

OHIO BOARD OF REGENTS

Agenda item 3.11 Consideration of a request by Youngstown State University to pledge student fees in support of a bond issuance not to exceed \$42,000,000, to be used to finance capital projects and improvements 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, Youngstown State University proposes to pledge student fees in support of general receipts obligation bonds and/or bond anticipation notes in an amount not to exceed \$42,000,000 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 meeting on December 13, 2006; 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 Youngstown State University in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed \$42,000,000 is hereby approved.

Youngstown State University
January 2007 Fee Pledge Request - \$42,000,000

I. Project Overview

Youngstown State University proposes to issue general receipts obligation bonds to finance certain capital projects on campus that support the YSU Centennial Master Plan. The University's Centennial Master Plan is based on four principles: (1) identity; (2) connections and collaboration; (3) growth; and (4) access, parking and pedestrian safety. The plan is divided into the following five sections:

- Academic Affairs Projects;
- Student Life Projects;
- Athletics and Physical Education/Assembly Space Projects;
- Property Renovations; and
- Parking and Gateway Projects.

Each project being proposed within this debt authority request supports Youngstown State University's Centennial Master Plan and belongs to one of the project types listed above.

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

Submission to the Board: January, 2007

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II. Project Financing and Costs

Youngstown State University requests the authority to issue general receipts bonds to finance multiple capital projects on campus. The combined estimated cost of these projects is \$42,000,000.

The estimated pro-forma analysis provided by Youngstown State University forecasts revenues sufficient to cover annual debt service costs and related operating expenses. The preliminary debt service schedule for the proposed 2007 bonds assumes two series will be issued; specifically it assumes that Series A will be a variable rate bond issued in the amount of \$10,155,000 while Series B will be a fixed rate bond in the amount of \$30,845,000. The combined debt service is anticipated to be approximately \$1,659,300 through 2017. Thereafter, the annual debt service ranges between \$2,560,000 and \$4,296,000. The debt service estimates are based upon an annual interest expense of 4.147 % and a 30 year maturity. According to the University's analysis, the debt service and operating costs will be supported as follows:

1. Academic Affairs Projects: Future state capital funds, unrestricted receipts and philanthropic gifts to the University.
2. Student Life Projects: Unrestricted general receipts and auxiliary income.
3. Athletics & Physical Education/Assembly Space: Philanthropic gifts to the University and auxiliary income.
4. Property Renovation: Unrestricted general receipts.
5. Campus Parking & Gateways: Parking operations auxiliary income and unrestricted general receipts.

The additional support from unrestricted general receipts will be offset by a reduction in base expenditures due to realization of savings from an OPERS Early Retirement Incentive Plan. The additional support from auxiliary income may be offset by increases to parking and housing fees.

A breakdown of the estimated project costs is presented the following page.

	Academic Affairs	Student Life	Athletics & P.E./Assembly Space	Property Renovations	Campus Parking & Gateways	Total
<u>PROJECT COSTS</u>						
Construction	\$50,143,793	\$5,926,009	\$5,084,500	\$2,269,151	\$18,524,700	\$81,948,153
Issuance Costs/Contingency	\$1,223,793	\$144,628	\$124,091	\$55,380	\$452,108	\$2,000,000
Total Project Costs	\$51,367,586	\$6,070,637	\$5,208,591	\$2,324,531	\$18,976,808	\$83,948,153
<u>PROJECT RESOURCES</u>						
Private Gifts			\$3,000,000	\$359,490		\$3,359,490
State Capital Appropriations*	\$26,293,461		\$940,000	\$769,151	\$6,550,000	\$34,552,612
Institutional Reserves		\$1,652,425		\$262,856	\$892,570	\$2,807,851
Federal Grants					\$1,228,200	\$1,228,200
Total Project Resources	\$26,293,461	\$1,652,425	\$3,940,000	\$1,391,497	\$8,670,770	\$41,948,153
<i>DIFFERENCE, TOTAL COSTS LESS TOTAL RESOURCES</i>	\$25,074,125	\$4,418,212	\$1,268,591	\$933,034	\$10,306,038	\$42,000,000

* Includes reappropriated capital funds from H.B. 530 and projected appropriations for the FY07/08 - FY11/12 biennia.

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III. Fee Impact

At this time, Youngstown State University does not intend to levy a special student fee to service the debt or operating costs for any of the proposed projects. However, as a contingency, the University does reserve the right to levy such a fee in the future should the need arise. Such a fee, if necessary, would only apply to the Student Life portion of the bond issuance and would be exempted from the state-imposed tuition limitations, assuming the existing language permitting such exemptions would be retained in future temporary legislation. The current language permitting such exemptions is located in section 209.63.60 of Amended Substitute House Bill 66:

“These limitations [on tuition and fee increases] shall not apply to increases required to comply with institutional covenants related to their obligations or to meet unfunded legal mandates or legally binding 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. Any increase required by such covenants and any such mandates, obligations, or commitments shall be reported by the Board of Regents to the Controlling Board.”

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IV. Project Description

Academic Affairs Projects, \$25,074,125

The academic affairs projects for which debt authority is requested include:

- Williamson College of Business Administration – The purpose of this project is to develop a state-of-the-art business school to replace the obsolete Williamson Hall.
- Moser Hall, Phase 2 – This project includes a proposed addition to the existing Moser Hall to meet demonstrated need for additional lab and instructional space for science and engineering programs, as identified in a campus space utilization study.
- Melnick Hall Renovation – The purpose of this project is to renovate the second floor of Melnick Hall and relocate the first floor Melnick Museum to a site proximate to Maag Library and other collections that attract student field trips.

