HIGHER EDUCATION COORDINATING COMMISSION
3225 25th Street SE, Salem, OR 97302
www.oregon.gov/HigherEd

FUNDING AND ACHIEVEMENT SUBCOMMITTEE
February 9, 2022
Docket Item #: 3.0

Docket Item

2022 Financial Conditions Report

Summary

This docket item provides information on the 2022 version of the Financial Conditions Report which includes financial data through FY2021 for the public universities.

Docket Material

The first edition of the HECC's *Financial Conditions Report* was submitted to the Legislature in August 2020 in compliance with a budget note (HB 5024, 2019). The intent was to make this an annual report to provide information on the financial condition of the state's public universities. The *2022 Financial Conditions Report* is the second annual report which includes data through FY2021 and a broad financial evaluation of each public university.

Two perspectives are provided in the *Financial Conditions Report* report. One perspective considers all university funds, including foundation assets, and calculates a composite financial index (CFI) to provide an assessment of the institution's financial health. The other perspective considers the university's general fund exclusively. Information related to revenues, expenses and fund balances is included for reference.

The financial health of an institution can be assessed via two dimensions of inquiry. First, is the institution financially capable of successfully carrying out its current programs? This speaks to current operations. Second, is the institution able to carry out its intended programs well into the future? This speaks to the future viability of an institution.

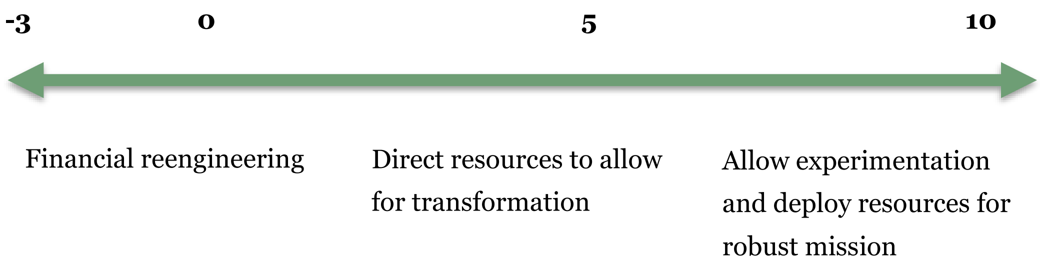
Along these two dimensions, four key financial questions need to be asked. A financial ratio is designed to measure the answer for each question.

> **Primary Reserve Ratio** – measures sufficiency and flexibility of resources. It describes over what period of time expenses could be covered without additional resources. A decreasing ratio may indicate a weakening financial condition.
>
> **Viability Ratio** – measures whether debt resources are managed strategically. It speaks to the availability of expendable net assets to cover long-term debt. A decreasing ratio may indicate a weakening financial condition.
>
> **Net Operating Revenues Ratio** – measures whether the institution is living within existing resources. It conveys whether or not the institution is collecting enough revenue to cover operating expenses. A negative ratio indicates a structural deficit which depletes reserves.
>
> **Return on Net Assets** – measures whether asset performance supports the strategic direction. It speaks to the total economic return on all net assets. An improving ratio indicates future financial flexibility.

The composite financial index (CFI) then combines the four ratios into a single score that attempts to quantify the overall financial well being of the institution. CFI scores do not have absolute precision and are best measured over time and with context. The four ratios are combined using a weighted approach in which 70% is devoted to future viability and 30% to current operations as noted below.

Components of the CFI	
Primary Reserve Ratio	35%
Viability Ratio	35%
Future Viability	**70%**
Net Operating Revenues Ratio	20%
Return on Net Assets	10%
Current Operations	**30%**

CFI scores generally range from 1 to 10. The generally accepted threshold for viability is 3.0 or above. The scale of performance is noted below:



The *2022 Financial Conditions Report* includes calculations for the past five fiscal years from 2017 through 2021. Some of the institutions report these same ratios and the CFI for their governing boards. The calculations can differ slightly depending on the data used. The calculations in the report are based solely on audited financial statement information while institutions often use more granular data from internal accounting systems.

It is also important to note that changes in accounting practice can affect the calculations. Reporting for pension-related and other postemployment benefits (OPEB) liabilities has led to a reduction in expendable net assets leading to a reduction in the net operating revenues ratio. The additional liability is significant, accounting for approximately one-third of total, long-term liabilities. As a result, the CFI is reported with them and then adjusted to exclude them for comparison. The adjusted CFIs are summarized in the table below.

