OHIO BOARD OF REGENTS

Agenda Item 3.6 Consideration of a request by Ohio University to pledge student fees in support of a bond issuance not to exceed $38,000,000 to be used to finance multiple capital projects on campus.

RESOLUTION

WHEREAS, §209.64.69 of Am. Sub. H.B. 66 of the 126th 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 $38,000,000 for the purpose of financing multiple capital projects at the University's main campus in Athens; and

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

WHEREAS, the University's Board of Trustees approved a resolution authorizing this bond issuance at its meeting of December 14, 2005; 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 $38,000,000 is hereby approved.

Ohio University
January/February 2006 Fee Pledge Request, $38 million

I. Project Overview

Ohio University proposes to issue general receipts obligation bonds to finance multiple projects, which include:

- A new 350-bed residence hall;
- An integrated student information software package;
- Equipment for the new University Center;
- Continued upgrades to the Lausche Heating Plant; and
- Design for the College of Communication building and for the Integrated Learning & Research Facility.

The University has provided a schedule of project costs and pro-forma analysis, and has established a 30-year debt service schedule.

Initial Submission to the Board: January 2006

Revised Submission:

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II. Project Financing and Costs

Ohio University requests the authority to issue general receipts obligation bonds in an aggregate amount not to exceed $38 million, to provide financing for multiple projects. The total estimated cost of these projects is $84.91 million, for which the University has $47.7 million in available resources. The total amount to be financed with the requested debt authority is estimated to be $37.21 million. However, Ohio University is requesting $38.0 million in debt authority to cover the additional premium and issuance costs. The University has established a 30-year debt service schedule with an average debt service requirement of $2.16 million per year.

The 10-year pro-forma analysis provided by Ohio University indicates revenues sufficient to cover the debt service and operating costs of the proposed bond issuance. Revenue sources include gifts and grants, state capital appropriations, energy savings, student fees, and auxiliary enterprises.

A breakdown of the estimated project costs is presented below:

	New Residence Hall	Student Information System	University Center Interim Financing	Performance Contract	Design Coll. of Comm. + Integrated Learning & Research	Total
PROJECT COSTS (Capital Only)						
Construction	$19,169,150	$0	$0	$3,300,000	$22,400,000	$44,869,150
Moveable Equipment	$875,000	$0	$4,811,948	$0	$1,900,000	$7,586,948
Architects & Engineers	$1,889,224	$0	$0	$0	$4,890,480	$6,779,704
Land Acquisition/Preparation	$65,000	$0	$0	$0	$0	$65,000
Data and Telephone			$398,052		$968,720	$1,366,772
Capitalized Interest	$0	$0	$0	$0	$0	$0
Contingency	$1,342,207	$1,814,500	$0	$0	$1,411,800	$4,568,507
Other Costs:						
Administrative Fee	$249,199	$0	$0	$0	$311,000	$560,199
Project Management Fee	$410,220	$0	$0	$0	$518,000	$928,220
Technology-Related Costs		$18,185,500				$18,185,500
Total Project Costs	$24,000,000	$20,000,000	$5,210,000	$3,300,000	$32,400,000	$84,910,000
PROJECT RESOURCES (Capital Only)						
Gifts, Grants, etc. (non-state)	$0	$0	$0	$0	$25,000,000	$25,000,000
State Capital Appropriations	$0	$0	$0	$0	$0	$0
Internal Transfers	$2,000,000	$0	$0	$0	$4,700,000	$6,700,000
Other Revenue	$0	$16,000,000	$0	$0	$0	$16,000,000
Total Project Resources	$2,000,000	$16,000,000	$0	$0	$29,700,000	$47,700,000
DIFFERENCE, TOTAL COSTS LESS TOTAL RESOURCES	$22,000,000	$4,000,000	$5,210,000	$3,300,000	$2,700,000	$37,210,000

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III. Fee Impact

This proposed bond issuance will have no direct impact on student tuition. While the University may use unrestricted student fee revenues to service the debt and pay for related operating costs, student tuition will not increase as a direct result of this fee pledge. Ohio University does not intend to levy a special, cap-exempt fee to finance the debt or operating costs associated with this bond issuance.

The debt and operating costs associated with the new residence hall will be financed with room and board fees. Ohio University plans to increase room rates annually by 4% through 2010, but will not increase board rates. From 2011 onward, the University plans to increase both room and board rates by 2% annually. These increases are in line with the room and board rates at all of Ohio's public universities, which have increased by an average of 6% annually over the past ten years.

The debt and operating costs associated with the new Student Information System will be supported by revenues from existing student technology fees, as well as planned increases in those fees through FY 2018.

