

OHIO BOARD OF REGENTS

Agenda Item 3.20 Consideration of a request by Bowling Green State University to pledge student fees in support of a bond issuance not to exceed \$35,000,000.

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, Bowling Green State University proposes to pledge student fees in support of general receipts bonds in an amount not to exceed \$35,000,000 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 Bowling Green State University Board of Trustees approved a resolution authorizing this debt issuance at its meeting of May 7, 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 Bowling Green State University in support of general receipts bonds and/or bond anticipation notes in an aggregate amount not to exceed \$35,000,000 is hereby approved.

Bowling Green State University
July 2004 Fee Pledge Request - \$35 million

A. Overview

Bowling Green State University proposes to issue up to \$35 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 15-year debt service schedule, and a detailed description of each project.

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

- Acquisition and implementation of an administrative information technology system
- Expansion of on-campus parking
- Acquisition of property adjacent to campus
- Basic capital improvements to various campus facilities

Initial Submission to the Board: June 10, 2004

Revised Submission:

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B. Project Costs and Financing

Bowling State University proposes to issue up to \$35 million in general receipts bonds to finance several capital projects. This amount includes acquisition, implementation, and construction costs, an underwriting discount, an insurance premium, and the cost of issuance.

The University proposes to issue 15-year fixed rate serial bonds with estimated interest rates ranging from 1.5% to 4.5%. The University estimates the average annual net debt service payment to be about \$2.8 million. The University reports that the operating and debt service costs associated with this bond issuance will be supported by revenues from a variety of sources. The Information System project does not require additional resources; it will be supported by funds the University has already committed to its IT Services budget for five years, plus funds currently committed to the University's existing mainframe system. Other revenue sources that will support the debt include: parking operations, traffic violations, residence hall operations, property rentals, and other general University receipts. The University does not intend to increase fees to fund any of the projects included in this proposal.

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

Table B - 1

	Implementation / Construction / Acquisition	Moveable Equipment	Available Resources	Net Total Costs
Projects:				
Information System	\$28,927,000	\$2,330,000	(\$4,257,000)	\$27,000,000
Parking Expansion	\$1,250,000	\$0	\$0	\$1,250,000
Property Acquisition	\$1,900,000	\$0	\$0	\$1,900,000
Basic Improvements	\$1,100,000	\$0	\$0	\$1,100,000
Total	\$33,177,000	\$2,330,000	(\$4,257,000)	\$31,250,000
Other Costs:				
Contingency	\$3,385,000	\$0	\$0	\$3,385,000
Issuance Costs	\$365,000	\$0	\$0	\$365,000
Subtotal	\$3,750,000	\$0	\$0	\$3,750,000
Total	\$36,927,000	\$2,330,000	(\$4,257,000)	\$35,000,000

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C. Project Description

Information System - \$27 million

The Information System project includes the development, acquisition, installation and implementation of hardware and software to provide information technology applications for the administrative functions of the University. The University's current information system is nearly 15 years-old and is becoming increasingly obsolete. Replacement of the existing structure with this new PeopleSoft system will greatly improve all aspects of University administration, including financial, human resources and student services.

The University opted for the PeopleSoft system after an extensive RFP process. The University also consulted with other Ohio institutions that already employ PeopleSoft systems, including Cleveland State University, Ohio State University and the University of Akron. Implementation of the new system is projected take at least five years.

Parking Project - \$1.25 million

The University has identified parking availability as a critical factor in the recruitment and retention of students. Expanding its parking facilities represents is a central component to maintaining the University's physical environment. This project will include the expansion and improvement of multiple parking facilities, and will be funded from parking fees and violation revenue generated by the University's Parking Services.

Land Acquisition - \$1.9 million

In recognition of growth in its educational and auxiliary programming and services, the University has determined that additional land is essential. The proposed properties are located adjacent to the BGSU campus. One parcel has been rented by the University for parking for over 25 years. Other parcels will provide space for academic programming, potential limited graduate student housing, residential life living-learning and community programming space, and short-term housing for faculty and staff, as well as making capital improvements to formerly privately-owned student housing structures that have been neglected and are in need of repair. These projects will be funded from residence hall, parking and rental revenues.

Basic Capital Improvements - \$1.1 million

This project will finance the construction, renovation, repair, finishing and equipping of various University facilities that are in need of attention. This project will be supported by existing fees from the areas where these funds are committed.

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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 Bowling Green 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 \$35 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. Bowling Green State University's viability ratios for FY 2001, FY 2002 and FY 2003 are as follows:

<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u><i>FY 2003*</i></u>
100.7%	116.6%	100.6%	<i>72.7%</i>

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

<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2003*</u>
29.3%	33.8%	29.8%	29.8%

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. Bowling Green State University's net income ratios for FY 2001, FY 2002 and FY 2003 are as follows:

<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2003*</u>
4.2%	12.1%	1.0%	1.0%

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. Bowling Green State University's composite scores for FY 2001, FY 2002 and FY 2003 are above the minimum threshold:

<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY2003*</u>
4.00	4.20	3.80	3.50

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E. Bond Ratings

Bowling Green State University's existing long-term debt was most recently reviewed and rated by both Moody's Investors Services and Standard & Poor's. The University was assigned a rating of A2 from Moody's and A from S&P. Based on these ratings, the University's capacity to meet its financial obligations is considered reasonably strong. The University's bonds are considered to be of 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	\$0
MARION TECH	\$0	\$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	\$0	\$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