Ohio | Board of Regents

University System of Ohio

Ted Strickland Governor
Eric D. Fingerhut Chancellor

DIRECTIVE 2008-028
December 3, 2008

Re: CONSIDERATION OF A REQUEST BY THE UNIVERSITY OF CINCINNATI TO PLEDGE STUDENT FEES IN SUPPORT OF A BOND ISSUANCE NOT TO EXCEED $59,002,000.00 TO BE USED TO FINANCE VARIOUS CAPITAL PROJECTS ON 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.

§375.70.60 of Am. Sub. H.B. 119 of the 127th 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, 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 September 23, 2008 and July 17, 2007 meetings.
- University of Cincinnati has demonstrated that their proposal complies with §3345.11 and §3345.12.

The Chancellor's 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 University of Cincinnati in support of general receipts obligation bonds in an aggregate amount not to exceed $59,002,000.00.

This directive will take immediate effect.

as

Eric D. Fingerhut
Chancellor, Ohio Board of Regents

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University of Cincinnati
October 2008 Fee Pledge Request - $59,002,000

I. Project Overview

The University of Cincinnati proposes to issue general receipts bonds to finance various capital projects on its main campus, including:

- Kettering North Wing Demolition/Site Preparation
- Roof Replacements
- Morgens Residence Hall Upgrades
- Scioto Residence Hall Upgrades
- Utility Energy Savings Project
- Medical Sciences Building Rehabilitation and Expansion

The University intends for this debt to be a combination of permanent and non-permanent debt. The long-term capital projects financed through permanent debt will be repaid over ten to twenty years while the non-permanent debt will be retired with future state capital appropriations.

Submission: October, 2008

University of Cincinnati
October 2008 Fee Pledge Request - $59,002,000

II. Project Financing and Costs

The University of Cincinnati requests the authority to issue general receipts bonds in an aggregate amount not to exceed $59,002,000. This submission represents a request for permanent and non-permanent debt approval.

Permanent Debt

Of the six projects included in this fee pledge request, five will be funded through the use of permanent debt. A breakdown of the estimated project costs associated with the permanent debt issuance is presented below:

Project	Estimated Project Costs	Net Capitalized Interest	Provision for Bond Discount and Issue Costs	Margin of Safety		Total Bond Authorization Requested
Kettering North Wing Demolition/Site Preperation	$3,000,000	$119,500	$50,500	$330,000		$3,500,000
Roof Replacement	$6,000,000	$0	$95,000	$605,000		$6,700,000
Morgens Residence Hall Upgrades	$5,000,000	$106,000	$79,000	$415,000		$5,600,000
Scioto Residence Hall Upgrades	$5,000,000	$341,000	$84,000	$175,000		$5,600,000
Utility Energy Savings Projects	$8,000,000	$290,000	$126,000	$384,000		$8,800,000
Subtotal - Permanent Debt	*$27,000,000*	*$856,500*	*$434,500*	*$1,909,000*		*$30,200,000*

The University of Cincinnati is proposing that the $30,200,000 of permanent debt be issued as general receipts bonds. Moreover the College estimates the annual debt service for the debt to be $3,279,000 per year based upon 5% interest on bonds that will be retired within 10 to 20 years.

Non-Permanent Debt

In addition to the permanent debt projects listed above, this fee pledge includes $28,802,000 in non-permanent debt for the Medical Sciences Building (MSB) Rehabilitation and Expansion Project. These funds are in anticipation of future state capital appropriations from the FY 2015-16 biennium. The net interest and issue costs for the MSB project will ultimately be funded with state funds.

In the event that future state capital appropriations are not available for this purpose, the University would convert this debt to 20 year bonds that would have an estimated annual debt service obligation of $2,511,000, based upon a 6% interest rate.

The University has identified revenues to support the debt service and annual operating expenses for each project included in this request. Specific information regarding the funding sources to support the projects can be found in the individual project descriptions.

