

OHIO BOARD OF REGENTS

Agenda item 3.9     Consideration of a request by the Miami University to pledge student fees in support of a bond issuance not to exceed \$87,600,000, to be used to finance capital projects and improvements on campus.

**RESOLUTION**

WHEREAS, §209.64.69 of Am. Sub. H.B. 66 of the 126<sup>th</sup> 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 Miami University proposes to pledge student fees in support of general receipts obligation bonds and/or bond anticipation notes in an amount not to exceed \$87,600,000 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 series of resolutions authorizing this bond issuance at various meetings dating from December 2003 through September of 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 the Miami University in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed \$87,600,000 is hereby approved.

**The Miami University**  
**January 2007 Fee Pledge Request - \$87,600,000**

**I. Project Overview**

Miami University proposes to issue general receipts obligation bonds to finance the construction of new facilities, the renovation of existing campus buildings and existing campus infrastructure.

The projects include:

- Construction of a New School of Business Building;
- Completion of an Engineering & Applied Sciences Building;
- Renovation and Rehabilitation to Benton Hall, Presser Hall, Heistand Hall, and Pearson Hall Laboratory;
- Utility System Upgrades;
- Steam Plant Upgrades;
- Rehabilitation of the Middletown Campus Student Center;
- Construction of a Voice of America Learning Center;
- Construction of a North Campus Parking Garage.

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

*Initial Submission to the Board: November, 2006*

*Revised Submission: January, 2007*

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**II. Project Financing and Costs**

Miami University requests the authority to issue general receipts obligation bonds to finance multiple capital projects on campus. The combined estimated cost of these projects is \$86.1 million.

The University's specific financing plans are still in development while they search for an underwriting firm to assist them in determining the best structure for the proposed financing. While the exact structure of the bonds is not known, the University has provided an estimated 20-year debt service schedule, based on an interest rate of 4.00% - 5.00% and an average debt service payment of \$6.42 million per year.

The estimated pro-forma analysis provided by Miami University forecasts revenues sufficient to cover annual debt service costs and related operating expenses. According to the University's analysis, the debt service and operating costs will be supported as follows:

1. School of Business Building: General unrestricted revenues.
2. Engineering & Applied Science Building: General unrestricted revenues.
3. Benton Hall Rehabilitation: General unrestricted revenues.
4. Presser Hall & Heistand Hall Renovation: General unrestricted revenues.
5. Pearson Hall Laboratory: General unrestricted revenues.
6. Utility Systems Upgrade: General unrestricted revenues.
7. Steam Plant Upgrade: General unrestricted revenues.
8. Middletown Campus Student Center: General unrestricted revenues.
9. Voice of America Learning Center: General unrestricted revenues and fees from corporations for private training programs.
10. Parking Facilities: Parking fees, permits and fines.

A breakdown of the estimated project costs is presented in a table on the following page:

### Estimated Project Costs

<b>Projects</b>	<b>Estimated Project Costs</b>	<b>Capitalized Interest &amp; Issue Costs</b>	<b>Total Costs</b>	<b>Available Resources</b>	<b>Total Debt Authority Requested</b>
1. School of Business	\$58,686,250	\$284,326	\$58,970,576	\$16,970,576	\$42,000,000
2. Engineering & Applied Science Building	\$23,651,159	\$17,783	\$23,668,942	\$20,918,942	\$2,750,000
3. Benton Hall Rehabilitation	\$12,500,000	\$41,955	\$12,541,955	\$5,766,955	\$6,775,000
4. Presser Hall & Heistand Hall Renovation	\$9,915,000	\$40,558	\$9,955,558	\$4,080,558	\$5,875,000
5. Pearson Hall Laboratory	\$1,710,284	\$8,397	\$1,718,681	\$1,003,681	\$715,000
6. Utility Systems Upgrade	\$824,998	\$8,455	\$833,453	\$113,453	\$720,000
7. Steam Plant Upgrades	\$10,448,600	\$70,484	\$10,519,084	\$404,084	\$10,115,000
8. Middletown Campus Student Center	\$5,680,685	\$11,924	\$5,692,609	\$4,692,609	\$1,000,000
9. Voice of America Learning Center	\$7,500,000	\$40,868	\$7,540,868	\$1,390,868	\$6,150,000
10. Parking Facilities	\$14,255,000	\$67,116	\$14,322,116	\$4,322,116	\$10,000,000
<b>Total</b>	<b>\$145,171,976</b>	<b>\$591,866</b>	<b>\$145,763,842</b>	<b>\$59,663,842</b>	<b>\$86,100,000*</b>

