

OHIO BOARD OF REGENTS

Agenda item 3.14 Consideration of a request by the University of Cincinnati to pledge student fees in support of a bond issuance not to exceed \$19,299,953, to be used to finance capital projects and improvements on campus.

RESOLUTION

WHEREAS, §209.64.69 of Am. Sub. H.B. 66 of the 126th 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 Cincinnati proposes to pledge student fees in support of general receipts obligation bonds and/or bond anticipation notes in an amount not to exceed \$19,299,953 for the purpose of financing capital construction and improvement projects at the University's main campus; and

WHEREAS, the University has determined that the proposed projects are essential to fulfilling institutional goals; and

WHEREAS, the University's Board of Trustees approved a resolution authorizing this bond issuance at its meeting of November 29, 2005; and

WHEREAS, this proposal 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 & System Efficiency Committee of the Ohio Board of Regents, that the pledge of fees by the University of Cincinnati in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed \$19,299,953 is hereby approved.

The University of Cincinnati
March-April 2006 Fee Pledge Request - \$19,299,953

I. Project Overview

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

- Basic renovations for various buildings;
- Phase II of the Teacher/Dyer project, which includes renovations, an addition and new construction; and
- A portion of the Center for Academic Research Excellence project, already under construction.

The University intends for this debt to be nonpermanent and completely retired with future state capital appropriations by FY 2012.

Initial Submission to the Board: March 9, 2006

Revised Submission:

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II. Project Financing and Costs

The University of Cincinnati requests the authority to issue general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed \$19.3 million, to provide financing for three separate capital projects. A breakdown of the estimated project costs is presented below:

	Basic Renovations	Phase II Teachers/Dyer	CARE	Total
Estimated Project Costs	\$4,800,000	\$5,799,953	\$67,300,000	\$77,899,953
Capitalized Interest & Issue Costs	\$200,000	\$500,000	\$0	\$700,000
Total Costs	\$5,000,000	\$6,299,953	\$67,300,000	\$78,599,953
Available Resources	\$0	\$0	\$59,300,000	\$59,300,000
Total Debt Authority Requested	\$5,000,000	\$6,299,953	\$8,000,000	\$19,299,953

- Basic Renovations: General receipt obligations will provide non-permanent, interim short-term funding until \$5 million in anticipated state capital appropriations are received in the FY 2009-10 biennium. The net interest and issue costs will be borrowed and financed with state funds.
- Teacher/Dyer Phase II: General receipt obligations will provide non-permanent, interim short-term funding until anticipated state capital appropriations are received in future biennia. The University anticipates state capital appropriations of \$2,199,953 in the FY 2009-10 biennium, and \$4.1 million in the FY 2011-12 biennium. The net interest and issue costs will be borrowed and financed with state funds.
- Center for Academic Research Excellence (CARE) project: The University has already secured \$59.3 million in debt authority, which was approved by the Board of Regents in January 2004. The remaining \$8 million requested here will provide interim short-term financing and will be retired with future state capital renovations anticipated in the FY 2011-12 biennium. (The University did not request debt authority for this \$8 million in January 2004 because UC is permitted to borrow only for three future capital biennia.)

In the event that future state capital appropriations do not come to fruition, the University would convert this debt to 25-year bonds that would have an estimated annual debt service obligation of \$1.3 million (based on a 4.53% interest rate from the most recent *Bond Buyer* 20-year index). Under this scenario, the University would use unrestricted general revenues to service the debt.

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III. Fee Impact

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

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IV. Project Description

Basic Renovations, \$5 million

These projects include renovations to the Medical College lab, infrastructure upgrades in various campus buildings, carpet replacement in some University libraries, and modifications in public spaces needed to comply with the federal Americans With Disabilities Act. These projects have a combination of needs for (1) critical deadlines, (2) correcting serious safety hazards, or (3) overcoming obsolescence. (Note: The actual projects that will be bundled may change as critical needs develop.)

Teachers/Dyer Phase II, \$6,299,953

Phase I of this project began in 1997 and was completed in 2001. Phase II will continue the major rehabilitation of and addition to the Teachers College and Dyer Hall. This project adds optimally-designed learning space and accommodates the College of Education's research programs.

