OHIO BOARD OF REGENTS

Agenda# 3.6 Consideration of a request by Cleveland State University to pledge student fees in support of a bond issuance not to exceed $47,270,000.

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, Cleveland State University proposes to pledge student fees in support of general receipts obligation bonds in an amount not to exceed $47,270,000 for the purpose of financing three capital projects and to refinance existing debt; and

WHEREAS, the University has established a 30-year debt service schedule and will retire the debt using operating revenues and state capital appropriations; 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 January 22, 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 Cleveland State University in support of general receipts obligations bonds in an amount not to exceed $47,270,000 is hereby approved.

Cleveland State University
March 2003 Fee Pledge Request - $47,270,000

A. Overview

Cleveland State University proposes to issue $47.27 million in general receipts obligation bonds to finance three capital projects on campus, and to refinance existing debt issued in 1993. 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 three capital projects:

- Rehabilitation of the historic Howe Mansion
- Construction of a new Administrative Center
- Construction of a new Recreation & Fitness Center

The University plans to implement a new special student fee to help support the debt service requirements and related operating costs for the Recreation & Fitness Center. The University anticipates that this fee will be exempted from any limits on annual tuition increases that might be imposed in the future. Based on a survey of its student body conducted last year, the University reports strong support among students for a new recreational center, as well as broad willingness among students to pay an additional student fee specifically for a new recreational center.

Initial Submission to the Board: March 20, 2003.

Revised Submission:

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B. Project Costs and Financing

Cleveland State University proposes to issue $47.27 million in general receipts obligation bonds to finance three capital projects and to refinance existing debt issued in 1993. This amount includes construction costs, an underwriting discount, an insurance premium, the cost of issuance, and other related costs.

The University has established a 30-year debt service schedule and will issue bonds with both fixed and variable interest rates ranging from 1.45% to 5%. The University estimates the average annual net debt service payment to be about $2.7 million, for which the University anticipates future revenues sufficient to meet this debt service requirement. The University's pro-forma analysis indicates future revenues will be generated from cost savings resulting from refinancing the 1993 debt, and from general operations and a new special student fee.

The University expects that the special student fee will be exempted from any future limits on annual tuition growth imposed by the General Assembly. This fee will be added to the University's general fee and will become effective as of fall term 2003 at a rate of $2 per credit hour. The University plans to increase this fee to $6 per credit hour effective summer term 2004. Revenue generated by this fee is estimated to be approximately $800,000 in FY 2004 and $2.4 million per year thereafter. These revenues will be used to support the debt and operating costs associated with the Recreation & Fitness Center. A breakdown of the total costs associated with the University's proposal is presented in Table B-1 below.

Table B - 1

	Howe Mansion	Administrative Center	Recreation & Fitness Center	1993 Series Refinance	Total
Project Costs:					
Construction	$3,083,430	$9,250,287	$19,822,042	N/A	$32,155,759
Architect & Engineers	$370,011	$1,110,034	$2,378,645	N/A	$3,858,690
Administrative Fee	$46,251	$138,754	$297,331	N/A	$482,336
Bid Advertising	$308	$925	$1,982	N/A	$3,215
Subtotal, Project Costs	**$3,500,000**	**$10,500,000**	**$22,500,000**	**$0**	**$36,500,000**
Other Costs:					
Refinancing	N/A	N/A	N/A	$7,609,396	$7,609,396
Capitalized Interest	N/A	N/A	N/A	N/A	$2,529,272
Underwriting Discount	N/A	N/A	N/A	N/A	$130,770
Issuance Costs	N/A	N/A	N/A	N/A	$235,000
Insurance Premium	N/A	N/A	N/A	N/A	$256,326
Trustee Fee	N/A	N/A	N/A	N/A	$3,000
Contingencies	N/A	N/A	N/A	N/A	$6,236
Subtotal, Other Costs	**$0**	**$0**	**$0**	**$7,609,396**	**$10,770,000**
Total Bond Authorization Requested:					
Total Costs	**$3,500,000**	**$10,500,000**	**$22,500,000**	**$7,609,396**	**$47,270,000**

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C. Project Description

1. **Howe Mansion**: located at 2248 Euclid Avenue, the 17,500 square-foot structure was built as a family residence in 1894 and was acquired by the University in 1982. The building, which is currently vacant, has been nominated for the National Register of Historic Places. The University plans to use the mansion to house its Health Services office on the first floor and the College of Graduate Studies on the second floor. Both offices are currently located in Fenn Tower. The estimated cost of this project is $3.5 million, and annual operating costs are expected to be approximately $83,000.

2. **Administrative Center**: The occupants of the new 30,000 square-foot Administrative Center will include the Division of Business Affairs & Finance, the University's data center, and Department of Human Resources. Although the final decision on the site has not been made, the building will be built on campus on land currently owned by the University. The project will also include substantial retrofitting of several floors of Rhodes Tower to accommodate other University offices now in temporary or substandard locations. The estimated cost of this project is $10.5 million, and annual operating costs are expected to be approximately $142,000. (Completion of the Administrative Center will allow the University to vacate Fenn Tower. At that time, the University will explore leasing Fenn Tower to a private developer to be rehabilitated and converted into student housing.)

3. **Recreation & Fitness Center**: This new 100,000 square-foot facility will be constructed at 1881 East 24th Street (on the corner of East 24th Street and Chester Avenue), on the site of the current Intramural Sports Center, which will be demolished. The new facility will be connected to the Physical Education Building and will contain state of the art recreational and fitness equipment for use by students, faculty, staff, alumni, and the local community. The estimated cost of this project is $22.5 million, and annual operating costs are expected to be approximately $473,000. The University plans to implement a new special student fee to help cover the debt service requirements and annual operating costs associated with the new Recreation & Fitness Center.

4. **Debt Refinancing**: The University's 1993 series bonds will be refinanced to take advantage of the favorable interest rates currently available. Principal outstanding on this issue was $7.88 million at June 30, 2002. According to the University's pro-forma analysis, refinancing this debt will save the University almost $48,000 per year on average. Total savings are estimated to be more than $478,000 over the course of the remaining ten years of the maturity schedule that expires in 2013.

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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 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.

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. 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. Cleveland State University's viability ratios for FY 2000, FY 2001 and FY 2002 are as follows:

FY 2000	FY 2001	FY 2002
149.5%	231.3%	411.5%

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. Cleveland State University's primary reserve ratios for FY 2000, FY 2001 and FY 2002 are as follows:

FY 2000	FY 2001	FY 2002
13.0%	15.1%	22.2%

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. Cleveland State University's net income ratios for FY 2000, FY 2001 and FY 2002 are as follows:

FY 2000	FY 2001	FY 2002
(3.4)%	2.6%	2.0%

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 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. Cleveland State University's composite scores for FY 2000, FY 2001 and FY 2002 are above the minimum threshold and have improved over the past two years:

FY 2000	FY 2001	FY 2002
2.90	3.30	3.60

E. Bond Ratings

Both Moody's Investors Services and Standard & Poor's Rating Services have reviewed and rated Cleveland State University's existing debt obligations. The University most recently received bond ratings of *A3* and *A* from Moody's and S&P, respectively.

Based on these ratings, the University's capacity to meet its financial obligations is considered strong. Table E-1 below illustrates Moody's and S&P's rating scale. Both companies generally use the same principals, criteria, and rating system. However, Moody's 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).