

OHIO BOARD OF REGENTS

Agenda #3.12

Consideration of a request by the University of Akron to pledge student fees in support of a bond issuance not to exceed \$62,700,000.

RESOLUTION

WHEREAS, Section 94.06 of Am. Sub. H.B. 94 of the 124th General Assembly requires that any new pledge of student fees to secure bonds or notes of a state college or university must be approved by the Ohio Board of Regents; and

WHEREAS, the University of Akron proposes to pledge student fees in support of general receipts bonds in an amount not to exceed \$62,700,000 for the purpose of financing multiple capital projects; and

WHEREAS, the University has determined that the proposed capital projects are essential to meeting the needs of students and fulfilling institutional goals; and

WHEREAS, the University of Akron Board of Trustees is expected to approve a resolution authorizing this debt issuance at its April 2003 meeting; and

WHEREAS, the proposed bond issuance complies with the requirements of Ohio Revised Code §3345.11 and §3345.12;

NOW THEREFORE,

BE IT RESOLVED, contingent upon the approval of the University of Akron Board of Trustees, and upon the recommendation of the Chancellor and with the concurrence of the Resources Committee of the Ohio Board of Regents, that the pledge of fees by the University of Akron in support of general receipts bonds in an amount not to exceed \$62,700,000 is hereby approved.

University of Akron
April 2003 Fee Pledge Request - \$62,700,000

A. Overview

The University of Akron proposes to issue up to \$62.7 million in general receipts bonds to finance four new capital projects and to secure permanent financing for previously issued bond anticipation notes for another project on campus. The University has provided sufficient supporting documentation for this proposal, including a schedule of project costs, a pro-forma analysis, a debt service schedule, and a detailed description of each project.

Proceeds from the bond issue will be used to finance the following capital projects:

- Permanent financing for \$20 million in bond anticipation notes issued in 2002 for upgrades and additions to on-campus parking garages.
- Additions to student union retail space.
- A new 155,500 square-foot athletic fieldhouse.
- Renovations and additions to Guzzetta Hall.
- A new 110,000 square-foot, 310-bed honors residence hall.

Initial Submission to the Board: April 10, 2003.

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B. Project Costs and Financing

The University of Akron requests approval to issue \$43.06 million in general receipts bonds to support four new capital projects on campus. The University intends to finance the debt service requirements with several revenue sources, including student dorm fees, auxiliary revenues from rented retail space and vending operations, state capital component appropriations, unrestricted endowment earnings, and future donations and gifts to the University.

Additionally, the University requests approval to issue \$19.64 million in general receipts bonds to provide permanent financing for \$20 million in bond anticipation notes previously issued for various parking upgrades and additions on campus. These notes were approved by the Board of Regents in June 2002 and have provided the University with bridge financing at a lower interest rate. Such interim financing has allowed the University to reimburse itself for project expenses incurred over the past year. The revenues that will support this portion of the debt service requirement will come exclusively from parking service auxiliaries. To provide revenues sufficient to meet the debt service obligation and to cover operating expenses, the University will increase the cost of parking permits for students, faculty and staff. Students are currently charged \$80 per semester for a parking permit; this will increase to a maximum rate of \$120 per semester, and will be phased in over a five-year period: a \$20 per semester increase in FY 2004; followed by a \$10 increase in FY 2006; and a final \$10 increase in FY 2008. No further increases are planned subsequent to FY 2008.

Of the \$62.7 million in bond proceeds, \$58.04 million would be financed over 30 years at an estimated fixed interest rate of 5% and an estimated average annual debt service requirement of \$3,755,582. The remaining \$4.66 million would be financed over a 5-year period with a 3% interest rate and an estimated average annual debt service requirement of \$1,010,607.

A breakdown of the estimated project costs and annual debt service requirements are listed on Table B-1 on the following page.

Table B-1

| | <u>Costs</u> | <u>Debt Service</u> |
|--|----------------------------|----------------------------|
| <u>Existing debt to be replaced (parking improvements):</u> | | |
| North Campus Parking Deck | \$13,500,000 | \$875,051 |
| Renovation of Schrank Parking Deck | \$3,500,000 | \$225,335 |
| Renovation of EJ Thomas Parking Deck | \$500,000 | \$33,800 |
| Polsky Parking Deck (Phase V) | \$2,140,000 | \$138,957 |
| SUBTOTAL: existing debt replacement | <u>\$19,640,000</u> | <u>\$1,273,142</u> |
| <u>New debt:</u> | | |
| Buildout of Student Union Retail Space | \$600,000 | \$37,556 |
| Athletic Fieldhouse | \$13,800,000 | \$893,829 |
| Guzzetta Hall Addition | \$2,500,000 | \$161,490 |
| New Honors Residence Hall | \$18,500,000 | \$1,198,031 |
| <u>Other Related Costs:</u> | | |
| Real Estate Purchases | \$2,000,000 | \$127,690 |
| Telecommunications Requirements | \$660,000 | -- |
| PeopleSoft (Version 8) Conversion (Hardware) | \$4,000,000 | -- |
| Interest on BANS | \$300,000 | \$18,778 |
| Bond Issue Expenses | \$700,000 | \$45,067 |
| SUBTOTAL: New debt | <u>\$43,060,000</u> | <u>\$2,482,440</u> |
| TOTAL DEBT AUTHORITY & DEBT SERVICE | <u>\$62,700,000</u> | <u>\$3,755,582</u> |
| | | |
| Previously Authorized Debt | <u>(\$20,000,000)</u> | -- |
| Net Additional Debt | <u>\$42,700,000</u> | -- |

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C. Project Description

Parking Facilities/Improvements and New Parking Deck. The projects include \$6.14 million in renovations to three existing decks and \$13.5 million for the construction of a new five-level, 1,146-space parking deck (on the site of an existing surface lot).