\*Miami University has requested that they maintain the original bond issuance request of \$87,600,000 in order to support changes in the estimated project costs between January 2007 and the actual borrowing date.

**The Miami University  
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**III. Fee Impact**

This proposed debt issuance will have no direct impact on student tuition and fees. While the University may use unrestricted student fee revenues to service the debt and pay for related operating costs, student fees are not expected to increase as a direct result of this fee pledge.

**The Miami University  
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**IV. Project Description**

**School of Business Building, \$42,000,000**

This project includes the cost of demolishing Reid Hall, in the northern part of the campus, as well as the construction of a new building on that site. The new facility will house the Richard T. Farmer School of Business Administration.

**Engineering & Applied Science Building, \$2,750,000**

Initial funding for the new facility to house the School of Engineering and Applied Sciences was included in the Series 2005 bond issue. The building is currently under construction and this bond series will provide the remaining funding needed for the project.

**Benton Hall Rehabilitation, \$6,775,000**

Benton Hall is located on Miami's north campus and houses part of the School of Engineering and Applied Science. The renovation of Benton Hall will include the replacement or alteration of building infrastructure systems in addition to reconfiguring and upgrading office space, classrooms, and laboratories. Benton Hall will be connected to the new School of Engineering and Applied Sciences building.

**Presser Hall & Heistand Hall Renovation, \$5,875,000**

Presser Hall will be renovated to better support the Department of Music, while Heistand Hall will be renovated to better support the Theater Department. The renovation projects will include an addition to the south of Presser Hall as well as significant upgrades to the mechanical, electrical, and life safety systems.

**Pearson Hall Laboratory Renovation, \$715,000**

The Pearson Hall Laboratory project will renovate and reassign space in Pearson Hall that will be vacated as certain laboratories are moved to the recently completed Psychology building.

### **Utility System Upgrades, \$720,000**

This project will provide funds for utility infrastructure improvements including, but not limited to, the upgrade and relocation of sanitary and storm sewer service to the east quad of campus for building projects such as the new School of Business building.

### **Steam Plant Boiler Pollution Control Upgrades, \$10,115,000**

This project will replace the current boiler emissions control system that will comply with the EPA's new Maximum Achievable Control Technology (MACT) standards. The pollution control system will be a baghouse system with line injection, which will enable Miami University to burn higher sulfur coal while still meeting the new MACT standards. The system will address the particulate, sulfur dioxide (SO<sub>2</sub>) and hydrogen chloride (HCL) components of the boiler emissions.

In addition to complying with the EPA's MACT standards, the new pollution control system will provide cost savings for the university since high sulfur coal is considerably less expensive than low sulfur coal. With the projected savings on coal, the project should pay for itself in 5 years.

### **Middletown Campus Student Center, \$1,000,000**

This project will rehabilitate existing space and construct new space for the creation of a new Campus Center which will include new food service and dining areas, conference and meeting rooms, multipurpose rooms, and offices for student organizations and the Student Affairs Department.

### **Voice of America Learning Center, \$6,150,000**

The federal government granted Miami University land on the eastern edge of Butler County at the former Voice of America radio broadcasting site. This project will construct a new building on this land. The learning center will initially host a part-time MBA program, a B.S. in Nursing program, and a Masters in Education program, as well as customized programs to serve local businesses. The site is located in a fast growing corridor along Interstate 75.

### **North Campus Parking Garage, \$10,000,000**

This project will provide approximately 400 additional parking spaces for students, faculty, and staff on the northern side of campus. The garage will be underground behind the new School of Engineering and Applied Science building and the new Department of Psychology building on space previously occupied by the former Goggin Ice Arena. Green space will cover the garage to form a new northeast academic quad. Parking fees will be charged for the use of the structure, and the facility is expected to operate self-sufficiently.

