Data Analytics and Innovation

60x30TX

Texas Higher Education Coordinating Board

Financial Condition Analysis of Texas Public Community College Districts

April 2021

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Texas Higher Education Coordinating Board

Agency Mission

The mission of the Texas Higher Education Coordinating Board (THECB) is to provide leadership and coordination for Texas higher education and to promote access, affordability, quality, success, and cost efficiency through *60x30TX*, resulting in a globally competitive workforce that positions Texas as an international leader.

Agency Vision

The THECB will be recognized as an international leader in developing and implementing innovative higher education policy to accomplish our mission.

Agency Philosophy

The THECB will promote access to and success in quality higher education across the state with the conviction that access and success without quality is mediocrity and that quality without access and success is unacceptable.

The THECB's core values are:
Accountability: We hold ourselves responsible for our actions and welcome every opportunity to educate stakeholders about our policies, decisions, and aspirations.
Efficiency: We accomplish our work using resources in the most effective manner.
Collaboration: We develop partnerships that result in student success and a highly qualified, globally competent workforce.
Excellence: We strive for excellence in all our endeavors.

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Executive Summary

An annual report on the financial condition of the state's community colleges is required as referenced in the General Appropriations Act, Senate Bill 1, 86th Texas Legislature, Rider 12 (page III-219). The rider states:

"Each community college shall provide to the Texas Higher Education Coordinating Board financial data related to the operation of each community college using the specific content and format prescribed by the Coordinating Board. Each community college shall provide the report no later than January 1st of each year. The Coordinating Board shall provide an annual report due on May 1 to the Legislative Budget Board and Governor's Office about the financial condition of the state's community college districts."

The objective of this report is to provide an assessment of the overall financial health of the state's 50 public community colleges and to identify institutions with the potential to experience financial stress, as indicated by common financial ratios. The analysis included is intended to be a broad financial evaluation. Other key performance indicators must be considered to gain a more robust and complete understanding of institutional strength. This analysis is not intended for peer group comparisons or for benchmarking purposes.

Governmental Accounting Standards Board Pronouncements 68 and 75

Governmental Accounting Standards Board (GASB) pronouncements 68 and 75 transferred pension and other post-employment benefit (OPEB) liability from the state-level financial statements of the Teachers Retirement System and Employees Retirement System to the individual financial statements of the institutions. This transfer increased the visibility of pension and OPEB liability at the community college district level. The overall effect to statewide financial ratios and to the financial condition of community college districts was substantial.

In an effort to make these financial indicators meaningful, the effects of GASB 68 and 75 on liabilities, deferred inflows, and deferred outflows have been removed from the calculation of net position, which affects several ratios. However, the effects of GASB implementation are still represented in ratios that measure operating expense, such as operating margin and primary reserve. For example, the impact of GASB adjustments to staff benefits at one institution due to TRS/ERS assessment heavily influenced the reduction in the 2020 statewide operating margin in this report. Coordinating Board staff will work with the community colleges on methods to identify the full financial impacts associated with GASB 68 and 75 going forward, with the goal of providing meaningful measures.

COVID-19 and Texas Public Community College Finances

The Fiscal Year 2020 Community College Financial Condition Report indicates that Texas community colleges have generally maintained and, in some cases, improved their fiscal health during the COVID-19 pandemic. While operating expenses increased overall for community colleges, institutions reduced costs in areas such as travel and professional development as events moved online. Additionally, the infusion of federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funds lifted non-operating revenues and total income. While the statewide operating margin fell to 1.3% from 3.5% due to GASB 68 and 75 implementation as noted above, five more institutions met the operating margin standard in 2020 than in 2019. A summary of progress toward standards from 2019 to 2020 is included in Table 1.

Table 1. Year-to-Year Comparison of the Percentage of Texas Public Community Colleges Meeting Financial Standards, FY 2019-2020

	Institutions Meeting Standard					
Standard	**2019 Count**	**2019 %**	**2020 Count**	**2020 %**	**Change**	**% Change**
Composite Financial Index	40	80%	40	80%	0	0%
Primary Reserve	47	94%	47	94%	0	0%
Viability Ratio	44	88%	45	90%	1	2%
Return on Net Position	42	84%	43	86%	1	2%
Operating Margin	30	60%	35	70%	5	10%
Equity Ratio	48	96%	49	98%	1	2%
Leverage Ratio	49	98%	50	100%	1	2%

Source: THECB Community College Annual Reporting and Analysis Tool 2020

Annual Financial Report Reissuance

Annual Financial Report (AFR) data for the community college financial condition report was due from institutions to the Higher Education Coordinating Board by January 31, 2021. Since then, Lone Star College notified the agency that the institution's AFR will be reissued to reflect a correction to Fiscal Year 2020 Other Post Employment Benefit (OPEB) expense. However, the approval and reissuance of Lone Star College's AFR will not occur until after the financial condition report is due to the Governor and the Legislative Budget Board. For this reason, the current report includes the originally submitted data.

The decrease in Lone Star College's FY 2020 OPEB expense will potentially have a positive impact on the statewide averages for operating margin and composite financial index indicators, in addition to revising the metrics shown for Lone Star College.

Overview

There are 50 public community college districts in Texas with the oldest dating back to 1869. They are locally controlled governmental entities established via an election process.

State statute specifies that newly created districts must have 15,000 secondary students and a minimum assessed property valuation of $2.5 billion. Five of the existing districts do not currently meet the assessed property valuation standard.

Due to the structure of community college districts, local control enables districts to determine their own financial path. State law and rules of the Texas Higher Education Coordinating Board (THECB or Coordinating Board) impose some limitations, but local autonomy and demographics account for much of the variation in resource allocation and revenue collection.[1]

Community college districts have four primary funding sources: state formula funding, local property tax revenue, tuition and fee revenue, and other income that is largely from federal funds. Although some districts have endowments, they are more commonly found in universities. Revenue from endowments is most often used for tuition assistance as opposed to operations.

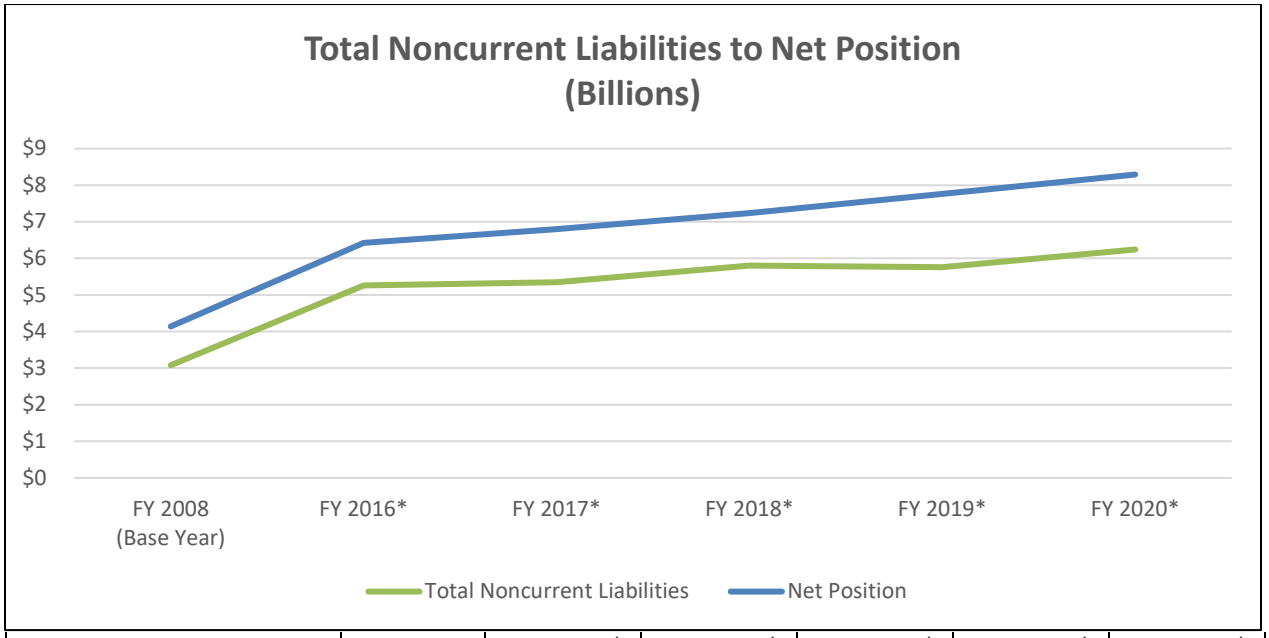
[1] Texas Research League, *Benchmarks for community and junior colleges in Texas*, August 1993.

Noncurrent Liabilities to Net Position Comparison

Two financial components are considered in analyzing the overall financial condition of Texas community colleges: long-term debt, or noncurrent liabilities, to cash, or net position. The year-to-year comparison in Figure 1 shows total noncurrent liabilities to net position. The graph does not include the impacts of GASB 68 and 75 on noncurrent liability balances for Fiscal Year (FY) 2020.

Total noncurrent liabilities have increased $3.16 billion since FY 2008 to the current amount of $6.24 billion in FY 2020. Most of the increase is due to the issuance of general obligation (GO) bonds by the institutions. Net position has increased $4.15 billion since FY 2008, to $8.29 billion in FY 2020.

Figure 1. Comparison of Statewide Noncurrent Liabilities to Net Position of Texas Public Community Colleges, FY 2008-2020



Financial Ratio	FY 2008	FY 2016*	FY 2017*	FY 2018*	FY 2019*	FY 2020*
Total Noncurrent Liabilities	$3.08	$5.26	$5.34	$5.80	$5.76	$6.24
Net Position	$4.14	$6.42	$6.80	$7.23	$7.76	$8.29

Source: THECB Community College Annual Reporting and Analysis Tool 2020
**Excluding GASB 68 and 75 pension and OPEB noncurrent liability*

Financial Analysis in Higher Education[2]

The concept of using selected indicators, such as ratios, for financial analysis dates to at least 1980. Financial analysis can measure success against institutional objectives and provide useful information to form a basis for sound planning.

The overall financial health of an institution can be assessed via two dimensions of inquiry. First, is the institution financially capable of successfully carrying out its current programs? Second, is the institution able to carry out its intended programs well into the future?

Along with these two dimensions, four key financial questions need to be asked:

- 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?

