

OHIO BOARD OF REGENTS

Agenda Item 3.14 Consideration of a request by The Ohio State University to pledge student fees in support of a debt issuance not to exceed \$577,000,000 to be used for multiple capital improvements and new projects.

**RESOLUTION**

WHEREAS, Section 94.06 of Am. Sub. H.B. 94 of the 124<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 University proposes to pledge student fees in support of general receipts bonds and commercial paper in an aggregate amount not to exceed \$577,000,000 for the purpose of financing multiple renovations and new projects on campus; and

WHEREAS, to provide for financial flexibility, reduced costs, and administrative simplicity, the University proposes to issue short-term commercial paper to later be converted to long-term bonds; and

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

WHEREAS, the University's Board of Trustees approved a resolution authorizing the commercial paper component of this issuance at its meeting of May 30, 2003; and

WHEREAS, the University's Board of Trustees is expected to approve the issuance of general receipts bonds at its meeting of July 11, 2003; and

WHEREAS, the proposed bond issuance complies with the requirements of Section 3345.11 and Section 3345.12 of the Ohio Revised Code;

NOW THEREFORE,

BE IT RESOLVED, contingent upon the approval of the Ohio State University Board of Trustees, and upon the recommendation of the Chancellor and with the concurrence of the Resources Committee of the Ohio Board of Regents, that the pledge of fees by The Ohio State University in support of general receipts bonds, notes, or commercial paper not to exceed an aggregate amount of \$577,000,000 is hereby approved.

**The Ohio State University**  
**June 2003 Fee Pledge Request - \$577 million**

**A. Project Overview**

The Ohio State University requests consideration of a request to pledge student fees in support of a debt issuance to support 35 capital projects that include constructing new facilities, renovating existing facilities, and acquiring other capital assets. The estimated total cost of this proposal is roughly \$894 million, which includes construction and acquisition costs, capitalized interest, financing costs, and other related costs. The total amount of this debt issuance will not exceed \$577 million. Some of the aspects of this request include:

1. Expanding the University's research efforts and capabilities.
2. Improving/repairing utility and plant facilities.
3. Expanding and improving student housing at the main Columbus campus, as well as at three regional branch campuses.
4. Expanding and improving medical facilities, including improvements to the Hospital Parking Garage.
5. Continuing the Campus Partners program to revitalize urban neighborhoods surrounding the University.
6. Upgrading several buildings, including academic, athletic, and research facilities.

*Initial Submission to the Board: June 2003.*

*Revised Submission:*

**The Ohio State University**  
**June 2003 Fee Pledge Request - \$577 million**

**B. Project Financing**

The Ohio State University is in the process of planning several capital improvements and other related projects described herein, which have an estimated total cost of roughly \$894 million. The University proposes to issue a combination of long-term general receipt bonds and short-term commercial paper in an amount not to exceed \$577 million to support these projects. Of this amount, \$81.7 million would be supported by University general funds. The University expects the remaining portion to be supported by related revenues, rentals, gifts, and research grants.

The University proposes issuing general receipt debt consisting of a combination of bonds and commercial paper, which includes converting commercial paper (previously approved by the Regents in 2001) to bonds. By first issuing short-term commercial paper to be subsequently converted to long-term bonds, the University reports that it has enjoyed savings of almost \$6 million in the five years that it has exercised this practice.

The long-term debt issuance will be split between fixed and variable rate bonds. The fixed interest rate is estimated to be 3.8% to 4%; the variable interest rate is currently 1.3% and has averaged 2.7% over the past 5 years. The debt service schedule for this proposal ranges from 10 to 30 years, with an average life of between 15 and 18 years.

The table on the following page provides a breakdown of the costs, amount to be financed, and revenue sources for each of the 35 projects included in this proposal.

