Colorado State University System
Board of Governors Retreat and Meeting Agenda
June 18-20, 2014

BOARD OF GOVERNORS
June 18-20, 2014
CSU Pingree Park Campus

WEDNESDAY, June 18, 2014

Board of Governors Reception and Dinner *(Hotchkiss Lodge)* **6:00 p.m.**

THURSDAY, June 19, 2014

Board of Governors Breakfast *(Dining Hall)* **7:30 a.m. – 8:15 a.m.**

COMMENCE RETREAT – CALL TO ORDER *(Hotchkiss Lodge)* **8:30 a.m. – 4:00 p.m.**

Board of Governors Reception and Dinner *(Hotchkiss Lodge)* **6:00 p.m.**

FRIDAY, June 20, 2014

Board of Governors Breakfast *(Dining Hall)* **7:30 a.m. – 8:15 a.m.**

BOARD OF GOVERNORS RETREAT (continued) *(Hotchkiss Lodge)* **8:30 a.m. – 10:00 a.m.**

COMMENCE BOARD MEETING **10:00 a.m. – 1:00 p.m.**

1. **Public Comment** *(5 min.)* 10:00 a.m. – 10:05 a.m.
2. **Board Chair's Agenda** *(10 min.)* 10:05 a.m. – 10:15 a.m.
   - **Approval of FY 2014-15 and FY 2015-16 Meeting Calendars**
3. **Executive Session** *(45 min.)* 10:15 a.m. – 11:00 a.m.
4. **Audit and Finance Committee –** Dennis Flores, Chair *(45 min.)* 11:00 a.m. – 11:45 a.m.
   - CSU-Pueblo and CSU System Budgets
5. **Approval of Resolutions and Consent Agenda** *(5 min.)* 11:45 a.m. – 11:50 a.m.

   Consent Agenda Items:

   A. Colorado State University System
   - Minutes of the May 8, 2014 Board Electronic Board Book Training
   - Minutes of the May 8, 2014 Board Meeting
   - Minutes of the May 8, 2014 Audit and Finance Committee Meeting
   - Minutes of the May 8, 2014 Real Estate/Facilities Committee Meeting
   - Minutes of the May 8, 2014 Academic and Student Affairs Committee Meeting
   - Minutes of the May 9, 2014 Board of Governors Meeting

Break/Working Lunch *(10 min.)* 11:50 a.m. – 12:00 p.m.

6. **Chancellor's Report** *(10 min.)* 12:00 p.m. – 12:10 p.m.
7. **Land Grant System Committee Report** *(45 min.)* 12:10 p.m. – 12:55 p.m.
8. **Board Meeting Evaluation** *(5 min.)* 12:55 p.m. – 1:00 p.m.

Adjournment **1:00 p.m.**

Next Board of Governors Board Meeting: August 7-8, 2014, CSU-Pueblo

APPENDIX
- Board Correspondence

COLORADO STATE UNIVERSITY SYSTEM
BOARD OF GOVERNORS RETREAT
JUNE 18-20, 2014

AGENDA

WEDNESDAY, JUNE 18, 2014

6:00 p.m. Reception
6:30 p.m. Dinner
7:00 p.m. **Who are you and why are YOU here?**
Agenda Overview
8:00 p.m. Bonfire

THURSDAY, JUNE 19, 2014

7:30 a.m. Breakfast
8:30 a.m. Retreat

What does a great board look like?

- Traits of highly effective boards (Best Practices)
- Traits of highly effective board members

What is everyone supposed to be doing?

- What is the role of the board?
- What is your role?
- What is the Chair's role?
- What is the Chancellor's role? Presidents' role?

What should we expect from each other?

- Expectations of the Chancellor by the board.
- Expectations of the Board by the Chancellor.

Key Issues in governance?

- Effective communication
- Effective meetings and committees
- Management vs Policy (Micromanaging?)
- Why have a system? Role of the system? Purpose?

Issues for 2014-15?

- Board defines the major issues facing the CSU system for 2014-15.

Chancellor and Presidents - 20 minutes each!!

- Chancellor: What will the system look like in five years? Demographics, financial, locations, programs, etc.

- Presidents: What will your institution look like in five years?
  Financial picture (tuition, state support, financial aid), academically, athletically, facilities, auxiliaries, enrollment, graduation rate, retention rate, in state and out of state mix, state and national position, etc.

Board discussion with the Chancellor and the Presidents in response to these reports.

4:00 p.m. Break for dinner
6:00 p.m. Reception
7:00 p.m. Dinner

FRIDAY, JUNE 20, 2015

7:30 a.m. Breakfast

8:30 a.m. **Now What?**

- Establishing priorities for 2014-15
- Establishing a work plan for 2014-15 with a timetable
- Wrap up unresolved items

10:00 a.m. Official board meeting

1:00 p.m. Adjourn

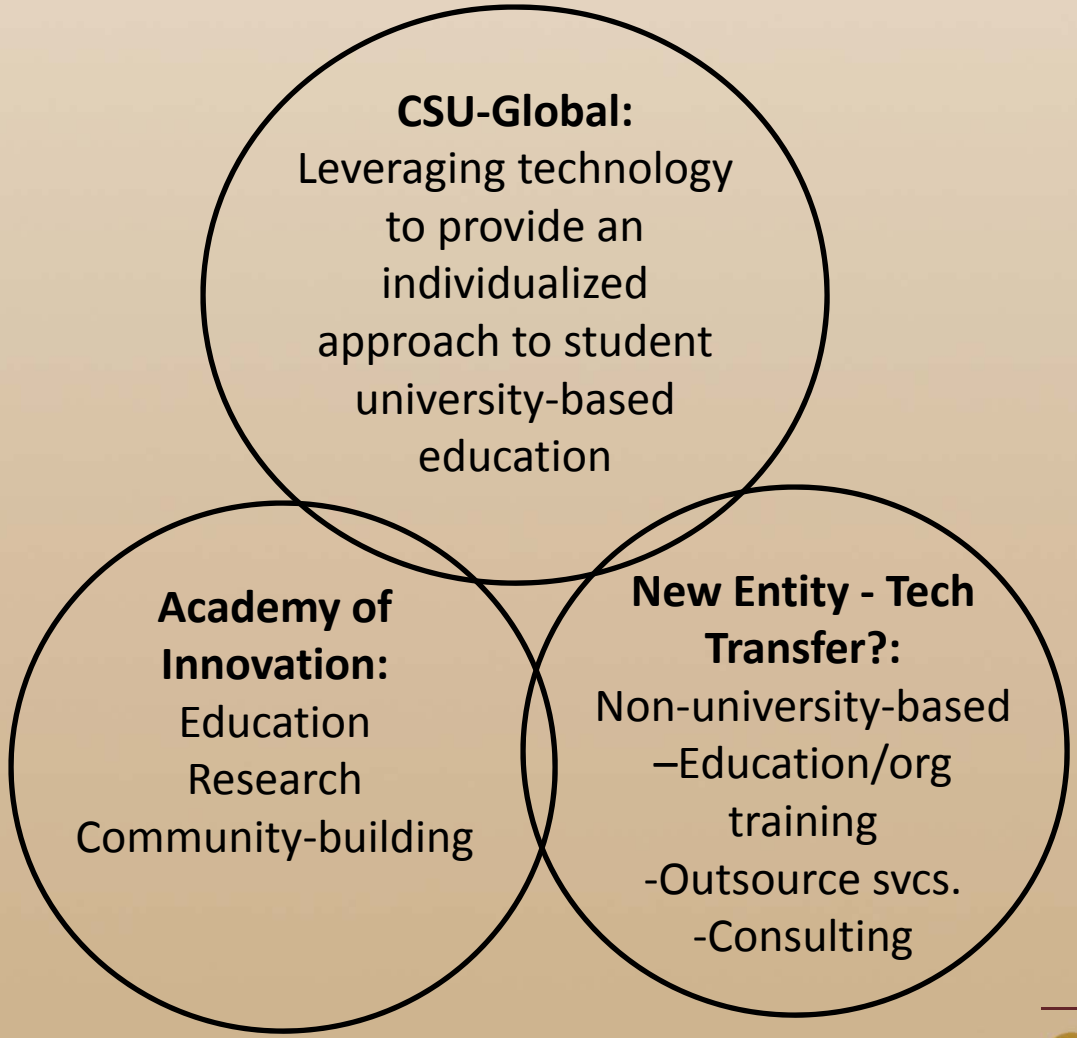
Board of Governors Meeting

June 19, 2014

Colorado State University
GLOBAL CAMPUS

CSUGlobal.edu

CSU-Global in 5 Years



Individualized Approach to Univ. Ed

- **WHERE:** CSU-Global, the provider of the individualized educational experience.
- **WHY:** Mission…Facilitating success in a global marketplace through education.
- **WHO:** Non-traditional learners from H.S. to retirees to meet the learning needs of today's global society.
- **WHAT:** Multiple pathways for courses & credits for multiple learning goals/achievement.
- **HOW:** Multiple tools to blend life and learning.

The Academy for Education Innovation

Purpose

1. To provide industry leadership and insight from actual practitioners in the areas of online & innovative education and research.
2. To promote collaboration and synergy to enhance outcomes of online & innovative education.
3. To identify outsource/contract opportunities.

Areas covered (aligned with CSU-Global's mission)

- Education/courses - *Online & Innovative Education.*
- Research, Grants, Technology Dev- *Investment in Future Innovation.*
- Forums, Consultancy- *Community Building.*

‘Tech Transfer’-type Entity

Educational Service & Support (ES2)

WHAT: New private entity for the purpose of optimizing market opportunities in areas outside of university-based education.

Examples of universities using technology for societal contribution and revenue generation:

- Stanford University– gene splicing tools for the creation of the biotech industry.
- Columbia University– the most advanced atomic microscope in existence.
- Univ. of CA, SF – developed the technology for Magnetic Resonance Imaging (MRI).

Why *ES2*?

- **Market opportunity for non-university entity for 'white-labeled' services that are not core to (nor jeopardize) CSU-Global's mission:**
  - Organizational training
  - Outsource services provision
  - Consulting
- **Flexibility beyond a public, CSU-branded organization**
  - Different market that prefers products & services that do not carry the CSU/university brand
  - Ability to source financing options that will not add risk to CSU-Global
- **A win-win-win solution**
  - **Clients**: ES2 provides needed support and services.
  - **CSUS**: ES2 could provide stock-based cash flow and a future possible windfall.
  - **CSU-Global**: ES2 allows for a singular focus on academic services, risk reduction for new concepts, could provide stock benefits.

Next Steps

I will conduct the necessary on-ground research and hire an attorney(s) with Mike Nosler's assistance for a possible future Board proposal.

Colorado State University System
Board of Governors Retreat and Meeting Agenda
June 18-20, 2014

BOARD OF GOVERNORS
June 18-20, 2014
CSU Pingree Park Campus

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Adjournment	**1:00 p.m.**

Next Board of Governors Board Meeting: August 7-8, 2014, CSU-Pueblo

APPENDIX

- Board Correspondence

Section 1

Public Comment

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Section 2

Board Chair’s Agenda

BOARD OF GOVERNORS *of the*
COLORADO STATE UNIVERSITY SYSTEM
410 Seventeenth Street, Suite 2440 • Denver, Colorado 80202
Phone (303) 534-6290 • FAX (303) 534-6298 • www.csusystem.edu

Board Meeting Calendar for Fiscal Year 2014-15

Approved June 20, 2014

August 7-8, 2014: Pueblo, CO

October 2-3, 2014: Ft. Collins, CO

December 4-5, 2014: Denver, CO

February 4-6, 2015: Regular Meetings & Retreat, CSU-Global Campus

May 7-8, 2015: Ft. Collins, CO

June 18-19, 2015: Meeting/Retreat/Location TBD

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2015-16 Board Meeting Calendar

Approved June 20, 2014

August 6-7, 2015: Colorado State University-Pueblo

October 1-2, 2015: Colorado State University, Fort Collins

December 3-4, 2015: Colorado State University System, Denver

February 3-5, 2016: Regular Meetings & Retreat, CSU-Global Campus

May 5-6, 2016: Colorado State University, Fort Collins

June 23-24, 2016: Meeting/Retreat/Location TBD

Section 3

Executive Session

This section intentionally left blank.

June 2014 Board of Governors Meeting

Finance Committee – Agenda Item #4

FY 2015 CSU-Pueblo & CSU System Office Budgets

Board of Governors of the
Colorado State University System
Meeting Date: June 20, 2014
Action Item

MATTERS FOR ACTION:

Approval of the FY2014-2015 E&G operating budget and incremental increases and expenditures along with approval of all tuition, tuition differentials, fees, fee policies and manuals, room and board, dining, and other rates and charges for Colorado State University-Pueblo, and approval of the CSU System Office budget. Also approval of the 2-year cash funded capital construction list for CSU and State funded Capital construction list for CSU-Pueblo.

RECOMMENDED ACTION:

MOVED, that the Board of Governors approve all proposed schedules, budgets, and rate/rate increases as listed in MATTERS FOR ACTION, for both CSU-Pueblo and the CSU System office.

EXPLANATION:

This Action Item reflects the on-going discussion around CSU-Pueblo and the unique needs of the institution. Adoption of the budgetary items are in accordance with past board policies and are required by various statutes or policies of the Colorado Commission on Higher Education (CCHE). In addition the necessary capital lists for CSU and CSU Pueblo are included for approval as required by CCHE.

_____ _____ _____

Approved Denied Secretary

_____

Date

FY 2015 CSU Pueblo Budget

CSU-Pueblo
5-year Plan
Executive Summary

Board of Governors Meeting
June 20, 2014

Enrollment Projection

	Fall 2014	Fall 2015	Fall 2016	Fall 2017	Fall 2018
Overall Headcount	4,525	4,559	4,679	4,828	4,959

Assumptions:

- 425 new transfer students, 100 new graduate students, 100 new non-degree-seeking students, and 100 readmits each fall, in addition to new freshmen
- According to WICHE (2012), steady increases in high school graduates are expected from our primary market (Colorado) and secondary markets (Phoenix, Albuquerque and Dallas) over the next 5 years
- Modest increase in the freshman retention rate, based on projected fall 2014 retention rate of 66%, as well as stable progression rates for sophomores, juniors and seniors

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Retention Projection

	Fall 2014	Fall 2015	Fall 2016	Fall 2017	Fall 2018
Retention Rate	66%	67%	68%	69%	70%

- According to ACT the average retention rate for MA/MS public institutions was 68.9% in 2013.
- Retention rate 57.8% Fall 2011-12
- Retention rate 63.2% Fall 2012-13
- Retention rate currently tracking 66% Fall 2013-14
- Four-year comprehensive university retention rates are based on fall-to-fall returning first-time, full-time freshmen.

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New Enrollment-Building Initiatives

- Enroll over 1,000 freshmen and 400 transfers per year
  - Continue aggressive recruitment efforts through Royall partnership
  - Utilize National Student Clearinghouse data to identify students who were admitted to CSU-Pueblo but decided to enroll at a CC so they can be actively re-recruited as a transfer student for future semesters
- Increase retention rate to 70%
  - Creation of new Center for Academic Enrichment
  - Establish “Planned Leave” program for students who stop out
  - Launch faculty/staff mentoring program
- Leverage partnerships with CSU-Global

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Graduate Program Investment

	Fall 2014	Fall 2015	Fall 2016	Fall 2017	Fall 2018
Overall Headcount	4,525	4,559	4,679	4,828	4,959
Social Work* (MSW)		10	20	30	30
Education Counseling* (MEd)			10	20	30
Criminal Justice (MS)			10	20	30
Healthcare Administration (MS)				10	20
Total with new programs:	4,525	4,569	4,719	4,908	5,069

* Offered primarily at Colorado Springs Tower location

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CSU-Global Partnerships

From October 11, 2012 Proposal:
"Development Resources: CSU-Global will provide all upfront support and resources necessary to launch the programs. CSU-Pueblo provides approval for industry accreditation documents & process, and for online course content.
Proposed Split: 50-50 split at Census for each term (accommodates Add/Drop periods). CSU-Pueblo will receive regular updates on all costs
- CSU-Global current course dev costs: $7,500 -$10,000 each
- Cost to provide online courses: $140.00 per credit hour
- Cost to acquire a student: $1,500 to $2,000 incl. marketing costs

Timeline: Degrees can be launched as follows:
- B.S. Exercise Science – 3 months
- B.S. Nursing - after gaining approval of the Colorado Board of Nursing and the Nursing Accrediting Commission"

Also in discussion for B.S. Civil Engineering Technology and B.S. Construction Management, following market analysis by CSU-Global.

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Personnel Retirements/Turnover

Estimated Savings from Vacancies by FY 2015-16					
	FY 2013-14 Base Salaries	Fringe Expense	Total Salary Expense	Turnover Rate	Total Potential Savings From Turnover
Faculty (full time not including lecturers)	$9,922,997	$2,972,930	$12,895,927	6%	$773,756
Admin/Pro (full time)	6,732,134	2,016,947	8,749,081	10%	874,908
Classified (full Time)	4,634,895	1,566,595	6,201,490	6%	372,089
Total	$21,290,026	$6,556,472	$27,846,498		$2,020,753

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Potential 2015-16 Turnover Savings

	Scenario 1 80% Replacement		Scenario 2 90% Replacement		Scenario 3 100% Replacement	
	Replacement Cost	Adjusted Savings	Replacement Cost	Adjusted Savings	Replacement Cost	Adjusted Savings
Faculty (full time not including lecturers)	$394,247	$379,509	$443,528	$330,228	$492,809	$280,947
Admin/Pro (full time)	629,934	244,974	708,675	166,233	787,417	87,491
Classified (full time)	267,904	104,185	301,392	70,697	334,880	37,209
Total	**$1,292,085**	**$728,668**	**$1,453,595**	**$567,158**	**$1,615,106**	**$405,647**

Assumptions:
1. Assumes faculty resigning make an average of $62,804 per year (plus $18,816 in fringe benefits).
2. Assumes replacement faculty make an average of $40,000 per year (plus $11,984 in fringe benefits).
3. Assumes administrative professionals and classified staff are replaced at a salary 10% below the salary of the person who resigned.

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Auxiliary Services - Housing

	2014	2015	2016	2017	2018
Total Enrollment	4,525	4,559	4,679	4,828	4,959
Residence Hall Occupancy	800	880	940	1,000	1,100
Apartments	125	125	125	125	125
Total Est. Occupancy	925	1,005	1,065	1,125	1,225
Total Anticpated Revenue	$ 4,623,000	$ 5,103,000	$ 5,524,000	$ 5,963,000	$ 6,621,000
Operational Expense	$ 2,503,000	$ 2,574,000	$ 2,646,000	$ 2,721,000	$ 2,798,000
Housing Bond Payment	$ 2,895,250	$ 2,901,900	$ 3,057,100	$ 3,270,700	$ 3,474,700
Net Gain (Loss)	$ (775,250)	$ (372,900)	$ (179,100)	$ (28,700)	$ 348,300

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Auxiliary Services - OUC

	2014	2015	2016	2017	2018
Total Enrollment	4,525	4,559	4,679	4,828	4,959
Facility Fee per credit hour	$23	$23	$23	$23	$23
Total revenue/ 24 chs	$2,497,800	$2,516,568	$2,582,808	$2,665,056	$2,737,368
Bond Payments					
Rec Center	$676,556	$676,455	$676,577	$676,439	$676,527
OUC	$1,713,445	$1,714,064	$1,716,579	$1,715,281	$1,716,581
Total	$2,390,002	$2,390,518	$2,393,156	$2,391,720	$2,393,108
Balance	$107,798	$126,050	$189,652	$273,336	$344,260

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Questions?

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FY15 Incremental E&G Budget
Colorado State University-Pueblo
June 19-20, 2014

Net New Resources			**$ (1,965,192)**
Tuition			
Undergraduate Resident	1,257,641		
Graduate Resident	77,315		
Undergraduate Non-Resident	312,981		
Graduate Non-Resident	4,246		
Differential Tuition	194,363		
Enrollment Decline	(778,472)		
Subtotal		1,068,074	
Other Funding Changes			
State Funding Impact	1,334,941		
Readjustment of base (to $12.7 million)	1,000,000		
Transfer from Continuing Education	131,793		
Change in Reserves	(500,000)		
Loss of one-time State funds	(5,000,000)		
Subtotal		(3,033,266)	
Net New Expenses			**($289,479)**
New Expenses:			
New Sports Scholarships	300,000		
Enrollment Initiatives	350,000		
New Sports*	400,000		
Salaries and Benefits	1,430,209		
Other Mandatory Costs (utilities, insurances, etc.)	262,414		
Four-Year Incentive	160,000		
Subtotal		2,902,623	
Budget Reductions:			
Personnel	(2,589,579)		
Operating Reduction	(602,523)		
Subtotal		(3,192,102)	
Net Change in Available Funds			**$ (1,675,713)**
New Budget Balancing Initiatives			**$ 855,000**
Savings from Operating		623,000	
Savings from Buyouts		232,000	
		FY 2015 Budget Shortfall	**$ (820,713)**

* M/W-Lacrosse, M-Track&Field, M-Cross Country, W-Swimming.

Enrollment Assumption	**Decrease**
	2.6%
Base Tuition Assumptions	**Increase**
Resident Undergraduate	6%
Non-Resident Undergraduate	6%
Resident Graduate	6%
Non-Resident Graduate	6%
Differential Tuition	**Increase**
Undergraduate - All Programs	6%
Business	from $25 to 26.50
Computer Information Systems	from $25 to 26.50
Engineering	from $25 to 26.50
Nursing	from $25 to 26.50
Graduate	
Business	from $91 to $120
Computer Information Systems	from $91 to $120
Engineering	from $53 to $120
Nursing	from $53 to $120

Fringe and COLA
Admin/Pro Fringe Increase from 28.42% to 29.96%
Classified Fringe Increase from 32.732% to 33.81%
Classified COLA increase from 3.0% to 3.5%

The Education and General (E&G) fund model displays four years of data:
(1) Actual revenues and expenditures from Fiscal Year 2013;
(2) Estimated revenues and expenditures for FY 2014, FY 2015, and FY 2016 (based on projected revenues and projected expenses).

The estimated E & G budget for FY2015 is built on a few key assumptions:
(a) 2.6% decrease in enrollment relative to FY 2014
(b) A 6% tuition increase;
(c) Increases in the tuition differential rates (increase to $26.50 for undergraduate programs and increase to $120 for graduate programs); and
(d) A 3.5% salary increase for classified staff.

The estimated E & G budget for FY2016 is built on a few key assumptions:
(a) No change in enrollment from FY 2015 to FY 2016
(b) A 6% tuition increase;
(c) A 6% increase in the tuition differential rates (increase to $28.09 for undergraduate programs and increase to $127.20 for graduate programs); and
(d) A 3.5% salary increase for classified staff, an increase of 0.25% in the fringe benefit rates , and an inflationary increase for utilities.

CSU-PUEBLO Education and General (E&G) Fund

E & G Revenue	**FY2013 Actual**	**FY2014 Budget**	**FY2015 Revised Forecast**	**FY2016 Forecast**	**Incremental Difference FY 2014 to FY 2015**
State Support (COF, FFS)	13,771,356	16,766,314	14,101,255	14,101,255	(2,665,059)
Resident Tuition	21,440,117	20,690,000	21,452,307	22,739,446	762,307
Differential Tuition	818,409	855,858	1,022,915	1,084,290	167,057
Non-Resident Tuition	6,882,936	6,548,846	6,687,556	7,088,809	138,710
Program/Course/Department Fees	199,006	187,051	187,051	187,051	0
Student Tech Fees	711,025	698,588	698,588	698,588	0
Miscellaneous Fees	308,558	308,558	308,558	308,558	0
Investment/Interest Revenue	18,191	18,193	18,193	18,193	0
Miscellaneous Revenue	312,642	312,642	444,435	444,435	131,793
Gifts	0	23,163	23,163	23,163	0
Indirect Cost Recoveries	198,092	198,092	198,092	198,092	0
CSU-Pueblo Reserves	1,645,978	500,000	0	0	(500,000)
Total E & G Revenue	**46,306,310**	**47,107,305**	**45,142,113**	**46,891,880**	**(1,965,192)**

E & G Expense	**FY2013 Actual**	**FY2014 Budget**	**FY2015 Revised Forecast**	**FY2016 Forecast**	**Incremental Difference FY 2014 to FY 2015**
Instruction	20,190,087	21,006,905	19,894,840	20,195,753	(1,112,065)
Academic Support	4,631,128	5,095,379	5,426,202	5,437,513	330,823
Student Services	5,470,220	5,640,818	6,352,081	6,376,907	711,264
Institutional Support	3,754,765	4,466,314	4,494,654	4,524,614	28,341
Operation of Plant (Facilities)	6,405,841	5,325,042	5,247,463	5,492,875	(77,580)
Scholarships /Institutional Aid	4,376,291	4,375,132	4,615,132	4,892,040	240,000
Public Service	54,015	55,753	56,704	57,285	951
Research	235	175,235	175,235	175,235	0
Bad Debt	488,269	434,813	434,813	434,813	0
Other Non-Operating REV/EXP	403,546	0	0	0	0
Transfers To/From Gov Board	531,913	531,913	563,224	563,224	31,311
Operating Expense Reduction	0	0	(442,523)	(442,523)	(442,523)
Savings based on YTD Exp & Tracking		0	0	0	0
Total E & G Expense	**46,306,310**	**47,107,305**	**46,817,826**	**47,707,736**	**(289,478)**
Ending Balance	**0**	**0**	**(1,675,713)**	**(815,857)**	**(1,675,713)**
Budget Balancing Initiatives	**0**	**0**	**855,000**	**855,000**	**855,000**
Total	**0**	**0**	**(820,713)**	**39,143**	**(820,713)**

			Tuition Changes Relative to FY 2013-14						
			6.0%	5.0%	4.0%	3.0%	2.0%	1.0%	0.0%
Enrollment Changes Relative to FY 2013-14	Alternative #1	-1.6%	(521,300)	(795,861)	(1,070,422)	(1,344,983)	(1,619,544)	(1,894,105)	(2,168,666)
	Projected Enrollment	-2.6%	(820,713)	(1,092,484)	(1,364,254)	(1,636,025)	(1,907,796)	(2,179,566)	(2,451,337)
	Alternative #2	-3.6%	(1,120,125)	(1,389,106)	(1,658,086)	(1,927,067)	(2,196,047)	(2,465,028)	(2,734,008)
	Alternative #3	-4.6%	(1,419,538)	(1,685,728)	(1,951,918)	(2,218,108)	(2,484,299)	(2,750,489)	(3,016,679)
	Alternative #4	-5.6%	(1,718,950)	(1,982,350)	(2,245,750)	(2,509,150)	(2,772,550)	(3,035,950)	(3,299,350)

CSU-Pueblo
Budget Balancing Efforts

Background. Since December of 2011, CSU-Pueblo has faced a number of budget challenges. Because of an accounts receivable audit, efforts were required to make CSU-Pueblo more fiscally sound with student billing. To comply with the audit recommendations, tighter controls for registration of students with account balances were initiated. This, in turn, caused a significant drop in enrollment that began in fall 2012. Despite holding tuition flat for FY 2014, enrollment continued to decline from FY 2013 to FY 2014. Besides the direct effect on revenue from declining enrollment, expenses also increased: mandated salary increases for state classified employees, increases in health care benefits, and other unavoidable increases to university insurance and utility expenses.

Budget Balancing Measures. In order to address the budget shortages, the following actions were initiated:

1. FY 2013 – In July and August 2012, personnel (staff) budget reductions totaling $817,486 and 11 positions were made.

2. FY 2014 – In February 2014, 19 vacant positions and 22 filled positions were eliminated from the E&G budget. In total, $3,323,895 in budget cuts were made. These reductions included 15 faculty positions, 15 classified positions, and 11 administrative professionals.

3. FY 2015 – To address the anticipated shortfall in FY 2014-15, CSU-Pueblo will adopt operating expense reductions of $623,000. Furthermore, buyouts of faculty positions are anticipated to save $232,000.

Enrollment Initiatives. In FY 2014, CSU-Pueblo initiated three efforts to increase enrollment.

1. The university has established a partnership with Royall, a direct marketing firm, to increase applications and enrollment at CSU-Pueblo. This firm has a proven track record of success at other higher education institutions across the country. Preliminary results from this campaign are promising. To date, this initiative has produced an additional 2,800 freshman applications for Fall 2014. Without the Royall campaign, we would be down approximately 100 applications. We have also generated over 7,200 new sophomore and junior prospects for Fall 2015 and 2016. CSU-Pueblo had never actively recruited these age groups in the past.

2. New sports have been added to expand the number of student athletes attending CSU-Pueblo. These sports include the following: Men's and Women's Lacrosse, Men's Track & Field, Men's Cross Country, and Women's Swimming. CSU-Pueblo's Athletic Director estimates 130 new student athletes will be on our campus in fall 2014. As a part of this endeavor, private donations have been used to construct a new $3.1 million soccer/lacrosse complex.

3. A new freshman merit-based scholarship program has been implemented to attract high-ability students and make the institution more competitive with its peers. This program includes four scholarship levels (from $1,000 to $8,000 per year) compared to only one level ($2,000 per year) in the past. So far, over 1,300 scholarships have been awarded. Only 192 had been awarded at this time last year.

POSITIONS ELIMINATED SINCE 1/1/2012

Prior Positions Reductions	Name	Salary	Salary plus Fringe
Dean of Student Affairs	VP Student Services Enrollment Management	$104,016	$133,577
Director of Student Activities	VP Student Services Enrollment Management	$39,900	$51,240
Director of Business Financial Services	VP Finance and Administration	$69,000	$88,610
Finance Manager for Athletics & Auxiliaries	VP Finance and Administration	$47,000	$60,357
Finance Manager for Student Affairs	VP Finance and Administration	$47,000	$60,357
Assistant Director of Auxiliary Services	VP Finance and Administration	$64,656	$83,031
Director of Resident Life & Housing	Office of the President	$57,000	$73,199
Assistant VP Enrollment Management	VP Student Services Enrollment Management	$89,000	$114,294
Residence Hall Director	Office of the President	$25,000	$32,105
Admissions Director	VP Student Services Enrollment Management	$54,000	$69,347
Student Events Coordinator	VP Student Services Enrollment Management	$40,000	$51,368
Subtotal - Previous Position Reductions			$817,486
Administrative Professionals			
Admin. Professional	Provost	$30,000	$38,928
Interim Director SAS	Provost	$10,000	$12,976
Asst. Athletic Director	Office of the President	$25,000	$32,440
Academic Advisor / Recruiters	VP Student Services Enrollment Management	$5,000	$6,488
Asst. Strength Coach	Office of the President	$12,000	$13,897
Asst. Coach-mw Track	Office of the President	$12,000	$13,897
Admin. Professional	Office of the President	$95,100	$123,402
Asst. SID	Office of the President	$25,000	$32,440
Asst Athletic Training	Office of the President	$12,500	$14,476
Admin. Professional	VP Student Services Enrollment Management	$63,000	$81,749
Environmental, Health, and Safety	VP Finance and Administration	$55,130	$71,537
Academic Advisor	VP Student Services Enrollment Management	$32,000	$41,523
Academic Advisor	VP Student Services Enrollment Management	$32,000	$41,523
Program Associate	Provost	$49,800	$64,620
Interim Human Resources Associate	VP Finance and Administration	$39,000	$50,606
Undeclared Advisor	Provost	$21,000	$27,250
Dean of Continuing Education	Provost	$101,567	$131,793
Admissions Counselor	VP Student Services Enrollment Management	$32,000	$41,523
Subtotal - Administrative Professionals			$841,069
Classified Positions			
Administrative Assistant	Provost	$17,166	$23,517
Administrative Assistant III	Provost	$39,420	$54,005
Custodian I	VP Finance and Administration	$106,056	$145,297
Grounds Nursery I	VP Finance and Administration	$30,996	$42,465
Custodian II	VP Finance and Administration	$30,468	$41,741
Custodian I	VP Finance and Administration	$67,104	$91,932
IT Technician	Provost	$46,725	$64,013
Administrative Assistant II	VP Finance and Administration	$39,277	$53,809
Administrative Assistant I	Provost	$27,456	$37,615
Office Manager I	VP Student Services Enrollment Management	$56,610	$77,556
Administrative Assistant II	Provost	$32,260	$44,196
Subtotal - Classified Positions			$676,147
Faculty Positions			
Visiting Assistant Professor	Provost	$21,500	$27,898
Associate Professor	Provost	$50,497	$65,525
Lecturer	Provost	$33,000	$42,821
Visiting Assistant Professor	Provost	$45,000	$58,392
Lecturer	Provost	$33,000	$42,821
Visiting Assistant Professor	Provost	$40,000	$51,904
Lecturer	Provost	$34,000	$44,118
Visiting Assistant Professor	Provost	$90,000	$116,784
Visiting Assistant Professor	Provost	$42,000	$54,499
Visiting Assistant Professor	Provost	$77,500	$100,564
Visiting Assistant Professor	Provost	$40,000	$51,904
Lecturer	Provost	$33,000	$42,821
Visiting Assistant Professor	Provost	$60,000	$77,856
Clinical Instructor	Provost	$25,000	$32,440
Visiting Assistant Professor	Provost	$35,000	$45,416
Assistant Professor	Provost	$45,000	$58,392
Subtotal - Faculty Positions			$914,155
Adjunct Faculty			$290,000
Institutional Work Study			$60,000
Operating Reduction			$442,523
Security Contract - Pueblo County Sheriff's Office			$100,000
Subtotal - Other			$892,523
Total Budget Reductions			$4,141,380

Loan vs. Subsidy for CSU-Pueblo

- At the end on the next Fiscal Year (2015) it appears CSU-Pueblo will no longer need funding from the other two campuses as shown in their E&G budget projection.
- Assuming 6% tuition increases indefinitely by 2018 the campus could start to payback $500k per year on a loan.
- Depending on how much of the money sent to Pueblo is considered a loan ($500k to $5.5m) will indicate how many years it would take to pay back.
- There are options to help payback a loan.
  - Over the last two years, there have been suggested various methods to increase revenues for CSU-Pueblo including:
    - Teaching at CSU Denver South either in person or on-line
    - Re-engagement Program with CSU-Global
    - Joint degree programs with both CSU and CSU-Global
    - Rent out dorm rooms to community college students
    - Increase retention rates
    - Improve transfer and recruitment rates

- As the campus goes through reaccreditation, it will need to demonstrate it is financially viable. Although some question this, there is information that subsidies may indicate it is not financially viable thereby causing accreditation concerns.

Option

- The board could consider the funds a loan to CSU-Pueblo, but encourage them to find additional revenues to repay the loan so that the campus base E&G budget is not touched.
- In 2012 CSU Global proposed a partnership with Pueblo on 3 degree programs. If all 3 were implemented a portion of the net revenues could be retained by Global to pay off the loan.
- Whatever the source, the board could make the funds a loan and if they work to expand the university's revenues then any amount that isn't paid back could be forgiven.

FY15 Incremental E&G Budget Increases Over FY14

Revenues	CSU	CSU-Pueblo	CSU Global Campus	System Office	Total
COF/FFS	$10,800,000	$2,334,941	$0	$0	$13,134,941
Tuition	$14,986,647	$1,068,074	$26,105,890	$0	$42,160,611
Reserves	$0	($441,701)	$0	$0	($441,701)
Other	$139,000	($4,013,207)	$1,730,000	$41,710	($2,957,497)
Total - Revenues	$25,925,647	($1,051,893)	$27,835,890	$41,710	$51,896,354

Expenditures	CSU	CSU-Pueblo	CSU Global Campus	System Office	Total
Instruction/Enrollment	$1,493,000	$350,000	$11,762,860	$0	$13,605,860
Salaries/Benefits	$10,786,000	$1,488,508	$4,871,878	$231,510	$17,377,896
Mandatory Costs	$3,104,000	$262,414	$456,727	($189,800)	$3,633,341
Quality Initiatives	$6,689,795	$400,000	$0	$0	$7,089,795
Financial Aid	$1,170,000	$460,000	$0	$0	$1,630,000
Other	$2,682,852	($3,192,102)	$543,613	$0	$34,363
Total - Expenditures	$25,925,647	($231,180)	$17,635,078	$41,710	$43,602,435

FY 2015
Cost of Attendance

COST OF ATTENDANCE AT CSU-PUEBLO

Resident, Full Time Undergraduate Student (12 credit hours, Fall & Spring semesters)						
CSU-PUEBLO	**Base Resident Tuition**	**Mandatory Student Fees**	***Room & Board**	**Total**	**$ Increase over Prior Year**	**% Increase over Prior Year**
FY 2014-2015 Proposed	**$5,188**	**$1,608**	**$9,016**	**$15,812**	**$700**	**4.6%**
FY 2013-2014	$4,894	$1,466	$8,752	$15,112	$252	1.7%
FY 2012-2013	$4,894	$1,466	$8,500	$14,860	$854	6.1%
FY 2011-2012	$4,381	$1,342	$8,283	$14,006	$847	6.4%
FY 2010-2011	$3,880	$1,237	$8,042	$13,159	$548	4.3%
FY 2009-2010	$3,559	$1,182	$7,870	$12,611	$1,097	9.5%

*Room & Board assumes Belmont Residence Hall single occupancy and 17 Meals + 50 per year.

FY 2015 Enrollment

Colorado State University Pueblo

ENROLLMENT SUMMARY***

	2012-2013*	2013-2014**	% Decrease/Increase	Projected Enrollment 2014-2015 proposed enrollment	2014-2015 increase (decrease)	% Decrease/Increase
Student FTE						
Resident						
Graduate	126.2	124.0		108.4	(15.6)	
Undergraduate	3,641.4	3,478.0		3,377.5	(100.5)	
Subtotal	3,767.7	3,602.0		3,485.9	(116.1)	
Nonresident						
Graduate	38.8	33.4		32.1	(1.3)	
Undergraduate	505.3	470.9		482.5	11.6	
Subtotal	544.1	504.3		514.6	10.3	
Total FTE						
Graduate	165.0	157.4		140.5	(16.9)	
Undergraduate	4,146.7	3,948.9		3,860.0	(88.9)	
Total	4,311.7	4,106.3	-4.8%	4,000.5	(105.8)	-2.6%
Student headcount						
Resident						
Graduate	216.0	237.0		201.0	(36.0)	
Undergraduate	4,069.0	3,880.0		3,788.0	(92.0)	
Subtotal	4,285.0	4,117.0		3,989.0	(128.0)	
Nonresident						
Graduate	46.0	49.0		44.0	(5.0)	
Undergraduate	532.0	505.0		517.0	12.0	
Subtotal	578.0	554.0		561.0	7.0	
Total headcount						
Graduate	262.0	286.0		245.0	(41.0)	
Undergraduate	4,601.0	4,385.0		4,305.0	(80.0)	
Total	4,863.0	4,671.0	-3.9%	4,550.0	(121.0)	-2.6%

*-summer and fall 2012 and spring 2013 end-of-semester totals for FTE (30 cr hrs/FTE); headcount from end of fall 2012 semester

**-summer and fall 2013 and spring 2014 end-of-semester totals for FTE (30 cr hrs/FTE); headcount from end of fall 2013 semester

***-All enrollments (headcount and FTE) are 'Resident Instruction' totals (so does not include, e.g., cash- funded continuing education courses)

'Undergraduate' includes non-degree-seeking students without a bachelor's degree and degree-plus students (seeking a 2nd bachelor's)

'Graduate' includes non-degree-seeking students with a bachelor's degree 'Resident' includes bypass (exchange) students (fewer than 25 per year)

FY 2015 Tuition and Differential Tuition Rate Schedules, Student Fees

COLORADO STATE UNIVERSITY - PUEBLO
2014-2015 ACADEMIC YEAR
TUITION RATE SCHEDULE *

	Approved Tuition 2013-2014		Proposed Tuition 2014-2015		
	Resident	Nonresident	Resident	Nonresident	
UNDERGRADUATE TUITION					
Student Share per credit hour, 1 - 12 credit hours	$ 203.91	$ 613.00	$ 216.15	$ 649.78	
College Opportunity Fund (COF) Stipend	$ 64.00	N/A	$ 72.00	N/A	
Published Rate per credit hour, 1 - 12 credit hours	$ 267.91	$ 613.00	$ 288.15	$ 649.78	
Student Share per credit hour 13 - 18	$ 100.00	$ 184.00	$ 106.00	$ 195.04	
No addition credit hour charge for 19+ credits					
WESTERN UNDERGRADUATE EXCHANGE PROGRAM (WUE)					
***(** AK, AZ, CA, HI, ID, MT, ND, NM, NV, OR, SD, UT, WA, WY)*					
OTHER STATE PROGRAMS *(FL, KS, NE, OK, TX)*					
Published Rate per credit hour, 1 - 12 credit hours	N/A	$ 398.87	N/A	$ 425.99	401.87*150%
13 - 18 Credit Hour Block	N/A	$ 243.00	N/A	$ 260.76	
TEACHER EDU. PROG. GRADUATE TUITION					
Published Rate per credit hour, 1 - 12 credit hours	$ 213.96	$ 698.61	$ 226.80	$ 740.53	
Published Rate per credit hour, 13 - 18 credit hours	$ 100.00	$ 118.00	$ 106.00	$ 125.08	
No addition credit hour charge for 19+ credits					
ALL OTHER GRADUATE PROGRAM TUITION					
Published Rate per credit hour, 1 - 12 credit hours	$ 234.98	$ 698.61	$ 249.08	$ 740.53	
Published Rate per credit hour, 13 - 18 credit hours	$ 100.00	$ 118.00	$ 106.00	$ 125.08	
No addition credit hour charge for 19+ credits					
DIFFERENTIAL UNDERGRADUATE TUITION (per credit hour)					
Business Program	$ 25.00	$ 25.00	$ 26.50	$ 26.50	
Computer Information Science Program	$ 25.00	$ 25.00	$ 26.50	$ 26.50	
Engineering Program	$ 25.00	$ 25.00	$ 26.50	$ 26.50	
Nursing Program	$ 25.00	$ 25.00	$ 26.50	$ 26.50	
DIFFERENTIAL GRADUATE TUITION (per credit hour)					
Business Program	$ 91.00	$ 91.00	$ 120.00	$ 120.00	
Computer Information Science Program	$ 91.00	$ 91.00	$ 120.00	$ 120.00	
Engineering Program	$ 53.00	$ 53.00	$ 120.00	$ 120.00	
Nursing Program	$ 53.00	$ 53.00	$ 120.00	$ 120.00	

*In order to facilitate CSU-Pueblo's participation in certain tuition driven programs, the University may extend the use of tuition allowances, discounts or program related awards.

Colorado State University Pueblo

CSU-PUEBLO TUITION RATE INCREASES

TUITION	FY 2013 RATE	FY 2014 RATE	FY 2015 RATE	ANNUAL $ INCREASE	ANNUAL % INCREASE	FY 2013 TO FY 2015 AVERAGE ANNUAL % INCREASE
Resident, Undergraduate	$4,894	$4,894	$5,188	$294	6%	3%
Non-Resident, Undergraduate	$14,712	$14,712	$15,595	$883	6%	3%
Western Undergraduate Exchange (WUE): AK, WA, OR, CA, HI, ID, NV, MT, ND, SD, WY, UT, NM, AZ, CO.	$9,573	$9,573	$10,224	$651	7%	3%
Other Preferred States (OPS): TX, OK, KS, NE, FL						3%
Resident, Graduate	$5,640	$5,640	$5,978	$338	6%	3%
Teacher Education, Graduate	$5,135	$5,135	$5,443	$308	6%	3%
Non-Resident, Graduate	$16,767	$16,767	$17,773	$1,006	6%	3%
13-18 Credits						
Resident Undergraduate, Graduate & Teacher Ed; 13-18 Credits	$100	$100	$106	$6	6%	3%
Non-Resident, Undergraduate; 13-18 Credits	$184	$184	$195	$11	6%	3%
Non-Resident, Graduate; 13-18 Credits	$118	$118	$125	$7	6%	3%
Western Undergraduate Exchange (WUE) & Other Preferred States (OPS); 13-18 Credits	$243	$243	$261	$15	6%	3%

Colorado State University Pueblo

CSU-PUEBLO DIFFERENTIAL TUITION RATES

PER CREDIT HOUR TUITION DIFFERENTIAL	FY 2013 PER CREDIT HOUR RATE	FY 2014 PER CREDIT HOUR RATE	FY 2015 PER CREDIT HOUR RATE
Undergraduate - Business	$25	$25	$26.50
Undergraduate - Computer Information Systems	$25	$25	$26.50
Undergraduate - Engineering	$25	$25	$26.50
Undergraduate - Nursing	$25	$25	$26.50
Graduate - Business	$91	$91	$120
Graduate - Computer Information Systems	$91	$91	$120
Graduate - Engineering	$53	$53	$120
Graduate - Nursing	$53	$53	$120

FY 15 Rates Effective Fall Term 2014

Differential Tuition

The differential tuition assessment is charged to students taking specific high-cost and/or high-demand programs to assist in the additional expenses - administrative and programmatic - associated with delivering courses and sustaining quality in those programs. The differential assessment will be charged for each credit hour taken in a course carrying a differential tuition assessment regardless of the total number of credit hours being taken and therefore independent of and in addition to the base tuition being charged.

DIFFERENTIAL UNDERGRADUATE TUITION (per credit hour)

	FY 14 Actual Per Credit Rates		FY 15 Proposed Per Credit Rates	
	Resident	Nonresident	Resident	Nonresident
Business Program	$ 25.00	$ 25.00	$ 26.50	$ 26.50
Computer Information Science Program	$ 25.00	$ 25.00	$ 26.50	$ 26.50
Engineering Program	$ 25.00	$ 25.00	$ 26.50	$ 26.50
Nursing Program	$ 25.00	$ 25.00	$ 26.50	$ 26.50

DIFFERENTIAL GRADUATE TUITION (per credit hour)

	FY 14 Actual Per Credit Rates		FY 15 Proposed Per Credit Rates	
	Resident	Nonresident	Resident	Nonresident
Business Program	$ 91.00	$ 91.00	$ 120.00	$ 120.00
Computer Information Science Program	$ 91.00	$ 91.00	$ 120.00	$ 120.00
Engineering Program	$ 53.00	$ 53.00	$ 120.00	$ 120.00
Nursing Program	$ 53.00	$ 53.00	$ 120.00	$ 120.00

*In order to facilitate CSU-Pueblo's participation in certain tuition driven programs, the University may extend the use of tuition allowances, discounts or program related awards.

Colorado State University Pueblo

Rate Increases

Tuition:

Resident Undergraduate 6%
Non-Resident Undergraduate 6%
Resident Graduate 6%
Non-Resident Graduate 6%

Fee/Increases:

Mandatory Student Fees 9.7%
Housing 3%
Dining 3%
Salaries: Faculty & Admin Pro 0%
State Classified 3.5% average

RUG	FY14	FY15	Change	% Change
*Tuition	4,894	5,188	294	6.0%
*Fees	1,466	1,608	142	9.7%
R&B	8,752	9,016	264	3.0%
Total	15,112	15,812	700	4.0%

NRUG	FY14	FY15	Change	% Change
*Tuition	14,712	15,595	883	6.0%
*Fees	1,466	1,608	142	9.7%
R&B	8,752	9,016	264	3.0%
Total	24,930	26,219	1,289	5.0%

RG	FY14	FY15	Change	% Change
*Tuition	5,640	5,978	338	6.0%
*Fees	1,466	1,608	142	9.7%
R&B	8,752	9,016	264	3.0%
Total	15,858	16,602	744	4.0%

NRG	FY14	FY15	Change	% Change
*Tuition	16,766	17,772	1,006	6.0%
*Fees	1,466	1,608	142	9.7%
R&B	8,752	9,016	264	3.0%
Total	26,984	28,396	1,412	5.0%

*Based off of 24 credit hours fall and spring

Undergraduate Tuition Differential Rates			
	FY14 Rate/SCH	Increase	FY15 Rate/SCH
Business	$ 25.00	$ 1.50	$ 26.50
CIS	$ 25.00	$ 1.50	$ 26.50
Nursing	$ 25.00	$ 1.50	$ 26.50
Engineering	$ 25.00	$ 1.50	$ 26.50

Graduate Tuition Differential Rates			
	FY14 Rate/SCH	Increase	FY15 Rate/SCH
Business	$ 91.00	$ 29.00	$ 120.00
CIS	$ 91.00	$ 29.00	$ 120.00
Nursing	$ 53.00	$ 67.00	$ 120.00
Engineering	$ 53.00	$ 67.00	$ 120.00

Special Course & Program Fees				
Proposals for FY15			# of Proposals	Est. Revenue
New Fees			1	$ 36,000
Changes to Existing Fees			6	$ 23,150
Discontinued Fees			3	$ 5,313

CSU-PUEBLO TUITION & FEE HISTORY

Resident, Undergraduate (24 credit hours)

FISCAL YEAR	TUITION	MANDATORY STUDENT FEES	TOTAL TUITION & FEE	$ INCREASE	% INCREASE
FY 2014-2015	**$5,188**	**$1,608**	**$6,796**	**$436**	**6.8%**
FY 2013-2014	$4,894	$1,466	$6,360	$0	0%
FY 2012-2013	$4,894	$1,466	$6,360	$637	11.1%
FY 2011-2012	$4,381	$1,342	$5,723	$606	11.8%
FY 2010-2011	$3,880	$1,237	$5,117	$376	7.9%
FY 2009-2010	$3,559	$1,182	$4,741	$323	7.3%

COLORADO STATE UNIVERSITY – PUEBLO
EDUCATION AND GENERAL
PROPOSED MANDATORY STUDENT FEE SCHEDULE
PER SEMESTER FOR ACADEMIC YEAR 2014-15

		2013-14 Approved Fees	2014-15 Proposed Changes	2014-15 Proposed Fees	Percent Change	2014-15 Impact on 24 credit hours
MANDATORY FEES[1]						
Athletics Fee						
	Operations	$9.95	$2.70	$12.65	27.1%	$303.60
Student Facility Fee						
	Debt Service					
	Recreation Center	$7.25	$0.00	$7.25	0.0%	$174.00
	Student Center	$15.75	$0.00	$15.75	0.0%	$378.00
Child Care Discount Fee						
	Operations	$0.00	$0.20	$0.20	-	$4.80
	Child Care Student Discount	$0.30	($0.10)	$0.20	-33.33%	$4.80
Student Recreation Fee						
	Operations	$6.25	$2.20	$8.45	35.2%	$202.80
Technology Fee		$5.75	$0.00	$5.75	0.0%	$138.00
Student Health Fee						
	Operations of Health Ctr	$3.10	$0.40	$3.50	12.9%	$84.00
	Operations of Counseling Ctr	$1.25	$0.00	$1.25	0.0%	$30.00
	Alcohol & Other Drugs Prevention	$0.50	$0.00	$0.50	0.0%	$12.00
Student Center Fee						
	Operations	$1.50	$0.00	$1.50	0.0%	$36.00
Student Affairs		$9.50	$0.50	$10.00	5.3%	$240.00
	Total Mandatory Fees	$61.10	$5.90	$67.00	9.7%	$1,608.00

[1] Per Credit Hour

[2] $5.90 increase approved by Student Fee Governing Board for the following purposes:

G&A	$3.40
Athletics Refinancing	$1.70
Recreation Center Operations	$0.70
Child Care Center Operations	$0.10
	$5.90

Colorado State University Pueblo

COURSE, PROGRAM, AND DEPARTMENT FEES

S = per student / CH = per credit	Approved Fees for FY14			Proposed Fees for FY15			Net Cost Change FY14 to FY15
	Course Fee	Program Fee	Department Fee	Course Fee	Program Fee	Department Fee	
ART							
Studio Fee (applies to courses 116, 141, 233, 247, 281, 333, 347, 381, 397*, 433, 447, 481, 482, 497*	$25.00/S			$25.00/S			
Art 276	$25.00/S			$0.00/S			($25.00)
Art 115, 234, 334, 434	$25.00/S			$35.00/S			$10.00
Studio Fee (Applies to Course 547)	$25.00/S			$25.00/S			
Studio Fee (242, 342, 442)	$50.00/S			$50.00/S			
Printmaking Fee (270, 370, 470)	$45.00/S			$45.00/S			
Digital Art (274)	$25.00/S			$0.00/S			($25.00)
Sculpture /Public Art (533)	$25.00/S			$25.00/S			
Graduate Printmaking (570)	$45.00/S			$45.00/S			
Graduate Drawing (542)	$50.00/S			$50.00/S			
* Art Studio and History Courses (all courses except 100)		$2.00/CH			$0.00/CH		($2.00)
CHEMISTRY							
All Chemistry courses		$0.00/CH			10.00/CH		$10.00
*** Waiver is requested**							
COMPUTER INFORMATION SYSTEMS							
CIS Program Fee (100, 103, 104, 105, 150, 171, 185, 240, 271, 289, 311, 315, 350, 356, 359, 360, 401, 402, 411, 432, 450, 461, 462, 481, 482, 490, 491, 493, 498, 550, 560, 562)		$5.00/CH			$5.50/CH		$0.50
ENGLISH COMPOSITION (101 THRU 102)							
Developmental Writing Skills (099)	$15.00/S			$15.00/S			
EXERCISE / HEALTH							
EXPR Low Cost Field Trips (Rec 360, Rec 560, Rec 569, Rec 270)		$30.00/CH			$30.00/CH		
EXPR High Cost Field Trips (EXHP 105L, EXHP 205L, Rec 322)		$100.00/CH			$100.00/CH		
Water Safety Instructor Certification (276L)	$30.00/S			$30.00/S			
ATHLETIC TRAINING							
CPR/AED for the Professional Rescuer (231, 233)	$30.00/S			$30.00/S			
AT 379 Athletic Training Practicum II	$75.00/S			$75.00/S			
AT Taping and Prevention Equipment Program (AT 260, 279)		$15.00/CH			$15.00/CH		
Athletic Training Field Experience (419)	$60.00/S			$60.00/S			
MUSIC							
Music Applied Brass Course (170,172,173,174,270,272,273,274,370,372,373,374,390,392,393, 394,460,462,463,464,480,482,483,484, 573)							
Music Applied Guitar Courses (130,178,179,278,279,378,379,398,399,468,469,488,489)							
Percussion Program (175, 275, 375, 395, 465, 485, 572)		$125.00/CH			$125.00/CH		
Music Applied Piano/Organ Courses (125, 176,177,276,277,376,377,396,397,466,467,486,487, 229)							
Music Applied Strings Courses (160,161,162,163,260,261,262,263,360,361,362,363,380,381,382,383 ,445,446,447,448,470,471,472,473, 570)							
Music Applied Voice Courses (169,269,369,389,459,479, 574)							

S = per student / CH = per credit	Approved Fees for FY14			Proposed Fees for FY15			Net Cost Change FY14 to FY15
	Course Fee	Program Fee	Department Fee	Course Fee	Program Fee	Department Fee	
Music Applied Woodwind Courses (164,165,166,167,168,171,264,265,266,267,268,271,364,365,366,367,368,371,384,385,386,387,388,391,449,455,456,457,458,461,474, 475,476,477,478, 481, 571)		$125.00/CH			$125.00/CH		
Applied Music (260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 345, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376							
377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474	$0.00/S			$30.00/S			$30.00
475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489)							
Brass Ensemble Program (114, 214, 314, 414)							
Chamber Ensemble Program (121, 221, 321, 421)							
Choir Program (102, 108, 109, 202, 208, 209, 302, 308, 309, 402, 408, 409, 502, 509)							
Collaborative Ensemble Program (104,204,304,404)							
Piano Ensemble Program (142, 242, 342, 442)							
Guitar Ensemble Program (132, 136, 232, 236, 332, 336, 432, 436)							
Jazz Ensemble Program (154, 254, 354, 454)							
Marching and Pep Band (131,135, 230,330,331,430,530,531)							
Mariachi Ensemble Program (115, 215, 315, 415)							
Percussion Ensemble Program (124, 224, 324, 424)							
Special Topics (291)		$25.00/CH			$25.00/CH		
Special Topics (491)							
Independent Study (495)							
Special Topics (591)							
Seminar (593)							
String Orchestra Program (144, 244, 344, 444)							
Music Symposium Program (101, 201, 301, 401)							
Wind Ensemble Program (112, 212, 312, 412, 512)							
Woodwind Ensemble Program (134, 234, 334, 434)							
Music Education Program (253,553,358,359,550,560,152,252,340,440,501,540,545,223,559,523,127,227,243,306,113,513,233,543)							
Music Core Curriculum Program (100, 105, 150, 210, 250, 305, 280, 350, 355, 357, 420, 118, 120, 285, 151, 211, 251, 281, 346, 347, 103,203,303,323)		$5.00/CH			$5.00/CH		
Department Of Music/CHASS			$3.50/CH			$3.50/CH	
***** NOT ALL COURSES IN CATALOGUE**							
MILITARY SCIENCE							
Fundamental Concepts of Leadership (MS 101)	$25.00/S			$25.00/S			
Basic Leadership (MS 102)	$25.00/S			$25.00/S			
Advanced Leadership (MS 201)	$25.00/S			$25.00/S			
Tactics and Officership (MS 202)	$25.00/S			$25.00/S			
Fundamentals of Military Leadership and Training I (MS 301)	$25.00/S			$25.00/S			
Fundamentals of Military Leadership and Training I (MS 302)	$25.00/S			$25.00/S			
Leadership, Management and Ethics (MS 401)	$35.00/S			$35.00/S			
Transition to Lieutenant (MS 402)	$35.00/S			$35.00/S			
RECREATION							
REC Orientation (Rec 114L, Rec 116L, Rec 117L)		$55.00/CH			$55.00/CH		
REC Orientation (Rec 112L, Rec 113L)		$100.00/CH			$100.00/CH		
REC Orientation (Rec 105, Rec 104, Rec 102, Rec 103, Rec 370, Rec 570)		$175.00/CH			$175.00/CH		
Challenge Course Leadership (249)	$15.00/S			$15.00/S			
SOCIAL WORK / HUMANITIES							
Physiological Psychology Laboratory (PSY 331L)	$31.00/S			$31.00/S			
SOCIAL WORK / HUMANITIES							
Field Placement I (SW 488)	$20.00/S			$20.00/S			
Field Placement II (SW 489)	$20.00/S			$20.00/S			
TEACHER EDUCATION							
ED 487, 488, 489	$100.00/S			$100.00/S			

COLORADO STATE UNIVERSITY – PUEBLO
PARKING PROPOSED RATES PER SEMESTER
FOR ACADEMIC YEAR 2014-15

	2013-14 Approved Rate	2014-15 Proposed Changes	2014-15 Proposed Rate	Percent Change
PARKING PERMITS[1]				
Academic Year: (Fall, Spring, Summer)				
Student				
Permanent Decal	$100.00	$0	$100.00	0.00%
Hanging Decal	$100.00	$0	$100.00	0.00%
Resident	$100.00	$0	$100.00	0.00%
Green Vehicle Decal Discount	$80.00	$0	$80.00	0.00%
Motorcycle Discount	$40.00	$0	$40.00	0.00%
Concurrent High School Student	$8.33 / Mo.	$0	$8.33 / Mo	0.00%
Faculty / Staff per month rates				
Full time	$12.00	$0	$12.00	0.00%
Part Time / Adjunct	$5.00	$0	$5.00	0.00%
Green Vehicle Decal Discount	$9.60	$0	$9.60	0.00%
Reserved Parking Space	$30.00	$0	$30.00	0.00%

[1]Rates are reduced by 50% for Spring and summer semesters.