A widely accepted metric called the Composite Financial Index (CFI) is often used to address these four key questions. The index was developed over time by a consortium of consulting companies led by KPMG and introduced in 1999. Many institutions, including the U.S. Department of Education, the State of Ohio Board of Regents, credit-rating agencies, and countless institutions of higher education, employ the index or similar approaches.

The CFI blends four core financial ratios into one metric, providing a more balanced view of an institution's finances; weakness in one measure can be offset by strength in another. Additionally, measuring the index over time provides a glimpse of the progress institutions are making toward achieving financial goals. The CFI includes the following four core ratios: primary reserve, viability, return on net position, and operating margin.

The Coordinating Board has been calculating the CFI and sharing related data with community college districts since 2007.

[2] For more information, see *Strategic financial analysis for higher education*, 6th edition, KPMG, Prager, Sealy & Co., Bearing Point, 2005.

Metrics Used in this Report

This report uses a Composite Financial Index (CFI) to provide one metric to efficiently analyze the financial health of all Texas community college districts. Other metrics used in this analysis include an equity ratio and a leverage ratio. The industry standard for assessing overall financial condition is to use the CFI.

The threshold for the CFI was established by considering the original work conducted by KPMG in creating the index and industry practice. While variability exists in the statewide CFI when looking at a year-to-year comparison, the overall financial condition of public community colleges has improved, with the statewide CFI increasing from 3.0 in FY 2011 to 3.5 in FY 2020.

Composite Financial Index

The CFI measures the overall health of an institution by combining four ratios into a single metric. The four core ratios used in the CFI include return on net position, operating margin, primary reserve, and viability.

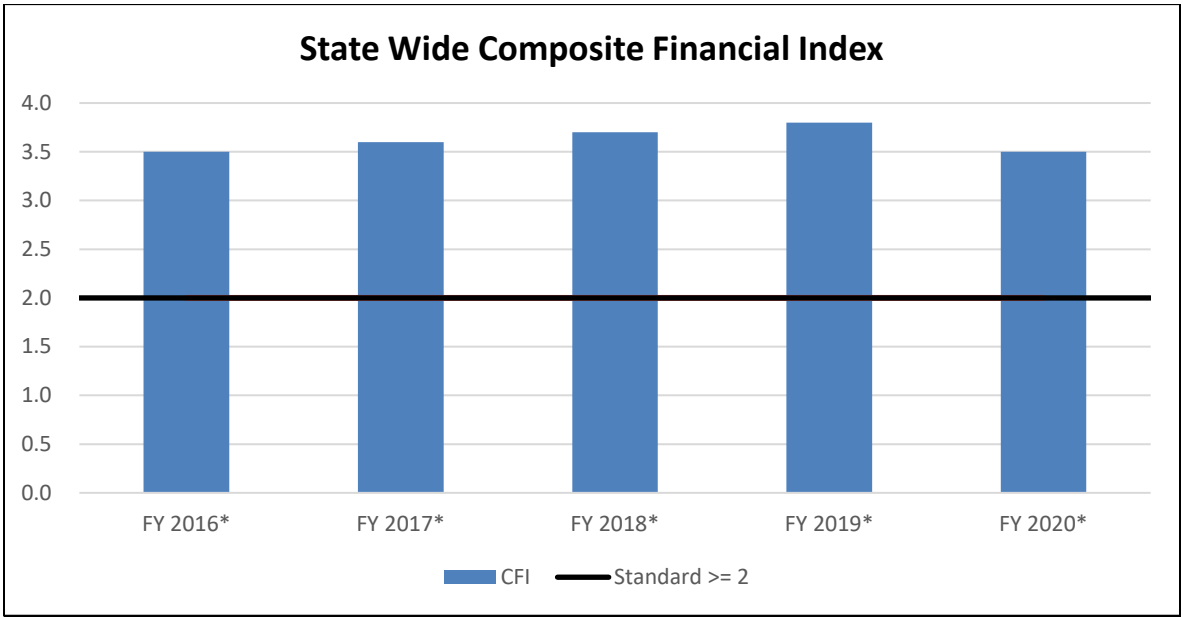
Calculation – The CFI is computed using a four-step methodology:

1. Compute the values of the core ratios.
2. Calculate strength factors by dividing the core ratios by threshold values.
3. Multiply the factors by specific weights.
4. Total the resulting scores to obtain the Composite Financial Index.

Core Ratio		*Value*		*Strength Factor*		*Weight*	*Score*
Return on Net Position	/	0.02	=	Factor	X	20%	= Score
Operating Margin	/	0.007	=	Factor	X	10%	= Score
Primary Reserve	/	0.133	=	Factor	X	35%	= Score
Viability	/	0.417	=	Factor	X	35%	= Score
				Composite Financial Index		**=**	Total Score

Results – The 2020 combined CFI for public community colleges is 3.5, which is a decrease from 3.8 in 2019. However, this still exceeds the statewide standard of 2.0 or greater. The standard was met by 40 of the 50 districts. CFI numbers generally range from 0.0 to 10.0, although it is possible to have a CFI higher than 10.0 or below zero. A year-to-year comparison of statewide CFI can be seen in Figure 2.

Figure 2. Year-to-Year Comparison of the Texas Public Community College Composite Financial Index, FY 2016-2020



Financial Ratio	FY 2016*	FY 2017*	FY 2018*	FY 2019*	FY 2020*
CFI	3.5	3.6	3.7	3.8	3.5

Source: THECB Community College Annual Reporting and Analysis Tool 2020
**Excluding GASB 68 and 75 pension and OPEB liabilities, deferred inflows, and deferred outflows*

Financial Ratios

Primary Reserve Ratio

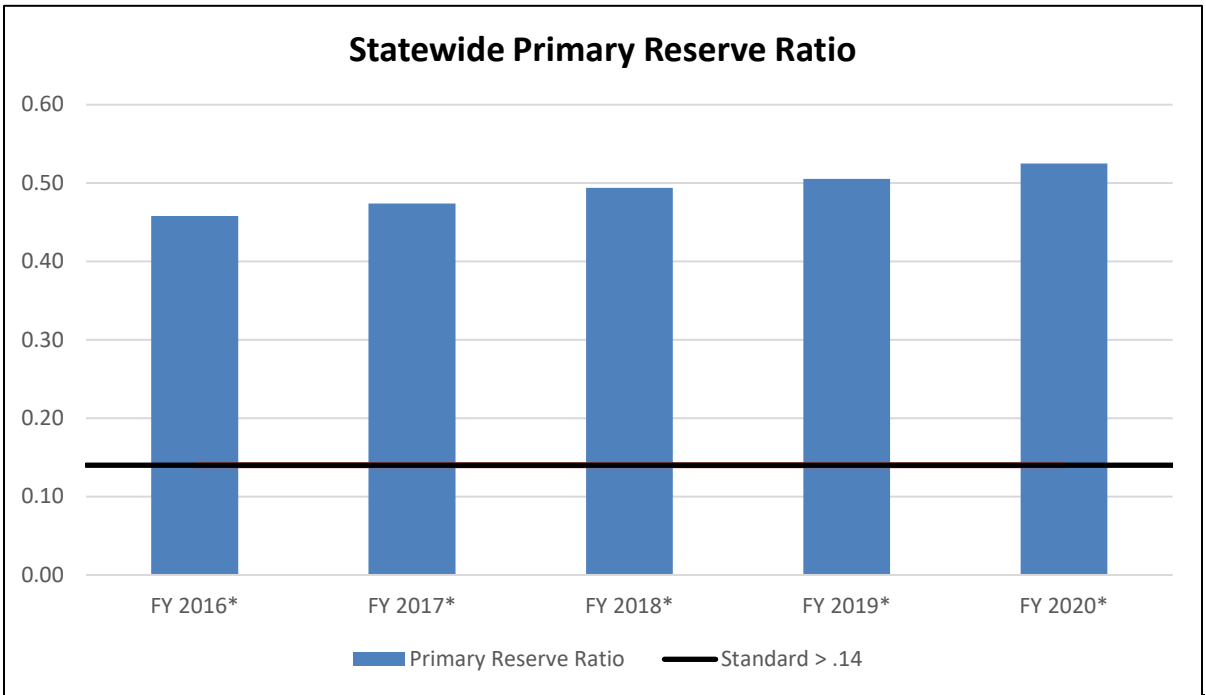
The primary reserve ratio measures financial strength and flexibility by comparing expendable net position to total expenses, as expressed in Figure 3. This measure answers the question, "How long can the institution survive without additional net position generated by operating revenue?"

Calculation – (Total expendable net position + unrestricted net position) / (operating expenses + interest expense on debt) *

*Interest expense on debt includes all debt, both tax and other revenue supported.

Results – The 2020 statewide ratio for public community colleges is .52, which is an increase from .51 in 2019. A ratio of 0.14 or greater is the standard used in this report. The standard was met by 47 of the 50 districts.