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IV. Project Description

1. New Residence Hall, $22,000,000

A 350-bed residence hall will be constructed near Nelson Commons on South Green. The new residence hall will enable the University to house the same number of students it is housing currently as it continues to renovate the older housing stock. It will not allow for increased capacity. The cost is estimated at no more than $24 million, and the housing and dining auxiliary plans to use $2 million to finance the initial site planning, design and engineering costs associated with the project. The facility will include modified suite style, double rooms for undergraduate, sophomore students and include programming spaces for a residential learning community, and multipurpose study and lounge space. Utilities are the sole incremental annual operating cost and are projected at $109,000 during the first year of occupancy. The residence hall has an anticipated completion date of fall 2007.

2. Student Information System, $4,000,000

The Student Information System (SIS) is a secure, integrated software package that supports several critical university business functions. Course registration, housing, grades and transcripts, admissions, and student accounts all rely on SIS. In addition, Institutional Research is a core user of transaction data recorded in SIS. Those data are fundamental to accurate and timely institutional reporting to the Ohio Board of Regents. The cost of developing and implementing a new SIS is estimated at $20 million, including the current proposal to borrow an initial $4 million. The cost estimate includes software, services and hardware associated with core and additional functionality, training & support, requirements, design and data conversion, the project management office and backfill resources. The project may go live as early as December 2008, and will be financed through existing student technology fees, as well as planned increases in those fees, through fiscal 2018.

3. University Center – Interim Financing, $5,210,000

The University Center is currently under construction and should be open to the public by Winter Quarter 2007. In order to outfit the building with audio visual equipment and furniture, the University plans to borrow .no more than $5.21 million in the short term. In the long term, Ohio University expects that state capital funds will be available to retire this interim debt.

4. Performance Contract, $3,300,000

This project includes an addition to the control room, final conversion of control systems, and refurbishing of coal and ash handling systems at the Lausche Heating Plant for $2.4 million. This activity will allow state capital funds that were originally earmarked for Lausche to be directed toward other projects. Another $900,000 that is not related to Lausche Heating Plant is also included in the Performance Contract and addresses energy conservation measures, e.g., more efficient light and water fixtures, in the residence halls. The project will be repaid through energy savings over eight years.

5. Design for College of Communication Building, $2,400,000

The renovation or demolition and re-construction of the Baker Center facility for the College of Communication will require a year to fully program and design. The Baker Center project will be designed in conjunction with the Radio-Television building rehabilitation project. Over the next three biennia, state capital funds have been earmarked by Ohio University to pay for a large portion of this project, including the design work.

6. Design for Integrated Learning and Research Facility, $300,000

The Integrated Learning and Research Facility, formerly a College of Engineering project, will also involve the College of Osteopathic Medicine, College of Arts & Sciences and the College of Health and Human Services. Gifts and grants are the primary sources of repayment for this $30 million project. This $300,000 borrowing will provide bridge funding for design costs.

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V. 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 2002, FY 2003, FY 2004 and FY 2005 audited financial statements—the most up-to-date financial data available.

It is important to note that beginning in FY 2002, financial statements began being reported 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 2005 data shown in *italics* reflect the ratios and composite score when $38.0 million in new debt and $3 million in related debt service and operating expenses are added to the calculations. 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 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. Ohio University's viability ratios for FY 2002, FY 2003, FY 2004 and FY 2005 are as follows:

FY 2002	FY 2003	FY 2004	FY 2005	*FY 2005**
81.8%	63.5%	59.7%	74.6%	*59.4%*

2. Primary Reserve Ratio

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 2002, FY 2003, FY 2004 and FY 2005 are as follows:

FY 2002	FY 2003	FY 2004	FY 2005	*FY 2005**
23.9%	19.2%	22.7%	23.0%	*22.9%*

3. Net Income Ratio

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 2002, FY 2003, FY 2004 and FY 2005 are as follows:

FY 2002	FY 2003	FY 2004	FY 2005	*FY 2005**
5.7%	6.5%	6.4%	4.0%	*3.4%*

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 2002, FY 2003, FY 2004 and FY 2005 have been are above the minimum threshold:

FY 2002	FY 2003	FY 2004	FY 2005	*FY 2005**
3.4	3.4	3.1	3.2	*2.9*

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VI. Financial Outlook and Bond Rating

According to its FY 2004 audited financial report, Ohio University's financial position remains strong, having reported total assets of $738.7 million and liabilities of $256 million. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by $20.3 million in FY 2005.

The University's existing debt has received relatively high marks from independent bond-rating agencies. OU's long-term debt was most recently assigned a rating of *A+* by Standard & Poor's. And Moody's Investors Services most recently assigned a rating of *A1* to the University's long-term debt.

These ratings indicate that Ohio University's ability to meet its debt obligations is considered relatively strong, as shown in Moody's and S&P's scale below.

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).