FY 2015
Room and Board Rates

COLORADO STATE UNIVERSITY – PUEBLO
HOUSING SYSTEM
RESIDENCE HALL PROPOSED RATES PER SEMESTER
FOR ACADEMIC YEAR 2014-15

	Approved Rate	Proposed Changes	Proposed Rate	Percent Change
RESIDENCE HALLS & APARTMENTS				
Belmont Hall[1]				
Double Occupancy Room	$2,111	$0	$2,111	0.00%
Single Occupancy Room	$2,626	$79	$2,705	3.00%
Crestone, Culebra and Greenhorn Halls[1]				
Shared Bedroom - Semi Suite / Double with Shared	$2,678	$0	$2,678	0.00%
Shared Bedroom Suite / Double with One Bath	$3,038	$0	$3,038	0.00%
Private Bedroom Suite / Single w/Shared Bath	$3,399	$102	$3,501	3.00%
Private Single Bedroom	$3,759	$113	$3,872	3.00%
UVWS Apartments[1]				
Private bedroom	$2,690.00	$135	$2,825.00	5.00%
DINING SERVICE MEAL PLAN OPTIONS				
Unlimited	$1,942	$58	$2,000	3.00%
17 Meals + $50	$1,750	$53	$1,803	3.00%
14 Meals + $110	$1,750	$53	$1,803	3.00%
12 Meals + $150	$1,750	$53	$1,803	3.00%
10 Meals + $100[2]	$1,128	$34	$1,162	3.00%
Meal Blocks / meals with Dining Dollars[3]				
40 meals + $50	$381	($381)	$0	-100.00%
80 meals + $100	$773	($773)	$0	-100.00%
120 meals + $150	$1,087	($1,087)	$0	-100.00%
10 meals + $25	$0	$89	$89	new
25 meals + $50	$0	$210	$210	new
50 meals + $100	$0	$420	$420	new
Dining Dollar Plans[4]				
Plan 1	$500	$0	$500	0.00%
Plan 2	$1,000	$0	$1,000	0.00%

[1] Rate includes utilities, internet access & basic cable service.

[2] Plan is available to upper class residents.

[3] Plans are available to commuter students.

[4] Plans are available to both upper class resident and commuter students.

FY 2015
CSU System Office Budget

COLORADO STATE UNIVERSITY
SYSTEM

Colorado State University • Colorado State University - Pueblo • CSU - Global Campus

CSU SYSTEM BUDGET		FY 2014		FY 2015
Office of the Chancellor				
Salaries and Benefits	$	1,682,000	$	1,604,530
Operating	$	564,000	$	533,999
Travel	$	10,000	$	10,000
Total	**$**	**2,256,000**	**$**	**2,148,529**
Office of General Counsel and Board Secretary				
Salaries and Benefits	$	1,848,555	$	1,903,062
Operating	$	324,000	$	329,200
Travel	$	100,000	$	100,000
Attorney General Office Payment	$	90,000	$	90,000
Total	**$**	**2,362,555**	**$**	**2,422,262**
Depatment of Internal Auditing				
Salaries and Benefits	$	746,535	$	827,389
Operating	$	21,500	$	33,500
Travel	$	8,000	$	8,000
Total	**$**	**776,035**	**$**	**868,889**
CSU System office Total	**$**	**5,394,590**	**$**	**5,439,680**

Assumptions

1. Continuation budget - no new FTE - vacant positions defunded in chancellor's office
2. Small operating increases for OGC and IA due to additional misc. expenses
3. Salary raises for line staff - no senior staff

FY 2016 State-Funded & Cash-Funded Capital Construction Request CSU-Pueblo

2015-2016 CSU-PUEBLO DRAFT 5 YEAR CAPITAL CONSTRUCTION PLAN

Priority	Funding	Project Name	Prior Funding	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	Total State Funds	Total Cash Funds	Total Project Cost
1	State Cash	Psychology Building Renovation & Addition		$16,308,583					$16,308,583	$0	$16,308,583 (State Only)
2	State Cash	Technology Building Renovation & Addition			$16,093,557				$16,093,557	$0	$16,093,557 (State Only)
3	State Cash	Art/Music Building Renovation & Addition				$18,000,000			$18,000,000	$0	$18,000,000 (State Only)
4	State Cash	Administration Building Renovation & Addition					$15,000,000		$15,000,000	$0	$15,000,000 (State Only)
		Facilities Management Building Renovation & Addition						$15,000,000	$15,000,000	$0	$15,000,000 (State Only)

CSU Fort Collins FY 15-16 2-year cash list

5/15/2014

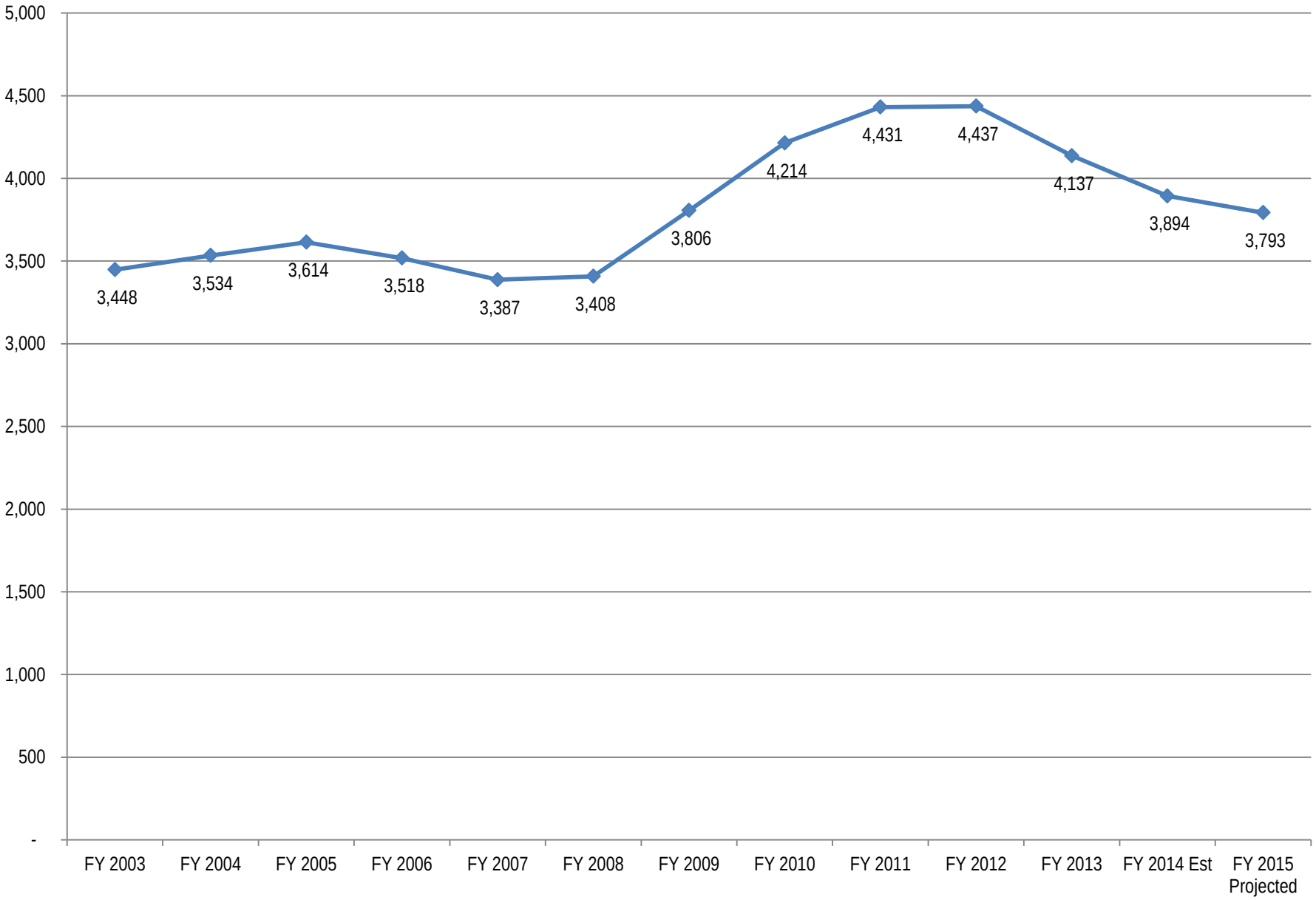
Campus	Project Name	Cash Funds	BOG program plan approval*
CSU	Biology	$81,600,000	May-14
CSU	University Art Museum Addition	$3,000,000	No program plan required
CSU	Institute for Biological and Translational Therapies (IBTT)	$65,600,000	No program plan required
CSU	Agricultural Education Center	$4,300,000	Dec-13
CSU	LSC West Lawn and Lagoon	$2,000,000	No program plan required
CSU	Bay Farm parking lot construction	$3,000,000	No program plan required
CSU	Health and Exercise Science Classroom Addition	$2,000,000	No program plan required
CSU	Pathology Prion Lab Renovations	$2,600,000	No program plan required

**Program plans are not required for cash funded projects that will not be bonded under the Intercept Program*

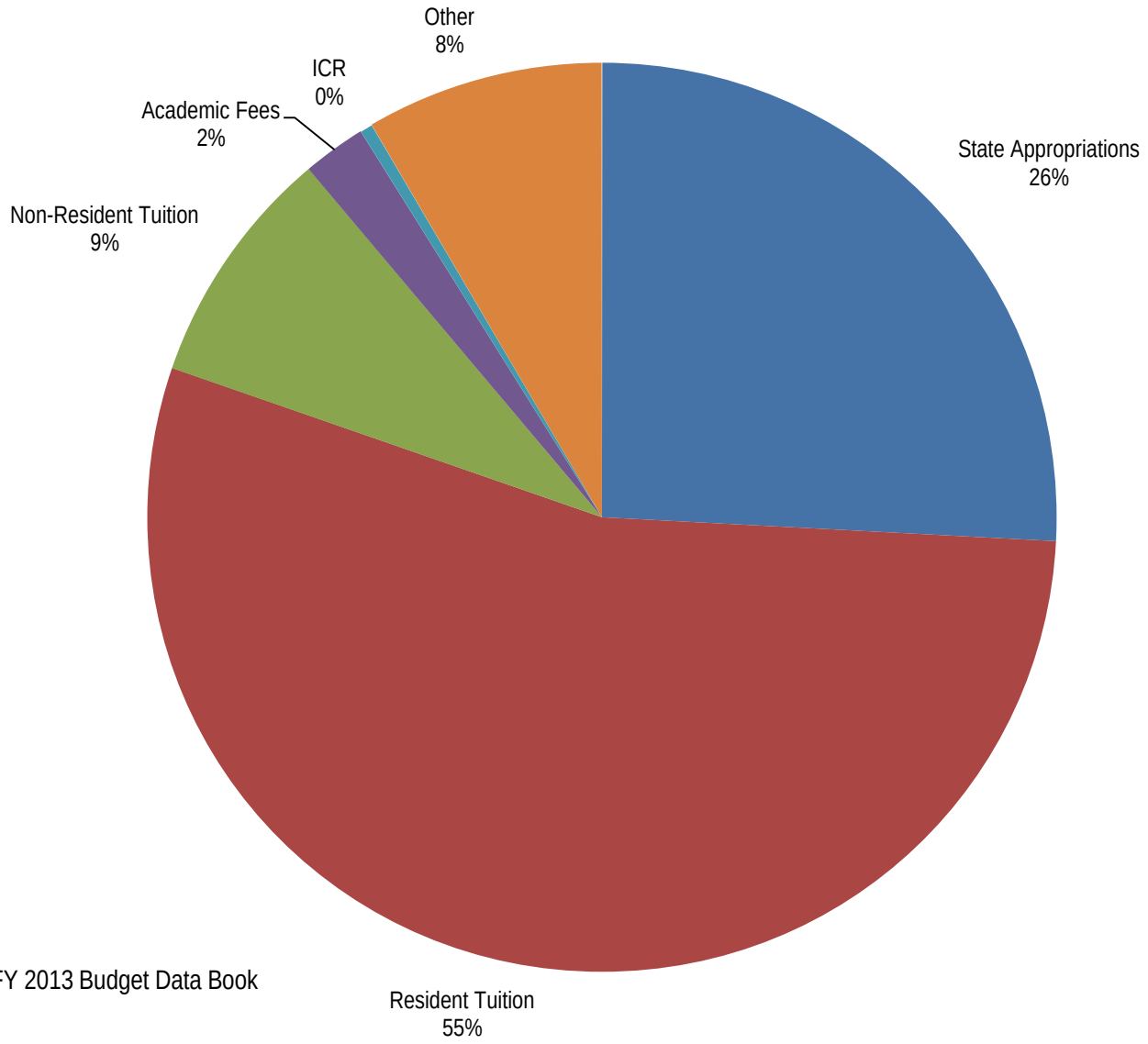
Appendix

CSU-Pueblo Overview

Historical FTE Enrollment

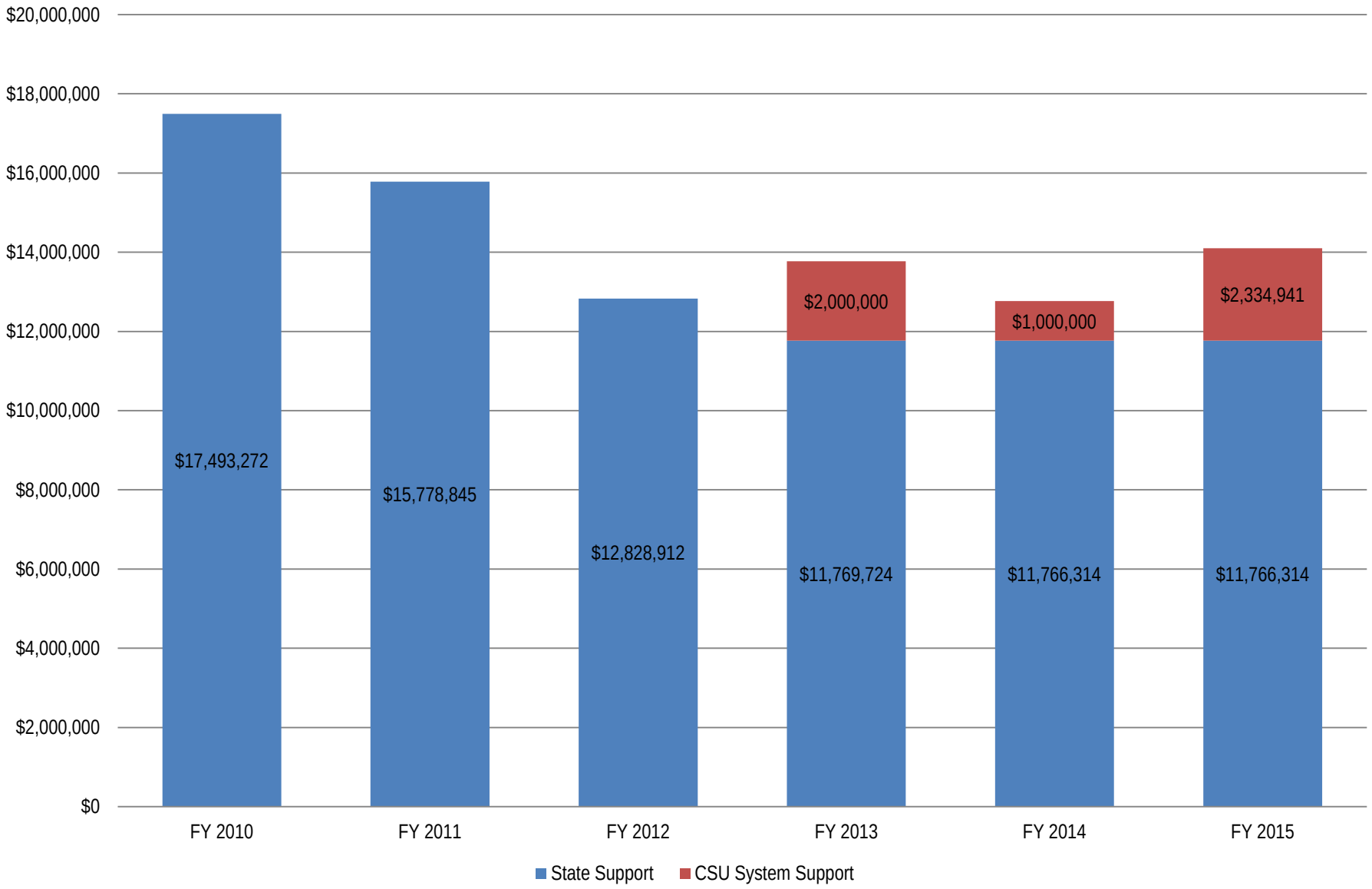


Colorado State University-Pueblo
Revenues Used to Cover the Costs of Educating an Undergraduate Student

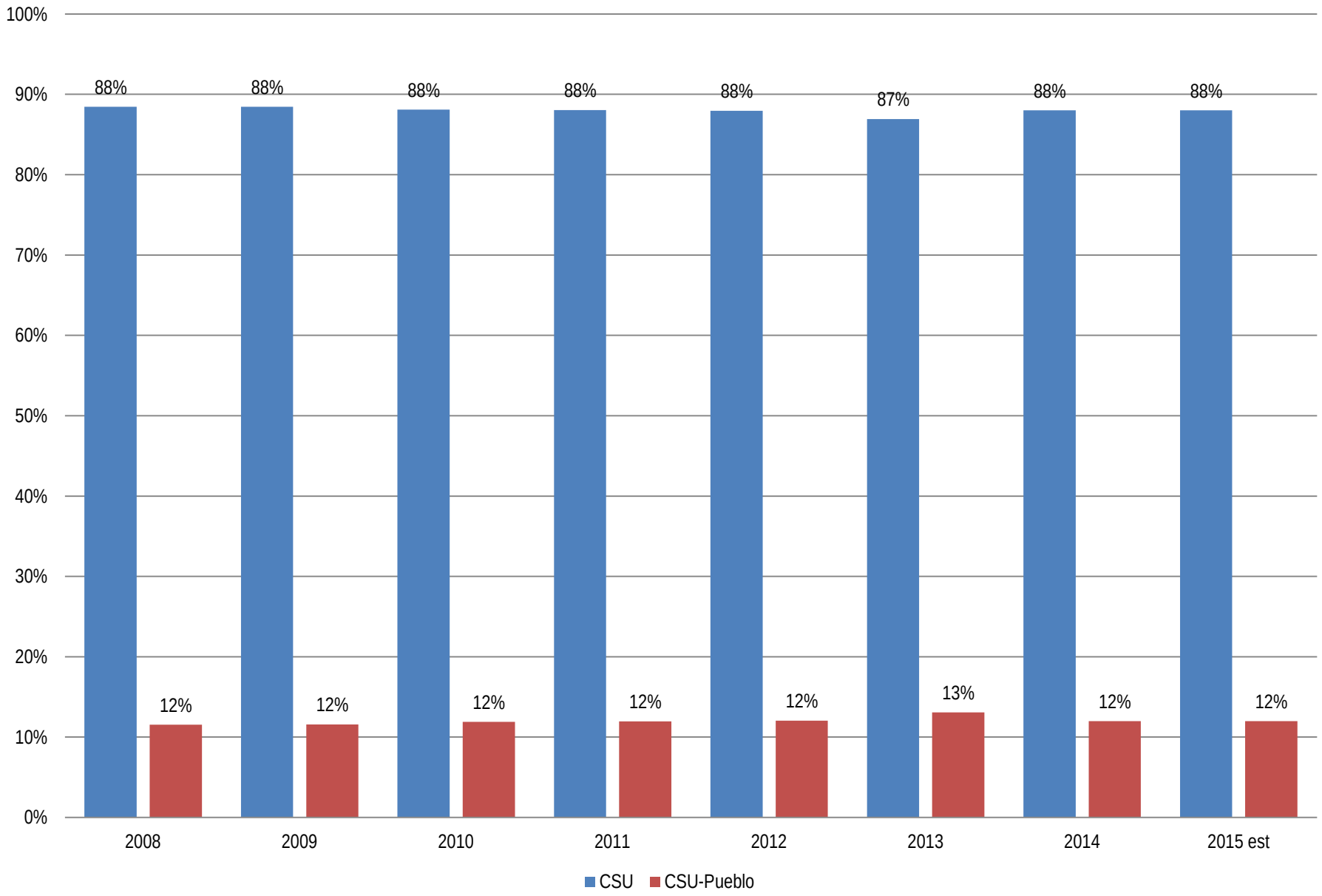


Data Source: FY 2013 Budget Data Book

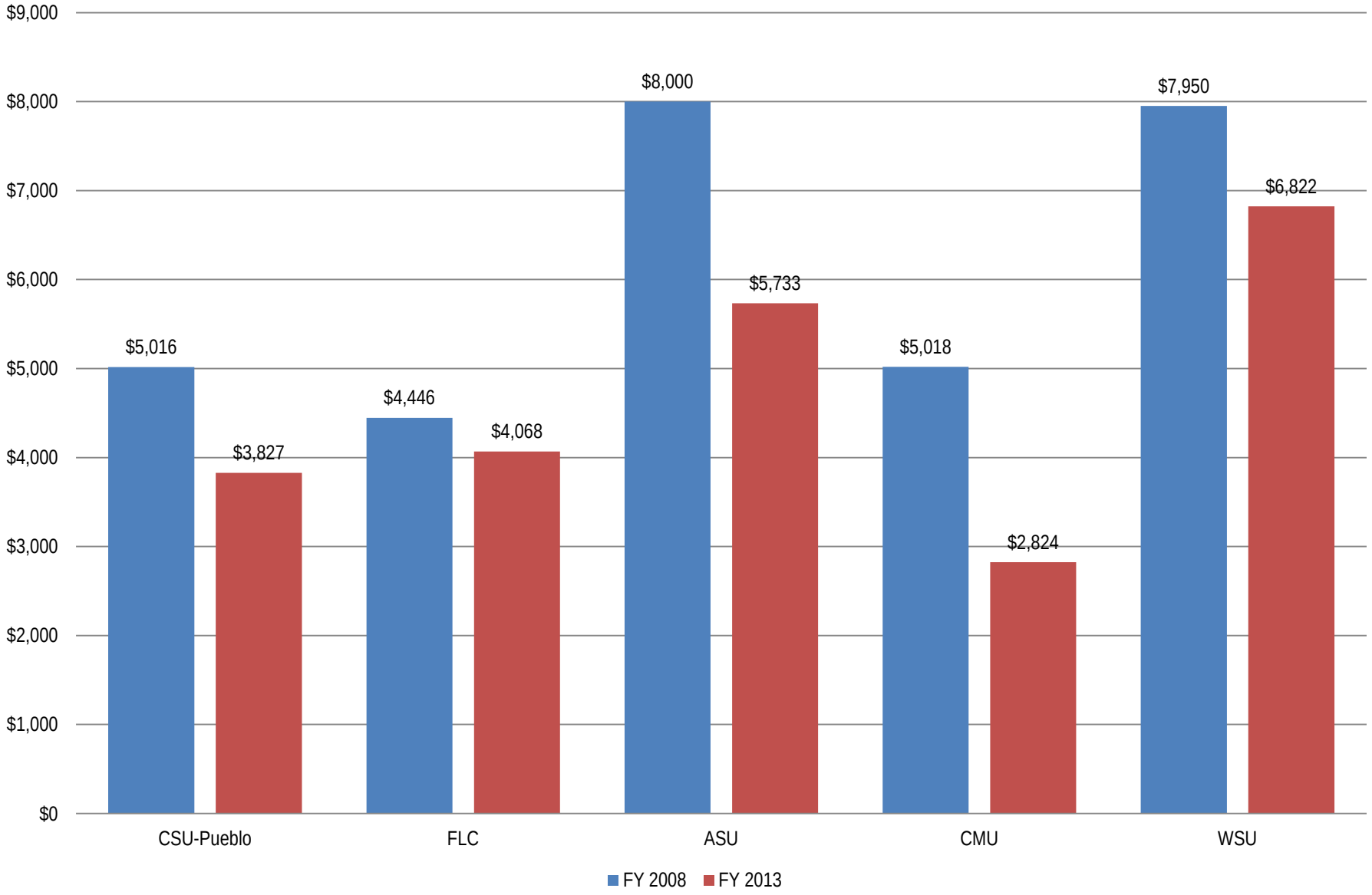
CSU-Pueblo
FY10 - FY15 est. State Support



Percent of State Support



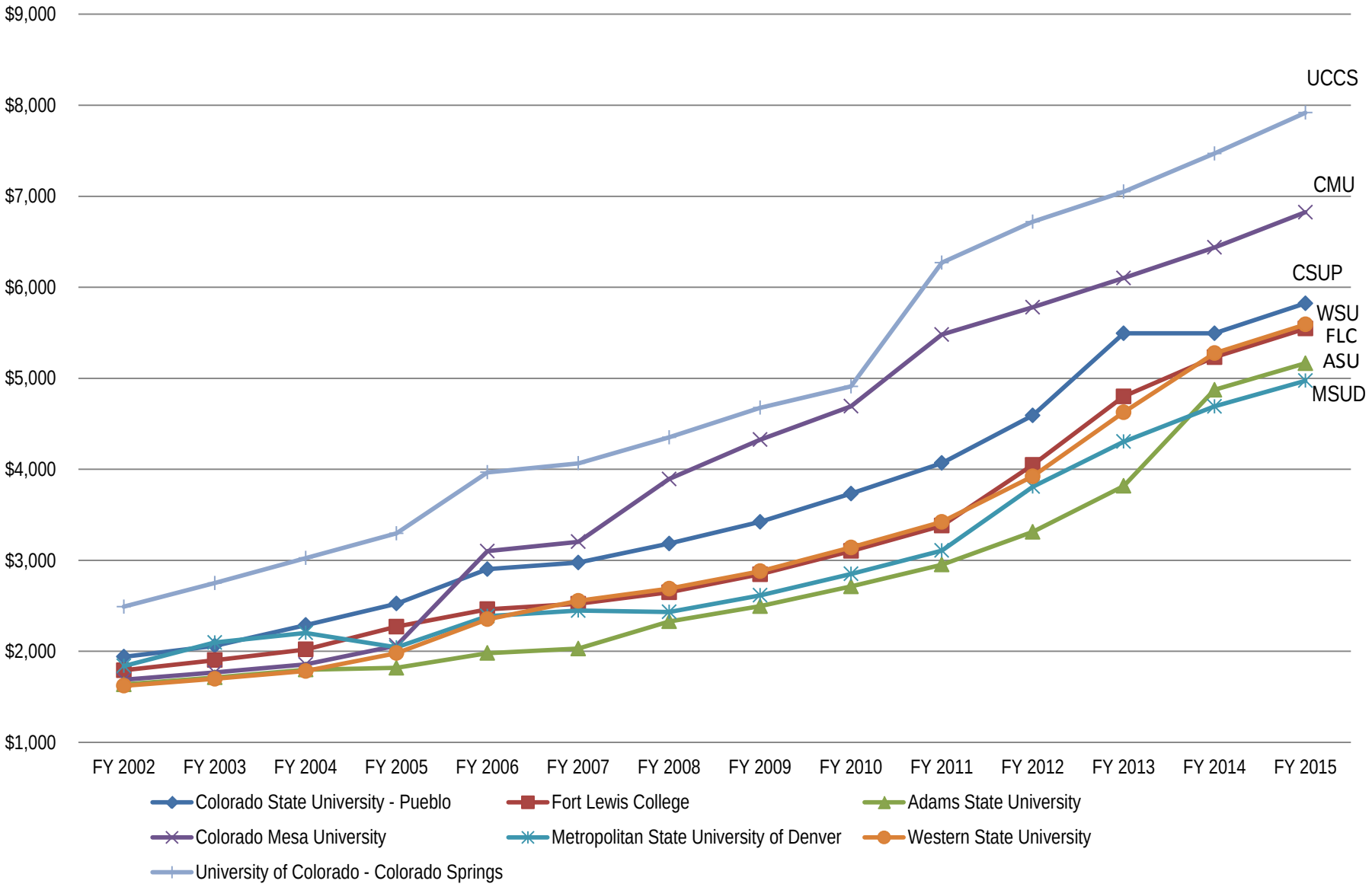
State Support Per Resident FTE
CSU-Pueblo compared to State Colleges



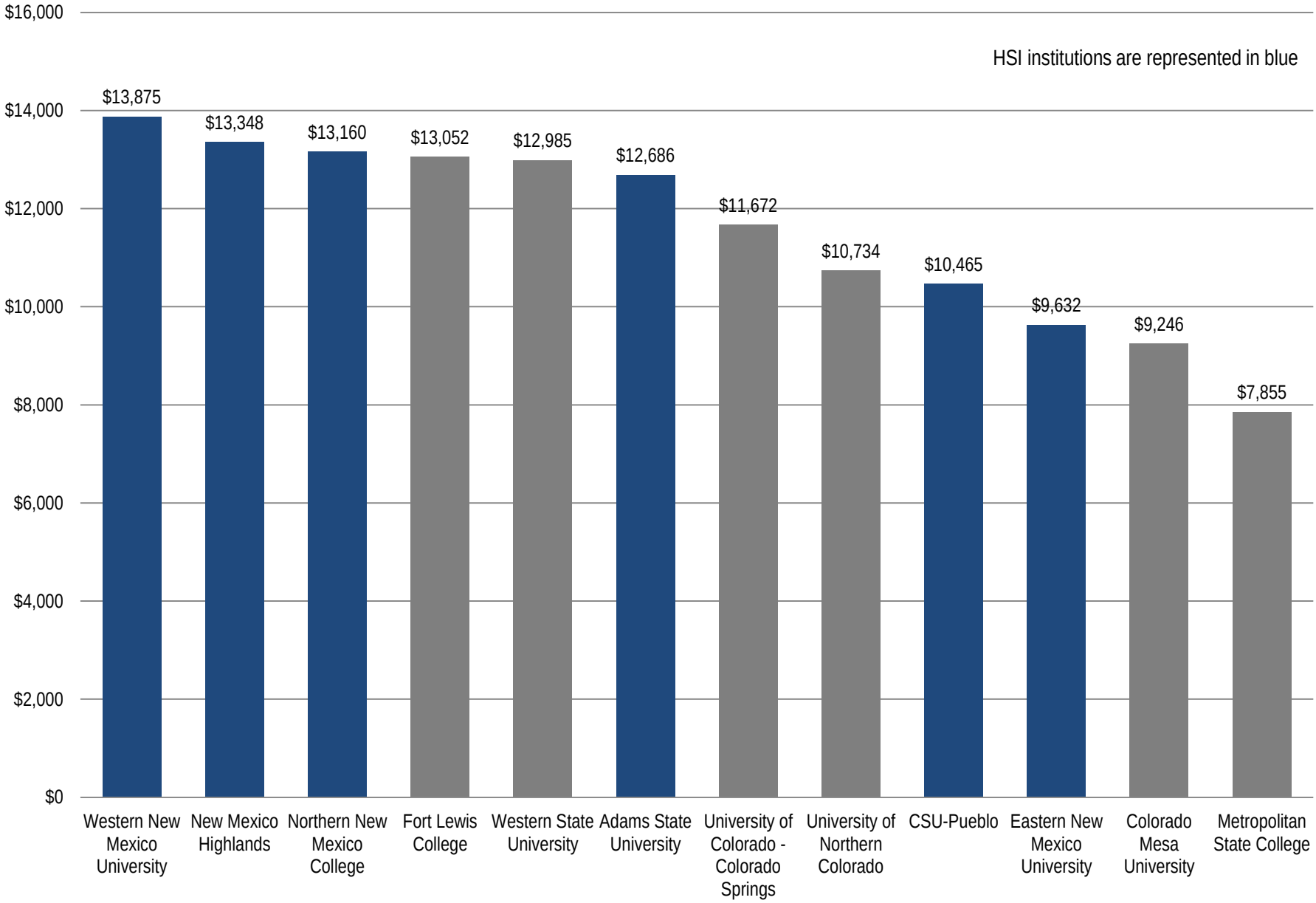
Base-funding

- Per legislation, an analysis was done by the CCHE to determine the amount of base-funding needed to support the rural state colleges as they became independent given their small size, geographic location and student populations.
- The funding provided by institution:
  - Adams State College - $1.6M
  - Mesa State College - $3.0 M
  - Western State College - $2.7M
  - Fort Lewis College - $2.25M
  - CSU-Pueblo - $0M

CSU - Pueblo Resident Undergraduate Full-Time Tuition History



E&G Cost Per Undergraduate FTE



Section 5 Consent Agenda

A. Colorado State University System

- Minutes of the May 8, 2014 Board iPad Training
- Minutes of the May 8, 2014 Board Meeting
- Minutes of the May 8, 2014 Audit and Finance Committee Meeting
- Minutes of the May 8, 2014 Real Estate/Facilities Committee Meeting
- Minutes of the May 8, 2014 Academic and Student Affairs Committee Meeting
- Minutes of the May 9, 2014 Board of Governors Meeting

BOARD OF GOVERNORS OF THE
COLORADO STATE UNIVERSITY SYSTEM
ELECTRONIC BOARD BOOK TRAINING
Colorado State University
May 8, 2014

CALL TO ORDER

Chair Dorothy Horrell called the meeting to order at 8:13 a.m.

ROLL

Governors present: Dorothy Horrell, Chair; William Mosher, Vice Chair; Dennis Flores, Treasurer; Scott Johnson, Secretary; Mark Gustafson; Demitri "Rico" Munn; Jane Robbe Rhodes; Nancy Tuor; Joseph Zimlich; Alexandra Bernasek, Faculty Representative, CSU; Nigel Daniels, Student Representative, CSU; Brad Schiffelbein, Student Representative, CSU-Global Campus; Michael Weiner, Student Representative, CSU-Pueblo; Frank Zizza, Faculty Representative, CSU-Pueblo.

Administrators present: Michael Martin, CSUS Chancellor; Tony Frank, President, CSU; Lesley Di Mare, President, CSU-Pueblo; Becky Takeda-Tinker, President, CSU-Global Campus; Allison Horn, CSUS Director of Internal Auditing; Rick Miranda, CSUS Chief Academic Officer and Provost and Executive Vice President, CSU; Michael Nosler, CSUS General Counsel; Rich Schweigert, CSUS Chief Financial Officer.

System Staff present: Adam Fedrid, IT Manager; Melanie Geary, Executive Assistant to the Chancellor; Allen Sneesby, IT Technician; Sharon Teufel, Executive Assistant to the Board of Governors.

Guests: Johnna Doyle, Deputy General Counsel, CSU-Pueblo; Jason Johnson, Deputy General Counsel, CSU; Brick Thompson, Blue Margin; Brannon Peterkin, Blue Margin; Timothy Zercher, ASG President-Elect, CSU-Pueblo.

Chair Horrell convened the meeting and explained there would be a parallel rollout of the electronic board books with the paper books. After the training, the intent is to go "green" for the June meeting. Chair Horrell explained she, Chancellor Martin and General Counsel Nosler tested the new electronic iPad solution that is the result of several months of exploring different options. She asked General Counsel Nosler to comment on the electronic board book solution.

General Counsel Nosler explained that he, Adam Fedrid and Sharon Teufel undertook the electronic board book project. The solution should save resources and provide flexibility for updates and modifications to the meeting materials as needed. The system design should incorporate a public portal because public governmental boards have certain obligations to make official board documents available to the public. New board policies were developed to address issuance of the iPads, appropriate usage of the iPads, and security provisions. Several existing electronic board book solutions designed for private industry and public companies were explored. These solutions contained numerous options that would not be used by this Board but were contained in the cost. Costs ranged from $19,000 to $21,000 annually.

Blue Margin was asked to design a very basic, unique system for the Board utilizing SharePoint which is also used by the CSU College of Business. The solution provides for a public portal and allows for annotations by the Board members in preparation for the meetings. Annual savings with the solution are estimated to be $15,000. In addition to the books, other materials such as bylaws and policies will be loaded to the system in the future. General Counsel Nosler cautioned that the confidential litigation

report will be loaded and is for Board members only. Once meetings are over, there will be a systematic process for deletions and the official book will be published for public access. He commented that the solution is a good system and acknowledged the work of the team.

Adam Fedrid, CSU IT Manager, introduced Brick Thompson of Blue Margin. Brick indicated he and Brannon Peterkin will be assisting with the training and are available along with Adam for ongoing support. He explained the solution is a Microsoft Cloud-based system with the synchronization occurring in the background and works either online or offline. The solution has been kept simple and features can be added as needed. Feedback for improvements would be requested.

Trainers were assigned to groups. General Counsel Nosler stated for the record that the meeting would be going off public record and not recorded for the purposes of electronic board book training. At 9:13 a.m. the meeting went back on public record to discuss the electronic board book solution. Feedback was positive and there will be further discussion on the amount of time individual board books are retained. The meeting was recessed at 9:20 a.m.

Chair Horrell reconvened the meeting at 9:30 a.m. and explained committee assignments would be made in June. For the purposes of the May meetings, Jane Robbe Rhodes was temporarily assigned to the Academic and Student Affairs Committee and Nancy Tuor was assigned to the Real Estate/Facilities Committee. Chair Horrell then asked Governor Flores to convene the Audit and Finance Committee meeting.

BOARD OF GOVERNORS OF THE
COLORADO STATE UNIVERSITY SYSTEM
BOARD OF GOVERNORS MEETING
Colorado State University
May 8, 2014

CALL TO ORDER

Chair Horrell called to order the Board of Governors meeting at 3:03 p.m.

ROLL

Governors present: Dorothy Horrell, Chair; William Mosher, Vice Chair; Dennis Flores, Treasurer; Scott Johnson, Secretary; Mark Gustafson; Jane Robbe Rhodes; Nancy Tuor; Joseph Zimlich; Alexandra Bernasek, Faculty Representative, CSU; Nigel Daniels, Student Representative, CSU; Brad Schiffelbein, Student Representative, CSU-Global Campus; Michael Weiner, Student Representative, CSU-Pueblo; Frank Zizza, Faculty Representative, CSU-Pueblo.

Administrators present: Michael Martin, CSUS Chancellor; Tony Frank, President, CSU; Lesley Di Mare, President, CSU-Pueblo; Becky Takeda-Tinker, President, CSU-Global Campus; Allison Horn, CSUS Director of Internal Auditing; Rick Miranda, CSUS Chief Academic Officer and Provost and Executive Vice President, CSU; Michael Nosler, CSUS General Counsel; Rich Schweigert, CSUS Chief Financial Officer.

System Staff present: Adam Fedrid, IT Manager; Melanie Geary, Executive Assistant to the Chancellor; Allen Sneesby, IT Technician; Sharon Teufel, Executive Assistant to the Board of Governors.

Guests: Jon Bellum, Provost, CSU-Global Campus; Derrick Dobbin, Controller, CSU-Global Campus; Johnna Doyle, CSUS Deputy General Counsel, CSU-Pueblo; Mark Gill, Chief of Staff, CSU; Kyle Henley, Public Relations Director, CSU; Kathleen Henry, President/CEO, CSURF; Blanche Hughes, Vice President of Student Affairs, CSU; Nancy Hurt, Colorado State University Research Foundation; Jason Johnson, CSUS Deputy General Counsel, CSU; Rick Kreminski, Acting Director of Institutional Research, CSU-Pueblo; Ellie Mulder, *Collegian*, CSU; Janice Nerger, Dean, College of Natural Sciences, CSU; Paul Orscheln, Vice President of Academic and Student Affairs, CSU-Pueblo; Amy Parsons, Vice President of Operations, CSU; Kate Simmons, Editor, *Collegian*, CSU; Karl Spiecker, Vice President of Finance and Administration, CSU-Pueblo; Carl Wright, Provost and Vice President, Academic Affairs, CSU- Pueblo; Timothy Zercher, ASG President-elect, CSU Pueblo.

Following the Academic and Student Affairs Committee meeting, Chair Horrell indicated the Board would move forward with regular Board meeting agenda by convening the executive session that was slated for the next day. She asked General Counsel Nosler to read the meeting into executive session. **Motion/Action:** The motion to convene in executive session was made, seconded and passed.

General Counsel Nosler read the meeting into executive session at 3:04 p.m. for the purpose of receiving the Litigation Report from General Counsel relating to pending or imminent litigation, specific claims or grievances; or to receive legal advice on specific legal questions, all confidential pursuant to C.R.S. § 24-6-402 (3) (a) (II) (2013), as set forth in the meeting notice. A short recess was taken while the room was cleared and the meeting convened in executive session at 3:13 p.m. At 4:03 p.m., the meeting convened in open public session.

Chair Horrell asked President Frank to provide a preview of the evening's events. President Frank provided an overview of the origin of the Engines and Energy Conversion Laboratory that the Board would be touring and the research that has occurred under the leadership of Dr. Bryan Willson. The Board would also have the opportunity to engage during dinner with former Colorado Governor Bill Ritter who started the CSU Center for New Energy Economy. After a reminder of the breakfast meeting with Governor Daniels and the ASCSU leadership to be held the following morning, the meeting adjourned for the day at 4:08 p.m.

BOARD OF GOVERNORS OF THE
COLORADO STATE UNIVERSITY SYSTEM
AUDIT AND FINANCE COMMITTEE MEETING
Colorado State University
May 8, 2014

CALL TO ORDER

Committee Chair Dennis Flores called the meeting to order at 9:30 a.m.

ROLL

Committee members present: Dennis Flores, Chair; Joseph Zimlich, Vice Chair; Alexandra Bernasek, Faculty Representative, CSU; Nigel Daniels, Student Representative, CSU; Brad Schiffelbein, Student Representative, CSU-Global Campus; Allison Horn, CSUS Director of Internal Auditing (assigned staff); Rich Schweigert, CSUS Chief Financial Officer (assigned staff).

Governors present:; Mark Gustafson; Dorothy Horrell; Scott Johnson; William Mosher; Demitri "Rico" Munn; Jane Robbe Rhodes; Nancy Tuor; Michael Weiner, Student Representative, CSU-Pueblo; Frank Zizza, Faculty Representative, CSU-Pueblo.

Administrators present: Michael Martin, CSUS Chancellor; Tony Frank, President, CSU; Lesley Di Mare, President, CSU-Pueblo; Becky Takeda-Tinker, President, CSU-Global Campus; Rick Miranda, CSUS Chief Academic Officer and Provost and Executive Vice President, CSU; Michael Nosler, CSUS General Counsel;

System Staff present: Adam Fedrid, IT Manager; Melanie Geary, Executive Assistant to the Chancellor; Allen Sneesby, IT Technician; Sharon Teufel, Executive Assistant to the Board of Governors.

Guests: Jon Bellum, Provost, CSU-Global Campus; Derrick Dobbin, Controller, CSU-Global Campus; Johnna Doyle, CSUS Deputy General Counsel, CSU-Pueblo; Mark Gill, Chief of Staff, CSU; Kyle Henley, Public Relations Director, CSU; Kathleen Henry, President/CEO, CSURF; Blanche Hughes, Vice President of Student Affairs, CSU; Nancy Hurt, CSURF; Jason Johnson, CSUS Deputy General Counsel, CSU; Rick Kreminski, Acting Director of Institutional Research, CSU-Pueblo; Ellie Mulder, *Collegian*, CSU; Janice Nerger, Dean, College of Natural Sciences, CSU; Paul Orscheln, Vice President of Academic and Student Affairs, CSU-Pueblo; Amy Parsons, Vice President of Operations, CSU; Kate Simmons, Editor, *Collegian*, CSU; Karl Spiecker, Vice President of Finance and Administration, CSU-Pueblo; Carl Wright, Provost and Vice President, Academic Affairs, CSU- Pueblo; Timothy Zercher, ASG President-elect, CSU Pueblo.
Audit/Finance Committee

Committee Chair Flores asked for a motion to convene the committee meeting. **Motion/Action:** The motion was made, seconded and carried. He reported the financial report for CSU-Pueblo would be made at the June meeting and outlined the five action items to be presented.

AUDIT REPORT

Committee Chair Flores asked Allison Horn, Director of Internal Auditing (IA), for her report.

Status of FY 13-14 Audit Plan: Ms. Horn reviewed the six reports issued since the last meeting. A total of 30 recommendations in a variety of categories were made for the reports and management agreed with all

recommendations. A summary of the recommendations will be presented in the IA annual report that will be submitted in July. Ms. Horn listed the six audits that are currently in progress.

Past Due Recommendations: All seven past due recommendations are related to the Continuing Education Audit at CSU-Pueblo with the target dates missed due to different reasons. Ms. Horn indicated there was not concern that the recommendations would not be implemented and the items would continue to be reflected on the report until implementation.

Fiscal Year 2014-15 Audit Plan: Ms. Horn reported there were six audits at CSU and one at CSU-Pueblo currently in progress that would be carried forward to the next fiscal year. The auditor at CSU-Pueblo has been engaged in ad hoc work to assist with ensuring resources are being effectively utilized and internal control are in place as changes are made at the campus. There is an obligation to the Board for IA to maintain independent and objective status including in areas that IA has independently assessed as high risk. IA is also available for special projects that will be brought to the committee. No audit work for CSU-Global Campus was completed for the current fiscal year. The Financial Aid/Accounts Receivable audit for CSU-Global Campus is being carried forward to FY 2014-15.

Ms. Horn reviewed the new projects proposed for the FY 2014-15 audit plan. The risk assessment has been expanded to include activities related to the achievement of strategic objectives, particularly in the areas of recruitment, retention and graduation, with admissions identified for the upcoming fiscal year audit plan.

IA will be conducting continuous auditing through data analytics and the monitoring of the data warehouse to identify items or transactions that warrant further review or testing. Time has also been reserved for special projects at all locations that will be brought to the Audit and Finance Committee. Suggestions for items in the audit plan come from a variety of sources including management, the Board, the hotline, and as an outgrowth of a current project. A request was made to provide the executive summary for the audit reports in the committee meeting materials.

Motion/Action: Governor Zimlich moved to forward the Fiscal Year 2014-14 Plan for Board approval. Governor Daniels seconded and the motion was carried.

FINANCE REPORT

FY 2014 E&G Budget: Committee Chair Flores indicated the first finance action item for the committee's consideration would be the adoption of the FY 2014 E&G incremental budget for CSU including tuition rates, fees, program fees and schedules, parking rates and all other schedules as required by policy or statute; the tuition rates and total budget for CSU-Global Campus; and the CSU System Office budget. He asked Rich Schweigert, CSUS Chief Financial Officer, for his report.

Mr. Schweigert explained that SB14-001 provides $100 million in new funds for higher education in FY 2015 through separate legislation and is the most significant increase for any state agency. The funds are split with $60 million for operations and $40 million for need-based financial aid. The CSU System will receive $12.1 million of the total amount. Mr. Schweigert explained mandatory funding requirements in HB14-1319 with a new funding model to be developed by CCHE.

Other legislation impacting the FY 2014-15 E&G budget include HB14-1342 with $15 million designated in state capital construction funding for the chemistry building at CSU, and HB14-13841 that creates the Colorado opportunity scholarship initiative within the Department of Higher Education. A Joint Technology Committee has been created to make recommendations with a large portion of FY 2016 capital construction funds directed towards IT projects.

Mr. Schweigert reviewed the statutory requirements and historical perspectives on why the Board would be taking action on the different elements contained within and related to the E&G budget. In response to questions, Mr. Schweigert explained the increase in state funding is broken down with 11% for operations and 40% for financial aid. The CSU System receives approximately 20% of the state appropriation and the exact internal allocation formula has not yet been confirmed since the CSU-Pueblo budget has not been completed. He confirmed that the increase in funding is ongoing revenue.

Governor Zimlich noted the internal budget process is a year-long process that generally begins in August with updates throughout the year and culminates with the adoption of the budget. Chancellor Martin added that the additional $100 million in state funding stipulates a 6% cap on tuition increases for the next two years. The determination was made that the 6% cap was relative to tuition and did not include fees. Mr. Schweigert noted a table on the proposed CSU tuition increases was provided in the meeting materials with a 5% increase for resident, undergraduate students and 3% increase for resident, graduate students. The appendix to the committee report provided more detailed information on the budgets.

The committee discussed the national trend of transferring a significant portion of the cost for higher education from public funding to families; the reduction in state support by 32% during the recession; the financial accountability plan that allowed for flexibility in setting tuition at CSU; comparisons with peer institutions with CSU slightly below the peer average; the Colorado conundrum of efficiently producing graduates for significantly less while ranking 49th in state funding; and the impact of retention with Colorado ranking 29th in the nation or 10-11% below the national average.

Other discussion topics included the impact of inflation with tuition at CSU remaining relatively flat over a 20-year period adjusted for inflation; the true cost of attendance, including room and board that is calculated through market comparisons, and mandatory fees; and the policy of 12 credit hours instead of 15 for full-time enrollment with potential savings for students through increased credits per term. Chancellor Martin described through examples the emerging national trend of hybrid or blended programs with traditional and online teaching.

Mr. Schweigert explained how the funding for capital construction is determined through a different process with oversight by different committees and is one-time funding. President Di Mare commented on the general public not understanding the different funding sources and the perception of eliminating positions while completing a new academic building. The new academic facility will be more in-line with technology and there are maintenance costs that will need to be included in the CSU-Pueblo budget. President Frank remarked on how investments in new dormitories at CSU have had a positive impact on non-resident enrollment.

Mr. Schweigert reported the proposed maximum tuition rates for CSU-Global Campus for FY 2014-15 reflect no increase. President Takeda-Tinker pointed out the actual rates will remain at $350 per undergraduate credit hour and $500 per graduate credit hour. When asked about accommodating for inflation, she explained how CSU-Global Campus operates efficiently and does not have the building and other infrastructure costs, other than business space, of the two physical campuses.

Mr. Schweigert commented on downsizing that has occurred over time at the CSU System office and potential upcoming changes during the next year including the process for legislative review and lobbying efforts. Based on questions relevant to policy issues, further discussion on the CSU System budget was tabled until the June meeting. Committee Chair Flores confirmed that the resolution on the FY 2014-15 E&G budgets would be amended to exclude approval of the CSU System budget.

CSU Parking Fees: Mr. Schweigert asked Amy Parsons, CSU Vice President of Operations, to explain the parking fee action item. Ms. Parsons reported a large comprehensive parking and transportation plan was being developed as a component of the overall Master Plan and would be presented at this time next year. Input has been received from the different campus constituency groups, and the comprehensive 10-year plan will contain numerous components including alternative transportation, a multi-tiered rate system, use of technology, and leveraging public transportation.

Comparisons have been made with peer institutions and the first step as the plan is refined is to seek approval to implement parking increases in FY 2014-15. President Frank added that the decision was made not to pursuing privatizing or monetizing parking assets as had been previously discussed. In response to a question on different peer groups, he explained the academic peer group is based on a different series of common factors from the parking peer group which is based upon the size of the physical campus and community.

Committee Chair Flores clarified that the action was for an incremental increase this year and the Parking and Transportation Plan as part of the overall Master Plan would not be completed until next May. Ms. Parsons explained the incremental increase would provide revenue to make improvements. The increase approved last year was for parking citations and not permit increases.

FY 2015-16 CSU Capital Construction List: Mr. Schweigert explained the capital construction list reflects the projects the campus would like to fund if state funding should become available. Governor Horrell inquired as to whether the program plans have been approved and are still active. President Frank noted a report was presented at the December meeting. Ms. Parsons indicated she would confirm that the program plans are up-to-date.

Loan to CSU-Pueblo: Mr. Schweigert explained the fourth finance action item for consideration was a $500,000 loan to CSU-Pueblo to fund the faculty buyouts that would be completed in May. After discussion, the decision was made to amend the resolution to reflect the funds would be an advance instead of a loan and the characterization of the funding would be re-addressed as part of the discussion of the CSU-Pueblo budget at the June meeting.

Committee Chair Flores asked for a motion to move forward the four finance action items with the two modifications. **Motion/Action:** Governor Zimlich made the motion; Governor Daniels seconded; and the motion was carried.

With no further business to come before the committee, the meeting was adjourned at 11:45 a.m.

BOARD OF GOVERNORS OF THE
COLORADO STATE UNIVERSITY SYSTEM
REAL ESTATE/FACILITIES COMMITTEE MEETING
Colorado State University
May 8, 2014

CALL TO ORDER

Committee Chair Scott Johnson called the meeting to order at 11:45 a.m.

ROLL

Committee members present: Scott Johnson, Chair; William Mosher, Vice Chair; Nancy Tuor; Michael Weiner, Student Representative, CSU-Pueblo; Frank Zizza, Faculty Representative, CSU-Pueblo.

Governors present: Dennis Flores; Mark Gustafson; Dorothy Horrell; Demitri "Rico" Munn; Jane Robbe Rhodes; Joseph Zimlich; Alexandra Bernasek, Faculty Representative, CSU; Nigel Daniels, Student Representative, CSU; Brad Schiffelbein, Student Representative, CSU-Global Campus; Kathleen Henry, President/CEO, CSURF (assigned staff).

Administrators present: Michael Martin, CSUS Chancellor; Tony Frank, President, CSU; Lesley Di Mare, President, CSU-Pueblo; Becky Takeda-Tinker, President, CSU-Global Campus; Allison Horn, CSUS Director of Internal Auditing; Rick Miranda, CSUS Chief Academic Officer and Provost and Executive Vice President, CSU; Michael Nosler, CSUS General Counsel; Rich Schweigert, CSUS Chief Financial Officer.

System Staff present: Adam Fedrid, IT Manager; Melanie Geary, Executive Assistant to the Chancellor; Allen Sneesby, IT Technician; Sharon Teufel, Executive Assistant to the Board of Governors.

