OHIO BOARD OF REGENTS

Agenda Item 3.11 Consideration of a request by the Lorain County Community College District to pledge student fees in support of a $7,200,000 bond issuance, to be used to finance the Great Lakes Business Growth & Development Center and other capital projects on campus.

RESOLUTION

WHEREAS, §89.11 of Am. Sub. H.B. 95 of the 125th 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 Lorain County Community College District proposes to pledge student fees in support of general receipts obligation bonds and/or bond anticipation notes in an amount not to exceed $7,200,000 for the purpose of financing the construction of the Great Lakes Business Growth & Development Center and other capital projects on campus; and

WHEREAS, the Lorain County Community College District has determined that the proposed projects are essential to fulfilling the College's institutional goals; and

WHEREAS, the Lorain County Community College District's Board of Trustees is expected to approve a resolution authorizing this bond issuance at its meeting of January 22, 2004; and

WHEREAS, this proposal complies with the requirements of Ohio Revised Code §3345.12 and §3354.121.

NOW THEREFORE,

BE IT RESOLVED: Contingent upon the approval of the Lorain County Community College District Board of Trustees, and upon the recommendation of the Resources & System Efficiency Committee of the Ohio Board of Regents, that the pledge of fees by the Lorain County Community College District in support of general receipts obligation bonds in an aggregate amount not to exceed $7,200,000 is hereby approved.

Lorain County Community College
January 2004 Fee Pledge Request - $7.2 million

A. Project Overview

Lorain County Community College proposes to issue general receipts obligation bonds in an aggregate amount not to exceed $7,200,000 for the purpose of financing the construction of the new Great Lakes Business Growth & Development Center. The 2-story, 40,000 square-foot Center will support economic development programs and activities in the Lorain County region.

Lorain County Community College intends to support the debt with revenues from its auxiliary enterprises and educational and general revenues. The College does not intend to levy a special student fee to support this project.

Initial Submission to the Board: January 22, 2004.

Revised Submission:

Lorain County Community College
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B. Project Financing and Costs

Lorain County Community College proposes to issue up to $7.2 million of general receipts bonds to finance costs of capital facilities. The primary project is the construction of the Great Lakes Business Growth & Development Center (BGDC). To the extent certain costs of the Center may not be eligible for tax-exempt financing, the College will use other available resources from its plant fund for those costs and will use bond proceeds for costs of constructing, renovating or equipping other facilities on its campus that otherwise would not have been funded with bonds so as to obtain the lowest overall costs of funds.

Total project costs are projected to be $8.2 million. The College has available $1 million in resources, including a $430,000 Noncredit Facility Training Grant from the state, and $570,000 from other state and federal sources.

The College has established a 20-year debt service schedule with an average estimated fixed interest rate of 4.5%. The College estimates that the average annual debt service payment will be $565,000. The pro-forma analysis provided by the College forecasts sufficient general and auxiliary revenues to meet the annual net debt service requirement. Auxiliary revenues include rental income from the new BGDC facility, which the College expects will grow at a rate of 5% every other year.

A breakdown of project costs is presented below:

Project Costs:	
Architect/Engineer Design Fees	$648,000
Construction	$5,905,500
Moveable Equipment	$760,000
Cost of Issuance	$150,000
Bond Insurance	$50,000
Contingency	$575,500
Permits & Reimbursable Expenses	$49,500
Moving Contingency	$61,500
Total Costs	**$8,200,000**
Available Resources:	
State Noncredit Facility Funds	$430,000
Federal Sources	$570,000
Total Resources	$1,000,000
Total, Costs less Resources	**$7,200,000**

Lorain County Community College
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C. Project Description

The Great Lakes Business Growth & Development Center will be a 40,000 square-foot, two-story building. The Center will be located in the Great Lakes Technology Park, a 57 acre piece of land adjacent to campus, which is owned by the College and valued at roughly $450,000. The Center will be designed to house emerging technology companies interested in expanding in the Lorain County region. Two such companies, Beckett-Logisync and Clear Image Technologies, have expressed interest in moving into the new Center. These two companies currently occupy space in on-campus business incubators at the College.

The Center will also house some College functions, such as its Corporate and Community Services offices, which are responsible for much of the College's noncredit workforce training programs. Additionally, other local organizations with missions tied to economic development have expressed interest in leasing space at the new Center, such as the Lorain County Chamber of Commerce.

As noted in section B above, it is possible that the College will determine that the private use of some space in the Center will preclude the use of tax-exempt financing to cover the entire project. Should this be the case, the College will use resources from its plant fund to make up the difference, and use the bond proceeds to pay for other projects that would have otherwise been supported by plant fund resources. Such projects include classroom renovations to create a bio-technology lab and interactive video distance learning rooms, as well as project planning for the Learning Technology Center, for which the College has requested funding in the state capital bill.

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 Lorain County Community performed when these measures are applied to its FY 2001, FY 2002 and FY 2003 audited financial statements—the most up-to-date financial data available.

It is important to note that the College's FY 2002 and FY 2003 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.

*NOTE: The FY 2003 data shown in *italics* reflect the ratios and composite score when $7.2 million of proposed new debt is added to the calculations. All other factors being equal, only the College's viability ratio and composite score would be reduced by the additional debt. Other factors not taken into account here include the impact of the new debt on the College's expendable net assets, the future retirement of existing debt obligations, and future changes in revenues and expenses.

1. Viability Ratio

For FY 2001, the viability ratio is defined as expendable fund balances divided by plant debt. For FY 2002 and FY 2003, 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. Lorain County Community College's viability ratios for FY 2001, FY 2002 and FY 2003 are as follows:

FY 2001	FY 2002	FY 2003	*FY 2003**
168.7%	158.6%	413.9%	*146.7%*

2. Primary Reserve Ratio

For FY 2001, the primary reserve ratio is defined as expendable fund balances divided by total expenditures and mandatory transfers. For FY 2002 and FY 2003, 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. Lorain County Community College's primary reserve ratios for FY 2001, FY 2002 and FY 2003 are as follows:

FY 2001	FY 2002	FY 2003	*FY 2003**
22.5%	13.6%	24.3%	*24.3%*

3. Net Income Ratio

For FY 2001, the net income ratio represents net total revenues divided by total current revenues. For FY 2002 and FY 2003, 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. Lorain County Community College's net income ratios for FY 2001, FY 2002 and FY 2003 are as follows:

FY 2001	FY 2002	FY 2003	*FY 2003**
1.1%	(9.6%)	(0.8%)	*(0.8%)*

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 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. Lorain County Community College's composite scores for FY 2001, FY 2002 and FY 2003 are above the minimum threshold:

FY 2001	FY 2002	FY 2003	*FY 2003**
3.3	2.7	3.2	*2.9*

E. Bond Rating

This proposal represents Lorain County Community College's first significant issuance of general receipts debt. As such, the College has never been rated by an independent rating agency.

The College intends to pursue a rating in preparation of this issuance, and plans to meet with Moody's Investors Services in February 2004 for an initial rating.

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