**The Miami University**  
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**V. Financial Ratio Analysis**

Through the 1997 enactment of Senate Bill 6, the 122<sup>nd</sup> 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 Miami 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 \$87.6 million in new debt and \$6.4 million in related debt service expenses are added to the calculations. 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 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. The Miami 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>
375.2%	210.1%	117.9%	127.3%	<i>82.2%</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. The Miami 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>
48.8%	51.1%	47.2%	45.0%	<i>44.4%</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. The Miami 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>
+8.4%	+10.3%	+6.0%	+9.5%	+8.2%

### 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. The Miami 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>
4.50	4.70	4.20	4.20	3.90

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**VI. Financial Outlook and Bond Rating**

According to its FY 2006 audited financial report, Miami University's financial position remains strong, having reported total assets of \$933.0 million and liabilities of \$246.4 million. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by \$47.1 million in FY 2006 to \$686.6 million or 73.6% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. Miami's long-term debt was most recently assigned a rating of A+ by Standard & Poor's. Furthermore, Moody's Investors Services most recently assigned ratings of A1. These ratings are based on the University's General Receipts Revenue Bonds issued in March of 2005.

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.

<b>Long-Term Bonds</b>				
<b>Moody's</b>			<b>S &amp; P</b>	<b>Description</b>
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 the statewide institutional debt increased by \$299 million or 10% in FY 2005, Miami University's debt increased by 52.9% or \$87.1 million. The University's increase in debt is primarily the result of the \$79.7 million in debt which can be attributed to the issuance of the Series 2005 general receipts bonds, the defeasement of the Series 1998 Bonds, and the institution's annual debt principal payment. All other current and long-term liabilities remained relatively unchanged.