Figure 3. Year-to-Year Comparison of the Texas Public Community College Primary Reserve Ratio, FY 2016-2020



Financial Ratio	FY 2016*	FY 2017*	FY 2018*	FY 2019*	FY 2020*
Primary Reserve Ratio	0.46	0.47	0.49	0.51	0.52

Source: THECB Community College Annual Reporting and Analysis Tool 2020
**Excluding GASB 68 and 75 pension and OPEB liabilities, deferred inflows, and deferred outflows*

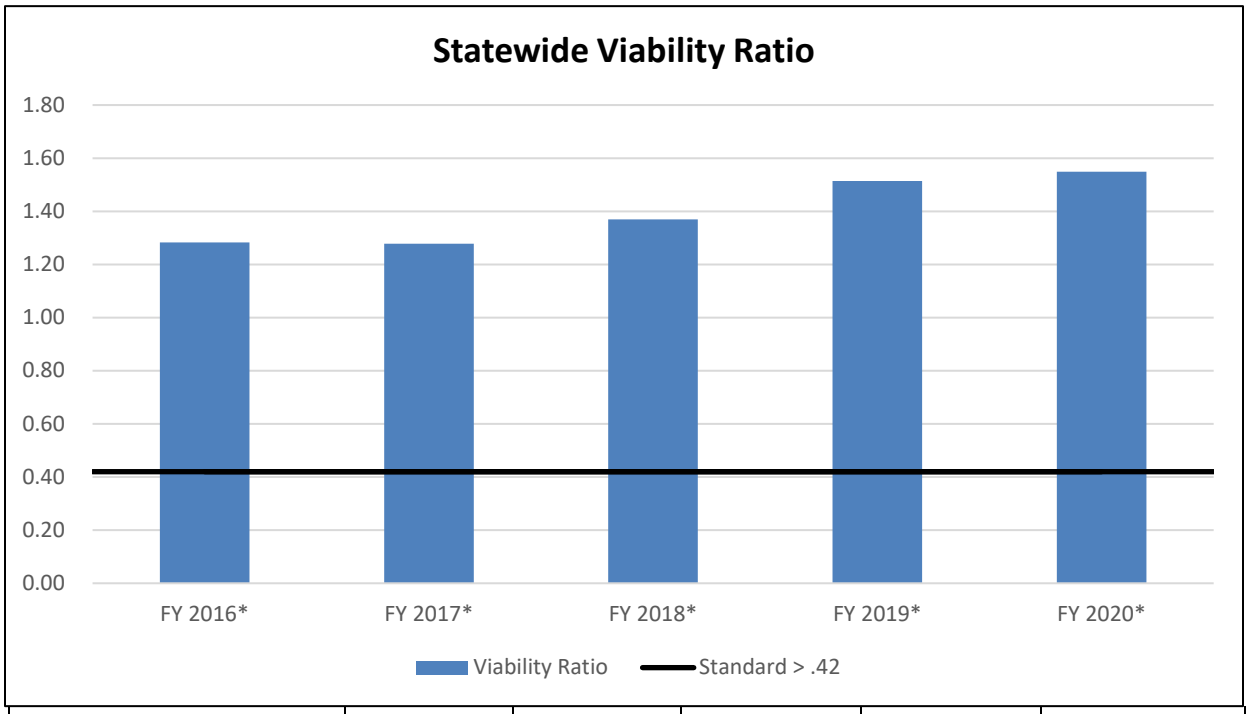
Viability Ratio

The viability ratio measures the financial health of the institution by comparing total expendable net position to total noncurrent liabilities, as expressed in figure 4. This ratio is similar to a coverage ratio used in the private sector to indicate the ability of an organization to cover its long-term debt and answers the question, "How much of the debt can the institution pay off with existing resources?"

Calculation – (Total expendable net position + unrestricted net position) / noncurrent liabilities, excluding general obligation debt.

Results – The 2020 statewide ratio for public community colleges is 1.55, which is an increase from 1.51 in 2019. A ratio of 0.42 or greater is the state standard, which was met by 45 of the 50 districts.

Figure 4. Year-to-Year Comparison of the Texas Public Community College Viability Ratio, FY 2016-2020



Financial Ratio	FY 2016*	FY 2017*	FY 2018*	FY 2019*	FY 2020*
Viability Ratio	1.28	1.28	1.37	1.51	1.55

Source: THECB Community College Annual Reporting and Analysis Tool 2020
**Excluding GASB 68 and 75 pension and OPEB liabilities, deferred inflows, and deferred outflows*

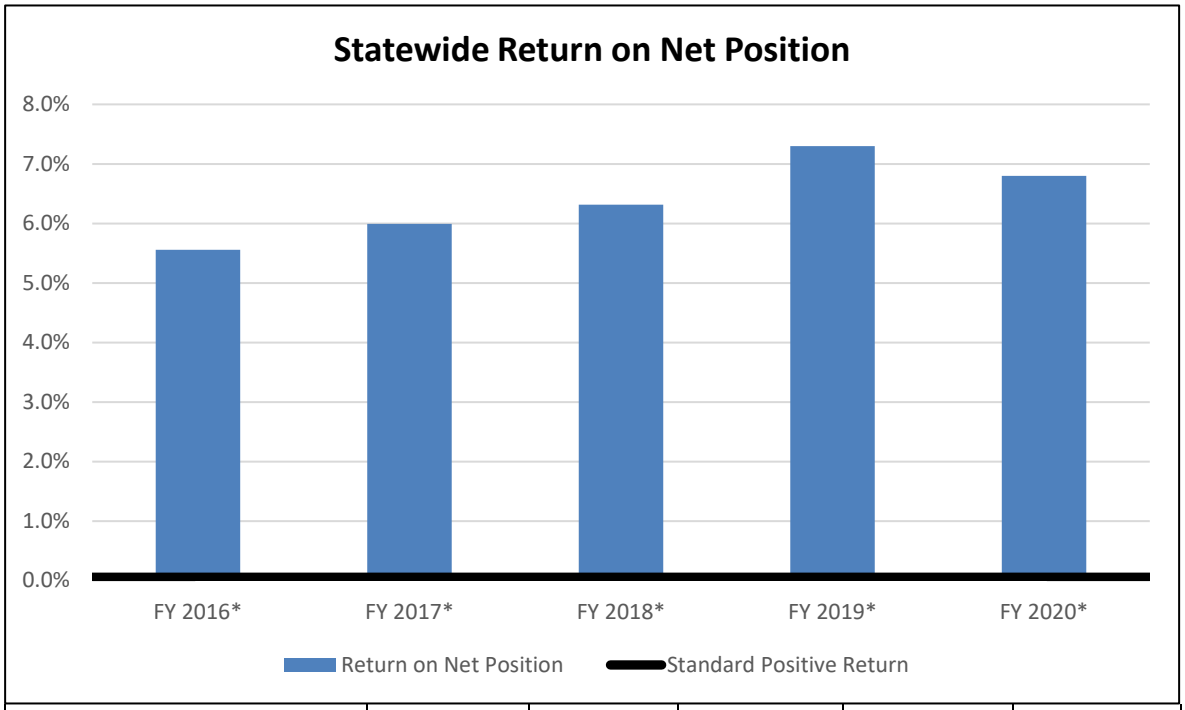
Return on Net Position

Return on net position measures total economic return during the fiscal year, as expressed in Figure 5. This measure is similar to the return on equity ratio used in examining for-profit concerns and answers the question, "Is the institution better off financially than it was a year ago?"

Calculation – Change in net position / Total net position (beginning of year)

Results – The 2020 statewide ratio for public community colleges is 6.8%, which is a decrease from 7.3% in 2019. A positive return is the standard used in this report and this standard was met by 43 of the 50 districts.

Figure 5. Year-to-Year Comparison of the Texas Public Community College Statewide Net Position, FY 2016-2020



Financial Ratio	FY 2016*	FY 2017*	FY 2018*	FY 2019*	FY 2020*
Return on Net Position	5.6%	6.0%	6.3%	7.3%	6.8%

Source: THECB Community College Annual Reporting and Analysis Tool 2020
**Excluding GASB 68 and 75 pension and OPEB liabilities, deferred inflows, and deferred outflows*

Operating Margin

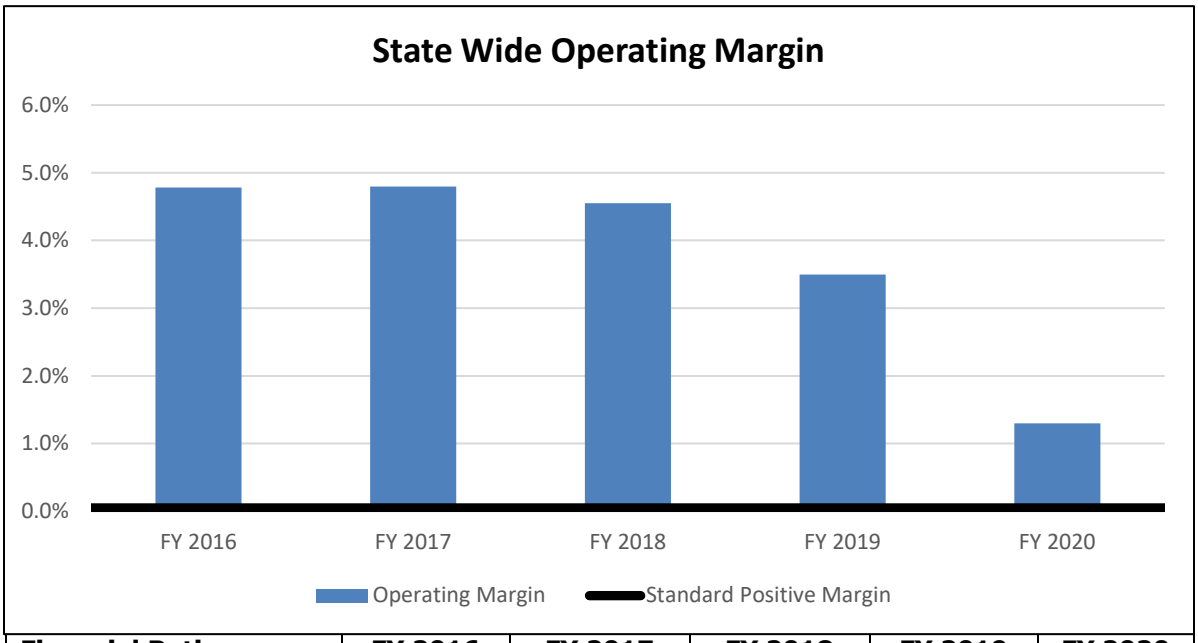
Operating margin indicates an operating surplus or deficit in the given fiscal year, as expressed in figure 6. This ratio is similar to a profit margin and answers the question, "Did the institutions balance operating expenses with available revenue?" Depreciation expense is included to reflect the use of physical assets in measuring operating performance.

Calculation – Total income - total operating expense / Total income*

*Includes all operating revenue plus formula funding, property tax, and Title IV federal revenue.

Results – The 2020 statewide margin for public community colleges is 1.3%, which is a decrease from 3.5% in 2019. The decrease in the statewide margin in 2020 is largely due to a substantial operating expense increase caused by GASB 68 and 75 adjustments for one school. A positive margin is the standard used in this report. In 2020, the standard was met by 35 of the 50 districts, five more than in 2019.

