



# Board of Regents

Ted Strickland, Governor  
Eric D. Fingerhut, Chancellor

University System of Ohio

## DIRECTIVE 2009-041

November 18, 2009

Re: CONSIDERATION OF A REQUEST BY THE UNIVERSITY OF CINCINNATI TO PLEDGE STUDENT FEES IN SUPPORT OF A BOND ISSUANCE NOT TO EXCEED \$10,600,000, TO BE USED TO FINANCE TWO CAPITAL PROJECTS ON THE UNIVERSITY'S MAIN CAMPUS.

Ohio Revised Code §3345.11 enables a state university or college to issue general receipts obligation bonds in the manner provided by and subject to the applicable provisions of Ohio Revised Code §3345.12.

§371.60.20 of Am. Sub. H.B. 1 of the 128<sup>th</sup> General Assembly requires that any new pledge of student fees to secure bonds or notes of a state college or university be approved by the Chancellor of the Ohio Board of Regents.

Pursuant to Ohio Revised Code, the University of Cincinnati has demonstrated the following:

- The proposed projects are essential to fulfilling institutional goals.
- The University's Board of Trustees approved a resolution authorizing this bond issuance at its meeting on September 22, 2009.
- The University of Cincinnati has demonstrated that their proposal complies with §3345.11 and §3345.12.

Agency staff reviewed the request and posted its recommendations to the Regents' web site for purposes of providing a period of public comment before final approval by the Chancellor. The materials posted for comment and the request to pledge student fees are attached to this document.

Based on my review of staff recommendations, I hereby approve the Request to Pledge Student Fees by the University of Cincinnati in support of general receipts obligation bonds in an aggregate amount not to exceed \$10,600,000.

This directive will take effect immediately.

Eric D. Fingerhut  
Chancellor, Ohio Board of Regents

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**University of Cincinnati  
October 2009 Fee Pledge Request - \$10,600,000**

**I. Project Overview**

The University of Cincinnati proposes to issue general receipts obligation bonds to finance two renovation projects on campus that will address deferred maintenance issues and increase classroom space needed to support program growth and provide for needed swing space on the University's main campus.

The University intends for this debt to be financed through a permanent debt issuance that will be retired in 15-20 years.

*Submission: October, 2009*

**University of Cincinnati**  
**October 2009 Fee Pledge Request - \$10,600,000**

**III. Fee Impact**

This proposed debt issuance will have no direct impact on student tuition and fees. While the University of Cincinnati may use unrestricted student fee revenues to service the debt service for these capital projects, student fees are not expected to increase as a direct result of this action.

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**V. Financial Ratio Analysis**

Through the 1997 enactment of Senate Bill 6, the 122<sup>nd</sup> General Assembly established a standardized method for monitoring the financial health of Ohio's state-assisted colleges and universities. Subsequently, the administrative rules used to guide the implementation of S.B. 6 identified three financial ratios to evaluate an institution's fiscal health. The rules also established threshold factors for ranges of ratios, and created a weighted score of the threshold factors, termed the *composite score*, which provides a summary statistic to evaluate an institution's financial stability. The ratios and composite score are described in greater detail below, including how the University of Cincinnati performed when these measures are applied to its FY 2005, FY 2006, FY 2007 and FY 2008 audited financial statements—the most up-to-date financial data available.

\*NOTE: The FY 2008 data shown in *italics* reflect the ratios and composite score when approximately \$69,600,000 in new debt is added to the calculations. This amount equals the estimated FY 2009 debt issuances of approximately \$59,000,000 and \$10,600,000 in net new debt requested here. Also, \$3,411,000 in related debt service expenses have been added to the calculations. Other factors not taken into account here include the impact of the new debt on the University's expendable net assets, the future retirement of existing debt obligations, and future changes in revenues and expenses.

**1. Viability Ratio**

The viability ratio is defined as expendable net assets divided by plant debt. This ratio is a measure of an institution's ability to retire its long-term debt using available current resources. A viability ratio in excess of 100% indicates that the institution has expendable fund balances in excess of its plant debt. Pursuant to this analysis, a viability ratio of 60% or greater is considered good, while a ratio below 30% might be a cause for concern. The University of Cincinnati's viability ratios for FY 2005, FY 2006, FY 2007 and FY 2008 are as follows:

<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u><i>FY 2008*</i></u>
32.2%	24.0%	21.1%	24.5%	<i>23.0%</i>

**2. Primary Reserve Ratio**

The primary reserve ratio is defined as expendable net assets divided by total operating expenses. This ratio is one measure of an institution's ability to continue operating at current levels without future revenues. Pursuant to the S.B. 6 analysis, a ratio of 10% or greater is considered good, while a ratio below 5% would be a cause for concern. The University of Cincinnati's primary reserve ratios for FY 2005, FY 2006, FY 2007 and FY 2008 are as follows:

<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u><i>FY 2008*</i></u>
32.2%	24.3%	23.1%	27.4%	<i>27.3%</i>

**University of Cincinnati**  
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**VI. Financial Outlook and Bond Rating**

According to its FY 2008 audited financial report, the University of Cincinnati's financial position remains strong, having reported total assets of \$3,270,008,000 and liabilities of \$1,344,493,000. Net assets, which represent the value of the University's assets after liabilities are deducted, decreased by \$45,225,000 in FY 2008 to \$1,925,515,000 or 58.8% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. On October 1, 2009, Moody's Investors Services reaffirmed the University of Cincinnati's long term debt rating of A2 with a stable outlook. In addition, S&P affirmed their rating of A+ with a stable outlook.

These ratings indicate that the University's ability to meet its debt obligations is considered strong, as shown in Moody's and S&P's scale below.

