Overview of Financial Statements and Financial Planning

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UNIVERSITY SYSTEM of MARYLAND

Overview of Financial Statements and Financial Planning

System financial statements

System financial health inputs and processes

BOR financial planning metrics

Bond ratings

University System of Maryland

System financial statements

- Include financial health and operating results for the University System and for its component units
- Required by statute and necessary to access capital financing
- Detail financial statements by institution, and component units in back of report
- System financial statements are included in State-wide financial statements
- Management's discussion and analysis is intended to be high-level and summarized financial info helpful in understanding the System's finances

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*

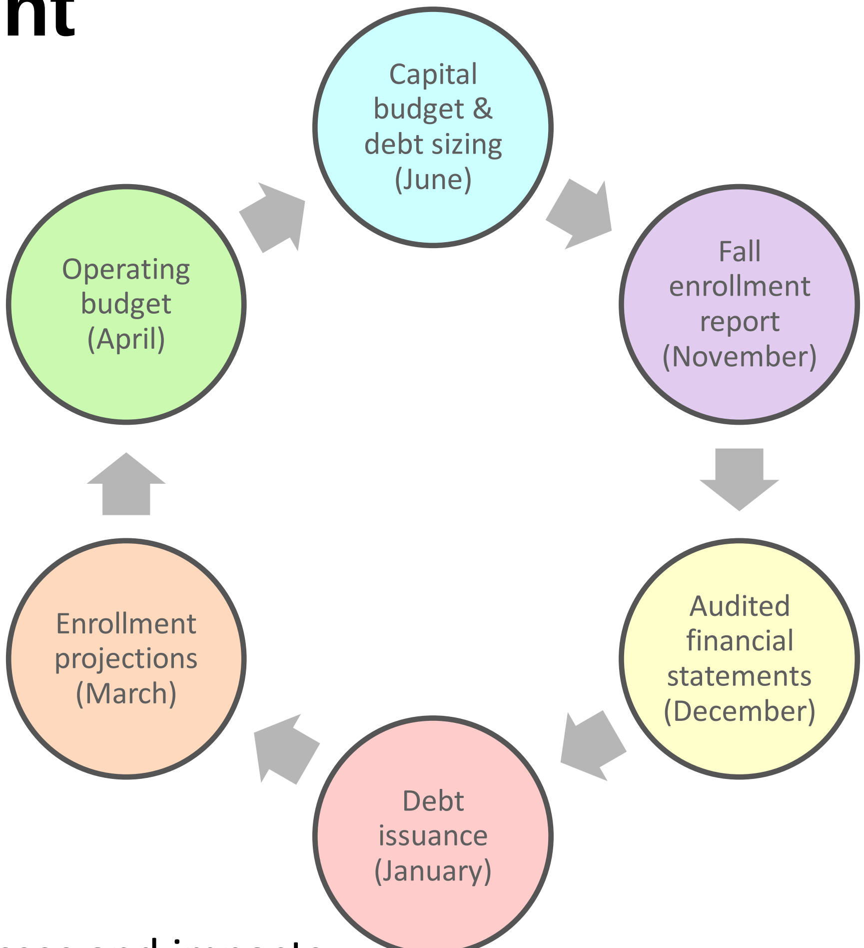
Chancellor and Board of Regents discipline:

- Capital spending over $1M – *spending progress tracked, considered outside of institution fund balance goals*
- 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



Other off cycle processes and impacts:

- Campus master plans (rotating cycle every 5 years)
- Out of cycle project approvals (ongoing)
- Externalities (investment returns, pension changes, pandemic)