Ohio State University, June 2003		Total Project Cost	New Debt Financing	% to be Financed with New Debt	Funding Sources
<b>Projects:</b>					
1	650 Ackerman Rd.	\$21,500,000	\$21,500,000	100%	Rental income.
2	Aronoff Lab	\$26,784,622	\$2,300,000	9%	General & state capital funds.
3	Biomed Research Tower	\$120,310,000	\$118,350,000	98%	Fund raising, indirect cost recoveries.
4	Camera Center	\$30,000,000	\$25,000,000	83%	Hospital revenues, state capital funds.
5	Campus Partners Gateway	\$125,000,000	\$42,000,000	34%	Auxiliary revenue.
6	Wiseman Hall Cancer Center	\$12,300,000	\$7,300,000	59%	State capital funds; hospital revenues; donor gifts.
7	3rd Frontier Network Dark Fiber	\$22,000,000	\$5,200,000	24%	State capital & operating funds.
8	OSU Hospitals East - Emergency Dept.	\$4,000,000	\$4,000,000	100%	State capital funds; hospital revenues.
9	Fawcett Center 1st Floor Renovation	\$4,300,000	\$2,000,000	47%	Gifts to OSU; conference center revenues.
10	Grad/Prof Student Housing Phases I&II	\$38,750,000	\$7,750,000	20%	Student affairs/housing revenues.
11	Harrison Apartments	\$7,500,000	\$7,500,000	100%	Student affairs/housing revenues.
12	Hospital Parking Garage	\$20,000,000	\$20,000,000	100%	Transportation & parking proceeds.
13	Knowlton School of Architecture	\$33,000,000	\$22,700,000	69%	General & state capital funds; fundraising.
14	Larkins Hall Replacement	\$140,000,000	\$63,000,000	45%	State cap. funds; student fee, athletic/rec revenues.
15	Lima Campus Student Housing	\$16,600,000	\$16,600,000	100%	General funds; student affairs/housing revenue.
16	Mansfield Campus Student Housing	\$5,500,000	\$5,500,000	100%	Student affairs/housing revenues.
17	Marion Campus Student Housing	\$16,600,000	\$16,600,000	100%	General funds; student affairs/housing revenue.
18	Materials Handling System - AGVS	\$18,000,000	\$18,000,000	100%	State capital funds; hospital revenues.
19	McCracken Central Chilled Water Plant	\$8,000,000	\$4,000,000	50%	General funds.
20	McCracken Power Plant Boiler Repairs	\$3,000,000	\$1,000,000	33%	General funds.
21	McCracken Power Plant Emissions	\$73,000,000	\$60,000,000	82%	General funds.
22	Neil Avenue Garage	\$11,900,000	\$11,900,000	100%	Transportation & parking proceeds.
23	Medical Center Chilled Water Expansion	\$3,200,000	\$1,250,000	39%	General funds; hospital revenues.
24	Off-Campus Properties, Student Housing	\$2,000,000	\$1,000,000	50%	Student affairs/housing revenues.
25	Put-in-Bay Water Line Expansion	\$2,500,000	\$2,500,000	100%	General funds; ODNR funding.
26	Quad Central Construction	\$2,800,000	\$1,000,000	36%	State capital funds; hospital revenues.
27	Ross Heart Hospital	\$70,000,000	\$25,000,000	36%	State capital funds; hospital revenues.
28	Scitech Leasehold Improvements	\$2,000,000	\$2,000,000	100%	Rental income.
29	Scitech - 1255 Project, Phase I	\$4,000,000	\$4,000,000	100%	General funds; rental income.
30	Stone Lab Residence and Dining Halls	\$2,500,000	\$500,000	20%	Student affairs/housing revenues.
31	Student Affairs Renovations	\$27,000,000	\$27,000,000	100%	Student affairs/housing revenues.
32	Student Family Buckeye Village Center	\$5,600,000	\$5,200,000	93%	Student affairs/housing revenues.
33	Thompson Properties	\$850,000	\$850,000	100%	Student affairs/housing revenues.
34	Wexner Center Renovations	\$12,270,000	\$11,270,000	92%	State capital funds; OSU general funds.
35	Wilce Health Center Renovation	\$1,100,000	\$1,100,000	100%	Student affairs & student health center income.
	<b>Subtotal</b>	<b>\$893,864,622</b>	<b>\$564,870,000</b>	<b>63%</b>	
	Margin of safety/contingencies	--	\$12,130,000	--	
	<b>Total debt authority requested</b>	<b>--</b>	<b>\$577,000,000</b>	<b>--</b>	

