Detailed explanations of Institutions exhibiting financial stress in the ratios contained in the Financial Condition Report.

Details for Northeast Texas Community College.

Provided by Jeffrey W Chambers, Vice President of Administrative Services.

Return on Net Position

We did not meet this indicator mainly due to our one-time expenditures of fund balance for capital improvements and debt restructuring.

Operating Margin

We missed this indicator due to inadequate state appropriations and lower student enrollment. A combination of cuts, program closure, and other adjustments were made, but were not enough to balance expenditures to lower than anticipated revenue. The additional adjustments needed were made in the current budget cycle.

Primary Reserve and Viability Ratio

Although expendable net position and unrestricted net position improved in FY 15-16 by a little over $300,000, the implementation of GASB 68 in FY 14-15 has resulted in Northeast Texas Community College missing these indicators. GASB 68 cost the college $3.58 million in net position.

Composite Financial Index

All of the above reasons in combination, resulted in missing the composite index as well.

Details for Southwest Texas Junior College.

Provided by Anne H Tarski, Vice President - Finance.

In 2012 it was determined that two of SWTJC's campuses were too small to house a growing student population and one campus was in dire need of an on-site library. The decision was made to invest in our physical plant to allow the student population to grow. This began with a bond issue in 2012 of $7,500,000 to construct a new classroom building for the Del Rio campus, a 2014 public placement bond issue of $10,000,000 (rated by Standard and Poors at B+) to construct a classroom building for the Eagle Pass campus and a library for the Crystal City campus, and a 2014 bond issue of $3,000,000 to rehabilitate a donated building to provide Eagle Pass with a Technical Academy.

During these bond offerings, we were advised by bond counselors and critically examined the increase in tuition and fees we could expect with the occupancy of the new buildings.

The 2015 Financial Condition Analysis of Texas Public Community College Districts determined that the College had no financial stress indicators.

At the end of 2015 Governmental Accounting Standard #68 came into effect. This required the College to put on the books it's portion of the unfunded pension liability – more than $6,000,000 of liability was incurred overnight. SWTJC's net position fell from $17,692,255 to $11,083,500.

During the budgeting process of 2015 administration was aware that the finishing new classroom building in Eagle Pass would be two semesters late and the revenue from that new building would not be available. The Board of Trustees voted to use fund balance to replace that revenue. The College had built its physical plant and now realized that it would have to "wait for them to come".

In order to address this increase in debt and decrease in fund balance, administration formulated an austere budget for 2016 and requested that the Board of Trustees increase property taxes. As we analyzed the results of fall and spring enrollment along with the property tax revenue, administration presented a plan to amend the budget and restore fund balance (please see attached board memo).

Each of the financial ratios touch on debt or fund balance. The debt issued prior to the knowledge of the effect of GASB #68 and the delay of the building availability is the reason Southwest Texas Junior College's ratios have fallen into the stressful category. Both administration and board members are committed to vigilantly restoring unrestricted fund balance.

I would welcome any further questions that you or your Board of Trustees might have regarding SWTJC's plan for the future.

Details for Brazosport College.

Provided by David B Marshall, Vice President of Financial Services & CFO.

The primary cause of Brazosport College not meeting the listed ratios below is GASB 68 and the costs associated with two FY 2016 bond reissues. Without these expenses, the College would have finished FY 2016 with an increase in net position of over $1,000,000 instead of the small reported decrease of $56,753. Additionally, the College completed a Texas State approved energy performance contract that increased long-term debt by $9,738,652. Had GASB 68, bond reissue expense and the energy performance contract not occurred in FY 2016, all of the ratios would have improved while the Return on Net Position and Operating Margin would have been eliminated.

To further detail Brazosport College's financial position, attached please find a memo describing the seven different groups that have completed recent in-depth analysis of the College's financial position, as well as additional information regarding the College's financial position. Also, attached please find Moody's March 2017 report on the College.

Within the past two years, Brazosport College financial position has been analyzed in-depth by seven different groups. The result of the analysis is that the College was reaccredited without any noted deficiencies, bonds in excess of $45,000,000 were refunded and reissued (at a savings over the next 17 years of approximately $5,000,000) and a fifteen year energy performance lease in the amount of $9,738,652 was agreed to. Over $9,000,000 of the bonds will close in April 2017.

The following are the groups that have done an in-depth analysis of Brazosport College's financial position within the past two years:

Senior staff	Senior staff regularly monitors financial results for the College, with an emphasis on cash flow and budget adherence.
Board	Brazosport College's Board reviews financial results monthly, approves the annual budget and is updated by outside auditing firm yearly regarding the audit and the College's overall financial position.
Auditors	For the past fifteen years, the College has been audited yearly by Kennemer, Masters & Lunsford, LLC accounting firm. Per GAAP guidelines, auditing firms are required to inform management and the Board of any financial issues that could lead to an on-going concern issue. No warnings or concerns were noted in the FY 2016 audit, or any previous audits.
Accreditors	Brazosport College was reaccredited by SACSCOC in 2016. An in depth analysis of the College's finances was completed. No financial deficiencies or concerns were noted.

Rating Services	Over the past two years, Brazosport College has refunded and reissued bonds four times. As a requirement for issuing bonds, the College obtained update ratings from two nationally recognized rating agencies (Moody's and S & P). The most recent rating occurred in March 2017, when the FY 2016 audit was fully available. Moody's March 2017 rate for the College was Aa2 – outlook stable. (See attached).
Bond Counsel	In addition to the rating services, bond counsel reviewed the financial condition of the College, including being on multiple hour-long conference calls with the rating agencies.
All American	Brazosport College signed an energy performance contract with Johnson Controls in April 2016. The project was for $9,738,652 and was financed by All American Investment group out of Denver Colorado. The 15 year lease interest rate is 2.60%.