USM-wide Financial Planning Metrics

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

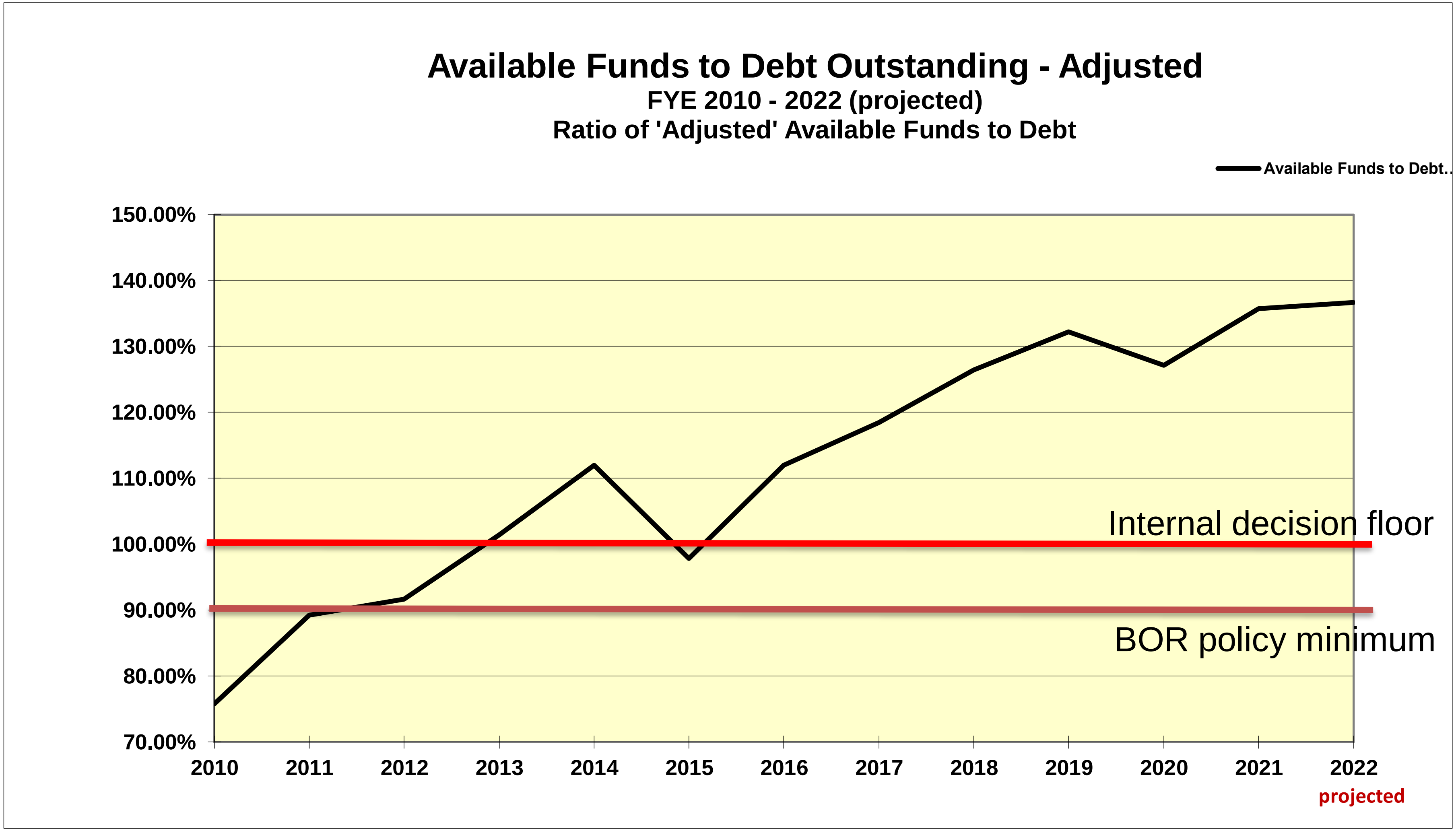
- Minimum ‘Available Funds to Debt’ of 90% on an ‘adjusted’ basis *(internally managed to 100% to provide cushion)*

- 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

Trend in USM financial health



USM Bond Ratings

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

All 3 reaffirmed with a stable outlook

Implications for USM-wide Financial Management:

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)

University System of Maryland

The Rating Agency Evaluation

- Needed for selling USM debt – just received updated ratings
- Better rating = lower borrowing costs + enhanced fiscal discipline
- USM BOR debt policy designed to support financial health
- Rating agency evaluation takes into consideration:
  - Financial statement results
  - Financial plans
  - Public-private partnership projects retained risk
  - Quality of leadership and decision-making

Bond Issuance Practices

- Issue annually to fund coming 12 months of project spending – ***project authorization is done through System-funded Capital Program and Capital Improvement Plan budget processes***
- 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’ value of debt)
- Refinancing lower debt portfolio-wide interest spending
- 10, 20 and 30-year term borrowings to match project lives
- Auxiliary projects pay proportionate amount of debt service
- Academic projects debt service paid from USM-wide pool