**The Ohio State University**  
**June 2003 Fee Pledge Request - \$577 million**

**C. Project Description**

1. **650 Ackerman Road, \$21.5 million:** Acquisition and renovation of approximately 26 acres of land and eight buildings adjacent to campus. OSU's Department of Mechanical Engineering and some Medical Center offices have already moved into the facility. The previous owner of the property, ABB Inc., will continue to occupy some space in the facility for two years and will pay OSU rental fees. After ABB completely vacates the property, OSU and its related entities will occupy the entire site. The project will be financed with rental income. Estimated completion: 2003.
2. **Aronoff Laboratory, \$2.3 million:** Construction of a building consisting of approximately 123,000 gross square feet of laboratory and office space for three departments: Zoology, Entomology and Plant Biology. The project will be financed with University general funds and with state capital appropriations. Estimated completion: 2003.
3. **Biomedical Research Tower, \$118.35 million:** Construction of a new biomedical research tower (BRT) to create a multidisciplinary biomedical research and education facility. In addition to generic research labs, this building will include a large vivarium, conferencing center, and several specialty core research lab facilities. The project will be financed with funds raised by Health Resource & Services Administration fundraising campaign, and by indirect cost recoveries. Estimated completion: 2006.
4. **Camera Center Purchase & Improvements, \$25 million:** Purchase of the JC Camera Center, and renovations/modifications appropriate for Medical Center utilization. This includes relocating several services and clinics currently housed on the Medical Center campus. This project will be financed with state capital appropriations and OSU Hospital revenues. Estimated completion: 2004.
5. **Campus Partners Gateway Project, \$42 million:** This project supports the construction of the Gateway project by Campus Partners for Community Urban Development. Campus Partners was incorporated in 1995 as a non-profit organization and as a state of Ohio Community Urban Redevelopment Corporation organized to develop a comprehensive OSU-area neighborhood revitalization plan. Campus Partners also actively promotes projects and programs designed to have an immediate and positive impact on the neighborhoods south and east of the University's Columbus campus. This project will be financed with Student Affairs/Housing revenues. Estimated completion: 2005.
6. **Comprehensive Cancer Center – Wiseman Hall, \$7.3 million:** Expansion of the Comprehensive Cancer Center research program laboratories by adding two floors to the top of the existing Wiseman Hall facility. This will provide more space for the chemo prevention laboratories. The project will be financed with state capital appropriations, James Cancer Hospital revenues, and donor-restricted Foundation funds. Estimated completion: 2004.
7. **Third Frontier Network Dark Fiber Project (Phase I), \$5.2 million:** Develop a new statewide fiber optic network that will provide advanced high-speed data connectivity to support higher education in the state of Ohio. The network will enhance education and research among Ohio's

colleges, universities and research centers and K-12 schools. Examples include remote shared resources and instrumentation, and enhanced distance learning applications. There are currently 91 Ohio institutions of higher education that are OARnet members. The project will be financed with both operating and capital appropriations from the state, as well as revenues from other colleges and universities connected to the fiber. Estimated completion of Phase I: 2004.

