OHIO BOARD OF REGENTS

Agenda item 3.17 Consideration of a request by Clark State Community College to pledge student fees in support of a bond issuance not to exceed $9,000,000, to be used to finance capital projects 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, Clark State Community College proposes to pledge student fees in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $9,000,000 for the purpose of financing capital construction on campus; and

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

WHEREAS, the College's Board of Trustees authorized this debt issuance at its meeting of October 5, 2005; and

WHEREAS, this proposal complies with the requirements of Ohio Revised Code §3345.07, §3357.11 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 Clark State Community College in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $9,000,000 is hereby approved.

Clark State Community College
April 2006 Fee Pledge Request - $9,000,000

I. Project Overview

Clark State Community College in Springfield, Ohio, proposes to issue general receipts obligation bonds to finance the first phase of the construction of a new Technology and Learning Center, as well as an expansion to the College's Applied Science Center. The Technology and Learning Center project represents the first time Clark State has undertaken new construction on the Leffel Lane campus in more than 30 years.

The College owns the property on which the construction will occur, so land acquisition is not part of this financing package.

The College has provided information on project costs, debt service schedules and pro-forma analyses.

Initial Submission to the Board: April 2006

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II. Project Financing and Costs

Clark State Community College requests the authority to issue general receipts obligation bonds in an amount not to exceed $9.0 million, to provide financing for capital construction and improvements on campus. Although Clark State is requesting $9.0 million in debt authority, the College does not expect this debt issuance to exceed $8.2 million. Clark State is requesting the additional debt level as a margin of safety and specifically in case the College needs to establish a 10% debt service reserve.

Total project costs are estimated to be roughly $15.5 million for which the College has available $7.28 million in resources. A breakdown of the estimated project costs and resources is presented in the table below:

Construction Costs:	
Architect & Engineers	$1,115,335
Moveable Equipment	$964,574
Construction	$12,350,010
Other costs	$121,877
Contingency	$729,125
Total Construction Costs	$15,280,921
Issuance Costs	
Underwriting Discount	$40,925
Cost of Issuance	$91,236
Insurance premium	$52,839
Total Issuance Costs	$185,000
Total Costs	**$15,465,921**
Available Resources:	
Gifts, grants (non-state)	$1,352,651
State Capital Appropriations	$2,398,884
Transfers from existing funds	$3,529,386
Total Resources	**$7,280,921**
Requested Debt Authority: Costs less Resources	**$8,185,000**

Section II continues on the next page.

II. Project Financing and Costs (cont.)

Clark State has established a 25-year debt service schedule with an average annual debt service obligation of $561,476. To support the annual operating and debt service costs, the College plans to use operating revenues from the new/expanded facilities, as well as private donations and other unrestricted funds.

The College anticipates operating revenues to increase annually, mainly from projected 3% annual enrollment growth and 4% annual tuition inflation. Additionally, the College began a major gifts campaign in 2005 to raise funds for these capital projects. This campaign has resulted in commitments and pledges for which the College has budgeted $250,000 in annual revenues.

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III. Fee Impact

Clark State does **not** intend to levy a special student fee to cover the debt service or operating costs associated with these projects. However, as a contingency, the College reserves the right to implement such a fee in the future. According to Clark State, such a fee would be approximately $100 per student per year, which is about 3% of the College's current annual tuition.

If implemented, the College would expect this fee to be exempt from limitations on tuition growth that may be imposed by future General Assemblies. The budget bills passed in recent biennia have exempted such fees from limits on tuition. House Bill 66, the current budget act for FY 2006 and FY 2007, contains this exemption in section 209.63.60:

> *"These limitations shall not apply to increases required to comply with institutional covenants related to their obligations incurred or commitments made prior to the effective date of this section with respect to which the institution had identified such fee increases as the source of funds."*

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IV. Project Need and Description

The projects described here represent the first phase of the implementation of Clark State's Master Plan, which was completed in 2003. Not since 1974 has Clark State constructed a new facility on the Leffel Lane campus. The proposed project will generally help the College address its rising enrollments, which have grown consistently in recent years and which grew by 45% between FY 1999 and 2005, as shown in the table below.

