OHIO BOARD OF REGENTS

Agenda 3.5 Consideration of a request by the Jefferson Community College District to pledge student fees in support of a bond issuance not to exceed $2,100,000, to be used to finance one capital project.

RESOLUTION

WHEREAS, Section 94.06 of Am. Sub. H.B. 94 of the 124th 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 Jefferson Community College District proposes to pledge student fees in support of general receipts bonds and/or bond anticipation notes in an amount not to exceed $2,100,000 for the purpose of financing the acquisition and renovation of an administrative facility; and

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

WHEREAS, the District's Board of Trustees approved a resolution authorizing this debt issuance at its meeting of February 26, 2003; 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 Committee of the Ohio Board of Regents, that the pledge of fees by the Jefferson Community College District in support of general receipts bonds and/or bond anticipation notes not to exceed $2,100,000 is hereby approved.

Jefferson Community College
March 2003 Fee Pledge Request not to exceed $2.1 million

A. Project Overview

Jefferson Community College proposes to purchase and renovate an existing two-story building from American Electric Power (AEP) located in close proximity to the Steubenville campus. The 26,000 square-foot facility is located on approximately five acres and would provide additional instructional space for noncredit job-related training services, for which demand continues to increase at the College.

The total estimated cost of the acquisition and related renovations and improvements is about $3.6 million, for which the College plans to use approximately $1.5 million of its own available resources. The remaining $2.1 million would be financed through the proposed issuance of general receipts obligation bonds and or bond anticipation notes.

Initial Submission to the Board: March 20, 2003.

Revised Submission:

Jefferson Community College
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B. Project Financing

Jefferson Community College proposes to issue general receipts obligation bonds in an amount not to exceed $2.1 million for the purpose of acquiring and renovating a nearby American Electric Power building. The College estimates the annual operating costs for the facility would be $52,591. The College's pro-forma analysis indicates future operating revenues sufficient to cover the annual operating costs of the facility. Revenues would be generated from a variety of sources, such as student fees, particularly from students enrolled in noncredit course offerings, and from rental income, and general operations. The College estimates that between $75,955 and $126,592 would annually be generated from noncredit instruction at the new facility. Additionally, the second floor of the AEP facility has 12,460 square-feet of rental space, for which the College estimates annual rental income of between $31,150 and $124,600.

The College has established a 10-year debt service schedule with an estimated fixed interest rate of 4.54%. The College estimates the average annual net debt service payment to be $265,918, for which the College anticipates that future capital component allocations will be sufficient to meet this debt service requirement.

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

Estimated Project Costs:

Building & land purchase	$2,200,000
Basic renovations	$566,250
Classroom/lab infrastructure additions	$428,945
Telephone system expansion	$43,527
Furniture	$205,000
Exterior & interior signage	$7,700
Architect/engineering services	$50,000
Contingency	$48,867
Total Project Costs	**$3,550,289**

Project Resources:

Noncredit Job Training Grant	($725,000)
State Capital Appropriations	($665,289)
Unrestricted College funds	($60,000)
Total Project Resources	**($1,450,289)**

Total Bond Authorization Requested:

New Project Costs less Resources	$2,100,000
Total	**$2,100,000**

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C. Project Description

Jefferson Community College proposes to purchase a two-story administrative building from American Electric Power (AEP), and renovate the first floor for immediate use. The first floor would include six classrooms/labs, four of which would be computer classrooms/labs, as well as a meeting room, and administrative offices. The primary purpose of the space would be for delivering customized training for local business and industry, as well as offering courses developed to increase the high tech skills of entry-level employees.

Need for Structure – Historically, the College has placed a priority on credit course offerings and, consequently, allocates its instructional space to meet the needs of its degree- and certificate-seeking students. But according to the College, the increase in degree/certificate enrollments has made it difficult to aggressively market its customized and noncredit training courses.

To help address the need for additional space for noncredit training and instruction, the College applied for and received a $725,000 Noncredit Job Training Facilities grant through House Bill 850 (123rd General Assembly). The purpose of this capital grant is to support the establishment of a well-equipped training facility.

Size and Location of Property – The AEP building property is an irregularly shaped parcel of land consisting of approximately five acres. The site was developed with an approximately 26,000 square foot, two-story, slab-on-grade building constructed for use as an administrative office in 1988. Improvements include paved asphalt parking lots. The property is located at the corner of Sunset Boulevard and John Scott Highway with Jefferson Community College located on the adjacent corner to the west.

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 Jefferson Community 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.

It is important to note that the College'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.

1. Viability Ratio

For FY 2000 and FY 2001, the viability ratio is defined as expendable fund balances divided by plant debt. For FY 2002, the viability ratio is defined as expendable net assets divided by plant debt. If an institution does not have any plant debt, then the viability ratio is not computed. 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% would be a cause for concern. Because Jefferson Community College has not held any plant debt during these years, its viability ratios for FY 2000, FY 2001 and FY 2002 were not calculated.

2. Primary Reserve Ratio

For FY 2000 and FY 2001, the primary reserve ratio is defined as expendable fund balances divided by total expenditures and mandatory transfers. For FY 2002, 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. Jefferson Community College's primary reserve ratios for FY 2000, FY 2001 and FY 2002 are as follows:

FY 2000	FY 2001	FY 2002
26.0%	30.6%	40.8%

3. Net Income Ratio

For FY 2000 and FY 2001, the net income ratio represents net total revenues divided by total current revenues. For FY 2002, 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 expenditures/expenses exceed its current year revenues. A positive net income ratio indicates that the institution experienced a net increase in current year fund balances/assets. Jefferson Community College's net income ratios for FY 2000, FY 2001 and FY 2002 are as follows:

FY 2000	FY 2001	FY 2002
3.2%	4.2%	(1.3%)

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. Jefferson Community College's composite scores for FY 2000, FY 2001 and FY 2002 are well above the minimum threshold:

FY 2000	FY 2001	FY 2002
4.0	4.0	3.7

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E. Bond Rating

Jefferson Community College does not currently hold any long-term debt and therefore does not have a bond rating. Moreover, the general receipts obligations bonds the College proposes to issue would not be sold to third party investors, thereby making a bond-rating unnecessary.

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