Figure 6. Year-to-Year Comparison of the Texas Public Community College Statewide Operating Margin, FY 2016-2020



Financial Ratio	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Operating Margin	4.8%	4.8%	4.6%	3.5%	1.3%

Source: THECB Community College Annual Reporting and Analysis Tool 2020

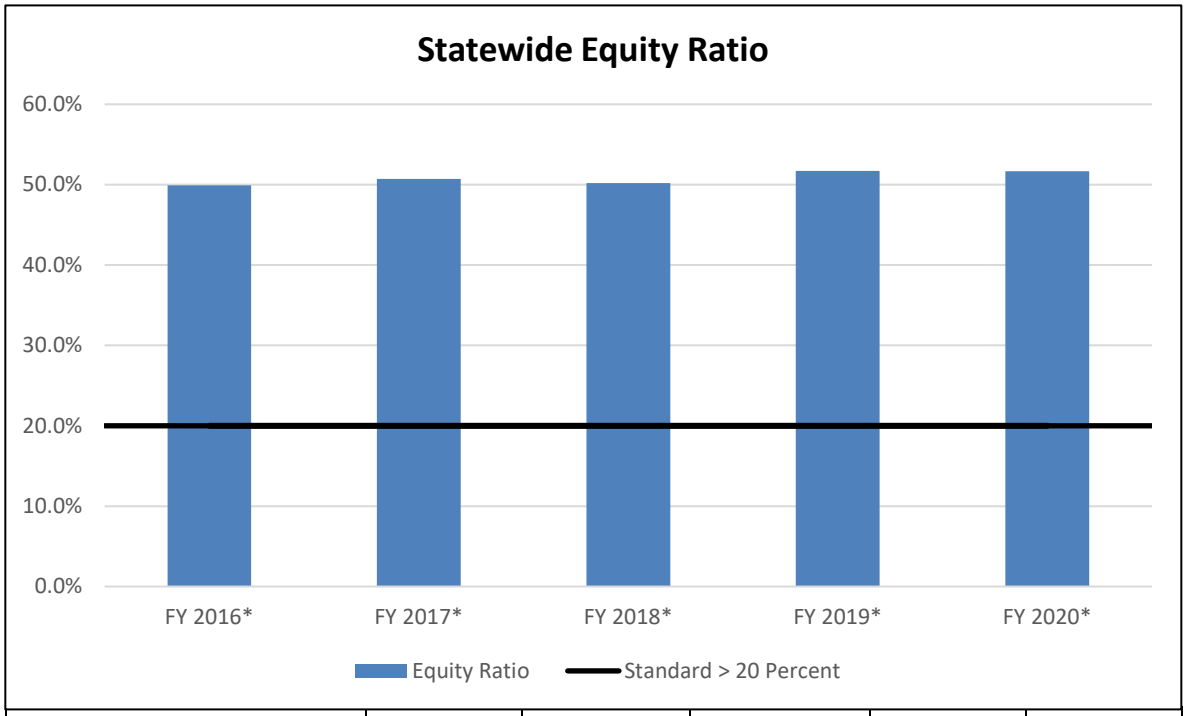
Equity Ratio

The equity ratio measures capital resources available and a college's ability to borrow, as expressed in Figure 7. The U.S. Department of Education (ED) introduced this ratio to enhance reporting for institutions that do not have long-term debt. The ED uses financial ratios, in part, to provide oversight to institutions participating in programs authorized under Title IV of the Higher Education Act.

Calculation – Net position / Total assets

Results – The 2020 statewide ratio for public community colleges is 51.7%, which is the same as 2019. A ratio of 20% or greater is the standard used in this report. The standard was met by 49 of the 50 districts.

Figure 7. Year-to-Year Comparison of the Texas Public Community College Statewide Equity Ratio, FY 2016-2020



Financial Ratio	FY 2016*	FY 2017*	FY 2018*	FY 2019*	FY 2020*
Equity Ratio	49.9%	50.7%	50.2%	51.7%	51.7%

Source: THECB Community College Annual Reporting and Analysis Tool 2020
**Excluding GASB 68 and 75 pension and OPEB liabilities, deferred inflows, and deferred outflows*

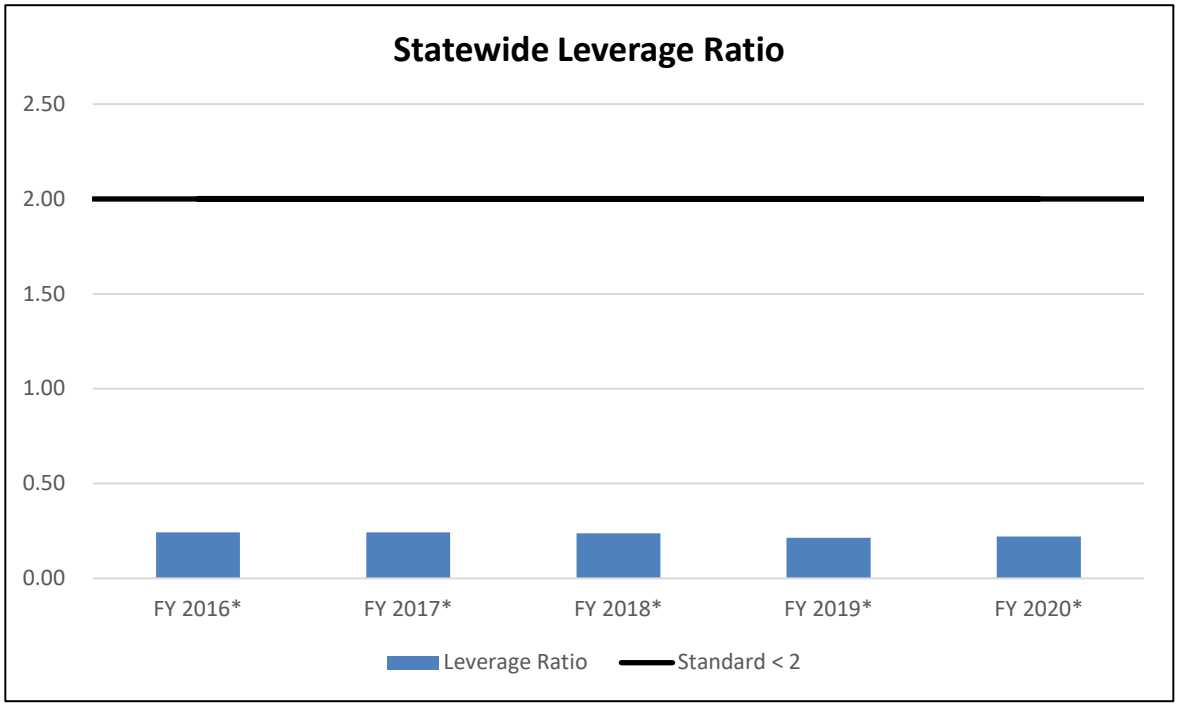
Leverage Ratio

The leverage ratio measures the amount of debt in relation to net position and provides an indication of the amount of interest and principal the institution must absorb in the future, as expressed in Figure 8. This ratio is similar to the debt-to-equity ratio used in the private sector. The leverage ratio differs from the viability ratio in that investment in physical plant assets is included as part of the numerator. Long-term debt includes bonds payable, excluding GO bonds and long-term liabilities.

Calculation – Long-term debt / Total net position

Results – The 2020 statewide ratio for the public community colleges is 0.22, which is an increase from 0.21 in 2019. A ratio of less than 2.0 is the standard used in this report.
The standard was met by all 50 districts.

Figure 8. Year-to-Year Comparison of the Texas Public Community College Statewide Leverage Ratio, FY 2016-2020



Financial Ratio	FY 2016*	FY 2017*	FY 2018*	FY 2019*	FY 2020*
Leverage Ratio	0.24	0.24	0.24	0.21	0.22

Source: THECB Community College Annual Reporting and Analysis Tool 2020
**Excluding GASB 68 and 75 pension and OPEB liabilities, deferred inflows, and deferred outflows*

Financial Condition

As seen in Table 2 below, 48 of the 50 Texas public community college districts have moderate or no indication of financial stress, which means they met four or more of the seven indicators. Twenty-six of these meet the threshold for all indicators. Currently, two community college districts do not meet four or more indicators, which means they could be experiencing some financial stress.

Table 2. Year-to-Year Comparison of the Number of Texas Public Community Colleges Meeting Financial Indicators, FY 2016-2020

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Met all 7 indicators	29	28	30	25	26
Met 6 indicators	4	10	11	11	15
Met 5 indicators	7	7	3	6	4
Met 4 indicators	6	3	3	6	3
Met 3 indicators	2	0	3	1	1
Met 2 or fewer indicators	2	2	0	1	1

The two institutions that did not meet four or more indicators were invited to provide an explanation:

Frank Phillips College

Frank Phillips College did not meet three of the indicator thresholds nor the CFI standard. The institution's operating margin was negative. The primary reserve and viability ratios are below the state standard. In the previous 10 years, the college has had a negative operating margin and has not met the 2.0 threshold on the CFI.

Institutional Comments – Teri Langwell, Chief Financial Officer

On behalf of Frank Phillips College (FPC), the administration provides the following explanation regarding the College's financial ratios for the year ending 2020.

From a financial perspective, FPC operates on a balanced budget excluding depreciation expense. Every year approximately $350,000 of depreciation expense is recognized which directly relates to a decrease in net position. The college administration is of the strong opinion that FPC is headed in the right direction and will continue in this direction in the future.

Last year FPC faced the impact of the COVID-19 pandemic and was still able to keep contact hours steady. In fact, for the Spring 2021 semester the college had a record high enrollment. The college continues to grow and expand CTE programs at all campuses even during this time. FPC is anticipating additional revenue with little related expense from these courses.

The college updated its Distance Learning Classrooms on all campuses enabling faculty to teach from any of these campuses. This will lead to a direct decrease in instructional salaries while increasing tuition revenue. The distance learning updates have allowed

the college to utilize qualified high school teachers, which will further reduce salary expense while increase revenues through dual credit opportunities.

FPC is continuously partnering working with our local communities to offer programs that will directly fill high-demand career fields. The college has contacted the Texas Department of Corrections to begin offering correctional education classes at the Dalhart prison unit. This will significantly increase enrollment and tuition and fee revenues. The college continues collaborating with several counties and hospitals in a rural nursing program. The LVN program is now offered at four locations with enrollment continuing to increase. The utilization of dedicated hospital staff to teach these courses results in minimal impact to college salary budgets. FPC is anticipating an increase in tuition and fees in the upcoming year, with our completed CTE programs, new branch facilities, and increased focus on our rural nursing program.