VII. Institutional Plant Debt

The table on the following page 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 2004, aggregate net plant debt increased by 206% or $2 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	FY 2004
UNIVERSITIES							
BOWLING GREEN	$41,050,000	$35,400,000	$32,035,000	$83,415,000	$79,255,000	$91,215,000	$84,410,000
CENTRAL STATE	$3,983,721	$3,780,127	$3,572,922	$3,346,920	$3,192,444	$2,703,429	$2,535,821
CLEVELAND STATE	$16,543,399	$16,420,347	$16,153,641	$12,393,540	$10,849,215	$55,977,422	$53,754,446
KENT STATE	$65,490,000	$63,143,000	$81,774,000	$234,407,000	$290,735,000	$285,773,000	$282,832,000
MCOT	$2,946,693	$2,883,387	$2,184,779	$1,229,464	$6,392,000	$8,837,000	$8,730,000
MIAMI UNIV.	$50,499,010	$44,949,785	$49,018,070	$45,061,353	$53,168,773	$47,994,898	$92,833,435
NEOUCOM	$0	$0	$0	$542,430	$1,583,286	$1,397,190	$1,237,841
OHIO STATE	$222,557,597	$315,216,350	$365,192,650	$378,145,912	$581,106,000	$586,233,000	$814,606,000
OHIO UNIVERSITY	**$49,448,971**	**$79,696,363**	**$84,103,403**	**$132,049,339**	**$126,677,123**	**$133,002,202**	**$175,592,164**
SHAWNEE STATE	$3,707,230	$3,672,175	$3,599,407	$3,406,398	$3,200,000	$2,910,000	$2,600,000
UNIV. AKRON	$29,591,298	$36,007,772	$59,014,572	$89,002,729	$191,864,557	$211,208,546	$226,729,516
UNIV. CINCINNATI	$340,715,000	$365,895,000	$375,212,000	$577,365,000	$567,181,000	$647,688,000	$893,004,000
UNIV. TOLEDO	$89,660,778	$93,722,220	$88,467,721	$121,691,439	$119,376,000	$172,577,000	$167,367,000
WRIGHT STATE	$14,191,357	$15,669,753	$14,438,988	$13,232,584	$11,575,625	$18,570,323	$29,584,121
YOUNGSTOWN ST.	$19,933,000	$19,096,590	$17,840,681	$16,368,157	$14,992,226	$14,263,619	$13,492,373
COMMUNITY COLLEGES							
CINCINNATI ST.	$1,254,220	$771,204	$592,494	$423,417	$0	$49,173,132	$47,580,000
CLARK STATE	$306,496	$0	$68,172	$47,234	$22,011	$0	$72,800
COLUMBUS ST.	$15,022,102	$14,263,821	$14,108,529	$13,221,412	$12,330,217	$11,434,658	$24,105,000
CUYAHOGA	$0	$0	$0	$4,083,210	$12,564,559	$59,095,229	$65,222,373
EDISON STATE	$220,000	$0	$800,000	$800,000	$738,589	$68,676	$604,972
JEFFERSON	$0	$0	$0	$0	$0	$0	$2,170,485
LAKELAND	$30,000	$6,493,734	$6,445,224	$2,900,237	$2,441,594	$1,976,978	$5,674,098
LORAIN	$77,449	$12,340,038	$9,806,212	$7,230,062	$5,426,817	$3,952,163	$9,560,074
NORTHWEST ST.	$991,860	$0	$0	$0	$123,260	$106,207	$73,705
OWENS STATE	$12,947,278	$136,892	$141,049	$206,317	$0	$0	$0
RIO GRANDE	$0	$0	$0	$0	$0	$0	$0
SINCLAIR	$0	$0	$0	$0	$0	$0	$0
SOUTHERN ST.	$371,229	$259,010	$138,968	$155,855	$122,950	$168,506	$3,245,886
TERRA STATE	$5,121	$0	$0	$49,805	$42,710	$35,171	$839,738
WASHINGTON ST.	$0	$0	$0	$0	$0	$0	$0
TECHNICAL COLLEGES							
BELMONT TECH	$0	$0	$0	$0	$126,878	$97,927	$66,728
COTC	$367,493	$337,831	$305,307	$270,726	$231,348	$186,826	$401,059
HOCKING	$1,862,829	$1,871,748	$1,873,504	$4,311,120	$5,213,938	$497,794	$516,117
JAMES RHODES ST	$0	$0	$0	$0		$0	$3,087,383
MARION TECH	$0	$0	$0	$0		$0	$0
ZANE STATE (MATC)	$0	$0	$0	$0	$0	$182,571	$341,385
NORTH CENTRAL	$920,656	$775,048	$703,213	$744,479		$375,474	$300,562
STARK STATE	$20,307	$143,311	$308,942	$259,870	$763,399	$620,993	$620,080
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**	**$3,013,791,162**