Guests: Jon Bellum, Provost, CSU-Global Campus; Derrick Dobbin, Controller, CSU-Global Campus; Johnna Doyle, CSUS Deputy General Counsel, CSU-Pueblo; Mark Gill, Chief of Staff, CSU; Kyle Henley, Public Relations Director, CSU; Blanche Hughes, Vice President of Student Affairs, CSU; Nancy Hurt, Colorado State University Research Foundation; Jason Johnson, CSUS Deputy General Counsel, CSU; Rick Kreminski, Acting Director of Institutional Research, CSU-Pueblo; Ellie Mulder, *Collegian*, CSU; Janice Nerger, Dean, College of Natural Sciences, CSU; Paul Orscheln, Vice President of Academic and Student Affairs, CSU-Pueblo; Amy Parsons, Vice President of Operations, CSU; Kate Simmons, Editor, *Collegian*, CSU; Karl Spiecker, Vice President of Finance and Administration, CSU-Pueblo; Carl Wright, Provost and Vice President, Academic Affairs, CSU- Pueblo; Timothy Zercher, ASG President-elect, CSU Pueblo.

Committee Chair Johnson convened the meeting and asked for a motion to move into executive session. **Motion/Action:** Motion was made, seconded and passed. CSUS General Counsel Nosler read the meeting into executive session as set forth in the meeting notice for the purpose of discussions relating to the purchase of property for public purpose or sale of property at competitive bidding if premature disclosure of such transaction would give a competitive advantage to the other party, confidential pursuant to C.R.S. § 24-6-402 (3) (a) (I) (2013).

The meeting recessed for lunch at 12:30 p.m.; reconvened in executive session at 1:33 p.m.; and then convened in open session at 1:38 p.m.

Todos Santos: Ms. Amy Parsons, CSU Vice President of Operations, was asked to present the Todos Santos status report. Ms. Parsons provided background information on the project and reviewed programs that are already in process with additional programming to be developed. Groundbreaking for the CSU Todos Santos Center is scheduled for this month and the center should be open next year. President Frank and Ms. Parsons will be part of the Biennial of the Americas conference in Mexico City as part of the Governor Hickenlooper's trade delegation at which the Todos Santos campus will be showcased as a premier project. A video on the veterinary program that is already operational was shared.

Program Plans: Ms. Parsons reviewed the program plans for the chemistry and biology buildings that have been refreshed and will provide state-of-the art teaching and laboratory space. $15 million of the anticipated $55 million construction cost of the chemistry building has been designated in state capital construction funds. The students have supported an increase in the Student Facility Fee in order to fund a majority of the new biology building. The Board was asked to support the concept of a combining the two buildings for a BioChem building that would leverage the resources with simultaneous construction. A BioChem building program plan has not yet been developed. Ms. Parsons introduced Dr. Janice Nerger, the Dean of the College of Natural Sciences, and Mike Rush, the CSU campus architect.

Dr. Nerger explained the BioChem concept would provide opportunities for multi-disciplinary programs, such as in synthetic biology, materials sciences, biofuels research and drug discovery. With a 33% increase in the past five years, biology is the largest major on campus and life sciences continue to rapidly increase. There is concern that students will not be able to complete their degree plans in four years if classes and laboratory facilities are not available. New faculty hired would also have a substantial portion of time directed towards research.

At the request of Governor Horrell, Dr. Nerger described the "Little Shop of Physics" outreach program, primarily for K-8 students. With over 13,000 students participating in an hour-long physics lesson that the Colorado Rockies and Channel 9 recently hosted before a Rockies game, the Guinness record for the largest physics lesson was broken. Two hundred undergraduate students volunteered to assist and it was a great event to promote CSU. Dr. Nerger thanked Governor Horrell and Chancellor Martin for their participation.

Water Rights: President Frank reviewed the action item to transfer two units of the Colorado Big Thompson (CBT) to the Longs Peak Water District for the benefit of the Colorado State Forest Service Boulder County Office. Nancy Hurt, CSURF, added that the water varies year-to-year based on the allocation from the Water District. The minimum amount available every year is 58 acre feet that is leased to third parties with most exchanged to get water to the ARDEC facilities north of campus.

Lease-Purchase of Engines and Energy Conversion Laboratory (EECL) Expansion Facility: President Frank explained there have been several funding options for the EECL. The action item is a refinancing option CSURF has proposed that would save the university $100,000 annually.

Roof Top Leases: President Frank reported the action item is to approve long-term roof top leases for solar power generation facilities at Braiden Hall and the Powerhouse Expansion.

Committee Chair Johnson asked for a motion to recommend the six action items for approval at the Board meeting. **Motion/Action:** Governor Tuor made the motion, Governor Mosher seconded, and the motion was passed unanimously.

With no further business to come before the committee, the meeting was adjourned at 2:07 p.m.

BOARD OF GOVERNORS OF THE
COLORADO STATE UNIVERSITY SYSTEM
ACADEMIC AND STUDENT AFFAIRS COMMITTEE MEETING
Colorado State University
May 8, 2014

CALL TO ORDER

In the absence of Committee Chair Munn, Vice Committee Chair Mark Gustafson called the meeting to order at 2:08 p.m.

ROLL

Committee members present: Mark Gustafson, Vice Chair; Jane Robbe Rhodes; Alexandra Bernasek, Faculty Representative, CSU; Nigel Daniels, Student Representative, CSU; Brad Schiffelbein, Student Representative, CSU-Global Campus; Michael Weiner, Student Representative, CSU-Pueblo; Frank Zizza, Faculty Representative, CSU-Pueblo; Rick Miranda, CSUS Chief Academic Officer and Provost and Executive Vice President, CSU (assigned staff).

Governors present: Dennis Flores; Dorothy Horrell; Scott Johnson; Nancy Tuor; Joseph Zimlich.

Administrators present: Michael Martin, CSUS Chancellor; Tony Frank, President, CSU; Lesley Di Mare, President, CSU-Pueblo; Becky Takeda-Tinker, President, CSU-Global Campus; Allison Horn, CSUS Director of Internal Auditing; Michael Nosler, CSUS General Counsel; Rich Schweigert, CSUS Chief Financial Officer.

System Staff present: Adam Fedrid, IT Manager; Melanie Geary, Executive Assistant to the Chancellor; Allen Sneesby, IT Technician; Sharon Teufel, Executive Assistant to the Board of Governors.

Guests: Jon Bellum, Provost, CSU-Global Campus; Derrick Dobbin, Controller, CSU-Global Campus; Johnna Doyle, CSUS Deputy General Counsel, CSU-Pueblo; Mark Gill, Chief of Staff, CSU; Kyle Henley, Public Relations Director, CSU; Kathleen Henry, President/CEO, CSURF; Blanche Hughes, Vice President of Student Affairs, CSU; Nancy Hurt, Colorado State University Research Foundation; Jason Johnson, CSUS Deputy General Counsel, CSU; Rick Kreminski, Acting Director of Institutional Research, CSU-Pueblo; Ellie Mulder, *Collegian*, CSU; Janice Nerger, Dean, College of Natural Sciences, CSU; Paul Orscheln, Vice President of Academic and Student Affairs, CSU-Pueblo; Amy Parsons, Vice President of Operations, CSU; Kate Simmons, Editor, *Collegian*, CSU; Karl Spiecker, Vice President of Finance and Administration, CSU-Pueblo; Carl Wright, Provost and Vice President, Academic Affairs, CSU- Pueblo; Timothy Zercher, ASG President-elect, CSU Pueblo.

Committee Vice Chair Gustafson asked for a motion to convene the meeting. **Motion/Action:** Governor Robbe Rhodes moved; Governor Zizza seconded; and the motion was carried. Committee Chair Gustafson reported the agenda included several action and consent agenda items.

New Degree Programs

Committee Vice Chair Gustafson asked Dr. Rick Miranda, CSUS Chief Academic Officer, and CSU Executive Vice President and Provost, to review the two proposed new degree programs for CSU.

B.S. Early Childhood Education, CSU: Dr. Miranda explained there has been for several years an Early Childhood Education concentration in the Department of Human Development and Families Studies.

Legislative action in 2012 allows Colorado public universities to now offer a stand-alone degree. The major will prepare students to work with young children ages birth to grade three and will provide for licensure.

M.S. Degree in Greenhouse Gas Management and Accounting, CSU: Dr. Miranda explained this would be a new Master's Plan C that is not constructed from an existing degree program and is intended to train students to work in the emerging field of measuring greenhouse gas emissions for a variety of governmental agencies and industries. The program would be one of the first in the country and there are faculty in the Department of Ecosystem Science and Sustainability who are world experts in the field. The degree would be coursework only and not research-based.

Master of Professional Accounting (MPAcc), CSU-Global Campus: Dr. Jon Bellum, Provost, CSU-Global Campus, explained an undergraduate program has been offered since 2010 and currently there are approximately 700+ students in the program. Students who would like to prepare for the CPA examination have been a major driver for the MPAcc degree. In 2015, accounting rules will require 160 credits of which 30 need to be graduate level.

Miscellaneous Items

Excellence in Undergraduate Teaching Award, CSU: Dr. Miranda reported the presentation of the award will be postponed until August when the recipient has returned from sabbatical.

Approval of Spring and Summer Degree Candidates, CSU: Dr. Miranda noted there have been discussions with General Counsel on the possibility of approving degrees once a year which will be re-addressed at a future meeting.

Special Academic Unit – Graduate Degree Program in Ecology, CSU: Dr. Miranda explained a new construct of a special academic unit was created a few years ago to provide infrastructure for interdisciplinary degree programs. The Graduate Degree Program in Ecology has been offered for over 20 years with oversight by the Deans of the Colleges of Natural Sciences and Natural Resources. Application has been made this year to create the special academic unit and all elements for the special academic construct are in-place as required by the faculty manual. The degree will not be changing; the change will be in the administration of the degree program.

Faculty Manual Changes, CSU:

Section D.7.10: Dr. Miranda explained a change in state law now permits overtime pay to be given to certain classes of employees who were formerly exempt for overtime pay. The proposed change impacts employees who have been reclassified from state classified to administrative professional and the appropriateness will be managed on an individual case-by-case basis. The revision has been passed by the Faculty Council and reviewed by the Office of General Counsel.

Section E.6: The proposed change is a clean-up of language to incorporate the ability to use the multi-year contract construct and is not a substantive change.

Section I.7: The proposed change was brought forward by the Committee on Teaching and Learning to provide more clarity on procedures used for grade appeals.

Excellence in Undergraduate Teaching Award, CSU-Pueblo: Dr. Carl Wright, Provost, CSU-Pueblo, reported the recipient was unable to attend the May Board meeting and the presentation will be made in August.

Approval of Spring Degree Candidates, CSU-Pueblo: Dr. Wright requested the Board approve the 70 Masters and 576 Baccalaureate degrees that were conferred on May 3rd.

Excellence in Undergraduate Teaching Award, CSU-Global Campus: Dr. Bellum provided background information on Robert Deemer, this year's award recipient, who has over 18 years of teaching experience and whose service embodies the mission of CSU-Global Campus. The award will be presented to Mr. Deemer during the Board meeting the next day. In response to an inquiry, the Provosts were directed to examine the issue of a Board of Governors' Excellence in Graduate Teaching Award.

Approval of Degree Candidates – Spring A Term, CSU-Global Campus: Dr. Bellum reported the term ended on May 4 and the degree candidates will be eligible to participate in the June 7th commencement. There were 247 degree candidates of which 28% are graduate and 72% are undergraduate.

CSU System Board Policy 313 – Approval of Academic Calendars and Suspension of Academic Terms: Dr. Miranda explained the policy was developed by General Counsel in consultation with the three campuses at the recommendation of the Academic and Student Affairs Committee to clarify the Board's role to approve academic calendars. General Counsel Nosler indicated the policy would be approved by the Board as part of a resolution to approve several new policies.

Committee Vice Chair Gustafson asked for a motion to move forward for Board approval the three new degree programs and the CSUS Board Policy 313. **Motion/Action:** Governor Robbe Rhodes moved; Governor Schiffelbein seconded; and the motion unanimously carried.

Committee Vice Chair Gustafson asked for a motion to move forward for Board approval the special academic unit, the three CSU faculty manual changes, and the degree candidates for all three campuses. **Motion/Action:** Governor Schiffelbein made the motion; Governor Bernasek seconded, and the motion unanimously carried.

Campus Reports

Accreditation Schedule for 2014-15, CSU: Dr. Miranda explained various programs regularly undergo specialized accreditations that are separate and distinct from the overall university accreditation process governed by the Higher Learning Commission (HLC). CSU had the HLC accreditation site visit earlier this year and was fully accredited for the next ten years. Four separate programs will be reviewed during the next year for special accreditation by either professional societies or other accrediting bodies.

Promotion and Tenure Report, CSU: Dr. Miranda explained the promotion and tenure process is completed annually and this year there were 89 candidates with one denial which is consistent with an institution of CSU's size. The awarding of promotion and tenure is delegated to the campus Presidents with reports to the Board. Annually there are approximately 30 to 40 replacement faculty hired and, depending upon budget lines, approximately 8 to 12 new faculty members are hired. Faculty retention metrics are tracked and compensation comparisons are made with peer institutions. A regularly scheduled report on faculty activities including metrics is made annually to the Board at the August meeting.

2014-15 Accreditation Schedule, CSU-Pueblo: Dr. Wright reported there would be one special reaccreditation that includes a self-study and campus visit for the Department of Music.

Emeritus Rank Designation, CSU-Pueblo: Dr. Wright reported five individuals have met all the requirements as defined in the faculty handbook. Biographical data on each candidate was included in the written report.

Status of Educational Leadership Licensure Program, CSU-Global Campus: Dr. Bellum reported the Board was informed at the October 2013 meeting that approval was being sought from the State of Colorado for the licensure program. The process started in December and approval was confirmed two weeks ago by the Colorado Department of Higher Education. Open enrollment will begin for September 2014 and the program is for licensing of educational administrators. CSU-Global Campus will be the only public institution in the state that will have a fully online educational leadership program and there is only one other private non-profit institution in the state that offers the program online. There are two program options: 1) in conjunction with a MS in Teaching and Learning, and 2) on a non-degree basis for those who already hold a Master's degree with courses strictly for licensure.

Update on Accreditation (Regional and ACBSP), CSU-Global Campus: Dr. Bellum reported CSU-Global Campus is in the process of data collection for the HLC accreditation site visit that will occur in 2015-16. A steering committee with a charter has been established and there are teams of onsite staff, program coordinators and faculty. Approximately every three months the full group convenes. The initial steps for the Accreditation Council for Business Schools and Programs have been completed and the self-study is anticipated to begin in July.

Motion/Action: The motion to adjourn was made by Governor Robbe Rhodes, seconded by Governor Zizza, and carried. The meeting adjourned at 3:02 p.m.

BOARD OF GOVERNORS OF THE
COLORADO STATE UNIVERSITY SYSTEM
BOARD OF GOVERNORS MEETING
Colorado State University
May 9, 2014

CALL TO ORDER

Chair Dorothy Horrell called the meeting to order at 9:02 a.m.

ROLL

Governors present: Dorothy Horrell, Chair; Dennis Flores, Treasurer; Scott Johnson, Secretary; Mark Gustafson; Demitri "Rico" Munn; Jane Robbe Rhodes; Nancy Tuor; Joseph Zimlich; Alexandra Bernasek, Faculty Representative, CSU; Nigel Daniels, Student Representative, CSU; Brad Schiffelbein, Student Representative, CSU-Global Campus; Michael Weiner, Student Representative, CSU-Pueblo; Frank Zizza, Faculty Representative, CSU-Pueblo.

Administrators present: Michael Martin, CSUS Chancellor; Tony Frank, President, CSU; Lesley Di Mare, President, CSU-Pueblo; Becky Takeda-Tinker, President, CSU-Global Campus; Rick Miranda, CSUS Chief Academic Officer and Provost and Executive Vice President, CSU; Allison Horn, CSUS Director of Internal Auditing; Michael Nosler, CSUS General Counsel; Rich Schweigert, CSUS Chief Financial Officer.

System Staff present: Adam Fedrid, IT Manager; Melanie Geary, Executive Assistant to the Chancellor; Allen Sneesby, IT Technician; Sharon Teufel, Executive Assistant to the Board of Governors.

Guests: David R. Anderson; Jon Bellum, Provost, CSU-Global Campus; Doug Brobst; Susan Calhoun-Stuber, Co-President, Faculty Senate, CSU-Pueblo; Helen Caprioglio, faculty member, CSU-Pueblo; Mary Carlson; Emily Chavez; William Clem; Robert Deemer, faculty member, CSU-Global Campus; Johnna Doyle, CSUS Deputy General Counsel, CSU-Pueblo; Donna Fairbank; Mark Gill, Chief of Staff, CSU; Kathleen Henry, President/CEO, CSURF; Blanche Hughes, Vice President of Student Affairs, CSU; Jason Johnson, CSUS Deputy General Counsel, CSU; Lynn Johnson, CFO, CSU; Kim (no last name given); Rick Kreminski, Acting Director of Institutional Research, CSU-Pueblo; Leticia Maldonado; Marge Massey, Co-President, Faculty Senate, CSU-Pueblo; Amy Parsons, Vice President of Operations, CSU; Ashley Reid, student-athlete, CSU Athletic Dept.; Richard Livingston, SOSH; Kelly Lyell, reporter, *Fort Collins Coloradoan*; Jeremy Podany, Director, CSU Career Center; Mike Pruzynk; Tyler Shannon; Ki Shih; Karl Spiecker, Vice President of Finance and Administration, CSU-Pueblo; Bob Vangermeersch, SOSH; Carl Wright, Provost and Vice President, Academic Affairs, CSU- Pueblo; Jean Yule; Timothy Zercher, ASG President-elect, CSU Pueblo; Robert L. Zimdahl.

Chair Horrell convened the meeting and introduced Governor Jane Robbe Rhodes and Governor Nancy Tuor who have been confirmed. General Counsel Nosler administered the oath of office that was affirmed by Governors Robbe Rhodes and Tuor. At the request of Chair Horrell, Governor Daniels introduced Samantha Guinn, the ASCSU President-Elect, and Governor Weiner introduced Timothy Zercher, the ASG President-Elect.

Chair Horrell recapped the previous day's activities including lunch with a Supplemental Nutrition Assistance Program (SNAP) presentation, a tour of the Engines and Energy Conversion Laboratory, and a dinner presentation by former Governor Bill Ritter on the CSU Center for the New Energy Economy. She

reviewed the Board meeting agenda and reported the Board had a breakfast meeting with Governor Daniels and the ASCSU officers to discuss challenges and issues for students and higher education.

PUBLIC COMMENT

Chair Horrell indicated the time allotted for public comment was expanded to 20 minutes and each speaker had two minutes to address the Board. Robert Zimdahl read a letter on faculty surveys on the proposed new CSU stadium. Tyler Shannon expressed positive support for the stadium. Leticia Maldonado requested that an in-depth community assessment of the Todos Santos project be conducted. Mike Pruzynk commented on retention and graduation rates and asked the community stadium meetings be recorded. Donna Fairbanks, William Clem, Mary Carlson, David Anderson, Kim (no last name provided), Emily Chavez and Ki Shih opposed the new stadium.

BOARD CHAIR'S AGENDA

Excellence in Undergraduate Teaching Award: Chair Horrell explained the award was established to recognize excellence in serving the core mission of teaching and learning. The recipients for the CSU and CSU-Pueblo campuses were unable to attend and will be recognized in August. Dr. Jon Bellum, Provost for CSU-Global, introduced Robert Deemer, the CSU-Global Campus recipient and Chair Horrell presented the award. Mr. Deemer expressed his appreciation for the opportunity to teach at CSU-Global Campus and thanked the Board for the award.

Board Membership: Chair Horrell announced Governor Nella Bea Anderson resigned from the Board effective as of the May meeting. Mr. Deemer has been appointed as the new CSU-Global Campus Faculty Representative to the Board.

Association for Governing Boards (AGB) Conference: Chair Horrell reported Governors Johnson, Robbe Rhodes and Tuor joined her and Chancellor Martin for the AGB's annual conference in April. Each of the attendees shared observations from the conference that included issues such as remediation; unionization of college athletes; whether college graduates were prepared for the work force; declining enrollments; increasing costs for higher education; innovation and partnerships; the teaching and learning experience; and governance. Board members were encouraged to attend future conferences.

Colorado Summit for Board Trustees: Chair Horrell reported the Department of Higher Education in cooperation with the CCHE hosted an evening reception and one-day meeting for trustees of higher education in Colorado. Governors Gustafson, Robbe Rhodes, Tuor and Flores shared highlights that included dialogue on competition and finding common ground to work cooperatively with other state institutions; improved student success including a Lumina Foundation presentation on what Georgia State has accomplished with its guided pathways program; enhanced access for postsecondary education to reflect changing demographics; and developing resources.

June Board Retreat: Chair Horrell reported she and Chancellor Martin would be having a conference call with Dr. Tom Meredith, the facilitator for the retreat, who will also conduct individual phone conversations with Board members to prepare for the retreat. The June retreat will be focused on good governance to ensure the Board is addressing the correct overall strategic priorities through best practices. The Presidents will be asked to address issues for their campuses and how the Board can provide assistance. A brief business meeting will also be held to receive the report from the land grant task force and to approve the budgets for CSU-Pueblo and the CSU System Office. The retreat will be held at the CSU Pingree Park campus beginning with a dinner on June 18th and ending in the early afternoon of June 20th.

Senate Bill 114: Chair Horrell attended the signing in the Governor's office of the SB 114 that expands the mission of the CSU-Global Campus to offer full degrees. She thanked President Takeda-Tinker and her team for their visionary leadership and work.

Upcoming Events: Chair Horrell reported over 700 graduates crossed the stage during the May 3rd CSU-Pueblo commencement. She acknowledged Governor Weiner for delivering an inspirational message. The CSU commencements will be held May 16-17th and the CSU-Global Campus commencement will be June 7th. President Takeda-Tinker remarked there will be 495 graduates participating with 5,000 guests. Other upcoming events include the CSU Green & Gold gala on May 10th and the CSU-Pueblo President's Gala on May 16th.

The meeting recessed at 10:23 a.m. and reconvened at 10:38 a.m.

COMMITTEE REPORTS

Audit and Finance Committee: Committee Chair Flores reported there were five action items brought forward. The first resolution was to approve the FY 2014-15 Audit Plan. Allison Horn, CSUS Director of Internal Auditing, provided a synopsis of the plan including the projects carried forward and the proposed new projects that reflect risk assessment in various categories throughout the organization. **Motion/Action:** Governor Zizza made the motion, Governor Daniels seconded, and the motion was unanimously carried.

Committee Chair Flores reported four finance resolutions discussed at the committee meeting were brought forward with two modifications. Rich Schweigert, CSUS Chief Financial Officer, reported the first finance resolution was to adopt the FY 2014-15 incremental E&G operating budgets for CSU which includes approval of tuition, tuition differentials, fees, fee policies and manuals including technology fees and manuals, room and board rates, dining rates, and other rates and charges for CSU; and tuition rates and total budget for CSU-Global Campus. For the upcoming year, there will be no tuition increase for CSU-Global Campus with the tuition rates of $350 per undergraduate credit hour and $500 per graduate credit hour. For CSU, there will be a 5% increase in resident undergraduate tuition and 3% increase in non-resident undergraduate tuition. The mandatory student fees on average will be increasing from $1,729 to $1,939 that, combined with the resident undergraduate tuition, is an average increase of 6.3%. For graduate students, there will be a 3% tuition increase for both resident and non-resident students.

Committee Chair Flores noted the resolution does not include the CSU-Pueblo budget or the CSU System budget; both of these budgets will be brought forward in June. He asked for additional comments from the Board.

Governor Zimlich summarized that the committee discussed the importance of the additional state funding for the CSU System. The CSU tuition increase is an amount that is deemed necessary to support full mandatory cost increases, and to support necessary salary and benefits adjustments following the reductions made during the financial downturn. There was an acknowledgement of the need to maintain quality and high level faculty instruction. With the additional incremental increase in state funding, the 5% increase is an amount that balances the increased costs.

Mr. Schweigert pointed out CSU's financial accountability report that is produced annually and available to the public. When adjusted for inflation, the tuition over the past 20 years has remained relatively flat and, as state funding has decreased, there has been an increased burden on students and their families.

Mr. Schweigert reported the second finance resolution was to approve the CSU FY 2015-16 capital construction priority list for proposed state-funded projects. A similar list will be presented in June for CSU-Pueblo and the two lists will be combined.

Mr. Schweigert reported the third finance resolution was to approve anticipated parking rates for the next fiscal year. Committee Chair Flores added this is an incremental increase and a more comprehensive parking plan will be presented next year.

Mr. Schweigert reported the fourth finance resolution was to approve $500,000 to fund the early buyouts at CSU-Pueblo. After vetting the issue, the resolution was amended to remove the loan provision and to identify the funds as an advance. The characterization of the funds would be readdressed at the June meeting as part of the CSU-Pueblo budget discussion. The $500,000 is in addition to the $5 million already approved for CSU-Pueblo for FY 2013-14.

Committee Chair Flores asked for a motion to adopt all four finance resolutions in one motion. Governor Johnson requested the fourth resolution be considered separately. **Motion/Action:** Governor Tuor made the motion to adopt the first three finance resolutions. The motion was seconded and passed unanimously. **Motion/Action:** Governor Zizza made the motion to approve the advance to CSU-Pueblo and Governor Daniels seconded. The motion carried with one vote of opposition.

Academic and Student Affairs: Committee Chair Munn thanked Governor Gustafson for chairing the committee in his absence. Five resolutions were brought forward for approval: 1) a new CSU Early Childhood Education degree program; 2) a new CSU Master of Greenhouse Gas Management and Accounting degree program; 3) a new CSU-Global Campus Master of Professional Accounting; 4) a new CSU Special Academic Unit – Graduate Degree Program in Ecology; and 5) the CSUS Board of Governors Policy 313 which sets forth the responsibility and process of the Board to approve academic calendars for the institutions of the Colorado State University System and the circumstances under which the Board may temporarily suspend or modify an academic terms.

After discussion by the Board on specific language in Policy 313, an amendment to the policy was suggested. **Motion/Action:** Governor Robbe Rhodes made the motion to approve the amendment to the proposed language. Governor Daniels seconded and the motion passed unanimously. **Motion/Action:** Governor Gustafson moved to adopt all five resolutions. Governor Tuor seconded and the motion passed unanimously.

Real Estate/Facilities Committee: Committee Chair Johnson reported the committee met in executive session for an hour. In the open public session the committee received a report on the CSU Todos Santo Center. Action items discussed were the Biology and Chemistry program plans and a BioChem building concept; transfer of water rights for the benefit of the Colorado State Forest Service Boulder County Office; a lease-purchase for the Engines and Energy Conversion Laboratory expansion that would result in an annual savings of $100,000 or $1 million over 10 years; and long-term roof top leases for solar power generation facilities. Committee Chair Johnson asked for a motion to approve all six resolutions. **Motion/Action:** Governor Munn made the motion; Governor Zimlich seconded; and the motion passed unanimously.

New CSUS Board Policies: Chair Horrell explained General Counsel Nosler prepared three new policies in anticipation of moving to electronic board books. General Counsel Nosler explained the policies were distributed in advance of the meeting to receive feedback. Based on a recommendation, Policy 126 on iPads usage was amended to include the loading of information and security of information on personal iPads to maintain the integrity and, where necessary, the confidentiality of records. The policy describes requirements, permissible usages and liability. Policy 127 on use of digital resources was developed by

looking at best practices and in collaboration with the CSU and CSU-Pueblo campuses with the intent to have campus policies align with the CSUS Board policies. Policy 128 defines the policy and procedures for public record retention. Chair Horrell asked for a motion to approve the three policies. **Motion/Action:** Governor Flores moved; Governor Robbe Rhodes seconded; and the motion was unanimously carried.

Approval of Consent Agenda: Chair Horrell reviewed the items brought forward for approval on the consent agenda. **Motion/Action:** Governor Tuor moved to approve the consent agenda. Governor Daniels seconded and the motion carried unanimously.

FACULTY AND STUDENT REPORTS

CSU Faculty Report: Governor Bernasek remarked her written report provided information on the work of the Faculty Council. She reported there was a meeting to discuss issues and concerns for senior women faculty. Of the 120 faculty invited, there were over 40 in attendance. President Frank and Provost Miranda also participated and were very receptive and understanding of the issues. President Frank followed up the meeting with a message that was well-received.

Governor Bernasek reported she would be leaving the next day to teach in Vietnam for four weeks as part of an economic development project. She clarified, in response to a letter to the editor that was read during the public comment session, that the Faculty Council has never taken a vote against the proposed new stadium.

CSU-Pueblo Faculty Report: Governor Zizza commented on the wonderful experience of participating in commencement. There were 12 graduates from the Math and Physics program of which 7 have completed the secondary certification and who will be teaching in the Pueblo schools this coming fall. One of the two physics faculty members has accepted the faculty buyout which will have an impact on the program. Governor Zizza reported Dr. Marge Massey and Dr. Susan Calhoun-Stuber have been re-elected as the Co-Presidents of the CSU-Pueblo Faculty Senate and were in attendance. Dr. Helen Caprioglio was elected as the Chair of the University Budget Board and has assisted with addressing the budgetary issues.

Governor Zizza pointed out the academic program review report from the Curriculum and Academic Programs Board that was included with his written report. Reviews were completed for all programs scheduled to be reviewed. The review process includes an external campus evaluator and culminates with approval by the Faculty Senate of a written report based on the findings of the Deans and external reviewer.

Referring to discussions on pathways to success, Governor Zizza explained how academic planning sheets in every major at CSU-Pueblo are utilized. There is continuous monitoring of the progress students are making towards their degrees.

CSU-Global Campus Faculty Report: Chair Horrell indicated Governor Anderson's report was included in the meeting book and primarily focused on the Freshmen Taskforce for Online Education. President Takeda-Tinker added that the taskforce has been meeting for quite some time in preparation for the access bill. There is a program for immediate career coaches for students. Students must complete a required introductory course before enrolling in upper division coursework and students cannot overlap or overload their schedules until at least 24 credit hours have been completed to ensure degree completion success. Students are also encouraged to take advantage of alternative credits, prior learning assessments and credit competency-based exams.

CSU Student Report: Governor Daniels provided an update on an ASCSU Washington DC trip to develop relationships and to meet with Colorado congressional contingent to discuss issues and concerns on student debt, college affordability and public safety. ASCSU accomplishments during the past year included negotiations to finalize agreements to provide access for all students, both full and part-time, for the bus system, Transfort and Max System. There has been support for an initiative to move forward with a campus shuttle.

Efforts have been made to hear student concerns on the CSU Todos Santos Center to make sure the due diligence is done with input from the local community to ensure a positive affiliation. The new ASCSU website has been launched which is the first update in ten years. Marketing is being conducted to focus on ways to connect students with student governance and to engage students on issues. Governor Daniels concluded his remarks by thanking the board for the honor and opportunity to serve.

CSU-Pueblo Student Report: Governor Weiner reviewed ASG accomplishments including efforts to move student organizations back under the student government's administration; establishing Dean's Advisory Councils for each of the four colleges; and conversations held with the Provost to encourage more outreach in classrooms for ASG student engagement. An initiative through IT has been started to evaluate transferring services to Google. To encourage school spirit, conversations have been held to bring the pep band back to basketball games. The Student Facility Fee Committee voted unanimously to approve a Wolfie Clock Tower and the project will move into the design phase.

The Judicial Branch has revised the ASG's constitution for first time in several years. A new Spirit Fund to increase campus pride has funded four different events. Participation in this year's ASG election doubled which demonstrates an increased presence on campus. Governor Weiner worked with Governor Daniels and other student body presidents to draft a constitution that will hopefully be ratified in the fall for a Colorado student government coalition to meet on a regular basis to better advocate for students.

CSU-Global Campus Student Report: As part of the effort to change the mission for CSU-Global Campus through SB 14-114, Governor Schiffelbein and two other students testified before the Senate Education Committee and the House Education Committee. Governor Schiffelbein reported he has completed his first course for his Master's degree; has applied to serve a second term as the student representative on the Board; and will be participating in the June 7th commencement.

PRESIDENT'S REPORTS

CSU-Global Campus: President Takeda-Tinker recounted how tuition is kept low by focusing on student retention and graduation to provide an ROI based on workplace skills for adult learners; there are no costs for sports programs and building maintenance; and the cost and delivery model is focused on flexibility and variable costs based on student headcount that provides for scalability. She also shared that the CSU-Global culture embraces the importance of student retention and the role that technology and outsourced services play to optimize efficiency and effectiveness.

President Takeda-Tinker thanked the Board of Governors and individually acknowledged Chancellor Martin, Chair Horrell and CSUS CEO Schweigert for their support and assistance in the passage of SB 14-114 to expand access for first-time, first-year freshman. She also reviewed the provisions and limitations of SB 14-114.

President Takeda-Tinker reported that, in response to an average rating for the 2013 results of the Noel-Levitz Priorities Survey for Online Students, the Student Advising Department was reconstructed; additional technology-based systems were added; and departments of Tuition Planning and Student Support were implemented. The 2014 survey results reflect that CSU-Global Campus is now above the

national mean in 23 categories and meets the national mean in 4 categories. Student retention has also improved to 85% for 1st to 3rd term, and CSU-Global Campus is back on-track to be a leader in online higher education.

The meeting was recessed 11:59 a.m. for a luncheon to recognize Dean Ajay Menon, College of Business, and Dean Joyce Berry, Warner College of Natural Resources, who will be retiring. Drs. Menon and Berry reflected upon their combined 50+ years of service, and the trends and issues that will continue to challenge higher education. The meeting reconvened at 1:05 p.m.

PRESIDENTS' REPORTS *(continued)*

CSU-Pueblo: President Di Mare reported a favorable recommendation was received for the reaccreditation of the Hassan School of Business. The Department of Nursing is celebrating its 50th anniversary and has received reaccreditation through 2019. There is excitement for the online RN to BSN program of the Department of Nursing that already has 17 new students for the fall. Faculty continues to be published and Dr. Iver Arnegard's book, What Rises, was selected as the winner of the Gold Line Press fiction contest. The REV89 radio station has received the Broadcast Education Association's highest award. Matchwits, a form of jeopardy for students sponsored by Rocky Mountain PBS in Pueblo, has been expanded statewide. President Di Mare thanked Governors Flores and Robbe Rhodes for their attendance at an April 15th Scholars Reception.

Groundbreaking ceremonies were held for the new soccer and lacrosse facilities and the new general academic building. The Army ROTC program was one of eight to receive the McArthur Award for 2012-13, and the MBA program ranked Best for Vets in 2014 by *Military Times*. The President's Gala to be held on May 16th is an important fundraiser for student scholarships. President Di Mare thanked staff at CSU for their assistance with the CSU-Pueblo transition to Kuali for financial services.

Colorado State University: President Frank reported CSU was ranked No. 1 nationally in the Sustainability Tracking, Assessment and Report System (STARS) with the highest ranking ever awarded. *BusinessWeek* ranked the College of Business as one of the top undergraduate business programs in the country. Faculty awards included Dr. Wayne McIlwraith was the first veterinarian to receive the Urist award; Dr. Ed Hoover was selected to the National Academy of Medicine; and Dr. Diana Wall was selected to the American Academy of Arts and Sciences.

President Frank commented on the university's key role in the Colorado agribusiness study. He noted two recent major philanthropic gifts for veterans programs. The Office of Advancement reported over $120 million has been raised to-date which breaks the previous year's record of $113 million with no major in-kind gifts during the past two years. Over the past five years, there has been a 35% increase in donors, a 46% increase in alumni donors, and a 107% increase in annual giving.

President Frank announced that John Hayes will be the new Dean of the Warner College of Natural Resources and Mike Palmquist has been named the new Associate Provost for Continuing Education. In addition to a new campus shuttle system, the parking rate increase approved is a one-year incremental. A broader transportation and parking plan with a focus on mass and alternative transportation will be brought forward next year that does not include privatization or monetization of parking. Tom and Jean Sutherland were honored as this year's Founders Day recipient. A bar graph depicting declines in state funding per student over the past decade, which is not a unique phenomenon for Colorado, was included with the written report and represents the greatest challenge facing higher education.

President Frank reported the National Western Center (NWC) discussions continue to proceed positively. At the request of President Frank, Amy Parsons, CSU Vice President of Operations, reported a NWC

master plan is in process and CSU is one of five MOU partners on the National Western redevelopment for a 365 day/year facility. President Frank highlighted other opportunities that have emerged including redevelopment of the I-70, Platte River and Brighton Blvd. corridors; light rail projects; and reconnections with surrounding neighborhoods. CSU's biggest role will be development of an indoor agricultural facility with a goal of improving K-12 performance, college readiness and agricultural literacy.

President Frank reported, based on deposits, the fall enrollment may be the 5th consecutive year of record enrollment with the prospect of the university maintaining its position of receiving more Colorado high school graduates that any other state institution. Good progress has been made in retention.

CHANCELLOR'S REPORT

Chancellor Martin reported upcoming activities include a state tour in June, and visits to a Navajo agricultural production facility in Farmington, NM, and Diné, the Navajo national college, to explore partnerships and possible student recruitment. He explained the Venture Capital Fund (VCF) that was launched last year to inspire innovation. The projects were reviewed by blind reviewers with the awards based on meritorious submissions. Ms. Parsons was asked to explain the Enterprise Partnership program that received the largest VCF award.

Ms. Parsons reported the inspiration for the program came from the successful, comprehensive strategic partnerships that have developed over the past several years. The program proposal was based on the concept of enrolling entities as students of the university and their tuition would provide them a suite of tailored services and access in specific areas including interns for future workforces. The program also has the potential to develop philanthropic relationships. An initial cohort of companies has been identified and pricing points are being developed. The program is being refined based on feedback from community partners. Jeremy Podany, the Director of the CSU Career Center, is the program director.

Mr. Podany expressed his appreciation to be part of a higher education start-up and explained the program is in the phase of moving out of the initial assessments to contracting with pilot partners. The intent is to have the program be sustainable long-term and to expand beyond a limited number of partners with a holistic approach. The target market is generally small to midsize companies. Additional niche services can be provided to larger global companies.

Ms. Parsons reported the Food Bank of Larimer County has signed on to be in the initial class. Jason Johnson, as a board member for the food bank, explained how the model fits well with nonprofit organizations. Chancellor Martin remarked the VCF is a 21st Century manifestation of the outreach mission for a land grant university.

SYSTEM WIDE DISCUSSION ITEMS

Legislative Update: Mr. Schweigert highlighted specific bills within a written report including HB 1048 on religious freedom in higher education that failed; HB 1124 for in-state tuition for American Indian tribes with ties to Colorado which CSU already provides; HB 1154 on employment of community college faculty; HB 1193 pertaining to the Colorado Open Records Act (CORA); HB 1294 pertaining to student data privacy that became a K-12 bill; and HB 1319 pertaining to fees-for-service funding for higher education.

Other legislation cited were SB 004 granting community colleges the right to offer 4-year programs that are technical, career and workforce related; SB 011 pertaining to the Colorado Energy Research Authority; and SB 155 that reflects the growing interest in marijuana and hemp research. The message

has been clearly communicated that any research conducted by CSU would be done under the DEA schedule on research licensing and no research would be done on any Colorado-grown product. Mr. Schweigert reported there were 670 bills introduced. CSU was able to obtain the initial funding for the CSU chemistry building and the state supported additional funding for higher education. (Note: See CSU-Global Campus report related to SB 14-114 relating to the expansion of CSU-Global Campus' mission.)

Efficiency Committee Report: Chancellor Martin reported that the Board had empowered a committee to look at ways to collectively reduce necessary operating costs not directly related to academic delivery. Karl Spiecker, Vice President for Finance and Administration at CSU-Pueblo, has been leading the committee's efforts.

Mr. Spiecker explained how a group has convened with representatives from the CSU System office and the three campuses to begin the process of identifying opportunities to consolidate centralized services for back office functions to be more efficient with resources. The process is in the beginning stages; will involve multiple steps; and may require a financial investment to improve efficiencies. There is also the potential to partner with other Colorado universities to leverage commonalities. A preliminary draft document on potential ideas developed through brainstorming at CSU was shared with the Board.

Chancellor Martin noted three other universities expressed an interest in sharing efficiencies through service centers. A new model could be developed for collaboration, rather than redundancy, to generate mutual savings.

CONCLUSION AND EVALUATION

Chair Horrell congratulated Governor Bernasek for her re-appointment as the CSU Faculty Representative. Governors Anderson, Daniels, Schiffelbein, Weiner and Zizza were recognized for their service.

Chair Horrell reiterated that the next meeting will be the retreat at Pingree Park. The Presidents will be included in the outreach calls.

The Board utilized a parallel rollout of the electronic books at this meeting and was asked for feedback. The consensus was to move forward with going "green" at the June meeting. Suggestions included presenters referencing page numbers; easily identifiable page numbering throughout the book; and to provide initially paper copies of the agenda.

Feedback on the meeting included appreciation for the initial outline of the retreat agenda with process and committee structure to be addressed. The tours and specialized presentations were also appreciated. Chair Horrell thanked President Frank and his staff for hosting the meeting and thanked CSU System staff for their work.

With no further business to come before the Board, the meeting was adjourned at 2:11 p.m.

Section 6

Chancellor's Report

COLORADO STATE UNIVERSITY
SYSTEM
Colorado State University • Colorado State University - Pueblo • CSU Global Campus

COLORADO STATE UNIVERISTY SYSTEM
CHANCELLOR'S REPORT
Board of Governors of the Colorado State University System
June 20, 2014

1. CSU-System Wide:

   South Metro Initiative: Progress is being made per Ron Sega's report at the February meeting. Private partnerships will advance both our business and nursing programs.

   Venture Capital Fund: Project reports due to System office on June 31st so we will provide a report for the August meeting.

   CSU and UTEP Water Initiative: On August 5, 2014 the Northern Rio Grande Higher Education Initiative will kick off at UTEP, this is the water related partnership with the University of Texas-El Paso, the Colorado Water institute, CSU-Office of Engagement and others. The Business and Higher Education Forum has offered assistance in ongoing funding. Dr. Lou Swanson is leading this effort.

2. CSU-Pueblo: Have worked in support of President DiMare and her team on several issues including remodeling of the OUC, their 2014-15 budget and long term fiscal planning.

3. CSU-Global Campus: Have been consulting with President Takeda-Tinker on positioning Global for successful reaccreditation and on the development of a new Global enterprise.

4. CSU Fort Collins: Continue to work with VP-Provost Miranda and others on issues related to the Denver South Initiative.

5. Community Engagement: Authored an Op-Ed on Common Core in the Denver Post. June has been the month of outreach and I have met with colleagues across the state to explore new ways CSU's Land-grant System can serve.

6. CSU System Government Affairs: As part of the Higher Ed CEO group I've been involved in initiating a process to implement changes in the formula funding as directed by HB 1319.

7. State and National Involvement:
   HACU (Hispanic Association of Colleges and Universities), we continue to prepare for their 2014 Annual meeting in Denver. I continue to actively participate in DHE's CEO group and the Colorado Education Leadership Council.

8. Statewide Travel: Kyle, Dean Craig Beyrouty and I visited the Navajo Agricultural Product Industries (NAPI) large farm in northwest New Mexico to explore a partnership with CSU's College of Agricultural Sciences.

9. Evaluations: I am in the process of completing and summarizing 360 degree evaluations on Presidents DiMare and Takeda-Tinker.

Section 7

Land Grant System Committee Report

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Section 8

Board Meeting Evaluation

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Appendix

Board Correspondence

CSUS Board of Governors Correspondence Received 5/6/14-6/12/14				
Date Received	Email/Letter	From	Subject	Response Sent
6/4/2014	email	Ben Manvel	stadium	6/4/2014
5/29/2014	email	Loene and Gary McIntyre	stadium	cc'd
5/28/2014	email	Cherie DuCharme	stadium	cc'd
5/22/2014	email	Sheamus Hunter	stadium	5/22/2014
5/20/2014	email	Dee Spaulding	stadium	cc'd
5/17/2014	email	Ken Blehm, et al	commencement	cc'd
5/14/2014	email	Eldon Johnson	CSU-Pueblo letter	5/28/2014
5/7/2014	email	Bob Kraft	stadium	cc'd
5/7/2014	email	Ronelda Kraft	stadium	cc'd
5/7/2014	email	Linda McNamara	stadium	cc'd
5/9/2014	handout	David R. Anderson	stadium	public comment
5/9/2014	handout	Donna Fairbank	stadium	public comment
5/9/2014	handout	Leticia Maldonado	Todos Santos	public comment
5/9/2014	handout	Bob Vangermeersch	stadium	public comment
5/27/2014	email	Kari Dickinson	WISCAPE/Vouchers	
5/22/2014	email	Carl Wangsvick	CFI	5/22/2014

Teufel,Sharon

From: CSUS Board
Sent: Wednesday, June 04, 2014 4:25 PM
To: Ben Manvel
Cc: Frank,Tony
Subject: RE: finances for the stadium

Good afternoon, Mr. Manvel:

This acknowledges receipt of your email to the Board of Governors of the Colorado State University System regarding the issue of a proposed on-campus stadium at CSU in Fort Collins. Your correspondence will be shared with the Board of Governors.

Thank you for your interest in Colorado State University.

Sincerely,

Sharon Teufel

Sharon Teufel
Office of the Board of Governors
Colorado State University System
410 17th Street, Ste. 2440
Denver, CO 80202
303-534-6290

From: Ben Manvel [mailto:bmanvel@gmail.com]
Sent: Wednesday, June 04, 2014 7:50 AM
To: CSUS Board
Subject: finances for the stadium

As an Emeritus Professor of Mathematics and two-term member of the Fort Collins City Council I have been following your deliberations about a new on-campus stadium with great interest.

Yesterday I submitted the following letter to the Editor to the Coloradoan:

Most of the negative impacts of the proposed new on-campus C.S.U. stadium are predictable and inevitable. The finances, however, are a wild card. Boosters are confident that a new stadium will be a financial boon to the athletic program, easily paying off the huge expenses it generates. The more skeptical among us believe major expense overruns or low ticket sales may make it a financial disaster, requiring taxpayer or student subsidies. President Tony Frank and Athletic Director Jack Graham have assured us the project will pay for itself through donations and income. However even in the unlikely event they are still around when the project is complete their assurance will not pay off any deficit. Fortunately Jack Graham had a very successful career in the insurance and reinsurance industries before becoming Athletic Director. If stadium finances really are as predictably positive as claimed, he should be able to line up an inexpensive insurance policy to indemnify C.S.U. from the (very small) possibility of financial problems. Given that opportunity, the Board of Governors will be acting irresponsibly if they approve going ahead with the stadium project without such an obvious safeguard.

I sincerely hope that you, as a member of the Board, will give serious consideration to seeking such indemnification. If the risk is small, the cost will be small. If, as I predict, the cost of such indemnification is large that clearly indicates the market believes that the project has a large probability of major negative financial impact on C.S.U. Real money in a real marketplace would be a far more objective projection of financial viability than the biased opinions of either pro or anti stadium advocates.

Ben Manvel
--
323 E Plum Ft Collins 80524 970-222-8327

Teufel,Sharon

From: Loene McIntyre <lbmgam@icloud.com>
Sent: Thursday, May 29, 2014 9:19 PM
To: Frank,Tony
Cc: chancellor@colostate.edu; Teufel,Sharon; Henley,Kyle
Subject: Focus of a land grant university

Dear Dr. Frank,

The focus of a land grant university should be on teaching, research, and outreach, not on an entertainment that is increasingly linked to brain injuries. While we realize that more funding is needed for CSU, we respectfully suggest that your efforts be aimed at the legislature rather than an expensive football stadium that so many oppose and may generate more debt than income.

Sincerely yours,

Loene McIntyre
Gary McIntyre, Emeritus Professor and Department Head

Teufel,Sharon

From: Frank,Tony
Sent: Wednesday, May 28, 2014 4:08 PM
To: Cherie DuCharme; Teufel,Sharon; Henley,Kyle
Subject: RE: Stadium

Thanks, Cherie. We'll make sure your correspondence is in the Board materials. Thanks for taking the time to weigh in - tony

Anthony A. Frank, President
Colorado State University

From: Cherie DuCharme [mailto:cheriedu@comcast.net]
Sent: Wednesday, May 28, 2014 7:03 AM
To: Frank,Tony; chancellor@colostate.edu; Teufel,Sharon; Henley,Kyle
Subject: Stadium

I'm voicing my **opposition** to a new stadium.
Please consider how many people are against the construction.

The following soapbox article from The Coloradoan is well presented and addresses concerns about a new stadium.

Soapbox: It's time to look at costs of stadium, ask why

Alice J. Bradie 3 p.m. MDT May 22, 2014

Some 30 years ago, I was the director of corporate finance for the New York State Urban Development Corporation. My mandate was to apply sound economic principles to the various projects brought to us for aid in funding and tax abatement. The most pertinent of these was evaluating the need for and cost of a new football stadium, versus the cost of improving Shea Stadium (then the home of the New York Jets and New York Mets) to meet the needs of the Jets. We also had to factor in the economic cost of losing the Jets to New Jersey if the feasibility study produced results not to their liking.

We went over the financial records of all the sports venues in the city, from the Jets to Madison Square Garden (Knicks) to Yonkers Raceway and Belmont Race Track. We commissioned and reviewed an exhaustive environmental impact statement (which, if I remember correctly, has not been planned for the proposed new CSU stadium). We interviewed local businesses, reviewed the development plans and final costs of several professional football stadiums, both planned and constructed around the country during the five years prior to the start of our study. We also looked at the potential net revenue flow from other users of the stadium when football was not in season.

We closely examined the actual costs of maintaining these new stadiums as well as the roads leading to it, the development of adequate parking facilities, etc. And finally, we compared the proposed costs of other major capital projects of similar size to the actual costs of the finished project to derive a contingency percentage closer to reality than the construction industry standard 10 percent.

Our study's conclusion: There was no economic merit whatsoever to building a new stadium, and the cost of improving the existing stadium (Shea) was about 10 percent of the true monetary cost of building a brand new facility. For some 25 more years, until the costs of maintaining an obsolescent facility became unsupportable, Shea functioned successfully as the home of the New York Mets.

Some salient points:
• The actual cost of building a new football stadium — nationwide — turned out to be between 50 percent and 75 percent greater than the estimated cost plus contingency.

• The actual construction costs and the operating costs of these new stadiums, and the budgetary limitations on the governmental entities supporting their construction, necessitated increases in various local taxes — sales, franchise and income. They also frequently resulted in the need for the locality to increase debt to fund the costs.

• Some of the stadiums defrayed some capital costs by utilizing some or all of the following: selling skyboxes, selling preferred seating and the like to individuals and corporations, selling naming rights, and dramatically increasing season and individual ticket prices.

In all these instances, the direct —and usually only — economic beneficiary of the stadium project was the development team and construction company that built it. The costs, grossly in excess of forecast, were borne by the residents of the locale in which the stadium was built.

It may be time for a different state entity to look closely into why development of this new CSU stadium has been racing forward unstoppably, despite the patent foolishness (or venality) of its fundamental premise and despite its complete dissociation from any academic purpose.

Alice J. Bradie, CFA (Ret.), is a 10-year resident of Fort Collins and Wall Street professional

Again, I am **for** retaining Hughes stadium in it's **current location.**

Cherie DuCharme

Teufel,Sharon

From: CSUS Board
Sent: Thursday, May 22, 2014 10:02 AM
To: Hunter, Sheamus - Student
Subject: RE: Letter to Rep

Good morning, Mr. Hunter:

This acknowledges receipt of your email to the Board of Governors of the Colorado State University System regarding the issue of a proposed on-campus stadium at CSU in Fort Collins. Your correspondence will be shared with the Board of Governors.

Thank you for your interest in Colorado State University.

Sincerely,

Sharon Teufel

Sharon Teufel
Office of the Board of Governors
Colorado State University System
410 17th Street, Ste. 2440
Denver, CO 80202
303-534-6290

From: Hunter, Sheamus - Student [mailto:51693@psdschools.org]
Sent: Thursday, May 22, 2014 8:58 AM
To: CSUS Board
Subject: FW: Letter to Rep

To whom it may concern:

Please see the Email below in which I discussed by concerns about the new CSU stadium with my city councilmember, Ross Cuniff. He advised me to forward the letter to you. I would love to hear your thoughts.

Sincerely,

Sheamus Hunter

Sheamus Hunter
3131 Conestoga ct.
Fort Collins, CO 80526

rcunniff@fcgov.com
2267 Clydesdale Dr.
Fort Collins, CO, 80526

5/16/2014

Salutation Councilmember Cunniff

My name is Sheamus Hunter and I live in your district, close to RMHS to be percise. I am writing to you about the new stadium that has been planned to be built. It is a waste of precious money. The stadium we already have just needs some simple repairs and tune ups. It will cost $200-$400 million to create a new stadium but only $90-$93 million to pay boost seats from 36,000 to 57,000. Focusing the city's resources on the current stadium will save half or more, so we can then use that money for something more pressuring. What creates a good sports team is practise and an experienced coach. Expensive facilities will just add comfort, not skill. CSU is already $720 million in debt, this new stadium could tip the dept over $1 Billion. CSU would have to pay $8.1 million dollars for 30 years just to pay off the new stadium and to even build the stadium it would require $100-$113 million in cash from CSU upfront.

I suggest that the city does not pay for the new stadium and instead use that money for other things that need help desperately, such as children in poverty, or building a place to house the homeless.

Thank you Councilmember Cunniff for your precious time. I can be reached personally by my cellphone (970) 817-1695

Snicerely
Sheamus Hunter

Teufel,Sharon

From: Frank,Tony
Sent: Tuesday, May 20, 2014 12:32 AM
To: Dee Spaulding
Cc: chancellor@colostate.edu; Teufel,Sharon; Henley,Kyle; Governor.hickenlooper@state.co.us
Subject: Re: Keep our Hughes CSU Stadium

Dee. - thanks for sharing your views. We'll make sure they're included in the Board correspondence. Best - tony

Anthony A. Frank
President, Colorado State University

On May 20, 2014, at 6:44 AM, "Dee Spaulding" <dash9751@yahoo.com> wrote:

> To: President Frank - Tony.Frank@colostate.edu
> Chancellor, CSU System - chancellor@colostate.edu
> State Board of Governors - Sharon.teufel@colostate.edu
> CSU public relations - kyle.henley@colostate.edu
> Governor Hickenlooper - Governor.hickenlooper@state.co.us
>
> To Whom It May Concern:
>
> As a CSU alumnus and a resident of the City of Fort Collins, I strongly oppose the proposed on-campus stadium. My interest and involvement with CSU began with Children's Theatre in 1967 . I worked at CSU in a variety of positions, and I am a CSU graduate. Not one of my CSU contacts considers a new stadium as a potential draw for the university.
>
> The purpose of our land-grant university does not now and never has revolved around competitive athletic programs. On the Colorado State University webpage (www.colostate.edu/mission.aspx), "Our Mission" is defined as follows: "Inspired by its land-grant heritage, CSU is committed to excellence, setting the standard for public research universities in teaching, research, service and extension for the benefit of the citizens of Colorado, the United States and the world. - Adopted by the Board of Governors of the Colorado State University System in May 2010"
>
> Hughes Stadium is certainly adequate for the purpose of allowing the athletic teams to compete. It is a beautiful, unique site, a gem for the University. If it needs updating or maintenance, shouldn't that have been planned for in the University's infrastructure planning? What about Ms. Stryker's improvements? If Mr. Frank truly believes that the distant location limits student-body involvement, he could certainly look into a shuttle bus system for game days.

Using any of the precious and limited land available on the University campus for anything other than education is unacceptable. The number of students will continue to grow and require more professors, more classrooms, and more overall support. An on-campus stadium would be a pitiful use of the centrally located campus land.

Let's keep the focus on education.

Deborah Spaulding

Teufel,Sharon

From: Gilkey,David
Sent: Monday, May 19, 2014 5:40 AM
To: Clay,Colin; Rudolph,Alan; Blehm,Kenneth; Deines,Susan; Miller,Charles; Nickoloff,Jac; Dean,Gregg; CSUS Board; Teufel,Sharon; Stetter,Mark
Subject: RE: THANKS for your participation in CVMBS commencement

Ditto, what a wonderful event! I received great feedback from parents and guests about the student centered nature of our graduation and, "compared to others ours was the best".

Ken, you work so hard every year to organize and coordinate graduation to make the rest of us look good, thank you!

Dean Stetter, I(we) appreciated your personal comments as well and I know that parents did for sure, I received great comments on your comments, thanks for sharing.