Center for Academic Research Excellence (CARE), \$8 million

This project entails the construction of a new building to house state-of-the-art research labs, related support space and quality of life space for the medical program. Construction began in 2004 and is expected to be completed in 2007.

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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 the University of Cincinnati performed when these measures are applied to its FY 2002, FY 2003, FY 2004 and FY 2005 audited financial statements—the most up-to-date financial data available.

*NOTE: The FY 2005 data shown in *italics* reflect the ratios and composite score when \$19.3 million in new debt is added to the calculations. Also, \$1.3 million in related debt service expenses have been added to the calculations, though an annual debt service obligation of this magnitude would arise only if future state capital appropriations did not materialize for the University. 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 2002, FY 2003, FY 2004 and FY 2005 are as follows:

<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2005*</u>
52.8%	39.6%	31.4%	32.2%	<i>31.5%</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 2002, FY 2003, FY 2004 and FY 2005 are as follows:

<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2005*</u>
41.6%	34.0%	34.5%	32.2%	<i>32.2%</i>

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 2002, FY 2003, FY 2004 and FY 2005 are as follows:

<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2005*</u>
-4.6%	-3.2%	+13.0%	+6.4%	+ 6.3 %

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:

<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2005*</u>
2.8	2.8	3.6	3.6	3.6

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VI. Financial Outlook and Bond Rating

According to its FY 2005 audited financial report, the University of Cincinnati's financial position remains strong, having reported total assets of \$2.9 billion and liabilities of \$1.1 billion. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by \$61.4 million in FY 2005 to \$1.8 billion or 62% of total assets. The retirement of outstanding debt in FY 2005 helped reduce the University's total liabilities by \$2 million.

The University continues to implement its Master Plan through several major capital initiatives intended to provide facilities for advancing research, improve the quality of student life, improve infrastructure and enhance the ability of the University to be self-sustaining with respect to energy production.

The University's existing debt has received relatively high marks from independent bond-rating agencies. UC's long-term debt was most recently assigned ratings of A+ and AAA (insured) by Standard & Poor's. Moody's Investors Services most recently assigned ratings of A1 and Aaa (insured). These ratings are based on the University's most recently issued bonds issued in February 2006, which are insured by Financial Security Assurance, Inc.

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.

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).

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VII. Institutional Plant Debt

The table on the following page depicts how long-term plant debt at Ohio's public colleges and universities has consistently increased at the statewide level over the past five years. Between FY 2000 and FY 2005, statewide plant debt increased by 170% or \$2.1 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 locally issue debt.

Although statewide institutional debt increased by \$299 million or 10% in FY 2005, the University of Cincinnati reduced its debt last year by \$15.6 million (2%). In response to a December 2003 survey, the University of Cincinnati reported that 51% of its outstanding debt essentially pays for itself—that is, the debt and operating costs are supported by auxiliary revenues directly related to the capital projects for which debt was issued—and 49% is supported by general receipts.

