

OHIO BOARD OF REGENTS

Agenda item 3.15 Consideration of a request by Shawnee State University to pledge student fees in support of a bond issuance not to exceed \$18,000,000, to be used to finance the University Center expansion and student facilities 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, Shawnee State University proposes to pledge student fees in support of general receipts bonds and/or bond anticipation notes in an amount not to exceed \$18,000,000 for the purpose of financing capital 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 February 9, 2007 meeting; and

WHEREAS, Shawnee State University's Student Government Association approved a resolution in support of an additional student fee; 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 Shawnee State University in support of general receipts bonds and/or bond anticipation notes in an aggregate amount not to exceed \$18,000,000 is hereby approved.

Shawnee State University
April 2007 Fee Pledge Request - \$18,000,000

I. Project Overview

Shawnee State University proposes to issue general receipts bonds to finance the expansion and renovation of the University Center. The proposed expansion project will allow the University to meet the needs of an increasing number of students residing on-campus. The increase in residential students at Shawnee State University is the result of an expansion of their available student housing which has grown from 190 beds in 1999 to 615 beds today. The proposed University Center project will expand food service operations and remodel the current student center in order to meet the needs of their increasing on-campus student population.

In addition to renovating the University Center, Shawnee State is considering the possibility of refunding up to \$1,950,000 in outstanding bond debt assuming the market remains favorable for the purposes of refinancing.

Shawnee State University has provided adequate documentation for the University Center project as well as provided a proposed pro-forma analysis and debt service schedule.

Initial Submission to the Board: March, 2007

Revised Submission: April, 2007

Shawnee State University
April 2007 Fee Pledge Request - \$18,000,000

II. Project Financing and Costs

Shawnee State University proposes to issue up to \$18,000,000 in general receipts obligations to finance the expansion of their University Center and may include the refunding of two outstanding bond issues. The total bond issuance requested includes construction costs, the cost of issuance, other costs related to bond issuance and the refunding of outstanding bonds. A breakdown of the project costs appears below:

Shawnee State University's Estimated Project Costs*

Project	Description	Estimated Cost
University Center	Project Fund	\$14,000,000.00
	Capitalized Interest Fund	\$895,934.93
	Other Costs of Issuance	\$229,050.00
	Issuance Expenses	\$144,971.85
	Additional Proceeds	\$43.22
	Subtotal	\$15,270,000.00
Refunding	Eligible Outstanding Bond Balance	\$1,950,000.00
	Subtotal	\$1,950,000.00
Total		\$17,220,000.00

*Note: Shawnee State University's fee pledge request of \$18,000,000 is greater than \$17,220,000 in order to support changes in the estimated project costs between April 2007 and the actual borrowing date.

University Center

The debt service for the new student center is estimated to be approximately \$1,083,500 per year, based on a 5.00 % interest rate for 25 years. The debt service will be funded through the implementation of a new student activity fee which will generate approximately \$900,000 in annual revenue. The remaining annual debt service will be funded from the University's unrestricted operating budget.

Bond Refunding

Shawnee State University's proposed bond refunding of \$1,950,000 will result in an estimated net present value savings of \$84,000. If the market does not remain favorable, the University will not refund their outstanding bonds through the proposed issuance.

Shawnee State University
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III. Fee Impact

Shawnee State University plans to implement a special student facility fee, effective at the time the University Center's renovated food service operations are fully re-opened to students. The fee will be charged at a rate of \$300 per academic year for full-time students and approximately \$12.50 per credit hour for part-time students. This represents 5.0% of Shawnee State University's in-state undergraduate tuition for the current academic year. The University expects this fee to generate \$900,000 in annual revenues that will be used to support the majority of the debt service obligation from the University Center bond project.

The University anticipates that this special fee would be exempt from limitations on increases in tuition and fees, which the General Assembly may impose in the future. The budget bills passed in recent biennia have permitted this exemption. 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."

Statement of Student Support

In November 2006, Shawnee State University's Student Government Association passed a formal resolution in support of this special fee.

Shawnee State University
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IV. Project Description

University Center, \$15,270,000

The renovation of the current student center, named the University Center, will primarily involve the expansion of the food service area which currently accommodates 259 people. This project will expand the cafeteria seating capacity to approximately 600 people and double the overall food service area through the addition of 20,000 square feet.

In addition to expanding the food service area, the renovation project will consolidate the student services space in the University Center for the purpose of enhancing opportunities for student development and leadership through the Student Government Association. Moreover, the University hopes that future renovation projects to the University Center will include the following:

- Health/fitness center
- Student services, learning assistance, computer commons
- Student life and recreational facilities

Additional operating costs for the University Center project are estimated to be \$105,000 per year.

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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 Shawnee State University performed when these measures are applied to its FY 2003, FY 2004, FY 2005 and FY 2006 audited financial statements—the most up-to-date financial data available.