Dave

David P. Gilkey, D.C., Ph.D., CPE
Associate Professor
Director, Continuing Education
Mountain and Plains Education and Research Center Director, ERHS Undergraduate Education Department of Environmental and Radiological Health Sciences Occupational and Environmental Health Section College of Veterinary Medicine and Biomedical Science Colorado State University Colorado School of Public Health Office 970-491-7138 Cell 970-980-3368 dgilkey@colostate.edu Mailing Address:
146 EH Bldg.
Fort Collins, CO 80523-1681

-----Original Message-----
From: Clay,Colin
Sent: Sunday, May 18, 2014 11:18 AM
To: Rudolph,Alan; Blehm,Kenneth; Gilkey,David; Deines,Susan; Miller,Charles; Nickoloff,Jac; Dean,Gregg; CSUS Board; Teufel,Sharon; Stetter,Mark
Subject: RE: THANKS for your participation in CVMBS commencement

And what is great is that even after being in academia all these years - it is still an honor and a privilege! Thank you Ken - you always make us look good!
Colin

-----Original Message-----
From: Rudolph,Alan
Sent: Sunday, May 18, 2014 7:43 AM
To: Blehm,Kenneth; Gilkey,David; Deines,Susan; Miller,Charles; Clay,Colin; Nickoloff,Jac; Dean,Gregg; CSUS Board; Teufel,Sharon; Stetter,Mark
Subject: RE: THANKS for your participation in CVMBS commencement

Ken

Thanks for all that you do to make this a special event. Personally for me one of the real honors and privileges of returning to academia after so many years is to see the joys and recognitions of student, faculty and family.

All the best

Alan

Alan S. Rudolph, PhD, MBA

Vice President for Research

Colorado State University

203 Administration

Fort Collins, CO 80523-2001

Ph: 970-491-7194

www.vpr.colostate.edu

From: Blehm,Kenneth
Sent: Saturday, May 17, 2014 3:59 PM
To: Gilkey,David; Deines,Susan; Miller,Charles; Clay,Colin; Nickoloff,Jac; Dean,Gregg; Rudolph,Alan; CSUS Board; Teufel,Sharon; Stetter,Mark
Subject: THANKS for your participation in CVMBS commencement

Thank you so much for your participation in commencement.

We are extraordinarily lucky to attract and to be able to nurture the students that we do. However, upon achievement of regular mile markers (like graduation) it is appropriate for there to be a ceremony heralding the achievements of those students. This is approbation by the elders of the tribe in the achievements of the youngsters and a public statement of our belief in them and our commitment to their success. It is also appropriate to celebrate the contributions of community members who do a lot to forward the learning and skills of our graduates -- like Rao was honored today.

Plus it is a lot of fun.

I believe that we had a fine ceremony today that was just a positively joyous occasion to recognize the achievements, plans and aspirations of our young colleagues.

I really appreciate the time and effort you invest in being a part of this. I particularly thank Dr. Horrell and Dr. Rudolph for being our guests as they participated in our particular commencement celebration. I hope that you found it as uplifting as I did.

Regards
Ken Blehm

Kenneth D. Blehm, Ph.D., CIH
Associate Dean, Undergraduate Education
College of Veterinary Medicine and Biomedical Sciences Campus Delivery 1601 Fort Collins, CO 80523-1601
970 491 1406 (v)
970 491 2250 (f)

Teufel,Sharon

From: CSUS Board
Sent: Tuesday, May 27, 2014 3:38 PM
To: Eldon John
Subject: RE: Your letter to CSU-Pueblo

Good afternoon, Dr. Eldon:

This acknowledges receipt of your email that will be shared with Dr. Horrell and the CSU System Board.

Sincerely,
Sharon Teufel

Office of the Board of Governors
Colorado State University System
410 17th Street, Ste. 2440
Denver, CO 80202
303-534-6290

From: Eldon John [mailto:eljo648@hotmail.com]
Sent: Wednesday, May 14, 2014 12:39 PM
To: CSUS Board
Subject: Your letter to CSU-Pueblo

Dear Dr. Horrell:

I was pleased to read your March 5, 2014 letter to the CSU-Pueblo Campus Community assuring full support for that campus. Although I wrote the letter below to the Colorado State Magazine before reading yours, I wanted to share my thoughts to you since my letter addresses a similar purpose to yours.

In quoting from the article in the Spring 2014 issue of the magazine concerning CSU-Denver South, "Look for more information about CSU-Denver South in the coming weeks and months. It might just be the perfect way for you, a friend or a loved one to become part of the CSU family." Wouldn't it be great if this same courtesy were given to CSU-Pueblo. Also, as an example for news from CSU-Pueblo, how about an article on the upcoming groundbreaking on their new General classroom building.

Since I have not received a reply from the Editorial Committee of the Colorado State Magazine, I am unsure if they will take action on the suggestion I gave them. If you agree with my ideas, I would appreciate it if you or someone on staff would also express the value of supporting CSU-Pueblo to the magazine's Editorial Committee.

Thank you.

Sincerely,

Eldon C. Johnson, Ed.D.
Friend and former student at CSU
Retired Professor from Colorado Mesa University

To: magazine@colostate.edu
Subject: Suggestion for your magazine
Date: Wed, 23 Apr 2014 12:56:00 -0600

Ladies and Gentlemen,

I enjoy your magazine with events and news at the CSU Fort Collins campus.

I note that you are including news about the new CSU-Denver South and plan to give more information as it develops as part of the CSU family. This is welcome, but it does bring to mind that, unfortunately, I have virtually never seen any news about your other CSU important family member, CSU-Pueblo.

Although that campus may have a similar magazine to yours, It would seem to me that it is only appropriate that your home campus magazine would be eager to present how vast the CSU presence is all up and down the front range and how all the locations should be working together as one Colorado State University system.

Thank you,

Eldon Johnson

Teufel,Sharon

From: Bob Kraft <rdkraft@cowisp.net>
Sent: Wednesday, May 07, 2014 2:14 PM
To: Frank,Tony; chancellor@colostate.edu
Cc: Teufel,Sharon; Henley,Kyle
Subject: New stadium proposal

I see nothing that is wrong with the current location of our stadium. It is quite a beautiful and easily accessible stadium location. I don't know how much better of a location you could want. It seem to me to be the logical place for football games given the current traffic situation in the city of Fort Collins. The residents should have the say since they have to put up with the traffic and the noise and pay the excess costs.
Please do the right thing for our city and it's occupants.
Respectfully,
Robert Kraft

Teufel,Sharon

From: Ronelda Kraft <roneldakraft@gmail.com>
Sent: Wednesday, May 07, 2014 2:07 PM
To: Frank,Tony
Cc: chancellor@colostate.edu
Subject: opposition of new stadium

I hope it is not too late to express my opinion about the new stadium. I feel that we have a perfect location for the stadium where it is right now. It is in a beautiful setting away from the city traffic, and easy to get to and park. There are too many pluses and not enough minuses to merit a new stadium. It can be updated, but the location is perfect and the scenery and backdrop are quite beautiful. Let's not let this go by the way side. Please listen to common sense.
Thank you for your time.
Ronelda Kraft

Teufel,Sharon

From: Frank,Tony
Sent: Wednesday, May 07, 2014 12:16 PM
To: Linda McNamara
Cc: opinion@coloradoan.com; chancellor@colostate.edu; Teufel,Sharon; Henley,Kyle
Subject: Re: Citizen against the CSU Stadium

Linda - thanks sharing by our thoughts on this. I'll make sure they're in lured in the Board correspondence materials. Take care - tony

Sent from my mobile device.

> On May 7, 2014, at 11:31 AM, "Linda McNamara" <lindam@colostate.edu> wrote:
>
> To: Dr. Tony Frank, the State Board of Governors and the chancellor of the CSU System
>
> I am a 42 year resident of Fort Collins, a CSU alumna, and 25 year employee (retired) of the University who is concerned about the effect the proposed stadium is having and will continue to have on the city and university communities. I am urging the State Board members to acknowledge that the economics of this endeavor are flawed and am asking you to vote against it.
>
> If having an on campus stadium is tied to the problem of declining state funding, using football to try to increase revenues has been shown to be false economics, so alternative solutions should be sought.
>
> I am against the stadium primarily on economics, including the cost of the public subsidies for city infrastructure, use of public lands, financial risks for future students, and all the economic items articulately outlined in economics professor Steven Schulman's Coloradoan Soapbox of April 16, 2014. But the other costs concern me also. The proposal has and will continue to divide this community. The building itself will leave a permanent scab on a visually pleasing campus and impact the surrounding neighborhoods.
>
> If the board is willing to let this flawed plan play out, it should insist on polling the students, as their student fees most certainly will be impacted. Why else were classrooms added to the stadium, if not to tap those fees?
>
> Please stop this project.
>
> Linda McNamara, Fort Collins
>
>
>
> Sent from my iPad

Public Comment 106
Handout 5.9.14

Summary Points Made to the Board of Governors Regarding a Second Fotball Stadium by Dr. David R. Anderson, May 9, 2014

1. The clear mission of Colorado State University focuses on education, research and outreach/extension. The mission is not football.

2. Outreach/extension has been largely defunded over the past 20 years. Funds for education have been declining for many years. Tuition has been increased by as much as 20% in a single year. Faculty salaries have frequently been frozen. A large percentage of the teaching program is now being done by temporary contract employees working at absurdly small salaries. Outside of a few programs (e.g., Vet medicine, Engineering, Business) the academic programs are starved for funds. Many academic departments have faculty vacancies and terribly insufficient support staff.

3. In sharp contrast, the football program has seen huge increases in funding and the number of personnel. The coach is paid $1,500,000 annually; the 9 assistant football coaches enjoy an average annual salary of $176,000 (this figure far exceeds the average salary for senior full professors). Just the head coach's salary would fund an entire new academic department while the assistant football coach's salary might attract 1-2 Noble Lauriats to join the faculty in forwarding CSU's actual mission! Our real mission is not football.

4. Surveys have shown that the majority of the emeritus faculty is opposed to the stadium proposal; many are bitter that the plan has the continued and flagrant support by the administration. Likewise, students are opposed two to one (ASCSU survey, 2012). Support for another football stadium from the business community has been spotty at best. Private donations have been slow to accumulate.

5. Attendance at football games is at a 42 year low; is another stadium really justified? Who really thinks that an ever expanding football program will somehow help fund the declining education program? Independent experts have reviewed the economics of another stadium and found the proposal to be without fiscal merit.

6. Plans for a second football stadium should be terminated and funds from all sources should be refocused on the university's actual mission.

Dr. David R. Anderson
BS from CSU in 1964
MS from CSU in 1967
CSU Faculty 1984-2003
CSU Emeritus Faculty 2003-present

My name is Donna Fairbank. My background is in math and statistics

In 1970 I began to date a young physics graduate student at Stanford University. Bill and I went to LOTS of football games.

In 1975 we married and came to CSU where he began teaching and research.
We bought a home near the campus so he could ride his bike to school and also so he could easily slip home for dinner and bedtime with our children before returning to his work. We don't say the R word yet - Bill still loves his work.
We are LOYAL TO CSU

We still like football, too, and took our children to many games.
We have known coaches and many players - Daren Wilkinsen, Kory Wolstenholme, Paul Madsen, James Gabler, many others - we support our teams.
One of our sons is a CSU graduate & he named his dog Sonny, for Sonny Lubick.
Oh, Yes, we are CSU Football fans.

Over the past many years as CSU grew and changes were necessary to accommodate many more students, I have been active helping to build coalitions to help us all adjust to the changes. I'm on the steering committee of our neighborhood association. I have spoken to City Council. I have worked with town and gown finding people of good will and willingness to work. Many times I could have been found driving inebriated students back to the dorms, to be sure they were safe.
I love this TOWN and I love the STUDENTS who come here.

I spent nearly 20 years with Interfaith Council working with Sister Mary Alice & others to build Affordable Housing projects and I'm well aware of the initial difficulty ANY proposed change meets - NOT IN MY BACK YARD - I can have those feelings, too.

So we have held ourselves back from joining any group, preferring to watch and listen as the debate proceeded. I've read reports, attended meeting, thought and prayed about this subject, and this is what I have come to believe:

The claims for benefit are exaggerated. I don't doubt that recruiting will be benefited and freshmen students will more easily attend events- but the claims of athletics must be kept in balance with other pressing University needs. I was a statistics major - I know how tempting it can be to choose data that supports the desires of ones heart - but that doesn't lead to good decision making.

The worries about the deleterious affect on surrounding neighborhoods are not exaggerated. These areas are already fighting for their lives and CSU, in the long run, is better served by being a good neighbor. But, additionally, it is NOT just neighbors who don't want this project to go forward. I hear from many of our CSU faculty and staff friends, the disappointment that this project has taken center stage and continues to expand in its claim to our resources.- and I come here to ask you, please - don't do this.

Thank you,

(970) 493-2486
1712 Clearview Ct. 80521
Donna Fairbank

Public Comment Handout - 5/9/14

Leticia Maldonado
CSU Student
President, Latin American Students & Scholars organization

My requests:

1. That CSU does not move forward with the Todos Santos Research Center project until CSU has done an in-depth assessment of community concerns in Todos Santos and the surrounding areas that will be impacted by this development.
2. That a public Forum where the CSU community has the opportunity to hear from the local towns people their concerns regarding the development and their impressions of CSU's arrival into the town in person. CSU counts with the funds to support travel of CSU constituents to Todos Santos. I will like to request that funds are allocated to invite people from Mexico who have raised concerns about the project, such as Dr. Rafael Riosmena and Dra. Rocio Marcin, professors and regional experts on Marine ecosystems in Baja California, to come to campus.
3. That CSU offers a unanimous avenue for constituents from the CSU community to communicate their opinions and concerns on CSU's partnership and involvement in Todos Santos and make these public thereafter.
4. That CSU holds Mira/Black Creek accountable for socially, environmentally, and economically responsible development by not moving forward with the partnership until Mira and Black Creek meet the standards set forth by a third party, such as The Next Generation Sonoran Desert Researchers, that can conduct the research and offer recommendations on responsible development.
5. That CSU holds Mira/Black Creek accountable for addressing all inaccuracies and omissions identified by CEMDA and local experts on water resources, biodiversity, marine biology, and ecology in the MIA (environmental impact report) in July 2013.
6. That CSU holds Mira/Black Creek accountable for legally guaranteeing the local fishermen that their beach access will not be blocked as seen in all other developments in the area.
7. That CSU's Todos Santos Steering committee include representatives from Latin American Studies, Ethnic Studies, Sociology, Anthropology, Biology, and Ecology to offer their expert insight into this project.

Public Comment 5.9.14 109

TO: Sharon Teufel CSUS Board of Governors 9 May 2014

FROM: Bob Vangermeersch SOSH

SUBJECT: Inventory of documents for the BOG meeting

Dear Sharon:
Enclosed please find the following items:

1. **Nine (9) copies of the ASCSU survey regarding the main campus stadium. There is one for each voting member. There are only 17 questions however, the student comments take up lot's of space.**
2. **15 copies of the above survey in summary form. One for each member.**
3. **15 copies of another ASCSU survey titled "Tuition Task Force Survey". The summary only deals with questions related to athletics. One for each member.**
4. **15 Copies of a letter from CSU professor Emeritus Dr. Rod Skogerboe. He is unable to attend.**

5. 15 Copies of 9 MAY LETTER TO EDITOR - Coloradoan

I trust this will help keep all the documents sorted.

Bob Vangermeersch

Summary of the question that relate to either athletics or the stadium 4-23-14

Title of the survey----ASCSU Tuition Task Force Survey
Dates---1-5-2012 to 3-30-2012
Total responses----525
Total number of questions---51

SUMMARY

Q16---How important are each of the following in creating CSU's university experience? ----- Varsity Athletics

19.4%------ Very Important
26.4%------ somewhat important
20.6%--------neutral
11.8%-------somewhat unimportant
21.7%-------unimportant

Q19--- same lead in----------The Rec Center and intramural sports

38.6%------ Very Important
40.9%------somewhat important
13.4%-------Neutral
4.9%--------somewhat unimportant
2.0% ----unimportant

Q 42—How important are each of the following CSU initiatives in creating a worthwhile experience at CSU?--------Creating a world class athletics program

10.3%-----Very important
22.3 %----somewhat important
19.1%------neutral
16.9 %----somewhat unimportant
31.5 %--------unimportant

Q 49---- Imagine you are the new CSU president. What three things would you make a priority to improve? (select three)

#1—Quality of academics 27.3 %
#2 ---Academic environment 19%
#3--- career opportunities 18.2 %
#4 ---research 11.2 %
5 ---- University experience 10.3 %
#6 ----Sustainability issues----6.2 %
#7----improving CSU athletics programs-----4.1 %
#8-----improving the image of CSU via marketing--- 3.3 %

STADIUM ASCSU SURVEY

ASCSU Proposed On-Campus Stadium Survey

April 5, 2012 – May 31, 2012
Total Student Respondents: 3,587

Q1. Are you currently a student at CSU?

99.05%	Yes
0.95%	No

Q2. What year are you at Colorado State University?

14.73%	Freshman	7.34%	Super Senior (undergraduate, but post-year 4)
18.12%	Sophomore	11.77%	Graduate Student
22.88%	Junior	5.59%	Doctoral Student
18.96%	Senior	0.62%	None of the above

Q3. Where do you currently live?

18.68%	In a residence hall on main campus
3.13%	In University apartments
68.19%	In housing off campus
8.48%	Commuter student
1.52%	Distance Learning student

Q4. How often do you attend athletic events and games at CSU, including Hughes Stadium, per academic year?

14.01%	Never – (0)
21.20%	Rarely - (1 – 2)
29.33%	Sometimes – (3 – 5)
19.47%	Frequently – (6 – 10)
15.99%	Regularly – (10 or more)

Q5. Up until this point, I have PRIMARILY been reading news and material about the proposed On-Campus Stadium through: (please select the item that pertains to you most):

50.38%	The Collegian	1.02%	The Center for Public Deliberation
11.87%	The Coloradoan	10.53%	A co-worker or friend
7.11%	The Stadium Advisory Committee	8.51%	Other (please specify)
10.58%	Colorado State University website		

Q6. When I become an Alumni, a new on-campus stadium would:

29.44%	Decrease the number of visits I make to CSU's main campus
7.63%	Slightly decrease the number of visits I make to CSU's main campus
44.65%	Not change the number of visits I make to CSU's main campus
7.54%	Slightly increase the number of visits I make to CSU's main campus
10.73%	Increase the number of visits I make to CSU's main campus

Q7. Which of the following factors should be most important to CSU in making the decision on whether to build a stadium on campus? (Select the top 3)

19.55%	Impact on economic sustainability and affordability of CSU
15.32%	Impact on academic quality
10.61%	Effective resource management
8.36%	Impact on visibility of the university
19.03%	Impact on surrounding community
10.69%	Impact on environment
4.73%	Impact on the local economy
1.89%	Impact on connections to alumni
4.95%	Impact on athletic success
1.52%	Impact on connections to donors
3.34%	Other (please specify)

Q8. Please indicate your level of agreement with the following statement: Athletic success can be used as an important component of the university's image nationally.

18.33% Strongly agree
39.98% Agree
16.62% Neutral
18.09% Disagree
15.98% Strongly disagree

Q9. Please indicate your level of agreement with the following statement: I would feel a greater sense of pride in my Colorado State University degree if CSU Athletics were nationally known.

16.22% Strongly agree
17.23% Agree
14.15% Neutral
19.68% Disagree
32.72% Strongly disagree

Q10. Please indicate your level of agreement with the following statement: I understand the difference between public funds (State money, taxes, tuition, student fees), and private funds (donations, gifts, booster support).

60.77% Strongly agree
33.49% Agree
4.40% Neutral
0.98% Disagree
0.37% Strongly disagree

Q11. CSU President Dr. Tony Frank has said that no public funds of any sort (State money, taxes, tuition, student fees) would be used in the construction of a potential on-campus football stadium. Additionally, the Stadium Advisory Committee has been reviewing financial opportunities to cover recurring operating costs without public funds as well. Please indicate your level of agreement with the following statements: Knowing that no public funds of any kind will be used in the construction of a proposed on-campus stadium, I think it is right for the University to pursue the project.

13.72% Strongly agree
9.26% Agree
10.02% Neutral
22.00% Disagree
45.00% Strongly disagree

Q12. CSU President Dr. Tony Frank has said that no public funds of any sort (State money, taxes, tuition, student fees) would be used in the construction of a potential on-campus football sStadium. Additionally, the Stadium Advisory Committee has been reviewing financial opportunities to cover recurring operating costs without public funds as well. Please indicate your level of agreement with the following statements: Not using state funds, tuition, or student fees affects my opinion of a proposed on-campus stadium.

16.44% Strongly agree
21.94% Agree
20.29% Neutral
17.26% Disagree
24.08% Strongly disagree

Q13. CSU President Dr. Tony Frank has said that any potential location for the proposed on-campus stadium would not inhibit views of the Mountains, nor will it be placed on any green space (intramural fields, etc.). The Stadium Advisory Committee has proposed several potential locations for the proposed stadium. Some of these locations are located on top of existing buildings, which would be relocated if the stadium would be located in that area. Please indicate your level of agreement with the following statements: Based on the above map, I am comfortable with the potential locations of the on-campus stadium.

9.44% Strongly agree
10.88% Agree
9.14% Neutral
16.50% Disagree
54.05% Strongly disagree

Q14. With the recent restricting of college athletic conferences, there is potential for CSU to be a part of a much more visible athletic conference. Please indicate your level of agreement with the following statements: Colorado State University should focus in on being a part of a different conference besides the merged Mountain West Conference-USA, which is anticipated to formulate a new conference beginning in 2013.

10.11% Strongly agree
12.62% Agree
46.93% Neutral
12.53% Disagree
17.81% Strongly disagree

Q15. What would the best way be for ASCSU to engage you in the Stadium discussion?

Q16. Based on the information you have seen in this survey, online, and in other news facets, what additional information do you need in order to make an informed opinion about the proposed On-Campus Stadium project? (Check all that apply)

19.03% More information about parking
13.02% More information about tailgating
11.92% More information about potential alcohol sales on campus
13.44% More information about financial data regarding the construction
9.69% More information about how I can share my opinion about the project
19.23% More information about what would happen to the current Hughes Stadium
13.67% More information about timelines and project timeframes

Q17. Do you have any further comments about the proposed on-campus stadium?

The responses to this open-ended question filled 118 pages with overwhelmingly negative comments regarding this potential stadium. Some respondents wrote very lengthy, well-reasoned arguments as to why building a football stadium on the main campus is a terrible idea.

Doctor Rod Skogerboe is a CSU professor emeritus and past chairman of the Chemistry Department. This letter to the editor appeared recently in the Fort Collins Coloradoan. He is unable to attend the BOG meeting.

9 May 2014

Make your opinions on CSU on-campus stadium known

Three years ago. I conducted a straw poll via email to 150 retired CSU faculty members. I asked them to indicate whether they were for or against the proposal to build an on-campus stadium. I received an 82 percent response with 121 against the stadium and only two for it.

Beyond my poll, the CSU Faculty Council also voted against the idea. Since its role is to advise the administration on academic matters, you would think that this would carry some weight.

Last month, I repeated the poll to see if opinions had changed now that financial steps have been taken. This time I contacted 200 emeriti faculty and received an 86 percent response with 171 against and only one for the proposal. Nominally, 22 percent of the respondents indicated anger that money was now being spent by CSU and some government agencies on the on-campus stadium issue.

The central theme seems to be that we have a perfectly good stadium in Hughes, and it is foolish to spend more on an idea that is based on an unproven premise.

I recognize that my poll has been limited to a few people, so now is the time for all those with an interest in CSU and our community to make their opinions known.

Contact President Frank at Tony.Frank@colostate.edu, the chancellor of the system at chancellor@colostate.edu, the State Board of Governors at Sharon.teufel@colostate.edu or CSU public relations at kyle.henley@colostate.edu.

Please make your opinions on this known.

Rod Skogerboe, professor and chairman emeritus

Fort Collins Coloradoan Letter to the editor

May 9 2014

Cost of new stadium, impacts make it a bad idea

To: Dr. Tony Frank, the State Board of Governors and the chancellor of the CSU System

I am a 42-year resident of Fort Collins, a CSU alumna, and 25-year employee (retired) of the university who is concerned about the effect the proposed stadium is having and will continue to have on the city and university communities. I am urging the state board members to acknowledge that the economics of this endeavor are flawed and am asking you to vote against it.

If having an on-campus stadium is tied to the problem of declining state funding, using football to try to increase revenues has been shown to be false economics, so alternative solutions should be sought.

I am against the stadium primarily on economics, including the cost of the public subsidies for city infrastructure, use of public lands, financial risks for future students, and all the economic items articulately outlined in economics professor Steven Shulman's Coloradoan Soapbox of April 16. But the other costs concern me also. The proposal has and will continue to divide this community. The building itself will leave a permanent scab on a visually pleasing campus and impact the surrounding neighborhoods.

If the board is willing to let this flawed plan play out, it should insist on polling the students, as their student fees most certainly will be impacted. Why else were classrooms added to the stadium, if not to tap those fees?

Please stop this project.

Linda McNamara, Fort Collins

Teufel,Sharon

From: Kari Dickinson <kadickinson@wisc.edu>
Sent: Tuesday, May 27, 2014 1:46 PM
To: CSUS Board
Subject: WISCAPE policy brief explores impact of Colorado Opportunity Fund

Dear Board Members,

I am writing to share with you WISCAPE's newest policy brief, which explores the impact of Colorado's voucher-based model for financing higher education (a.k.a., the "Colorado Opportunity Fund") on measures of efficiency and access at the state's public colleges and universities. The brief is based on a study recently published in *Research in Higher Education* by Nicholas Hillman, David Tandberg, and Jacob Gross.

The brief is available for download here:
http://wiscape.wisc.edu/wiscape/publications/policy-briefs/pb022

In addition, this post provides a short overview of the authors' findings:
http://wiscape.wisc.edu/wiscape/news/2014/05/22/wiscape-policy-brief-highlights-limits-of-colorado-higher-education-vouchers

I hope you find the brief informative and encourage you to share it with others for whom it might be useful. We also welcome your thoughts.

My thanks and best wishes,
Kari Dickinson

--
Kari Dickinson
Communications Manager
WI Center for the Advancement of Postsecondary Education (WISCAPE)
608.265.6636 | wiscape.wisc.edu

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Teufel,Sharon

From: Teufel,Sharon
Sent: Thursday, May 22, 2014 10:33 AM
To: Carl Wangsvick
Subject: RE: CFI

Good morning, Mr. Wangsvick:

This confirms receipt of your email that will be shared with the Board of Governors.

Sincerely,
Sharon Teufel

Office of the Board of Governors
Colorado State University System
410 17th Street, Ste. 2440
Denver, CO 80202
303-534-6290

-----Original Message-----
From: Carl Wangsvick [mailto:cwangsvi@yahoo.com]
Sent: Thursday, May 22, 2014 8:32 AM
To: Teufel,Sharon
Subject: Fw: CFI

--- On Thu, 5/22/14, Carl Wangsvick <cwangsvi@yahoo.com> wrote:

> From: Carl Wangsvick <cwangsvi@yahoo.com>
> Subject: CFI
> To: sharon.teufel@colostate.cedu
> Date: Thursday, May 22, 2014, 8:29 AM
> Sharon,
>
> Please distribute this letter to the Editor and the Board to Board
> members. Thank you!
>
> Carl Wangsvick

Dear Editor and CSU Board of Governors

CSU's finance bigwigs Schweigert and Johnson were hiding something with recent reports of "no financial red flags." Documents about the Board of Governors' December and February meetings show 758 million in debt, 55 million in debt service owed in 2020, and an S & P ratings drop, "on next (debt) incursion." Dr. Frank's slipshod fundraising report worries that CSU can't find 3 million/year/10 years to fix Hughes/Lubick, an amount that's but a bug on the elephantine debt he's fed, soon to be 200-400 million dollars fatter. Ms Johnson's defensive reports unconvincingly attack the Joint Budget Committee's conclusion last December, a conclusion based on the Composite Financial Index that showed CSU is financially unstable, since it scores well below 3.0—with a 2.2 for FY '12 and 1.75 predicted (now, doubtless, "achieved") for FY '13. Publicly, Johnson dismissed the CFI and touted stability via Higher Learning Commission accreditation, an evaluation that almost never disaccredits anyone and is 95 % nonfinancial anyway. While she once cited Standard & Poor's as the "gold standard," she mentions CSU might wish to drop them, given their warning of a future ratings lowering for CSU! Johnson complains about comparison with private schools, never done by the JBC analyst, and about depreciation's being part of the score, though it's rightly factored in for all schools. What about a word of caution to the Board that's approved a billion in capital construction since 2005? Nope. The Board appears complicit, so CSU is headed for more long-term debt, paid, inevitably, from CSU's General Fund.

Carl Wangsvick

May 21, 2014

ADDENDUM for the Board of Governors, exclusively

Ms Johnson's meeting notes for your February meeting include several pages of what I would call "sour grapes" related to the only objective financial analysis of CSUFoCo not self inititated and self monitored and self delivered. That, alone, should be reason to examine it carefully, since it is so at odds with all you hear from administrators. To validate the CFI, I have attached, along with this letter, a copy of the Oregon System's explanation and profitable method of using the CFI to remain financially sound. I suggest adopting these methods. I also attached an objective explanation of the CFI, so you can judge it for yourselves. Ms Johnson's obfuscation, or confusion, as reported in the minutes of your February meeting, may just be carelessness. She says Dr. Frank claimed a CFI of 3, which he did not, and that CSU "reengineered" in FY 11, because of a high CSI, evidently by bonding enormous debt? That's not how it works. See the Oregon document.

About CFI, in the "meeting notes," Ms Johnson is defensive and misleading. Besides her omission of the fact that your low CFI exists at a time of highest revenues ever, here are some of her analytical problems.

1. P 16 "a low CFI can be construed…weaker financial position" It *is* a weaker financial position. Read the chart.
2. "a higher CFI cannot automatically…mean…successful" An unreliably high CFI is *not* CSU's problem these days. And the reverse is decidedly true. A low CFI is always a bad sign.
3. P 18 The chart shows CSUFoCo's score of 2.2 smack in the middle of "reengineer the institution," not to the level of "transformation" at all.

4. “the CFI can be based on several combinations of these variables.” The attached document discusses the issue of financial knowns vs unknowns. Since Ms Johnson herself did the calculations you see, she has even better “knowns” than Amanda, but the same result. Low CFI.
5. “to the HLC, financial data has been combined with that of the CSU Foundation and CSURF.” The CFI creators were aware of this issue of external agencies, and their often “secretive” nature. They say, go ahead and do a CFI anyway. Here’s why. These agencies have not just assets, but liabilities as well. (The proportion, to be sure, varies.) Ms Johnson can factor that information into her calculations, if she considers both assets and liabilities, and come up with an exact CFI for CSUFoCo/CSU Foundation/CSURF, and she should do that for you. Ask her to. If it shows a big positive difference, I will shut up.
6. “the Higher Learning Commission…” As mentioned, theirs is not a thorough financial evaluation by any means, and extremely generous (“lenient” is a common term) in evaluating everything, accrediting even the academics of the University of Phoenix, and the finances of the two “bankrupt” Colorado state schools (Adams State and Western State), along with those of 53 other Colorado schools. With HLC, everybody wins.
7. P 21 “1.0 to 3-0 should consider reengineering.” No *should reengineer*. A longtime CFO in Silicon Valley, a friend, says that is corporatese for “Fire the CFO.”
8. “2.5 to 5.0 should deploy resources.” Right, but we’re not at 2.5, and debt is not resources anyway. Investments, yes, and that has gone well.
9. “reengineering requires deploying resources.” She made that up. No source other than Ms Johnson says reengineering is other than a serious look at what priorities are and how they are to be managed, so when

finances get better, resources go to the most needy areas (certainly not a second football stadium).

10. "results closely follow those for the state and US." Look at the chart. Results show CSU did better with large tuition and fee increases, then worse with a lot of borrowing.

11. "philosophy towards utilizing resources." Debt is not a resource.

13. P 22 "CFI with depreciation removed." Why? Because it looks better. Remove it for all the Colorado schools in the study and we are still 8th of 10 in financial stability. Remove it for the rest of the US, and the norm is now 4 instead of 3 and CSU still fails. Phony argument if ever one existed.

14. "CFI 14a." Shows CSU is already, with no new debt, at 1.75, about half as financially stable as the University of Texas, San Antonio, and as CU Boulder. Half.

A couple more points about financing debt.

If the administration wishes to fund a new Biology building by increasing the student capital construction fee, probably by about $ 160/student/year, they need to take it directly to the student body, and not simply choose to manipulate the ASCSU representatives, who are not known to lobby for future students at all, being more concerned with the ASCSU budget of the moment, than that of the individual student next year. Lory was one thing, a facility for all, though most students were unaware that the touted $ 70 cost was per semester, not per year, but a Bio building is not "for all," certainly. A poll or vote of the student body—clearly indicating that the choice is $160 more/year/student/forever—is what is needed. *That*, administrators, is transparency, and it's not too common in the

CSU system. I am working for that right now with ASCSU reps I know.

The plan to drop S & P for Fitch, now public knowledge, probably won't work anyway. Ask Baylor. Despite having 100 m donations in the bank (raised in 8 months), and major naming rights sold and announced (billionaires from W. Texas, of course), when Baylor went for a second bond to add to their first stadium bond of 120 m, Fitch dropped them from AA- to A+, where we are starting, if Ms Johnson's Soapbox is accurate. It won't fool anyone, either. You'd only be fooling yourselves.

Ultimately, when CSU adds more debt and the CFI drops below 1.5, my friend says we reach the stage of "You didn't fire the bosses, so now fire the bosses' bosses." (He is blunt, and a bit "scarred" from the wars out there, too. Still, he got out with 80 million.) I guess that is Misters Martin and Mr. "no financial red flags" Schweigert.

Oh, and a COP, I am assured by JBC staff, will not fool the CFI, either. It does, however, give CSU an option to simply drop the payments and forfeit the stadium, should (I will say *when*) revenues fail to appear. That is the most probable benefit.

By the way, the "meeting notes" were supposed to contain "internal debt summaries," but those are not in the online version, which was published *after*, not *before* the meeting, as expected.

Thank you for listening, and good luck!

Remember: "It's all about the students."

Carl Wangsvick

Oregon University System

Introduction to the CFI

September 20, 2013

The PFM Group
Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

Overview of the Composite Financial Index ("CFI")

- The CFI was created in the mid-1990s, initially for private universities, to provide a single, holistic financial metric to monitor financial health
- In 2005, the CFI methodology was slightly modified for public universities
- The CFI score is based on a blended, weighted value of four core ratios
  - The weighting and scoring system is based on analysis of a wide range of institutions
  - The methodology was retested after the 2008 financial crisis and recession and no adjustments were required
- The CFI is most useful for evaluating institution specific trends (e.g. five-year historical performance plus five-year forecast) in meeting financial and strategic goals

Overview (continued)

- The CFI, as a single metric, provides a useful summary assessment of financial health in that weaknesses in certain areas can be offset by strength in others
  - Deeper understanding of financial health and the development of tactics for improvement require observation of at least the four component ratios as well
  - Although it can also be used for peer comparisons to monitor relative performance, such peer comparisons are generally less meaningful without detailed information regarding adjustments and component units that are consistent for all institutions
- **Important Caveat**: CFI only measures the financial component of institutional health and must be viewed in the overall context of an institution's activities

  (e.g. two institutions with the same CFI score may not have equal overall health if one is investing in its mission while the other is not)

Component Ratios of the CFI

Component Ratios	Calculation	Description
Primary Reserve Ratio *(income statement leverage)*	Expendable Resources to Operations *(inclusive of component units)*	• Are resources sufficient and flexible enough to support the mission? • Measures the ability to fund operations with expendable financial reserves
Viability Ratio *(balance sheet leverage)*	Expendable Resources to Debt *(inclusive of component units)*	• Are debt resources managed strategically to advance the mission? • Measures the ability to pay off long-term debt with expendable financial reserves
Return on Net Assets Ratio *(financial resource growth)*	Change in Net Assets to Total Assets *(inclusive of component units)*	• Does asset performance and management support the strategic direction? • Measures the ability of net asset growth to support strategic initiatives
Net Operating Revenues Ratio *(operating performance)*	Surplus/Deficit to Operating Revenue *(inclusive of component units)*	• Does operating results indicate that the institution is living within available resources? • Measures the impact of operations on the three other core ratios

CFI Score Methodology

1. Calculate the value of the four ratios
2. Convert the ratios to strength factors along a common scale with strength factors ranging from -4 (weakest financial health) to 10 (strongest financial health)
   - Scale is calibrated so that a strength factor of 3 represents the threshold for financial health for each respective ratio.
   - As stated in the overview, the ratios associated with each score were determined when the CFI was created
   - Ratio levels for strength factors above and below 3 are distributed in equal increments

     *(e.g. ratio value for the strength factor of 10 = 10 * the ratio value for the strength factor of 1)*
3. Multiply the strength factor for each ratio by its respective weighting factors, as determined when the CFI was created
4. Sum the four numbers to create the single CFI Score

Conversion of Core Ratios to Strength Factors

- Each core ratio is converted to a strength factor based on the scale below
- Threshold values (score = 3) are based on assumptions for minimum financial health that were determined by the creators of the CFI
  - Example: the CFI assumes that an institution should have expendable resources to cover at least 145 days of operations – a 40% Primary Reserve Ratio – to be considered financially healthy
  - Example: the CFI assumes that the institution should have expendable resources equal to 125% of long-term debt – a 125% Viability Ratio – to be considered financially healthy

Scoring Scale	1 Weak	3 Threshold	10 Strongest
Primary Reserve Ratio	13.3%	40%	133%
Viability Ratio	41.7%	125%	417%
Return on Net Assets Ratio	2%	6%	20%
Net Operating Revenues Ratio	1.3%	4%	13%

Strength Factors (continued)

- To determine the strength factor for each core ratio divide the institution's actual ratio by the value associated with a score of 1
- Example calculation:
  - Viability Ratio = 50%
  - Ratio Value Associated with a Score of 1 = 41.7%
  - Strength Factor = 50/41.7 or 1.20
- **Regardless of the calculated strength factor, the minimum score is -4 and the maximum is 10**
  - Setting a min/max is intended to prevent any one score from unduly masking a weakness or strength in another score

Weighting the Strength Factors

- Each strength factor is converted to a weighted factor based on the percentages below
  - Weightings are skewed toward retained wealth rather than current operations
  - Assumes retained wealth and the strategic use of debt are stronger indicators of long-term institutional financial health than measures based on a single year's performance
  - As a result, short-term investments or controlled deficits for strategic purposes, for example, will not overly impact the CFI score

Ratio / Strength Factor	Institution with Long-Term Debt	Institution with No or Minimal Long-Term Debt
Primary Reserve Ratio	35%	55%
Viability Ratio	35%	
Return on Net Assets Ratio	20%	30%
Net Operating Revenues Ratio	10%	15%

Weightings are lower because these ratios reflect shorter-term performance

Weightings are higher because these ratios reflect a long-term trend

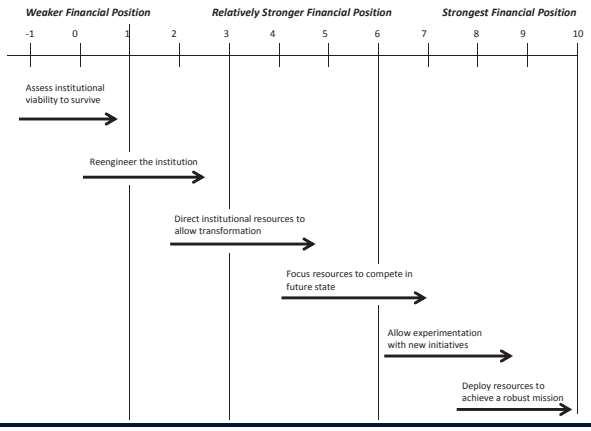
Weightings (continued)

- To determine the weighted score for each ratio multiply the strength factor by the applicable weighting %
- Example calculation:
  - Strength Factor for Viability Ratio = 1.20
  - Applicable Weighting % = 35%
  - Weighted Factor = 0.42
- **Total CFI Score = Sum of All Four Weighted Factors**

Sample CFI Calculation

Ratio	Ratio Value		Strength Factor		Weighting Factor		Score
Primary Reserve	67.5%	→	5.1 (67.5/13.3)	x	35%	=	1.8
Viability	76.6%	→	1.8 (76.6/41.7)	x	35%	=	0.6
Return on Net Assets	2.9%	→	1.5 (2.9/2.0)	x	20%	=	0.3
Net Operating Revenues	1.2%	→	0.9 (1.2/1.3)	x	10%	=	0.1
					CFI	**=**	**2.8**

What CFI Means?



Use of the CFI as a Management Tool

- While the reporting of historical CFI scores summarizes the impact of past actions and external conditions, the power of the CFI from a management perspective lies in its ability to summarize the impact of ***future*** multi-year strategic actions on the balance sheet, income statement and cash flow statement (also can be considered an "affordability index" of the strategic plan)
- ***Multi-year forecasting is essential*** since the CFI is a financial health metric that is weighted toward long-term trends rather than year-to-year changes
- To maximize the usefulness of the CFI, each campus should incorporate the metric in all strategic and financial planning by:
  - Developing a detailed financial model that ties the underlying drivers of performance to the four core ratios that make up the CFI
  - Monitoring and reporting the CFI at least annually and prior to any major change to a key driver of performance (e.g. incurrence of debt, major change in enrollment strategy, etc.)

Strategic Forecasting and Sensitivity Analysis

- A strategic forecasting model that can generate *pro forma* CFI scores enables management to test the sensitivity of changes in underlying drivers of performance on financial health. These drivers may include:
  - Changes to the capital plan for major projects, including the issuance of debt
  - Approach to deferred maintenance and plant renewal
  - Alternative enrollment and program scenarios
  - Alternative tuition pricing and institutional aid scenarios
  - Alternative operating initiatives, including new sources of revenue
  - Proposed cost reduction scenarios
  - Impact of potential fundraising initiatives
  - Assessment of joint ventures, affiliations, asset sales and other third party opportunities
  - Other major campus restructuring opportunities

Conclusion - Achieving Best Practices in Managing Financial Health

- Establish ***clear metrics*** to track and monitor over time that provide a balanced perspective on financial health, such as the CFI score
- ***Implement policies and procedures***, such as a Debt Policy (if applicable), that incorporates the CFI score and any other key metrics
- ***Understand the implications of prospective changes*** in operations, capital structure and strategic direction by modeling the underlying drivers of performance
- ***Empower the leadership and staff*** at the individual campuses to have the tools and authority to make decisions that drive improved financial health
- ***Focus on long-term*** financial health not just year-to-year changes

Strategic Financial Analysis for Higher Education

Sixth Edition

KPMG Prager, Sealy & Co., LLC BearingPoint

STRATEGIC FINANCIAL ANALYSIS FOR HIGHER EDUCATION

Sixth Edition

PLEASE NOTE: The tables of contents throughout this document are interactive; click on any chapter, section, example, figure or table to go directly to that page.

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INTRODUCTION AND ACKNOWLEDGMENTS

The concept of financial analysis through selected measures, such as ratios, has been used in higher education for many years. The tailoring of these measures to match the changing needs of this industry is documented in the preceding ratio analysis publications of this series. In some ways, this edition represents a continuation of the progression expected in ratio analysis, but, in more ways, it represents a new starting point to use the ratios as a foundation for strategic financial analysis in higher education.

The book's new title reflects the fact that we recognize the increasing need to address numerous issues of strategic financial importance to boards and senior officers of both public and private institutions of higher learning, and not-for-profit organizations in general. This document recognizes the role that the use and analysis of financial ratios can have in supporting decisions of critical importance to the institution. The ratios should not be the focus; rather, they are tools to assist in the development of the answers to key questions of strategic financial importance.

This edition differs from prior editions in several important ways. For private institutions, since the fourth edition we have eliminated some ratios, have reconsidered how better to use others, and have added new ratios on facilities and debt management. For public institutions, following several years of operations under the new Governmental Accounting Standards Board (GASB) standards, we have added many more ratios than appeared in the fifth edition. We have also introduced the concept of a Composite Financial Index (CFI), as well as other financial analytical and communication models.

Our approach to strategic financial analysis of higher education institutions is intended to apply to all types of public and private institutions, including large research and comprehensive universities, master institutions, liberal arts colleges, community colleges, individual institutions within a public higher education system, as well as the system itself, and large not-for-profit organizations. This edition is written for chief financial officers, trustees, senior administrators and financial analysts.

The universal basis for effective application of financial analysis is a clear institutional mission. We believe that every institution must have a clearly articulated mission and that there should be both financial and nonfinancial measurement against objectives to help the institution understand the extent to which it is achieving that mission. Mission inspires and guides institutional stewards regarding what and why resources will be used to accomplish their vision. Mission is best activated by a strategic plan. Well-managed institutions use their mission to drive success and financial metrics to determine affordability. The strategic plan should always support the mission; it is irrelevant otherwise.

Financial analysis can measure success factors against institution-specific objectives and provide the institution with the tools to improve its financial profile to carry out its mission. We believe the following are four key financial questions that institutions need to ask themselves:

- Are resources sufficient and flexible enough to support the mission?
- Are resources, including debt, managed strategically to advance the mission?
- Does asset performance and management support the strategic direction?
- Do operating results indicate the institution is living within available resources?

This publication will describe four strategic ratios and additional supporting ratios that will help answer these questions.

BACKGROUND

Since Peat Marwick Mitchell & Co. (PMM) introduced the first edition of *Ratio Analysis in Higher Education* in the 1970s, college and university trustees, senior managers and interested external parties have used financial ratios as a tool to better understand and interpret financial statements. The second edition, published in 1982, added debt-related ratios relating to institutional creditworthiness and represented the beginning of the collaboration of KPMG LLP, successor to PMM, and Prager, Sealy & Co., LLC. The third edition, published in 1995, focused on private institutions that implemented new accounting and reporting standards caused by FASB Statements of Financial Accounting Standards nos. 116 and 117.

The fourth edition, *Measuring Past Performance to Chart Future Direction*, published in 1999, significantly advanced financial analysis and introduced several new models and concepts to higher education finance, including the use of financial ratios in strategic planning. Many leaders in higher education view the third and fourth editions as milestone publications in finance for private institutions.

Published in 2002, the fifth edition, *Ratio Analysis in Higher Education: New Insights for Leaders of Public Higher Education*, was designed solely for public institutions that adopted new accounting and reporting standards caused by GASB Statement No. 35. This edition introduced to public higher education leaders several of the concepts and approaches used by private institutions that were contained in the third and fourth editions.

This sixth edition, *Strategic Financial Analysis for Higher Education*, combines ratios and models for private and public institutions. We believe that recombining the financial analysis framework for public and private institutions is now appropriate because recent changes in the financial accounting and reporting model for public institutions have made the financial statements more similar to their private counterparts. Although significant differences remain, we believe that the two reporting models are now more similar than different. In addition, public and private institutions increasingly compete with each other in the marketplace for students, faculty, contributions, research support and debt funding. Further, institutions should understand how financial analysis view the entire industry so that individual institutions may better manage themselves.

SPONSORING ORGANIZATIONS

Strategic Financial Analysis for Higher Education has been a project jointly developed and sponsored by Prager, Sealy & Co., LLC, KPMG LLP and BearingPoint, Inc. Professionals from each organization have designed and developed the concepts in this edition based on their experiences serving colleges and universities and other not-for-profit organizations. Professionals from each organization have contributed to prior editions and many of the same people participated in the development of this edition as well. The development team includes:

Prager, Sealy & Co., LLC
Fred Prager, Managing Partner and industry leader in higher education finance
Chris Cowen, Managing Director and Head of the firm's National Higher Education practice
Joe Beare, Vice President in the higher education group

KPMG LLP
Lou Mezzina, National Industry Director, Higher Education

BearingPoint, Inc.

Ron Salluzzo, Chief Risk Officer. Prior to taking on that role, Ron led the State and Local Government and Higher Education business group for North America. Previously, he was the National Industry Leader for Higher Education for KPMG LLP.

Jennifer Lipnick, Senior Consultant with responsibilities for BearingPoint's Higher Education Benchmarking Consortium

Phil Tahey, retired partner of KPMG LLP and independent consultant

We have enjoyed the opportunity to provide these concepts to the higher education industry. We look forward to the ongoing evolution of our financial models and tools and we look forward to working with our colleagues in the industry as we use these concepts to advance financial analysis for higher education.

We received valuable comments and advice from the following experienced and acknowledged leaders of higher education and not-for-profit organizations: Glenn Cavagnaro, Associate Treasurer, University of Southern California; Herb Folpe, retired partner, KPMG LLP; Bob Gallo, retired managing director, BearingPoint, and retired partner, KPMG LLP; Sarah Gillman, Vice President, Budget and Financial Planning, Wildlife Conservation Society; Larry Goldstein, former Senior Vice President and Treasurer, National Association of College and University Business Officers (NACUBO); Mike Gower, Vice President, Finance and Administration, University of Vermont; John Moriarty, Partner, KPMG LLP; Edith Murphree, Vice President for Finance, Emory University; Tori Nevois, Assistant Vice President and Deputy Treasurer, Duke University; Roger Patterson, Assistant Vice Chancellor for Finance, University of North Carolina, Chapel Hill; Betty Price, Associate Vice Chancellor for Finance/Controller, Vanderbilt University; Naomi Richman, Senior Vice President, Moody's Investors Service; Ingrid Stanlis, Partner, KPMG LLP; Judy Van Gorden, Treasurer of the University and Chief Investment Officer Emeritus, University of Colorado.

We acknowledge the conceptual contributions of Fred Turk and Dan Robinson, retired partners of KPMG LLP, in developing the basic ideas for the first three editions of *Ratio Analysis in Higher Education*.

1 FRAMEWORK FOR STRATEGIC FINANCIAL ANALYSIS

CHAPTER SUMMARY

This chapter introduces concepts that are further detailed in later chapters. The alignment of financial strategy to support the strategic direction of the institution is critical to attaining institutional goals. The mission, as defined by the strategic plan, is the institutional driver; financial capacity is the measure of the affordability of the institution's aspirations.

INTRODUCTION

Prager, Sealy & Co., LLC, KPMG LLP and BearingPoint, Inc. have worked with numerous higher education institutions and other public-sector organizations over many decades. Based on our work, we have determined that there are several basic common attributes of successful higher education institutions, with success defined as achieving mission. These attributes include:

- Well-defined mission that is executed and measured against clearly articulated objectives
- Effective leadership by the board and senior management
- Holistic approach in planning, resource allocation and measurement
- Strategically invested financial resources
- Strategically allocated debt and other resources
- Information communicated effectively to stakeholders
- Consistent environment of accountability at all levels
- Periodic assessment of programs, finances and mission
- Adaptable to a changing environment

These attributes and the framework for strategic financial analysis set forth in this publication are applicable to all types of higher education institutions and not-for-profit organizations, regardless of their mission, governance structure, tax-exempt status or other characteristics.

Our work over many decades has led us to develop several unique approaches, methods and tools that higher education institutions can use to attain these attributes. This publication introduces a more comprehensive framework for financial analysis. Previous publications have focused solely or primarily on financial ratios and their use. We consider financial ratios to be a tool, albeit a very important one, of financial analysis. Other tools and methods discussed in this publication address financial strategy and integration of financial goals with the institution's mission and strategic goals. We consider the effective use of these tools and methods to be more critical to measuring the achievement of the institutional mission.

PRINCIPLES OF STRATEGIC FINANCIAL ANALYSIS

We believe that strategic financial analysis can play an integral role in helping each institution achieve its mission by:

- Measuring success factors against institutional strategic objectives
- Assessing the linkage between institutional strategy and resource allocations depicted in the operating and capital budgets
- Measuring and communicating how financial resources are aligned with strategy
- Quantifying the status, source and use of resources
- Determining what financial data is most important
- Correlating financial information with nonfinancial institutional drivers
- Assessing the institution's ability to repay current and future debt, including its rationale for creditworthiness
- Gauging institutional performance and functional effectiveness
- Identifying financial anomalies and focusing attention on matters that should be of concern to the institution
- Establishing standards for benchmarking, measuring and making peer comparisons

WHAT IS THE INSTITUTIONAL MISSION?

The basis for effective application of strategic financial analysis is a clear institutional mission. We believe that every institution should have a clearly articulated mission and that there must be measurement, both financial and nonfinancial, to help the institution understand the extent to which it is achieving that mission. Mission inspires and guides institutional stewards regarding what resources will be used to accomplish their vision. Mission is best activated by a strategic plan. Well-managed institutions use their mission to drive success and financial metrics to determine affordability.

Strategic financial analysis is a combination of approaches, methods and tools to analyze, evaluate and communicate financial information about whether an institution is achieving its mission from a financial perspective. Strategic financial analysis assists institutions and their stakeholders in making financial decisions needed to achieve their mission, including:

- Aligning operating and capital budgets with mission and strategic plan goals
- Determining resource allocation, sufficiency, flexibility and management
- Achieving balance between financial and physical assets
- Integrating capital and operating budgets and facilities planning
- Investing funds for current versus future students, faculty and other constituents
- Evaluating return on assets deployed
- Identifying and communicating sources and uses of funds
- Integrating financial policies, such as investment, cash management and debt policies

Strategic financial analysis considers the entire institution, including affiliates, regardless of the legal or accounting structures used to remove, isolate or distance the affiliates from the primary institution. Much of public institutions' financial resources often reside in affiliated foundations; these foundations are generally not part of the institution from a legal and accounting perspective. Other entities, such as partnerships in which the institution is a general or limited partner, often issue debt for the benefit of the institution. The formation of these entities and related transactions are done to advance the institution toward mission achievement and are a critical part of the institution. In addition, this off-financial statement debt often impacts the institution's debt capacity. Accordingly, they need to be included in the financial analysis.

Financial analysis encompasses all significant financial information of an institution, including its affiliates. Strategic financial analysis uses different types and sources of financial information, including operating budgets, capital budgets and annual financial reports. It also uses other information such as student headcount and the research expenditure base. This information should be readily available and the analyses easily repeatable.

An institution's annual financial report is a summary of the institution's significant financial events, consolidation of similar financial transactions and a representation of the institution's financial condition at a point in time. The annual financial report can be an effective communication tool to the institution's stakeholders. It is also generally the starting point for external parties to perform financial analysis of an institution.

The financial measurement and analysis on the three financial statements and related information should correlate with each other. A key component of financial analysis includes understanding the nature and significance of the nonfinancial drivers of the financial transactions. The analysis should not only include a correlation of financial information between each of the basic financial statements and related information, it should also include a correlation between financial information and the nonfinancial drivers.

Generally, some analysts have considered the cash flow statement less important than the other two statements. For public institutions, this is due to the relatively recent inclusion of the cash flow statement. For private institutions, although the requirement to prepare a cash flow statement has been in effect since 1996, many institutions prepare the cash flow statement only for their annual financial reports and do not incorporate its use in internal financial analysis, budgeting or strategic planning. While conceptually the statement of cash flows can be quite informative, in practice it often is an afterthought. Nevertheless, the statement does contain some critical financial information and external analysts are increasing their focus on this statement. In the future, this statement may become a more important source of data for institutions and strategic financial analysis.

Strategic financial analysis can measure success factors against institution-specific objectives and provide the institution with the tools to improve its financial profile to carry out its mission. To analyze and measure the financial and operational success of an institution, leaders and interested observers should address four high-order questions. The schematic on page 4 (see Figure 1.1) depicts the order in which we address these questions; a discussion of each question follows.

Measuring overall financial health is an essential first step when assessing the impact of transformation on the institution and serves as a gateway to the four other high-level questions. The measurement of financial health in an institution logically leads to an interest in measuring comparability between institutions. When completing measures of comparability between institutions, consideration of the type of institution, as well as the measures used, are important. Comparing institutions in different Carnegie classifications has some limitations. In addition, some of the measures in this edition are better used by comparing an institution to itself (a longitudinal view), as opposed to using the measures on a comparable basis. The book notes metrics that are more useful on a longitudinal basis. Strategic financial analysis begins by asking:

FIGURE 1.1: CHAPTER FLOW CHART

HOW DOES MISSION TRANSLATE INTO STRATEGY?

This question is concerned with helping institutions assess whether they have appropriately conveyed their missions into their strategic plans. Many institutions have well-developed but separate missions and strategic plans; successful institutions have been able to integrate the two. Institutions find it even more difficult to implement the financial actions needed to implement their strategic plan.

Institutions should answer questions in three critical areas to help them determine the translation of mission into strategy:

- Do budgets support the strategies?
- Are resources aligned with the strategies?
- Are financial resources, including debt, used strategically?

The answers to these simple questions are usually quite complex and difficult to articulate and determine. The approaches described in Chapters 2 through 4 will assist institutions in answering these questions.

WHAT IS THE OVERALL MEASUREMENT OF FINANCIAL HEALTH?