- 8. Emergency Department – OSU Hospitals East, \$4 million:** Construction of a new expanded Emergency Department at University Hospitals East. This will provide additional space for optimal patient care. This project will be financed with state capital appropriations and hospital revenues. Estimated completion: 2005.
- 9. Fawcett Center First Floor Renovation, \$2 million:** Renovation of the first floor to create a state of the art conference center. The project includes cosmetic and technology upgrades to the lobby, auditorium, existing conference rooms and Alumni Lounge. Also included, are ADA upgrades to the restrooms and the reworking of the east wing to create boardrooms and conference spaces. This project will be financed with conference center revenues and gifts to the University. Estimated completion: 2005.
- 10. Graduate and Professional Student Housing (Phases I - II), \$7.75 million:** Construction of a new 4-building apartment-style student housing complex for graduate students, upper-class undergraduates, and scholar students. This includes traditional 2-person rooms with shared corridor baths, 2-bedroom double suites, efficiencies, 4-bedroom single suites, and 2-bedroom double suites. The facility will include retail space providing food service and a dining room. This project will be financed with Student Affairs/Housing revenues and from revenues from the Student Affairs Fund Service. Estimated completion: 2004.
- 11. Harrison Apartments, \$7.5 million:** Purchase of existing twelve-story apartment building with 132 units, 340-450 beds, on 2.16 acres. Units include 9 studio apartments, 2 one-bedroom units, 66 two-bedroom units, 44 three-bedroom units, and 11 six-bedroom units. An upgrade of the building's fire safety system is also included in this project. This project will be financed with Student Affairs/Housing revenues. Estimated completion: 2004.
- 12. Hospitals Parking Garage, \$20 million:** Construction of a new parking garage to provide patient and visitor parking for the Medical Center and hospitals. The garage will have approximately 975 parking spaces, with approximately 5,000 square-feet of retail space suitable for a deli or similar type of eating area located at the north end. This project will be financed with proceeds from the OSU Transportation & Parking department. Estimated completion: 2004.
- 13. Rhodes Hall Garage:** Construction of a new parking garage to provide patient and visitor parking for the Medical Center and hospitals. The garage will have approximately 975 parking spaces, with approximately 5,000 square-feet of retail space. This project will be financed with proceeds from the OSU Transportation & Parking department. Estimated completion: 2004.
- 14. Knowlton School of Architecture, \$22.7 million:** Construction of a new facility to house the programs of Architecture, City & Regional Planning, and Landscape Architecture. This project will be financed with

OSU general funds, fundraising proceeds, and with state capital appropriations. Estimated completion: 2004.

- 15. Larkins Hall Replacement (Phase I), \$63 million:** This project will replace the existing Larkin's Hall facility with an all-new recreation center to be completed in two construction phases. Some of the highlights of this 604,800 square-foot facility include a 50-meter competition pool and diving well, recreation, class and lap pools, 16 basketball courts, 6 multipurpose rooms, squash courts, racquetball courts, and a 28,000 square-foot fitness center. The new center will also house administrative and academic offices, classrooms, and laboratory spaces. A satellite facility will be located on West campus. This 85,000 square-foot facility will house basketball courts, a turf gym, and adventure programs. This project will be financed with state capital appropriations, revenues from student activity fees, and with revenues from the OSU Athletic & Recreational Sports department. Estimated completion of Phase I: 2005.
- 16. Lima Campus Student Housing, \$16.6 million:** Construction of a 300-bed on-campus student housing facility. This includes fitness, office, laundry, classroom and recreational space. The six-building complex, connected with community space, is designed to create small communities—"houses"—for fifty students each, with common living, dining and kitchen areas. Bedrooms will be traditional 2-person rooms with shared corridor baths. This project will be financed with Student Affairs/Housing revenues and Lima Campus general funds. Estimated completion: 2005.
- 17. Mansfield Campus Student Housing, \$5.5 million:** Purchase of existing housing complex with 52 apartments comprising 180 beds. This project will provide apartment-style accommodations in 2- and 5-bedroom apartments for students. Student Affairs/Housing revenues will finance this project. Estimated completion: 2004.
- 18. Marion Campus Student Housing, \$16.6 million:** Construction of a 300-bed facility for on-campus student housing. Includes fitness, office, laundry, classroom and recreation space. The six-building complex, connected with community space, is designed to create small communities—"houses"—for fifty students each, with common living, dining and kitchen areas. Bedrooms will be traditional 2-person rooms with shared corridor baths. This project will be financed with Student Affairs/Housing revenues and Marion Campus general funds. Estimated completion: 2005.
- 19. Materials Handling System – AGVS, \$18 million:** Construction for and installation of a new automated vehicular materials handling system to serve the Medical Center, the James Cancer Hospital and the Ross Heart Hospital. This system will deliver supplies from the storeroom, meals from dietary, linens from laundry, and instruments and OR packs from sterile supply to clinical units throughout the hospital buildings. This project will be financed with state capital appropriations and OSU Hospital revenues. Estimated completion: 2003.
- 20. McCracken Central Chilled Water Plant Expansion (Phase I), \$4 million:** Adds approximately 4,000 tons of chiller capacity to the McCracken central chilled water plant. The capacity is necessary to serve future buildings (Physical Sciences, Architecture, Mechanical Engineering, Psychology, Larkins Replacement) that will connect to the central plant. It will also allow other existing buildings to be connected to

the central loop. This project will be financed with OSU general funds. Estimated completion: 2006.

