

OHIO BOARD OF REGENTS

Agenda #3.13      Consideration of a request by Bowling Green State University to pledge student fees in support of a bond issuance not to exceed \$20,000,000.

**RESOLUTION**

WHEREAS, Section 94.06 of Am. Sub. H.B. 94 of the 124<sup>th</sup> 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, Bowling Green State University proposes to pledge student fees in support of general receipts bonds in an amount not to exceed \$20,000,000 for the purpose of financing two 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 Bowling Green State University Board of Trustees approved a resolution authorizing this debt issuance at its meeting of April 1, 2003; and

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

NOW THEREFORE,

BE IT RESOLVED, 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 Bowling Green State University in support of general receipts bonds in an amount not to exceed \$20,000,000 is hereby approved.

**Bowling Green State University**  
**April 2003 Fee Pledge Request - \$20,000,000**

**A. Overview**

Bowling Green State University proposes to issue up to \$20 million in general receipts bonds to finance two capital projects on campus. The University has provided sufficient supporting documentation for this proposal, including a schedule of project costs, a debt service schedule, and a detailed description of each project.

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

- Improvements to the University's utility systems.
- Information technology network upgrades and basic infrastructure improvements at existing student residence halls.

Additionally, the University may opt to refinance up to \$10 million in outstanding debt from general receipts bonds issued in 1991 and 1992. The pledge of fees for this existing debt was previously approved by the Board of Regents. Accordingly, this is not included in the \$20 million request, as additional Regents' approval is not required to refinance the existing debt.

*Initial Submission to the Board: April 10, 2003.*

*Revised Submission:*

**Bowling Green State University**  
**April 2003 Fee Pledge Request - \$20,000,000**

**B. Project Costs and Financing**

Bowling Green State University proposes to issue up to \$20 million in general receipts bonds to finance two capital projects. This amount includes construction costs, design fees, an insurance premium, and other related costs. The fixed interest rate bonds will have an estimated average annual interest rate of 3.5% and will be retired over 15 years. The University estimates the average annual net debt service payment to be about \$1.7 million, for which the University anticipates future revenues sufficient to meet this debt service requirement. Financing details for each project are as follows:

- The University expects the utility/basic infrastructure improvement project to be completely self-supporting. According to the University's pro-forma analysis, this project will result in significant utility cost savings of \$750,000 to \$800,000 per year, which is more than sufficient to cover the estimated average annual debt service obligation of \$500,000.
- The annual debt service obligation of \$1.08 million for the residence hall project will be supported by cost savings resulting from the refinancing of 1992 Series bonds and by increases in student room rates which are expected grow by less than 2% per year. The refinancing of the 1991 and 1992 Series bonds is expected to save the University between \$500,000 and \$600,000 in debt service payments over the remaining life of the issues.

A breakdown of estimated project costs are provided below.

**Project Costs:**

Utility project construction	\$6,500,000
Residence Hall construction	\$10,800,000
Architects and engineers	\$1,200,000
Underwriting discount	\$50,000
Insurance premium	\$66,500
Bond counsel	\$44,300
Contingency/other	\$1,339,200
<b>Total debt authority requested</b>	<b><u><u>\$20,000,000</u></u></b>

**Bowling Green State University**  
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**C. Project Description**

1. **Utility/basic infrastructure improvements, \$7 million.** The University expects this project to significantly enhance utility savings in campus facilities. The total projected cost of this project includes upgrades and retrofits of building lighting systems, roof repairs, chiller replacements, boiler plant upgrades and building energy conservation retrofits.
  
2. **Residence Halls IT and infrastructure upgrades, \$13 million.** The estimated cost of upgrading the information technology network for the University's residence halls is between \$6 million and \$8 million. Also included in this project are other related improvements to the residence halls, including HVAC and heating systems improvements, plumbing and electrical upgrades, fire alarm upgrades, roof and window replacements, and renovations for current and future learning communities.

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**D. 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 Bowling Green State University 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 figures shown in *italics* below reflect the ratios and composite score when the \$20 million of proposed new debt is added to the calculations. All other factors being equal, the University's viability ratio and composite score would be reduced 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% would be a cause for concern. Bowling Green State University'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>
233.6%	100.7%	116.6%	93.1%

## 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. Bowling Green State University'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>
28.2%	29.3%	33.8%	33.8%

## 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. Bowling Green State University'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>
5.3%	4.2%	12.1%	12.1%

## 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. Bowling Green State University's composite scores for FY 2000, FY 2001 and FY 2002 are above the minimum threshold and have improved over the past two years:

<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2002*</u>
4.20	4.00	4.20	3.90

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**E. Bond Ratings**

Both Moody's Investors Services and Standard & Poor's Rating Services reviewed and rated Bowling Green State University's existing debt obligations. The University received 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.

<b>Table E-1</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).

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