*NOTE: The FY 2006 data shown in *italics* reflect the ratios and composite score when \$18,000,000 in new debt and \$1,083,500 in related debt service payments are added to the calculations. The figures in italics may be interpreted as a worse case scenario. 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 other 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. Shawnee State University's viability ratios for FY 2003, FY 2004, FY 2005 and FY 2006 are as follows:

<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u><i>FY 2006*</i></u>
571.4%	666.0%	821.1%	980.1%	<i>94.7%</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. Shawnee State University's primary reserve ratios for FY 2003, FY 2004, FY 2005 and FY 2006 are as follows:

<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u><i>FY 2006*</i></u>
39.6%	37.7%	42.4%	40.9%	<i>40.0%</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. Shawnee State University's net income ratios for FY 2003, FY 2004, FY 2005 and FY 2006 are as follows:

<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2006*</u>
+3.1%	+1.0%	+5.3%	+5.1%	+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 at or below this level for two consecutive years. The highest possible score is a 5.0. Shawnee State University's composite scores have been above the minimum threshold:

<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2006*</u>
4.30	3.90	4.50	4.50	3.50

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VI. Financial Outlook and Bond Rating

According to its FY 2006 audited financial report, Shawnee State University's financial position remains strong, having reported total assets of \$94,106,712 and liabilities of \$7,914,733. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by \$2,463,161 in FY 2006 to \$86,191,979 or 91.6% of total assets.

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 2002 and FY 2006, statewide plant debt increased 73% or \$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 locally issue debt.

While statewide institutional debt increased by \$325 million or 9.8% in FY 2006, Shawnee State University's debt decreased by \$345,000 or 15.2%.

LONG-TERM PLANT DEBT, FY 2002 - FY 2006

Institution	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
UNIVERSITIES					
BOWLING GREEN	\$79,255,000	\$91,215,000	\$84,410,000	\$109,000,000	\$99,250,000
CENTRAL STATE	\$3,192,444	\$2,703,429	\$2,535,821	\$2,340,402	\$2,177,250
CLEVELAND STATE	\$10,849,215	\$55,977,422	\$53,754,446	\$115,923,075	\$113,522,226
KENT STATE	\$290,735,000	\$285,773,000	\$282,832,000	\$279,692,000	\$276,441,000
MCOT	\$6,392,000	\$8,837,000	\$8,730,000	\$56,299,000	\$53,827,000
MIAMI UNIV.	\$53,168,773	\$47,994,898	\$92,833,435	\$168,613,252	\$159,727,329
NEOUCOM	\$1,583,286	\$1,397,190	\$1,237,841	\$1,046,607	\$878,345
OHIO STATE*	\$581,106,000	\$586,233,000	\$814,606,000	\$877,540,000	\$1,106,227,000
OHIO UNIVERSITY	\$126,677,123	\$133,002,202	\$175,592,164	\$167,529,147	\$192,862,349
SHAWNEE STATE	\$3,200,000	\$2,910,000	\$2,600,000	\$2,270,000	\$1,925,000
UNIV. AKRON	\$191,864,557	\$211,208,546	\$226,729,516	\$258,484,797	\$255,328,236
UNIV. CINCINNATI	\$567,181,000	\$647,688,000	\$893,004,000	\$877,453,000	\$966,516,000
UNIV. TOLEDO	\$119,376,000	\$172,577,000	\$167,367,000	\$176,779,000	\$171,134,000
WRIGHT STATE	\$11,575,625	\$18,570,323	\$29,584,121	\$46,189,820	\$42,513,677
YOUNGSTOWN ST.	\$14,992,226	\$14,263,619	\$13,492,373	\$13,268,653	\$22,162,550
COMMUNITY COLLEGES					
CINCINNATI ST.	\$0	\$49,173,132	\$47,580,000	\$47,530,000	\$47,923,408
CLARK STATE	\$22,011	\$0	\$72,800	\$46,400	\$8,195,000
COLUMBUS ST.	\$12,330,217	\$11,434,658	\$24,105,000	\$22,700,000	\$21,250,000
CUYAHOGA	\$12,564,559	\$59,095,229	\$65,222,373	\$64,840,147	\$62,974,601
EDISON STATE	\$738,589	\$68,676	\$604,972	\$532,347	\$5,109,018
JEFFERSON	\$0	\$0	\$2,170,485	\$2,023,978	\$1,838,573
LAKELAND	\$2,441,594	\$1,976,978	\$5,674,098	\$5,535,996	\$4,767,321
LORAIN	\$5,426,817	\$3,952,163	\$9,560,074	\$7,925,194	\$7,472,149
NORTHWEST ST.	\$123,260	\$106,207	\$73,705	\$82,001	\$35,594
OWENS STATE	\$0	\$0	\$0	\$749,152	\$579,288
RIO GRANDE	\$0	\$0	\$0	\$0	\$0
SINCLAIR	\$0	\$0	\$0	\$0	\$0
SOUTHERN ST.	\$122,950	\$168,506	\$3,245,886	\$3,022,204	\$2,839,083
TERRA STATE	\$42,710	\$35,171	\$839,738	\$655,721	\$464,012
WASHINGTON ST.	\$0	\$0	\$0	\$0	\$0
TECHNICAL COLLEGES					
BELMONT TECH	\$126,878	\$97,927	\$66,728	\$33,107	\$0
COTC	\$231,348	\$186,826	\$401,059	\$100,986	\$2,112,219
HOCKING	\$5,213,938	\$497,794	\$516,117	\$1,039,729	\$5,025,450
JAMES RHODES ST	N/A	\$0	\$3,087,383	\$3,067,812	\$3,018,241
MARION TECH	N/A	\$0	\$0	\$0	\$0
ZANE STATE (MATC)	\$0	\$182,571	\$341,385	\$285,586	\$223,983
NORTH CENTRAL	N/A	\$375,474	\$300,562	\$220,160	\$182,119
STARK STATE	\$763,399	\$620,993	\$620,080	\$16,738	\$6,137
STATEWIDE TOTAL	\$2,101,296,519	\$2,408,322,934	\$3,013,791,162	\$3,312,836,011	\$3,638,508,158