A recent announcement by the Nutrien plant to invest $120 million in capital improvements will substantially increase college ad valorem revenues. This revenue source will be supplemented by the continuous expanding ad valorem base in the counties in which the college serves. The college will also make its final debt payment on September 1, 2021, eliminating all college debt.

We believe that the changes above, as well as additional strategies not listed, and the support of our local communities will keep us headed in a positive direction. We are confident that our financial indicators will continue to improve and resolve with the persistent focus on these changes.

Ranger College

Ranger College did not meet four of the indicator thresholds nor the CFI standard. The operating margin and return on net position were negative. The institution's primary reserve and viability ratio remain below the state standard.

Institutional Comments – Gaylyn Mendoza, Chief Financial Officer

On behalf of Ranger College, we would like to provide explanations on the College's financial ratios for the 2020 fiscal year that categorized the college as reporting financial stress. We would also like to include in this explanation upcoming programs that we have planned to ensure a better success rate for our students, meet the needs of our communities that we serve, advance our students to the next level, and increase our contact hours and revenue.

The negative Operating Margin is a result of a few factors that occurred in the fiscal year that had not occurred in previous fiscal years. In fiscal year 2020, the College completed the construction of two new buildings and the renovation of two other buildings. The College used the 2017 Limited Tax Bond to fund the two new buildings and the renovation on one of the other buildings. The completion of this construction and renovation caused a decrease in investment income of $122,954 due to the decrease in bond proceeds as contractors were paid out; an increase in interest expense of $377,769 for the first full year of expensing interest payments related to the 2017 Bond; and an increase in depreciation expense of $129,915. Also, due to Covid-19, our childcare facility was closed in March. When the facility was allowed to open in June, it

was only occupied by 50% of children from ages one through five. We also did not operate our normal summer program for school age children. These issues related to our childcare facility led to a decrease in net operations of $93,980 for the fiscal year. Lastly, again mostly related to the Covid-19 pandemic, our estimated allowances for uncollectable student accounts receivable increased by $115,234 over the prior year's estimated allowance. These two factors led to a decrease in net operations of $93,980 for the fiscal year.

The negative Return on Net Position is related to the College's negative change in net position. In addition to the factors related to the negative operating margin as noted above, the College also sold a building that was no longer used to the county in which the building was located. This building sale resulted in a loss of $161,673 that is reported as a non-operating expense in the College's fiscal year 2020 financial statements.

The Primary Reserve and Viability Ratio are both below the standard due to the negative change in net position which decreased the College's unrestricted net position. The negative change in net position are detailed out in the above paragraphs related to the negative operating margin and negative return on net position.

Since the College did not meet the standards of the four core ratios that are included in the calculation of the Composite Financial Index (CFI), the College did not meet the standard for the CFI.

Ranger College is fully committed to the Guided Pathways Reform. We are redesigning all policies, programs, and services to center around student success with this commitment. As a result, we are constantly growing and expanding our Career and Technical Education (CTE) and Workforce Programs at all campuses and within our Dual Credit Program.

Programs that are increasing include Machining, EMT, Cosmetology, and Welding. With the recent Reskilling Grant, we plan to offer additional cohorts and night-time offerings for all Workforce Programs.

In the Fall of 2020, we implemented a new Unmanned Aircraft Systems (UAS) program offered to dual credit students and plan to expand these offerings soon. Due to Covid-19, we could not implement our Certified Dietary Management program to our offerings, but work towards implementation is continuing. The goal is to begin offering this program within the next six months. With the expansion and addition of these programs, we anticipate an increase in contact hours and additional revenue.

Using DigiTex, we offer many classes at absolutely no additional personnel cost to the College and are using it to generate income by offering courses to students from other community colleges.

In partnership with local industry and K-12 partners, we plan to implement an Automotive Technology Program to begin in the Fall of 2021. Additionally, we are in

discussions with communities in our service area to offer a Fire Science and Academy to meet local needs.

Ranger College is continuously seeking ways to work with industry partners and community leaders to fill our community's needs. This constant collaboration provides us the opportunity to increase contact hours and revenue.

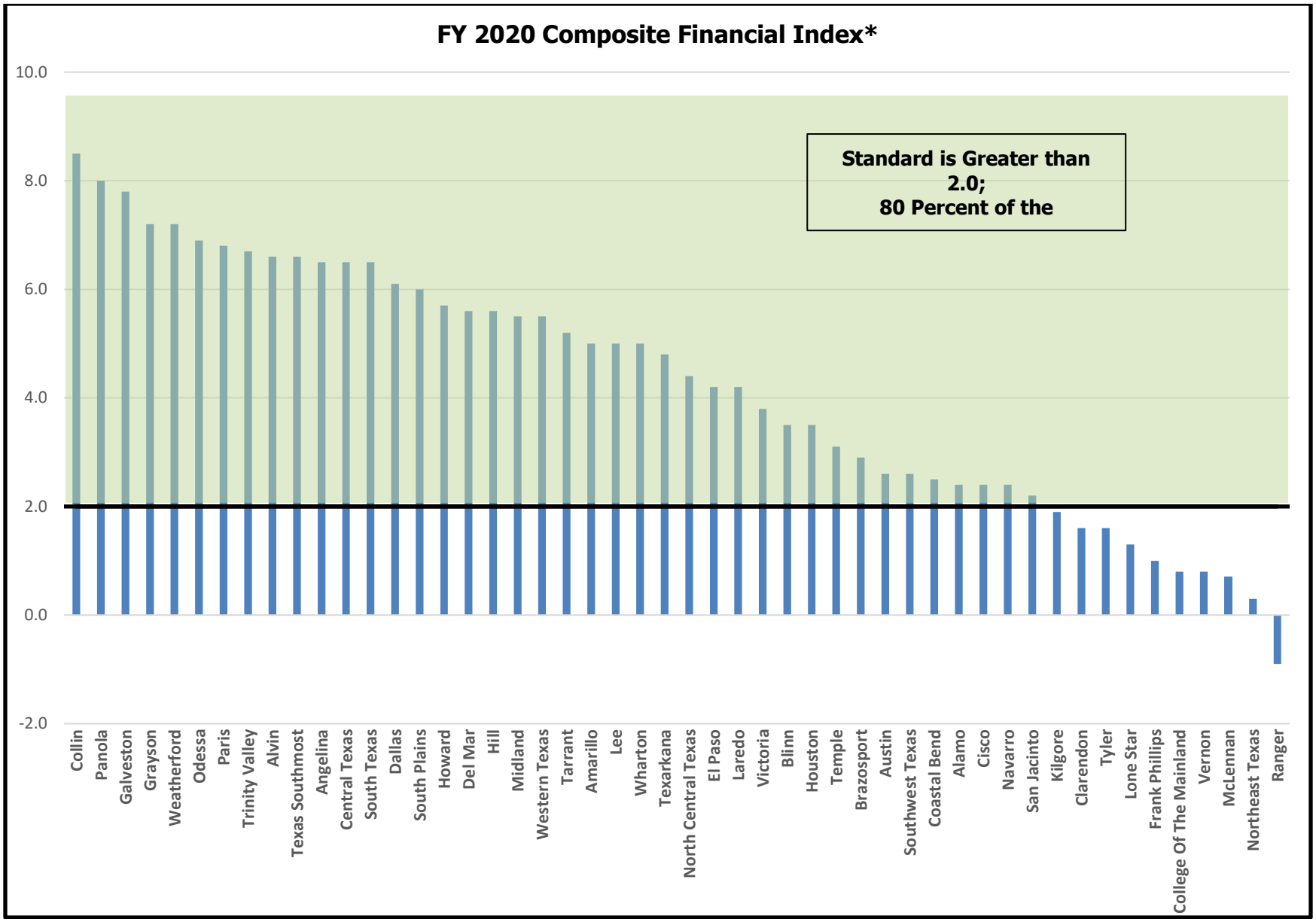
Appendix A: Composite Financial Index, Core Financial and Other Ratios