LONG-TERM PLANT DEBT, FY 1998 - FY 2005

Institution	Long-Term Plant Debt					
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
UNIVERSITIES						
BOWLING GREEN	\$32,035,000	\$83,415,000	\$79,255,000	\$91,215,000	\$84,410,000	\$109,000,000
CENTRAL STATE	\$3,572,922	\$3,346,920	\$3,192,444	\$2,703,429	\$2,535,821	\$2,340,402
CLEVELAND STATE	\$16,153,641	\$12,393,540	\$10,849,215	\$55,977,422	\$53,754,446	\$115,923,075
KENT STATE	\$81,774,000	\$234,407,000	\$290,735,000	\$285,773,000	\$282,832,000	\$279,692,000
MCOT	\$2,184,779	\$1,229,464	\$6,392,000	\$8,837,000	\$8,730,000	\$56,299,000
MIAMI UNIV.	\$49,018,070	\$45,061,353	\$53,168,773	\$47,994,898	\$92,833,435	\$168,613,252
NEOUCOM	\$0	\$542,430	\$1,583,286	\$1,397,190	\$1,237,841	\$1,046,607
OHIO STATE	\$365,192,650	\$378,145,912	\$581,106,000	\$586,233,000	\$814,606,000	\$877,540,000
OHIO UNIVERSITY	\$84,103,403	\$132,049,339	\$126,677,123	\$133,002,202	\$175,592,164	\$167,529,147
SHAWNEE STATE	\$3,599,407	\$3,406,398	\$3,200,000	\$2,910,000	\$2,600,000	\$2,270,000
UNIV. AKRON	\$59,014,572	\$89,002,729	\$191,864,557	\$211,208,546	\$226,729,516	\$258,484,797
UNIV. CINCINNATI	\$375,212,000	\$577,365,000	\$567,181,000	\$647,688,000	\$893,004,000	\$877,453,000
UNIV. TOLEDO	\$88,467,721	\$121,691,439	\$119,376,000	\$172,577,000	\$167,367,000	\$176,779,000
WRIGHT STATE	\$14,438,988	\$13,232,584	\$11,575,625	\$18,570,323	\$29,584,121	\$46,189,820
YOUNGSTOWN ST.	\$17,840,681	\$16,368,157	\$14,992,226	\$14,263,619	\$13,492,373	\$13,268,653
COMMUNITY COLLEGES						
CINCINNATI ST.	\$592,494	\$423,417	\$0	\$49,173,132	\$47,580,000	\$47,530,000
CLARK STATE	\$68,172	\$47,234	\$22,011	\$0	\$72,800	\$46,400
COLUMBUS ST.	\$14,108,529	\$13,221,412	\$12,330,217	\$11,434,658	\$24,105,000	\$22,700,000
CUYAHOGA	\$0	\$4,083,210	\$12,564,559	\$59,095,229	\$65,222,373	\$64,840,147
EDISON STATE	\$800,000	\$800,000	\$738,589	\$68,676	\$604,972	\$532,347
JEFFERSON	\$0	\$0	\$0	\$0	\$2,170,485	\$2,023,978
LAKELAND	\$6,445,224	\$2,900,237	\$2,441,594	\$1,976,978	\$5,674,098	\$5,535,996
LORAIN	\$9,806,212	\$7,230,062	\$5,426,817	\$3,952,163	\$9,560,074	\$7,925,194
NORTHWEST ST.	\$0	\$0	\$123,260	\$106,207	\$73,705	\$82,001
OWENS STATE	\$141,049	\$206,317	\$0	\$0	\$0	\$749,152
RIO GRANDE	\$0	\$0	\$0	\$0	\$0	\$0
SINCLAIR	\$0	\$0	\$0	\$0	\$0	\$0
SOUTHERN ST.	\$138,968	\$155,855	\$122,950	\$168,506	\$3,245,886	\$3,022,204
TERRA STATE	\$0	\$49,805	\$42,710	\$35,171	\$839,738	\$655,721
WASHINGTON ST.	\$0	\$0	\$0	\$0	\$0	\$0
TECHNICAL COLLEGES						
BELMONT TECH	\$0	\$0	\$126,878	\$97,927	\$66,728	\$33,107
COTC	\$305,307	\$270,726	\$231,348	\$186,826	\$401,059	\$100,986
HOCKING	\$1,873,504	\$4,311,120	\$5,213,938	\$497,794	\$516,117	\$1,039,729
JAMES RHODES ST	\$0	\$0		\$0	\$3,087,383	\$3,067,812
MARION TECH	\$0	\$0		\$0	\$0	\$0
ZANE STATE (MATC)	\$0	\$0	\$0	\$182,571	\$341,385	\$285,586
NORTH CENTRAL	\$703,213	\$744,479		\$375,474	\$300,562	\$220,160
STARK STATE	\$308,942	\$259,870	\$763,399	\$620,993	\$620,080	\$16,738
STATEWIDE TOTAL	\$1,227,899,448	\$1,746,361,009	\$2,101,296,519	\$2,408,322,934	\$3,013,791,162	\$3,312,836,011