This question focuses attention on two levels of financial health: first, the institution's financial capacity to successfully carry out its current programs, and second, the institution's continuing financial capacity to carry out its intended programs for the expected lifespan of the institution.

The institution's answer is critical if it wishes to thrive. To realize institutional goals, the mission must remain clearly articulated throughout the institution, and resources must be deployed strategically. Institutions that remain focused on their mission, and deploy resources to achieve mission-guided results, will be best positioned to achieve long-term success. Institutions that fail to link their resources to their core mission will find it difficult to sustain a competitive advantage in deteriorating markets. Interestingly, it is not the absolute level of resources that dictates sufficiency; it is the deployment of resources to support stated long-term objectives.

ARE RESOURCES SUFFICIENT AND FLEXIBLE ENOUGH TO SUPPORT THE MISSION?

This question is concerned with helping institutional stewards assess the status of the institution's financial resources. Flexibility in making decisions about future institutional transformation will depend on the institution's fiscal performance and financial base. Understanding this flexibility will help stewards and external parties determine institutional risk tolerance in the transformation process.

Two related questions address financial sufficiency and resulting flexibility:

- Is the institution clearly financially healthy, or not, as of the balance sheet date?
- Is the institution financially better off, or not, at the end of the fiscal year than it was at the beginning?

A simple and direct answer to each of these questions provides baseline information for further analysis and action.

ARE FINANCIAL RESOURCES, INCLUDING DEBT, MANAGED STRATEGICALLY TO ADVANCE THE MISSION?

The existence of resources alone is not sufficient to ensure that the institution will attain its goals because issues critical to institutional mission are often nonfinancial, and the existence of resources does not guarantee they will be invested strategically. However, insufficient resources certainly create a barrier to the achievement of institutional goals.

In previous editions of *Ratio Analysis in Higher Education*, we limited this question to address the management of debt exclusively; however, we have expanded the question to encompass the allocation of all resources. Increasingly, debt, internal funds, philanthropy and other sources of capital must be analyzed and managed strategically and consistently to optimize the institution's capital structure and efficiently allocate resources. Debt should not be analyzed or managed in isolation; rather, it must be considered within the context of all institutional resources.

Debt is a tool available to the institution to allocate toward the achievement of its desired long-term strategies. As with other resources, debt is limited and therefore must be used sparingly and strategically. The development and adoption of a formal debt policy, which is discussed in Chapter 4, provides the framework through which the institution can evaluate the use of debt to achieve strategic goals.

No institution, regardless of its wealth or competitive advantages, possesses sufficient resources to fund all programs and initiatives. Therefore, it is critical that the institution establish a mechanism to prioritize projects for funding, and that institutional stewards have the conviction to deny funding for uses that, while worthwhile, do not represent institutional priorities. We believe that successful institutions make the often difficult decisions not to fund low priority requests that divert funding from higher strategic institutional objectives. We have noted that many institutions with relatively small endowments have found a way to do more with less and consciously reinvest resources in program and mission rather than exclusively in building financial resources.

DOES ASSET PERFORMANCE AND MANAGEMENT SUPPORT THE STRATEGIC DIRECTION?

The long-term financing of an institution is a daunting challenge facing its stewards and is an issue for external parties, including parents, accrediting bodies, donors and grantors, government agencies, lenders, and rating agencies. Because the long-term future of the institution depends on its ability to replace and enhance its capital base, managing resource inflow streams is essential to achieving its mission. In addition, managing, renewing and replacing an institution's large and complex physical asset infrastructure are increasingly significant challenges facing institutions. Stewards must, therefore, be wary of diversions that impede progress toward achieving the mission.

DO OPERATING RESULTS INDICATE THE INSTITUTION IS LIVING WITHIN AVAILABLE RESOURCES?

The allocation of scarce resources is a critical function in achieving institutional mission. Many institutions continue to undergo significant self-examination to improve academic and support services while lowering costs. These activities are likely to accelerate in the years ahead as successful institutions direct resources to selected programs that enhance their success, rather than spread insufficient resources over many programs.

The successful institution must be a superior performer in every area in which it chooses to participate, and superior performance requires long-term focus and investment. Success in any area in which the institution chooses to compete will require targeted and increasingly larger investments. It is therefore critical to identify which programs, research opportunities and other activities represent core, mission-related activities. By determining a select number of areas in which the institution has a competitive edge, and then strengthening programs within those areas, the institution will be able to improve that advantage. It must also be able to communicate those advantages, strengths and directions to its stakeholders and the community at large.

Continuing to invest in noncore activities absorbs limited resources, including money, management time and institutional focus. Areas in which an institution is clearly weak present opportunities for the competition. Historically, it was not possible for many institutions to take advantage of an institution's perceived or real weaknesses, since geography and access to students created a natural barrier to entry. With the growth of technology and use of distance learning channels, competition from both traditional and nontraditional organizations represents an increased threat—and an opportunity. A conceptual model is discussed in Chapter 3 that provides institutions with a mechanism to allocate scarce resources most effectively across these competing priorities.

HOW CAN A COMPOSITE FINANCIAL INDEX BE USED STRATEGICALLY?

Having one overall financial measurement of an institution helps governing boards and senior management understand the financial status of the institution. The Composite Financial Index (CFI) combines four core high-level ratios into a single score. This permits a strength or weakness in a specific ratio to be offset by another ratio, resulting in a more holistic approach to financial measurement. The CFI is best used as a component of financial goals of the strategic plan and should be calculated over a long time horizon, both historically and projected to the future.

2 USING THE OPERATING AND CAPITAL BUDGETS STRATEGICALLY

2 USING THE OPERATING AND CAPITAL BUDGETS STRATEGICALLY

CHAPTER SUMMARY

This chapter offers a framework to improve the linkages between strategy and resource allocations and introduces tools that help an institution understand whether its resource allocation decisions are successful in furthering its strategies. The affordability of initiatives undertaken is more clearly visible with these tools because the institution creates standards and measures of performance prior to undertaking the initiative. We complete the chapter with a discussion of an approach to asses appropriate levels of internal investments an institution might make to ensure progress against its strategy.

INTRODUCTION

Institutions are often faced with the dilemma of how to create a "balanced budget." This is especially true for public institutions that have to deal with significant and often unpredictable changes to state appropriations. This balancing activity has tended to focus on an "accounting balance" of the budget without necessarily focusing on whether the budget is balanced from a strategic perspective. The distinction, which is critical to the long-term success of the institution, relates to the types of annual investments and reinvestments required by the institution to meet its mission.

The typical budgetary process provides limited information about meeting strategic objectives. Generally, budgets are prepared consistent with reporting lines, usually by departments, and do not capture information according to activity, which is the way most strategic investments are made, particularly in new initiatives. This is a reasonable budgetary methodology, since it aligns accountability and responsibility.

However, an operating budget presented in a typical manner does little to convey how the institution is achieving its mission or implementing its strategic plan. We believe that the operating budget should be a communication tool about the strategic plan, an expression of that plan, and a monitor for acquisition and deployment of resources.

Capital projects also have a significant impact on future operating budgets, due to increased operating costs and potential programmatic expenditures and interest expense. Therefore, these investments must be viewed within the context of other demands on institutional funds. If operating and capital budgets are not integrated, future operating budgets may underestimate outflows since capital budgetary requirements are not incorporated and decisions regarding capital project priorities are not made within the context of all institutional priorities.

Creating a strategically balanced budget is not easy. It requires the necessary infrastructure—both human and technological—to develop and modify data. Since much of an institution's budget may consist of restricted funds, the reallocation of resources can be even more difficult, especially for public institutions that may have less control over the operating budget, or for decentralized organizations that have little impact on divisional budgets and allocations. Despite these significant challenges, moving to a strategic budgeting model can have significant benefits for the institution. While it may not be possible to move fully from an accounting-based to a strategy-based budget model in a single year, incremental change can have a profound and cumulative positive impact.

This chapter will discuss and present a structure for communicating and using the operating and capital budgets in a strategic manner. This is what we call Strategic Budgeting.

CREATING THE OPERATING BUDGET

The institutional operating budget is a critical management tool capable of energizing department heads, deans, vice presidents and others to understand their progress against institutional goals. If this is not consistent with the institution's budgetary methods and activities, then the institution is likely unable to focus on achieving its goals. The use of financial ratios at a divisional or lower level, viewed over several years against a stated target, can help measure attainment of these objectives.

Generally, the context within which the budget process is established determines how budgets and the budgetary process are viewed. To make the budget document a vibrant management tool, each institutional constituency must view the budget both as a document that helps advance the institutional mission and also as a means of measuring progress toward goals for the period covered by the budget. The phrase "covered by the budget" is significant because too often the time frame is limited to a single year. If the budget is intended to demonstrate direction in a meaningful way and show progress in meeting the strategic plan's goals, then institutions should consider using either budget periods that match service cycles or preparing rolling multiyear budgets. Service cycles represent the activities of the institution. For instance, the undergraduate instruction cycle is a 4–5 year time frame. Also, the sponsored research cycle would be consistent with the term of the grant set by the sponsoring institution.

As a result of the strategic planning process, each constituent of the institution reads the final plan in relation to his or her own interests. In effect, board members, senior administrators, faculty, students and other interested parties in the campus community will view the strategic plan as a series of steps in an action plan fulfilling specific and generally different promises to each group and often will focus on those components of the plan relevant to their community, potentially losing sight of the overall strategy.

FIGURE 2.1: METHODOLOGY COMMONLY USED TO DRIVE THE PLANNING PROCESS

If the context of the plan (that is, the institutional mission) is unclear, the strategic plan can become a document that divides rather than unifies the institutional community around the institutional mission. This division occurs when promises in the plan are not fulfilled or when affected departments do not have effective communications about goal achievement.

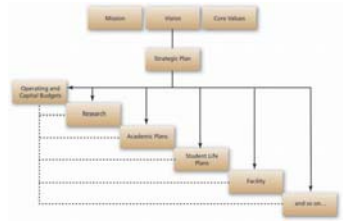
Figure 2.1 graphically depicts a planning process lacking cohesiveness between the strategic plan and the operating budget. If the operating budget becomes the driving force of the institution, the institution will have difficulty creating collaborative efforts. If the strategic plan, mission, core values and vision of the institution are not clearly articulated through the budgetary process, then it is likely that there will be substantial disagreement within the institution regarding resource allocation.

To create collaboration, the commitments that the institution makes must tie the mission directly to the budget, with the budget representing the strategic plan's limiting factor or affordability index. The strategic planning process is the time and place for discussion and conclusions on resource allocations. This type of collaborative effort requires a strategic planning process that is dynamic in nature and revisited annually. The appropriate starting point for decisions related to programmatic priorities is within the strategic plan, updated for changing and emerging circumstances.

Properly executed, the operating budget represents the implementation of the strategic plan over a shorter time horizon. Should planned strategies prove unaffordable, then the budgetary process should be structured to identify affordability issues and funding alternatives (e.g., new revenues, reallocation, expense reductions, etc.).

An institution that creates collaboration between planning and budgeting generally is one with clear direction (as defined through its mission and strategic plan) and focus in achieving the goals established in the strategic plan. This implies that the strategic plan is a document focused on what the institution is attempting to become and not a compilation of wish lists promising constituencies their unaffordable desires. Figure 2.2 highlights a strategic planning structure that improves collaboration because communication about institutional activities comes from a central point that generally has input from a wide variety of people.

FIGURE 2.2: A MISSION-DRIVEN MODEL



An institution should be driven by its mission that is articulated through its strategic plan and limited by its financial resources. Each of the individual unit plans within the institution is established to achieve the goals of the strategic plan. The operating budget informs each of the individual plans about affordability of activities. This structure enables the institution to think in terms of reallocating resources to meet its mission and also allows assessment of institutional reinvestments in program initiatives, human capital and physical capital.

The concept that budgets demonstrate institutional investment and reinvestment in mission-critical activities is difficult to understand if the budget is by school, department or expense classification. Although this structure may aid department heads in understanding and managing costs, there needs to be a separate presentation of information that informs the community about institutional investment activities. The size of the investments should be articulated in the strategic plan and demonstrated each year in the budget.

EXAMPLE 2.1: OPERATIONALIZING THE STRATEGIC PLAN—OPERATING BUDGET

Most institutions would agree that it is desirable to budget strategically; however, the complexities involved in doing so may make it difficult or impractical. We acknowledge the effort and challenges involved in undertaking a strategic approach to developing the operating budget, and also the fact that the measurement of success is problematic. This is compounded by the fact that at many higher education institutions the budget and the financial results (audit) often are not sufficiently similar. Despite these challenges, taking incremental action to move closer to a strategic budget should be an objective.

Even absent a lengthy list of issues regarding implementation of such an approach, there will always be the challenge of identifying resources that can be applied to fund new strategic initiatives. To the extent possible, institutions take actions that establish central unrestricted funds in a provost/presidential account that can be allocated to strategic initiatives. Over time, these resources can grow in order to fund further initiatives. Some examples as to how to generate such funds include:

- Allocate investment gains in periods of good returns. Most of us would agree that unsustainable gains should not be used to fund ongoing operations, as this results in future budgetary challenges when, almost certainly, returns decline. Establishing policies to create this fund at a time when surplus earnings do not yet exist may be the most politically feasible.
- Use revenue-enhancing mechanisms in historical cost centers to seed a fund. Improving cash or debt management processes can produce incremental income (or reduced expense) that can be applied to initiatives.
- Make the strategic initiatives fund self-perpetuating. Provide funding for new initiatives for a predetermined period of time, at which point the project should either be self-supporting or might be discontinued. Successful projects may be required to repay the initial contributions so that the funds can be recycled to future initiatives.
- Require divisional matching funds. Even in challenging financial times, many institutions'deans/professors will have access to available funds. Use the strategic initiatives fund as a source of matching funds to leverage other resources. This strategy places a substantial incentive for other members of the community to explore mechanisms to shift funding toward new initiatives.
- Encourage donors to contribute to such funds. Since these funds will be spent on creative new programs and initiatives (unlike endowment), the gifts will have immediate impact, which some supporters may find compelling.

Recognize that creating a fund will take time and effort, but over time further resources can be generated. The initial success of the process, hopefully, can encourage future additions to the fund.

CREATING THE CAPITAL BUDGET

Similar to the process for developing a strategic operating budget, the institution should follow a similar discipline when developing its capital budget. The need for facilities renewal should be quantified, funded and analyzed on a multiyear basis so that the full impact of required capital investment is understood. The capital budget should include both repair and renovation, and new projects, which often may receive more attention from the administration and donors. Even though deferred maintenance needs may appear insurmountable, even small budgeted contributions can improve the situation over time.

The capital budget should be developed in conjunction with the development of the operating budget. Investment in plant assets necessarily involves trade-offs and prioritizations among other institutional initiatives, and these investment decisions should not be made in isolation. The institution should recognize the trade-offs between investing in facilities, investing in programs, and investing in financial assets. Institutions should recognize that all three of these investment needs are ongoing and permanent even though the nature and amounts will vary significantly from year to year.

The costs associated with the investment in facilities tend to be more permanent in nature than investments in other areas, although this may not always be the case. Because facilities are long-lived, require future reinvestment and represent a significant use of limited resources, capital needs must be prioritized through a multiyear capital budget that is linked to the institution's strategic plan. Since not all projects can (or should) be funded, capital investment must be ranked according to priorities determined on an institutionwide basis and difficult choices must be made (e.g., there cannot be multiple number one priorities and a project should not become a priority due to a sense of entitlement or donor support that is inconsistent with the objectives outlined in the strategic plan).

The capital budget should recognize that there are various types of required facility investment, including new construction and facilities renewal. Often, new construction receives greater attention because of the ability to receive external funding and the perceived desire to invest in new facilities that are visible memorials of the institution's commitment to specific initiatives. Facilities renewal, on the other hand, may be more difficult to fund, may be more easily deferred (for some period of time) and may not produce a visible change. In addition, individual facilities renewal or deferred maintenance items may not amount to a significant expenditure; however, in aggregate they may represent a significant necessary reinvestment. Ignoring the funding of the deferred maintenance requirements in the capital budget may underestimate the true facilities need and cost to the institution.

Capital budgets should be developed for multiyear periods. The decision to undertake a capital project today may have implications for future flexibility and budget capacity. If facility investment decisions are made on a solely incremental basis, it is possible that higher priority initiatives may be underfunded, or the full impact of facilities investment is not appreciated, such as the need for additional infrastructure investment. While institutions often examine the cost of investment in capital projects, it is also important to analyze the costs associated with not investing, or delaying investment. Furthermore, any contingent investments need to be identified and incorporated so that the full impact on the institution can be analyzed.

Sources of funding for capital products should be analyzed on a portfolio basis. The operating budget, reserves, philanthropy, government grants, and short-term and long-term debt all represent potential yet limited sources of funding for the capital budget. These sources should be analyzed collectively, so that optimal allocation of resources to institutional priorities may be made. Funding decisions should be made in a portfolio context. The institution should develop and maintain an ongoing list of requirements and pool of available resources, including internal and external funds.

EXAMPLE 2.2: OPERATIONALIZING THE STRATEGIC PLAN—CAPITAL BUDGET

One of the concepts in this edition is to recommend thinking about capital budgeting on a portfolio basis—that is, not distinguishing between repair and renovation and new building projects. All capital needs should be considered when developing a comprehensive strategic capital budget, including funding for deferred maintenance and technological obsolescence.

One reason that the deferred maintenance problem exists is that few (although a growing number) institutions actually have the resources to pay for the full desired amount of repair and renewal. This is due, in part, to the following reasons:

- Few existing facilities actually have maintenance endowments.
- Expenditures for deferred maintenance are some of the easiest (at least in the short-run) to defer in times of budgetary difficulty.
- There is no incremental revenue source associated with the repairs to support new debt.

Institutions cannot solve the deferred maintenance issue immediately. The problem did not develop overnight and will not be resolved in a single budget cycle. In fact, it likely will take several years, perhaps decades, to address the need. The first steps involve trying to stop the growth of the repair backlog, and then determine ways to deal with it. These include the following:

- Recognize that addressing deferred maintenance will be an ongoing challenge.
- Encourage that new buildings have established financial plans for repair and renovation to the extent possible. Require development officers to explain the full cost of a building to donors and require the donor, or benefiting school, to establish a maintenance endowment.
- Create a revolving fund for current repairs and consider the impact of seeding the fund with incremental debt. This will spread out the current requirement, but a plan must be in place to ensure that the newly renovated facility will have a funding source for future needs.
- Establish or increase a tax to provide funds for the revolving fund. This tax can be phased in so that there are not undesirable immediate budget shocks. Units can plan for the funding requirements over several years. This will require recognition that funding deferred maintenance is a high enough priority that it will require other programmatic needs not to be funded.
- Treat renovation expenditures similar to new projects when developing the capital budget. If funds are being placed in new facilities, explicitly acknowledge that this means the institution has assigned a higher priority to those uses.
- Report on the deferred maintenance needs along with new building requirements in a comprehensive capital report to the governing board.
- Consider these capital budget requirements within the operating budget.

CREATING A STRUCTURE TO COMMUNICATE STRATEGY IMPLEMENTATION

How does an institution begin the process of aligning all of its operating and capital plans (budgets) to its strategies? Because each institution is unique—both in its mission and current challenges—it is difficult to prescribe a defined set of steps to follow. However, each institution should implement a structure allowing planning and budgeting to be articulated and to communicate a consistent message to the institutional community. Ideally, this will acknowledge core strengths that are being advanced. A potentially successful communication structure involves the following:

- Create clearly stated goals in the strategic plan
- Determine key financial and nonfinancial success indicators/ratios
- Develop consistent framework for presentation of operating budgets
- Identify strategic initiatives upfront and budget for these initiatives first
- Track spending for initiatives as a separate component of the operating/capital budget

The starting point is the creation of clearly stated goals in the strategic plan. Each initiative that the institution is addressing should specify its goals, resources (financial, capital, human and informational) allocated or reallocated, required new revenues and their sources (if any), and key success indicators. Without clearly defined goals, resources and performance measures, it is unlikely that the initiative will receive adequate support and consequently will not be implemented.

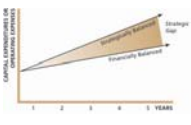
The institution must determine its own key success indicators as part of the strategic planning process and they should be included in the plan. Key success indicators should be established for each initiative and should include both nonfinancial indicators (as the drivers) and financial indicators (to create an affordability measure). The indicators should be few in number and effectively communicated to the institution's stakeholders and community.

Once the strategic plan clearly defines institutional initiatives, the framework for creation of other plans is established. The institution should require each unit preparing plans to use the same framework to ensure consistency in the development of its operating plans, both financial and nonfinancial. The focus should always be to measure the few items that allow determination of a plan's success. Since all nonessential activities relating to the institution's mission should have been eliminated, each activity should have its own measurement.

The question of whether a budget is strategically balanced is answered by the spending patterns set forth in the operating budget and whether investments from the capital budget indicate progress toward strategic objectives. If the operating plan tends to be incremental in nature or lacks identification of resources for required capital investment while the strategic plan represents substantive change, then a strategic gap exists in balancing the budget. Generally speaking, this represents a type of deferred obligation that the institution will be forced to make up at a later date, or an increased risk that key strategic initiatives will not be met.

Figure 2.3 presents two lines identifying strategic gaps. The top line represents the expenses of an institution that is reinvesting in itself at a rate sufficient to meet the objectives of its strategic plan. If repeatable revenues meet or exceed this amount, the budget is strategically balanced. The second line represents a budget that "gets the job done" but includes little investment in strategic initiatives. If revenue sources meet this line, the budget is financially balanced. Over a period of years, a strategic gap accumulates, and the institution should track the size of that gap, over the period covered by the strategic plan. Our experience suggests that communication of the gap is as important as the tracking.

FIGURE 2.3: IDENTIFYING STRATEGIC GAPS IN CAPITAL AND OPERATING BUDGETS



There are two relatively simple but critical elements for operating plans or budgets to articulate to the strategic plan. Always provide budget amounts for the initiatives first, not as add-ons, or the initiative will get lost. Second, always keep the amount for strategic initiatives as a separate component of the overall budget. A supplement to the budget should present institutional investments in three categories: physical capital, human capital and new program initiatives. The investment in human capital, in this context, is rarely salary support. It often represents the activities necessary for faculty and staff to create new skills that are required by the institutional mission.

For an understanding of the position of investments in capital activities, a similar analysis can be performed to quantify the cumulative effect of prolonged under-investment in required capital projects. Figure 2.3 presents capital spending on a status quo basis (lower line) and spending required to complete the investments articulated in the strategic plan. Again, to the extent these lines diverge, spending is occurring that is not consistent with the institution's stated strategies.

MONITORING PLAN RESULTS

One of the critical elements of managing the process of implementation is the ability to define success before beginning implementation. The plan must be priced and time phased, and there should be agreement on the metrics, both financial and nonfinancial, that will be used at interim periods as well as at the plan's completion.

If a gap exists in either the operating or capital budget, it should be cause for concern for governing boards, but if such a gap is not communicated, it may not receive appropriate attention and necessary actions may be delayed to the point where the plan's objectives cannot be met. One of the key responsibilities of the board of any institution is overseeing the strategic plan, from its initial approval to understanding its progress. Should a gap exist, at any point, a board has three potential actions to guide institutional activity consistent with the plan:

- Reallocate resources to meet the plan's needs.
- Find new resources to carry out the plan.
- Change the plan.

Each of these actions has implications to the status quo of the institution and would not be easy to achieve in most cases. However, allowing the plan to go unfulfilled without explanation or corrective action may impair the credibility of the institution's leadership. Many times, a major strategy change is part of the compelling case for a capital campaign or other major fundraising initiatives.

Reallocate Resources to Meet the Plan's Needs

This is a difficult task because it requires the institution to discontinue activities that may be ingrained in the institutional psyche. Plans for reallocating resources can be developed at the lowest budgetary level of the institution or at the highest. The fundamental issue is that institutions will not achieve substantial gains through reallocation efforts unless activities are changed. An example would be automating manual activities or changing workflow of specific procedures. In most institutions, the largest cost is human resources. Any change in workflow requires a systemic way of capturing the costs associated with redeploying people to fit institutional priorities. In Chapter 3, we discuss a different method and structure for assessing resource allocation.

Find New Resources to Carry Out the Plan

The challenge of meeting dynamic goals in a strategic plan is the ability of the institution to do things differently from the past. However, the hard work around achievement of strategy includes finding the resources to make the plan a reality. The case for a capital campaign is generally based on institutional needs. In some cases, the needs are immediate, while in others the needs are based on institutional aspirations. In either case, if the board decides the way to meet the stated strategic plan is through new funding, the measurement of funding for new things needs to be net new money (truly new funds raised and not shifted, and net the incremental cost of raising the funds). In deploying this strategy, a key element of monitoring is ensuring the funds raised fit the profile outlined in the strategic plan. For example, if the strategic plan calls for substantially unrestricted fundraising and most funds raised are permanently restricted, the overall goal may be reached (sufficiency) but the types of funds may not meet the needs of the institution (flexibility).

Change the Plan

At first glance, this option would appear to be the least desirable because of the implications to all constituents. Faculty may view backing off a plan on improving academics as a lack of commitment to the core mission. Donors may view a change as either indecisiveness or perhaps question whether money already raised will achieve the intended purpose. However, the larger and more long-term issue will be the credibility of the board and senior management if they are aware the plan is not achievable and do not communicate that to the community.

CREATING A MEASUREMENT SYSTEM

A key component of achieving a plan's goals is effective communication between the operating managers and central administration regarding financial and nonfinancial performance. For a manager to understand success, the communication needs to be structural in nature, relatively frequent and repeatable. The institution must establish key performance indicators that make sense within the context of the budget. Too often financial performance indicators relate solely to expense goals. The more important financial indicator is whether the department produced whatever units of measure are required for the money spent. For example, if the admissions office indicates that it is under budget in its costs and yet only recruited 95 percent of the budgeted students, this department should be considered unsuccessful. Likewise, an admissions office enrolling all students required but at a higher than affordable discount rate should also be considered unsuccessful.

These two examples are relatively simple and straightforward and can be measured in almost every institution. However, measures of success should be required for each department that has budgetary authority. These key measures need to be developed collaboratively and accepted by the department if they are to be effective.

Similarly, the capital budget should have a measurement component. Buildings are constructed or renovated to better achieve programmatic needs, provide needed space for strategic objectives, or provide the infrastructure that enables the institution to carry out its mission. The capital budget should be analyzed within the context of how well its components support the desired outcomes.

Outcome measures should be agreed to as part of the development of the strategic plan and should be monitored at critical junctures to understand whether or not the plan is successful, both in totality and in individual components. The Balanced Scorecard,[1] developed by Drs. Robert Kaplan and David Norton, provides a measurement and management system to help organizations achieve their strategic goals. The Balanced Scorecard suggests reviewing an organization from four perspectives, which have been adapted for our purposes:

1. The institution's role as a learning organization;
2. Institutional infrastructure, or business process perspective;
3. Student, faculty and administration satisfaction; and
4. Financial metrics.

It is critical that only a few measures be used to identify institutional success, just as few measures should be used to measure performance at the department level.

Financial measures that an institution would use represent limiting factors, not drivers. For example, if a strategic plan puts demands on the resources of the institution that would put it in a clearly unhealthy financial position, then the affordability of the planned activity should be challenged. Conversely, if the anticipated financial results are strong as a result of the implementation of the strategic plan, but the nonfinancial key performance indicators are poor, then fulfillment of mission is at risk.

Each institution must select its own unique measures of success and create some level of consensus that those measures are in fact valid for the institution. From a financial perspective, these measures should include a blend of ending financial position at each measurement point and operating performance for those same periods. These measures of institutional financial health are listed in Chapter 5.

Operating and capital budgets represent the anticipated economic wants and resulting physical requirements of the institution expressed in dollars. Expressing strategic initiatives in dollar terms can provide insight into the degree to which the institution has funded its strategic initiatives. By putting these together, key stakeholders should be able to establish useable expectations about institutional achievement of goals. The saying that "what gets measured gets done" seems appropriate for higher education institutions. A systemic method of measurement may well provide common ground for institutions to understand progress in institutional direction. A process of allocating resources within the context of institutional priorities and competencies is presented in Chapter 3.

Budgeting on a strategic basis inevitably leads institutions to another question—is the institution investing appropriate amounts in itself on a consistent basis? The challenge of investing the right amount will directly influence the measures of affordability of various initiatives.

INTERGENERATIONAL EQUITY ISSUES

There has been a significant amount of discussion over the years related to the appropriate level of spending that an institution should commit to in order to properly support current operations, as well as preserve sufficient equity for

[1] See "What is the Balanced Scorecard" at *www.balancedscorecard.org/basics/bsc1.html.*

future generations. This section is focused on measuring the reasonableness of the levels of investment funds that institutions hold and the strategic investments made. This discussion has exacerbated in recent years due to the significant growth in the size of capital campaigns, as well as the volatility in the financial markets.

The allocation of resources to support the operating and capital activities at any point in time is a serious consideration for governing boards and institutional stewards. If resources are committed to operations and physical plant at an unsustainable rate, the conclusion from the action is that the current generation of students, faculty and staff are viewed as more significant than succeeding generations. If current commitments of resources are less than the institution can afford on a sustainable basis, the opposite is true. In most environments, where institutions intend to thrive in the long run, neither is true. This discussion is not centered on whether an institution wants to make appropriate investments covering all generations, but rather what is the mechanism for knowing the level that represents this equilibrium.

The answer to the question of balance is not uniform since each institution is unique. Even within a particular institution, the answer to this question will change as the conditions impacting the institution change. There are times when significant investment—whether in people, facilities, programs or new initiatives—is required and times when harvesting return from investments is most appropriate. The answer to this challenge is to find a systemic method of managing the equitable distribution of support among generations of constituent institutions.

The endowment and similar funds of an institution are intended to support operations in perpetuity, regardless of whether the funds are true endowment (permanently restricted or nonexpendable) or funds that function as endowment based on board action. While the true endowment funds of the institution are required to be held in perpetuity, the gains realized on these funds may be treated differently in different states. Compliance with the regulations that apply to an institution is the first step in creating a measurement framework. The overall standard that is consistent from state to state, however, is that the board of the institution has a fiduciary responsibility over its invested funds.

Historically, at many institutions, governing boards have addressed this issue by implementing a spending policy that, based on historical experience and their own judgment, resulted in spending cash income and gains in proportion to the expectation of returns anticipated to be realized over a long period of time. The concept of a spending policy that considers the overall returns of an investment portfolio continues to be central to many institutions' operating support and financial planning process. This spending rate is a component of operating activities, which is part of the measures in the Net Operating Revenues Ratio, a key ratio we discuss later in this publication.

Events in the financial marketplace, which has seen volatile changes in asset values, coupled with substantial giving in an expansive philanthropic environment, have raised questions about the efficiency of relatively fixed rates of spending. A second challenge has been the debate over the deployment of resources when an institution embarks on a transformational program.

As institutions implement their strategic plans, it is usually clear that certain investments will be required for the goals to be met. Strategic plans usually envision significant fundraising to obtain resources needed for the plan's investments. A significant risk to accomplishing an aggressive capital campaign is the institution's inability to fund the major capital campaign because the expenses are funded from unrestricted, expendable sources, whereas the majority of funds raised are for permanently restricted net assets (endowments) and unrestricted nonexpendable activities such as property, plant and equipment. Other activities that generally demand investment include new program initiatives

that need to be funded as start-ups before significant funds can be found, recruitment of new faculty, investments in new marketing approaches to attract students, and investment in infrastructure, including facilities and technology.

A FRAMEWORK FOR ALLOCATION

To systemically ensure the equitable allocation of resources between generations, a program such as the one formulated below may help in understanding the extent to which the institution has decided to maintain its retained equity as well as the size of the investment of its equity in relation to the institution's overall wealth. The suggested framework is intended to cover the broad components of a program to assess the levels of investments that an institution is making and create parameters that would keep the investments within those levels.

The proposed framework is based on separation of an institution's equity into Retained Equity and Invested Equity components. An institution should establish additional information in its accounting records related to endowment and similar funds, separate from the invested amounts or other accounting classifications. This information should segregate the invested funds into two categories—the Retained Equity, which is the targeted level the funds would be at if all conditions below are met, and the Invested Equity, which represents the amounts that may be used as internal investments. Together, these two components comprise the total investment funds of the institution. This results in the total of the Retained and Invested equity amounts equaling the equity in invested funds (composed of expendable and nonexpendable funds, regardless of the net asset classification). A critical component of the framework includes reconciling the investment balance at market with the total unrestricted, temporarily restricted and permanently restricted net assets for private institutions (expendable and nonexpendable net assets for public institutions) that comprise the investments. This is a critical element to the framework because it provides insight into the flexibility of net assets as well as sufficiency.

Retained Equity is the amount the institution would invest if specific criteria were met. At the start of the program, the Retained Equity equals the total invested funds of the institution. Over a period of years, the two amounts will likely diverge as the actual results of activities, such as returns on investments and inflation, impact the Retained Equity amount.

The Retained Equity account may play a key role in helping an institution reshape the components of its revenue stream. For example, if an institution wished to become less dependent on tuition as a revenue source, one of the annual criteria for the Retained Equity would be to grow this amount by a fixed percentage of the opening balance. To the extent this amount was not met in that year, the shortfall would be reflected as a negative amount in the Invested Equity account, since this tactic represents an institutional investment.

The Invested Equity component represents the amounts approved by the board for investments in the institution. Examples of investments that may be made include funding capital campaigns and providing seed money for program initiatives. This Equity component also captures variations in the criteria established to develop target amounts for the Retained Equity account.

The Invested Equity can be either positive or negative. When it is positive, it would indicate availability of funds for the purposes previously approved by the board. We would expect those purposes to be limited to strategic initiatives. In fact, if this amount were to be positive for an extended number of years, it would be incumbent upon the board to define the reasons it is holding these funds as opposed to investing in approved initiatives. When Invested Funds are zero, the institution is in equilibrium.

Clearly, achieving financial equilibrium without advancing the mission-based activities contemplated by the strategic plan represents a shortfall for the organization.

The Invested Equity can become negative by making investments or if program criteria have not been met. The program requires parameters or caps on how negative the Invested Equity can become. When negative, the institution has a measure of how much of the institution's future funds have been invested in current investments. Should the Invested Equity component stay negative, in significant amounts, for an extended period of time, the institution should assess whether investments made are meeting expected returns and this may limit further investments until a position of equilibrium has been achieved.

Due to the long-term nature of investments and the length of an institution's business cycle, it may be reasonable for Invested Funds to be "out of balance" for extended periods of time. The board should also be aware of reasons for the Invested Funds to be either positive or negative.

The following are some parameters that should be established as operating principles for this framework:

1. Establish an overall baseline of the institution's investment funds in relation to both its strategic needs as well as competitors' balances. If the total funds are considered deficient in relation to these measures, the program should include a growth factor each year in the Retained Equity. To the extent this is not met, it would become, in effect, another investment for the institution. This provision would apply until the deficient condition is corrected.
2. To protect purchasing power, the institution should index its Retained Equity on an annual basis by estimating the impact of inflation. This will require selecting a measure such as the Higher Education Price Index (HEPI)[2] and applying it consistently. Institutions may consider using the growth in their total expenses because it represents a reasonable proxy of both the impact of changes in the program as well as inflation—which is the real purchasing power the institution may want to protect.
3. Establish a policy on the maximum size, both negative and positive, that the Invested Equity can represent of the Retained Equity. This would allow the board to always gauge how much it has available for strategic investments and its position relative to equilibrium. If Invested Equity grows beyond the maximum level for an extended period of time, the board should challenge whether its current investment profile represents an underinvestment in the present day. Similarly, if the fund exceeds the maximum negative amount for an extended period of time, the implication is that the investments made exceed current affordability and may risk the availability of resources for future generations.
4. Add amounts created from market returns in excess of steps 2 and 3 above to the Invested Equity, and deduct market returns that do not meet the amounts expected from steps 2 and 3 from the Invested Equity that will need to be replenished at a later date.
5. Establish dates that investments are expected to be returned, and if not met, how future investments should be allocated so that the amounts will be restored.
6. Establish the sources from which the returns are expected to be generated. These could include market appreciation or some return on the investments made (e.g., a fixed percentage of the spending rate on new money generated if the investment is a capital campaign).

[2] Commonfund Institute assumed management of HEPI in September 2004.

New gifts are generally added to the Retained Equity and are not used as repayments to, or otherwise impact, the Invested Equity. Significant new gifts would increase the amounts of the thresholds of the Invested Equity, if stated as a percentage of the Retained Equity.

EXAMPLE 2.3: INTERGENERATIONAL EQUITY ALLOCATION

The following is an example of a program and the framework that might be used to monitor the institutional commitment to balancing its intergenerational equity allocation. The amounts shown in the schedule are taken from the financial statements of Utopia University (see Appendix B). Some amounts were not taken directly from the financial statements; therefore, the institution's records would be required to complete those portions of the schedule.

For this program, assume the following:

1. The baseline date for creation of this fund is the beginning of the prior year.
2. Because the institution's overall investment funds are deficient in relation to most of the competitive peer institutions, in addition to protecting purchasing power of existing funds, we will plan for fund growth, over a long period of time, at 1 percent above the inflation rate, excluding new gifts. This will be the standard until our invested funds equal or exceed our operating expenses. At the point where our invested funds exceed our operating expenses, we will index growth to ensure retention of purchasing power.
3. We will continue our program of taking 1 percent of the earnings on new endowment and similar amounts created from the Capital Campaign from the allocated earnings, until the earlier of the Invested Equity reaches zero, or the amounts borrowed for the Capital Campaign are paid back.
4. We will use the Higher Education Inflation Index to measure the impact of inflation on our operations; for purposes of illustration, we are assuming 3 percent.
5. Policy will require that the Invested Equity will not exceed 10 percent of the Retained Equity amount.

TABLE 2.1: UTOPIA UNIVERSITY ENDOWMENT ANALYSIS

	RETAINED EQUITY	INVESTED EQUITY	INVESTMENTS HELD FOR LONG-TERM PURPOSES	UNRESTRICTED NET ASSETS	TEMPORARILY RESTRICTED NET ASSETS	PERMANENTLY RESTRICTED NET ASSETS
BALANCE AT BEGINNING OF PRIOR YEAR	**$ 33,745**	**$ –**	**$ 33,745**	**$ 23,777**	**$ 405**	**$ 9,563**
New gifts	$ 1,065	$ –	$ 1,065	$ 794	$ –	$ 271
New gifts, noninvestment	$ –	$ –	$ –	$ –	$ –	$ –
Income and gains, net	$ 6,345		$ 6,345	$ 2,816	$ 3,445	$ 84
Net assets released from restrictions	$			$ 2,100	$ (2,100)	
Spending from endowment						
Within spending policy	$ 1,750		$ 1,750	$ 1,369	$ 350	$ 31
"Tax" of 1% on new money	$ (11)	$ 11				
Inflation index for fund*	$ (5,333)	$ 5,333				
Growth % required**	$ 337	$ (337)				
Special allocations						
Capital campaign allocation		$ (2,000)	$ (2,000)	$ (2,000)		
BALANCE AT END OF PRIOR YEAR	**$ 37,898**	**$ 3,007**	**$ 40,905**	**$ 28,856**	**$ 2,100**	**$ 9,949**
New gifts	$ 2,645	$ –	$ 2,645	$ –	$ 1,000	$ 1,645
New gifts, noninvestment	$ –	$ –	$ –	$ –	$ –	$ –
Income and gains, net	$ 1,400	–	$ 1,400	$ 693	$ 680	$ 27
Net assets released from restrictions	$		–	$ 1,520	$ (1,520)	
Spending from endowment			–			
Within spending policy	$ 1,901		$ 1,901	$ 1,457	$ 413	$ 31
"Tax" of 1% on new money	$ (26)	$ 26	–			
Inflation index for fund*	$ (263)	$ 263	–			
Growth % required**	$ 379	$ (379)	–			
Special allocations						
Capital campaign allocation		$ (1,100)	$ (1,100)	$ (1,100)		
Programmatic investment		$ (689)	$ (689)	$ (689)		
BALANCE AT END OF CURRENT YEAR	**$ 43,934**	**$ 1,128**	**$ 45,062**	**$ 30,737**	**$ 2,673**	**$ 11,652**

		PRIOR YEAR		CURRENT YEAR
* Calculated as follows:				
Required return to index inflation (assumed at 3%)	(33,745*.03)	$ 1,012	(37,898*.03)	$ 1,137
Return from market, in excess of spend rate		$ 6,345		$ 1,400
Amount available in excess of policy (added to the invested funds balance, or available for investment in initiatives)		$ 5,333		$ 263
** Calculated as follows:				
Required growth amount at 1% (all other factors in calculation considered in the calculation above)	(33,745*.01)	$ 337	(37,898*.03)	$ 379

3 ALLOCATING RESOURCES TO ACHIEVE MISSION

FIGURES

TABLES

3 ALLOCATING RESOURCES TO ACHIEVE MISSION

CHAPTER SUMMARY

An historic perspective often drives the concept of resource allocation and continued investment in selected programs. This becomes problematic in dynamic environments when an institution is determining how to fund new initiatives, and even which initiatives to fund. The approach offered in this chapter blends both external views (what is the market direction of a program area, what are the competencies of the institution in each program area) with internal views (how does the program area match with the institutional mission and what are the financial results obtained by the program) to create a matrix that allows insight into the various programs the institution supports. This should help an institution as it determines its longer-term programmatic commitments.

INTRODUCTION

As institutions better integrate their operating and capital budgets with their strategic plans, the strategic gap in budgeting described in Chapter 2 becomes more clear. At some institutions, this strategic budget gap may be very pronounced and significant. Institutions will have to make difficult resource allocation decisions to achieve their mission and plan goals. Institutions also have to be able to identify and measure the impact of external forces on their plans. This assessment needs to be continuous rather than only performed during the plan's creation.

Traditional planning approaches may miss a key step—a step that allows the institution to smoothly translate its mission into a strategy with a high probability of success. In this chapter, we present a mechanism for filling this gap by effectively managing resource allocation. The Resource Allocation Map is a framework that enables leaders to assess key components and variables that will impact successful implementation of the strategic plan. This framework is also useful as a reference point as the institution selects the tactics needed to turn strategies into action.

Theoretically, resource allocation is a simple matter of knowledgeable people making informed decisions that align the institution's resources with its goals. In practice, it is far more complex—particularly for higher education, which operates on multiyear business cycles and serves diverse stakeholders and purposes.

A resource allocation framework can fill this gap in strategy implementation in higher education, helping decision makers determine where to invest limited resources to achieve the greatest good. At the highest level, this means balancing internal values with external pressures. Understanding and managing both sides of this equation are essential for institutional well-being; those institutions that ignore market forces risk financial difficulty, while those that neglect internal values risk becoming a commodity business because there would be no differentiation in their offerings.

A FRAMEWORK FOR RESOURCE ALIGNMENT

Developed specifically for public and private higher education institutions, this framework is designed to help institutions map resources to anticipated results. It can be used to assess any level—school, division, department, program or institute—as long as the organizational unit is consistent across the institution. However, the use of the framework must be customized to the institution's unique mission and characteristics.

Recognizing that higher education is too diverse for a single formula, we have created a Resource Allocation Map that can be adapted to an institution's unique circumstances and desired direction. The ultimate goal is to help an institution consistently move in the direction to which it is committed. By inserting this framework into the strategic planning process between the creation of the institutional vision and the strategic plan, leaders can build a strong case for where resources should be allocated—and why.

Our experience has indicated that few institutions believe they have the resources to fully fund all potential activities or even all programmatic areas they currently attempt to support. Yet, their allocation of resources follows more a pattern of incremental behavior that is based on history rather than strategy. The Resource Allocation Map is intended to suggest effective actions given certain circumstances, not to provide absolute answers in terms of reallocating resources away from or toward a specific unit. It is built around four dimensions that can help leaders align resources with the institution's long-term strategic direction:

- Mission/strategic plan
- Financial performance
- Internal competencies
- Market trends

MISSION/STRATEGIC PLAN

While everyone talks about the importance of mission, the difficulty lies in translating mission into actionable plans. Mission is not just what the institution is and does; it is what the institution wants to become. This should be the guiding force that drives everything else; in fact, it represents the key determinant of an institution's ability to succeed.

Depending on the institution, "mission critical" may be measured in terms of lines of business (teaching, research, public service) or disciplines (arts and sciences, business, education, graduate programs). Measurement can be directed toward the beneficiaries of the institution, such as measuring student success (graduation rates), programmatic improvement (retention rates or perhaps enrollment yield), or faculty development (percentage change in faculty terminal degrees, publishing proclivity). Whatever the focus, mission should be defined in clear, compelling, measurable terms that spur commitment and action.

Articulating a mission that achieves this goal is not a simple matter. For example, a mission of "educating students" is so broad, it cannot coalesce people around a specific set of actions. Conversely, a mission that is too narrow, such as becoming the preeminent provider of creative writing instruction, may preclude active participation by a large portion of the institution. If the mission is not specific enough to provide relevant guidance, the institution may wish to substitute the strategic plan as a guide.

FINANCIAL PERFORMANCE

As mission is the institutional driver, financial health is the measure of affordability. Affordability is a delicate matter; while this issue should not drive decisions, ignoring it could jeopardize the entire institution. It may be entirely appropriate to support initiatives that do not have a quantifiable return; however, leaders must appreciate the institutional impact of diverting resources from other areas.

Financial performance can be measured in many ways, depending on what the institution views as critical. The criteria for financial success are institution-specific and may be the result of a combination of factors, such as operating results, budget size, return on net assets, and so on. A few high-level measures, consistently used, will provide the best indication of financial performance.

INTERNAL COMPETENCIES

To effectively manage resource allocation, leaders must also have a clear understanding of what the institution does well (or can do well), what it is known for and how it compares to its peers.

Competency refers to the accumulated value of resources, programs, processes, relationships, infrastructure and abilities of faculty, staff, students and other stakeholders. To maintain competencies or improve them, the institution must have a plan for identifying and quantifying human and capital investments—and a plan for generating or reallocating funds to these investments.

MARKET TRENDS

Which programs are hot? Which are not? What does this mean for the institution? Is the market large enough to support the strategy? Questions like these must be answered to understand the impact of outside forces on the institution.

Market trend analysis provides an external view of the institution based on data such as the direction of research funding, demand for particular programs and demographic changes in the student body. Measures may vary from campus to campus but should identify the criteria most important to the institution and support that view with empirical evidence. Examples include the National Institutes of Health (NIH) and the National Science Foundation (NSF) funding at the programmatic level (if that is the critical unit of measure) and numbers of matriculating students in programs.

This is not to say that market forces should determine institutional spending decisions. On the contrary, we see it as one element that, when paired with the others, can help answer important questions.

INTERDEPENDENCE

The highest and best value of using this framework lies in the interdependence of all four parts: mission, finances, internal competencies and market trends. Assessing programmatic areas along these parameters creates a map that can help align resources to produce the greatest gains.

THE RESOURCE ALLOCATION MAP

In our 1999 publication, *Ratio Analysis in Higher Education: Measuring Past Performance to Chart Future Direction*, we discussed in some detail the alignment of financial resources with mission in higher education (see Figure 3.1). Since then, our model has evolved to capture an external view of the institution combined with an assessment of the institution's current position in the market. This has led us to include two other critical factors: internal competencies and market trends (see Figure 3.2).

Evaluating programmatic areas according to all four factors produces 16 possible combinations, each of which has different implications for the institution. Programs falling in one of the categories will have tendencies to move to another category if the status quo is maintained. In many circumstances, the movement will be a decline because the institution did not aggressively protect strength. By assessing institutional units along these dimensions, the institution will create a rational basis for making resource allocation decisions.

Table 3.1 provides a summary of the quadrant and sector discussion that follows. The title in each box reflects what a program mapping in a certain quadrant and sector may mean to the institution.

We use the conventions depicted in Figures 3.1 and 3.2 to describe each of these combinations. Thus, the quadrants (Q1, Q2, Q3, Q4) are used to explain issues of mission and financial performance, while the sectors (S1, S2, S3, S4) explain internal competencies and market trends. These combinations are represented graphically to provide a visual reference, with the quadrant identified in tan in the first box and the sector in black in the second box. The following descriptions provide suggestions for moving forward.

FIGURE 3.1:
RELATIONSHIP OF FINANCES TO MISSION (QUADRANTS)

FIGURE 3.2:
RELATIONSHIP OF MARKET TO COMPETENCIES (SECTORS)

TABLE 3.1: QUADRANT/SECTOR MAPPING RESULTS

	QUADRANT 1	QUADRANT 2	QUADRANT 3	QUADRANT 4
SECTOR 1	Drives the enterprise	Reassess operating model	Consider overall focus	Asses commitment to prioritization
SECTOR 2	Requires external view	Defines the enterprise	Plan exit strategy	Reconsider resource deployment
SECTOR 3	Requires investment	Invest in competencies	Provides resources	Tighten implementation of priorities
SECTOR 4	Requires change	Reassess the mission	Plan resource deployment	Drains resources

Drives the Enterprise (Quadrant 1/Sector 1)

Programs in this category are what the institution is known for, as well as what it wants to become. When an institution has programs like these, it is likely to have the opportunity to become world class—if it is not presently.

Our experience indicates that the principal barrier to success for programs in this category is diffusion of resources. No program area suffers more from this diffusion than programs that fit this quadrant and sector. This is primarily because these programs will generally receive their "fair share" of resources while the impact these programs can make would allow the institution to move to a furure state that would likely enhance its ability to achieve its mission. Considering that the pool of resources is finite, any diffusion of resources from these programs is a diffusion of mission.

All resource allocation processes must therefore consider programs in this area before everything else. Are these programs getting the necessary funding? Are the capital assets adequate? What is needed to keep such programs vibrant? Are sufficient resources allocated to ensure continual refreshing of curriculum? Does the institution market this program area on a continuous basis? It is essential that these questions be answered when resources are allocated and budget prepared.

Defines the Enterprise (Q2/S2)

Programs in this category create a dilemma for the institution. While they represent the institution's historic strength and vision of what it wants to be, these areas are in a declining market and are probably consuming a disproportionate share of resources.

If the institution is to stay true to its mission, financial realities simply cannot be ignored. To continue to invest in these programs, there must be evidence that the program has the capacity to increase market share, even if the market is declining. The institution should consider opportunities to team with other institutions to deliver these programs in ways that advance its mission and allows for fiscal balance. In fact, this is the most important area where an institution should be looking to team with other institutions to deliver its programs effectively. This is significantly different than a program that scores high on mission and is fiscally capable of supporting itself. In this instance, the program will likely become a fiscal drain on resources if the fiscal results of the program are not balanced.

However, there may be other reasons to retain a program. This category could include a classics department at a liberal arts college or a theology school at a religiously affiliated university. In these circumstances, the institution would not abandon these programs, yet it must recognize that low financial performance is a cost of being the kind of institution that it is.

Provides Resources (Q3/S3)

Programs in this category present a different challenge because they have historically produced a significant financial return and will continue to do so for the foreseeable future. However, the institution has decided that these programs do not contribute to the mission of the institution or vision of what it wants to be. Institutional competency may have declined due to retirements or changing technologies in the discipline.

To produce continuing financial returns, the institution will need to invest in internal competencies. If the market is expanding, other institutions are likely to either enter the discipline or expand their presence in this marketplace. This will result in competition increasing to challenge its ability to continue generating funds.

Drains Resources (Q4/S4)

Programs in this category should be candidates for reduced funding and other dramatic changes. However, the realities of an academic institution—vocal constituencies, consensus-based decision making, resistance to change—typically slow the process. In fact, the commitment to collegiality and across-the-board resource allocation may be a greater institutional danger than fluctuating or uncertain levels of revenue.

The institution must take a long-term perspective on these programs. However, it is important to remember that if no change is made, the status quo will represent diminished resource availability for the other programs that define the institution as unique.

Programs in this category tend to be areas that distract resources from the programs that define the enterprise. Since the pool of resources—operating budgets, capital budgets, human capital—is finite, there are necessary priorities that must be established for institutions to move forward. We recognize, however, that the business cycle of an institution is quite long and change is generally not abrupt but rather made in a gradual and consistent manner. This has implications around tenure activities, replacement personnel, facility decisions and any other longer-term investment an institution makes.

Requires Investment (Q1/S3)

Programs in this category have probably experienced a loss of people—either through retirement or attrition—or a substantial change in technology. Often, institutions incrementally add resources and the process takes some time. Programs that fall in this category require an improvement in competency, either by hiring or training,

or the institution risks losing significant position in the market. This situation would be an indication that resources allocated to these programs are necessary to maintain the institution's relative position. If investment is not made, the first impact will likely be a decline in the financial performance of the program (Q2/S3), which would indicate a required investment in competencies but to a more critical degree. If still no investment is made, the program will likely go into a continued downward spiral that will put the institution in a serious dilemma of how to invest when the program is failing.

Requires Change (Q1/S4)

Institutions are not likely to have many programs in this category, if any at all. It would take unusual circumstances to perform well financially in a mission-critical area without strong internal competencies. However, institutions that are in transition, particularly in program leadership, may find themselves in the position of choosing the best overall use of limited resources.

When such a situation does arise, the institution must not only invest in competencies but also invest in a way that expands market share. A solution may be to coordinate with another institution to provide the program. Maintaining the status quo would risk these programs to slipping to a requirement to reassess the mission (Q2/S4).

Requires External View (Q1/S2)

Programs in this category, which have historically been strong for the institution, are experiencing a fundamental shift in the marketplace. If such a program is to represent a significant portion of the institution's vision for the future, some programmatic adjustments will be required. This may mean coordinating with other institutions or reshaping the curriculum to include interdisciplinary activities.

Over time, if no changes are made, this area is likely to result in impaired financial strength, with the program becoming one that would continue to be a requirement because it defines the institution, with resources allocated from other areas to support this program.

Invest in Competencies (Q2/S3)

Programs in this category generally represent a significant opportunity because they define what the institution wants to be—and the market supports that vision. Since these programs are high on mission and the market is strong, properly investing in appropriate internal competencies is likely to produce strong returns.

However, significant investment will be required to improve competencies and cover existing program shortfalls. For programs like this to succeed, an institution must be willing to invest for the long term—and invest substantial amounts. The institution must take a long-term view of itself, using multiyear planning for both capital and operating budgets. One variable outside the institution's control will be competition, which must be considered as the institution develops competencies. The key issue to be addressed for programs in this category is one of institutional priorities.

Reassess the Mission (Q2/S4)

Programs in this area may well be historic artifacts of the institution, since neither institutional competencies nor the marketplace will support existing levels of activity, as evidenced by poor financial results. This is probably the toughest position institutions encounter.

In cases like this, the institution should reassess its mission. If the institution remains committed and sees no other mission, the board may need to reexamine the program's relevance if it remains committed to the stated mission.

Plan Resource Deployment (Q3/S4)

Although few programs fall into this category, such conditions can be created in a transition period for the institution. For example, an institution could have enough students enrolled in a particular program, but the senior cohort is much larger than the freshman cohort, reflecting the market trend. These programs are likely in transition and it would be unreasonable to assume long-term continuation of the financial performance.

Since these programs are currently financially strong, the institution has time to adapt—but since they are low on mission, the institution should take action. This gives institutions the opportunity to manage a successful program wind-down and reallocate funds for more mission-critical programs. If the status quo were maintained, the most likely direction of this program would be toward Q4, S4.

Reassess Operating Model (Q2/S1)

Programs falling in this category should undergo an internal assessment of their operating model. If all categories but financial results are high performing, then an assessment of how the program is delivered is critical. This program may be a candidate for cooperation with other institutions, if the cause of the low financial performance is low student participation.

Without improvement in financial results, this program will consume resources that other programs may be able to more efficiently deploy. The institutional dilemma may be that many of the other programs will not be as integral to the success of the institutional mission. Programs in this category generally create institutional tension over priorities and execution of the strategic plan.

Consider Overall Focus (Q3/S1)

This would not appear to be a likely scenario, because it would appear illogical to build strengths in areas that are not the focus of the institution. This may occur if the institution is going through a major change in direction and these programs will represent much of what historically made the institution successful.

If programs are in this category, the resources generated likely would be deployed to help fund program areas that are high on mission and likely emerging.

Plan an Exit Strategy (Q3/S2)

Programs that fall in this category reflect what the institution has been known for, with prior resource allocations creating the program's high competencies. An institution that identifies programs like these is likely to have gone through a transformation in direction and is now moving to become something different.

The challenge for an institution relates to continuing the resource allocations in these programs as they are winding down while finding resources to support the activities reflecting the institutional "to be" state.

Assess Commitment to Prioritization (Q4/S1)

This combination does not appear to fit a lot of circumstances—the likelihood of developing competencies without financial performance in an area that is not mission centric would appear contradictory. Programs that do fall into this category therefore indicate that the institution is in a position of indecisiveness.