University of Cincinnati
October 2008 Fee Pledge Request - $59,002,000

III. Fee Impact

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

University of Cincinnati
October 2008 Fee Pledge Request - $59,002,000

IV. Project Description

Permanent Debt

Kettering North Wing Demolition/Site Preparation, $3,500,000

The primary purpose of this demolition project is to remove the northeast corner of the Kettering Complex. This section of the complex is the original building constructed in 1930 and is structurally unsound and it is not feasible to renovate. This project includes the following:

- The relocation of existing site utilities.
- The demolition of the entire north wing structure.
- The replacement of the north wall of the Kettering Building with a new exterior masonry wall.
- The restoration of site paving and landscaping.

The Kettering North Wing Demolition/Site Preparation project was approved within the FY 2008-2009 Capital Budget at the June 24, 2008 Board of Trustees meeting. The design for this project will commence in late fall of 2008; construction will be accomplished in phases beginning with utility relocation beginning in the Spring of 2009 and the actual demolition, site preparation and rebuild of the building facade being complete by June 2010.

The University of Cincinnati estimates that $3,500,000 in total debt authority is sufficient to fund the $3,000,000 in project costs, estimated debt issuance costs and capitalized interest until June 1, 2010. Moreover, UC estimates the average annual debt service for this project to be $255,000 beginning in FY 2012; which will be repaid over 20 years with undesignated funds.

Roof Replacements, $6,700,000

The primary purpose of the university roofing project is to replace numerous roofs on various buildings throughout campus. Current roof structures at Kettering (the Kehoe Entrance), Langsam, Lindner Hall, GRI Building A, OCAS Science Building, DAAP Foundry, and French East were prioritized to be in the greatest need for replacement, with additional roofs being added to this list as the project budget will allow. These roofs will be replaced with roofing material that will add both energy efficiencies and sustainable design qualities to the buildings. The roof life expectancy of these new roofs is 20-25 years. The Langsam Roof Replacement was approved at the July 17, 2007 Board Meeting; the remaining roofs were approved or will be approved through the appropriate approval process based upon their individual project costs. The design and construction for the roof projects is in various stages, total construction is anticipated to be complete in the spring of 2009.

The University of Cincinnati estimates that $6,700,000 in total debt authority is sufficient to fund the $6,000,000 in project costs and estimated debt issuance costs. Moreover, the

University estimates the average annual debt service for this project to be $500,000 beginning in FY 2010; which will be repaid over 20 years with undesignated funds.

Morgens Residence Hall Upgrades, $5,600,000

The primary purpose of the Morgens Residence Hall Upgrades project is to install a complete fire suppression system in the residence hall as well as upgrade the fire alarms in the building to current code requirements. While Morgens Hall is currently in full compliance with all code and safety regulations in place at the time of its original construction, the University has decided to upgrade the level of fire safety in accord with the current Ohio Building Code and within other University buildings. Minor interior improvements as well as the replacement of some furnishings are also included within the scope of this project and will be completed as the budget allows. The Morgens Residence Hall project was approved within the FY 2008-2009 Capital Budget at the June 24, 2008 Board of Trustees meeting. Construction for the project is expected to commence in the fall of 2008, and is anticipated to be complete late in the summer of 2009.

The University of Cincinnati estimates that $5,600,000 in total debt authority is sufficient to fund the $5,000,000 project costs, debt issuance costs and capitalized interest until August 31, 2009. The average annual debt service for the Morgens Hall renovation project is estimated to be $672,000 by FY 2010 and will be financed over 10 years. Debt service will be funded with student housing revenues.

Scioto Residence Hall Upgrades, $5,600,000

The primary purpose of the Scioto Residence Hall project is to install a complete fire suppression system in Scioto Hall and upgrade the fire alarms in the building to current code requirements. While Scioto Hall is currently in full compliance with all code and safety regulations in place at the time of its original construction, the University has decided to upgrade the level of fire safety in accord with the current Ohio Building Code and within other University buildings. Minor interior improvements as well as the replacement of some furnishings are also included within the scope of the project and will be completed as the budget allows. The Scioto Residence Hall renovations were approved within the FY 2008-2009 Capital Budget at the June 24, 2008 Board of Trustees meeting. Construction for the project is expected to commence in the winter of 2009, and is anticipated to be complete late in the fall of 2010.