It is worth noting that in FY 2006, Miami University's long term debt decreased by \$8.9 million or 5.3%. 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 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
<b>UNIVERSITIES</b>								
BOWLING GREEN	\$41,050,000	\$35,400,000	\$32,035,000	\$83,415,000	\$79,255,000	\$91,215,000	\$84,410,000	\$109,000,000
CENTRAL STATE	\$3,983,721	\$3,780,127	\$3,572,922	\$3,346,920	\$3,192,444	\$2,703,429	\$2,535,821	\$2,340,402
CLEVELAND STATE	\$16,543,399	\$16,420,347	\$16,153,641	\$12,393,540	\$10,849,215	\$55,977,422	\$53,754,446	\$115,923,075
KENT STATE	\$65,490,000	\$63,143,000	\$81,774,000	\$234,407,000	\$290,735,000	\$285,773,000	\$282,832,000	\$279,692,000
MCOT	\$2,946,693	\$2,883,387	\$2,184,779	\$1,229,464	\$6,392,000	\$8,837,000	\$8,730,000	\$56,299,000
MIAMI UNIV.	\$50,499,010	\$44,949,785	\$49,018,070	\$45,061,353	\$53,168,773	\$47,994,898	\$92,833,435	\$168,613,252
NEOUCOM	\$0	\$0	\$0	\$542,430	\$1,583,286	\$1,397,190	\$1,237,841	\$1,046,607
OHIO STATE	\$222,557,597	\$315,216,350	\$365,192,650	\$378,145,912	\$581,106,000	\$586,233,000	\$814,606,000	\$877,540,000
OHIO UNIVERSITY	\$49,448,971	\$79,696,363	\$84,103,403	\$132,049,339	\$126,677,123	\$133,002,202	\$175,592,164	\$167,529,147
SHAWNEE STATE	\$3,707,230	\$3,672,175	\$3,599,407	\$3,406,398	\$3,200,000	\$2,910,000	\$2,600,000	\$2,270,000
UNIV. AKRON	\$29,591,298	\$36,007,772	\$59,014,572	\$89,002,729	\$191,864,557	\$211,208,546	\$226,729,516	\$258,484,797
UNIV. CINCINNATI	\$340,715,000	\$365,895,000	\$375,212,000	\$577,365,000	\$567,181,000	\$647,688,000	\$893,004,000	\$877,453,000
UNIV. TOLEDO	\$89,660,778	\$93,722,220	\$88,467,721	\$121,691,439	\$119,376,000	\$172,577,000	\$167,367,000	\$176,779,000
WRIGHT STATE	\$14,191,357	\$15,669,753	\$14,438,988	\$13,232,584	\$11,575,625	\$18,570,323	\$29,584,121	\$46,189,820
YOUNGSTOWN ST.	\$19,933,000	\$19,096,590	\$17,840,681	\$16,368,157	\$14,992,226	\$14,263,619	\$13,492,373	\$13,268,653
<b>COMMUNITY COLLEGES</b>								
CINCINNATI ST.	\$1,254,220	\$771,204	\$592,494	\$423,417	\$0	\$49,173,132	\$47,580,000	\$47,530,000
CLARK STATE	\$306,496	\$0	\$68,172	\$47,234	\$22,011	\$0	\$72,800	\$46,400
COLUMBUS ST.	\$15,022,102	\$14,263,821	\$14,108,529	\$13,221,412	\$12,330,217	\$11,434,658	\$24,105,000	\$22,700,000
CUYAHOGA	\$0	\$0	\$0	\$4,083,210	\$12,564,559	\$59,095,229	\$65,222,373	\$64,840,147
EDISON STATE	\$220,000	\$0	\$800,000	\$800,000	\$738,589	\$68,676	\$604,972	\$532,347
JEFFERSON	\$0	\$0	\$0	\$0	\$0	\$0	\$2,170,485	\$2,023,978
LAKELAND	\$30,000	\$6,493,734	\$6,445,224	\$2,900,237	\$2,441,594	\$1,976,978	\$5,674,098	\$5,535,996
LORAIN	\$77,449	\$12,340,038	\$9,806,212	\$7,230,062	\$5,426,817	\$3,952,163	\$9,560,074	\$7,925,194
NORTHWEST ST.	\$991,860	\$0	\$0	\$0	\$123,260	\$106,207	\$73,705	\$82,001
OWENS STATE	\$12,947,278	\$136,892	\$141,049	\$206,317	\$0	\$0	\$0	\$749,152
RIO GRANDE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
SINCLAIR	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
SOUTHERN ST.	\$371,229	\$259,010	\$138,968	\$155,855	\$122,950	\$168,506	\$3,245,886	\$3,022,204
TERRA STATE	\$5,121	\$0	\$0	\$49,805	\$42,710	\$35,171	\$839,738	\$655,721
WASHINGTON ST.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>TECHNICAL COLLEGES</b>								
BELMONT TECH	\$0	\$0	\$0	\$0	\$126,878	\$97,927	\$66,728	\$33,107
COIC	\$367,493	\$337,831	\$305,307	\$270,726	\$231,348	\$186,826	\$401,059	\$100,986
HOCKING	\$1,862,829	\$1,871,748	\$1,873,504	\$4,311,120	\$5,213,938	\$497,794	\$516,117	\$1,039,729
JAMES RHODES ST	\$0	\$0	\$0	\$0	\$0	\$0	\$3,087,383	\$3,067,812
MARION TECH	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
ZANE STATE (MATC)	\$0	\$0	\$0	\$0	\$0	\$182,571	\$341,385	\$285,586
NORTH CENTRAL	\$920,656	\$775,048	\$703,213	\$744,479	\$0	\$375,474	\$300,562	\$220,160
STARK STATE	\$20,307	\$143,311	\$308,942	\$259,870	\$763,399	\$620,993	\$620,080	\$16,738
<b>STATEWIDE TOTAL</b>	<b>\$984,715,094</b>	<b>\$1,132,945,506</b>	<b>\$1,227,899,448</b>	<b>\$1,746,361,009</b>	<b>\$2,101,296,519</b>	<b>\$2,408,322,934</b>	<b>\$3,013,791,162</b>	<b>\$3,312,836,011</b>