



Proactive Financial & Capital Planning Discussion

April 27, 2016



PFM's Approach to Higher Education

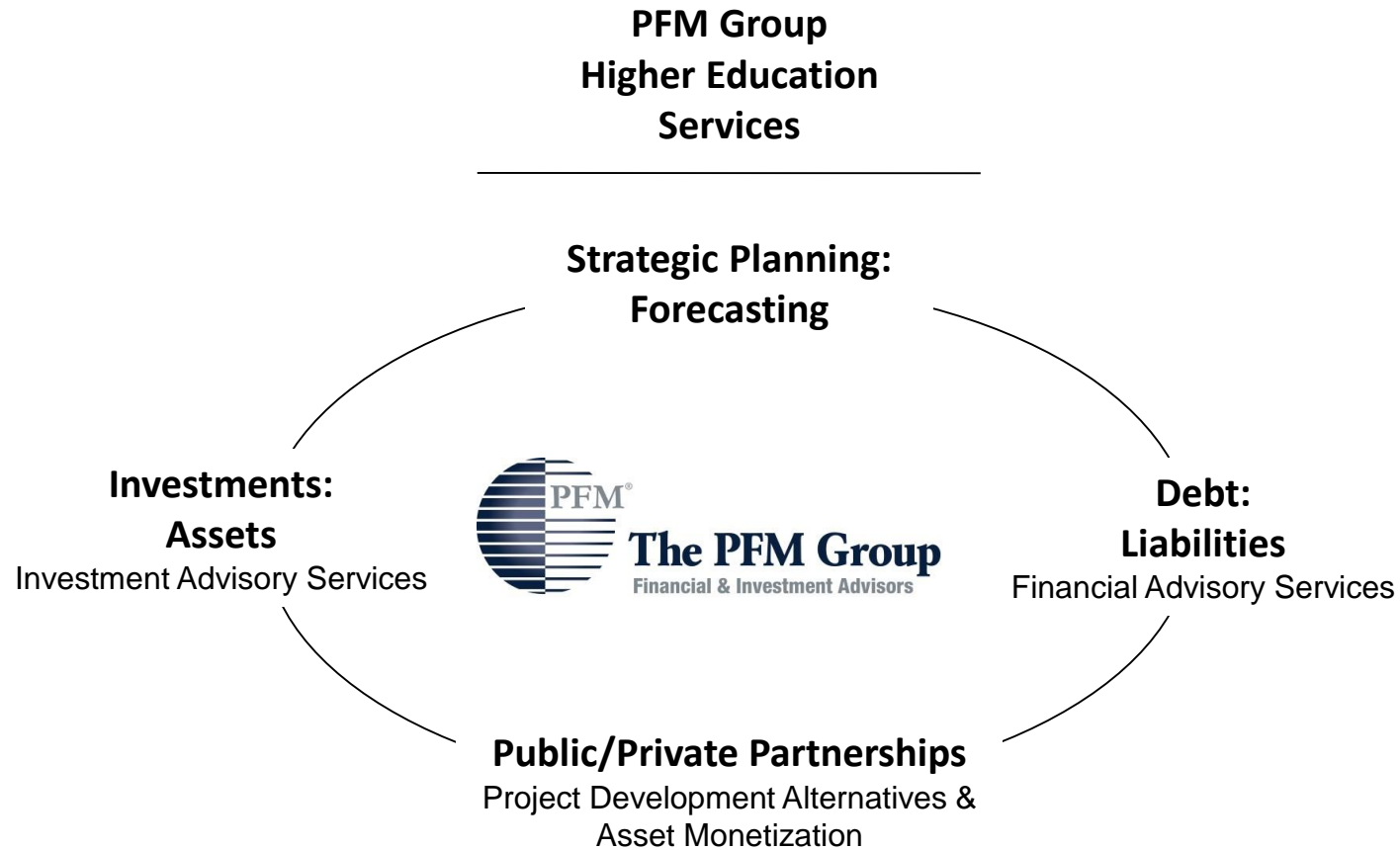


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Broad Themes in Financial and Capital Markets