CLARK STATE	FY99	FY00	FY01	FY02	FY03	FY04	FY05
FTE Enrollments	1,591	1,653	1,737	1,934	2,054	2,177	2,314
Annual rate of growth	N/A	3.9%	5.1%	11.3%	6.2%	6.0%	6.3%
Growth since FY99	N/A	3.9%	9.2%	21.6%	29.1%	36.8%	45.4%

Technology and Learning Center: The Leffel Lane campus plans to add a new Technology and Learning Center (TLC) building, a 35,000 square-foot facility that will provide space for a new information resource center (commonly known as a library), elements of a one-stop student services center, the Success Center, flexible computer labs and classrooms, collaboration spaces, offices, and other teaming and learning spaces.

Applied Science Center: The expansion of the Applied Science Center will add 20,000 square feet and provide space for additional classrooms and labs for the College's nursing program and other health sciences programs to address the rapidly expanding needs of the Health Sciences Division. Currently, the College's waiting list for admittance into its nursing program stands at 400 students. The project also involves limited renovation in Rhodes Hall.

The broader objectives of these projects reflect the broader goals of the College and of the local community, including:

- Developing a strong, relevantly-skilled workforce through expanded facilities, enhanced technology and rapid-response training programs.
- Addressing the community's shortage in qualified healthcare professionals to meet the needs of today and into the future.
- Allowing more individuals to complete healthcare training with continually improved skill sets.
- Preparing additional state-tested nursing aides.
- Housing computer labs that will offer continuous access, technical assistance, and educational support for students who often juggle jobs and families while working to earn their degree.
- Integrating IT skill sets with vocations ranging from manufacturing to services and retail to healthcare.
- Supporting statewide economic development efforts such as the Third Frontier Network, as Clark State will be completing the last mile connection to this network.

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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 Clark State 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 below in *italics* reflect the ratios and composite score when the new debt, the related annual debt service and operating costs, and the negative impact on the College's expendable net assets are factored into the calculations. Other factors not taken into account here include the increased revenues from tuition and additional programming that the new and expanded facilities will allow.

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. Because Clark State has historically had little or no debt, its viability ratios have been very strong:

FY 2002	FY 2003	FY 2004	FY 2005	*FY 2005**
22432.4%	No debt	8938.6%	15600.2%	*41.0%*

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% could be a cause for concern. Clark State's primary reserve ratios for FY 2002, FY 2003, FY 2004 and FY 2005 are as follows:

FY 2002	FY 2003	FY 2004	FY 2005	*FY 2005**
25.3%	27.3%	31.1%	31.4%	*15.5%*

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 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. Clark State's net income ratios for FY 2002, FY 2003, FY 2004 and FY 2005 are as follows:

FY 2002	FY 2003	FY 2004	FY 2005	*FY 2005**
-1.7%	-0.9%	-0.9%	+2.3%	*-0.4%*

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 generally 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 5.0. Clark State's composite scores for FY 2002, FY 2003, FY 2004 and FY 2005 have been stable and are above the minimum threshold:

FY 2002	FY 2003	FY 2004	FY 2005	*FY 2005**
3.7	3.7	3.7	4.1	*2.3*

NOTE: Clark State submitted a 6-year pro forma analysis in which its S.B. 6 ratios and scores are modeled through FY 2011. Based on this analysis, Clark State forecasts its composite scores as follows:

FY 2006: 3.0
FY 2007: 2.7
FY 2008: 2.7
FY 2009: 2.7
FY 2010: 2.7
FY 2011: 2.7

VI. Financial Outlook and Bond Rating

According to its most recent audited financial report, Clark State experienced an increase in net assets totaling $554,000 in FY 2005, which resulted from a 6.2% increase in enrollments and the related increase in State Share of Instruction funding. The College also implemented a 6% tuition increase in FY 2005, and used the additional revenues to fund investments in technology for students, add new course sections, and support the College's strategic plan.

Historically, Clark State has not obtained a bond rating because the College has generally carried relatively small amounts of debt and has never before issued debt in the form of general receipts obligation bonds. However, Clark State is in the process of obtaining a preliminary bond rating from Moody's Investors Services. In addition, Clark State has budgeted the cost of an insurance premium in its schedule of project costs.

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VII. Institutional Plant Debt

The table below 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 nearly $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.

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**