The following is supplemental information regarding the financial condition of Brazosport College:

The $56,753 loss for FY 2016 was the direct result of recognizing the cost of the bond issue and GASB 68. Without the cost of the bond issue and GASB 68, the College would have had an operating increase in net position of over $1,000,000. While all of the ratios would be affected, return on net position and operating margin would have been a positive number rather than a negative. After adjusting for GASB 68 and bond reissuing costs, over the past several years the change in net position trend for Brazosport College has been a consistent increase.

In order to facilitate both the taxing district and the State of Texas, Brazosport College currently has in effect over $9,000,000,000 (depreciated value) in Board approved tax abatements. For the current year, the tax base for the College is $8,045,133,913. At the current tax rate, Brazosport College is abating over $25,000,000 a year, which is more than half of the total FY 2016 revenue budget of $46,044,000.

As of February 2017, current year actual change in net position is approximately $1,600,000 ahead of the same time last year.

Budgeted tax revenue increased by $2,266,000 from FY 2016 to FY 2017.

The College has ample room under tax caps.

Despite funding a FY 2016 $4,000,000 welding building with donations and cash reserves, the College's unrestricted cash is adequate and has remained consistent.

The Brazosport College Foundation's numbers are not consolidated with the College. In FY 2016, the Foundation had pledges receivable (net of allowance accounts and discounts) of $794,358, as compared to $178,109 for FY 2015. The pledges relate to the (fully paid for) welding building and will be transferred to the College as they are received.

In conclusion, while the College did not meet five ratios selected by THECB for review, over the past two years new investors have invested over $45,000,000 in College issued bonds and a leasing company agreed to a lease of approximately $10,000,000. The seven groups that have done an in-depth analysis of Brazosport College's finances have all concluded that the College is in a very strong financial position.

Details for Frank Phillips College.

Provided by Dr. Jud Hicks, President.

On behalf of Frank Phillips College, I would like to provide an explanation regarding the College's financial ratios for the year ending 2016. I would acknowledge the financial ratios are what they, and we as College administration as well as our board, understand the significance of and the corresponding indication of financial stress. My supposition is that we all have the same perception regarding the financial position of the College, but the explanations will hopefully provide some perspective.

From a pure financial perspective, the subpar financial ratios in the five ratios that were noted, are, in effect, driven by a lack of revenue; thus affecting both the operation margin and the net position. I believe that expenditures, or more precisely, uncontrolled spending, is not the cause. I will address the revenue momentarily. In regards to expenditures, the one exception is depreciation expense. Depreciation expense is approximately $700,000 per year. Under the GASB 34 requirement, depreciation expense is an operating expense. Assets that are purchased, which meet the capitalization requirement, are removed from expense and capitalized to the balance sheet. For FPC, over the course of the last several years, capitalization of assets is about $350,000 per year. Netting depreciation expense against capitalization of assets, hits the operating margin about $350,000 ($700,000 less $350,000) per year, thus creating a decrease in net position of $350,000. Perhaps a more simplified way of saying this is – from cash operations (excluding the effects of depreciation expense and capitalization of assets), FPC operates at a balanced position. What revenue we take in is what we spend with virtually no dollars going towards building reserves. To create a positive operating margin, FPC would need to reduce expenses or increase revenues to offset the depreciation expense/capitalization of assets by about $350,000 even though we are not necessarily spending in excess of our revenues. While the excess of depreciation expense over capitalization of assets may seem somewhat inconsequential, it does exacerbate the current financial situation for our small College. As a footnote, the lack of spending on capitalized assets will also have some long term negative consequences.

The lack of building reserves consistently over the course of several years is not advantageous, but nonetheless that is where we are. Why? I am confident that most of us realize that community colleges must increase contact hours year in and year out because funding is driven in that manner. It is that simple. To grow contact hours, our strategy is to add new programs. We are in a rural environment and contact hour enrollment growth, as a result of increases in population, does not happen. Over the past several years, we have added new programs and thus our contact hours have increased. However, adding programs takes money and the return on investment takes time. In the short term, operating expenses increase with added revenue not yet realized. To use an analogy, we are trying to build a bigger boat that is able to stay afloat. A strategy to build reserves (by cutting expenditures) and not add new programs would be detrimental in the long run. Our hope is the bigger boat gets built in a hurry.

Towards the future, we do have several situations that might help us in the future to reduce the current financial stress. As I mentioned, we have had success at adding programs resulting in additional contact hours and hence revenue should be improving. Under the umbrella of our strategy to add programs, we have expanded our operations in Dalhart, Texas, to a branch campus status. This was approved by the THECB in January of this year. A new $4 million building will be built for FPC with groundbreaking this month. In addition, voters of Dallam and Hartley counties approved a branch maintenance tax in November 2016. We will begin receiving those tax revenues in the 2017-18 academic year. A second factor contributing to our future revenues will come in the form of increased values in our local junior college taxing district. A local company is expanding its operation with a $72 million project, adding a significant amount in tax revenue. This additional tax revenue has impacted our current fiscal year but with the largest impact in revenue coming in future years.

I hope that I have added some valuable perspective to FPC's financial picture. I have not included additional details of strategies, many of which I am confident will help relieve our current financial stress. We continue to enthusiastically pursue our mission of providing educational opportunities to our students in the rural Texas Panhandle.