

OHIO BOARD OF REGENTS

Agenda item 3.7 Consideration of a request by James A. Rhodes State College to pledge student fees in support of a bond issuance not to exceed \$3,100,000, to be used to finance one capital project 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, James A. Rhodes State College proposes to pledge student fees in support of general receipts bonds and/or bond anticipation notes in an amount not to exceed \$3,100,000 for the purpose of financing the construction of the new Information Technology building; and

WHEREAS, the College has determined that this project is essential to meeting the needs of students and fulfilling institutional goals; and

WHEREAS, the College's Board of Trustees approved a resolution authorizing this debt issuance at its meeting of June 24, 2003; and

WHEREAS, the proposed bond issuance complies with the requirements of Ohio Revised Code §3357.112 and §3345.12;

NOW THEREFORE,

BE IT RESOLVED, upon the recommendation of the Chancellor and with the concurrence of the Resources & Systems Efficiency Committee of the Ohio Board of Regents, that the pledge of fees by James A. Rhodes State College in support of general receipts bonds and/or bond anticipation notes not to exceed \$3,100,000 is hereby approved.

James A. Rhodes State College
July 2003 Fee Pledge Request - \$3.1 million

A. Project Overview

James A. Rhodes State College proposes to issue \$3.1 million in general receipt obligation bonds and/or bond anticipation notes to finance a portion of the new Information Technology building. This new facility is intended to fulfill three College objectives:

- Expanding academic programs in information technology.
- Expanding the role of the College's business and industry training department.
- Creating more opportunities for students and graduates to transfer to four-year programs.

The total estimated cost of this project is \$8.85 million million, for which the College already has \$5.75 million in available resources, including a \$3.8 million capital appropriation from the state. The remaining \$3.1 million would be financed through the proposed issuance of general receipts obligation bonds and/or bond anticipation notes.

Initial Submission to the Board: July 17, 2003.

Revised Submission:

James A. Rhodes State College
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B. Project Financing

James A. Rhodes State College proposes to issue general receipts obligations and/or bond anticipation notes to support the cost of building a new Information Technology building on campus.

The College has established a 30-year debt service schedule with an average variable interest rate estimated to average 4.5%. The College estimates the average annual net debt service payment to be \$191,244 and annual operating costs for the new facility to be \$77,000 in the first year. The College anticipates that tuition and fee revenues and revenues from its partnership with the West Central Community Development Corporation, as well as future state capital component appropriations, will be sufficient to cover the debt service requirement and annual operating costs of the new facility.

A breakdown of the total costs associated with the College's proposed bond issuance is presented below.

Project Costs

Construction	\$6,000,000
Moveable Equipment	\$560,000
Technology Equipment	\$1,265,000
Architectural/Engineering Services	\$565,000
Issuance Costs	\$100,000
Contingency	\$360,000
Subtotal	<u>\$8,850,000</u>

Available Resources

State Capital Appropriations (H.B. 675)	\$3,767,610
Accumulated Capital Appropriations	\$427,696
Federal & State Grants	\$1,265,000
General Unrestricted College Funds	\$289,694
Subtotal	<u>\$5,750,000</u>
Costs Net of Resources	<u><u>\$3,100,000</u></u>

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C. Project Description

The two-story Information Technology (IT) building will consist of 37,500 square-feet, and will be located on a slab-on elevated grade. The building will be located on the southern part of the College's campus and west of the Engineering Technology building. The college developed this site location with the coordination of Ohio State University's Facilities Planning and Development office. The building will fulfill three primary college objectives: (1) expanding Information Technology academic programs; (2) expanding the role of Solutions—the College's business and industry training division; and (3) enhancing opportunities for College graduates to go on to four-year programs. This facility will free up space in other buildings, thereby allowing for program expansion in non-IT disciplines. These three initiatives are described in more detail below.

1. The College intends for increased Information Technology (IT) programs to align with Governor Taft's Third Frontier initiative by providing educational opportunities that lead to high wage-earning employment. The College has experienced significant growth in IT academic programs: in 1994, only 64 students majoring in an IT field were enrolled at the College. Today the College has 364 student majoring in IT fields with an additional 246 students enrolled in IT classes.
2. In order to meet an increasing demand for noncredit job-related training services for local employers, the new IT building will provide 4,500 square-feet of space that will include a computer classroom, training room, two conference rooms, and 17 offices. This section of the building will support the regional economic development initiative aimed at attracting, expanding, and retaining area business by consolidating economic development agencies into a comprehensive one-stop entrepreneurial development center.
3. Finally, the new facility will have two general classrooms dedicated to enhancing the College's educational partnerships that assist students and graduates with transferring coursework to other institutions and career centers.

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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 Rhodes State College 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.

*NOTE: The FY 2002 data shown in *italics* reflect the ratios and composite score when \$3.1 million of proposed new debt is added to the calculations. All other factors being equal, the College's composite score rises, which is due to the manageable debt level that would result in strong viability ratio in FY 2002. Other factors not taken into account here include the impact of the new debt on the College's expendable funds and future changes in revenues and expenses.

1. Viability Ratio

The viability ratio is defined as expendable fund balances divided by plant debt. This ratio is a measure of an institution's ability to retire its long-term debt using available current resources. However, if an institution's plant debt is less than \$50,000, the viability ratio is not calculated. 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. Because Rhodes State has not held any plant debt during these years, its viability ratios for FY 2000, FY 2001 and FY 2002 were not calculated. But adding the \$3.1 million of new debt to the FY 2002 calculation would cause the College to have a strong viability ratio.

<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u><i>FY 2002*</i></u>
N/A	N/A	N/A	<i>146.8%</i>

2. Primary Reserve Ratio

The primary reserve ratio is defined as expendable fund balances divided by total expenditures and mandatory transfers. 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 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. Rhodes State's primary reserve ratios for FY 2000, FY 2001 and FY 2002 are as follows:

<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2002*</u>
25.5%	24.6%	22.9%	22.9%

3. Net Income Ratio

The net income ratio represents net total revenues divided by total current revenues. It 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 and mandatory transfers exceed its current year revenues. A positive net income ratio indicates that the institution experienced a net increase in current year fund balances Rhodes State's net income ratios for FY 2000, FY 2001 and FY 2002 are as follows:

<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2002*</u>
3.0%	2.0%	0.6%	0.6%

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. Rhodes State's composite scores for FY 2000, FY 2001 and FY 2002 are as follows:

<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2002*</u>
3.80	3.00	2.80	3.10

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E. Bond Rating

James A. Rhodes State College does not currently hold any long-term debt and therefore does not have a bond rating. However, the College reports that it plans to carry bond insurance to secure the debt for investors.

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