Fiscal Year 2019 General Obligation Bond Debt Excluded

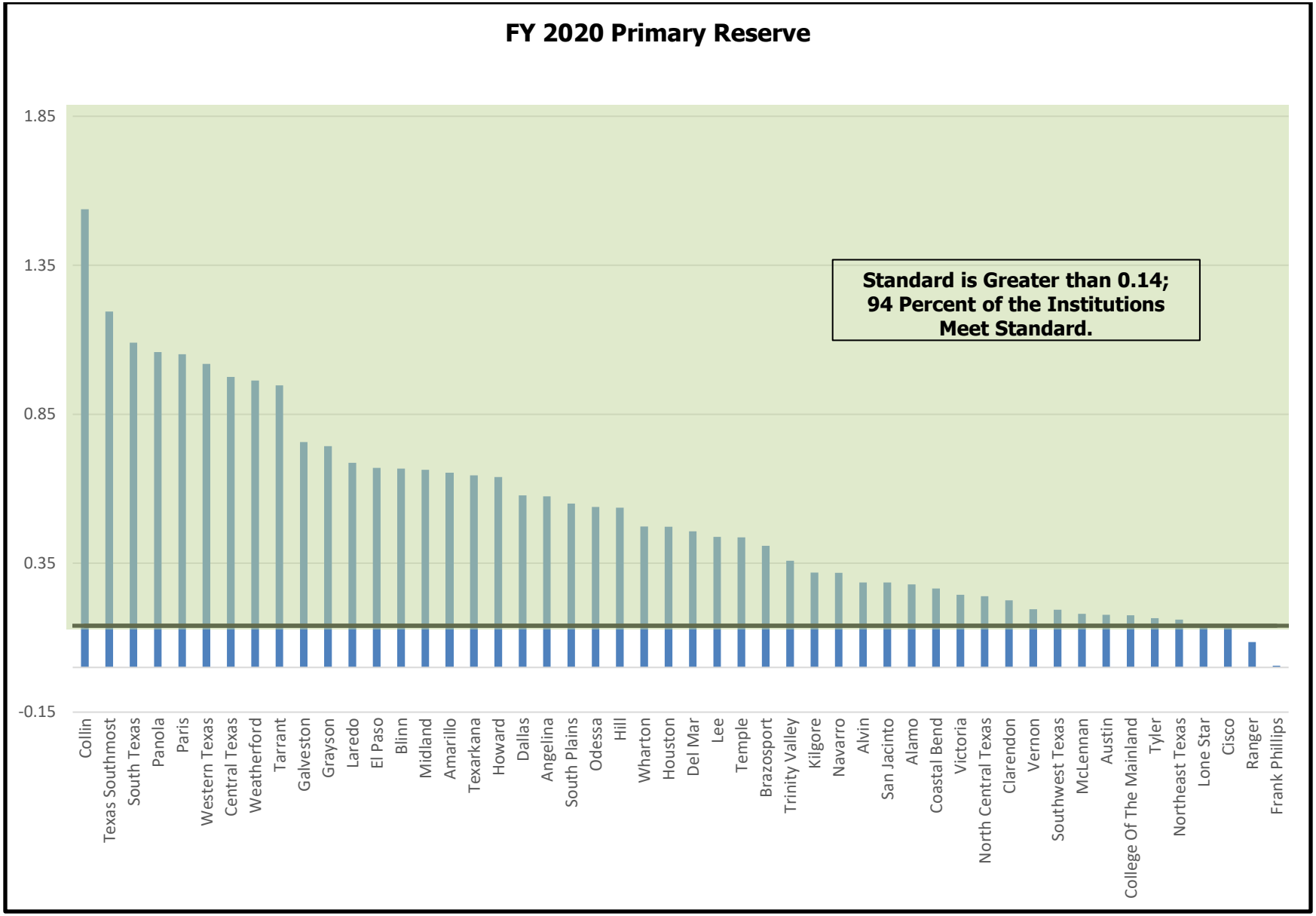
Financial Stress Indicators	District	Composite Financial Index	Return on Net Position	Operating Margin	Primary Reserve	Viability Ratio	Equity Ratio	Leverage Ratio
0	Alamo	2.4	8.6%	1.5%	0.28	0.68	40.8%	0.27
0	Alvin	6.6	13.3%	8.7%	0.29	61.94	47.1%	0.00
1	Amarillo	5.0	0.6%	**(2.0%)**	0.65	5.56	49.0%	0.03
0	Angelina	6.5	6.5%	6.0%	0.57	62.21	74.3%	0.00
1	Austin	2.6	21.1%	0.2%	0.18	**0.19**	20.5%	1.73
0	Blinn	3.5	0.3%	9.2%	0.67	0.87	54.1%	0.55
0	Brazosport	2.9	5.0%	0.3%	0.41	1.60	45.0%	0.05
1	Central Texas	6.5	**(0.5%)**	3.2%	0.98	60.00	88.5%	0.00
1	Cisco	2.4	7.9%	3.6%	**0.14**	0.82	66.9%	0.27
1	Clarendon	**1.6**	1.3%	1.1%	0.22	0.91	78.1%	0.00
1	Coastal Bend	2.5	**(0.9%)**	2.8%	0.26	1.75	61.2%	0.15
3	College Of The Mainland	**0.8**	**(21.3%)**	4.0%	0.18	0.66	**8.8%**	0.00
0	Collin	8.5	4.5%	10.7%	1.54	224.92	48.6%	0.00
0	Dallas	6.1	9.3%	1.1%	0.58	40.34	77.2%	0.00
0	Del Mar	5.6	7.1%	6.0%	0.46	3.36	33.1%	0.00
0	El Paso	4.2	6.7%	7.0%	0.67	0.95	53.3%	0.57
4	Frank Phillips	**1.0**	10.6%	**(7.5%)**	**0.01**	**0.38**	76.3%	0.02
0	Galveston	7.8	12.8%	13.0%	0.76	46.81	92.2%	0.00
0	Grayson	7.2	7.4%	7.3%	0.74	5.45	70.2%	0.04
1	Hill	5.6	7.4%	**(0.7%)**	0.54	195.88	87.9%	0.00
0	Houston	3.5	9.6%	4.1%	0.47	0.88	43.7%	0.41
0	Howard	5.7	10.8%	10.2%	0.64	2.32	68.9%	0.18
2	Kilgore	**1.9**	**(8.5%)**	10.2%	0.32	1.02	75.2%	0.20
0	Laredo	4.2	11.4%	4.0%	0.69	0.84	32.5%	0.76
0	Lee	5.0	16.9%	10.9%	0.44	1.42	49.6%	0.20
2	Lone Star	**1.3**	9.0%	**(23.3%)**	0.14	0.56	36.1%	0.22
3	McLennan	**0.7**	**(2.3%)**	**(4.6%)**	0.18	0.96	43.2%	0.24
1	Midland	5.5	5.3%	**(2.2%)**	0.66	5.20	77.7%	0.06
0	Navarro	2.4	4.7%	1.8%	0.32	0.95	59.5%	0.22
1	North Central Texas	4.4	5.5%	**(1.9%)**	0.24	17.68	70.9%	0.02
3	Northeast Texas	**0.3**	**(2.5%)**	**(8.2%)**	0.16	0.57	28.0%	0.42
0	Odessa	6.9	9.9%	10.5%	0.54	6.85	54.3%	0.05
0	Panola	8.0	7.7%	6.7%	1.06	115.54	62.7%	0.00
0	Paris	6.8	4.8%	10.2%	1.05	3.01	81.6%	0.17
5	Ranger	**(0.9)**	**(7.8%)**	**(8.6%)**	**0.08**	**0.10**	30.4%	1.55
1	San Jacinto	2.2	5.2%	**(4.3%)**	0.29	1.64	26.8%	0.19
0	South Plains	6.0	35.9%	3.3%	0.55	2.53	73.2%	0.16
1	South Texas	6.5	5.5%	**(2.9%)**	1.09	193.87	72.7%	0.00
1	Southwest Texas	2.6	12.0%	4.2%	0.19	**0.41**	45.6%	0.80
0	Tarrant	5.2	5.3%	11.1%	0.95	1.43	78.2%	0.22
1	Temple	3.1	2.2%	**(3.1%)**	0.44	2.51	55.7%	0.14
0	Texarkana	4.8	7.2%	12.1%	0.65	1.66	65.4%	0.00
1	Texas Southmost	6.6	4.0%	**(12.1%)**	1.19	5.12	73.0%	0.06
0	Trinity Valley	6.7	12.4%	12.4%	0.36	4.79	82.9%	0.03
2	Tyler	**1.6**	5.6%	2.3%	0.17	**0.29**	41.8%	0.56
2	Vernon	**0.8**	0.2%	**(2.6%)**	0.20	0.73	56.1%	0.36
1	Victoria	3.8	0.5%	**(6.4%)**	0.24	100.00	58.8%	0.00
0	Weatherford	7.2	6.4%	3.9%	0.96	5.23	76.5%	0.12
0	Western Texas	5.5	6.6%	9.6%	1.02	1.32	64.3%	0.38
0	Wharton	5.0	1.5%	0.8%	0.47	35.66	84.4%	0.01
0	Statewide	3.5	6.8%	1.3%	0.52	1.55	51.7%	0.22

Bold fonts indicate ratios that do not meet the state standard.

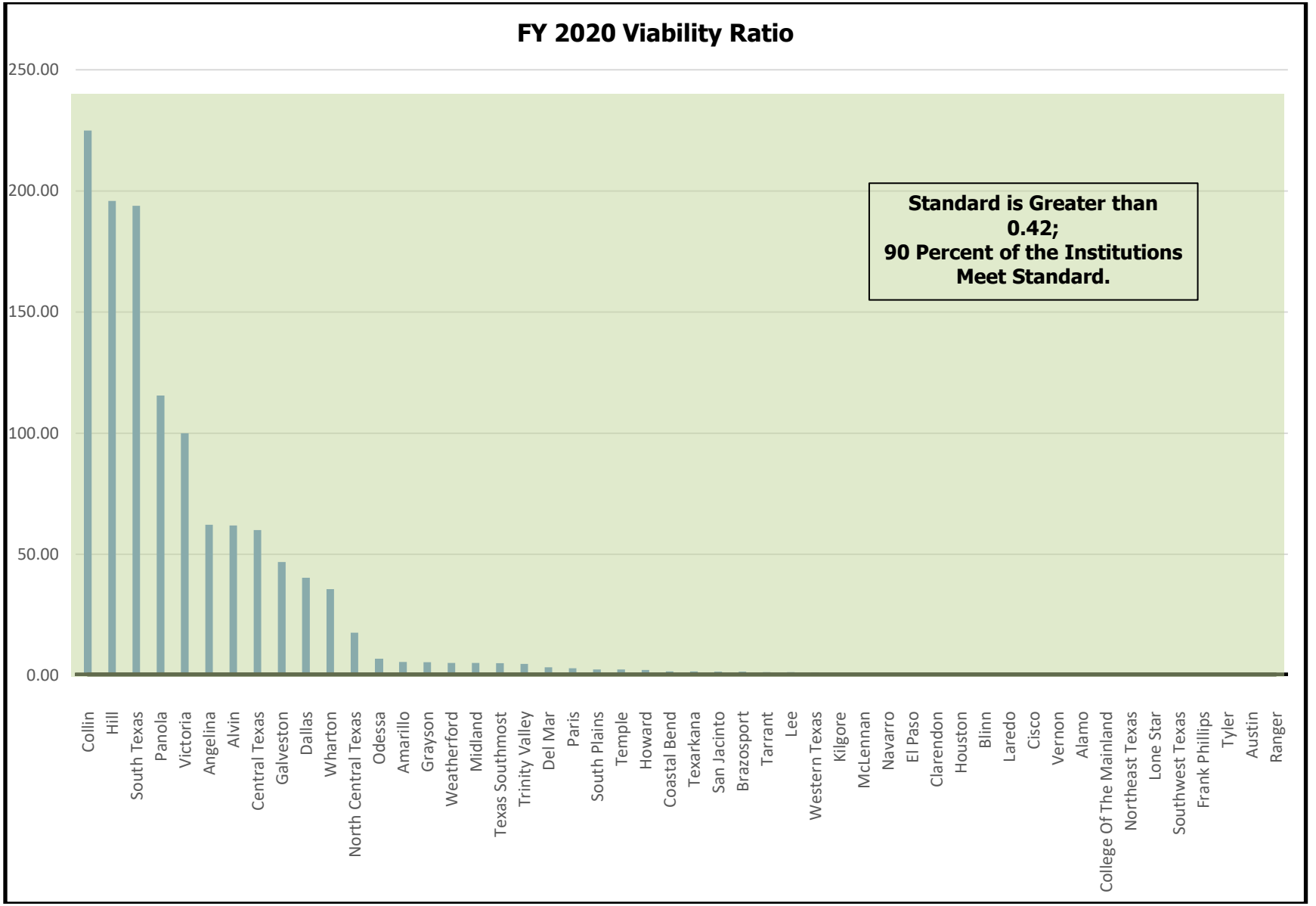
- Zero to one financial stress indicators, which indicates no financial stress.
- Two to three financial stress indicators, which indicates little to moderate financial stress.
- Four to seven financial stress indicators, which indicates financial stress.