These programs should either be enhanced because market trends would imply an ability to be successful financially or, more likely, reshaped to ensure that the program fits the mission of the institution. If no change is made, this program is likely to continue to consume resources and should raise questions about prioritization.

Reconsider Resource Deployment (Q4/S2)

Programs in this category are likely to have had some success in the past. However, market movements, the vision of what the institution is trying to become and the financial results obtained would indicate this program is more related to the institution's past than its future. Rethinking the delivery aspect of this program by coordinating with related programs that are more in line with the institutional future may be the best deployment of these resources.

Tighten Implementation of Priorities (Q4/S3)

A program that falls in this category is likely to have been developed to respond to a market that is expanding. At least in its current state, the institution is not in a position to take advantage of these market changes. Since this is not advancing the institutional mission, the institution would do better to direct resources toward higher priority activities.

The Resource Allocation Map introduces a discipline into the planning process that can provide the institution with clearer insights into the direction it wishes to take. This mechanism enables institutions to make consistent decisions regarding programs, and it provides a method for determining how to develop resource allocation plans. This is not only important to the development of strategic direction, but it also aids the process of developing the strategy.

By developing and implementing this framework, we believe the institution will have the ability not only to develop a strategic plan but also to communicate the plan to the entire institution. Using this framework consistently over time will communicate strategic decisions and help everyone in the institution understand how particular programs fit into the strategic direction of the institution.

4 STRATEGIC DEBT MANAGEMENT

4 STRATEGIC DEBT MANAGEMENT

CHAPTER SUMMARY

Debt is a critical component of the resources available to an institution to fund capital projects. Used strategically and under a program designed to maximize the use of debt to achieve institutional goals increases the likelihood of an institution meeting its mission. An agreed to and well-understood debt policy will assist an institution in funding the projects that are the "best in line," not necessarily the "best in line." A consistently applied debt policy should result in better alignment of funding priorities with strategy over a long period of time.

INTRODUCTION

What is meant by the term, the strategic management of debt? Traditional debt management focuses on issuing project-specific debt instruments or other financial transactions. Strategic debt management concerns internal prioritization, budgeting and strategic planning, focusing on institutional policies, internal procedures, project prioritization and funding decisions. This results in transactions that are structured based on the management of the entire debt portfolio and in consideration of the institution's total resources. With the growing array and complexity of available financial products, the continuing pressure for facilities, and increasing focus on balance sheet management, senior institutional leaders' responsibilities continue to multiply, resulting in an increased need for policies, analytical tools and a framework for decision making.

Focusing on how managing debt can advance the institution's mission will also help the institution understand how analysts, lenders and purchasers of debt evaluate its ability to assume and repay debt. If the debt that is incurred is used to support the mission and the institution is well managed, the institution will be in a better position to achieve its long-term goals and build competitive advantages. In contrast, if the debt is used to fund activities that do not capitalize on its competitive strengths, the financial situation is likely to erode because resources have not been allocated to their highest and best use. Thus, the institution would be further away from having the resources needed to achieve its strategic objectives and is more likely to have lost crucial ground in the competition for students, faculty and financial support. If the institution remains focused on its mission, it can use its leverage effectively to deploy additional resources to achieve its long-term goals.

This chapter discusses several aspects of strategic debt management, including:

- Definition of debt
- Debt affordability instead of debt capacity
- External versus internal management of debt
- Implementing a debt policy
- Use of debt versus working capital
- Financial ratios within the context of credit analysis

DEFINITION OF DEBT

At one time it was relatively simple to determine an answer to the question, *What is the amount of institutional debt?* One simply looked at the bonds and notes payable in the financial statements. Today, this is no longer a simple or straightforward inquiry. Many innovative financing structures have been developed and are more frequently used by higher education institutions. In addition to traditional bonds, notes and capital leases, an institution may have used an affiliated foundation or subsidiary to access financing, executed long-term operating leases, guaranteed an affiliate's debt or employed off-balance sheet structures. Add to this the fact that "debt" often is in the eye of the beholder, and many different stakeholders may define debt differently. Therefore, it is important that the institution thoroughly analyzes its obligations and determines the most appropriate debt measure for itself, which may include adding non-traditional debt and perhaps also considering excluding more traditional debt, depending on its use. In any case, a definition that is thoughtful, strategic and applied consistently over time is appropriate.

In considering debt, particularly in assessing an institution's long-term ability to achieve its mission, all obligations that use an institution's long-term debt capacity, even if these transactions are not reported on the balance sheet or disclosed in the notes to the financial statements, should be included. The ultimate test of what constitutes outstanding debt from a credit perspective is neither the legal structure nor the accounting treatment. The greater the essentiality of the asset to an institution's mission, the greater the likelihood it is on-credit and therefore must be included in calculating all credit ratios, regardless of the legal and accounting treatment.

As with any financial decision, we encourage leaders to ask why a specific financial structure is being considered and to understand its objectives, expected benefits and potential risks. For example, there may be many valid reasons to engage a third-party developer or use long-term lease structures; however, if the primary or sole motivation for a particular financing structure, especially one that is more costly, is to keep a transaction off the balance sheet and away from the credit analysts, then the transaction, rather than the institution's mission, is driving the decision. Furthermore, in recent years we have witnessed the migration of many off-balance sheet structures onto the institution's balance sheet, and the inclusion of many of these structures in credit analysis. We believe that this trend is likely to continue, which underscores the need for mission and strategy, rather than accounting and law, to drive financing decisions.

Similarly, there may be types of debt employed for nonproject purposes. This may include leverage in the endowment, draws on an operating line or commercial paper program for nonproject purposes, opportunistic short-term borrowings, etc. While technically debt and subject to institutional analysis, these uses should not be included in the calculations of various ratios that are based on project-related debt.

After making these adjustments, a more appropriate picture of the institution's liabilities emerges, which may differ considerably from the long-term debt indicated on the balance sheet. Thus, a concept of total project-related debt, which adds nondebt uses of credit (e.g., off-balance sheet borrowings, guarantees of affiliates) and subtracts non-capital uses of debt, is a better measure for use in calculating many ratios.

DEBT AFFORDABILITY INSTEAD OF DEBT CAPACITY

While debt may provide a significant source of additional funding, it is also a burden for future generations forced to assume responsibility for principal and interest payments for past projects or faced with diminished debt capacity for new priorities. Planning for additional debt must be done with care since the cost of a new facility is not only debt service but also related operating, maintenance, programmatic and depreciation costs. These latter costs increase in future years and may actually represent a greater financial burden than construction costs; however, some institutions may not appreciate the full impact or underestimate its effect on the institution's future operating budgets. If these costs are not properly accounted for in the planning process, they may well require allocation of resources away from other activities that may be counterproductive to the institution's achievement of mission. Imposing the discipline and resources to appropriately budget and fund future facilities' maintenance requirements helps assure success of the strategic plan.

All but the financially weakest institutions should focus primarily on debt affordability, rather than debt capacity. Debt affordability is determined by the institution's ability to absorb all incremental facilities costs within its operating budget. The greater flexibility that the institution has to control the allocation of budget resources to specific activities, the greater its flexibility to manage debt and other obligations and respond to changes in operating revenue. However, budgetary flexibility should not reduce the need to allocate repayment obligations internally and to demand a feasible business plan identifying the expected sources of repayment before debt is incurred.

Debt affordability highlights the concept that the institution's operating budget usually is the constraint limiting the incurrence of additional debt. This is in contrast to debt capacity that focuses solely on the institution's balance sheet. Balance sheet leverage generally is a limiting factor only for the less wealthy institutions since a weak balance sheet limits access to the capital markets. For most institutions, debt capacity is of interest primarily from a credit rating and peer comparison perspective.

When debt is viewed on a portfolio rather than project-specific basis, there is greater flexibility to structure debt terms to the institution's long-term advantage. This may include a slightly longer average life for debt in certain interest rate environments, which offers institutions more flexibility to allocate internal resources more efficiently. In contrast, managing capital on a project-specific basis can lead to less favorable debt utilization for the institution as a whole. To maximize this flexibility, external debt should have as few restrictions as the market will allow, and the institution generally should offer the broadest credit (such as a general obligation) possible.

To the extent that money is fungible, institutions should view their sources of capital funding and repayment as broadly as possible and manage their obligations as a portfolio backed by an institutional credit. When debt is being used strategically, an institution is highly unlikely to "walk away" from an obligation if the expected revenue stream proves insufficient to repay the debt service. It will find ways of reallocating other legally available funds or restructuring the obligation. If the institution is willing to make this type of commitment, it should receive recognition from the marketplace because structuring obligations to be repaid from all legally available resources tends to decrease the cost of capital. On the other hand, if the institution is unwilling to back the project with all available resources, the institution should question why the project is being undertaken in the first place.

To manage debt strategically, we recommend that institutions adopt a formal debt policy (described later in this chapter) that provides a framework to help determine priorities and the most appropriate funding sources. In fact, debt management should be an ongoing internal process that includes all stakeholders, rather than a periodic activity focused solely on new debt issuance and the current market perception of institutional credit. We have found that an internal process that helps build trust among the managers and users of debt can be even more valuable than the actual policy that is adopted since it builds a foundation for linking capital budgeting, financial management, facilities planning and debt utilization to strategic planning.

EXTERNAL VERSUS INTERNAL MANAGEMENT OF DEBT

Typically, institutions have issued and managed debt and allocated debt service costs on a project-by-project basis. Thus, a project's debt service cost may be based on luck, prevailing market conditions and the type of funding employed (e.g., equity, gifts, tax-exempt debt, taxable debt, third-party loans, fixed or variable obligations, etc.).

This project-based financing approach makes budgeting and project planning extremely difficult and can lead to inequities among various institutional divisions. Increasingly, public and private institutions have approached the issue of internal management of debt by adopting a more corporate view of debt and the treasury function by having the institution function as a central bank and lend debt proceeds to individual departments or schools to finance projects at a common repayment rate. This method of disbursement can help alleviate the problem of funding timing and produce benefits such as reduced year-to-year budget variances; external debt that can be structured to optimize prevailing market conditions (subject to considerations such as tax law and federal reimbursement requirements and state or donor restrictions); and reduced administrative burden. The internal repayment rate should be reviewed regularly, although we recommend that the actual rates be adjusted infrequently.

Implementing an enterprisewide structure can be a challenge, as historical budgets and costs and internal politics must be considered. However, managing debt on a portfolio basis with the objective of lowering overall institutional costs and risks and providing a predictable funding cost provides the institution with a number of long-term advantages. Depending on the funding needs of the institution, a bank line of credit or commercial paper program can further assist in managing a source of available funds while minimizing the frequency of, and dependency on, individual bond transactions.

The decisions regarding fixed and variable rate debt highlight this point. For most institutions, it may be desirable to maintain a portion of its outstanding debt in a variable rate mode. If debt is managed on a transactional basis with the actual interest expense directly passed through to users, beneficiaries of variable rate debt financing will enjoy significant cost savings during low interest rate periods but may not evaluate or appreciate the significant risk they assume, and their projects may encounter substantial budgetary difficulty if short-term rates rise. The result of employing this project-based funding rationale is that the institution may have less than an ideal overall allocation between fixed and variable rate debt. By managing debt on a portfolio basis, the institution is better positioned to benefit from and diversify exposure to short-term interest rates, as well as consider the impact on the institution's assets.

IMPLEMENTING A DEBT POLICY

Debt is a tool to achieve the desired long-term strategies of the institution, and, as such, a debt policy should be linked to the mission and strategic objectives of the institution. A formal debt policy provides the framework through which the institution can evaluate the use of debt to achieve strategic goals. Since management is best able to evaluate its needs, the institution—and not credit-rating agencies—should determine debt policy. A number of the ratios presented in this book can help set targets for evaluating the amount of desired debt at an institution. An institution will be stronger financially and programmatically if it develops an internal debt policy and articulates this policy to its stakeholders and periodically measures attainment.

The policy should achieve the following objectives:

- First, the debt policy should be specifically customized to reflect the institution's unique culture, advantages, limitations and aspirations. It should acknowledge the institution's philosophy concerning debt within the context of the mission and strategic plan. The policy must complement other funding sources and correlate to the institution's total resources, including investments.
- Second, it should provide management with control over the institution's entire debt portfolio. This includes not only direct obligations issued by the institution but any additional transactions that impact the institution's credit and debt capacity. The total project-related debt should be addressed, and other uses of leverage should be considered.
- Third, the policy should establish broad guidelines that are reported on and evaluated regularly to ensure that the institution is continuing to meet its strategic objectives and to respond to any changes in the market.
- Fourth, the policy should have the objective of providing additional funds to support the institution's capital needs and achieve the lowest overall cost of capital consistent with strategic objectives and internal risk tolerance.
- Fifth, the policy may reference operating guidelines and procedures regarding the external and internal management of the portfolio.

We believe that the debt policy should not explicitly include attainment of a specific rating as an objective. Often institutions, and particularly governing boards, may wish to achieve a specific bond rating; however, we believe this focus is misplaced. Instead, the institution should focus on setting forth objectives and financial targets in its self-determined debt policy, which should serve as the basis for managing the institution's credit. However, a rating acceptable to the institution may result from the strategy contained in the debt policy.

CREATING A DEBT POLICY

Figure 4.1 demonstrates how debt policy links to the strategic plan and, ultimately, to the institutional mission. Without this linkage, it is difficult to create a cohesive operating environment. In creating a debt policy, the focus is on debt as a perpetual portion of the capitalization of the institution, similar to endowment funds. Furthermore, debt should be viewed as part of a process and not as individual transactions.

FIGURE 4.1: LINKING DEBT POLICY TO THE MISSION

DEVELOPING A DEBT POLICY

Although final debt policy statements are generally short (typically no longer than five pages, plus any supporting schedules and quantitative analyses), the development process is quite intensive because the policy must be specific to the institution, and the finance officers with responsibility for leading the process must enlist broad support and acceptance across the institution for the process and resulting policy to be truly effective. Most importantly, this includes oversight from the governing board.

The process for developing a debt policy requires both hard and soft skills, including:

- Understanding the historic relationships, decision-making processes and institutional culture.
- Overcoming any resistance and skepticism (which may necessitate the intervention of an external party).
- Determining the appropriate level for approval, such as the degree of governing board involvement.
- Ensuring that the debt policy is consistent with the institution's investment policy and with assumptions regarding returns, cash balances, etc., to enable balance sheet management.
- Evaluating existing debt structures, internal loans and other obligations.
- Determining how to incorporate prior decisions and structures into the new framework (without causing unintentional negative results) and whether existing financial structures must be reevaluated.
- Understanding the institution's level of risk tolerance in managing its debt portfolio and establishing internal lending rates.
- Communicating throughout the process with stakeholders about the expected benefits and output of the ongoing process.

The debt policy must be helpful to management, regularly communicated and periodically reviewed.

Because the policy should reflect the institution's unique needs and strategic objectives, there is no one model debt policy that fits all institutions. In fact, the process of developing and customizing the policy to the institution is critical. However, in developing a debt policy, the following guidelines should be considered:

- Articulate the institution's philosophy about debt that governs all commitments of the institution. This should explain why the debt policy is being created, how it will be used to govern the incurrence of debt to achieve strategic objectives and for what purposes deviations are acceptable. It provides criteria for management and the governing board to interpret the other components of the policy. The institution may wish to explicitly acknowledge that the policy is consistent with state law and guidelines and legal and tax requirements.
- Select the limited number of key ratios and establish specific financial targets or limits for the appropriate financial boundaries of the institution's operations. Generally, no more than two to four ratios are used to represent the overall health of the institution and to keep the evaluation at a high, strategic level (other ratios could be tracked as well for management purposes). Typically, the Viability Ratio and Debt Service Burden Ratio would be two of the ratios monitored.
- Develop a policy and procedure for the prioritization and monitoring of capital projects with input at the applicable operating level (e.g., school, department) of the institution. Guidelines should be broad enough to allow management flexibility; however, the policy should give priority to projects that are mission-critical and/or have a related revenue stream for repayment.
- Consider the desired mix of variable and fixed debt as well as permissible (or prohibited) debt structures and covenants. Targets should be established for fixed and variable rate debt percentages. When determining the appropriate variable rate allocation, the institution's cash and fixed-income holdings should be considered.
- Contemplate the use of derivative products and establish guidelines regarding their evaluation and applicability. Increasingly, institutions have been developing a policy specifically geared to derivatives. A derivatives policy should complement or form a part of the debt policy.
- State that the institution will interact with the rating agencies and analysts. The institution should not specify the attainment or maintenance of a specific rating as part of the policy.

- Include the methodology and calculations to support the items contained in the policy, as well as calculations of the ratios (including projections), as appendices.
- Establish a policy regarding the internal use, management and repayment of debt.
- Establish the format for regular reports to the governing board.
- Establish internal guidelines and procedures regarding savings thresholds, debt structuring objectives and other administrative requirements of the debt portfolio. Include acknowledgment that a process for dealing with legal, tax and other external requirements must be in place, although these operating procedures should not be part of the actual policy.

Once the debt policy is developed and adopted, it must be implemented and monitored. Recommendations for effective buy-in for the debt policy across campus and for minimal administrative burden include:

- Meet with affected representatives before and after adoption to explain why the policy was enacted and how it specifically affects them. Since certain long-standing behaviors may have to be modified, it is critical to involve all constituents.
- Ensure that data is available to make informed decisions.
- Modify or create appropriate incentives to ensure that the desired outcome will be achieved. Since the debt policy exists to help the institution effectively achieve its strategic plan, be certain that all activities support that objective.
- Determine whether any other activities, relationships or processes should be modified. No institution wants to go through continual adjustment and change. Consider implementation at a time when other changes are being considered, and determine that all activities are consistent to achieve the desired outcomes.
- Accept that there may need to be certain exceptions to the policy, or that it may need to be phased in over a number of years for certain areas or projects. However, it is important that the exceptions or phase-ins have a limit, since a dual system should not be perpetuated as that creates increased administrative burden and systemic inequities.
- Although changes to the policy and procedures should be minimized, recognize that some changes are likely as new information is received and improvements identified.
- Ensure that the policy and supporting procedures are living documents and accurately reflect how the institution conducts business. Establishing a policy to "sit on the shelf" is an unproductive exercise for all concerned.
- Understand that implementing the policy will take time and effort. If the institution is not prepared to make that commitment currently, it is better to wait until necessary resources are available and the initiative becomes a priority.

USE OF DEBT VERSUS WORKING CAPITAL

For some institutions, cash management has not been a top priority. Low interest rates, imperfect data for cash projections, diffuse responsibility for investing, cash management and finance, and nonaligned financial incentives have lessened the need to maximize the return on the institution's working capital. Despite these challenges, even relatively small improvements to the cash management function can enhance financial performance.

When determining the appropriate amount of asset liquidity to maintain, the institution should also consider the amount of short-term debt and lines of credit. Establishing policies or recommendations regarding debt, liquidity, cash or investments in isolation is not ideal; only when considering all assets and liabilities will the institution achieve greater flexibility as well as enhanced overall performance. Such policies should address:

- The appropriate level of cash and similar investments to keep on hand. Institutions that claim not to have a problem with cash management because there is always more than sufficient cash on hand may benefit from reducing cash balances and increasing longer-term investments.
- Whether a line of credit and/or commercial paper program or other forms of short-term borrowing should be available to augment internal funds for liquidity and cash needs.
- Whether the acquisition of short-term assets is more cost effective to be funded with cash, operating leases, a bank line or tax-exempt short-term debt. The decision among these options should be based on economics and should not affect the institution's long-term debt capacity for facilities.
- Whether a fixed-rate long-term debt portfolio actually may be riskier to the institution than a portfolio that includes some variable rate debt. When considering liabilities exclusively, it may appear that a 100 percent fixed-rate debt portfolio imposes the least amount of risk to the institution's operating budget. However, when earnings from short-term investments that support the budget are considered, the overall effect is to produce greater volatility in the institution's budget. Hedging of the institution's average cash and cash equivalents with floating rate debt minimizes exposure to the institution overall.
- That institutional liquidity to support operations and potentially external debt should be managed on a portfolio basis.

An institution should review investment policy, spending rules, cash management strategies and debt policy together to determine whether they are supportive or have some inconsistencies that prevent the institution from optimizing its net assets. Examining financial investments, cash, facilities and debt within the same context truly permits the institution to take a holistic approach to its finances based on management of its entire balance sheet.

Institutions, like individuals, borrow money for two reasons—they have to or they want to. If they are doing so because they want to, it is generally because tax-exempt debt is widely regarded as being a more attractive source of capital than internal reserves. In fact, when projecting investment return, most asset managers will assume an expected annual rate of return above the institution's external cost of capital, sometimes significantly above this cost. Few investment managers would project that investment returns would not surpass either the institution's cost of capital or the return that could be realized on a portfolio of fixed-income securities over the long term. If the institution believes its long-term returns are not really achievable, it would be financially advantageous to use internal rather than external funds for capital expenditure. When performing any financial projections, it is critical to make various assumptions and prepare various alternative scenarios. The use of Monte Carlo or similar simulations, historical information and scenario modeling can assist in interpreting projections and making informed decisions.

FINANCIAL RATIOS WITHIN THE CONTEXT OF CREDIT ANALYSIS

Financial ratios provide a useful guide for evaluating the credit of both public and private educational institutions as well as other not-for-profit organizations; however, it is important to remember that an institution's current and projected financial health represents only one criterion necessary to evaluate credit and debt capacity. In fact, in many instances, institutions with relatively weaker financial ratios actually enjoy higher credit ratings and improved access to capital due to other factors. In certain cases, incurring debt actually improves an institution's long-term credit profile and competitive position despite resulting in a short-term negative effect on specific financial ratios. The institution should evaluate many components of its operational and programmatic characteristics, including financial ratios, in determining its true credit profile.

FIGURE 4.2: REPRESENTATIVE DETERMINANTS OF EXTERNAL CREDIT PROFILE

Figure 4.2 is just one example of the types of information that can influence a rating, although the actual factors and the weighting of those factors will differ for each institution and possibly each credit rating agency. There are many factors that must be considered when an external analyst measures credit, but the single most important component of credit—quality of management—is the most difficult to quantify.

In addition to understanding its financial profile, the institution should evaluate many additional components of its operational and programmatic characteristics in determining its true credit profile, recognizing that not all institutions will have the same determinants or weighting of their credit profile. By analyzing projected ratios, the institution is better positioned to deal with problems, capitalize on opportunities, recognize the competitive landscape and adjust costs with a view to optimizing its financial position overall. Furthermore, although projected financial statements provide a beneficial guide to future performance, there certainly will be changes to future budgets and priorities. Thus, the ratios in this book serve as a tool to provide the institution with the flexibility to respond to the future. It is vital to preserve flexibility, including financial flexibility, despite the inability to accurately quantify future value. Nevertheless, a focus on preserving future options is critical to achieving mission objectives.

When bond issues or other loans are structured, it is important to analyze the potential current and future impact of covenants and other pledges. We cannot overstate the importance for all institutions to maximize future flexibility and devote sufficient time and attention to understand the potential future limitations that may be imposed by current financing decisions and strive to minimize those constraints. For example, the decision to use credit enhancement for bond transactions is generally based on a cost-benefit analysis comparing the cost of the insurance and the present value of future debt service savings. However, insurance policies or other financial contracts frequently contain numerous operating covenants and security provisions. At the time debt is issued, these restrictions may not seem particularly burdensome and they may be entirely appropriate and necessary in order to realize the lowest cost. Years later, however, the impact of these restrictions may become apparent when the institution is prevented from taking advantage of important opportunities. By analyzing the possible impact of covenants and pledges at the time issues are structured and sold, institutions will be better positioned to make the appropriate long-term decision. Recognizing and quantifying the value of flexibility is a critical first step in realizing this objective.

5

MEASURING OVERALL FINANCIAL HEALTH USING FINANCIAL RATIOS

5

MEASURING OVERALL FINANCIAL HEALTH USING FINANCIAL RATIOS

CHAPTER SUMMARY

This chapter presents concepts that we have developed since the first edition of Ratio Analysis in Higher Education *and are the foundation of the strategic analyses presented in the prior chapters. There has been evolution in thought, driven both by changing accounting models for both private and public institutions and the increasing sophistication of institutions in understanding their financial position and financial needs. We believe the fundamental concept of assessing financial health by using a limited number of ratios has improved the understanding of the financial health of colleges and universities.*

INTRODUCTION

Ratio analysis is an important method of strategic financial analysis to measure and analyze financial information. Earlier editions of *Ratio Analysis in Higher Education* focused on ratios as a tool to understand and communicate financial information to stakeholders. Those publications emphasized the calculation and objective of the ratios since either many of the ratios were new to higher education or the users of the ratios did not understand fully the uniqueness of higher education financial reporting. Over time, we evolved the concepts and use of ratios and developed some overall indicators of financial health. However, ratios are just one tool of financial analysis to determine whether the institution is using its financial resources effectively to achieve its mission and are not calculated solely for themselves.

Several principles guided the earlier editions of *Ratio Analysis in Higher Education*. We have reexamined these principles for using ratios and have adjusted them to reflect the continuously challenging financial environment facing higher education. These principles are:

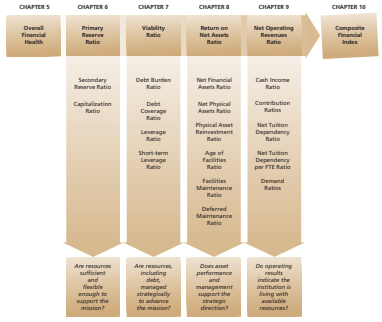
- Use ratios to measure the acquisition and use of resources to achieve the institution's mission
- Focus on summary information to address key questions raised by stakeholders
- Present a few key ratios to answer these questions
- Focus on trends in institutional ratios

Ratio analysis can measure success factors against institution-specific objectives and provide the institution with the tools to improve its financial profile to carry out its mission. The principles of ratio analysis can serve as a yardstick to measure the use of financial resources to achieve the institution's mission. Financial ratio analysis quantifies the status, sources and uses of these resources and the institution's relative ability to repay current and future debt. Business officers and board members can use these measures to gauge institutional performance. Finally, ratios can focus planning activities on those steps necessary to improve the institution's financial profile in relation to its vision and mission.

As presented on page 47, a ratio map illustrates four core, higher-level ratios that provide information on the overall financial health of the institution and other ratios collected around related activities to provide deeper insight into the institution. For public institutions, these core ratios were described in the fifth edition of *Ratio Analysis in Higher Education: New Insights for Leaders of Public Higher Education*. Chapters 6–9 describe the other ratios that provide a deeper understanding of the institution's activities as the four key questions are answered. Chapter 10 introduces a methodology for creating one overall financial measurement of the public institution's health based on the four core ratios, called the Composite Financial Index, or CFI. The CFI is useful in helping boards and senior management understand the financial position that the institution enjoys in the marketplace. Moreover, this measurement will also prove valuable in assessing the future prospects of the institution, functioning as an "affordability index" of a strategic plan.

For private institutions, Chapters 6–10 reiterate the conceptual framework and methodology for the CFI that was introduced in the fourth edition of *Ratio Analysis in Higher Education: Measuring Past Performance to Chart Future Direction*. Since we introduced the concept and methodology of the CFI in the fourth edition in 1999, it has been adopted by many leading institutions and found great acceptance by senior management and boards of trustees. We have found that the weighting and scoring systems as introduced have worked well and do not require any revision. We have changed the name of one ratio from the Net Income Ratio to Net Operating Revenues Ratio to better reflect its purpose.

FIGURE 5.1: RATIO MAP



The concepts that have evolved are (a) fewer measures are better, as long as they are the correct ones, and (b) everyone in an institution should have key performance metrics to drive mission and assess performance. Figure 5.1 maps all the financial statement ratios discussed in this book into the functional areas they help analyze and the high-order questions they help answer. Some of the ratios are new to this edition. Some ratios from previous editions have been reorganized in other areas and others have been deleted to reflect the evolving needs of financial officers in the dynamic higher education environment.

COMBINING RATIOS FOR PUBLIC AND PRIVATE INSTITUTIONS

Private and public institutions compete with each other for resources, students and faculty. In addition, due to state government reductions in aid, many public institutions are increasing efforts to raise funds and reduce reliance on unpredictable governmental sources of operating and capital funds. This has resulted in many public institutions seeking ways to become more self-reliant and having to manage themselves more like private institutions. We do not believe that the different missions between public and private institutions, and differences in missions between solely private institutions or solely public institutions, are significant enough to prevent using financial ratios to measure similar financial events. Our experience in higher education has also indicated that private and public institutions perform the same basic functions and that financial ratios can measure and communicate the same objective. Although the methodology for public and private institutions remain the same, calculations will differ.

For public institutions, it is important to measure the entire public institution's financial resources, debt and financial performance. This will include the institution itself, its affiliated foundations used for fundraising, research or real estate, and other special-purpose entities used to construct and/or operate institution-related assets such as student housing. Although individually significant fundraising affiliated foundations are now presented in the public institution's financial statements, internal analysts may find it desirable to include all affiliates in the calculations so that the entire institution is represented in the calculations. External analysts may still find it difficult to obtain financial information about all affiliates and should consider materiality in determining which affiliated entities' financial information beyond those already presented is necessary so that exclusion does not result in the analysis being materially incomplete or misleading. Analysts may also consider doing a "with and without" analysis to determine the impact of these affiliates.

Also for public institutions, the financial ratios described here and in subsequent chapters combine entities that follow accounting practices issued by both the GASB and the Financial Accounting Standards Board (FASB). Generally, affiliated foundations and special-purpose entities will follow FASB standards that are different from GASB standards. However, these differences are less after adoption of GASB Statements nos. 33, 34 and 35 by public institutions and are not significant enough to warrant exclusion of the affiliated entities. In addition, since in many cases, the majority of the public institution's financial resources, and in some cases a significant portion of debt, reside in the affiliated entities, excluding these entities from financial analysis of the public institution would result in misleading or incomplete analysis.

The financial information required to calculate the ratios for public institutions is contained in the financial statements of the institution or the separate financial statements of the affiliates, if the affiliate information or statements is not presented with the institution's statements. These affiliates are referred to in the calculations as component units (C.U.). In evaluating the net assets of affiliated fundraising foundations following FASB standards, the analyst should determine whether the foundation's funds held for the benefit of the institution are reported as liabilities and make adjustments so that these funds are reported as net assets. Some information may not be disclosed in the financial statements but can be obtained from the accounting records.

The financial information required to calculate the ratios for private institutions is contained primarily in the financial statements, but some information will need to be obtained from the accounting records.

PEER GROUP COMPARISONS

Prior editions of *Ratio Analysis in Higher Education* have noted the use of financial ratios to make peer comparisons. Publications have increased the use of peer rankings over time, especially concerning the quality of academic programs and the institution as a whole. These peer comparisons have benefited many institutions and provided management a way to communicate an institution's goals and progress toward those goals to its various stakeholders. Institutions have also used peer comparisons successfully by establishing an aspirant peer group. However, it has also become evident that some institutions have over-used peer comparisons and have forgotten three basic principles of financial analysis—one, ratios should be used to measure success factors in order to improve the institution financially to achieve its mission; two, that the information being compared must be on a fairly consistent basis; and three, that peer comparisons are only a weak relative indicator and do not measure attainment of an institution's unique mission. Therefore, common sense, qualitative interpretation and longitudinal interpretation are required.

Some stakeholders have desired direct financial comparisons between private and public institutions. Unfortunately, this was not at all possible due to significant differences between financial reporting principles for private and public institutions since 1996, when the financial reporting principles changed significantly for private institutions. In 2002, the financial reporting principles changed significantly for public institutions, making them more comparable to private institutions. These differences narrowed further in 2004 as public institutions were required to include their fundraising foundations that meet certain criteria as part of their financial statements.

However, even though the differences have narrowed, significant differences still remain between the financial accounting and reporting principles used by public and private institutions. These differences include recognition of contributions as revenue or by others, the nature of restrictions, use of restricted net assets, and categorization of cash transactions in the statement of cash flows. Because of these significant differences, great care should be exercised when making financial comparisons between public and private institutions.

Longitudinal comparisons are generally more important than peer comparisons since the institution can adapt the ratios over time to meet institutional needs and reflect changing conditions. In addition, as discussed here and in subsequent chapters, many ratio calculations can be modified to better reflect the objectives of the particular institution. The institution is generally assured of a consistent basis and availability of information sources, not all of which are reported in the institution's annual financial report. Causes of changes in ratios can also be identified more easily. Internal comparisons can be used over a longer time horizon to monitor historical institutional performance, establish prospective targets and, combined with nonfinancial drivers, present a more thorough analysis and evaluation.

LIMITATIONS IN CALCULATING AND USING FINANCIAL RATIOS

While we believe that financial ratio comparisons across institutions—public or private—are useful, we recognize that a number of limitations continue to exist that make comparisons between public and private institutions, or even among public universities, difficult in some comparative areas. Public institutions have different operating and governance structures that make financial analysis challenging and generally require a more rigorous review of the financial information contained in the comprehensive financial statements. Some public institutions rely on the sponsoring government for a credit rating for debt, whereas others obtain their own credit rating. In some instances, debt related to a public institution's plant assets does not reside at the institution level but at a higher level such as a state system. In addition, public institutions rely on their sponsoring governments for operating and capital support; in some instances, other governmental units may also support the institution, such as a state supporting county-based community colleges. This support generally permits public institutions to operate at a lower operating surplus and expendable net asset level than their private counterparts; however, this funding dependency reduces operating and financial flexibility. In addition, in some states, public institutions are not permitted to maintain expendable net asset balances above a certain level; institutions that incur operating surpluses or have significant expendable net assets may find future operating support reduced.

We have established threshold values for the four core ratios and certain other ratios described in Chapters 6–9 based on evaluations of private and public institutions. Recognizing that public institutions may require greater operating independence to have the flexibility to adapt to changing market conditions, we have concluded that the threshold values should be the same for private and public institutions, unless otherwise indicated. Similarly, government support is a significant strength for public institutions and should be considered in any financial analysis.

Likewise, we have determined that the threshold values and the scoring and weighting systems used in calculating the Composite Financial Index described in Chapter 10 should be the same for private and public institutions. These thresholds are more useful for private institutions and public institutions that are managing themselves (or desire to) with direct responsibility for budget, operation, debt and investment management. Many public institutions may find the threshold values too high or cannot attain them due to operating and governance restrictions; however, the values indicate that these institutions possess minimal operating and financial flexibility independent of the state, which we believe limits the institutions' ability to adapt to a changing market and invest in significant new strategic initiatives, absent the identification of a specific new funding source.

Although the ratio calculations for public institutions should include their component units, in certain cases that information may not be available from the public institutions' financial statements. For example, institutions are not required to present the statement of cash flows for their component units. Excluding the component units from these calculations is appropriate unless the institutions have access to the detailed financial statements and accounting records. In other cases, inclusion of the component units' information will not be appropriate. For example, including depreciation expense and accumulated depreciation of the FASB component units that are fundraising entities in the Age of Facilities Ratio would generally not be appropriate. However, if the component units are operating entities, such as a medical practice plan or research foundation, then inclusion should occur.

Public institutions and their reported component units are included in higher-level financial statements such as a state system or department of education. For inclusion into this higher-level reporting entity, public institutions are required to provide the higher-level entity information showing a consolidated statement of net assets and statement of revenues, expenses and changes in net assets. These consolidated statements include elimination of inter-entity transactions and balances between the public institution and its component units. A consolidated statement of cash flows is not prepared since discretely presented component units are not required to present a statement of cash flows.

Analysts preparing financial ratios for public institutions should use the consolidated information from those schedules since the basis of the ratios is the institution as a whole. However, these schedules and consolidated information generally are neither published, separately disclosed nor available to the general public. As a result, analysts may be required to use the separate financial statements of the public institution and its component units. These statements will not be on a consolidated basis and not have inter-entity transactions and balances eliminated.

For example, calculating total expenses for the institution itself and its component units may result in double-counting certain expenses. To illustrate, an institution's component unit will receive contributions for operating support. It would record revenue when earned and expenses reflecting the distribution to the institution. The institution would record revenue from the receipt from the component unit and the expenses if funds were used. As a result, expenses are counted both in the component unit and the institution in the institution's separate financial statements. It may be unlikely that expenses would be recorded in the same accounting period by both the institution and the component unit.

The ratio calculations illustrated in Chapters 6–9 use information from the separate financial statements from a representative public institution and its component unit fundraising foundation. For purposes of the illustrated ratios, we have not eliminated the double-counting of transactions but have indicated in the calculations the need to eliminate inter-entity transactions and balances.

While there are a number of factors impacting only public institutions, other considerations affect both public and private universities.

USING HISTORICAL COST VALUES OF PLANT ASSETS

An institution's assets contain a number of components such as investments that are comparable across institutions, since they can be easily valued on a current basis (with the exception of private equity or alternative investments). However, for most institutions, another major component of assets is the carrying value of plant, which is more difficult to interpret and compare across institutions. This discrepancy may affect the relative wealth of institutions based on the degree of investment in plant.

Unlike investments, plant facilities are carried at historical value less accumulated depreciation. If plant were stated at market value, the value of many institutions' facilities would increase considerably. This is especially true for those institutions located in urban environments that have experienced significant real estate appreciation that has not been reflected in the valuation of the institutions' real estate or for those institutions that possess vacant land available for future development. The effect of not stating real estate at market values is to understate the wealth of the institution and overstate the return on net assets.

Despite these shortcomings, calculating plant based on historical cost has its advantages and is preferable for a number of reasons. First, historical value is contained in the audited financial statements and is a readily available figure, if not an entirely accurate one. Second, it is not clear that current market value is any more objective and correct than historical value. In order to state plant facilities at market, an institution would need to continually appraise its property, a costly and time-consuming process. Appraisals themselves are subjective measurements, and they would only continue to make comparison of plant values across institutions extremely difficult. Last, realization of the current value of the real estate owned would require conversion through sale, which would impair the institutional ability to carry on program activities. When these assets are used as collateral, the fair value is generally assessed in determining the collateral to loan ratios.

Plant represents a significant asset to most higher education institutions. While few institutions intend to sell off core assets to relocate or liquidate, quantifying and understanding the true value of these assets is an important exercise as institutions increasingly seek ways to use plant assets in more creative ways to generate investable resources.

DEFERRED MAINTENANCE LIABILITIES

Although stating plant at historical value tends to underestimate the value of an institution's real estate holdings, the failure to include deferred maintenance as a liability on an institution's balance sheet overstates the value of net assets because it fails to account for an unfunded future cost. Maintenance of campus facilities can be delayed indefinitely; however, at some point an institution will find it desirable to upgrade its facilities, because of either need or competitive pressure, and at that point it will incur a potentially significant cost.

Since deferred maintenance does not appear as a liability, the institution that has chosen to invest in plant appears less wealthy on a relative basis than its peer institutions that have elected to delay the necessary reinvestment in plant. When this liability is eventually funded, the institution that has postponed investment in plant will experience a potentially significant deterioration in some fundamental financial ratios.

There is no formula to suggest universally appropriate levels of investments in either plant or endowment. However, there are trade-offs in the current period between the two alternatives, and management must make the allocation that is most appropriate for the given institution. Measurements can be affected if the decision to invest in plant results in an institution's appearing less wealthy than a peer, when in fact its financial managers have simply made a different investment decision. An acknowledgment of unfunded liabilities must be made in order to make comparisons across institutions more equal. For the reasons stated previously, adjusting for unfunded liabilities on the valuation of plant is not desirable, either. Rather, it is recommended that management be aware of the level of deferred maintenance and calculate financial ratios on a forward basis. Since unfunded maintenance is a deferred cost rather than an avoided cost, at some point the liability must be funded. By calculating the Return on Net Assets Ratio, among others, on a projected basis, management will be able to determine the implication of delaying investment in plant.

As a final point, the choice between deployment of resources in plant or investments is not entirely equivalent, since investment in plant is far less liquid and therefore not readily available to pay debt service. The difference between two equivalent institutions, one of which has elected to invest in plant and the other to defer maintenance, will be apparent in the expendable net assets ratios that exclude investment in plant. This distinction is appropriate; however, there should not be a differential when measuring the total net assets of each institution.

CAPITALIZING GOVERNMENT SUPPORT

One of the most substantial sources of funding and a significant strength for many public institutions is the level of government support, partially evidenced in state appropriations. This is a considerable source of funding for many public institutions and, for some, historically has served to lessen the reliance on endowment funds, which have been critical for private institutions. While we believe that public institutions and their supporting foundations should continue to aggressively solicit philanthropy and build investments, we also believe that demonstrated committed government support represents an important asset of the institution, yet one that is not reflected on the balance sheet.

A public institution may consider "capitalizing" the government appropriations (e.g., using the perpetuity formula by dividing steady state appropriations by an applicable interest rate, such as 4–5 percent, which would represent a traditional payout rate) for analysis purposes. This approach would capture the value of the appropriations to the institution and identify the level of investments the institution would require to replace government support.

OTHER FINANCIAL RATIOS USED IN HIGHER EDUCATION

Others, including those analyzing the institution's credit and the Department of Education, have developed many financial ratios for higher education institutions. Some of these other developers' ratios are very similar to the ratios in this publication and earlier editions of *Ratio Analysis in Higher Education*, both in name and calculation. It is important to note that the purpose of the ratios and CFI scoring system are substantially different from those used by these other developers because their purposes vary significantly. Credit rating agencies and financial institutions use ratios to evaluate an institution's creditworthiness. The Department of Education's purpose is to identify institutions that might bear increased financial risk to its student financial aid programs in a short time horizon. Our ratios assist institutions in understanding the affordability of their strategic plans and to monitor and evaluate the financial results of implementing those strategic initiatives over a longer-time horizon.

The illustrated examples of the ratio calculations in subsequent chapters are from sample private and public higher education institutions' financial statements. The private institution, Utopia University, is presented in Appendix B, whereas the public institution, Sagacious State University, and its component unit function is presented in Appendix C. These statements are derived from actual financial statements.

EXAMPLE 5.1: CAPITALIZING STATE SUPPORT

As discussed, state appropriations are a valuable resource for many public institutions, yet it is a resource that is not reflected on the balance sheet. To quantify the benefit of the appropriation, it may be helpful to determine the amount of endowment that would be required to replace lost state funding or to improve comparison between public and private institutions (with all the other caveats) by capitalizing the state appropriations (or other sources of external funding). Adding that to the institution's assets can provide the opportunity for interesting analysis.

Let's assume that an institution receives $10 million per year in state appropriations. To generate this level of endowment payout, a $200 million endowment would be required (5 percent payout multiplied by $200 million equals the $10 million current year's payment). Replacing $20 million in current appropriations would require a $400 million endowment, etc. Adding this figure to the balance sheet as an implied endowment represents a starting point.

While this is a rough approximation, there are other issues that need to be considered. What is the "correct" level of assumed state support? Given some state reductions in recent years, how accurate is the appropriation that is being assumed? Institutions should use a figure that seems reasonable but is not certain.

While the example presented above works for the current year, over time the benefit of institutional endowment over state appropriations becomes significant. If we assume that over the long term an endowment will grow at, say, 7 percent, a greater amount of payout (at an assumed 5 percent) will be available for the institution, keeping up with an assumed 2 percent inflation (i.e., a real return of 5 percent). For public institutions relying on state support, this would require a higher annual increase in appropriations. If state appropriations were growing at only 3 percent per year, for example, a much higher implied endowment would be required (the 3 percent can be viewed as the earnings, and the inflation and payout as the expenditures). For the public and private institutions in our example to be equivalent, state appropriations would have to increase at a rate of 7 percent per year. If not, the capitalized endowment we use today will be insufficient to generate the desired payout in the future.

6 MEASURING RESOURCE SUFFICIENCY AND FLEXIBILITY

CHAPTER SUMMARY

One of the difficulties in understanding the financial statements of higher education institutions is that not all equity accounts have the same availability. Measuring sufficiency of resources is important, but only in the context of understanding whether those resources are also flexible enough to meet the institutional needs. We have designed the Primary Reserve Ratio to give insight into whether the institution has sufficient flexible resources to meet its needs.

INTRODUCTION

Institutions are continuously evaluating whether or not they have adequate resources and access to a sufficient amount of funds to meet current and future operating and capital requirements. The level that defines "adequate resources" depends on an institution's unique needs over the long term and therefore differs from institution to institution. Since demands typically increase over time, the institution must constantly explore methods of managing and expanding its financial base. The ratios presented in this chapter are useful in calculating whether the institution is financially sound, and whether it has the ability to achieve and sustain a level of resources sufficient to realize its strategic objectives. In some institutions, the financial statements will present unrestricted net assets that, while legally available for spending, would be difficult to use on an unrestricted basis due to internal political issues, such as earmarking for departments, as well as donor expectations, such as the classification of appreciation on permanently restricted gifts.

Again, an institution's needs must be linked to the mission. Determining what resources are required to enable the institution to achieve its strategic objectives may be the most significant issue addressed by the governing board. Included in the analysis must be the required reinvestments in program, technology and financial aid, as well as capital assets. By performing this type of examination, the institution can identify whether resources are sufficient to meet its future needs in order to realize strategic objectives that support the mission. If the resources fall short, the institution must analyze the following issues:

- Can resources be increased sufficiently in order to realize objectives?
- Does the institution need to reevaluate and perhaps modify its mission and priorities in light of its current and future resources?

The Primary Reserve Ratio is the key indicator for these specific questions. This indicator helps determine both whether there are sufficient resources and whether the net assets have enough flexibility.

PRIMARY RESERVE RATIO

The Primary Reserve Ratio measures the financial strength of the institution by comparing expendable net assets to total expenses. Expendable net assets represent those assets that the institution can access relatively quickly and spend to satisfy its debt obligations. This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net assets generated by operations. Trend analysis indicates whether an institution has increased its net worth in proportion to the rate of growth in its operating size.

It is reasonable to expect expendable net assets to increase at least in proportion to the rate of growth in operating size. If they do not, the same dollar amount of expendable net assets will provide a smaller margin of protection against adversity as the institution grows in dollar level of expenses. The trend of this ratio is important. A negative or decreasing trend over time indicates a weakening financial condition.

The Primary Reserve Ratio is useful from both an historical and a prospective review point. Historically, showing the relationship of expendable net assets to total expenses gives insight into whether the institution has been able to retain expendable resources at the same rate of growth as its commitments. Over time, total expenses demonstrate the impact of both inflation and programmatic changes on the institution. Once an item is part of the core spending pattern of the institution, it is, in many cases, difficult to change and therefore significantly reduces an institution's operating flexibility.

From a prospective viewpoint, when applied to expected spending patterns, this ratio can help an institution understand the affordability of its strategic plan.

The Primary Reserve Ratio also serves as a counterpoint to the Viability Ratio discussed in Chapter 7. An institution may have insignificant expendable net assets and little or no debt and therefore produce an acceptable value for the Viability Ratio. But low expendable net assets in relation to operating size signals a weak financial condition. In these cases, the Primary Reserve Ratio will be a much more valid measure of financial strength.

The Primary Reserve Ratio is calculated as in Table 6.1.

For private institutions, the numerator includes all unrestricted and temporarily restricted net assets, excluding net investment in plant and those temporarily restricted net assets that will be invested in plant. The denominator comprises all expenses on the statement of activities. In some instances, an institution may include investment losses with its expenses; in such instances, the amount of investment losses, whether realized or unrealized, should be excluded from total expenses.

TABLE 6.1: PRIMARY RESERVE RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Expendable net assets	Expendable net assets plus FASB C.U. expendable net assets
Denominator	Total expenses	Total expenses plus FASB C.U. total expenses

For public institutions, the numerator includes all unrestricted net assets and all expendable restricted net assets, excluding those to be invested in plant, on a GASB basis plus unrestricted and temporarily restricted net assets on a FASB basis for its FASB component units, excluding net investment in plant and those temporarily restricted net assets that will be invested in plant. The denominator comprises all expenses on a GASB basis in the statement of revenues, expense and changes in net assets, including operating expenses and nonoperating expenses such as interest expense, plus FASB component unit total expenses in the statement of activities. Again, investment losses should be excluded from expenses for both the institution and its component units.

GASB nonexpendable restricted net assets and FASB permanently restricted net assets are excluded because they may not be used to extinguish liabilities incurred for operating or plant expenses without special legal permission. Although using total net assets in the numerator provides an informative ratio as to the overall net wealth of the institution, the ratios that exclude nonexpendable net assets provide a truer picture of the actual funds available to the institution and reinforce the desire to maximize unrestricted sources of revenue.

In addition, the carrying value of plant equity is not included because the plant will not normally be sold to produce cash except in the most extreme circumstances, since it presumably will be needed to support ongoing programs, and because it is not easily liquidated.

For private institutions, if the financial statements separately disclose a net investment in plant amount in the unrestricted net asset classification, that amount would be used; it should be noted that some institutions incorrectly calculate this amount for a variety of reasons, primarily due to failure to take into account unexpended debt funds to be used for plant construction purposes. However, since many financial statements of private institutions do not disclose this amount, the net investment in plant amount must be computed as follows: plant equity equals plant assets (property, plant and equipment) minus plant debt (debt outstanding to finance plant assets). This assumes that long-term debt was incurred to finance plant assets. If a recent refinancing or financing occurred, funds held in trust would be included with the property, plant and equipment as if already expended. Including annuity and life income funds and term endowment funds reported as temporarily restricted net assets in the determination of expendable net assets are recommended.

The Primary Reserve Ratio is the first of several ratios that use total expenses to define operating size. For institutions, an analysis of financial statements suggests that a Primary Reserve Ratio of .40x or better is advisable to give institutions the flexibility to transform the enterprise. The implication of .40x is that the institution would have the ability to cover about five months of expenses (40 percent of 12 months) from reserves. Generally, institutions operating at this ratio level rely on internal cash flow to meet short-term cash needs, are able to carry on a reasonable level of facilities maintenance, and appear capable of managing modest unforeseen adverse financial events. Reserves are often required for capital expansion or to implement change in the institution's mission. Should these actions be in process, it would be appropriate to expect a temporary decline in this ratio. A ratio below .10x to .15x indicates that the institution's expendable net asset balances are in a position that generally requires short-term borrowing on a regular basis, since resources cover only one to two months of expenses, and that the institution tends to struggle to have sufficient resources for reinvestment. In addition, institutions with a low primary reserve ratio generally lack sufficient resources for strategic initiatives and may have less operating flexibility.

TABLE 6.2: ILLUSTRATION OF THE PRIMARY RESERVE RATIO: PRIVATE INSTITUTIONS

Numerator—Expendable net assets	
+ Unrestricted net assets	86,014
+ Temporarily restricted net assets	2,954
– Property, plant and equipment, net	(77,900)
+ Long-term debt	39,476
Numerator—Expendable net assets	50,544
Denominator—Total expenses	68,469
Value of ratio	.74x

TABLE 6.3: ILLUSTRATION OF THE PRIMARY RESERVE RATIO: PUBLIC INSTITUTIONS

Numerator—Expendable net assets	
+ Institution unrestricted net assets	35,335
+ Institution expendable restricted net assets	9,938
+ C.U. unrestricted net assets	822
+ C.U. temporarily restricted net assets	16,734
– C.U. net investment in plant	(120)
Numerator—Expendable net assets	62,509
Denominator—Total expenses	
+ Institution operating expenses	142,112
+ Institution nonoperating expenses	334
+ C.U. total expenses	2,561
Elimination of inter-entity amounts	*
Denominator—Total expenses	145,007
Value of ratio	.43x

* Consolidated expenses should be used if available.

SECONDARY RESERVE RATIO

Additional inquiry into the strength of institutional reserves can continue by calculating an ancillary ratio. The Secondary Reserve Ratio is nonexpendable (permanently restricted) net assets over total expenses. It is calculated as in Table 6.4.

For private institutions, the numerator is found on the institution's balance sheet as permanently restricted net assets; the denominator is the same as the denominator in the Primary Reserve Ratio.

For public institutions, the numerator includes all nonexpendable net assets on a GASB basis plus the institution's FASB component unit's permanently restricted net assets on a FASB basis. The denominator is the same as the denominator in the Primary Reserve Ratio.

This ratio provides an assessment of the significance of permanently restricted or nonexpendable net assets in relation to operating size. This ratio is important because over the long term, these net assets may provide a significant stream of secondary financing for operating and plant requirements.

There is presently no threshold to indicate how large the Secondary Reserve Ratio should be; however, it is clear that the higher the value of this ratio, the more favorable the institution's financial condition. A declining trend in this ratio signifies a weakening financial condition. Over the long term, institutions should strive to increase nonexpendable net assets faster than operating size. This condition will signal an improvement in the institution's capital base and increased flexibility in its long-term financial condition.

TABLE 6.4: SECONDARY RESERVE RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Nonexpendable net assets	Nonexpendable net assets plus FASB C.U. nonexpendable net assets
Denominator	Total expenses	Total expenses plus FASB C.U. total expenses

TABLE 6.5: ILLUSTRATION OF THE SECONDARY RESERVE RATIO: PRIVATE INSTITUTIONS

Numerator—Nonexpendable net assets (permanently restricted)	11,652
Denominator—Total expenses	68,469
Value of ratio	17.02%

TABLE 6.6: ILLUSTRATION OF THE SECONDARY RESERVE RATIO: PUBLIC INSTITUTIONS

Numerator—Nonexpendable net assets	
+ Institution nonexpendable net assets	683
+ C.U. permanently restricted net assets	11,456
Numerator—Nonexpendable net assets	12,139
Denominator—Total expenses	
+ Institution operating expenses	142,112
+ Institution nonoperating expenses	334
+ C.U. total expenses	2,561
Elimination of inter-entity amounts	*
Denominator—Total expenses	145,007
Value of ratio	8.37%

* Consolidated expenses should be used if available.

CAPITALIZATION RATIO

It is also helpful to determine the total financial flexibility of the institution, which is based not only on the current period's return on net assets but the accumulated return from previous periods as well. This ratio, the Capitalization Ratio, is similar to an equity ratio. This ratio is to be calculated as in Table 6.7.

The modifications include eliminating certain intangible assets, such as goodwill and inter-entity receivables; income-producing intangible assets, such as patents and royalties, are not eliminated. For public institutions, receivables between the institution and its component units should be eliminated from modified total assets. Also, if an institution and its component unit both recorded net assets from the same transaction, that transaction would need to be eliminated as well. For most institutions the ratio will simply be net assets divided by total assets. However, as institutions become more involved in collaborative activities, these adjustments may assume a larger role in calculating this ratio.

Unlike many of the other ratios presented in this book, a higher ratio is not necessarily preferable to a lower ratio. A very high Capitalization Ratio implies that an institution may not be leveraging its assets effectively and might be investing too much costly equity in physical assets. However, an institution with a high ratio does benefit from enormous future financing flexibility, a major benefit that may sometimes be overlooked.

Institutions with a low capitalization ratio will find themselves constrained with less ability to undertake future capital opportunities without negatively impacting credit. The higher education industry, like other industries, has an appropriate leverage factor, and therefore a desirable range for a Capitalization Ratio. The desirable boundaries for the ratio for institutions are 50 percent and 85 percent. Absent unusual circumstances, institutions above 85 percent may find it in their best interest to consider altering their capitalization structure and leveraging their assets to potentially increase income and future financial wealth.

Those institutions below or near the bottom of the range may find their ability to borrow additional funds limited without making difficult trade-offs. They will have reduced flexibility to respond to future events that may require the expenditure of capital, thereby potentially compromising their strategic advantage. The use of a formal debt policy will help the institution understand its capitalization structure and evaluate future financing flexibility. The institution should set internal guidelines for the Capitalization Ratio range that it deems most appropriate to fulfill its current strategic initiatives.

TABLE 6.7: CAPITALIZATION RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Modified net assets	Modified net assets plus FASB C.U modified net assets
Denominator	Modified total assets	Modified total assets plus FASB C.U. modified total assets

TABLE 6.8: ILLUSTRATION OF THE CAPITALIZATION RATIO: PRIVATE INSTITUTIONS

Numerator—Modified net assets	100,620
Denominator—Modified total assets	157,881
Value of ratio	64%

TABLE 6.9: ILLUSTRATION OF THE CAPITALIZATION RATIO: PUBLIC INSTITUTIONS

Numerator—Modified net assets	
+ Institution modified net assets	151,478
+ C.U. modified net assets	29,012
Numerator—Modified net assets	180,490
Denominator—Modified total assets	
+ Institution modified net assets	195,660
+ C.U.—Modified total assets	30,691
Denominator—Modified total assets	226,351
Value of ratio	80%

7 MANAGEMENT OF RESOURCES, INCLUDING DEBT

CHAPTER SUMMARY

In Chapter 4, we discussed debt policy development and its importance. In this chapter, we present the fundamental ratios that an institution can use to understand its debt position in relation to its overall financial health. These ratios will help an institution understand when the financial burden of taking on debt outweighs its strategic usefulness to achieve mission. The primary driver of this insight is the Viability Ratio, supported by a series of other ratios that measure whether debt payments are appropriately sized for the institution and whether the operations are strong enough to support the debt issued.

