
Docket Item:

Budget Note Process – Potential Metrics and Framework

Summary:

A 2019 legislative budget note directs the HECC and the public universities to coordinate on the collection of financial data. The goal is to create a common set of metrics used to assess financial health and provide a more robust understanding of the public universities.

Docket Material:

A budget note in HB 5024 (2019) directed the Commission and the universities to coordinate on the collection of financial data and measures that will be consistently provided to the HECC to improve transparency and accountability. Financial information may include administrative costs, financial activity by fund, fund reserve balances, and results of audits. The report is due to the Joint Committee on Ways and Means or the Emergency Board no later than September 2020. The full text of the budget note is included in the appendix.

Additional Data Needed

For the most part, the financial data needed comes from institutional annual financial reports. Since the financial ratio analysis we use incorporates data from the foundations (component units), we ask the institutions to send us copies of the annual financial reports for their foundations when completed.

Also, information by fund is requested. The annual financial reports include data across all funds. Often information is needed for the general fund only to exclude the impact of auxiliary enterprises. The institutions routinely provide quarterly financial reporting to their boards including detail by fund. That information is most helpful for our purposes.

Qualitative data is also important to the process. Audit findings, information about any accreditation sanctions or related information from regional accreditors and any credit analyst reports are relevant to the analysis.

Potential Outcomes

In response, we envision two outcomes related to this work. One is an annual financial conditions report. The other is a financial snapshot for each university. Drafts of both are included for reference.

Financial Conditions Report

HECC staff will produce an annual financial conditions report for the universities. The aim of this report is to offer a transparent review of the revenue, spending, debt, and long term resources of the

institutions. It will include the calculation of a Composite Financial Index (CFI) that can be used to evaluate the financial condition of individual universities over time.

The CFI is a nationally recognized metric made up of four financial ratios: Primary Reserve Ratio, Viability Ratio, Return on Net Revenues (Net Operating Revenues), and Return on Net Assets. The financial information in these reports will be taken from the universities' annual financial statements.

Financial Snapshot

The HECC staff is also developing an annual Financial Snapshot for each university designed to complement the existing institution snapshots developed by the Office of Research and Data. This one-page summary will provide a quick, easy-to-understand review of the university's financial condition.

The report will have three major areas. The Financial Characteristics section will contain information on how the university funds its activities and how it spends money to further its mission. These figures will be per FTE to provide a student centric view of finances. A reader will be able to see what portion of the universities' income comes from tuition and what portion comes from the state. The uses of funds will also be presented providing a view on how is the money spent per student FTE.

The second major section, called Measuring Financial Health, will be a one-year summary of the Financial Condition Report. This section will contain the financial ratio definitions and values.

The final section will focus on tuition revenue. Resident and non-resident tuition will be the focus with gross tuition, remissions, and net tuition and fees amounts. These figures will be the total net tuition paid to the school not average tuition paid by students which is already included in the institutional snapshot produced by the Office of Research and Data.

Continued Collaboration

HECC staff will produce a discussion document and continue to collaborate with the universities on this report. A proposed report will then be presented to the Commission at its August F&A meeting for acceptance and submission to the Legislature.

Staff Recommendation:

For discussion purposes only.

Appendix

HB 5024 (2019) Budget Note, Full Text

The seven Public Universities shall collectively report to the Joint Committee on Ways and Means in February 2020 on cost management measures implemented during the 2019-20 academic year. The report should include administration and program reductions, use of fund reserve balances, positions eliminated or left vacant for more than six months, and any new positions established.

An updated report for the 2020-21 academic year shall be provided to the Emergency Board in December 2020. The seven Public Universities and the Higher Education Coordinating Commission (HECC) are also directed to coordinate in the interim to identify public university financial data and measures that will be consistently provided to HECC to improve transparency and accountability.

Financial information may include administrative costs, financial activity by fund, fund reserve balances, and results of audits. HECC shall report to the Joint Committee on Ways and Means or the Emergency Board no later than September 2020 on this effort.