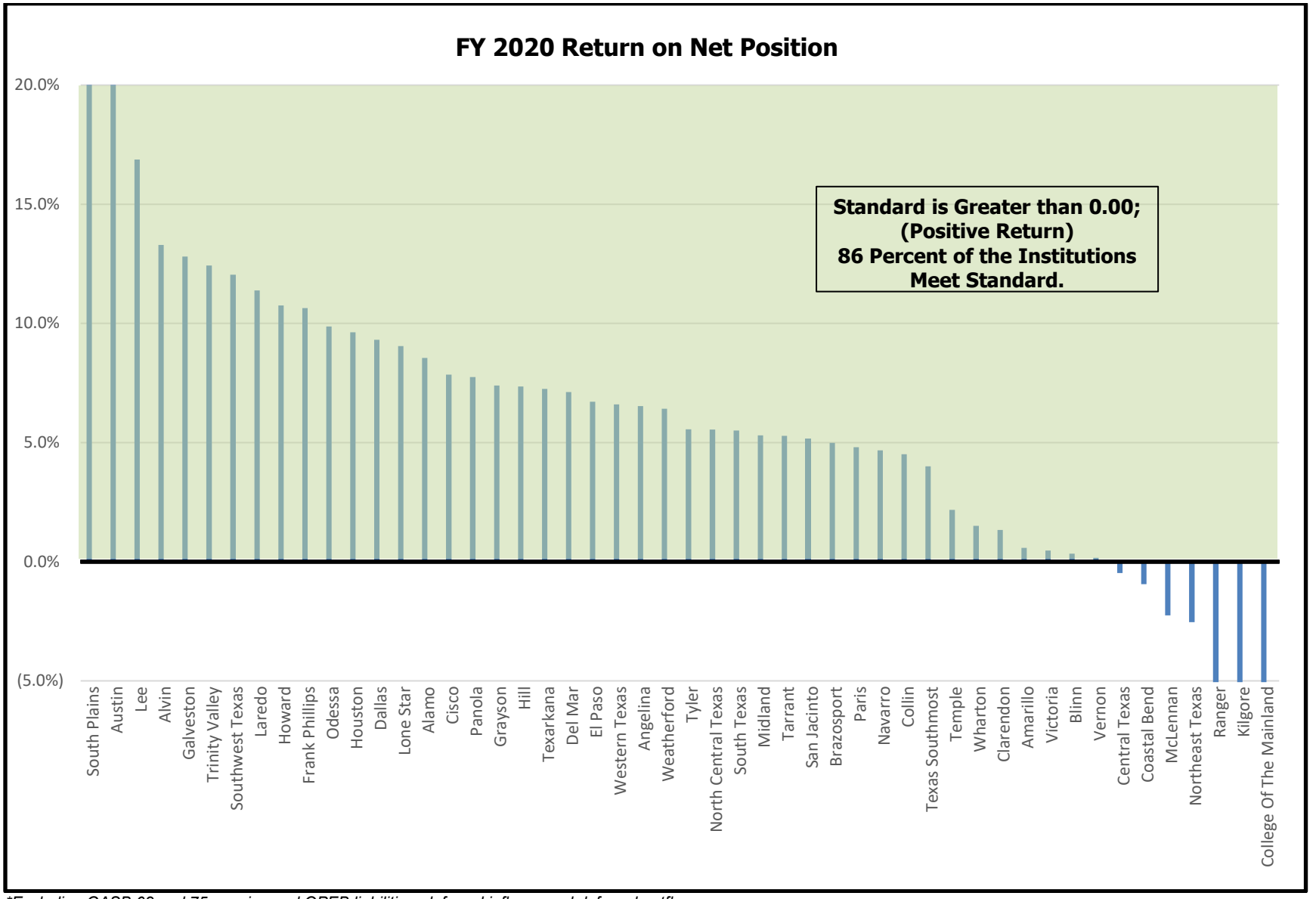
**Excluding GASB 68 and 75 pension and OPEB liabilities, deferred inflows, and deferred outflows*



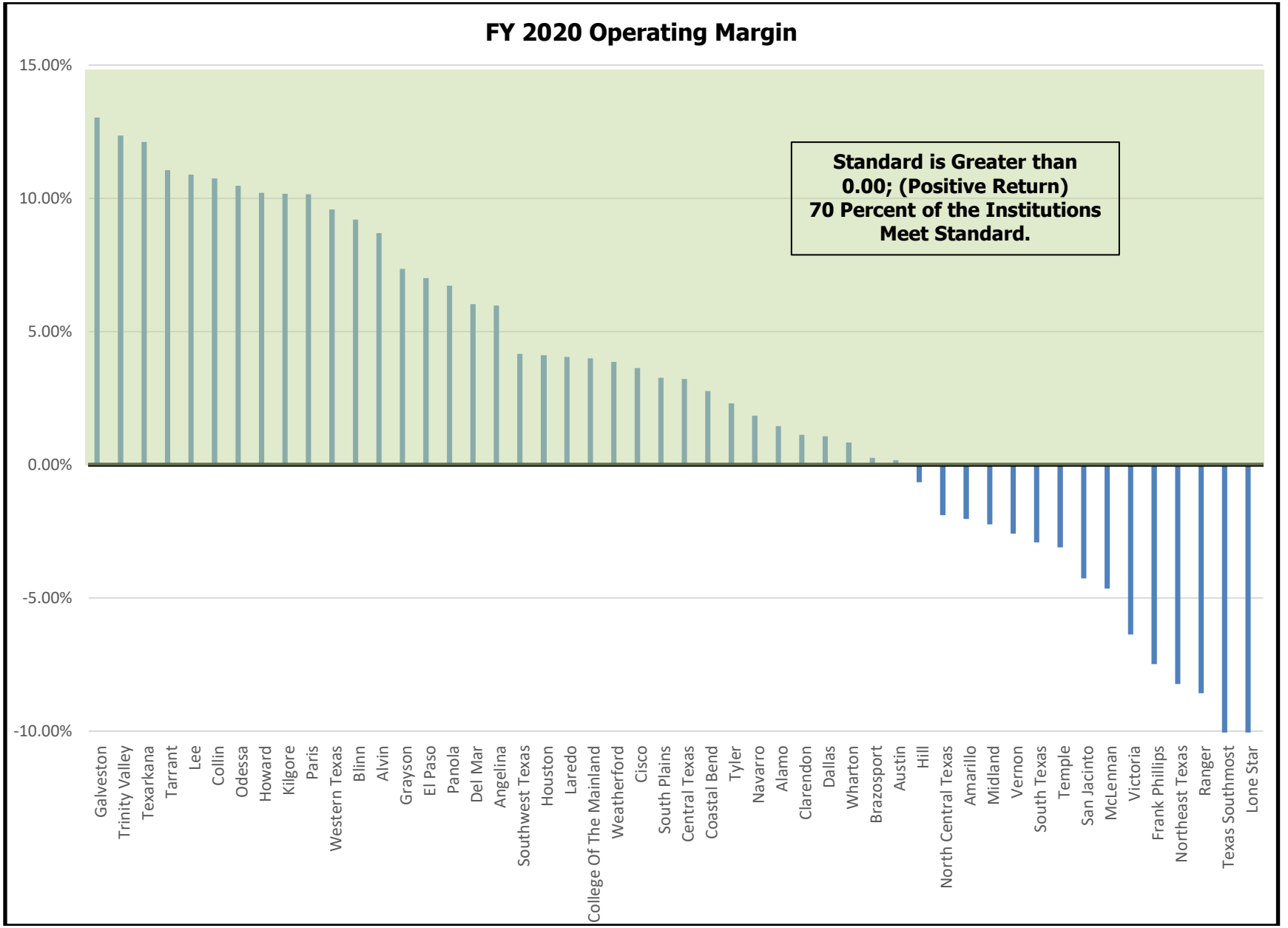
**Excluding GASB 68 and 75 pension and OPEB liabilities, deferred inflows, and deferred outflows*