<b>Long-Term Bonds</b>				
<b>Moody's</b>			<b>S &amp; P</b>	<b>Description</b>
Aaa1	Aaa2	Aaa3	AAA	Best quality with little or no investment risk.
Aa1	Aa2	Aa3	AA	High quality with low investment risk.
A1	A2	A3	A	High quality with moderate investment risk.
Baa1	Baa2	Baa3	BBB	Good quality with some investment risk.
Ba1	Ba2	Ba3	BB	Medium quality with some investment risk.
B1	B2	B3	B	Medium quality with higher investment risk.
Caa1	Caa2	Caa3	CCC	Low quality and susceptible to default.
Ca1	Ca2	Ca3	CC	Low quality and highly vulnerable to default.
C1	C2	C3	C	Lowest quality and extremely vulnerable to default.
-	-	-	D	In payment default (S&P rating only).

LONG-TERM PLANT DEBT, FY 2004 - FY 2008

Institution	Long-Term Plant Debt				
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
<b>UNIVERSITIES</b>					
BOWLING GREEN	\$84,410,000	\$109,000,000	\$99,250,000	\$89,345,000	\$80,290,000
CENTRAL STATE	\$2,535,821	\$2,340,402	\$2,177,250	\$2,003,952	\$1,862,693
CLEVELAND STATE	\$53,754,446	\$115,923,075	\$113,522,226	\$161,098,196	\$163,591,508
KENT STATE	\$282,832,000	\$279,692,000	\$276,441,000	\$273,153,000	\$277,532,000
MUO (b)	\$8,730,000	\$56,299,000	\$53,827,000	See UT	See UT
MIAMI UNIV.	\$92,833,435	\$168,613,252	\$159,727,329	\$235,357,582	\$228,484,393
NEOUCOM	\$1,237,841	\$1,046,607	\$878,345	\$700,300	\$2,291,713
OHIO STATE	\$814,606,000	\$877,540,000	\$1,106,227,000	\$1,118,091,000	\$1,076,097,000
OHIO UNIVERSITY	\$175,592,164	\$167,529,147	\$192,862,349	\$182,914,606	\$167,403,027
SHAWNEE STATE	\$2,600,000	\$2,270,000	\$1,925,000	\$19,550,000	\$17,765,000
UNIV. AKRON	\$226,729,516	\$258,484,797	\$255,328,236	\$247,378,185	\$421,931,710
UNIV. CINCINNATI	\$893,004,000	\$877,453,000	\$966,516,000	\$1,074,333,000	\$1,091,020,000
UNIV. TOLEDO	\$167,367,000	\$176,779,000	\$171,134,000	\$269,554,000	\$265,409,000
WRIGHT STATE	\$29,584,121	\$46,189,820	\$42,513,677	\$38,738,096	\$35,624,887
YOUNGSTOWN ST.	\$13,492,373	\$13,268,653	\$22,162,550	\$20,397,972	\$18,603,592
<b>COMMUNITY COLLEGES</b>					
BELMONT TECH	\$66,728	\$33,107	\$0	\$0	\$0
CINCINNATI ST.	\$47,580,000	\$47,530,000	\$47,923,408	\$47,701,975	\$47,455,542
CLARK STATE	\$72,800	\$46,400	\$8,195,000	\$8,175,000	\$7,900,000
COLUMBUS ST.	\$24,105,000	\$22,700,000	\$21,250,000	\$19,830,000	\$18,255,000
COTC	\$401,059	\$100,986	\$2,112,219	\$3,875,762	\$3,470,979
CUYAHOGA	\$65,222,373	\$64,840,147	\$62,974,601	\$57,393,209	\$79,449,916
EDISON STATE	\$604,972	\$532,347	\$5,109,018	\$4,975,254	\$4,704,730
HOCKING	\$516,117	\$1,039,729	\$5,025,450	\$5,235,058	\$6,384,650
JAMES RHODES ST	\$3,087,383	\$3,067,812	\$3,018,241	\$2,968,669	\$2,914,098
JEFFERSON	\$2,170,485	\$2,023,978	\$1,838,573	\$1,623,724	\$1,422,593
LAKELAND	\$5,674,098	\$5,535,996	\$4,767,321	\$4,044,695	\$3,308,426
LORAIN	\$9,560,074	\$7,925,194	\$7,472,149	\$7,010,546	\$6,529,973
MARION TECH	\$0	\$0	\$0	\$0	\$0
NORTH CENTRAL	\$300,562	\$220,160	\$182,119	\$727,540	\$97,879
NORTHWEST ST.	\$73,705	\$82,001	\$35,594	\$25,249	\$59,860
OWENS STATE	\$0	\$749,152	\$579,288	\$401,212	\$536,241
RIO GRANDE	\$0	\$0	\$0	\$0	\$2,411,421
SINCLAIR	\$0	\$0	\$0	\$0	\$0
SOUTHERN ST.	\$3,245,886	\$3,022,204	\$2,839,083	\$2,710,583	\$5,577,394
STARK STATE	\$620,080	\$16,738	\$6,137	\$0	\$0
TERRA STATE	\$839,738	\$655,721	\$464,012	\$264,285	\$66,409
WASHINGTON ST.	\$0	\$0	\$0	\$0	\$0
ZANE STATE (MATC)	\$341,385	\$285,566	\$223,983	\$156,401	\$309,075
<b>STATEWIDE TOTAL</b>	<b>\$3,013,791,162</b>	<b>\$3,312,836,011</b>	<b>\$3,638,508,158</b>	<b>\$3,899,734,051</b>	<b>\$4,038,760,709</b>