What is the strategic management of debt? While for many, debt revolves around a bond issue or other financial transaction, the debt management function actually is much more about internal prioritization, budgeting and strategic planning. Perhaps 75 percent or more of the actual debt management function has absolutely nothing to do with a bond issue; therefore, effective debt management should focus on institutional policies, internal procedures, project prioritization and funding decisions. Resulting transactions will then be structured based on the management of the entire debt portfolio and consideration of the institution's assets. With the growing array and complexity of available financial products, the continuing pressure for facilities, and the increasing focus on balance sheet management, the financial officer's responsibilities continue to multiply, resulting in an increased need for policies as well as analytical tools and a framework for decision making.

INTRODUCTION

Capital for land, buildings and equipment generally comes from three or four primary sources: internally generated funds, contributed funds, borrowed funds and, for public institutions, government appropriations. Internally generated funds and contributed funds represent institutional equity, typically the most expensive and scarce source of funding. The ratios in this chapter focus on all types of funds borrowed for capital-related purposes, regardless of financing structure (total project-related debt), which may differ, perhaps significantly, from the long-term debt reported in the audited financial statements. While the appropriate amount and use of debt differ across institutions, all leaders should ask the same fundamental question—*Has the institution managed debt (and all other sources of capital) strategically to advance the mission?*

At the same time, the ratios in this chapter will also help the institution understand how analysts, as well as lenders and purchasers of debt, evaluate its ability to assume and pay debt service. Methods for accessing additional resources to support institutional objectives include the issuance of debt and the use of alternate financing structures. If the debt that is incurred is used to support the mission, the institution will be in a better position to achieve its long-term goals and build competitive advantages. In contrast, if the debt is used to fund activities that do not capitalize on its competitive strengths, the financial situation is likely to erode, as debt capacity may cover too broad a range of activities. Thus, the institution would be no closer to having the resources needed to achieve its strategic objectives and, in fact, may have lost crucial ground in the competition for students, faculty and financial support. If the institution remains focused on its mission, it can use leverage effectively to deploy additional resources to achieve its long-term goals.

The following five main debt management ratios indicate an institution's ability to assume new debt. Two of the ratios, the Viability Ratio and Leverage Ratio, are statement of net assets or balance sheet measures that indicate debt capacity and generally are regarded as governing the institution's ability to issue new debt. However, as we have indicated, the debt affordability measures are at least as important, and we consider the Debt Burden Ratio and Debt

Coverage Ratio to be the primary indicators regarding the ability for the institution to issue (and repay) debt. In interpreting these (or any) ratios, a decrease in one ratio or an increase in another does not, by itself, determine whether debt financing is available or appropriate. For institutions that view debt as a perpetual component of the balance sheet, or for those that do not employ level debt service structures, this ratio may be more meaningful than the Debt Burden Ratio. The fifth ratio, the Short-term Leverage Ratio, measures the impact of an institution's use of borrowed funds for operating purposes, or the acquisition of equipment and other short-lived assets that are viewed differently than debt associated with the purchase of facilities.

These ratios must be kept in perspective, as many other matters are important in assessing creditworthiness, including the specific legal structure of the security, qualitative and programmatic factors, government support for public institutions, and perhaps most significantly, the quality of management. Thus, institutions with similar results on their debt management ratios may possess substantially different levels of debt capacity. This is the art rather than the science of debt and credit management.

VIABILITY RATIO

The Viability Ratio measures one of the most basic determinants of clear financial health: the availability of expendable net assets to cover debt should the institution need to settle its obligations as of the balance sheet date. The formula for this ratio is shown in Table 7.1.

TABLE 7.1: VIABILITY RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Expendable net assets	Expendable net assets plus FASB C.U. expendable net assets
Denominator	Long-term debt	Long-term debt (total project-related debt) plus FASB C.U. long-term debt (total project-related debt)

For private institutions, the numerator is the same as the numerator for the Primary Reserve Ratio (unrestricted net assets plus temporarily restricted net assets less plant equity). The denominator is defined as all amounts borrowed for project-related purposes from third parties and includes all notes, bonds and leases payable that impact the institution's credit, whether or not the obligation is on the balance sheet. Short-term debt, such as commercial paper and bank credit lines, is excluded. Short-term debt used for plant purposes should be included as long-term debt.

For public institutions, the numerator is also the same as the numerator for the Primary Reserve Ratio. The denominator is defined as all amounts borrowed for long-term purposes from third parties and includes all notes, bonds and capital leases payable that impact the institution's credit, whether or not the institution directly owes the obligation. Long-term debt includes both the current and long-term portions. This would include debt of the institution's affiliated foundations, partnerships and other special-purpose entities. It would also include amounts owed to a system or state-financing agency as it represents debt issued on the institution's behalf.

Although a ratio of 1:1 or greater indicates that, as of the balance sheet date, an institution has sufficient expendable net assets to satisfy debt obligations, this value should not serve as an objective. Many public institutions can operate effectively at a ratio far less than 1:1, partially because the ongoing benefit of state support is not reflected in the institution's expendable net assets. Institutions with a ratio of less than 1:1 are, similar to those with a low Primary Reserve Ratio, less self-reliant and have significantly less operating flexibility but can function, and often function well.

The level that is "right" for the Viability Ratio is institution-specific; the institution should develop a target for this ratio and others that balances its financial, operating and programmatic objectives.

There is no absolute threshold that will indicate whether the institution is no longer financially viable. However, the Viability Ratio, along with the Primary Reserve Ratio discussed earlier, can help define an institution's "margin for error." As the Viability Ratio's value falls below 1:1, an institution's ability to respond, especially a private institution, to adverse conditions from internal resources diminishes, as does its ability to attract capital from external sources and its flexibility to fund new objectives. If an institution is in the middle of a major capital expansion program, this ratio may well fall to a lower level than an institution that is not. However, all institutions will have limits on how much debt is affordable; establishing targets and thresholds specific to the institution will be helpful in guiding decisions on affordability of debt.

In addition, most debt relating to plant assets is long term and does not have to be paid off at once. Payments of other liabilities may similarly be delayed. Analysts should be aware that institutions often show a remarkable resiliency that permits them to continue long beyond what appears to be their point of financial collapse. In fact, institutions have been known to survive for a time with high debt levels and no expendable net assets—or even negative net asset balances. Frequently, this means living with no margin for error and meeting severe cash flow needs by obtaining short-term loans.

A scenario such as that just described will only exacerbate the institution's delicate financial condition. Ultimately, such a financial condition will impair the ability of an institution to fulfill its mission and meet its service obligations to students, since resources must be diverted to fulfill financial covenants and debt service requirements. An institution in a continually fragile financial condition will find itself driven by fiscal rather than programmatic decisions. In such situations, the analyst must assess the institution's ability to generate sufficient surplus net revenues to build positive expendable net assets and to meet its obligations.

Based on the different debt issuance and reporting models used by states and other governmental units, a public institution may report significant plant assets with no corresponding debt used to acquire or construct these assets, as those liabilities are the legal obligation of another entity. This may result in the assets recorded at the institution level while the debt is recorded at the system or other governmental unit level. Under these circumstances, the Viability Ratio may not be applicable to the individual institution since it has no long-term debt. However, the Viability Ratio would be significant for analysis of the system. If information is available, the analyst may consider "pushing-down" the debt from the system to the institution for purposes of analysis.

The Viability Ratio is calculated as in Tables 7.2 and 7.3.

TABLE 7.2: ILLUSTRATION OF THE VIABILITY RATIO: PRIVATE INSTITUTIONS

Numerator—Expendable net assets	
+ Unrestricted net assets	86,014
+ Temporarily restricted net assets	2,954
– Property, plant and equipment, net	(77,900)
+ Long-term debt (total project-related debt)	39,476
Numerator—Expendable net assets	50,544
Denominator—Long-term debt (total project-related debt)	39,476
Value of ratio	1.28x

TABLE 7.3: ILLUSTRATION OF THE VIABILITY RATIO: PUBLIC INSTITUTIONS

Numerator—Expendable net assets	
+ Institution unrestricted net assets	35,335
+ Institution expendable restricted net assets	9,938
+ C.U. unrestricted net assets	822
+ C.U. temporarily restricted net assets	16,734
– C.U. net investment in plant	(320)
Numerator—Expendable net assets	62,509
Denominator—Total long-term debt	
+ Institution long-term debt (total project-related debt)	8,242*
+ C.U. long-term debt (total project-related debt)	–
Denominator—Total long-term debt (total project-related debt)	8,242
Value of ratio	7.58x

*Information not obtained from the financial statements directly since this information is usually contained in the notes.

TABLE 7.5: ILLUSTRATION OF THE DEBT BURDEN RATIO: PRIVATE INSTITUTIONS

Numerator—Debt service	
+ Interest expense	2,323
+ Principal payments	911
Numerator—Debt service	3,234
Denominator—Adjusted expenses	
+ Total expenses	68,469
- Depreciation expense	(4,083)
+ Principal payments	911
Denominator—Adjusted expenses	65,297
Value of ratio	5%

TABLE 7.6: ILLUSTRATION OF THE DEBT BURDEN RATIO: PUBLIC INSTITUTIONS

Numerator—Debt service	
+ Institution interest expense	328
+ Institution principal payments	1,043
+ C.U. interest expense	–
+ C.U. principal payments	–
Numerator—Debt service	1,371
Denominator—Adjusted expenses	
+ Institution total operating expenses	142,112
+ Institution total nonoperating expenses	334
- Institution depreciation expense	(6,978)
+ Institution principal payments	1,043
+ C.U. total expenses	2,561
- C.U. depreciation expense	–
+ C.U. principal payments	–
Elimination of inter-entity amounts	*
Denominator—Adjusted expenses	139,072
Value of ratio	1%

* Consolidated expenses should be used if available.

Note: Principal payments may be normalized if external level debt service is not used and interest expense may be normalized to account for the impact of variable rate debt.
Note: Institutions may calculate this ratio or any other debt service ratio with interest only (i.e., Interest Burden Ratio).

Finally, as with many of the financial ratios presented in this book, it is not the case that a low debt service burden is superior to a higher debt service burden. For most financially healthy institutions, it is advisable to allocate a certain percentage of the operating budget to debt service. Institutions with very low ratios may be forgoing necessary investment in facilities, which, over time, may have a negative impact on their competitive profiles.

DEBT SERVICE COVERAGE RATIO

This ratio measures the excess of income over adjusted expenses available to cover annual debt service payments. This is an important ratio because it gives the analyst a level of comfort that the institution has a net revenue stream available to meet its debt burden should economic conditions change. A high ratio is considered advantageous, while a low ratio or declining trend gives reason for concern regarding the institution's ability to sustain its operations, especially in the face of future budgetary challenges. The ratio is calculated as in Table 7.7.

TABLE 7.7: DEBT SERVICE COVERAGE RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Adjusted change in net assets	Net operating income plus net nonoperating revenues plus interest expense plus depreciation plus FASB C.U. adjusted change in net assets
Denominator	Debt service	Debt service plus C.U. debt service

that are dependent exclusively on their own net assets for debt repayment require relatively higher thresholds than public institutions that traditionally have been able to access state funding that is not capitalized on the institution's balance sheet, and in fact many financially sound public institutions operate effectively with a ratio less than 1:1. As many public institutions are discovering, however, a higher Leverage Ratio may be desirable as it provides greater internal operating flexibility. Especially in light of continued pressures on government budgets, all institutions benefit from building net assets over time—an activity some private institutions have been practicing for a long time—and thereby creating greater self-reliance and flexibility.

SHORT-TERM LEVERAGE RATIO

The Short-term Leverage Ratio is meant to calculate the institution's exposure to debt and similar obligations that are used for purposes other than the purchase of long-term assets. This ratio measures the impact of short-term debt on the institution's balance sheet and acknowledges that this type of debt, plus operating lines, should be considered. The ratio is calculated as in Table 7.13.

TABLE 7.13: SHORT-TERM LEVERAGE RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Nonproject debt and similar obligations	Nonproject debt and similar obligations plus FASB C.U. nonproject debt and similar obligations
Denominator	Cash plus cash equivalents plus short-term investments	Cash plus cash equivalents plus short-term investments plus FASB C.U. cash plus short-term investments

For private institutions, the numerator includes nonproject-related debt and similar obligations. This would include commercial paper lines of credit and other financings used for nonproject purposes. This information may be obtained either from the notes to the financial statements or the accounting records. The denominator includes cash, cash equivalents and short-term investments that do not meet the definition of cash equivalents.

For public institutions, the numerator includes nonproject-related debt and similar obligations, plus the FASB component unit nonproject-related debt and similar obligations. This would include commercial paper lines of credit and other financings used for nonproject purposes. This information may be obtained either from the notes to the financial statements or the accounting records. The denominator includes cash and short-term investments that do not meet the definition of cash equivalents, plus the FASB component unit cash, cash equivalents and short-term investments that do not meet the definition of cash equivalents.

The ratio is calculated by looking at the institution's short-term assets, since, presumably, those assets would have been depleted if the external financing had not been used. This ratio should not be greater than 1:1 since that indicates that nonproject debt cannot readily be extinguished and represents a greater risk to the institution.

DEBT BURDEN RATIO

Although not a core strategic financial ratio, the Debt Burden Ratio is a key tool in measuring debt affordability and should be considered as a key financial indicator for any institution using debt. This ratio examines the institution's dependence on borrowed funds as a source of financing its mission and the relative cost of borrowing to overall expenditures. It compares the level of current debt service with the institution's total expenditures. Debt service includes both interest and principal payments. This ratio is calculated as in Table 7.4.

TABLE 7.4: DEBT BURDEN RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Debt service	Debt service plus FASB C.U. debt service
Denominator	Adjusted expenses	Adjusted expenses plus FASB C.U. adjusted expenses

For private institutions, the numerator of this ratio includes interest on all indebtedness, which is approximated by interest paid, plus the current year's principal payments; both are generally available from the statements of cash flows. However, if an institution or affiliate has refinanced debt, the statement of cash flows would present a large principal repayment amount. In these cases, the contractual principal repayment amount would be the more appropriate amount to use. This can usually be found in the notes to financial statements. The debt service figure may be adjusted (see below). The denominator is total expenses from the statement of activities (both operating and nonoperating), less depreciation expense plus debt service principal payments.

For public institutions, the numerator of this ratio includes interest on all indebtedness, which is approximated by interest paid, plus the current year's principal payments; both generally are available from the GASB and FASB component unit statements of cash flows. However, if an institution or affiliate has refinanced debt, the statement of cash flows would reflect a large principal repayment amount, and the contractual principal amount would be more appropriate to use, which can usually be found in the notes to the financial statements. The denominator is total GASB operating expenses plus nonoperating expenses less depreciation expense plus debt service principal payments, plus FASB component unit total expenses less depreciation expense plus debt service principal payments. Even if the component units are fundraising entities, inclusion of their expenses in the denominator is appropriate. Including the component unit portion in the numerator calculation would not be appropriate unless the component units were operating entities.

Alternatively, some institutions prefer to measure debt service as a percentage of total revenues. The rationale for using a revenue measure is that the revenues represent the actual source of funds to pay debt service, and the use of an expenditure measure provides an incentive to grow rather than limit expenditures, since a growing expense base, even absent growth in revenues, would make the institution look better for this ratio. While we agree with these observations, we find difficulty in managing to a ratio based on revenues, due to the significant volatility in total revenues from year to year caused by operating gifts, investment performance or state appropriations.

We believe it is important to calculate the Debt Burden Ratio (and other ratios) for the institution as a whole, since it provides a clearer picture of the overall flexibility available for the institution if it needs to make budgetary trade-offs in order to finance additional capital expenditures. This ratio helps show that all financial decisions made by the institution have an impact on its ability to make other choices and therefore must be considered in this context.

For private institutions, the numerator includes the change in unrestricted net assets obtained from the statement of activities plus depreciation (because it is a significant noncash expense) and interest expense. By adding back interest expense, the ratio's numerator presents the net inflow from operations that is available to service debt. The denominator includes debt service payments as defined in the numerator of the Debt Burden Ratio.

For public institutions, the numerator is available from the GASB statement of revenues, expenses and changes in net assets and the FASB component unit statement of activities. The numerator includes net operating revenues, and net nonoperating revenues, interest expense and depreciation expense. The FASB component unit amount is calculated similarly to the private institution's numerator. The denominator includes debt service payments as defined in the numerator of the Debt Burden Ratio. As stated previously, including the component unit portion in the calculation would not be appropriate unless the component units were operating entities.

Due to the volatility inherent in the change in net assets from year to year, many institutions find that it may be helpful to smooth the trend by examining a rolling two-year average for the ratio and establishing a target based on that measure.

In addition, the interest expense item can be volatile from year to year, especially for institutions with a high exposure to variable rate debt. For example, in a low interest rate environment, an institution with a 100 percent variable rate debt portfolio may have a much higher debt service coverage ratio than a similar institution with a 50–50 allocation. Thus, a slightly lower coverage ratio for an institution with less variable rate exposure in the portfolio may actually be in a better position than an institution with a slightly higher debt service coverage ratio due to a higher allocation to variable rate debt. Therefore, interpreting this ratio together with the fixed-variable portfolio allocation ratio is important.

TABLE 7.8: ILLUSTRATION OF THE DEBT SERVICE COVERAGE RATIO: PRIVATE INSTITUTIONS

Numerator—Adjusted change in net assets	
+ Change in unrestricted net assets	2,290
+ Depreciation expense	4,083
+ Interest expense	2,323
Numerator—Adjusted change in net assets	8,696
Denominator – Debt service	
+ Interest expense	2,323
+ Principal payments	911
Denominator—Debt service	3,234
Value of ratio	2.69x

TABLE 7.9: ILLUSTRATION OF THE DEBT SERVICE COVERAGE RATIO: PUBLIC INSTITUTIONS

Numerator—Adjusted change in net assets	
+ Institution net operating income	(46,895)
+ Institution net nonoperating revenues	49,796
+ Institution interest expense	328
+ Institution depreciation expense	6,978
+ C.U. change in unrestricted net assets	647
+ C.U. depreciation expense	–
+ C.U. interest expense	–
Elimination of inter-entity amounts	*
Numerator—Adjusted change in net assets	10,854
Denominator—Debt service	
+ Institution interest expense	328
+ Institution principal payments	1,043
+ C.U. interest expense	–
+ C.U. principal payments	–
Denominator—Adjusted expenses	1,371
Value of ratio	7.92x

* Consolidated amounts should be used if available.

Note: Principal payments may be normalized if external level debt service is not used and interest expense may be normalized to account for the impact of variable rate debt.
Note: Institutions may calculate this ratio or any other debt service ratio with interest only (i.e., Interest Coverage Ratio)

LEVERAGE RATIO

In business enterprises, financial leverage typically refers to debt in relation to equity in the firm's capital structure. The more long-term debt, the greater the financial leverage the organization has assumed. Shareholders tend to benefit from strategic leverage if return on borrowed money exceeds interest costs. But leverage also means that the institution must absorb future interest and principal payments. Even though colleges and universities do not have shareholder equity in the traditional sense, it is still very important to measure the amount of leverage on the institution's assets. The Leverage Ratio is similar to a debt-to-equity ratio. It is different from the Viability Ratio because net investment in plant is included as part of the numerator.

For private institutions, the numerator includes unrestricted and temporarily restricted net assets. Unrestricted net assets include plant equity. Plant assets are presented in the financial statements at book value. Since assets represent investment in plant carried at historical cost, covenants sometimes allow the institution to obtain appraisals of its real property and improvements at highest and best use. The appraisals then are used to determine whether appropriate thresholds have been met. The denominator includes all long-term debt.

For public institutions, the numerator includes all net assets less nonexpendable net assets, plus the FASB component unit unrestricted and temporarily restricted net assets. The denominator includes all long-term debt of the institution and its component units.

Because this ratio is similar to the viability measure, many institutions may tend to focus on the Viability Ratio and look to the Leverage Ratio for additional information, especially as it relates to understanding the amount of the institution's net assets that is represented by net investment in plant. Indications are that the threshold for this ratio should be above 1:1 for most institutions. How much above 1:1 is an institution-specific question. The lower this ratio becomes, concern increases that the institution might have difficulty maintaining its loan repayments should long-term economic conditions impacting the institution deteriorate. Therefore, private institutions

The industry often has viewed an upper threshold for this ratio at 7 percent, meaning that current principal payments and interest expense should not represent more than 7 percent of total expenditures; however, a number of institutions operate effectively with a higher ratio, while others would find this ratio unacceptable.

Because debt service represents required payments from the operating budget, a higher debt service burden indicates that the institution has less flexibility to manage the remaining portion of the budget. Institutions with greater budgetary flexibility will find that they are comfortable with a higher ratio than institutions with little ability to make adjustments to the operating budget, either by increasing revenues or decreasing expenditures. This is the reason why institutions with a more diverse revenue stream may be comfortable with a higher Debt Burden Ratio than institutions dependent on tuition or certain public institutions with minimal control of their operating budgets. Furthermore, it is those institutions able to withstand a higher debt service burden that are in a better position to bear the risks associated with variable rate debt or other types of financings. At the same time, institutions uncomfortable with a higher debt service burden may be enticed by the lower interest rates typically offered by variable rate products, yet it is precisely these institutions that have little maneuvering room to adjust the budget if interest rates increase significantly. We therefore recommend that institutions with variable rate debt budget at an interest rate higher than the actual interest rate (especially in low interest rate environments) and establish a rate stabilization fund.

Normalizing debt service to account for variable rate debt or nonlevel debt structures is important for both internal or peer comparisons. An institution with a higher amount of debt may have a lower debt burden, either due to less amortization or use of different types of debt. It may not indicate an actually lower debt burden over time. In calculating a Debt Service Burden Ratio, institutions with a significant amount of variable rate debt may wish to use an average rate for calculations or use a corporate cost of capital (e.g., internal billing rate) multiplied by the outstanding debt in order to calculate interest, and use a "level" assumed amortization for principal (e.g., 1/30th of total debt outstanding as the principal component).

While 7 percent is a generally accepted threshold, it is important to note that institutions that exceed 7 percent will not necessarily be excluded from obtaining additional external funding. It is clear, however, that institutions above this threshold will face greater scrutiny from rating agencies and lenders. Since debt service is a legal claim on resources, the higher the ratio the fewer the resources available for other operational needs. Therefore, allocating a higher percentage of the budget to debt service represents a prioritization made by the institution, such as making needed improvements to the physical plant over increasing financial aid or investment in new programs. As long as this choice is recognized and accepted, a higher ratio can be acceptable, especially for a short period of time. A level trend or a decreasing trend indicates that debt service has sufficient coverage without impinging further on financial resources required to support other functional areas. On the other hand, a rising trend in this ratio usually signifies an increasing demand on financial resources to repay debt.

The determination of an acceptable debt burden is influenced by a number of factors. Although this ratio is based on the total budget (as indicated by total expenses), the actual burden on the institution depends on the nature of the revenues. Two institutions with similar budgets, yet where one has far more flexibility in allocating funds, have very different levels of affordability. For the institution with a great degree of budget flexibility, finding the repayment source for an incremental $1 is not as difficult as for the institution that has much of its budget committed. The actual portion of the budget that is truly available for reallocation and being devoted to debt service, for many institutions, is surprisingly small. While we propose 7 percent as a desired limit or target, we recognize that for some institutions, 5 percent or less may be more realistic (e.g., large institutions with a substantial restricted research budget) and some institutions can function with 7–10 percent of the budget dedicated to debt service, although we believe that sustaining this level of expenditure will be difficult over the long term and reduce the flexibility to fund other strategic initiatives.

TABLE 7.10: LEVERAGE RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Available net assets	Total net assets—Total nonexpendable net assets plus FASB C.U. available net assets
Denominator	Long-term debt (total project-related debt)	Long-term debt (total project-related debt) plus FASB C.U. long-term debt (total project-related debt)

TABLE 7.11: ILLUSTRATION OF THE LEVERAGE RATIO: PRIVATE INSTITUTIONS

Numerator—Available net assets	
+ Unrestricted net assets	86,014
+ Temporarily restricted net assets	2,954
Numerator—Available net assets	88,968
Denominator—Long-term debt (total project-related debt)	39,476
Value of ratio	2.25x

TABLE 7.12: ILLUSTRATION OF THE LEVERAGE RATIO: PUBLIC INSTITUTIONS

Numerator—Available net assets	
+ Institution total net assets	151,478
- Institution nonexpendable net assets	(683)
+ C.U. unrestricted net assets	822
+ C.U. temporarily restricted net assets	16,734
Numerator—Available net assets	168,351
Denominator—Long-term debt (total project-related debt)	
+ Institution long-term debt (total project-related debt)	8,242*
+ C.U. long-term debt (total project-related debt)	–
Denominator—Long-term debt (total project-related debt)	8,242
Value of ratio	20.43x

*Information not obtained from the financial statements directly since this information is usually contained in the notes.

8 MEASURING ASSET PERFORMANCE AND MANAGEMENT

8 MEASURING ASSET PERFORMANCE AND MANAGEMENT

CHAPTER SUMMARY

All of the assets that are under the stewardship of a board and senior management need to demonstrate some financial return over a long period of time or the institution will be consumed by deficits that drain resources away from other activities. This chapter helps an institution understand whether the investments it has historically made are obtaining returns that can be reinvested in other programs and/or facilities.

INTRODUCTION

Higher education is an asset-intensive industry, requiring institutions to possess significant amounts of financial and physical assets to fulfill their missions. Institutions must effectively and efficiently manage their assets for optimum performance. Institutions also face critical decisions on the amount, timing and nature of asset deployment and allocation.

In the fourth edition of *Ratio Analysis for Higher Education*, we introduced several new financial asset ratios. We also revitalized several physical asset ratios from previous editions. These have generally performed well for private institutions and we believe they will work well for public institutions.

As we continued our work with various types of institutions since publication of the fourth edition, two matters became apparent concerning asset management. First, although financial asset measures, performance reporting and planning have been regularly calculated and quantified, physical asset measures, management, performance reporting and planning have lagged behind, even though physical asset values sometimes exceed financial asset values for many institutions. Second, the need for integrating the planning of financial and physical assets has become critical for many institutions, public and private. In addition, the implicit (and sometimes explicit) covenant between public institutions and their sponsoring governments to fund maintenance and physical asset needs has been called into question due to financial constraints of the sponsoring governments.

As a result, we have revised our overall question from one of financial asset performance to one encompassing all types of assets, addressing both their management and performance.

For this edition, we have defined physical assets to be buildings, land, infrastructure, equipment and other types of plant assets, including technology infrastructure; financial assets are all other assets since they will ultimately be converted into cash or invested over a long-term horizon. This same principle also applies to net assets.

This chapter is segregated into two sections—financial assets and physical assets. We have also added several new ratios to this edition. Our institutional core ratio, the Return on Net Asset Ratio, remains and takes on greater importance since it reflects performance of both physical and financial assets.

Institutions often are concerned about whether the rate of growth in their net assets is sufficient to support the institution over time. If net assets continue to grow each year, the institution is presumed wealthier than it was the previous year. However, the rate of growth, in relation to commitments made, and the type of net asset growth are better indicators of whether the institution is improving its financial ability to achieve its strategic objectives.

The ratios in this chapter strive to address the following questions:

- Is the institution better off financially at the end of the year than at the beginning of the year?
- Is the institution sufficiently invested in financial assets to continue expanding its equity?
- Is the institution making appropriate investments and maximizing their return for appropriate levels of risk?
- Is the institution adequately reinvesting and renewing its physical assets?

Several ratios supporting the core Return on Net Assets Ratio are new. Although there is no capital structure or equity composition that is appropriate for all institutions, the ancillary ratios provide insight into the flexibility that the institution has to respond to additional opportunities and capital needs and whether those capital needs are being met.

Return on Net Assets Ratio

This ratio determines whether the institution is financially better off than in previous years by measuring total economic return. This ratio furnishes a broad measure of the change in an institution's total wealth over a single year and is based on the level and change in total net assets, regardless of asset classification. Thus, the ratio provides the most comprehensive measure of the growth or decline in total wealth of an institution over a specific period of time.

A decline in this ratio may be appropriate and even warranted if it reflects a strategy to better fulfill the institution's mission. On the other hand, an improving trend in this ratio indicates that the institution is increasing its net assets and is likely to be able to set aside financial resources to strengthen its future financial flexibility.

The Return on Net Assets Ratio, like all the others, is better applied over an extended period so that the results of long-term plans are measured. Long-term returns are quite volatile and vary significantly based on the prevailing level of inflation in the economy. Therefore, establishing fixed nominal return targets is not possible. Rather, institutions should establish a real rate of return target in the range of approximately 3 to 4 percent. The real return plus the actual inflation index, either the Consumer Price Index (CPI) or the Higher Education Price Index (HEPI) will produce the nominal rate of return. A useful proxy to measure changes specific to an institution from the impact of both inflation and programmatic commitments may be the growth of total expenses over a long period of time. However, as with each ratio, there are no absolute measures. For example, if an institution's strategic plan calls for activities that will consume substantial resources, such as program expansion, a high return on net assets may be required in order to maintain a properly capitalized institution.

Because the Return on Net Assets Ratio is affected by a number of potentially volatile items, it is important that the institution understand the causes of the change in this ratio from year to year. If, for example, large investment returns or nonrecurring gains are providing a substantial percentage of the increase in net assets, any market correction could have negative implications, possibly impacting program financing.

It is important that an institution project this ratio under various future assumptions. In years of high investment returns, net assets can increase substantially over the short term, thereby improving the ratio. However, positive external developments may imply that an institution has the capacity to defer cost-reducing activities or postpone necessary adjustments to tuition levels. Then, when market conditions become relatively flat or turn negative, the institution could find its financial performance inadequate. If so, an extended period may be spent attempting to recover, possibly at the expense of necessary programmatic initiatives.

The Return on Net Assets Ratio is calculated as in Table 8.1.

TABLE 8.1: RETURN ON NET ASSETS RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Change in net assets	Change in net assets plus FASB C.U. change in net assets
Denominator	Total net assets	Total net assets plus FASB C.U. total net assets

For private institutions, the numerator is the change in unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. All components of the numerator can be found on the statement of activities. The denominator includes the beginning balance of total net assets, which can also be found on the statement of activities (alternatively, this number can be found as the ending balance for total net assets for the prior year in the comparative balance sheet). Total net assets include unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

For public institutions, the numerator is the change in GASB total net assets plus the change in FASB component unit total net assets regardless of whether they are expendable on nonexpendable, restricted or unrestricted. This information can be found in the GASB statement of revenues, expenses and changes in net assets and the FASB component unit statement of activities. The denominator is the beginning of the year total net assets that can also be found in the GASB statement of revenues, expenses and changes in net assets and the FASB component unit statement of activities.

As an alternative to using beginning of the year amounts, the average of the beginning and ending total net assets may be used.

Analysts may also find it useful to look at a modified version of the Return on Net Assets Ratio. By subtracting the change in permanently restricted or nonexpendable net assets from the numerator, and removing the permanently restricted or nonexpendable net assets from the denominator, an institution can observe the change in resources available to directly support the unrestricted and manageable operations of the institution. Although increasing total net assets is important, it is also necessary for an institution to ensure that resources are not solely accruing on a nonexpendable basis.

For institutions with sizable investments, it is advisable to smooth the results of this ratio by looking at return on net assets over time, for example, five to 10 years. Changes in market performance can also significantly impact the numerator of this ratio from year to year. For this reason, each institution will need to set its own goal for the Return on Net Assets Ratio.

TABLE 8.2: ILLUSTRATION OF THE RETURN ON NET ASSETS RATIO: PRIVATE INSTITUTIONS

Numerator—Change in net assets	4,590
Denominator—Total net assets (beginning of year)	96,030
Value of ratio	4.78%

TABLE 8.3: ILLUSTRATION OF THE RETURN ON NET ASSETS RATIO: PUBLIC INSTITUTIONS

Numerator—Change in net assets	
+ Institution change in net assets	5,137
+ C.U. change in net assets	6,709
Elimination of inter-entity amounts	–
Numerator—Change in net assets	11,846
Denominator—Total net assets (beginning of year)	
+ Institution total net assets (beginning of year)	146,341
+ C.U. total net assets (beginning of year)	23,607
Denominator—Total net assets (beginning of year)	169,948
Value of ratio	6.97%

* Consolidated amounts should be used if available.

Financial Net Assets Ratio

A new ratio to this edition is the Financial Net Assets Ratio, which measures the percentage of financial net assets to total net assets. While the Capitalization Ratio described in Chapter 6 is useful in identifying the total flexibility of an institution by measuring its capitalization structure, the Financial Net Assets Ratio and its counterpart discussed next, the Physical Net Assets Ratio, provide useful insights into the allocation of equity between physical and financial net assets. Together, these ratios help an analyst understand the institution's flexibility and whether its asset and net asset structures are in equilibrium. As institutions increasingly manage their overall balance sheet, consideration of the composition of assets, including a desired allocation across all assets, and funding sources becomes increasingly important.

TABLE 8.4: FINANCIAL NET ASSETS RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Total net assets—Net investment in plant net assets	Total net assets—Invested in capital assets, net of related debt, plus FASB C.U. total net assets—FASB C.U. net investment in plant net assets
Denominator	Total net assets	Total net assets plus FASB C.U. total net assets

As discussed previously, institutions at the low end of the Capitalization Ratio range have limited future flexibility to respond to unanticipated capital needs without compromising credit or forcing difficult trade-offs. The Financial Net Asset Ratio helps evaluate what equity resources the institution has available to meet these needs. If the equity is weighted heavily in property, plant and equipment, the institution may have relatively less ability to allocate internal funds to new initiatives than an institution with a similar Capitalization Ratio that is more heavily allocated in financial assets.

An institution whose equity is comprised primarily of physical assets will be reducing its opportunity to increase expendable wealth because the physical assets generally do not directly generate a return on invested equity. This may place the institution at a competitive disadvantage versus its peers in the future, unless the investment in physical facilities produces increased revenue, such as new research space, new dormitories to serve unfilled demand or fee-generating facilities. Therefore, the Financial Net Assets and the Physical Net Assets Ratios provide an indication of the equilibrium of investment for an institution because they recognize the trade-offs between investment for the current generation (physical assets) and investment for future generations (financial assets).

The Financial Net Assets Ratio is calculated as in Table 8.4.

TABLE 8.5: ILLUSTRATION OF THE FINANCIAL NET ASSETS RATIO: PRIVATE INSTITUTIONS

Numerator—Financial net assets	
+ Total net assets	100,620
- Property, plant and equipment, net	(77,900)
+ Long-term debt (total project-related debt)	39,476
Numerator—Financial net assets	62,196
Denominator—Total net assets	100,620
Value of ratio	62%

TABLE 8.6: ILLUSTRATION OF THE FINANCIAL NET ASSETS RATIO: PUBLIC INSTITUTIONS

Numerator—Financial net assets	
+ Institution total net assets	151,478
- Institution invested in capital assets, net of related debt	(105,386)
+ C.U. total net assets	29,012
- C.U. net investment in plant	(320)
Numerator—Financial net assets	74,784
Denominator—Total net assets	
+ Institution total net assets	151,478
+ C.U. total net assets	29,012
Denominator—Total net assets	180,490
Value of ratio	41%

Net assets are either financial- or physical-related. Financial net assets are composed of expendable net assets and nonexpendable net assets. Physical net assets are composed of the net investment in plant net assets. The financial net assets then are total net assets less net investment in plant net assets. For private institutions, the numerator and denominator are found on the balance sheet; as noted in the Primary Reserve Ratio calculation, net investment in plant net assets may need to be calculated if it is not disclosed. For public institutions, the information for the institution is found on the statement of net assets. For the public institution's component unit, the information should be obtained in the same manner as those for private institutions.

Physical Asset Performance and Management

Institutions are under significant pressure to invest in new facilities, renew the physical plant and provide technological advancements. While all institutions will acknowledge a need to invest in facilities, historically few measures have existed to determine whether an institution had sufficiently invested in maintaining its plant. Institutional managers often had to rely only on either a walk around campus, a plant audit that identified too many deferred maintenance projects to be reasonably funded, or wish lists for every imaginable new project; they often lacked the tools to interpret and quantify the facilities investment requirements and develop a long-range funded facilities renewal plan. Often, financial officers are frustrated by the lack of a complete appreciation of the magnitude and financial requirements of the physical plant. Successful institutions have mechanisms in place to share information between finance and facilities so that realistic long-term plans can be developed.

Physical Net Assets Ratio

This ratio is also new and is the complement to the Financial Net Assets Ratio. This new ratio calculates the percentage of net assets an institution has invested in its physical plant. This ratio is calculated as in Table 8.7.

TABLE 8.7: PHYSICAL NET ASSETS RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Net investment in plant net assets	Invested in capital assets, net of related debt, plus FASB C.U.
Denominator	Total net assets	Total net assets plus FASB C.U. total net assets

For private institutions, if the financial statements separately disclose a net investment in plant amount in the unrestricted net asset classification, that amount would be used for the numerator. However, since many financial statements do not disclose this amount, the net investment in plant amount must be computed as described in the Primary Reserve Ratio calculation. The denominator is from the statement of financial position.

For public institutions, the numerator and denominator are obtained from the statement of net assets. The public institution's FASB component unit information is obtained in the same manner as for private institutions.

TABLE 8.8: ILLUSTRATION OF THE PHYSICAL NET ASSETS RATIO: PRIVATE INSTITUTIONS

Numerator—Physical net assets	
+ Property, plant and equipment, net	77,900
- Long-term debt	(39,476)
Numerator—Physical net assets	38,424
Denominator—Total net assets	
Denominator—Total net assets	100,620
Value of ratio	38%

TABLE 8.9: ILLUSTRATION OF THE PHYSICAL NET ASSETS RATIO: PUBLIC INSTITUTIONS

Numerator—Physical net assets	
+ Institution invested in capital assets, net of related debt	105,386
+ C.U. net investment in plant	320
Numerator—Physical net assets	105,706
Denominator—Total net assets	
+ Institution total net assets	151,478
+ C.U. total net assets	29,012
Denominator—Total net assets	180,490
Value of ratio	59%

Physical Asset Reinvestment Ratio

This ratio is also new. This ratio calculates the extent capital renewal is occurring compared with physical asset usage, represented as depreciation expense. A ratio above 1:1 indicates an increasing investment in physical assets, whereas a lower ratio potentially indicates an under-investment in campus facilities. Since this ratio measures current outlays for physical plant against depreciation expense using historical values, institutions should consider even a higher ratio than 1:1 or use an estimate of replacement value depreciation. Since facilities investment is highly variable from year to year, especially for smaller institutions, this ratio should be evaluated on a multiyear basis. Comparison of this ratio is instructive only across institutions with similar programs and operating sizes.

This ratio calculates the extent capital renewal is occurring compared with physical asset usage, more commonly known as depreciation expense. This ratio is calculated as in Table 8.10.

TABLE 8.10: PHYSICAL ASSET REINVESTMENT RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Capital expenditures plus capital asset gifts	Capital expenditures plus capital asset gifts plus FASB C.U. capital expenditures
Denominator	Depreciation expense	Depreciation expense plus FASB C.U. depreciation expense

For private institutions, the numerator may be obtained from the statement of cash flows as addition to physical plant assets. Alternatively, the information may be obtained from the accounting records. Gifts of capital assets are also included in the numerator. The denominator is available either from the statement of activities, cash flows or disclosed in the notes.

For public institutions, the numerator may be obtained from the statement of cash flows as addition to physical plant assets. For the institution's FASB component units, the numerator may be obtained from the statement of cash flows. Alternatively, the information may be obtained from the accounting records. Gifts of capital assets are also included in the numerator. The denominator is either from the statement of revenues, expenses and changes in net assets or from the notes. For the institution's FASB component unit, the information is obtained from the statement of activities or is disclosed in the notes. As stated previously, including the component unit portion in the calculation would not be appropriate unless the component units were operating entities.

A ratio substantially less than 1:1 may indicate that the institution is consistently under-investing in plant and increasing its deferred maintenance obligation. Substantial ratios above 1:1 indicate a continued growth in facilities. The institution should also analyze its operating measures to ensure that the budget and operating size are growing consistent with the physical asset growth.

TABLE 8.11: ILLUSTRATION OF THE PHYSICAL ASSET REINVESTMENT RATIO: PRIVATE INSTITUTIONS

Numerator—Capital expenditures	2,594
Denominator—Depreciation expense	4,083
Value of ratio	.64x

TABLE 8.12: ILLUSTRATION OF THE PHYSICAL ASSET REINVESTMENT RATIO: PUBLIC INSTITUTIONS

Numerator—Capital expenditures	
+ Institution capital expenditures	8,663
+ C.U. capital expenditures	–
Numerator—Capital expenditures	8,663
Denominator—Depreciation expense	
+ Institution depreciation expense	6,978
+ C.U. depreciation expense	–
Denominator—Depreciation expense	6,978
Value of ratio	1.24x

Note: Capital asset gifts, if any, should be included in the numerator.

Age of Facilities Ratio

This ratio measures the average age of total plant facilities by measuring the relationship of current depreciation to total depreciation. This ratio is important because it provides a rough sense of the age of the facilities and the potential need for considerable future resources to be invested in plant to cover deferred maintenance. Since deferred maintenance is not recorded as an unfunded liability in the financial statements, the Age of Facilities Ratio is based on historical accumulated depreciation. This ratio is calculated as in Table 8.13.

TABLE 8.13: AGE OF FACILITIES RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Accumulated depreciation	Accumulated depreciation plus FASB C.U. accumulated depreciation
Denominator	Depreciation expense	Depreciation expense plus FASB C.U. depreciation expense

For private institutions, the numerator is generally obtained from the notes to the financial statements. The denominator is either from the statement of activities or is disclosed in the notes.

For public institutions, the numerator may be obtained from the notes to the financial statements for both the institution and the institution's FASB component unit. The denominator is either from the statement of revenues, expenses and changes in net assets or from the notes. For the institution's FASB component unit, the information is obtained from the statement of activities or is disclosed in the notes. As stated previously, including the component unit portion in the calculation would not be appropriate unless the component units were operating entities.

This ratio calculates the average age of plant facilities measured in years. A low ratio is better, since it indicates that an institution has made recent investments in its plant facilities, provided that the investments were not made at the expense of other necessary strategic initiatives. A high ratio signifies that an institution has deferred reinvestment in plant and is likely to require a significant expenditure for plant facilities in the near future. An acceptable level for this ratio is 10 years or less for research institutions and 14 years or less for predominantly undergraduate liberal arts institutions, demonstrating that the college is continuing to fund necessary reinvestment in maintaining its facilities.

As discussed in this chapter, the Return on Net Assets Ratio can be difficult to compare among institutions, given varying degrees of deferred maintenance. The Age of Facilities Ratio is designed to capture the degree of deferred

TABLE 8.14: ILLUSTRATION OF THE AGE OF FACILITIES RATIO: PRIVATE INSTITUTIONS

Numerator—Accumulated depreciation	52,100*
Denominator—Depreciation expense	4,083
Value of ratio	12.8x

TABLE 8.15: ILLUSTRATION OF THE AGE OF FACILITIES RATIO: PUBLIC INSTITUTIONS

Numerator—Accumulated depreciation	
+ Institution accumulated depreciation	79,157*
+ C.U. accumulated depreciation	–
Numerator—Accumulated depreciation	79,157*
Denominator—Depreciation expense	
+ Institution depreciation expense	6,978
+ C.U. depreciation expense	–
Denominator—Depreciation expense	6,978
Value of ratio	11.34x

* Information not obtained from the financial statements directly since this information is usually contained in the notes.

maintenance, although it does not quantify the amount of reinvestment requirements based on historical cost (as evidenced by depreciation of existing assets), which significantly understates the investment necessary to bring plant up to date. This is due to the fact that historical figures do not account for inflation or technology upgrades, among other things. In addition, this ratio does not provide a sense of whether or not the institution will be able to afford the necessary improvements. Furthermore, some institutions are able to withstand a higher amount of deferred maintenance before witnessing a negative impact on their operations or student demand. Other institutions, however, especially those for whom state-of-the-art facilities represent a competitive requirement, will find that only a minimal level of deferred maintenance is acceptable before consequences are realized. The following ratios address these concerns.

Facilities Burden Ratio

When determining the impact of capital investment on the institution's budget, often the debt service or interest expense is highlighted. While this may be the most fundamental cost associated with a building, it does not capture the complete extent of the burden of facilities investment on the institution and in fact can make capital investment appear more affordable than it actually is. Because of differences in how institutions record and report operation and maintenance of plant expenses, this ratio is best used on a longitudinal basis.

There are several reasons for this. First, unless the institution is using debt to fund the construction of a minor project, there are going to be significant additional costs associated with operating, maintaining and programming of the facility. While there may be some offsetting revenue, the net cost should be calculated. Second, debt is repaid in constant dollars, whereas operating expenses are subject to inflationary pressures; therefore, over time, expenses other than debt service will represent ever-increasing costs associated with the building.

While the Debt Service Burden Ratio is widely recognized as a core financial ratio, institutions may not regularly analyze the full impact of growing facilities investment on the budget, as well as the ability of the budget to absorb these costs. The Facilities Burden Ratio calculates the comprehensive cost of facilities investments on the institutional budget. This ratio is calculated as in Table 8.16.

TABLE 8.16: FACILITIES BURDEN RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Depreciation expense plus interest expense plus plant operations and maintenance expenses	Depreciation expense plus interest expense plus plant operations and maintenance expenses plus FASB C.U. depreciation expense plus FASB C.U. interest expense plus FASB C.U. plant operations and maintenance expenses
Denominator	Property, plant and equipment, net	Capital assets, net plus FASB C.U. property, plant and equipment, net

For public institutions, the numerator may be obtained from either the statement of revenues, expenses and changes in net assets, the notes to the financial statements, or the accounting records, if not disclosed. The denominator is either from the statement of net assets or the notes. For the institution's FASB component unit, the information is obtained from the financial statements, the notes or the units' accounting records. As stated previously, including the component unit portion in the calculation is not appropriate unless the component units are operating entities.

Facilities Maintenance Ratio

Facilities are a significant resource needed by every institution to achieve its mission. Many institutions are heavily invested in classroom buildings and research and support facilities. Since, of course, facilities wear out over time—hence the accounting term wasting asset—higher education institutions have tended to ignore the hidden cost of deferred maintenance, especially as facilities become worn and require increasing improvements to satisfy student and faculty needs. Because of differences in how institutions record and report operation and maintenance of plant expenses, this ratio is best used on a longitudinal basis.

The Facility Maintenance Ratio assumes that the institution must generate a sufficient stream of income to support its operations and maintain its plant. The Facilities Maintenance Ratio is determined as in Table 8.17.

"Operations and maintenance of plant" includes all current operating expenses related to the general operation and maintenance of the physical plant. It includes utilities and maintenance, fire protection, property insurance, security and transportation, as well as the plant portion of salaries and staff benefits. Principal and interest payments on plant are excluded. Depreciation expense is also excluded.

For private institutions, the numerator is no longer evident from the statement of activities since plant operation and maintenance expenses are not considered a function in the AICPA Not-for-Profit Organizations Audit and Accounting Guide. Each institution wishing to calculate this ratio will be required to obtain the information prior to its allocation to program areas. Some institutions have chosen to present this amount in a note to financial statements. The denominator is the same denominator used in the Net Operating Revenues Ratio.

For public institutions, the numerator may appear on the statement of revenues, expenses and changes in net assets. As stated previously, the amount should not include any depreciation or interest expense. If the institution chooses to display its expenses on a natural basis in the statement, the information may be available from the notes or will have to be obtained from the institution's accounting records. The denominator is composed of total operating revenues and nonoperating revenues. As stated previously, including the component unit portion in the calculation would not be appropriate unless the component units were operating entities.

TABLE 8.17: FACILITIES MAINTENANCE RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Operations and maintenance of plant	Operations and maintenance of plant FASB C.U. operations and maintenance of plant
Denominator	Total operating revenues	Total operating revenues plus nonoperating revenues plus FASB C.U. total operating revenues

TABLE 8.18: ILLUSTRATION OF THE FACILITY MAINTENANCE RATIO: PRIVATE INSTITUTIONS

Numerator—Plant operations and maintenance expenses	7,500*
Denominator—Total operating unrestricted revenues	
+ Total unrestricted revenues and gains	68,017
+ Net assets released from restrictions	2,049
Denominator—Total operating unrestricted revenues	70,066
Value of ratio	11%

*Information not obtained from the financial statements directly since this information is usually contained in the notes.

TABLE 8.19: ILLUSTRATION OF THE FACILITY MAINTENANCE RATIO: PUBLIC INSTITUTIONS

Numerator—Plant operations and maintenance expenses	
+ Institution plant operations and maintenance expenses	7,724
+ C.U. plant operations and maintenance expenses	–
Numerator—Plant operations and maintenance expenses	7,724
Denominator—Total operating revenues	
+ Institution total operating revenues	95,217
+ Institution nonoperating revenues	50,130
+ C.U. total operating revenues	–
Elimination of inter-entity amounts	–
Denominator—Total operating revenues	145,347
Value of ratio	5.31%

* Consolidated amounts should be used if available.

Deferred Maintenance Ratio

The Deferred Maintenance Ratio is helpful for those institutions concerned about their deferred maintenance. This ratio measures the size of the institution's outstanding maintenance requirements compared with its expendable net assets. An increasing ratio may be an indicator of growing deferred maintenance and an aging plant or indicative of an institution that is investing funds in new facilities at the expense of taking care of existing facilities. A decline in the Deferred Maintenance Ratio must be viewed in the context of other issues affecting the institution, such as large investments in new facilities. Generally, an institution should periodically assess its facilities and equipment at the building and program levels to make a reasonable estimate of the amount of deferred maintenance. Since there is no standard definition of deferred maintenance, this ratio is better used for internal comparisons. Certain higher education industry groups are working on standard definitions or criteria. The ratio is calculated as in Table 8.20.

TABLE 8.20: DEFERRED MAINTENANCE RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Outstanding maintenance requirements	Outstanding maintenance requirements
Denominator	Expendable net assets	Expendable net assets plus FASB C.U. expendable net assets

For both private and public institutions, the numerator of this ratio is not available from the financial statements. To obtain the numerator, the institution must assess the condition of its fixed assets as if maintenance needs were performed all at once rather than as budget appropriations permit. In other words, the numerator should include all maintenance obligations that are currently outstanding—not just those that the institution will be able to address in the current year. If this ratio is to be applied correctly, the institution must develop a consistently applied definition of deferred maintenance.

The denominator is equal to expendable net assets, as described in the definition of the Primary Reserve Ratio.

This ratio shows whether the institution has sufficient expendable net assets to fund identified deferred maintenance needs. A high ratio is undesirable and indicates a significant future financial obligation in need of attention.

The Deferred Maintenance Ratio should be assessed in conjunction with ratios that monitor the institution's ability to raise funds from external sources. If the institution has little or no plant debt, high unrestricted net assets, and relatively low expenses, an institution might choose to turn to other sources of funding to address its deferred maintenance needs. However, if the institution borrows to fund deferred maintenance, the institution will need to consider carefully the financial burden it places on future generations in terms of interest and principal payments. Ideally, the debt repayment term would be consistent with the remaining useful life of the facilities repaired.

9 MEASURING OPERATING RESULTS

9 MEASURING OPERATING RESULTS

CHAPTER SUMMARY

All institutions must, over the long run, operate in either a surplus or at least break-even position. However, this area often is confused with commercial organizations being required to "make a profit" each year. The primary reason institutions need to generate some level of surplus over long periods of time is because operations are one of the sources of resources for reinvestment in institutional initiatives. Conversely, generating a known deficit in the short term may well be the best strategic decision a board makes, if it is an affordable investment in its future and the deficit will clearly be eliminated through specific actions. The issue for institutions arises when the deficits are unplanned, unmanaged and occurring in core existing operations.

INTRODUCTION

The ratios in this chapter explore different aspects of an institution's operations. In addition, contribution and demand ratios can also be used to further explore specific aspects of operations. As with the ratios in the previous chapters, no analysis should be conducted without placing these ratios within the perspective of the institution's mission and other strategic initiatives. This is especially important in performing trend analysis. When examining movement in trends, it is vital to consider any change in the strategic initiatives and mission of the institution. All of the ratios covered in this chapter are better utilized on a longitudinal basis.

Comparison of operating results between private and public institutions are not meaningful due to significant differences in financial recognition and measurement. The operating statement for public institutions, the statement of revenues, expenses and other changes in net assets, does not distinguish items between net asset classes. In addition, the reporting standards for public institutions are very prescriptive as to format and sequencing, including composition of an operating indicator. The standards are also very flexible in that expenses may be reported either by natural classification or by function. Unlike private institutions, public institutions may consider depreciation and plant operations and maintenance expenses to be functions and are not required to allocate these expenses to other functions. On the other hand, private institutions must report revenues and expenses by net asset class and functional expenses must be reported either in the statement or in the notes. Private institutions may also disclose an operating measure; the reporting standards do not prescribe the components of an operating measure but permit institutions to use a measure they are able to define as long as adequate disclosure concerning its composition is made.

NET OPERATING REVENUES RATIO

This ratio is a primary indicator, explaining how the surplus from operating activities affects the behavior of the other three core ratios. A large surplus or deficit directly impacts the amount of funds an institution adds to or subtracts from net assets, thereby affecting the Primary Reserve Ratio, the Return on Net Assets Ratio and the Viability Ratio.

For private institutions, this ratio used to be called the Net Income Ratio. We have changed its name to better express its purpose and to conform the name to a ratio introduced in the fifth edition, *Ratio Analysis in Higher Education: New Insights for Leaders of Public Higher Education.*

Since private institutions do not have a defined operating indicator like public institutions, we have maintained the dual approach to calculate this ratio for private institutions. If a private institution presents an operating indicator in its statement of activities, that amount is used. If an operating indicator is not presented, then the change in unrestricted net assets should be used in the numerator. Following are presentations of both methods of calculation that yield different results.

EXAMPLE 9.1: CALCULATING AN OPERATING MARGIN

Calculating operating margin is difficult, at best. Comparing operating margins across higher education institutions is virtually impossible. This is due to a number of factors:

- For public institutions, the operating indicator specified by GASB excludes state appropriations as operating revenue, and the results are not comparable.
- For private institutions, the comparison is not much better. Despite some improvement in accounting guidelines, there remains much discretion in what expenses are included above the line and what is below. A similar expense may be treated differently by two similar institutions.
- Most institutions base their financial decisions on the operating budget. Unfortunately, for most higher education institutions, the operating budget bears little resemblance to the audited financial statements. This means that the operating margin as understood by the institution may differ, perhaps considerably, from the margin calculated off the financial statements.
- This difficulty in the definition of operating margin makes it difficult to propose an acceptable range. For example, is the margin after funding capital renewal, or before? The results can be different.

The Net Operating Revenues Ratio, calculated when an operating indicator is presented for private institutions, is shown in Table 9.1.

TABLE 9.1: NET OPERATING REVENUES RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Excess (deficiency) of unrestricted operating revenues over unrestricted operating expenses	Operating income (loss) plus net nonoperating revenues (expenses) plus FASB C.U. change in unrestricted net assets
Denominator	Total unrestricted operating revenue	Operating revenues plus nonoperating revenues plus FASB C.U. total unrestricted revenue

For private institutions not using an operating indicator, the numerator is available from the statement of activities. The denominator is equal to total unrestricted revenues, gains and other support, including net assets released from restrictions.

TABLE 9.2: USING CHANGE IN UNRESTRICTED NET ASSETS FOR PRIVATE INSTITUTIONS

	PRIVATE INSTITUTIONS
Numerator	Change in unrestricted net assets
Denominator	Total unrestricted revenue

For public institutions, the numerator is available from the GASB statement of revenues, expenses and changes in net assets and the FASB component unit statement of activities. The numerator includes nonoperating revenues and expenses, including governmental appropriations, investment income and operating gifts since these items support operating activities of the institution. Nonoperating expenses, such as interest on plant debt, are also related to operating activities. Plant and endowment gifts and capital appropriations are excluded since these are not for operating activities. For FASB component units, the numerator includes the total change in unrestricted assets from the statement of activities. The denominator is equal to GASB total operating revenues plus total net nonoperating revenues, excluding capital appropriations and gifts and additions to permanent endowments, plus FASB component units total unrestricted revenues, gains and other support, including net assets released from restrictions. If unrestricted investment losses are reported with expenses for the component unit, this amount is included as a reduction to total unrestricted revenue.