Summary of Adjusted CFI Calculations by Institution

	FY2017	**FY2018**	**FY2019**	**FY2020**	**FY2021**
EOU	4.14	2.20	2.52	3.34	5.42
OIT	4.76	2.74	2.89	3.95	5.39
OSU	4.53	2.37	2.05	1.98	3.66
PSU	5.80	2.14	3.24	2.79	3.95
SOU	4.24	3.53	1.15	0.78	3.11

UO	7.25	3.74	4.58	2.41	4.06
WOU	4.64	2.94	2.67	1.12	4.18

The financial condition at all seven universities during FY2021, as measured by the adjusted composite financial index (CFI), has improved. This is largely due to extraordinary federal revenues received which have allowed the universities to offset the revenue losses and increased costs associated with responding to the pandemic. Furthermore, bond refunding activity reduced long-term liabilities and foundation asset value increases, likely due to changing market conditions, affected available net assets within the financial ratios improving the CFI.

The concern, however, is that the related federal revenues are temporary. Sustainability is the question. The cost saving measures employed during the response were also temporary in many cases. It is uncertain what this will mean for the universities' finances going forward with expected weak enrollments and cost containment challenges resulting from transformational change that is not yet evident.

FY2021 General Fund Financial Data
(amounts in $ thousands)

	EOU	OIT	OSU	PSU	SOU	UO	WOU	TOTAL
Gross tuition and fees	26,504	39,575	448,154	223,884	39,908	473,056	45,775	1,296,856
Less fee remissions	(3,136)	(5,296)	(58,447)	(20,363)	(3,245)	(60,400)	(6,692)	(157,580)
Net tuition	23,368	34,279	389,707	203,521	36,663	412,656	39,082	1,139,276
State appropriations	21,664	31,983	153,062	108,426	23,758	81,919	28,608	449,420
State debt service	638	134	1,073	2,182	179	801	382	5,389
Indirect cost recovery	559	641	43,296	10,336	136	25,953	853	81,774
All other	1,071	2,058	37,018	12,218	345	13,782	2,929	69,422
Total revenues	**47,301**	**69,094**	**624,155**	**336,684**	**61,081**	**535,111**	**71,855**	**1,745,281**
Salary & Wages	22,180	30,899	302,809	174,152	29,132	258,200	33,876	851,248
Benefits: Health	5,689	7,589	62,694	29,774	7,026	-	8,586	121,357
Benefits: Retirement	5,333	6,626	63,592	37,994	7,050	-	8,954	129,550
Benefits: Other	1,779	2,541	43,436	23,151	3,172	179,654	3,015	256,750
Supplies & Services	9,066	14,106	107,032	56,925	10,337	80,884	7,526	285,877
Capital Expenditures	557	717	4,835	1,705	124	3,791	128	11,857
Institutional Student Aid	-	11	2,212	1,102	-	4,710	-	8,034
Net Fund Transfers	(124)	4,793	(10,420)	(8,340)	1,526	3,349	5,139	(4,077)
Total expenses	**44,481**	**67,282**	**576,191**	**316,463**	**58,367**	**530,588**	**67,225**	**1,660,596**
Net Income (Loss)	**2,819**	**1,813**	**47,965**	**20,221**	**2,714**	**4,523**	**4,630**	**84,685**
As a % of Revenue	6%	3%	8%	6%	4%	1%	6%	5%
Beginning Fund Balance	11,334	13,593	79,193	105,083	5,081	54,401	6,240	274,925
Additions/Deductions	-	(170)	-	-	-	2,361	-	2,191
Ending Fund Balance	**14,153**	**15,235**	**127,157**	**125,304**	**7,795**	**61,285**	**10,870**	**361,800**
Balance as a % of Revenue	30%	22%	20%	37%	13%	11%	15%	21%
Months of Balance	**3.6**	**2.6**	**2.4**	**4.5**	**1.5**	**1.4**	**1.8**	**2.5**

Other Materials

This docket also contains an updated version of the HECC's 2021-23 *Biennial State Funding and Formula Summary Report* originally presented to the F&A Subcommittee in October, 2021. It is a reference report that includes information on state appropriations to public universities, community colleges, and OHSU, including institutional support, capital, and debt service, as well as a description of how that HECC allocates that funding between institutions. It does not include information for any other HECC office or program.

Staff Recommendation

For discussion and informational purposes only.