OHIO BOARD OF REGENTS

Agenda 3.11 Consideration of a request by Wright State University to pledge student fees in support of a bond issuance not to exceed $16,925,000, to be used to finance multiple capital projects on campus.

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, Wright State University proposes to pledge student fees in support of general receipts obligation bonds or bond anticipation notes in an amount not to exceed $16,925,000 for the purpose of financing multiple capital projects; and

WHEREAS, the University has established a 20-year debt service schedule and will retire the debt using revenues from auxiliary and general operations; and

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

WHEREAS, the Wright State University Board of Trustees is expected to approve this debt issuance at its meeting of February 7, 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, pending the approval of the Wright State University 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 Wright State University in support of general receipts obligations and/or bond anticipation notes not to exceed $16,925,000 is hereby approved.

Wright State University
January 2003 Fee Pledge Request not to exceed $16,925,000

A. Project Overview

Wright State University proposes to issue general receipts obligation bonds to refinance two existing debt issues and to finance three new capital projects. The total projected cost of this proposal is $16,925,000, which includes construction and issuance costs, financing costs, and other related costs. Of this amount, $7.7 million would represent new debt. The University has established a 20-year debt service schedule, and anticipates future revenues sufficient to retire the associated debt.

The four main components of this proposal include the following:

- Refinancing of an existing bond issues from 1971 and 1993.
- Renovation of a student food services venue.
- Construction of an electrical substation.
- Renovation of a student housing complex.

Initial Submission to the Board: January 16, 2003.

Revised Submission:

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B. Project Financing

Wright State University proposes to issue $7.7 million of general receipts obligation bonds to finance three new capital projects. Additionally, the University proposed to issue general receipts obligation bonds in an amount not to exceed $8.8 million to refund two existing debt issuances. The aggregate cost of $16.9 million includes construction costs, moveable equipment, and the cost of issuance with principal amortized over twenty years.

The University has established a 20-year debt service schedule with an estimated variable interest rate of between 2% and 5%. The University estimates the average annual net debt service payment to be $922,283, for which the University anticipates future revenues sufficient to meet this debt service requirement. The University's pro-forma analysis indicates future revenues would be generated from associated auxiliary (food) services and general operations. A breakdown of the total costs associated with the University's proposed bond issue is presented in Table B-1 below.

Table B - 1

	Student Union Food Court	Electrical Substation	Student Housing Renovation	Total
Project Costs:				
Construction	$7,000,000	$1,700,000	$1,700,000	$10,400,000
Moveable Equipment	$1,400,000	N/A	N/A	$1,400,000
Cost of Issuance	N/A	N/A	N/A	$360,000
Architect Fees	N/A	$150,000	$150,000	$300,000
Dayton Power & Light Co. Fees	N/A	$300,000	N/A	$300,000
Contingencies	N/A	$150,000	$650,000	$800,000
Total Project Costs	**$8,400,000**	**$2,300,000**	**$2,500,000**	**$13,560,000**
Project Resources:				
State Capital Appropriations	($1,807,000)	N/A	N/A	($1,807,000)
University Plant Reserves	($4,093,000)	N/A	N/A	($4,093,000)
Total Project Resources	**($5,900,000)**	**$0**	**$0**	**($5,900,000)**
Total Bond Authorization Requested:				
New Project Costs less Resources	$2,500,000	$2,300,000	$2,500,000	$7,660,000
Refunding 1971 Series Bonds	N/A	N/A	N/A	$450,000
Refunding 1993 Series Bonds	N/A	N/A	N/A	$8,815,000
Total	**$2,500,000**	**$2,300,000**	**$2,500,000**	**$16,925,000**

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C. Project Description

1. Refunding of 1971 and 1993 Series Bonds

Wright State University requests authority to refund the remaining outstanding balance on general receipts obligations that were issued in 1971 to finance the construction of the Hamilton Hall student housing facility. This refund would be issued under a more up-to-date bond indenture that would provide the University with a greater degree of flexibility. The University would maintain the existing maturity schedule, which expires in May 2009.

Additionally, the University proposes to take advantage of the current interest rate environment by refunding its 1993 Series general receipts obligations. The University estimates that refinancing this existing debt would create cost-savings of approximately $400,000. The 1993 issue is itself a refunded issue, so these bonds are not callable until May 1, 2003. The outstanding balance of the 1993 issue is $9.3 million, but the University will utilize funds already allocated towards the May 2003 principal payment to lower the principal amount of the refinancing to an estimated $8.8 million. The University would maintain the existing maturity schedule, which expires in 2011.

2. Reimbursement for Student Union Food Court Renovation

The University completed a renovation of its Student Union this past September, creating a new Union Market food venue for students. The project's total cost was approximately $8.4 million, which the University financed with its own funds. The University wishes to reimburse itself approximately $2.5 million of the total project cost from this proposed bond issuance. The funding source for this debt service will be the revenues generated by food service sales. The University has filed a declaration of intent to reimburse itself early in the project stage.

3. Construction of an Electrical Substation

The University plans to build an electrical substation that would enable it to break down purchased electricity from 69,000 volts to the standard usable 12,470 volts. Purchasing the electricity at the 69,000 volts rather than 12,470 volts will enable the University to purchase the electricity at a much lower cost. The savings created would be sufficient to cover the cost of this project. Construction is scheduled to begin in the spring of 2003 and be completed sometime in the fall of 2003.

4. Renovation of Student Housing

The University has determined that essential structural repairs and safety enhancements are needed at the Forest Lane student apartments. This work involves installing a sprinkler system, replacing cabinets and counters, floor joists, doors and door frames, replacing roofs, some HVAC work, and installing a fire alarm panel. This work is scheduled to be substantially performed in the summer of 2003 while most students are away.

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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 Wright 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.

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. Wright State University's viability ratios for FY 2000, FY 2001 and FY 2002 are as follows:

FY 2000	FY 2001	FY 2002
384.3%	487.6%	609.0%

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. Wright State University's primary reserve ratios for FY 2000, FY 2001 and FY 2002 are as follows:

FY 2000	FY 2001	FY 2002
24.3%	26.7%	28.5%

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. Wright State University's net income ratios for FY 2000, FY 2001 and FY 2002 are as follows:

FY 2000	FY 2001	FY 2002
4.6%	3.0%	4.5%

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 5.00. Wright State University's composite scores for FY 2000, FY 2001 and FY 2002 are well above the minimum threshold:

FY 2000	FY 2001	FY 2002
3.80	4.10	4.30

E. Bond Rating

Wright State University has not received official bond ratings for its most recent debt issuances from 1986 and 1993. However, Wright State hired Moody's Investors Services to perform a financial strength assessment in May 2002. Based on this assessment, Moody's concluded that the University's current credit profile would place it within the A2 category, indicating high quality long-term debt with only moderate investment risk.

For reference, Table E-1 below illustrates Moody's rating scale.

Table E-1

Moody's			Description
Aaa1	Aaa2	Aaa3	Best quality with little or no investment risk.
Aa1	Aa2	Aa3	High quality with low investment risk.
A1	A2	A3	High quality with moderate investment risk.
Baa1	Baa2	Baa3	Good quality with some investment risk.
Ba1	Ba2	Ba3	Medium quality with some investment risk.
B1	B2	B3	Medium quality with higher investment risk.
Caa1	Caa2	Caa3	Low quality and susceptible to default.
Ca1	Ca2	Ca3	Low quality and highly vulnerable to default.
C1	C2	C3	Lowest quality and extremely vulnerable to default.

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