The total project costs are estimated to be \$51,367,586; \$25,074,125 of which will be financed through the use of debt authority included in this proposal.

Student Life Projects, \$4,418,212

The student life projects for which debt authority is requested include:

- Kilcawley Center Reconfiguration – The purpose of this project is to renovate and modify the existing Kilcawley Center in order to enhance the building's appearance and provide additional student space where office space currently resides.
- University Plaza – The purpose of this project is to create a unique and memorable central gathering space on campus at the terminus of the East, West and North Gateways. The proposed projects to the University Plaza include additional lighting, benches, landscaping, relocation of an existing faculty parking lot, replacing an existing tennis course with green space, in addition to various other improvement projects.

The total student life project costs are estimated to be \$6,070,637; \$4,418,212 of which will be financed through the use of debt authority included in this proposal.

Athletics & Physical Education/Assembly Space Projects, \$1,268,591

The athletics and physical education/assembly space project for which debt authority is requested includes the Harrison Field project. The purpose of this project is to relocate Harrison Field, its softball diamond and shot-put cage to a new outdoor athletic space west of Fifth Avenue. In addition, this proposal seeks to redevelop the abandoned field known as “Harrison Commons,” the centerpiece of the Smoky Hollow development.

The total project costs are estimated to be \$5,208,591 and debt authority requested is \$1,268,591.

Property Renovation Project, \$933,034

The property renovation project for which debt authority is requested includes improvements to the Wick Pollock Inn and Carriage House. The renovations include: (1) deferred maintenance improvements to the roof, gutters, windows and siding; (2) possible renovation of the lower floors of Wick Pollack to create approximately 35 dormitory-style units for use as student housing; and (3) the reconfiguration of the parking for Wick Pollock in conjunction with the restoration of the “Victorian Lawn” fronting Wick Avenue.

The total project costs are estimated to be \$2,324,531; \$933,034 of which will be financed through the use of debt authority included in this proposal.

Parking & Gateway Projects, \$10,306,038

The parking and gateway projects for which debt authority is requested include:

- M-1 Parking Garage Modifications – The purpose of this project is to renovate the M-1 parking garage. The modifications include: (1) the relocation of the existing lower entrance to the north face of the M-1 parking garage; (2) construction of a new access road connecting the new entrance to Walnut; (3) improved lighting, signage, elevator towers, lobbies and walkways; as well as (4) landscape improvements.
- F-5 Parking Lot Replacement – The purpose of this project is to construct a new parking lot to replace the F-5 lot being removed during the University Plaza renovation project. Additional improvements will be made to insure a convenient, all weather connection between the lot and the main campus.
- Beeghly Hall West Parking Lots – The proposed improvements to the Beeghly Hall West lots include: (1) basic renovation to the existing M-3 lot; (2) relocation of the Central Store Building lot; (3) construction of a new parking lot west of Beeghly Hall; as well as (4) landscaping improvements along Lincoln and Fifth Avenue.
- West Campus & M-2 Parking Projects – The parking improvements to west campus and the M-2 parking lot include: (1) temporary/permanent lots in anticipation of the replacement of the M-2 parking garage; (2) demolition of the existing M-2 parking garage; (3) replacement of the M-2 lot with a new garage or tiered parking; and (4) the reservation of the northern half of the M-2 site for a new classroom/office building that will connect Cushwa and Debartolo Halls.

- M-16 Lot Reconfiguration – The M-16 lot reconfiguration project includes a professional evaluation of the improvements necessary to the M-1 parking garage.

The total parking and gateway costs are estimated to be \$18,976,808; \$10,306,038 of which will be financed through the use of debt authority included in this proposal.

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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 Youngstown 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 \$42,000,000 in new debt and \$1,659,300 in related debt service expenses 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. Youngstown 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>
211.6%	278.2%	230.4%	220.6%	<i>50.2%</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. Youngstown 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>
20.1%	24.5%	18.6%	16.0%	<i>15.8%</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. Youngstown 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>
+5.9%	+5.3%	+2.3%	-2.5%	-3.5%

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 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. Youngstown 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>
3.70	4.00	3.30	2.90	2.30

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VI. Financial Outlook and Bond Rating

According to its FY 2006 audited financial report, Youngstown State University's financial position remains strong, having reported total assets of \$225,297,464 and liabilities of \$53,908,882. Net assets, which represent the value of the University's assets after liabilities are deducted, decreased by \$4,144,824 in FY 2006 to \$171,388,582 or 76.07% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. Youngstown State University's long-term debt was most recently upgraded by Moody's to A2 in January 2004. The University intends to obtain an updated debt rating in early 2007.

These ratings indicate that the University's ability to meet its debt obligations is considered strong, as shown in Moody's and S&P's scale below.

Long-Term Bonds				
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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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 2000 and FY 2005, statewide plant debt increased by 170% or \$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.

While statewide institutional debt increased by \$299 million or 10% in FY 2005, Youngstown State University's debt decreased by \$223,720 or 1.66%. It is worth noting that in FY 2006, Youngstown State University's long-term debt decreased by an additional \$902,103 or 6.80%. Note that the FY 2006 data are not reported in the accompanying table.

LONG-TERM PLANT DEBT, FY 1998 - FY 2005

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	\$0	\$3,087,383	\$3,067,812
MARION TECH	\$0	\$0	\$0	\$0	\$0	\$0
ZANE STATE (MATC)	\$0	\$0	\$0	\$182,571	\$341,385	\$285,586
NORTH CENTRAL	\$703,213	\$744,479	\$0	\$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