OHIO BOARD OF REGENTS

Agenda item 3.20 Consideration of a request by Ohio University to pledge student fees in support of a bond issuance not to exceed $58,000,000.

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, Ohio University proposes to pledge student fees in support of general receipts obligation bonds and/or bond anticipation notes in an amount not to exceed $58,000,000 for the purpose of financing four capital projects and one capital acquisition; and

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

WHEREAS, the University's Board of Trustees approved separate resolutions authorizing these projects and the related debt issuance at its meetings of September 19, 2003, and February 13, 2004; and

WHEREAS, this proposal 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 Ohio University in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $58,000,000 is hereby approved.

Ohio University
March 2004 Fee Pledge Request - $58,000,000

A. Project Overview

Ohio University proposes to issue general receipts obligation bonds and/or bond anticipation notes to finance four capital projects on campus and one capital acquisition. Despite the $58 million debt authority requested, the University does not expect to issue more than $54.02 million. As part of this request, the University wishes to refinance three components that were originally supported by the issuance of $6.59 million in bond anticipation notes approved by the Board of Regents in September 2003.

The University proposes to use general receipts, state capital appropriations, energy savings proceeds, and student fee and auxiliary revenues to cover the associated operating costs and debt service obligation for the projects included in this request.

Ohio University intends to implement a new student fee to help service the debt associated with the University Center project. The University plans to implement this $60 quarterly fee after the completion and opening of the Center January 2007, and expects this fee to be exempted from any legislative fee caps imposed in the future.

The projects included in this request are as follows:

- University Center site preparation (refinance)
- University Center construction
- Energy Performance Contracting (refinance)
- Heating plant improvements (refinance)
- Purchase of Raytheon Beechcraft King Air 350 airplane

Initial Submission to the Board: March 11, 2004.

Revised Submission:

Ohio University
March 2004 Fee Pledge Request - $58,000,000

B. Project Financing and Costs

While Ohio University is requesting debt authority of $58 million, the University expects the actual debt issuance to be $54.02 million, should current interest rates hold. By receiving authorization to issue $58 million, the University will have a greater degree of flexibility. Based on the lower principal amount of $54.02 million, the University has established a 28-year debt service schedule and estimates the average debt service requirement to be roughly $3.2 million per year, at an average annual interest rate of 4.5%.

The pro-forma analysis submitted by Ohio University forecasts combined revenues from a variety of sources, which would sufficiently cover the operating costs and debt obligation of each project included in this request. Revenue sources include annual state capital appropriations, general receipts, student fee and auxiliary revenues, and energy and maintenance cost savings.

The University plans to levy a new student facilities fee of $60 per quarter for full-time Athens campus students, effective upon the opening of the University Center in September 2006. This fee will be used to retire the debt and operate the facility. Annual revenue estimates provided by the University are based on 19,500 students for three quarters plus 5,000 summer term students, which the University estimates would generate $3.81 million annually. The University intends for this fee to be exempt from legislative fee caps.

The combined total project costs are estimated to be roughly $75.3 million. The University has earmarked $20 million in future state capital and capital component appropriations to support the University Center project. A summary of project costs is presented below.

	University Center Construction	King Air 350 Aircraft	Performance Contracting	Lausche Heating Plant	Total
PROJECT COSTS					
Construction	$41,790,000	$0	$1,524,160	$2,457,600	$45,771,760
Moveable Equipment	$6,900,000	$3,500,000	$0	$0	$10,400,000
Architects & Engineers	$5,230,000	$0	$160,000	$290,000	$5,680,000
Capitalized Interest	$5,934,895	$0	$0	$0	$5,934,895
Contingency	$3,665,451	$270,011	$195,661	$384,454	$4,515,577
Contingency: rate changes	-	-	-	-	$2,690,663
Administrative Fee	$700,000	$0	$0	$0	$700,000
Project Management Fee	$672,000	$0	$0	$0	$672,000
Miscellaneous	$1,635,105	$0	$0	$0	$1,635,105
Total Project Costs	$66,527,451	$3,770,011	$1,879,821	$3,132,054	$78,000,000
PROJECT RESOURCES					
Capital Appropriations	$16,600,298	$0	$0	$0	$16,600,298
Capital Component	$3,399,702	$0	$0	$0	$3,399,702
Total Project Resources	$20,000,000	$0	$0	$0	$20,000,000
Total Costs less Resources	**$46,527,451**	**$3,770,011**	**$1,879,821**	**$3,132,054**	**$58,000,000**

Ohio University
March 2004 Fee Pledge Request - $58,000,000

C. Project Description

1. University Center Construction, $46,527,451

The new 180,000 square foot University Center will be located on the southern edge of the college green and adjacent to Oxbow Drive. The new Center will become the physical connector between lower and upper campus. There are three goals that form the vision of the University Center: (1) promoting out-of-class learning and growth, (2) supporting classroom instructional activity, and (3) contributing to the overall quality of campus life. The facility will have a 550-seat ballroom, dining facilities, student government offices, student organization offices, a small theater, and meeting and conference rooms.