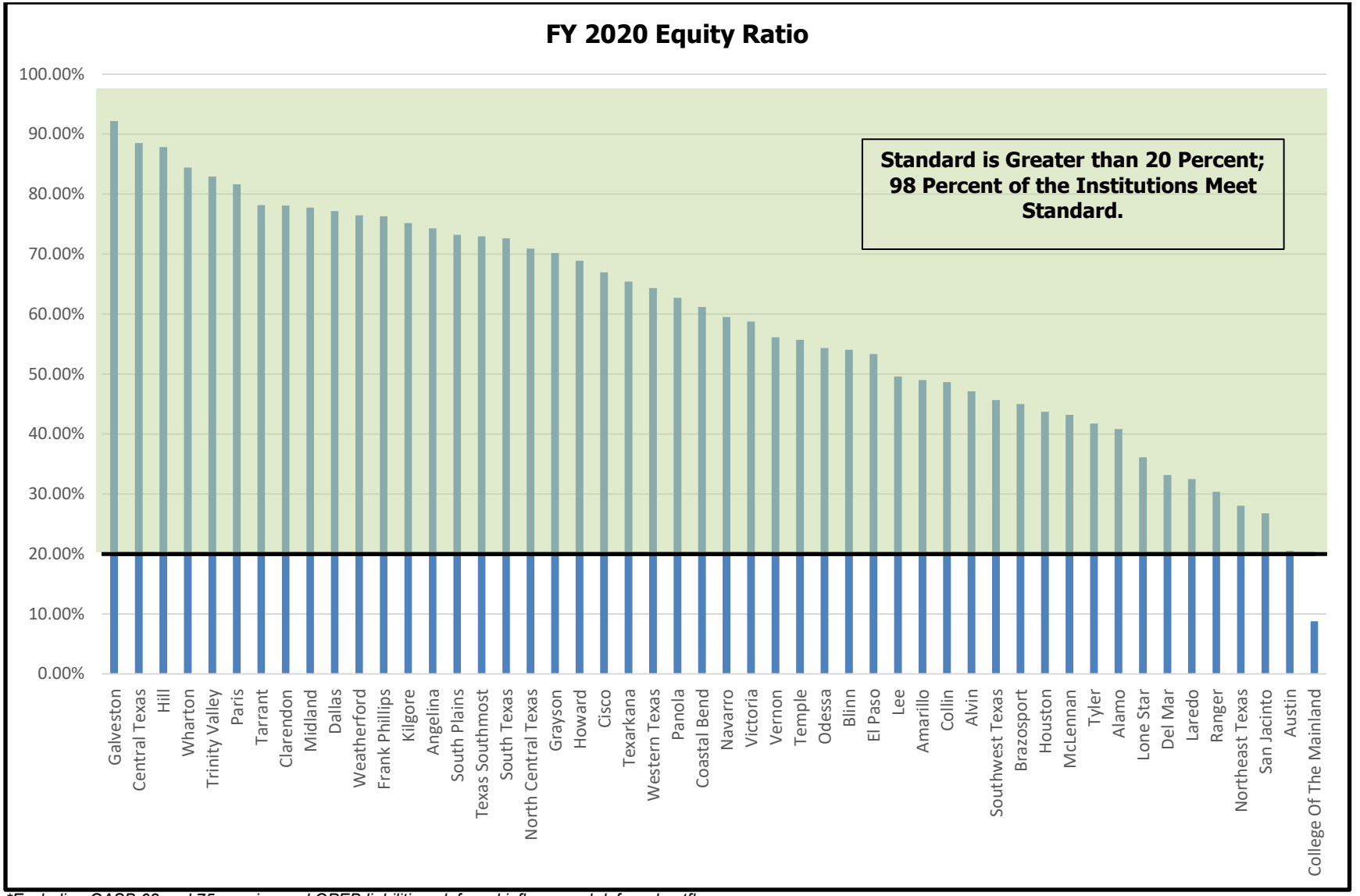


**Excluding GASB 68 and 75 pension and OPEB liabilities, deferred inflows, and deferred outflows.*



**Excluding GASB 68 and 75 pension and OPEB liabilities, deferred inflows, and deferred outflows*


FY 2020 Operating Margin
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
Standard is Greater than 0.00; (Positive Return)
70 Percent of the Institutions Meet Standard.
Galveston
Trinity Valley
Texarkana
Tarrant
Lee
Collin
Odessa
Howard
Kilgore
Paris
Western Texas
Blinn
Alvin
Grayson
El Paso
Panola
Del Mar
Angelina
Southwest Texas
Houston
Laredo
College Of The Mainland
Weatherford
Cisco
South Plains
Central Texas
Coastal Bend
Tyler
Navarro
Alamo
Clarendon
Dallas
Wharton
Brazosport
Austin
Hill
North Central Texas
Amarillo
Midland
Vernon
South Texas
Temple
San Jacinto
McLennan
Victoria
Frank Phillips
Northeast Texas
Ranger
Texas Southmost
Lone Star



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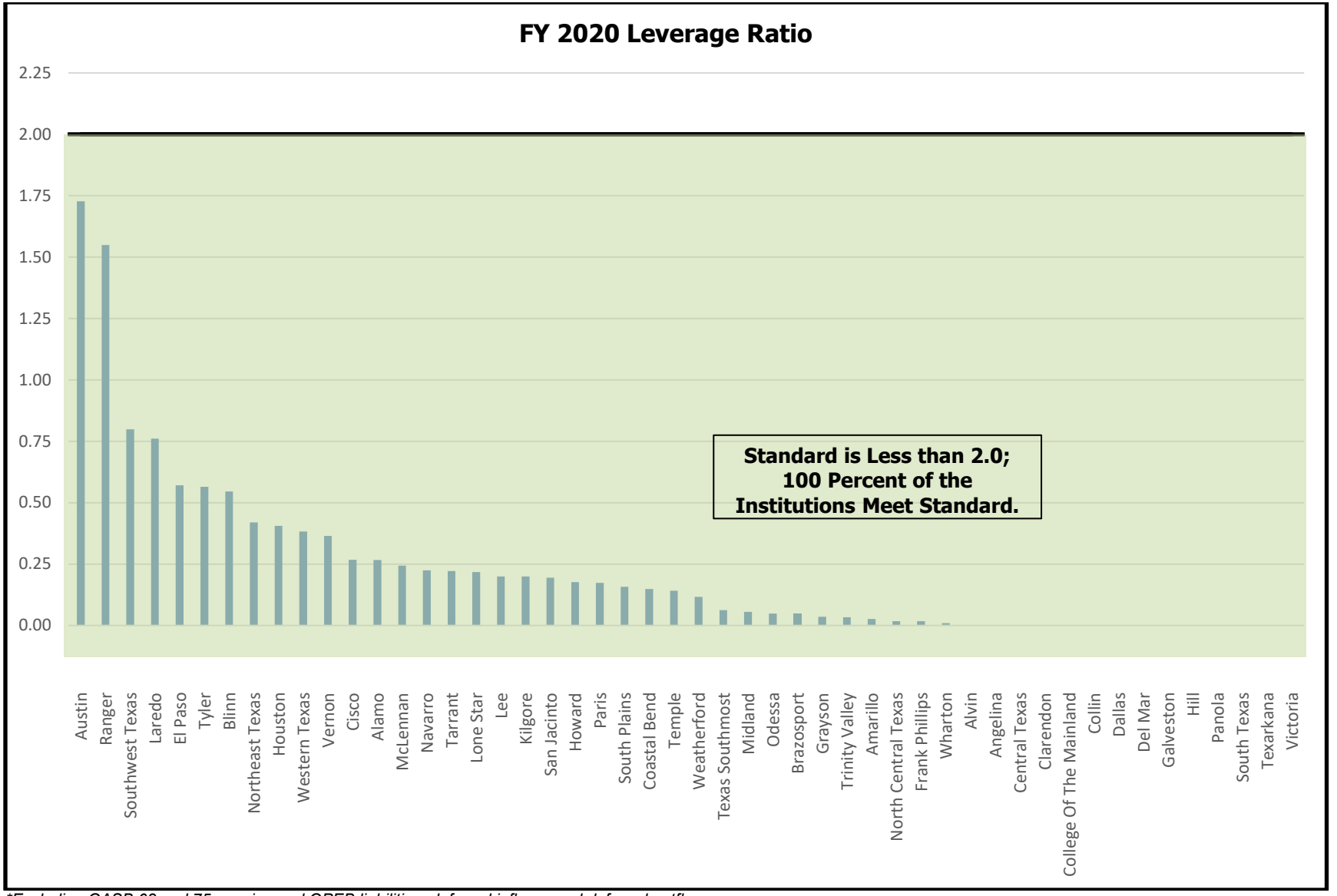

**Excluding GASB 68 and 75 pension and OPEB liabilities, deferred inflows, and deferred outflows*

Appendix B: General Comments from Institutions

Jennifer Mott, Chief Financial Officer, Lone Star College

The College's benefit expenses are comprised within the College's total operating expenses reported on the income statement. The benefit expense is directly impacted by the GASB 68/75 yearly adjustments, which then impacts the College's total operating expenses. For FY2020, this adjustment was $21 million for GASB 68 and $105 million for GASB 75. In FY2019 our adjustments were $11 million and $19 million respectively. An increase exceeding $100 million can be seen when comparing the College's total local benefit expenses in Schedule B for FY2020 and FY2019. This increase resulted in an operating loss in FY2020. Since the difference of operating income and expenses is used as a numerator in the operating margin ratio, this also resulted in a negative operation margin and contributed to the decrease in our CFI.

GASB 68/75 adjustments are determined based on information provided by ERS/TRS and differ by institution. The data calculated and provided by ERS/TRS drive the magnitude of GASB 68/75 adjustments for the College's required benefit expenses. These calculated expenses in turn directly impact total operating expenses. This impact is difficult to predict and forecast as institutions do not have the ability to directly control the contributions they must account for in future years.

Terry A. Hanson, VP of Administrative Services & Chief Financial Officer, Kilgore College

"Kilgore Junior College District conducted a one-time transaction impacting the composite financial index and the return on net position. The district transferred $9,591,814 of endowed scholarship and other donated scholarship funds to the Kilgore College Foundation. Excluding this one-time transaction, the net position would have increased $3,188,292, the return on net position would have been 4.2%, the composite financial index would have been 3.1, and the district would not have any financial stress indicators."

Jeffrey Chambers, Vice President for Administrative Services, Northeast Texas Community College

"I will attempt to summarize Northeast's concerns and experience with the data analysis.

Return on Net Position

Our primary concern is the current portion of our Net OPEB Liability. The formula attempts to exclude the effects of GASB 68 & 75, but the current portion of this liability was not accounted for in the exclusion for us. It appears THECB was not able to pick this up because there was not a drop-down selection for us in reporting this number and thus had to be reported as "Other Current Liabilities not listed". We indicate an increase in Return on Net Position by $166,000, or 1.03%, when these current portions are excluded ($528,706 for FY 20 and $222,746 for FY 19). This would have allowed us to meet the Return on Net Position requirement for FY 20.

Operating Margin

As you mention in the report, there was a substantial increase in the operating expense due to GASB 68 & 75. In our case, it was $1,293,461, or 4.71% of our total operating expenses. THECB might consider allowing us to separate these costs within the reporting module, similar to how other reports have (ex. IPEDS). This would allow these portions of GASB 68 & 75 to be excluded as well. Additionally, the Operating Margin includes depreciation expenditures, but excludes the property tax revenue on general obligations. This revenue is typically used to pay interest (which is excluded) and principal on bonds, but for us, it also allows us to offset some of the depreciation expense in our Statement of Revenue, Expenses, and Changes in Net Position."

This document is available on the Texas Higher Education Coordinating Board website: http://highered.texas.gov.

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