- 21. McCracken Power Plant Coal Boiler Repairs (Phase I), \$1 million:** This project will repair the superheater, make modifications to the coal transport system, replace the natural gas burner, revise the baghouse ash-handling system, and reroute the coal feed system. These repairs and modifications are needed to ensure the capacity to burn coal, and improve reliability for the next 15 years. This project will be financed with OSU general funds. Estimated completion: 2004.
- 22. McCracken Power Plant Emissions Compliance (Phase I), \$60 million:** Replacement of four aging steam boilers in McCracken Power Plant with new, dual-fueled high-efficiency units. Boilers produce steam for campus heating, domestic hot water, and chilled water production. This also includes the installation of an electrical ductbank to connect McCracken substation to OSU substation. This project will be financed with OSU general funds. Estimated completion: 2005.
- 23. Neil Avenue Garage, \$11.9 million:** Construction of a new parking garage to provide replacement campus parking for the academic core/medical center area. The garage will have approximately 650 parking spaces, with an area constructed for future retail or office space on the ground floor. This project will be financed with proceeds from the OSU Transportation & Parking department. Estimated completion: 2004.
- 24. OSU Medical Center Chilled Water Expansion, \$1.25 million:** Construction and installation of a central chilled water facility on the roof of Cramblett Hall to serve Cramblett Hall and the Ross Heart Hospital. This system will connect to the Rhodes and James chilled water system to create a "chilled water loop" system serving the health system buildings. This project will be financed with state capital appropriations and OSU Hospital revenues. Estimated completion: 2004.
- 25. Purchase of Off-Campus Properties for Student Housing, \$1 million:** Student Affairs is selectively investing in the purchase of off campus properties to provide additional student housing and to support the fraternity/sorority system. This project will be financed with Student Affairs/Housing revenues.
- 26. Put-in-Bay Waterline Extension, \$2.5 million:** Extension of water and sewer services to Peach Point and Gibraltar Island. This will involve trenching or directional boring between the islands as well as trenching from the current termination of water and sewer service provided by the village of Put-in-Bay to the Peach Point area. This project will be financed with OSU general funds and support from the Ohio Department of Natural Resources. Estimated completion: 2006.
- 27. Quad Central, \$1 million:** Construction of a Central Quadrangle area at the Medical Center to serve as entrance for Rhodes Hall, the Ross Heart Hospital, Prior Health Sciences Library, Meiling Hall, and Atwell Hall. This will include roadway improvements to assist in wayfinding and access to patient and visitor parking. This project will be financed with state capital appropriations, and with OSU Hospital revenues. Estimated completion: 2004.
- 28. Ross Heart Hospital, \$25 million:** Construction of a new hospital to consolidate cardiovascular services and integrate cardio-thoracic, cardiology, and peripheral vascular surgery in a single facility. The project will include space for inpatient surgical services, diagnostic and treatment services, outpatient clinic, clinical support staff, administrative

support, and cardiac rehabilitation care. This project will be financed with state capital appropriations, OSU Hospital revenues, and gifts to the OSU Health System and Ross Heart Hospital. Estimated completion: 2004.