The building construction is scheduled to commence in April 2004 and project completion is scheduled for October 2006. The total construction period for the University Center project is 35 months and the anticipated opening of the facility to the University community is planned for January 2007. Annual operating costs are expected to be approximately $1,035,000.

2. University Center Site Preparation (refinance, costs included in project #1 above)

This site development is scheduled to be completed in March 2004, and has been funded with Regents-approved bond anticipation notes. The cost of this project will be refunded and rolled into the overall construction costs of the University Center described above. This project consists of utility relocation, building service utilities, river channel relocation and drilled caissons.

3. Performance Contracting, $1,879,821 (refinance)

The Energy Performance Contract totaling $1,830,000 covers two projects: Life Sciences heat recovery and steam extension to the Ridges. These improvements result in a $439,172 annual reduction in purchased utilities—electric, gas, coal and water—and the related operating costs. The blended simple payback period is 4.2 years. The construction of the improvements will be complete in two years or less.

4. Lausche Heating Plant, $3,132,054 (refinance)

Ohio University estimates $1,030,000 has been spent on the Phase I Lausche renovation, which includes the total rebuild of a boiler. The repayment source will be capital component. Phase II costs are estimated at $2 million and include design work, the rebuild of another boiler, expansion of bag house capacity, and design of the University Center chiller for the West Green central chilled water plant.

5. Purchase of Raytheon Beechcraft King Air 350, $3,770,011

A 2003 Beechcraft King Air 350 turbo-propeller aircraft replaces a 1981 King Air and a 1979 Piper Navajo used to transport University personnel. The University has also forgone its 50% interest in a C-90 airplane to the University's Avionics program. The aging existing aircrafts presented increasing maintenance costs and less dispatch reliability because of the unpredictability of their maintenance problems. The new King Air was purchased in October 2003 with internal loan funds, which the bond proceeds will reimburse. By replacing these older airplanes with one new plane, the University estimates that it will save more than $103,000 in annual operating costs, as shown in the table below.

Net Annual Cost Savings

Fixed Costs	$5,500
Variable Costs	$166,580
Insurance	$25,675
Upgrades/Maintenance	$100,200
Pilot Salary	$22,000
Training Certification	$20,000
Total Operating Savings	$339,955
Debt Service	($236,306)
Net Annual Savings	**$103,649**

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 Ohio 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.

*NOTE: The FY 2003 data shown in *italics* reflect the ratios and composite score when the maximum $58 million of proposed debt and $3.2 million in debt service expenses are added to the calculations. All other factors being equal, the University's ratios and composite score would be marginally reduced by the additional debt. Other factors not taken into account here include the future retirement of existing debt obligations, future revenues from the new student fee and other fee increases, 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% could be a cause for concern. Ohio University's viability ratios for FY 2001, FY 2002 and FY 2003 are as follows:

FY 2001	FY 2002	FY 2003	*FY 2003**
103.1%	82.4%	63.5%	*44.2%*

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. Pursuant to the S.B. 6 analysis, a ratio of 10% or greater is considered good, while a ratio below 5% would be a cause for concern. Ohio University's primary reserve ratios for FY 2001, FY 2002 and FY 2003 are as follows:

FY 2001	FY 2002	FY 2003	*FY 2003**
25.4%	23.9%	19.2%	*19.1%*

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

FY 2001	FY 2002	FY 2003	*FY 2003**
2.5%	5.7%	6.5%	*5.9%*

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 5.0. Ohio University's composite scores for FY 2001, FY 2002 and FY 2003 are well above the minimum threshold:

FY 2001	FY 2002	FY 2003	*FY 2003**
3.5	3.4	3.4	*3.1*

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E. Bond Rating

Ohio University's existing long-term debt has received high marks from independent rating agencies. Standard & Poor's assigned an *A+* to OU's existing debt, while Moody's Investors Services most recently assigned a rating of *A1*. The S&P and Moody's ratings were assigned in April 2003 and January 2004, respectively.

Ohio University's *A1* and *A+* ratings indicate that the University's ability to meet its debt 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. Similarly, S&P's ratings may be augmented by a plus or minus sign to show the relative standing within these categories.

Long-Term Bonds				
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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