the end of FY2022, the university could meet annual operating expenditures 1.20 times, which is within the Board's established range of 0.75 to 1.25 times.

The Cash and Investment to Operating Expense ratio improves if total cash and investments increase and/or operating expenses decrease. In FY2022, total cash and investments decreased by $42.4M at the same time the university increased operating expense by $30.8M.

Cash and Investments to Adjusted Debt—This metric measures ability to repay debt and pension obligations with available financial resources. Table 2 shows the five-year historical trend of total cash and investments available to repay debt and pension obligations. At the end of FY2022, the university could repay debt and pension obligations 0.6 times, which is within the Board's established range of 0.5 to 2.0 times.

The Cash and Investments to Adjusted Debt ratio improves if total cash and investments increase and/or adjusted debt decreases. Adjusted debt includes the university's general revenue bonds, notes, university paid state issued debt, debt-like obligations and net pension liability, as calculated by Moody's Investors Service. The ratio is impacted as debt is paid off, new debt is issued, and with changes in the net pension liability. This ratio remained relatively constant in FY2022.

Debt Affordability

Debt Service Coverage—This metric measures the sufficiency of operations on a cash flow basis to cover debt service. Table 2 shows the five-year historical trend for annual debt service coverage. The debt service coverage ratio is 2.9 for FY2022, which is within the Board's established range of 1.5 to 3.5 times.

The debt service coverage ratio increases as EBIDA increases and/or debt service decreases. In FY2022, EBIDA increased $77.9M and debt service increased $5.4M.

CONCLUSION

Currently, OSU is within the target ranges for Total Cash and Investments to Operating Expenses, Total Cash and Investments to Adjusted Debt, and the Debt Service Coverage ratios. These financial metrics indicate continued balance sheet strength. OSU is also within the approved operating range for EBIDA. In FY2022 OSU's operating revenue grew $100.7M while adjusted operating expenses only grew $22.8, driven largely by auxiliaries and self-supports. Research-intensive land grant universities generally spend more of their revenues for operations and hold weaker reserves. For the previous four years, OSU has been below the lower target range for EBIDA. It is anticipated that the gap between growth in operating revenue and adjusted operating expenses will lesson for auxiliaries and self-supports as hiring challenges to fill vacancies and supply chain impacts are resolved.