The University estimated that the request for $5,600,000 in total debt authority is sufficient to fund the $5,000,000 project costs, debt issuance costs and capitalized interest until August 31, 2010. Moreover, the average annual debt service for the Scioto Hall project is estimated to be $762,000 by 2011 and will be financed over 9 years. The annual debt service payments will be funded with student housing revenues.

Utility Energy Savings Project, $8,800,000

The primary purpose of the Utility Energy Savings projects will be to replace or upgrade systems within the campus utility plants with the objective of providing significant energy savings. It will also install systems within other buildings which will allow for an additional reduction of energy consumption. The annual energy savings as a result of the Utility Plant

Energy Improvements project is estimated at over $2,000,000 a year, once all projects are completed. The Utility Plant Energy Improvements project was approved within the FY 2007-2008 Capital Budget at the July 17, 2007 Board of Trustees meeting. The design and construction for the projects are in various stages, with total construction anticipated to be complete by late fall 2009.

The University of Cincinnati estimated that the $8,800,000 in total debt authority is sufficient to fund the $8,000,000 project costs, debt issuance costs and capitalized interest through December 1, 2009. Moreover, the University estimates that the average annual debt service for the amount of the debt associated with this energy savings project will be $1,090,000 beginning in FY 2011. The annual debt service will be repaid over 10 years with undesignated funds as well as with Utility Service Center funds that are generated from annual energy savings. The maturation date for these General Receipt Obligations will be longer than the payback period based on the estimated savings, in order to facilitate the budgeting and implementation of the second phase of energy savings project recently approved within the FY 2008-2009 Capital Budget by the Board of Trustees on June 24, 2008.

Non-Permanent Debt

Medical Sciences Building Rehabilitation & Expansion Project, $28,802,000

The purpose of this project is to provide for the rehabilitation of the Medical Sciences Building (945,000 GSF) in multiple phases over approximately ten years and includes the replacement of failing and obsolete building systems. The expansion portion, Center for Academic and Research Excellence (CARE), creates a 200,000 GSF new state-of-the-art learning and research space for the College of Medicine.

The Medical Sciences Building Rehabilitation project is of extreme importance to the University of Cincinnati Medical Center (UCMC) and to the tri-state region. The UCMC is the source of a medical enterprise which has an overall economic impact in the tri-state region approaching $4 billion, with a direct impact of over $1.5 billion. UCMC's role in the region's health is multi-faceted, consisting of research, education and clinical care. UC stands among the nation's top research universities, according to the National Science Foundation, and the University is designated in the most prestigious "Very High Research Activity" category by the Carnegie Foundation. MSB is where 80% of funded research takes place for UCMC. UCMC is engaged in funded research project totaling $125 million in FY 2007, up from $118 million in FY 2006.

This pledge of student fees supplements three previous requests for the MSB Rehabilitation and Expansion project totaling $321,198,000. The net increase in the amount of student fees being pledged for this project is $28,802,000. Approval of the incremental debt for the MSB Rehabilitation and Expansion Project will bring the total pledge of fees authorized by the Chancellor to $350,000,000. Interest expended on non-permanent debt is payable from borrowed capital interest or by undesignated funds.

The University of Cincinnati's Board of Trustees approved up to $410,000,000 in debt approval for the MSB Rehabilitation and Expansion project at its July 17, 2007 meeting. The $410,000,000 includes $172,687,027 of non-permanent debt of which $83,885,027 was previously approved by the Chancellor in September 2007. Of the remaining debt authority approved by UC's Board of Trustees, equal to $88,802,000, this request seeks approval to issue non-permanent debt in the amount of $28,802,000. Since advance financing of capital appropriations is permitted for up to three future biennia, the University plans to request debt approval for the remaining $60,000,000 in additional biennial appropriations at a later date.

University of Cincinnati
October 2008 Fee Pledge Request - $59,002,000

V. Financial Ratio Analysis

Through the 1997 enactment of Senate Bill 6, the 122nd 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 University of Cincinnati performed when these measures are applied to its FY 2004, FY 2005, FY 2006 and FY 2007 audited financial statements—the most up-to-date financial data available.