The debt service attributable to this portion of the plan will be funded entirely through an increase in parking permit charges. Estimated completion: August 2003.

Build-out of Student Union Retail Space. This \$600,000 project accommodates the preparation of retail space, primarily allocated to food vendors, in the new Student Union Building.

The corresponding debt service on this project will be borne entirely by the eventual occupant of the retail space. Estimated completion: April 2003.

Athletic Fieldhouse. This 155,500 square-foot fieldhouse will include a 100-yard varsity football practice field with artificial turf, a six-lane varsity indoor track, other sports-related features and support facilities, locker rooms, and equipment storage areas. The fieldhouse will be adjoined to the new student recreation center, with an estimated completion cost of \$13.8 million.

The debt service on the structure will be supported by forgone state capital appropriations in the form of capital component allocations, the proceeds derived from the recent sale of the University's pouring rights, and the Department of Intercollegiate Athletics. Estimated completion: May 2004.

Guzzetta Hall Addition. Although the University has already secured state capital appropriations for this 67,830 square-foot addition, an additional \$2.5 million in bond proceeds are requested to complete the project, which includes the renovation of 3,100 square-foot of the existing building. This project will enable the consolidation of all the University's dance programs at this one location. Donations are currently being solicited to support the debt service portion of the project. Estimated completion: February 2005.

Honors Residence Hall. Plans are underway to construct 110,000 square-foot, 310-bed Honors Residence Hall in the center of the University's main campus. This \$18.5 million dormitory will include study lounges, a computer lab and large classroom, seminar rooms, a large multi-purpose room. The debt service will be financed by revenues from and increases to student room rates. The facility will fill the current void to provide adequate living space for this growing student population. The University most recently reported its dormitory occupancy rate to be 101.3% for autumn term 2002. This is consistent with the experiences of other state-assisted Ohio universities—the estimated statewide dormitory occupancy rate was 98.8% for the 2002 autumn term. Estimated completion: August 2004.

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D. 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 the University of Akron performed when these measures are applied to its FY 2000, FY 2001 and FY 2002 audited financial statements—the most up-to-date financial data available.

It is important to note that the University's FY 2002 financial report was prepared in a modified format as required by the Government Accounting Standards Board (GASB) statements 34 and 35 for public colleges and universities. The most significant change resulting from the new GASB 34/35 format is the inclusion of depreciated assets in the annual audited financial statements reported by public campuses. Accordingly, the procedures for calculating the S.B. 6 ratio analysis were adjusted to permit a comparable, consistent and effective methodology for measuring fiscal stability.

*NOTE: The FY 2002 data shown in *italics* reflect the ratios and composite score when the \$43.06 million of proposed new debt is added to the calculations. All other factors being equal, only the University's viability ratio would be affected by the additional debt. 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

For FY 2000 and FY 2001, the viability ratio is defined as expendable fund balances divided by plant debt. For FY 2002, 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 Akron's viability ratios for FY 2000, FY 2001 and FY 2002 are as follows:

| | | | |
|----------------|----------------|----------------|------------------------|
| <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> | <u><i>FY 2002*</i></u> |
| 63.2% | 42.6% | 20.3% | <i>16.6%</i> |

2. Primary Reserve Ratio

For FY 2000 and FY 2001, the primary reserve ratio is defined as expendable fund balances divided by total expenditures and mandatory transfers. For FY 2002, 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. A primary reserve ratio of 100% or greater suggests that the institution can continue operations at current levels for at least one year without additional revenues. Pursuant to this analysis, a ratio of 10% or greater is considered good, while a ratio below 5% would be a cause for concern. The University of Akron's primary reserve ratios for FY 2000, FY 2001 and FY 2002 are as follows:

| | | | |
|----------------|----------------|----------------|-----------------|
| <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> | <u>FY 2002*</u> |
| 13.3% | 13.0% | 13.1% | 13.1% |

3. Net Income Ratio

For FY 2000 and FY 2001, the net income ratio represents net total revenues divided by total current revenues. For FY 2002, 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 expenditures/expenses exceed its current year revenues. A positive net income ratio indicates that the institution experienced a net increase in current year fund balances/assets. The University of Akron's net income ratios for FY 2000, FY 2001 and FY 2002 are as follows:

| | | | |
|----------------|----------------|----------------|-----------------|
| <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> | <u>FY 2002*</u> |
| (1.9)% | 0.8% | 2.8% | 2.8% |

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 below this level for two consecutive years. The highest possible score is a 5.00. The University of Akron's composite scores for FY 2000, FY 2001 and FY 2002 are above the minimum threshold:

| | | | |
|----------------|----------------|----------------|-----------------|
| <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> | <u>FY 2002*</u> |
| 2.60 | 2.50 | 2.40 | 2.40 |

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E. Bond Ratings

Both Moody's Investors Services and Standard & Poor's Rating Services have reviewed and rated The University of Akron's existing debt obligations. The University most recently received bond ratings of A2 and A from Moody's and S&P, respectively.

Based on these ratings, the University's capacity to meet its financial obligations is considered relatively strong. Table E-1 below illustrates Moody's and S&P's rating scale. Both companies generally use the same principals, criteria, and rating system. However, Moody's applies numerical modifiers to augment each rating category, with a modifier of 1 indicating the higher end of the category; a modifier of 2 indicating a mid-range ranking; and a modifier of 3 indicating the lower end of the category.

| Table E-1 | | | | |
|------------------|------|------|------------------|---|
| 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). |

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