

REPORT HIGHLIGHTS

Adams State University

Performance Evaluation, February 2017

OVERALL CONCLUSION

In recent years, Adams has maintained positive annual operating cash flow margins before factoring in interest and depreciation expenses. However, capital renewal and replacement needs and debt service requirements present a significant financial burden for the University to carry. Given its current operating cash flows and high levels of debt, Adams needs to identify more significant cost-cutting and revenue-enhancement strategies to ensure its financial sustainability.

KEY FACTS AND CONCLUSIONS

- Adams generated between \$0.9 and \$3.6 million per year in operating cash flows before interest and depreciation during fiscal years 2011 through 2015. However, the University's debt service requirements, net of a federal interest subsidy, total more than \$4 million per year (i.e., \$4.6 million in fiscal year 2016), thereby offsetting the positive cash flows from operations. Adams cannot afford additional, large, debt-financed capital investments. Adams needs to increase operating cash flows by about \$3 million above fiscal year 2015 levels to improve its financial ratios and help ensure financial sustainability given its present debt burden and routine capital needs.
- Between fiscal years 2009 and 2015, Adams incurred capital expenditures totaling \$98.7 million, which were funded almost entirely by state capital appropriations and debt proceeds. Adams' capital investments helped to improve the physical campus environment. However, this capital-intensive strategy has also resulted in a significant increase in Adams' debt service obligations. In fiscal years 2013 through 2015, more than 5% of Adams' total adjusted operating expenses were for interest on capital debt, net of federal interest subsidies.
- Adams' net tuition revenue per student FTE was about \$5,636 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 Adams' financial challenges. Tuition pricing is especially important for universities, such as Adams, that serve regions or demographics that need a low-cost education provider.
- Adams' 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 goals and initiatives target and build upon areas of programmatic, reputational, and geographic strengths. However, in pursuing these initiatives, Adams 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 1921, Adams State University (Adams or University) is a public institution of higher education located in Alamosa, Colorado. Adams offers undergraduate liberal arts and sciences, teacher preparation, and business degree programs; a limited number of graduate level programs; and two-year transfer programs. Adams is also a federally designated Hispanic Serving Institution.

Adams enrolled approximately 2,797 full-time equivalent undergraduate and graduate students (student FTE) for academic year 2014-2015. Approximately 82% of Adams' undergraduate students and nearly 60% of its graduate students are Colorado residents.

In fiscal year 2015, Adams' operating and nonoperating revenues, including state capital appropriations, totaled \$65.2 million, and its expenses, net of a federal interest subsidy, totaled \$59.2 million. During fiscal year 2015, Adams employed about 440 faculty and staff full-time equivalent positions.

Adams 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.