Broad Themes in the Market

- Even in despite of the challenges facing the higher education markets, it continues to be a “sellers market” for those accessing capital
- Conversations about debt and capital planning are being made and more holistically – especially with constrained resources
- Across the country, increasingly institutions are seeking non-traditional solutions such as public private partnerships, asset monetization, and other strategies
- There is increasingly a focus on multi-year financial forecasting to be able to proactively address challenges
 - Full GAAP projection instead of only a cash budget forecast

Trends in Strategic Financial Planning

Increasing Need for Strategic Planning

- With uncertainty in the market, operating challenges, funding uncertainty and growing capital needs it is increasingly important have a fully-integrated forecasting model
- Over the past few years the bond rating agencies have revised their methodologies to highlight explicitly they are evaluating management teams on whether or not they are doing proactive planning
 - The rating agencies don't just want to know if you have a financial forecast. They want to know if you have an opinion about the future and plans to address potential challenges.

The Challenge with Financial Forecasting

- At most colleges and universities, strategic financial forecasting is often difficult
 - Complex (multi-variable, multi-order) relationships among key variables
 - Data is often scattered among budgeting systems, accounting systems, ERP systems, and single-focus models
 - Difficult to project a Balance Sheet
 - Difficult to track Net Assets
 - Most institutions are resource constrained
- Mission-level questions from key stakeholders (Board, President, finance committee, investors, rating agencies) take days, weeks, or even months to answer
 - Answers are not comprehensively determined and are often one-dimensional
 - Staff often struggles in providing the answers because there is no single institutional analytical approach
- Stakeholders should be able to get nearly immediate feedback on key strategic questions
- An institution's strategic plan should be crossed against a reliable business plan (with supporting sensitivity analysis)

The key to financial planning is to have it fully integrated

- Develop a comprehensive, fully-integrated, and totally customized strategic/financial forecasting and analysis that unites all campus-wide planning activities into a single institutional point of view
- Quantify the strategic ramifications of changing operating variables, operating initiatives, capital projects, and funding alternatives



Key Aspects with Effective Strategic Forecasting

- Establish relationships among key independent operational drivers
 - Develop bottom-up analysis (not just YOY growth)
 - Consider multi-order relationships
 - Integrate balance sheet items into the platform
 - Investments – cash, short-term, funds held in trust, debt-related, annuity, long-term, endowed
 - Facilities – mimic the fixed-asset note of your financial statements
 - Debt – by type, by series, by issuer
 - Space – by type, by population
 - Maintenance backlog -- FCI
- Customize output in consideration of different stakeholder needs
 - GAAP-based financial statements (above and below the line)
 - Cash-based Budgetary (P&L) statements – cross-walk between GAAP and Cash
 - Financial ratios and other metrics
 - Rating agency ratios/metrics – benchmarks, Scorecard
 - Composite Financial Index (CFI)
 - Facilities condition index (FCI)
 - State-required metrics
 - In-house targets

Key Aspects with Effective Strategic Forecasting

- Incorporate structure that permits easy sensitivity analysis
 - Operating initiatives
 - Capital projects
- Check veracity of projection logic (reconcile to audited financial statements)
- Create architecture that permits easy evolution of the model

Case Studies

Case Studies



University of Illinois

- Over the past several years the UI has received very little capital appropriations from the State resulting in the University having to reevaluate its capital planning including cutting back on new capital
- University is currently rated higher than the State of Illinois
- Approximately 2 years ago UI did the financing for the State Farm Center and part of the financing included taxable variable rate debt to leverage the revenue from the naming rights



Columbia College of Chicago

- College had mortgaged most of its campus in the South Loop which was limiting future flexibility with how it could leverage its real estate assets
- Implemented a debt refinancing in fall 2015 that restructured the collateral to investors to provide greater flexibility and created immediate cash flow savings

Case Studies



Pennsylvania State University

- In 2011 with a new Governor PSU was facing material cuts in state funding
- PSU worked with its financial planning model to analyze how to prioritize capital and debt funding as a result
- The forecasting done by PSU was used as part of the ongoing conversation with the State during this process



Tarrant County Community College (TX)

- TCC is evaluating public private partnership opportunities for a power plant
- TCC also evaluating alternatives for various capital projects including performing art center, administrative buildings, retail space, and student housing

Discussion / Q&A