For public institutions that use a spending rate, the institution may use the formula similar to private institutions that have an operating indicator. The numerator would include operating income (loss); government appropriations, grants and gifts for operating purposes; and the spending rate portion of investment income. The institution portion of the denominator would be operating revenues; government appropriations, grants and gifts for operating purposes in the nonoperating section; and the spending rate portion of investment income. The FASB component unit portion of the numerator and denominator would not change unless the component unit also uses a spending rate that is known to the institution; if that is the case, then the numerator and denominator would be similar to the private institution calculation.

A positive ratio indicates that the institution experienced an operating surplus for the year. Generally speaking, the larger the surplus, the stronger the institution's financial performance as a result of the year's activities. However, as a note of caution, if surpluses are obtained by underspending on mission-critical investments, then the surplus achieved should be questioned. A negative ratio indicates a loss for the year. A small deficit in a particular year may be relatively unimportant if the institution is financially strong, is aware of the causes of the deficit and has an active plan in place that cures the deficit.

TABLE 9.3: ILLUSTRATION OF THE NET OPERATING REVENUES RATIO: PRIVATE INSTITUTIONS

Numerator—Excess (deficiency) of unrestricted operating income over unrestricted operating expenses	1,597
Denominator—Total unrestricted operating revenues	
+ Total unrestricted revenues and gains	68,017
+ Net assets released from restrictions	2,049
Denominator—Total unrestricted operating revenues	70,066
Value of ratio	2.28%

TABLE 9.4: ILLUSTRATION OF THE NET OPERATING REVENUES RATIO: PRIVATE INSTITUTIONS USING CHANGE IN UNRESTRICTED NET ASSETS

Numerator—Change in unrestricted net assets	2,290
Denominator—Total unrestricted revenues	
+ Total unrestricted revenues and gains	68,017
+ Net assets released from restriction	2,049
+ Unrestricted investment return in excess of spending rate	693
Denominator—Total unrestricted revenues	70,759
Value of ratio	3.24%

TABLE 9.5: ILLUSTRATION OF THE NET OPERATING REVENUES RATIO: PUBLIC INSTITUTIONS

Numerator—Net operating income	
+ Institution operating income (loss)	(46,895)
+ Institution net nonoperating revenues	49,796
+ C.U. change in unrestricted net assets	647
Elimination of inter-entity amounts	*
Numerator—Net operating income	3,548
Denominator—Total operating revenues	
+ Institution operating revenues	95,217
+ Institution nonoperating revenues	50,130
+ C.U. total unrestricted revenues	3,208
Elimination of inter-entity amounts	*
Denominator—Total operating revenues	148,555
Value of ratio	2.39%

* Consolidated amounts should be used if available.

Large deficits and structural deficits are almost always a bad sign, particularly if management has not identified initiatives to reverse the shortfall. A pattern of large deficits can quickly sap an institution's financial strength to the point where it may have to make major adjustments to programs. A continuing decline or a pattern of deficits is a warning signal that management and the governing board should focus on restructuring the institution's income and expense streams to return to an acceptable Net Operating Revenues Ratio.

For private institutions presenting an operating indicator or public institutions that use a spending rate, the Net Operating Revenues Ratio target should be at least 2 to 4 percent over an extended time period, although the target will likely vary from year to year. A key for institutions establishing a benchmark for this ratio would first be the anticipated institutional growth in total expenses. A ratio in the 2 to 4 percent range may appear somewhat low. However, the determination of net operating revenues includes depreciation expense as a component, indicating that a positive return in this area would suggest the institution lived within its means.

CASH INCOME RATIO

The inquiry into operating results may be further understood with the Cash Income Ratio. While the change in expendable net assets is an important representation of institutional performance, it is based on accrual accounting principles. Also of interest is the institution's cash position, given that the institution requires cash to operate. Cash flow information should be used to further examine the issue of the strength and quality of the income stream that was examined initially in the Net Operating Revenues Ratio.

Net operating revenues includes accruals and noncash charges (for example, depreciation). To examine the strength of the net operating revenues that contribute to net cash inflows, institutions may find it useful to relate cash flow from operations to total revenues. To do so, cash flow from operations should be examined as a percentage of income in the Cash Income Ratio, which is calculated as shown in Table 9.6.

TABLE 9.6: CASH INCOME RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Net cash provided by operating activities	Cash flow from operations plus cash received from appropriations for operating purposes plus gifts and grants for operating purposes plus investment ordinary yield plus FASB C.U. net cash provided by operating activities
Denominator	Total unrestricted income excluding gains or losses	Operating revenues plus appropriations revenues for operating purposes plus gifts and grants revenues for operating purposes plus investment ordinary yield plus FASB C.U. total unrestricted income, excluding gains and losses

The numerator for private institutions is composed of net cash provided by or used for operating activities. This information is obtained from the institution's statement of cash flows. The denominator is total unrestricted income, excluding gains (or losses). This includes unrestricted revenues, including net assets released from restrictions. Both realized and unrealized gains (losses) are excluded because they are usually related to investing activities. Since many institutions use a spending rate, excluding the capital gains portion of the spending rate will understate this ratio as compared to the Net Operating Revenues Ratio using an operating indicator. Temporarily restricted revenues are not included because these funds are accounted for in net assets released from restrictions. Permanently restricted revenues

TABLE 9.7: ILLUSTRATION OF THE CASH INCOME RATIO: PRIVATE INSTITUTIONS

Numerator—Net cash provided by operating activities	5,928
Denominator—Total unrestricted income, excluding gains	
+ Total unrestricted revenues and gains	68,017
+ Investment return in excess of spending rate	693
+ Net assets released from restriction	2,049
- Net unrestricted realized gains*	(745)
- Net unrestricted unrealized appreciation*	(277)
Denominator—Total unrestricted operating revenues	69,737
Value of ratio	8.5%

* These amounts may not be readily apparent from the financial statements since the statement of cash flows is not completed on a net asset classification basis.

TABLE 9.8: ILLUSTRATION OF THE CASH INCOME RATIO: PUBLIC INSTITUTIONS

Numerator—Net cash provided by operating activities	
+ Institution cash flow from operations	(38,948)
+ Institution cash received from government appropriations	45,863
+ Institution cash received from gifts and grants for operating purposes	2,182
+ C.U. net cash provided from operating activities	1,750*
Numerator—Net cash provided by operating activities	10,847
Denominator—Total operating income, excluding investment income	
+ Institution operating revenues	95,217
+ Institution government appropriations revenues	45,863
+ Institution gift and grant revenue for operating purposes	2,485
+ Institution interest and dividend income	940
+ C.U. total unrestricted revenues and gains	1,008
+ C.U. investment return in excess of spending rate	–
+ C.U. net assets released from restriction	2,200
- C.U. net unrestricted realized gains*	(2)*
- C.U. net unrestricted unrealized appreciation*	(5)*
Elimination of inter-entity amounts	**
Denominator—Total operating income, excluding investment income	147,706
Value of ratio	7.3%

* These amounts may not be readily available from the financial statements. C.U. statement of cash flows is not included with the institution's financial statements.
** Consolidated amounts should be used if available.

are excluded because SFAS No. 117 generally considers them financing activities rather than operating activities.

The calculation for public institutions is more complicated due to differences in the cash flow statement format and categorizations. This is due to the prescriptive format of both the statements of revenues, expenses and changes in net assets and cash flows, primarily that governmental appropriations and gifts and grants for operating purposes are considered nonoperating revenues and cash flows from noncapital financing activities. Ordinary yield investment income (i.e., interest and dividends) should also be included even though they are classified as nonoperating income and cash flows from investing activities. These amounts must be added back to arrive at a more representative operating result.

For public institutions, the numerator is available from the statement of cash flows and the FASB component unit statement of cash flows. Since the definition of cash flow from operations excludes governmental appropriations and gifts and grants used for operating purposes, these must be added back. They are available on the statement of cash flows in the cash flows from noncapital financing activities section. For FASB-related entities, the numerator includes the total cash flow from operations from the statement of cash flows.

The denominator is equal to total operating revenues plus nonoperating revenues from government appropriations, and gifts and grants that are recorded in the nonoperating section, plus FASB component unit total unrestricted revenues, gains and other support, including net assets released from restrictions, excluding gains and losses.

CONTRIBUTION RATIOS

Using ratios referred to as contribution and demand ratios can also result in further analysis of revenues by source and expenses by type. Contribution and demand ratios address the causes of why an institution's overall financial ratios have behaved in the manner observed.

Contribution ratios are derived from the following main sources of revenues:

- Tuition and fees, net of financial aid
- Grants and contracts
- Government appropriations
- Contributions
- Auxiliary enterprise
- Hospital operations

The numerator would be each applicable source of revenue. The denominator would be total expenses. We believe that it is better to express these sources of revenues as ratios compared with expenses instead of a percentage of total operating revenues. Using total operating revenues can be misleading, especially when expenses are increasing faster than revenues, resulting in a decline in each of these sources. Furthermore, many of these revenue sources may experience significant year-to-year variability and therefore make annual review difficult.

An example of the Net Tuition and Fees Contribution Ratio would be as shown in Table 9.9.

TABLE 9.9: NET TUITION AND FEES RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Net tuition and fees revenues	Net tuition and fees revenues
Denominator	Total expenses	Total expenses

For private institutions, the numerator is tuition and fee revenue, net of tuition discounts, which is from the statement of activities. Total expenses are the same as the denominator in the Primary Reserve Ratio. Again, if expenses include realized or unrealized investment losses, these should be excluded from expenses. Note that since the numerator for each contribution ratio is the revenue component and the denominator is total expenses, the sum of all contribution ratios will be greater (less) than 100 percent, with the difference representing the surplus (deficit).

For public institutions, the numerator is composed of tuition and fees revenues that are found on the statement of revenues, expenses and changes in net assets. The denominator is institutional operating expenses plus institutional nonoperating expenses. For contribution ratios, the denominator should only represent institutional expenses. As stated previously, including the component unit portion in the calculation would not be appropriate unless the component units were operating entities.

Two other ancillary ratios may provide additional information about the strength of the funds available to an institution. Heavily tuition-dependent institutions (that is, institutions that receive more than 60 percent of their revenue

TABLE 9.10: ILLUSTRATION OF THE NET TUITION AND FEES RATIO: PRIVATE INSTITUTIONS

Numerator—Net tuition and fees	45,836
Denominator—Total expenses	68,469
Value of ratio	66.9%

TABLE 9.11: ILLUSTRATION OF THE NET TUITION AND FEES RATIO: PUBLIC INSTITUTIONS

Numerator—Net tuition and fees	43,647
Denominator—Institution total expenses	
+ Institution operating expenses	142,112
+ Institution nonoperating revenues	334
Denominator—Institution total expenses	142,446
Value of ratio	30.6%

from tuition) are particularly sensitive to changes in enrollment patterns. Such institutions may wish to track their degree of dependency by using the Net Tuition Dependency Ratio, which measures tuition and fees less all financial aid as a percentage of total unrestricted operating income for private institutions (the same as the denominator in the Net Operating Revenues Ratio using an operating indicator) and total operating income for public institutions (the same as the denominator in the Net Operating Revenues Ratio). Another important measure used to examine net tuition is the Net Tuition per Student Full Time Equivalent (FTE) Ratio. This ratio allows the institution to see the average amount of actual tuition revenue on a per-student basis.

These two ratios behave differently. An increase in the Net Tuition per Student FTE Ratio is a positive occurrence; however, a decrease in the Net Tuition Dependency Ratio usually benefits the institution. A downward trend in the Net Tuition Dependency Ratio is considered a positive occurrence because it usually indicates that the institution is increasing its diversity of funding sources. Such diversity may protect an institution from economic cycles. For instance, a drop in enrollment may occur in the same year that an institution experiences high investment returns, which may mitigate the effect of reduced tuition revenue. However, downward trends must be interpreted with caution. A decrease in the numerator and no change in the denominator would also produce a downward trend—but in this case one with clearly negative implications.

TABLE 9.12: ILLUSTRATION OF THE NET TUITION DEPENDENCY RATIO: PRIVATE INSTITUTIONS

Numerator—Net tuition and fees	45,836
Denominator—Total unrestricted operating income	
+ Total unrestricted revenues and gains	68,017
+ Net assets released from restrictions	2,049
Denominator—Total unrestricted operating income	70,066
Value of ratio	65.4%

TABLE 9.13: ILLUSTRATION OF THE NET TUITION DEPENDENCY RATIO: PUBLIC INSTITUTIONS

Numerator—Net tuition and fees	43,647
Denominator—Total operating income	
+ Institution operating revenues	95,217
+ Institution nonoperating revenues	50,130
Denominator—Total operating income	145,347
Value of ratio	30%

DEMAND RATIOS

Demand ratios measure the extent to which each type of expense is consuming operating revenues. Since both private and public institutions may report expenses by either natural classifications or by function, demand ratios can be calculated either way.

Demand ratios by natural classification would include:

- Salaries and wages
- Payments to suppliers
- Depreciation
- Utilities
- Fringe benefits
- Interest
- Travel
- Other

Demand ratios by functional classification would include:

- Instruction
- Public service
- Student services
- Plant operations and maintenance
- Hospital operations
- Research
- Academic support
- General services and administration
- Auxiliary enterprises

Private institutions may find it more desirable to calculate ratios before allocations of plant operations and depreciation to the other functions. Public institutions may find it desirable to allocate depreciation expense to the other functions to derive a more complete level of total expenses by function.

The numerator would be the applicable type of expense for the demand ratio being calculated. The denominator would be total operating income as calculated in the Net Tuition Dependency Ratio. Consolidated amounts should be used where appropriate. Note that since the numerator for each Demand Ratio is the expense component and the denominator is operating income, the sum of all Demand Ratios will be greater (less) than 100 percent, with the difference representing the deficit (surplus).

An example of the Instruction Demand Ratio would be shown as in Table 9.14.

TABLE 9.14: INSTRUCTION DEMAND RATIO CALCULATION

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
Numerator	Instruction expenses	Instruction expenses
Denominator	Total unrestricted operating income	Total operating income

CHAPTER SUMMARY

After looking at the relative strengths and weaknesses of each of the four core ratios, it is useful for an institution to be able to combine them into a single score. This combination, using a reasonable weighting plan, allows a weakness or strength in a specific ratio to be offset by another ratio result, thereby allowing a more holistic approach to understanding the total financial health of the institution.

COMPOSITE FINANCIAL INDEX—COMBINING THE CORE RATIOS INTO A SINGLE MEASURE

In Chapters 6–9, we represented four core higher-level ratios that can provide information on the overall financial health of the institution. These ratios are:

- Primary Reserve Ratio
- Viability Ratio
- Return on Net Assets Ratio
- Net Operating Revenues Ratio

For public institutions, this chapter introduces a methodology for creating one overall financial measurement of the public institution's health based on those four core ratios. This measure is called the Composite Financial Index, or CFI. The CFI is useful in helping governing boards and senior management understand the financial position that the institution enjoys in the marketplace. Moreover, this measurement will also prove valuable in assessing future prospects of the institution, functioning as an "affordability index" of a strategic plan. For private institutions, this chapter reiterates the conceptual framework and methodology for the CFI introduced in the fourth edition of *Ratio Analysis in Higher Education: Measuring Past Performance to Chart Future Directions*.

Since we introduced the concept and methodology of the CFI in the fourth edition in 1999, it has been adopted by many leading institutions and found great acceptance by senior management and governing boards. We are convinced that the CFI is a very valuable tool for senior managers and boards of trustees to help understand not only the state of an institution's financial situation at a point in time but also serve as a valuable tool, unavailable from other sources, that can provide insight into the trends of an institution's key financial indicators.

We believe this for several reasons. First, by blending the four key measures of financial health into a single number, a more balanced view of the state of the institution's finances is possible because a weakness in one measure may be offset by the strength of another measure. Second, by using the same criteria to determine the CFI over a period of time, the board and management are given the opportunity to measure the overall financial progress that it is making. Lastly, the measure is easily understood and remembered, so it can become part of institutional communications on where the institution is as well as how far the institution has come.

Our recommendation is that each institution develop the CFI that is tailored to the institutional needs and then apply it over an extended period of time—both historically and as a planning tool as the institution develops a prioritized

and priced strategic plan. By tailoring the CFI in this way, the institution will have insight into the financial impact of different activities.

As an example, if an institution has just completed a significant investment in new facilities with a significant debt component, the expectation that both the CFI and the Viability Ratio will be depressed is reasonable. Similarly, if the institution has recently completed a major capital campaign, the CFI may well have improved, and the governing board and senior management have the opportunity to consider whether the amount of the increase matched overall expectations.

As with any financial analysis, we believe a long period of time, at least five years, represents enough measurement points to effectively understand the financial direction of the institution. We also believe that once developed, the schema should be fixed, and if there is a compelling reason for a change, that all information be restated so that comparative data is consistent. However, the weighting should not be revised as a response to changes or deterioration in certain financial indicators but should only be done if the institution's financial or programmatic objectives have fundamentally changed over the long term.

We have also found, however, that applying the CFI as a peer group measure has some limitations. This is different from the comparison of an individual ratio, where senior managers of an institution believe they have the capability to understand the action to take if an individual ratio is different from another institution. This relates to the fact that there are a limited number of most likely reasons for movement in a selected ratio. However, when the ratios are combined, the underlying reasons for change may be indiscernible because of the number of possible variations.

Within this edition, we present the development of the CFI using specific weightings for each ratio that we believe represent an appropriate assessment of the relative importance of each ratio and a reasonable assessment of balance between an institution's short- and long-term needs. However, the weighting of the ratios becomes the key variable that would reflect differences in institutional philosophy and approach to financial planning. We have determined that the weighting and scoring systems developed for private institutions in the fourth edition are appropriate for public institutions. We have validated this assessment through calculations using public institutions' financial statements and information.

The four-step methodology is as follows:

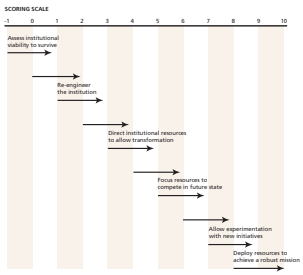
- Compute the values of the four core ratios;
- Convert these figures to strength factors along a common scale;
- Multiply the strength factors by specific weighting factors; and
- Total the resulting four numbers to reach the single CFI score.

The CFI only measures the financial component of an institution's well-being. It must be analyzed in context with other associated activities and plans to achieve an assessment of the overall health, not just financial health, of the institution. As an example, if two institutions have identical CFI scores but one requires substantial investments to meet its mission-critical issues and the other has already made those investments, the first institution is less healthy than the second. In fact, an institution's CFI can become too high as well as too low. When put in the context of achievement of mission, a very high CFI with little achievement of mission may indicate a failing institution.

IMPLICATIONS OF THE CFI

These scores do not have absolute precision. They are indicators of ranges of financial health that can be indicators of overall institutional well-being, when combined with nonfinancial indicators. This would be consistent with the fact that there are a large number of variables that can impact an institution and influence the results of these ratios. However, the ranges do have enough precision to be indicators of the institutional financial health, and the CFI as well as its trend line, over a period of time, can be the single most important measure of the financial health for the institution. Stated graphically in Figure 10.1, this scoring system may look like the following:

FIGURE 10.1: SCALE FOR CHARTING CFI PERFORMANCE



The overlapping arrows represent the ranges of measurement that an institution may find useful in assessing itself. There is little discernible difference between the financial position of an institution with a 3.3 or one with a 3.4 CFI. In this case, the nonfinancial indicators will be a stronger differentiator between the institutions. However, there are readily discernible financial differences between an institution scoring 3.4 and 5.5 on the CFI. An institution with a significantly low or declining CFI will be disadvantaged when competing with institutions with a higher or improving CFI.

CALCULATING THE CFI

To calculate the CFI, the model requires that the four ratios articulate to each other on a common scale. The "Scale for Converting the Core Ratios to Strength Factors" is shown in Table 10.1. By selecting points on the scale and determining a corresponding comparable strength for each ratio, the scoring system achieves a commonality along the range of the scale.

Table 10.1 presents the ratios at three selected points—1, 3 and 10—on a scale of 1 to 10. A score of 1 represents very little financial health; 3, the threshold value, represents a relatively stronger financial position; and 10, the top score within range for an institution. Some institutions will exceed the top score; however, for purposes of measuring financial health there is no reason for the scale to be extended beyond 10. By using the methodology to compute the CFI, an institution could fall below 1 and create negative amounts. These amounts should be computed and included in the determination of the CFI. Should an institution wish to continue the calculation beyond the score of 10, the proportionate analysis would continue to be effective. However, extending strength factors beyond the score of 10 will create a higher CFI and may unduly mask a weakness in another ratio.

ESTABLISHING THE THRESHOLD VALUE

The scale represents an assessment based on industry experience. Using 6 percent as the threshold value for the Return on Net Assets Ratio is intended to establish a rate of return in excess of the growth in total expenses. The Primary Reserve Ratio threshold of moderate financial health is set at .4x. The Viability Ratio threshold is set at 1.25:1. The Net Operating Revenues Ratio is set at 2 percent for private institutions using an operating indicator, and 4 percent for both private institutions using the change in total unrestricted net assets and for public institutions. Even though public institutions have an operating indicator, that indicator excludes certain key elements of operating revenues, such as appropriations and gifts for operating purposes. Using the income before other revenues, expenses, gains and losses (operating income/loss and net nonoperating revenues) includes total investment income of the institution, resulting in an amount that is consistent with total changes in expendable net assets, unrestricted and restricted, and plant equity. For public institutions that use a spending rate that is obtainable from the accounting records, that amount may be used to calculate the Net Operating Revenues Ratio and the 2 percent threshold should be used.

TABLE 10.1: SCALE FOR CONVERTING THE CORE RATIOS TO STRENGTH FACTORS

SCORING SCALE	1	3	10
Primary Reserve Ratio	.133x	.4x	1.33x
Net Operating Revenues Ratio:			
Using an operating indicator	0.7%	2%	7.0%
Using change in unrestricted net assets	1.3%	4%	13.0%
Return on Net Assets Ratio	2.0%	6%	20.0%
Viability Ratio	.417x	1.25x	4.16x

CALCULATING STRENGTH FACTORS

To calculate the strength factor at a point other than those presented in Table 10.1, divide the ratio value by the relevant value for 1 given in the table. As an example, a Viability Ratio of 1.5x converts to a strength factor of 3.6 as follows:

$$\frac{1.5x}{.417x} = 3.597, \text{ or } 3.6$$

ANALYZING STRENGTH FACTORS

In analyzing the strength factor, a composite strength factor of 1 indicates an institution under financial stress. Reading down the table, the profile of an institution with a score of 1 on each of the individual ratios (and a CFI of 1) discloses a Primary Reserve Ratio of .133x, indicating that expendable resources are available to cover about 45 days of annualized expenses (13.3 percent of 365), and that while some net operating revenues and return on net assets exist, the amounts of .7 percent and 2 percent are too small to allow replenishment of reserve levels and may well not equal even modest growth in total expenses. Finally, a Viability Ratio of .417x indicates long-term debt exceeding expendable resources by 2.4 times (1 ÷ .417x).

A strength factor of 3 on each ratio indicates that an institution is relatively financially healthy in that approximately 140 days of annualized expenses are retained in expendable resources (40 percent of 365); the net operating revenues generated are sufficient to keep pace with, and will likely exceed the growth of, moderate expense levels; the return on net assets would appear reasonable for the overall investment activity of the institution; and expendable net assets exceed the institutional debt levels, although not by excessive amounts.

Institutions with this profile generally have enough wealth and access to capital resources to finance modest program improvements and address a modest financial challenge; however, a significant institutional transformation may be difficult to realize without additional resources. At a strength factor of 10 on each ratio, about 485 days of annualized expenses exist in expendable resources, net operating revenues indicate the margin from operating activities will exceed normal increases in expense levels, the return on net assets will provide marginal resources that may be used to support institutional initiatives, and the institution has substantial expendable resources in excess of debt.

WEIGHTING THE RATIOS

A key feature of the CFI is that a single score allows weaknesses in individual ratios to be quantitatively offset by strengths in other ratios. The result is the ability to look at overall financial health, not just individual components of financial health. For this process to be most useful, it is important to use the weighting factor consistently for each of the ratios. If substantial differences in scores result from year-to-year comparisons, the explanation will be related to economic events, not different weighting plans. Elimination of any of these ratios would be inappropriate for the application of the CFI. In certain cases, the Viability Ratio will not apply because some institutions carry no long-term obligations. If that is the case, then the weighting for the Viability Ratio is zero and the remaining three ratios will be allocated 100 percent of the weight, proportionate to one another.

In a "normalized" institution, the suggested weighting would be more heavily skewed toward measurement of retained wealth and less toward current operations. The principal reason for this is the belief that retained wealth and strategic use of debt are stronger indicators of long-term institutional financial health than measures depending on a

single year's performance. As previously stated, we believe that an institution will, at various points in its evolution, find need to invest in itself, and that may mean generating short-term, controlled deficits. These investments may well impact annual operating performance negatively but may be the most important strategic investments that the institution makes. That is not to say that the operating results are unimportant, as evidenced by the use of operating ratios in developing the CFI. With that as a concept, the weighting pattern is as follows in Table 10.2:

TABLE 10.2: CREATING THE WEIGHTING SCHEMA

RATIO	INSTITUTION WITH LONG-TERM DEBT	INSTITUTION WITH NO LONG-TERM DEBT
Primary Reserve	35%	55%
Net Operating Revenues	10%	15%
Return on Net Assets	20%	30%
Viability	35%	–

INTEGRATING THE CFI INTO THE STRATEGIC PLAN

The CFI is best used as a component of financial goals in the institution's strategic plan. Further, the institution is best served if the CFI is calculated over an established time period, for example, the past three years and the next five. This gives a more accurate picture of overall financial health and answers the questions (a) were returns earned on investments, and (b) were the right investments made. Routine financial statement modeling to determine the CFI gives the opportunity for constant assessment and continual awareness of institutional performance. Table 10.3 is an example of the calculation of the CFI using the information from Utopia University as discussed previously.

TABLE 10.3: UTOPIA UNIVERSITY—SUMMARY OF THE COMPOSITE FINANCIAL INDEX

RATIO	RATIO VALUE		STRENGTH FACTOR		WEIGHTING FACTOR		SCORE
Primary Reserve	.74x	=	5.56	x	35%	=	1.95
Net Operating Revenues	2.28%	=	3.26	x	10%	=	.33*
Return on Net Assets	4.78%	=	2.39	x	20%	=	.48
Viability	1.28x	=	3.07	x	35%	=	1.07
					Composite Financial Index		3.8**

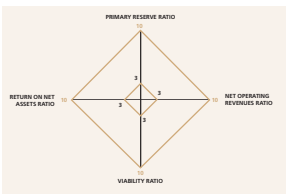
* Calculated using an operating indicator for private institutions
** Number has been rounded to reflect appropriate level of precision as indicated by research

GRAPHIC FINANCIAL PROFILE—AN APPLICATION OF THE RATIOS

Figure 10.2 illustrates the ratios comprising the CFI. This presentation maps each ratio's value on a diamond to show the "shape" of an institution's financial health. This graphic financial profile (GFP) offers further assistance in identifying whether a weakness that may exist in one ratio is offset by a strength in another ratio.

The values placed along the individual ratio axes are weighted evenly. The scale imitates the scale for the CFI strength factors, with 3 being the inner box and 10 being the outer box. For purposes of this graphic financial profile, the centerpoint is zero. Any values below zero would default to the center of the graph. Absent unusual circumstances, an institution would want at least the entire inside box to be shaded when its ratios are plotted.

FIGURE 10.2: GRAPHIC FINANCIAL PROFILE



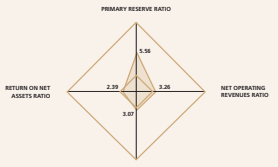
Because there is correlation between the Primary Reserve Ratio and the Viability Ratio, and correlation between the Return on Net Assets Ratio and the Net Operating Revenues Ratio, these ratios have been placed opposite each other on the axes. The share of the shaded area for the institution may be instructive in assessing high-level financial position. A short (vertical axis), elongated (horizontal axis) shape would indicate relatively stronger operating results but a relatively undercapitalized institution. A relatively tall and narrow shape would demonstrate relatively stronger capitalization with weaker returns. Over time, the expectation would be that the relative capitalization would diminish because the returns obtained would not be keeping pace with growth.

From a financial perspective, Utopia University would probably have difficulty making major investments in key areas, such as facilities, academic and research programs, or personnel without a large external capital infusion (see Figure 10.3). An institution with this profile generally has a reasonable cushion against the first adverse financial event but would be required to replenish expendable resources if a significant adverse event were to occur, before it would be able to continue making significant investments.

FIGURE 10.3: GRAPHIC FINANCIAL PROFILE FOR UTOPIA UNIVERSITY

RATIO	RATIO	STRENGTH FACTOR
Primary Reserve	.74x	5.56
Net Operating Revenues	2.28%	3.26*
Return on Net Assets	4.78%	2.39
Viability	1.28x	3.07

*Using an operating indicator

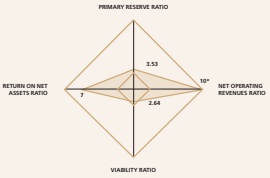


Further examples of applying the core ratios in graphic profiles are offered on the following pages.

FIGURE 10.4: INSTITUTION #1—GRAPHIC FINANCIAL PROFILE

RATIO	RATIO	STRENGTH FACTOR
Primary Reserve	0.47x	3.53
Net Operating Revenues	18.00%	10.00*
Return on Net Assets	14.00%	7.00
Viability	1.10x	2.64

*Default to maximum score using change in unrestricted net assets

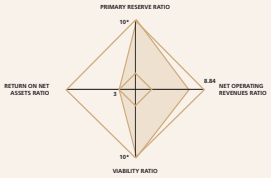


The profile of Institution #1 indicates a thinly capitalized institution with reasonable returns generated in the current period. This is an institution that may need to assess ways of focusing the deployment of its resources to ensure sufficient capitalization to achieve stated initiatives.

FIGURE 10.5: INSTITUTION #2—GRAPHIC FINANCIAL PROFILE

RATIO	RATIO	STRENGTH FACTOR
Primary Reserve	1.84x	10.00*
Net Operating Revenues	11.50%	8.84†
Return on Net Assets	6.00%	3.00
Viability	24.50x	10.00*

*Default to 10, as calculated score exceeds 10
†Calculated using change in unrestricted net assets

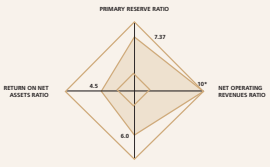


The profile of Institution #2 indicates an overall very financially healthy institution. The ratio results in three areas are strong, and while the Return on Net Assets Ratio is relatively low, this can be explained by the institution's somewhat higher investment in plant and equipment compared with similar institutions. The skewed nature of this GFP would indicate the institution has made investments in physical assets that are not producing returns at the same level of the institution. This would be an interesting GFP to track over a long period of time to assess whether this is indicative of how the institution invests in physical assets or whether stronger returns occur at some other point in time. This is an institution that has the financial capacity to deploy resources against a fairly robust mission.

FIGURE 10.6: INSTITUTION #3—GRAPHIC FINANCIAL PROFILE

RATIO	RATIO	STRENGTH FACTOR
Primary Reserve	0.98x	7.37
Net Operating Revenues	17.00%	10.00*
Return on Net Assets	9.00%	4.50
Viability	2.50x	6.00

*Default to 10, as calculated score exceeds 10

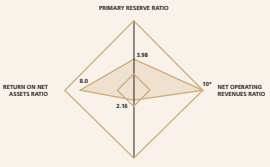


The profile of Institution #3 indicates a financially strong institution that has produced substantial returns on current activities. At present, there are no perceived financial weaknesses and the institution should focus on moving selected institutional initiatives forward. As with Institution #2, the return on net assets is lower than the other three ratios, but it is at a high enough level to indicate that the institution would likely not run into return issues, at least in the periods near this calculation.

FIGURE 10.7: INSTITUTION #4—GRAPHIC FINANCIAL PROFILE

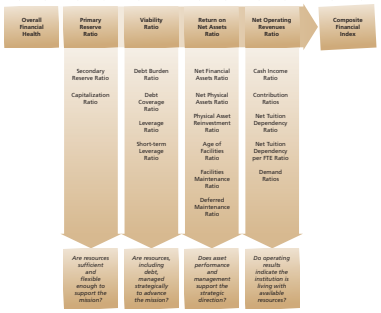
RATIO	RATIO	STRENGTH FACTOR
Primary Reserve	0.53x	3.98
Net Operating Revenues	15.00%	10.00*
Return on Net Assets	16.00%	8.00
Viability	0.90x	2.16

*Default to 10, as calculated score exceeds 10



The profile of Institution #4 indicates a fairly thinly capitalized institution that is producing exceptional return on the revenues it generates and the net assets owned. Overall, the financial position of this institution would indicate the governing board and senior management may need to specifically deploy resources in ways that will cause institutional transformation.

A APPENDIX A: RATIO DEFINITIONS



	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
RESOURCE SUFFICIENCY AND FLEXIBILITY		
PRIMARY RESERVE RATIO	Expendable Net Assets / Total Expenses	Expendable Net Assets + Component Unit (C.U.) Expendable Net Assets / Total Expenses + C.U.Total Expenses
SECONDARY RESERVE RATIO	Nonexpendable Net Assets / Total Expenses	Nonexpendable Net Assets + C.U. Nonexpendable Net Assets / Total Expenses + C.U.Total Expenses
CAPITALIZATION RATIO	Modified Net Assets / Modified Total Assets	Modified Net Assets + C.U. Modified Net Assets / Modified Total Assets + C.U. Modified Total Assets
DEBT MANAGEMENT		
VIABILITY RATIO	Expendable Net Assets / Long-Term Debt (Total Project-Related Debt)	Expendable Net Assets + C.U. Expendable Net Assets / Long-Term Debt (Total Project-Related Debt) + C.U. Long-Term Debt
DEBT BURDEN RATIO	Debt Service / Adjusted Expenses + C.U. Adjusted Expenses	Debt Service + C.U. Debt Service / Total Expenditures + C.U. Total Expenditures
DEBT SERVICE COVERAGE RATIO	Adjusted Change in Net Assets / Debt Service	Adjusted Change in Net Assets + C.U. Adjusted Change in Net Assets / Debt Service + C.U. Debt Service
LEVERAGE RATIO	Available Net Assets / Long-Term Debt (Total Project-Related Debt)	Available Net Assets + C.U. Available Net Assets / Long-Term Debt (Total Project-Related Debt) + C.U. Long-Term Debt
SHORT-TERM LEVERAGE RATIO	Nonproject Debt and Similar Obligations / Cash and Short-term Investments	Nonproject Debt and Similar Obligations + C.U. Nonproject Debt and Similar Obligations / Cash and Short-term Investments + C.U. Cash and Short-term Investments

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
ASSET PERFORMANCE AND MANAGEMENT		
RETURN ON NET ASSETS RATIO	Change in Net Assets / Total Net Assets	Change in Net Assets + C.U. Change in Net Assets / Total Net Assets + C.U. Total Net Assets
FINANCIAL NET ASSETS RATIO	Financial Net Assets / Total Net Assets	Financial Net Assets + C.U. Financial Net Assets / Total Net Assets + C.U. Total Net Assets
PHYSICAL NET ASSETS RATIO	Physical Net Assets / Total Net Assets	Physical Net Assets + C.U. Physical Net Assets / Total Net Assets + C.U. Total Net Assets
PHYSICAL ASSET REINVESTMENT RATIO	Capital Expenditures / Depreciation Expense	Capital Expenditures / Depreciation Expense
AGE OF FACILITY RATIO	Accumulated Depreciation / Depreciation Expense	Accumulated Depreciation + C.U. Accumulated Depreciation / Depreciation Expense + C.U. Depreciation Expense
FACILITIES BURDEN RATIO	Facility Operation Expenses / Property, Plant & Equipment, Net	Facility Operation Expenses + C.U. Facility Operation Expenses / Capital Assets, Net + C.U. Property, Plant & Equipment, Net
FACILITY MAINTENANCE RATIO	Operations and Maintenance of Plant Expenses / Total Operating Revenues	Operations and Maintenance of Plant Expenses + C.U. Operations and Maintenance of Plant Expenses / Total Adjusted Operating Revenues + C.U. Total Operating Revenues
DEFERRED MAINTENANCE RATIO	Outstanding Maintenance Requirements / Expendable Net Assets	Outstanding Maintenance Requirements + C.U. Outstanding Maintenance Requirements / Expendable Net Assets + C.U. Expendable Net Assets

	PRIVATE INSTITUTIONS	PUBLIC INSTITUTIONS
OPERATING RESULTS		
NET OPERATING REVENUES RATIO: USING CHANGE IN UNRESTRICTED NET ASSETS FOR PRIVATE INSTITUTIONS	Excess (Deficiency) of Unrestricted Operating Revenues Over Unrestricted Operating Expenses / Total Unrestricted Operating Income	Operating Income (loss) + Net Nonoperating revenues + C.U. Change in Unrestricted Net Assets / Operating Revenues + Nonoperating Revenues + C.U. Total Unrestricted Income
NET OPERATING REVENUES RATIO: USING CHANGE IN UNRESTRICTED NET ASSETS FOR PRIVATE INSTITUTIONS	Change in Unrestricted Net Assets / Total Unrestricted Income	
CASH INCOME RATIO	Net Cash Provided by Operating Activities / Total Unrestricted Income, Excluding Gains	Adjusted Net Cash Provided by Operating Activities + C.U. Net Cash Provided by Operating Activities / Adjusted Operating Income + C.U. Total Unrestricted Income, Excluding Gains
NET TUITION AND FEES CONTRIBUTION RATIO	Net Tuition and Fees / Total Expenses	Net Tuition and Fees / Total Expenses
NET TUITION DEPENDENCY RATIO	Net Tuition and Fees / Total Unrestricted Operating Income	Net Tuition and Fees / Total Adjusted Operating Revenues
NET TUITION PER STUDENT FTE RATIO	Net Tuition and Fees / Full-Time Equivalent Students	Net Tuition and Fees / Full-Time Equivalent Students
DEMAND RATIOS	Specific Types of Expenses / Total Unrestricted Operating Income	Specific Types of Expenses / Total Operating Income

Note: For Long-Term Debt, institutions should substitute Total Project-Related Debt.

B APPENDIX B: UTOPIA UNIVERSITY FINANCIAL STATEMENTS

UTOPIA UNIVERSITY
STATEMENTS OF FINANCIAL POSITION (AMOUNTS IN THOUSANDS)

ASSETS	CURRENT	PRIOR
Cash and cash equivalents	$ 20,693	19,605
Student accounts receivable, net of allowances of $311 in the current year and $196 in the prior year	1,203	1,071
Other receivables	1,175	1,453
Contributions receivable, net	1,295	1,215
Deferred charges and prepaid expenses	1,040	1,071
Investments held for long-term purposes, at market	45,062	40,905
Notes receivable, net of allowances of $391 in the current year and $371 in prior year	9,513	9,230
Property, plant and equipment, net	77,900	79,305
Total assets	157,881	153,855

LIABILITIES AND NET ASSETS	CURRENT	PRIOR
Liabilities:		
Accounts payable	$ 962	1,250
Accrued expenses	5,286	4,810
Deferred revenues	1,227	1,251
Student deposits	211	259
Accrued post-retirement benefits	1,806	1,806
Long-term debt	39,476	40,387
U.S government grants refundable	8,293	8,062
Total liabilities	57,261	57,825
Net assets:		
Unrestricted	$ 86,014	83,724
Temporarily restricted	2,954	2,357
Permanently restricted	11,652	9,949
Total net assets	100,620	96,030
Total liabilities and net assets	157,881	153,855

UTOPIA UNIVERSITY
CURRENT YEAR STATEMENT OF ACTIVITIES (AMOUNTS IN THOUSANDS)

	UNRESTRICTED	TEMPORARILY UNRESTRICTED	PERMANENTLY UNRESTRICTED	TOTAL
Revenues				
Educational and general:				
Tuition and fees	$ 60,374	–	–	60,374
Less scholarship allowances	(14,538)	–	–	(14,538)
Net tuition and fees	45,836	–	–	45,836
Federal grants and contracts	1,467	–	–	1,467
State grants and contracts	1,194	–	–	1,194
Private gifts and grants	2,598	553	–	3,151
Interest on loans receivable	37	–	–	37
Investment income	1,457	413	31	1,901
Other sources	628	–	–	628
Auxiliary enterprises	14,800	–	–	14,800
Total revenues and gains	68,017	966	31	69,014
Net assets released from restrictions—satisfaction of program restrictions	2,049	(2,049)	–	–
Total revenues, gains and other support	70,066	(1,083)	31	69,014
Expenses				
Educational and general:				
Instruction	30,854	–	–	30,854
Research	57	–	–	57
Public services	42	–	–	42
Academic support	7,305	–	–	7,305
Student services	10,012	–	–	10,012
Institutional support	10,183	–	–	10,183
Total educational and general	58,453	–	–	58,453
Auxiliary enterprises	10,016	–	–	10,016
Total expenses	68,469			68,469
Excess (deficiency) of operating revenues over operating expenses	1,597	(1,083)	31	545

UTOPIA UNIVERSITY
CURRENT YEAR STATEMENT OF ACTIVITIES (AMOUNTS IN THOUSANDS) (CONTINUED)

	UNRESTRICTED	TEMPORARILY UNRESTRICTED	PERMANENTLY UNRESTRICTED	TOTAL
Nonoperating items:				
Investment return in excess of spending rate	$ 693	680	27	1,400
Private gifts and grants	–	1,000	1,645	2,645
Excess of nonoperating revenue over nonoperating expenses	693	1,680	1,672	4,045
Increase of net assets	2,290	597	1,703	4,590
Net assets at beginning of year	83,724	2,357	9,949	96,030
Net assets at end of year	86,014	2,954	11,652	100,620

UTOPIA UNIVERSITY
PRIOR YEAR STATEMENT OF ACTIVITIES (AMOUNTS IN THOUSANDS)

	UNRESTRICTED	TEMPORARILY UNRESTRICTED	PERMANENTLY UNRESTRICTED	TOTAL
Revenues				
Educational and general:				
Tuition and fees	$ 59,045	–	–	59,045
Less scholarship allowances	(12,769)	–	–	(12,769)
Net tuition and fees	46,276	–	–	46,276
Federal grants and contracts	1,204	–	–	1,204
State grants and contracts	1,184	–	–	1,184
Private gifts and grants	1,523	1,550	–	3,073
Interest on loans receivable	24	–	–	24
Investment income	1,369	350	31	1,750
Other sources	892	–	–	892
Auxiliary enterprises	13,811	–	–	13,811
Total revenues and gains	66,283	1,900	31	68,214
Net assets released from restrictions—satisfaction of program restrictions	5,261	(5,261)	–	–
Total revenues, gains and other support	71,544	(3,361)	31	68,214
Expenses				
Educational and general:				
Instruction	30,946	–	–	30,946
Research	1	–	–	1
Academic support	7,153	–	–	7,153
Student services	10,821	–	–	10,821
Institutional support	9,789	–	–	9,789
Total educational and general	58,710	–	–	58,710
Auxiliary enterprises	11,093	–	–	11,093
Total expenses	69,803			69,803
Excess (deficiency) of operating revenues over operating expenses	1,741	(3,361)	31	(1,589)

UTOPIA UNIVERSITY
PRIOR YEAR STATEMENT OF ACTIVITIES (AMOUNTS IN THOUSANDS) (CONTINUED)

	UNRESTRICTED	TEMPORARILY UNRESTRICTED	PERMANENTLY UNRESTRICTED	TOTAL
Nonoperating items:				
Investment return in excess of spending rate	$ 2,816	3,445	84	6,345
Private gifts and grants	–	794	271	1,065
Excess of nonoperating revenue over nonoperating expenses	2,816	4,239	355	7,410
Increase of net assets	4,557	878	386	5,821
Net assets at beginning of year	79,167	1,479	9,563	90,209
Net assets at end of year	83,724	2,357	9,949	96,030

UTOPIA UNIVERSITY
STATEMENT OF ACTIVITIES: STATEMENT OF CASH FLOWS (AMOUNTS IN THOUSANDS)

	CURRENT	PRIOR
Cash flows from operating activities:		
Change in net assets	$ 4,590	5,821
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	4,083	3,915
Net realized gains on investments	(2,265)	(1,069)
Net unrealized (appreciation) depreciation of investments	1,036	(4,340)
Provision for losses on student accounts receivable, net	115	78
Gifts and grants received for long-term investment	(1,645)	(271)
Gifts of property, plant and equipment	(84)	(174)
(Increases) decreases in:		
Student accounts receivable	(247)	(271)
Other receivables	278	55
Contributions receivable	(80)	1,454
Deferred charges and prepaid expenses	31	44
Increases (decreases) in:		
Accounts payable	(288)	(188)
Accrued expenses	476	226
Deferred revenues	(24)	(88)
Student deposits	(48)	(9)
Accrued post-retirement benefits	–	132
Net cash provided by operating activities	5,928	5,315
Cash flows from investing activities:		
Purchases of property, plant and equipment, net	(2,594)	(3,279)
Purchases of investments	(20,740)	(25,918)
Proceeds from sale of investments	17,812	24,556
Disbursements of notes receivable, net of repayments and other reductions	(283)	(303)
Net cash provided by operating activities	(5,085)	(4,944)
Cash flows from financing activities:		
Principal repayments of indebtedness	(911)	(1,292)
Gifts and grants received for long-term investment	1,645	271
Increase in U.S. government grants refundable, net	231	273
Net cash provided by (used for) financing activities	965	(748)

UTOPIA UNIVERSITY
STATEMENT OF ACTIVITIES: STATEMENT OF CASH FLOWS (AMOUNTS IN THOUSANDS) (CONTINUED)

	CURRENT	PRIOR
Net increase (decrease) in cash and cash equivalents	1,088	(377)
Cash and cash equivalents—beginning of year	19,605	19,982
Cash and cash equivalents—end of year	20,693	19,605
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest on long-term debt	2,323	2,822
Significant noncash financing and investing activities:		
Gifts of property, plant and equipment	84	174

C APPENDIX C: SAGACIOUS STATE UNIVERSITY FINANCIAL STATEMENTS WITH COMPONENT UNIT

SAGACIOUS STATE UNIVERSITY
STATEMENTS OF NET ASSETS (AMOUNTS IN THOUSANDS)

	CURRENT	PRIOR
Assets		
Current assets:		
Cash and cash equivalents	$ 21,138	21,777
Short-term investments	4,410	3,975
Accounts receivable, net	9,590	9,342
Loans receivables, net	1,508	1,480
Inventories	384	374
Prepaid expenses	5,843	4,957
Deferred changes	2,055	1,839
Total current assets	44,568	43,744
Noncurrent assets:		
Restricted cash and investments	–	1,684
Loans receivables	8,081	7,400
Other assets	515	1,397
Other long-term investments	28,868	24,904
Capital assets, net	113,628	112,580
Total noncurrent assets	151,092	147,965
Total assets	195,660	191,709
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	4,851	8,348
Accrued liabilities	4,911	5,096
Deferred revenues	19,407	16,179
Refunds and other liabilities	221	260
Current portion of long-term liabilities	3,589	3,293
Total current liabilities	32,979	33,176
Noncurrent liabilities:		
Long-term liabilities	11,203	12,192
Total liabilities	44,182	45,368

SAGACIOUS STATE UNIVERSITY
STATEMENTS OF NET ASSETS (AMOUNTS IN THOUSANDS) (CONTINUED)

	CURRENT	PRIOR
Net assets:		
Invested in capital assets, net of related debt	$ 105,386	104,958
Restricted—nonexpendable:		
Instruction and research	179	179
Student aid	502	502
Other	2	2
Total restricted nonexpendable	683	683
Restricted—expendable:		
Instruction and research	992	1,305
Academic support	–	128
Student aid	8,943	8,442
Capital projects	136	136
Other	3	1
Total restricted expendable	10,074	10,012
Unrestricted net assets	35,335	30,688
Total net assets	151,478	146,341
Total liabilities and net assets	195,660	191,709

SAGACIOUS STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (AMOUNTS IN THOUSANDS)

	CURRENT	PRIOR
Operating Revenues		
Tuition and fees	$ 53,986	47,241
Less scholarship allowances	(10,339)	(9,339)
Net	43,647	37,902
Federal grants and contracts	20,143	17,450
State grants and contracts	3,352	3,539
Nongovernmental grants and contracts	16,333	14,997
Sales and services	3,414	3,561
Auxiliary enterprises	7,436	6,577
Other sources	892	800
Total operating revenues	95,217	84,826
Operating Expenses		
Instruction	48,405	44,929
Research	12,143	10,787
Public service	5,245	5,119
Academic support	27,989	25,787
Student services	6,156	5,965
Institutional support	10,758	10,326
Operation and maintenance of plant	7,724	8,070
Scholarships and fellowships	5,702	5,133
Auxiliary enterprises	11,012	10,114
Depreciation	6,978	6,982
Total operating expenses	142,112	133,212
Operating income (loss):	(46,895)	(48,386)
Nonoperating revenues (expenses):		
State appropriations	45,863	46,151
Gifts	2,485	2,339
Investment income	1,782	1,518
Interest on capital asset-related debt	(328)	(318)
Other expenses	(6)	(115)
Net nonoperating revenues	49,796	49,575
Income before other revenues, expenses, gains or losses	2.901	1,189
Capital appropriations	1,723	3,241
Capital grants	513	722
Increase in net assets	5,137	5,152
Net assets at beginning of year	146,341	141,189
Net assets at end of year	151,478	146,341

SAGACIOUS STATE UNIVERSITY
STATEMENTS OF CASH FLOWS (AMOUNTS IN THOUSANDS)

	CURRENT	PRIOR
Cash flows from operating activities:		
Student tuition and fees	$ 43,856	38,248
Grants and contracts	40, 884	38,933
Sales and services of educational activities	3,852	3,874
Payments to employees	(68,872)	(64,406)
Payments for benefits	(17,825)	(16,164)
Payments to suppliers	(41,620)	(41,895)
Payments for student aid	(6,122)	(5,602)
Student loans issued	(2,456)	(2,495)
Student loans collected	1,747	1,843
Student loan interest and fees collected	155	144
Auxiliary enterprise sales	7,453	6,725
Net cash used by operating activities	(38,948)	(40,795)
Cash flows from noncapital financing activities:		
State appropriations	45,863	46,151
Gifts	2,182	2,407
Net cash provided by noncapital financing activities	48,045	48,558
Cash flows from capital and related financing activities:		
State capital appropriations	1,723	3,241
Capital grants received	513	722
Purchases of capital assets	(8,663)	(8,181)
Sales of capital assets	128	–
Proceeds from capital debt	–	8,469
Principal paid on capital debt and leases	(1,043)	(5,203)
Interest paid on capital debt and leases	(328)	(318)
Net cash used by capital and related financing activities	(7,670)	(1,270)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	45,464	43,701
Interest on investments	927	862
Purchases of investments	(50,141)	(44,674)
Net cash used by investing activities	(3,750)	(111)
Net increase (decrease) in cash and cash equivalents	(2,323)	6, 382
Cash and cash equivalents—beginning of year	23,461	17,079
Cash and cash equivalents—end of year	21,138	23,461

SAGACIOUS STATE UNIVERSITY
STATEMENTS OF CASH FLOWS (AMOUNTS IN THOUSANDS) (CONTINUED)

	CURRENT	PRIOR
Reconciliation of net operating revenues (expenses) to net cash used by operating activities:		
Operating loss	$ (46,895)	(48,386)
Depreciation expense	6,978	6,982
Change to allowance for doubtful loans	75	–
Change to allowance for doubtful accounts	24	22
Changes in assets and liabilities:		
Accounts receivable	(1,584)	4
Inventory	(10)	(19)
Prepaid expenses	(189)	(858)
Deferred charges	(216)	(242)
Other assets	882	(1,016)
Accounts payable	(632)	842
Accrued liabilities	(186)	(637)
Deferred revenues	3,227	3,629
Other long-term liabilities	350	(368)
Loans to students	(772)	(748)
Net cash used by operating activities	(38,948)	(40,795)

SAGACIOUS STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION (AMOUNTS IN THOUSANDS)

	CURRENT	PRIOR
Assets		
Cash and cash equivalents	$ 739	1,691
Contributions receivable, net	5,831	4,267
Other assets	113	97
Investments held for long-term purposes, at market	23,688	17,227
Property, plant and equipment, net	320	325
Total assets	30,691	23,607
Liabilities and Net Assets		
Liabilities:		
Accounts payable	442	382
Deferred revenues	532	291
Other	705	631
Total liabilities	1,679	1,304
Net assets:		
Unrestricted	822	175
Temporarily restricted	16,734	13,886
Permanently restricted	11,456	8,242
Total net assets	29,012	22,303
Total liabilities and net assets	30,691	23,607

SAGACIOUS STATE UNIVERSITY FOUNDATION
STATEMENT OF ACTIVITIES, CURRENT YEAR (AMOUNTS IN THOUSANDS)

	UNRESTRICTED	TEMPORARILY UNRESTRICTED	PERMANENTLY UNRESTRICTED	TOTAL
Revenues:				
Contributions	$ 993	2,148	3,214	6,355
Investment income	15	2,900	–	2,915
Total revenues and gains	1,008	5,048	3,214	9,270
Net assets released from restrictions—satisfaction of program restrictions	2,200	(2,200)	–	–
Total revenues, gains and other support	3,208	2,848	3,214	9,270
Expenses:				
Payments to Sagacious State University	2,375	–	–	2.375
Institutional support	186	–	–	186
Total expenses	2,561	–	–	2,561
Increase in net assets	647	2,848	3,214	6,709
Net assets at beginning of year	175	13, 886	8,242	22,303
Net assets at end of year	822	16,734	11,456	29,012

D APPENDIX D: FINANCIAL RATIO RESULTS
(PROVIDED BY PRAGER, SEALY, & CO., LLC)

PUBLIC INSTITUTIONS—MEDIANS BASED ON STRUCTURE

	CAMPUS	SYSTEM
Primary Reserve Ratio (x)	0.55	0.48
Secondary Reserve Ratio	23.4%	22.0%
Capitalization Ratio	70%	60%
Viability Ratio (x)	1.59	1.20
Debt Burden Ratio	2.3%	2.5%
Debt Service Coverage (x)	0.23	-0.86
Leverage Ratio (x)	3.76	2.57
Interest Burden Ratio	1.15%	1.47%
Return on Net Assets Ratio	7.82%	10.87%
Financial Net Assets Ratio	58%	62%
Physical Net Assets Ratio	42%	38%
Physical Asset Reinvestment Ratio (x)	1.89	2.45
Age of Facility (Years)	11.41	11.42
Net Operating Revenues Ratio 1	4.78%	3.56%
Cash Income Ratio	6.2%	7.2%
Net Tuition and Fees Contribution Ratio	19.3%	17.4%
Net Tuition Dependency Ratio	29.5%	28.7%

PRIVATE INSTITUTIONS—MEDIANS BASED ON RESOURCE SIZE

	TOTAL RESOURCES			
	$0–$100M	$100–$400M	$400–$1,000M	$1,000M+
Primary Reserve Ratio (x)	0.57	1.35	2.45	2.41
Secondary Reserve Ratio	48.9%	93.7%	114.3%	81.4%
Capitalization Ratio	66%	74%	76%	78%
Viability Ratio (x)	0.87	1.75	2.83	4.67
Debt Burden Ratio	4.1%	4.5%	4.3%	2.5%
Debt Service Coverage (x)	2.41	2.80	2.70	4.21
Leverage Ratio (x)	3.17	4.22	4.68	8.01
Interest Burden Ratio	2.23%	2.64%	2.67%	1.87%
Return on Net Assets Ratio	7.98%	10.31%	9.68%	11.110%
Financial Net Assets Ratio	194%	308%	409%	665%
Physical Net Assets Ratio	36%	22%	18%	11%
Physical Asset Reinvestment Ratio (x)	1.18	1.81	1.78	2.01
Age of Facility (Years)	11.38	10.71	10.60	9.58
Net Operating Revenues Ratio 1	3.39%	3.07%	2.20%	2.18%
Net Operating Revenues Ratio 2	7.9%	15.2%	18.3%	2.22%
Cash Income Ratio	7.0%	5.4%	2.2%	1.7%
Net Tuition and Fees Contribution Ratio	64.8%	56.7%	41.8%	19.2%
Net Tuition Dependency Ratio	61.1%	54.7%	41.6%	18.8%

For more information about Strategic Financial Analysis, please contact:

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