- 29. Scitech Leasehold Improvements, \$2 million:** Tenant Improvements for the Science and Technology Campus Corporation (Scitech) properties, including 1255 tenant build-out at \$570,000; 1381 building improvements at \$100,000; and other tenant build-out at \$1.25 million. This project will be financed by rental income from tenants. Estimated completion: 2004.
- 30. Scitech – 1255 Project (Phase I), \$4 million:** Scitech has planned a unique concept to complete the renovation of its 1275 Kinnear Road building on the West Campus of the University's main campus. The Renovation of 1255 Kinnear Road is the first phase in the renovation of the remainder of the site today known only as 1275 Kinnear Road, the former home of the Simmons Mattress Co. The redevelopment of 1255 will renovate 42,000 S.F. of the space for office, laboratory, and prototype productions uses, separate this section from the remainder of the building, introduce an interior drive, and rework the entire eastern end of the current 1275 site. The project will be financed with OSU general funds and tenant rental income. Estimated completion: 2004.
- 31. Stone Lab Residence and Dining Halls Renovation and Construction, \$500,000:** Renovation of Cooke Castle for use as a conference center, and construction of two 2-bedroom duplexes for use as faculty and guest housing. This project will be financed with Student Affairs/Housing revenues. Estimated completion: 2004.
- 32. Student Affairs General Renovations and Improvements, \$27 million:** Building upgrades to all Student Affairs facilities to include HVAC, electric, plumbing, mechanical, building envelope, elevators, fire safety upgrades, site improvements, and ADA modifications to existing buildings. This project will be financed with Student Affairs/Housing revenues. Estimated completion: 2003-2005.
- 33. Student Family Buckeye Village Community Center, \$5.2 million:** Construction of a new community facility to provide an integrated approach to addressing the needs of the OSU Child Care Center, the ACCESS Program for single parents and the residents of Buckeye Village. The new facility will provide space for childcare for 100 children, administrative office space for the ACCESS program, and will replace the current community center for Buckeye Village residents. This project will be financed with Student Affairs/Housing revenues, and rental income. Estimated completion: 2004.
- 34. Thompson Properties, \$850,000:** Purchase of 4 properties for use as student housing in the block of 9th and 10<sup>th</sup> Avenues and Worthington and Neil Avenue. This project will be financed with Student Affairs/Housing Revenues. Estimated completion: 2003.
- 35. Wexner Center Renovations, \$11.27 million:** Renovation and retrofitting of the Wexner Center for the Arts, which will correct building envelope and system problems. This project will be financed with state capital appropriations and OSU general funds. Estimated completion: 2004.
- 36. Wilce Health Center Renovation, \$1.1 million:** Renovation of space on the first and third floors of the Wilce Student Health Center to provide

new Physical Therapy and Clinical Laboratory space. This project will be financed with Health Center revenues. Estimated completion: 2004.

**The Ohio State University**  
**June 2003 Fee Pledge Request - \$577 million**

**D. 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 assess 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 The Ohio State University 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.

It is important to note that the University's FY 2002 financial report was 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 2002 data shown in *italics* reflect the ratios and composite score when the \$577 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**

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. A viability ratio in excess of 1.00 indicates that the institution has expendable fund balances in excess of its plant debt. Pursuant to the S.B. 6 analysis, a viability ratio of 0.6 or greater is favorable, while a ratio below 0.3 would be a cause for concern. The Ohio State University's viability 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>
200.8%	190.8%	150.5%	75.5%

## 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 favorable, while a ratio below 5% would be a cause for concern. The Ohio State University'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>
36.3%	33.0%	38.0%	38.0%

## 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. In the S.B. 6 analysis, a net income ratio of 1% is favorable. The Ohio State University'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>
(0.6%)	0.4%	(3.1%)	(3.1%)

## 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. The Ohio State University's composite scores for FY 2000, FY 2001 and FY 2002 are above the minimum threshold:

<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2002*</u>
3.40	3.60	3.40	3.10

**The Ohio State University  
June 2003 Fee Pledge Request - \$577 million**

**E. Bond Rating**

The Ohio State University's existing bond-related debt has received favorable marks from independent bond-rating agencies. Both Moody's Investors Services and Standard & Poor's Rating Services have reviewed and rated the University's existing long-term debt obligations.

Ohio State's existing bond-related debt most recently received ratings of *Aa2* and *AA* from Moody's and S&P's, respectively. Based on these ratings, the University's capacity to meet its financial obligations is considered strong. The table below illustrates Moody's and S&P's rating scale. Both companies generally use the same principals, criteria, and rating system. Moody's applies numerical modifiers to 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.

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).