Overview of Financial Statements and Financial Planning

System financial health inputs and processes
BOR financial planning metrics
Bond ratings
How are System finances managed?

**Institutional leadership:**
- Operating budget and capital spending under $1M – institution fund balance goal requires saving $1 out of every $100 spent

**Chancellor and Board of Regents discipline:**
- Capital spending over $1M – spending progress tracked, considered outside of institution fund balance goals so that project timing not impacted
- Bond authorizations approvals based on institution and USM affordability
- The fund balance goal is set annually to maintain ratio of reserves to debt

USM financial planning annually takes into consideration externalities:
- Pension liability
- Investment returns
- Pandemic or other crisis
- Fund balance reversions

**Annual Cycle for Inputs into Financial Management**

- Capital budget (June)
- Fall enrollment report (November)
- Audited financial statements (December)
- Debt issuance (January)
- Operating budget (April)
- Enrollment projections (March)

Other off cycle processes:
- Campus master plans (rotating cycle every 5 years)
- Out of cycle project approvals (ongoing)
Financial Planning Metrics

**Board of Regents Policy on Debt Management** *(VIII-12.00)*

- Minimum ‘Available Funds to Debt’ of 90% on an ‘adjusted’ basis
- Maximum debt service ratio of 4% (currently just over 3%)
- Standards are designed to ensure institutions have reserves for:
  - Opportunistic initiatives
  - Crisis like the pandemic where revenues temporarily decline
  - To satisfy obligations when due

*Institution fund balances are not a ‘rainy day fund’ – fund balances are the result of hundreds of business managers across the System making prudent decisions to meet long-term needs – when an unanticipated challenge arises requiring use of fund balances, institution presidents need to make difficult choices*
USM Bond Ratings (reaffirmed past week)

- Moody’s Aa1 (since September 2010)
- Standard & Poor’s AA+ (since June 2008)
- Fitch AA+ (since December 2010)

All 3 with stable outlook

What does this mean for the System:
1. Lower interest rates
2. Access to refinancings of previously issued debt
3. Partnership opportunities associated with credit strength
4. Requires financial strength to be maintained (lower borrowing)

The Rating Agency Evaluation

- Needed for selling USM debt to provide facilities needed for mission
- Better rating = lower borrowing costs + enhanced fiscal discipline
- USM BOR debt policy designed to support financial health
- Rating agency evaluation takes into consideration:
  - Quality of leadership and decision-making
  - Financial statement results
  - Financial plans
  - Public-private partnership projects retained risk
Bond Issuance Practices

• Issue annually to fund coming 12 months of project spending

• Level debt service to provide budgetary predictability

• 3% to 5% coupon rates against a 2% true interest cost yields larger bond premiums (cash proceeds in excess of par)

• Refinancing to lower debt portfolio-wide interest spending

• 10, 20 and 30-year term borrowings

• Auxiliary projects pay their proportionate debt service based on proceeds use

• Academic projects debt service paid from System-wide pool