*NOTE: The FY 2007 data shown in *italics* reflect the ratios and composite score when approximately $110.2 million in permanent debt is added to the calculations. This amount equals the estimated FY 2008 debt issuances of approximately $169.2 million plus the $59.0 million in net new debt requested here. Also, $14.7 million 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 2004, FY 2005, FY 2006 and FY 2007 are as follows:

FY 2004	FY 2005	FY 2006	FY 2007	*FY 2007**
31.4%	32.2%	24.0%	21.1%	*18.2%*

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 2004, FY 2005, FY 2006 and FY 2007 are as follows:

FY 2004	FY 2005	FY 2006	FY 2007	*FY 2007**
34.5%	32.2%	24.3%	23.1%	22.8%

3. Net Income Ratio

The net income ratio represents the change in total net assets divided by total revenues. This ratio is an important measure of an institution's financial status in terms of current year operations. A negative net income ratio results when an institution's current year expenses exceed its current year revenues. A positive net income ratio indicates that the institution experienced a net increase in current year fund balances. The University of Cincinnati's net income ratios for FY 2004, FY 2005, FY 2006 and FY 2007 are as follows:

FY 2004	FY 2005	FY 2006	FY 2007	*FY 2007**
+13.0%	+6.4%	+4.4%	+9.7%	*+8.3%*

4. Composite Score

The ratios are translated into a single composite score by assigning individual scores to ranges of ratios, weighting the individual scores, and summing the weighted scores. The primary reserve score is weighted more heavily than is the viability ratio, which in turn is weighted more heavily than the net income ratio. This scoring process effectively emphasizes the need for campuses to have strong expendable fund balances, manageable plant debt, and a positive operating balance.

The minimum acceptable composite score is any score above 1.75. Institutions with composite scores at or below this level merit special monitoring, and would be placed on fiscal watch if the ratio analysis yielded a composite score at or below this level for two consecutive years. The highest possible score is a 5.0. The University of Cincinnati's composite scores have been above the minimum threshold:

FY 2004	FY 2005	FY 2006	FY 2007	*FY 2007**
3.60	3.60	2.60	2.80	*2.80*

University of Cincinnati
October 2008 Fee Pledge Request - $59,002,000

VI. Financial Outlook and Bond Rating

According to its FY 2007 audited financial report, the University's financial position remains strong, having reported total assets of $3,300,198,000 and liabilities of $1,329,458,000. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by $105,091,000 in FY 2007 to $ 1,970,740,000 or 59.7% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. UC's long-term debt was most recently assigned a rating of *A+* by Standard & Poor's. Moody's Investors Services most recently assigned ratings of *A2*. These ratings were affirmed as of July 22, 2008 with the issuance of the University's Series 2008E General Receipts Obligations Bond Anticipation Notes (BANS). At that time, the University of Cincinnati's short-term debt was assigned a rating of "MIG 1" by Moody's Investor Services and "SP-1+" by Standard and Poors.

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 for long term bond ratings as well as for Moody's short term bond ratings below:

Long-Term Bonds				
Moody's			S & P	Description
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).

Moody's Investor Services Short-Term Bond Ratings Scale	
RATING	**EXPLANATION**
MIG 1/ VMIG 1	Superior financial backing; Issuer has access to wide variety of financial protection in the event primary revenue source is weakened
MIG 2/ VMIG 2	Financial backing is strong, but issuer does not have access to as wide a variety of protection mechanisms as notes in higher category
MIG 3/ VMIG 3	Financial backing is still strong but protection mechanisms have the possibility of failure
MIG 4/ VMIG 4	Adequate protection, but specific risk exists with this issue
SG	Inadequate protection of short-term issue

VII. Institutional Plant Debt

The table on the following page depicts how long-term plant debt at Ohio's public colleges and universities has changed at the statewide level over the past five years. Between FY 2003 and FY 2007, statewide plant debt increased 61.9% or approximately $1.5 billion. A major contributing factor to this growing level of debt is the need for institutions to address critical capital and maintenance needs on campus. As the state's capital investment in Ohio's campuses has diminished in recent years, the need has grown for campuses to issue local debt.

While statewide institutional debt increased by $261,225,893 or 7.2% in FY 2007, the University of Cincinnati's debt increased by $107,817,000 or 11.2% in FY 2007.

