OHIO BOARD OF REGENTS

Agenda Item 3.17 Consideration of a request by Cleveland State University to pledge student fees in support of a bond issuance not to exceed $62,000,000.

**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, Cleveland State University proposes to pledge student fees in support of general receipts bonds in an amount not to exceed $62,000,000 for the purpose of financing multiple capital projects; and

WHEREAS, the University has determined that the proposed capital projects are essential to meeting the needs of students and fulfilling institutional goals; and

WHEREAS, the Cleveland State University Board of Trustees approved a resolution authorizing this debt issuance at its meeting of May 26, 2004; and

WHEREAS, the proposed bond issuance 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 Cleveland State University in support of general receipts bonds and/or bond anticipation notes in an aggregate amount not to exceed $62,000,000 is hereby approved.

**Cleveland State University**
**July 2004 Fee Pledge Request - $62 million**

## A. Overview

Cleveland State University proposes to issue up to $62 million in general receipts bonds to finance several capital projects on campus. The University has provided sufficient supporting documentation for this proposal, including a schedule of project costs, a pro-forma analysis, a 30-year debt service schedule, and a detailed description of each project.

Proceeds from the bond issue will be used to finance the following projects:

- Construction and renovation of the Student Center (phases I and II)
- Relocation and expansion of the University Bookstore
- Construction of a new 400-space parking garage
- Construction of a parking area for the new Recreation Center
- Renovation of sections of the historic Fenn Tower
- Restoration of the University Plaza

*Initial Submission to the Board:   June 10, 2004*

*Revised Submission:*

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## B. Project Costs and Financing

Cleveland State University proposes to issue up to $62 million in general receipts bonds to finance several capital projects. This amount includes construction costs, capitalized interest, an underwriting discount, an insurance premium, and the cost of issuance.

The University proposes to issue 30-year fixed rate serial bonds with estimated interest rates ranging between 2.1% to 5.7%. The University estimates the average annual net debt service payment to be about $4.14 million. The University's pro-forma analysis indicates future revenues will be sufficient to fund operating and debt service costs. These funding sources include rental and auxiliary revenues from food service, bookstore and parking operations, as well as from general University operations and the special student fee described below.

### Special Student Fee

A special student fee first became effective in the 2003 summer term at rate of $2 per credit hour, to support the Recreation Center for which CSU had issued Series 2003 bonds (approved by the Regents in April 2003). Cleveland State will forgo a previously scheduled $4 per credit hour increase in this fee that was to take effect in the 2004 summer term. Instead, the University will defer an increase until autumn 2005, at which time the fee will be increased by $6 per credit hour, followed by another $6 per hour increase in autumn 2006.

The University expects that the special student fee will be exempted from any future limits on annual tuition growth imposed by the General Assembly. Annual revenues generated by this fee are estimated to be approximately $700,000 in FY 2005, $2.8 million in FY 2006, and $4.9 million thereafter. These revenues will be used to support the debt and operating costs associated with the Recreation and Student centers.

A breakdown of the total estimated costs associated with the University's proposal is presented in Table B-1 below.

**Table B - 1**

| Projects: | Construction Costs | Design, Admin, Other | Total Costs |
|---|---|---|---|
| Student Center (phase I) | $10,494,599 | $1,260,401 | $11,755,000 |
| Student Center (phase II) | $23,963,932 | $2,878,068 | $26,842,000 |
| Bookstore | $4,642,443 | $557,557 | $5,200,000 |
| Parking Garage | $6,249,442 | $750,558 | $7,000,000 |
| Fenn Tower | $4,463,887 | $536,113 | $5,000,000 |
| Rec. Center Parking | $1,785,555 | $214,445 | $2,000,000 |
| Plaza Restoration | $1,606,999 | $193,001 | $1,800,000 |
| Total | $53,206,857 | $6,390,143 | $59,597,000 |
| | | | |
| **Other Costs:** | | | |
| Capitalized Interest | N/A | $1,542,331 | $1,542,331 |
| Underwriting Discount | N/A | $186,000 | $186,000 |
| Issuance Costs | N/A | $177,841 | $177,841 |
| Insurance Premium | N/A | $496,828 | $496,828 |
| Subtotal | $0 | $2,403,000 | $2,403,000 |
| | | | |
| Total | $53,206,857 | $8,793,143 | $62,000,000 |

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## C. Project Description

### 1. Student Center

**Phase I**. A new 54,000 square-foot structure will be constructed to house the University's Enrollment Management division (Admissions, Financial Aid, Registrar, and Bursar), providing students with a one-stop customer service location on campus. Also included are offices for the division of Student Life and student organizations, student lounges, and a coffee and snack facility. The estimated cost of this project is $11,755,000. Annual operating costs are expected to be approximately $266,000.

**Phase II**. The University Center is currently located in a 167,000 square-foot building that was built in 1974. The University plans to temporarily evacuate and extensively renovate this building. (Phase I must first be completed because the University Center currently houses three of the departments that will occupy that space.) The renovated building will serve as the University's student union, housing a food court, resident student dining facilities, student lounges, and student meeting space. The estimated cost of this project is $26,842,000. Annual operating costs are expected to be approximately $825,000 (note that since this is not new space, these are not additional operating costs).

