

REPORT HIGHLIGHTS

Western State Colorado University

Performance Evaluation, February 2017

OVERALL CONCLUSION

In recent years, Western has demonstrated healthy operating cash flow margins before factoring in interest and depreciation expenses. However, depreciation expenses (and the related capital renewal and replacement needs) and debt service requirements present a significant financial burden for the University to carry. Western's strategic priorities are focused on enrollment growth, which is a critical factor in Western's ability to improve its financial position, as well as building the operational capacity and physical infrastructure needed to achieve this growth.

KEY FACTS AND CONCLUSIONS

- Western generated between \$3 and \$5 million per year in operating cash flows before depreciation and interest during fiscal years 2013 through 2015. However, the University's debt service requirements, net of a federal interest subsidy, totaled about \$5 million per year, thereby offsetting the positive cash flows from operations. Given its recent capital-intensive growth strategy and increased debt burden, Western cannot afford additional, large, debt-financed capital investments. Western needs to increase operating cash flows by \$2 to \$3 million above fiscal year 2015 levels to cover its debt service burden and capital renewal needs.
- Between fiscal years 2009 and 2015, Western incurred capital expenditures totaling \$114.5 million, which were funded almost entirely by state capital appropriations, capital grants, and debt proceeds. Western's capital investments over the last several years have created a refreshed and renewed physical infrastructure with the capacity to support the growth of undergraduate enrollment by approximately 500 student FTE without additional significant capital expenditures and infrastructure costs.
- Western's net tuition revenue per full-time student FTE was about \$6,817 in fiscal year 2014, which was the highest among the institutions included in the peer group used for this analysis. Above-market tuition increases are not likely to be a viable option for resolving Western's financial challenges.
- Western's ongoing strategic challenge will be to achieve enrollment growth and increased retention, thereby increasing revenue, without an equal increase in costs. The University's strategic initiatives appear to target and build upon areas of programmatic and geographic strengths. However, in pursuing these initiatives, Western must also avoid the common pitfalls in the increasingly competitive higher education marketplace of allowing costs to increase as a result of trying to be all things to all students.

BACKGROUND

Established in 1901, Western State Colorado University (Western or University) is a public institution of higher education located in Gunnison, Colorado. Western offers undergraduate liberal arts and sciences and professional degree programs, basic skills courses, and a limited number of graduate programs.

Western enrolled approximately 2,149 full-time equivalent undergraduate and graduate students (student FTE) for academic year 2014-2015. Approximately 75% of Western's undergraduate students and nearly 80% of its graduate students are Colorado residents.

In fiscal year 2015, Western's revenues totaled approximately \$45.4 million, and its expenses, net of a federal interest subsidy, totaled approximately \$47.5 million. During fiscal year 2015, Western employed about 295 faculty and staff full-time equivalent positions.

Western is independently governed by a Board of Trustees, that has full authority and responsibility for the control and governance of the University, including such areas as finance, academic programs, curriculum, admissions, role and mission, and personnel policies. The University President, who provides leadership and oversees University operations, reports directly to the Board of Trustees.

PROJECT APPROACH

This evaluation consisted of three key components: A **financial assessment** to determine appropriate cash flow levels and assess the impact of financing strategies, an **operational assessment** to understand the operational factors driving the University's financial outcomes, and a **strategic assessment** to understand and assess the strategies and initiatives put in place by the University to help improve its financial position.