LONG-TERM PLANT DEBT, FY 2003 - FY 2007

Institution	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
UNIVERSITIES					
BOWLING GREEN	$91,215,000	$84,410,000	$109,000,000	$99,250,000	$89,345,000
CENTRAL STATE	$2,703,429	$2,535,821	$2,340,402	$2,177,250	$2,003,952
CLEVELAND STATE	$55,977,422	$53,754,446	$115,923,075	$113,522,226	$161,098,196
KENT STATE	$285,773,000	$282,832,000	$279,692,000	$276,441,000	$273,153,000
MCOT	$8,837,000	$8,730,000	$56,299,000	$53,827,000	*See UT*
MIAMI UNIV.	$47,994,898	$92,833,435	$168,613,252	$159,727,329	$235,357,582
NEOUCOM	$1,397,190	$1,237,841	$1,046,607	$878,345	$700,300
OHIO STATE	$586,233,000	$814,606,000	$877,540,000	$1,106,227,000	$1,118,091,000
OHIO UNIVERSITY	$133,002,202	$175,592,164	$167,529,147	$192,862,349	$182,914,606
SHAWNEE STATE	$2,910,000	$2,600,000	$2,270,000	$1,925,000	$19,550,000
UNIV. AKRON	$211,208,546	$226,729,516	$258,484,797	$255,328,236	$247,378,185
UNIV. CINCINNATI	**$647,688,000**	**$893,004,000**	**$877,453,000**	**$966,516,000**	**$1,074,333,000**
UNIV. TOLEDO	$172,577,000	$167,367,000	$176,779,000	$171,134,000	$269,554,000
WRIGHT STATE	$18,570,323	$29,584,121	$46,189,820	$42,513,677	$38,738,096
YOUNGSTOWN ST.	$14,263,619	$13,492,373	$13,268,653	$22,162,550	$20,397,972
COMMUNITY COLLEGES					
CINCINNATI ST.	$49,173,132	$47,580,000	$47,530,000	$47,923,408	$47,701,975
CLARK STATE	$0	$72,800	$46,400	$8,195,000	$8,175,000
COLUMBUS ST.	$11,434,658	$24,105,000	$22,700,000	$21,250,000	$19,830,000
CUYAHOGA	$59,095,229	$65,222,373	$64,840,147	$62,974,601	$57,393,209
EDISON STATE	$68,676	$604,972	$532,347	$5,109,018	$4,975,254
JEFFERSON	$0	$2,170,485	$2,023,978	$1,838,573	$1,623,724
LAKELAND	$1,976,978	$5,674,098	$5,535,996	$4,767,321	$4,044,695
LORAIN	$3,952,163	$9,560,074	$7,925,194	$7,472,149	$7,010,546
NORTHWEST ST.	$106,207	$73,705	$82,001	$35,594	$25,249
OWENS STATE	$0	$0	$749,152	$579,288	$401,212
RIO GRANDE	$0	$0	$0	$0	$0
SINCLAIR	$0	$0	$0	$0	$0
SOUTHERN ST.	$168,506	$3,245,886	$3,022,204	$2,839,083	$2,710,583
TERRA STATE	$35,171	$839,738	$655,721	$464,012	$264,285
WASHINGTON ST.	$0	$0	$0	$0	$0
TECHNICAL COLLEGES					
BELMONT TECH	$97,927	$66,728	$33,107	$0	$0
COTC	$186,826	$401,059	$100,986	$2,112,219	$3,875,762
HOCKING	$497,794	$516,117	$1,039,729	$5,025,450	$5,235,058
JAMES RHODES ST	$0	$3,087,383	$3,067,812	$3,018,241	$2,968,669
MARION TECH	$0	$0	$0	$0	$0
ZANE STATE (MATC)	$182,571	$341,385	$285,586	$223,983	$156,401
NORTH CENTRAL	$375,474	$300,562	$220,160	$182,119	$727,540
STARK STATE	$620,993	$620,080	$16,738	$6,137	$0
STATEWIDE TOTAL	**$2,408,322,934**	**$3,013,791,162**	**$3,312,836,011**	**$3,638,508,158**	**$3,899,734,051**