The combined phases of this project will eliminate a deferred maintenance backlog for the University Center and Main Classroom buildings totaling $9.7 million. The debt service and operating costs for the University Center will be supported by the special student fee described in section B of this document.

### 2. Bookstore

The existing bookstore is currently housed in a building on the eastern edge of campus that was acquired by the University in 1966. The building, which is in need of extensive renovation, sits on a site that is designated for student housing in the University's master plan. As part of the new Student Center, a combination of new and remodeled space will be built near the center of the campus at Euclid Avenue and East 21st Street, and the current bookstore will be demolished. A new bookstore will be built that is 40% larger than the existing bookstore. The estimated cost of this project is $5.2 million. Annual operating costs are expected to be approximately $123,500. The debt service for this projected will be supported by rental income from leased space to a private company. Barnes & Noble currently rents space from CSU for $700,000 per year; rental income is projected to increase after construction of the new bookstore is completed.

### 3. Parking Projects

**Parking Garage**. A 400-space parking garage will be built along the south side of Chester Avenue, east of the Recreation Center and north of Mather Mansion. The garage will replace surface parking lost due to construction of other projects on campus, and will be linked by pedestrian bridges to the Recreation Center and Stilwell Hall. The estimated cost of this project is $7 million. Annual operating costs are expected to be approximately $30,000.

**Recreation Center Parking**. This project will fund construction of a 49-space parking area underneath the new Recreation Center that is currently under construction. The estimated cost of this project is $2-million. Annual operating costs are expected to be approximately $10,000.

Debt service for both of these parking projects will be funded by parking revenues, which totaled $3.4 million in FY 2003.

### 4. Fenn Tower

Built in 1929, Fenn Tower is on the National Register of Historic Places. This landmark building is currently vacant. Bond proceeds will finance the removal of asbestos from Fenn Tower, and the renovation of the first and third floors and part of the lower level—a total of 25,000 square feet. This renovated space will be used for retail and conference space, and will also house the Honors Program. The estimated cost of this project is $5 million. Annual operating costs are expected to be approximately $123,000. Debt service for this project will be supported by rental income from retail and conference space within Fenn Tower. (Following an RFP process completed last winter, the University has begun negotiating a contract with a developer to convert Fenn Tower into student housing.)

### 5. Plaza Restoration

The University Plaza is being waterproofed, resurfaced and restored in a project funded in part by state capital appropriations. Bond proceeds will be used to complete the restoration of the plaza, including the addition of trees, benches, tables and a fountain. The estimated cost of this project is $1.8 million. Annual operating costs are expected to be approximately $15,000. Debt service for this project will be supported by the University's unrestricted operating funds and/or from state Capital Component appropriations.

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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 Cleveland State University 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 University's FY 2002 and FY 2003 financial reports were 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 the $62 million of proposed new debt is added to the calculations. All other factors being equal, the University'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 University'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% might be a cause for concern. Cleveland State University's viability ratios for FY 2001, FY 2002 and FY 2003 are as follows:

| FY 2001 | FY 2002 | FY 2003 | *FY 2003** |
|---|---|---|---|
| 231.3% | 411.5% | 91.5% | *43.4%* |

**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. 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. Cleveland State University's primary reserve ratios for FY 2001, FY 2002 and FY 2003 are as follows:

| FY 2001 | FY 2002 | FY 2003 | *FY 2003** |
|---|---|---|---|
| 15.1% | 22.2% | 24.5% | *24.5%* |

**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 expenses exceed its current year revenues. A positive net income ratio indicates that the institution experienced a net increase in current year funds or net assets. Cleveland State University's net income ratios for FY 2001, FY 2002 and FY 2003 are as follows:

| FY 2001 | FY 2002 | FY 2003 | *FY 2003** |
|---|---|---|---|
| 2.6% | 2.0% | 5.2% | *5.2%* |

**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 maintain strong expendable reserve funds, 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. Cleveland State University's composite scores for FY 2001, FY 2002 and FY 2003 are above the minimum threshold:

| FY 2001 | FY 2002 | FY 2003 | *FY2003** |
|---|---|---|---|
| 3.30 | 3.60 | 3.40 | *3.10* |

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## E. Bond Ratings

Cleveland State University's long-term debt was most recently reviewed and rated by Standard & Poor's, which assigned CSU a rating of *A* with a stable outlook. Based on this rating, the University's capacity to meet its financial obligations is considered reasonably strong. S&P considers CSU's bonds to be high quality with moderate investment risk.

