OHIO BOARD OF REGENTS

Agenda 3.9 Consideration of a request by Ohio University to pledge student fees in support of a bond issuance not to exceed $14,620,000, to be used to finance multiple capital projects.

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, Ohio University proposes to pledge student fees in support of general receipts obligation bonds or bond anticipation notes in an amount not to exceed $14,620,000 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 operating revenues and state capital appropriations; 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 Ohio University Board of Trustees is expected to approve this debt issuance at its meeting of February 13 and 14, 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 Ohio 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 Ohio University in support of general receipts obligations and/or bond anticipation notes not to exceed $14,620,000 is hereby approved.

Ohio University
January 2003 Fee Pledge Request not to exceed $14,620,000

A. Project Overview

Ohio University proposes to issue general receipts obligation bonds and/or bond anticipation notes to finance the construction of four capital projects. The total projected cost of this proposal is $14.62 million, which includes construction and issuance costs, financing costs, and other related costs. The University has established a 20-year debt service schedule for the project, and anticipates future revenues sufficient to retire the associated debt.

Some of the components of this proposal include the following:

- Construction of a new 47,074 square-foot lecture hall.
- Construction of a new 180,000 square-foot multi-use University Center.
- Construction of a new 10,500 square-foot addition to the Avionics Engineering Center.
- Acquisition of two newly constructed 15,000 square-foot office buildings on 12 acres of land.

Initial Submission to the Board: January 16, 2003.

Revised Submission:

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B. Project Financing

Ohio University proposes to issue $14.62 million of general receipts obligation bonds and/or bond anticipation notes to finance four capital projects. This amount includes construction costs, an underwriting discount, an insurance premium, and the cost of issuance with principal amortized over twenty years.

The University has established a 20-year debt service schedule with an estimated interest rate of between 3.5% and 4.1%. The University estimates the average annual net debt service payment to be $984,519, 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 services and research activities, general operations, and state capital appropriations. A breakdown of the total costs associated with the University's proposed bond issue is presented in Table B-1 below.

Table B - 1	
Construction Costs	$14,400,000
Underwriting Discount	$43,860
Cost of Issuance	$119,500
Insurance Premium	$44,625
Liquidity Facility Annual Fee	$7,317
Additional Proceeds	$4,698
Total Bond Authorization Requested	**$14,620,000**
Estimated annual debt service	$984,519
Debt service schedule	20 Years
Estimated interest rate	3.5%

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C. Project Description

1. **Lecture Hall - $5.5 million**

This project involves the construction of a new 47,074 square foot, two story building. The building will be comprised of four large lecture halls, a governance room in which the University Board of Trustees, the faculty, student, administrative and classified senates and other university governing entities will be able to conduct meetings. Also included in this project are two conference rooms, offices and a large rotunda.

The construction phase commenced in July 2002 and completion of the project is anticipated in December 2003. Annual operating costs are expected to be approximately $270,675.

2. **University Center - $3.8 million**

The new 180,000 square foot University Center will be located south of the main college green next to Oxbow drive. The new center will become the physical connector between lower and upper campus. There are three goals that form the vision of the University Center: (1) promoting out-of-class learning and growth, (2) supporting classroom instructional activity, and (3) contributing to the overall quality of campus life. The facility will have a 550-seat ballroom, dining facilities, student government offices, student organization offices, a small theater, and meeting and conference rooms.

The Ohio University Board of Trustees approved a resolution to hire an architect at their meeting of January 29, 2002. The Board of Trustees also approved a budget and funding sources at their April 12, 2002 meeting. The University began the design process in May of 2002 and will be ready to advertise for bids in January of 2004. Construction is scheduled to commence in March of 2004 and project completion is scheduled for September of 2006. Annual operating costs are expected to be approximately $1,035,000.

3. **Avionics Building - $1.6 million**

The Avionics Engineering Center at Ohio University conducts research and develops navigation aids for the aviation industry. Due to growth in the program, limited space available in the current location, and the desire to have the bulk of the research and development occur at the airport, in harmony with the existing hangar facility, the Center is constructing a new office and lab building to be located at the Ohio University Bush Airport.

The new facility will contain 10,500 square feet of office and lab space on two floors. Construction is anticipated to begin in April 2003, with completion in March 2004. Annual operating costs are expected to be approximately $41,500.

4. **Pickerington Center - $3.5 million**

Two 15,000 square-foot office buildings and 12 acres located in Fairfield County were purchased in November 2001. The buildings have since been retrofitted to suit institutional needs. The acquisition of the Center has enabled the University to enhance its off-campus academic and training programs. Annual operating costs are expected to be approximately $172,500.

The University proposes to use the $3.5 million bond proceeds to repay an internal loan made to purchase and retrofit the Center.

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

FY 2000	FY 2001	FY 2002
100.3%	82.4%	81.8%

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

FY 2000	FY 2001	FY 2002
21.5%	25.4%	23.7%

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

FY 2000	FY 2001	FY 2002
1.23%	2.52%	5.7%

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

FY 2000	FY 2001	FY 2002
3.30	3.50	3.40

E. Bond Rating

Both Moody's Investors Services and Standard & Poor's Rating Services have reviewed and rated Ohio University's Series 2001 debt obligations. The University most recently received long-term debt ratings of *A1* and *A* from Moody's and S&P, respectively.

These ratings indicate that Ohio University's long-term bonds are of high quality with low investment risk. 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.

Table E-1

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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