Table E-1 below illustrates the rating scales for Moody's Investors Services and Standard & Poor's. Both companies generally use the same principals, criteria, and rating system. However, Moody's sometimes 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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## F. Institutional Plant Debt

The following table 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 1998 and FY 2003, aggregate net plant debt increased by 145% or $1.4 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.

| Institution | Long-Term Plant Debt | | | | | |
|---|---|---|---|---|---|---|
| | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 | FY 2003 |
| **UNIVERSITIES** | | | | | | |
| BOWLING GREEN | $41,050,000 | $35,400,000 | $32,035,000 | $83,415,000 | $79,255,000 | $91,215,000 |
| CENTRAL STATE | $3,983,721 | $3,780,127 | $3,572,922 | $3,346,920 | $3,192,444 | $2,703,429 |
| CLEVELAND STATE | $16,543,399 | $16,420,347 | $16,153,641 | $12,393,540 | $10,849,215 | $55,977,422 |
| KENT STATE | $65,490,000 | $63,143,000 | $81,774,000 | $234,407,000 | $290,735,000 | $285,773,000 |
| MCOT | $2,946,693 | $2,883,387 | $2,184,779 | $1,229,464 | $6,392,000 | $8,837,000 |
| MIAMI UNIV. | $50,499,010 | $44,949,785 | $49,018,070 | $45,061,353 | $53,168,773 | $47,994,898 |
| NEOUCOM | $0 | $0 | $0 | $542,430 | $1,583,286 | $1,397,190 |
| OHIO STATE | $222,557,597 | $315,216,350 | $365,192,650 | $378,145,912 | $581,106,000 | $586,233,000 |
| OHIO UNIVERSITY | $49,448,971 | $79,696,363 | $84,103,403 | $132,049,339 | $126,677,123 | $133,002,202 |
| SHAWNEE STATE | $3,707,230 | $3,672,175 | $3,599,407 | $3,406,398 | $3,200,000 | $2,910,000 |
| UNIV. AKRON | $29,591,298 | $36,007,772 | $59,014,572 | $89,002,729 | $191,864,557 | $211,208,546 |
| UNIV. CINCINNATI | $340,715,000 | $365,895,000 | $375,212,000 | $577,365,000 | $567,181,000 | $647,688,000 |
| UNIV. TOLEDO | $89,660,778 | $93,722,220 | $88,467,721 | $121,691,439 | $119,376,000 | $172,577,000 |
| WRIGHT STATE | $14,191,357 | $15,669,753 | $14,438,988 | $13,232,584 | $11,575,625 | $18,570,323 |
| YOUNGSTOWN ST. | $19,933,000 | $19,096,590 | $17,840,681 | $16,368,157 | $14,992,226 | $14,263,619 |
| | | | | | | |
| **COMMUNITY COLLEGES** | | | | | | |
| CINCINNATI ST. | $1,254,220 | $771,204 | $592,494 | $423,417 | $0 | $49,173,132 |
| CLARK STATE | $306,496 | $0 | $68,172 | $47,234 | $22,011 | $0 |
| COLUMBUS ST. | $15,022,102 | $14,263,821 | $14,108,529 | $13,221,412 | $12,330,217 | $11,434,658 |
| CUYAHOGA | $0 | $0 | $0 | $4,083,210 | $12,564,559 | $59,095,229 |
| EDISON STATE | $220,000 | $0 | $800,000 | $800,000 | $738,589 | $68,676 |
| JEFFERSON | $0 | $0 | $0 | $0 | $0 | $0 |
| LAKELAND | $30,000 | $6,493,734 | $6,445,224 | $2,900,237 | $2,441,594 | $1,976,978 |
| LORAIN | $77,449 | $12,340,038 | $9,806,212 | $7,230,062 | $5,426,817 | $3,952,163 |
| NORTHWEST ST. | $991,860 | $0 | $0 | $0 | $123,260 | $106,207 |
| OWENS STATE | $12,947,278 | $136,892 | $141,049 | $206,317 | $0 | $0 |
| RIO GRANDE | $0 | $0 | $0 | $0 | $0 | $0 |
| SINCLAIR | $0 | $0 | $0 | $0 | $0 | $0 |
| SOUTHERN ST. | $371,229 | $259,010 | $138,968 | $155,855 | $122,950 | $168,506 |
| TERRA STATE | $5,121 | $0 | $0 | $49,805 | $42,710 | $35,171 |
| WASHINGTON ST. | $0 | $0 | $0 | $0 | $0 | $0 |
| | | | | | | |
| **TECHNICAL COLLEGES** | | | | | | |
| BELMONT TECH | $0 | $0 | $0 | $0 | $126,878 | $97,927 |
| COTC | $367,493 | $337,831 | $305,307 | $270,726 | $231,348 | $186,826 |
| HOCKING | $1,862,829 | $1,871,748 | $1,873,504 | $4,311,120 | $5,213,938 | $497,794 |
| JAMES RHODES ST | $0 | $0 | $0 | $0 | | $0 |
| MARION TECH | $0 | $0 | $0 | $0 | | $0 |
| ZANE STATE (MATC) | $0 | $0 | $0 | $0 | $0 | $182,571 |
| NORTH CENTRAL | $920,656 | $775,048 | $703,213 | $744,479 | | $375,474 |
| STARK STATE | $20,307 | $143,311 | $308,942 | $259,870 | $763,399 | $620,993 |
| STATEWIDE TOTAL | $984,715,094 | $1,132,945,506 | $1,227,899,448 | $1,746,361,009 | $2,101,296,519 | $2,408,322,934 |