OHIO BOARD OF REGENTS

Agenda item 3.12 <u>Consideration of a request by Cleveland State University to pledge student fees in support of a bond issuance not to exceed $52,135,000, to be used to finance capital projects and improvements on campus.</u>

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, Cleveland State University proposes to pledge student fees in support of general receipts bonds and/or bond anticipation notes in an amount not to exceed $52,135,000 for the purpose of financing capital projects at the University's main campus; and

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

WHEREAS, the University's Board of Trustees is expected to approve a resolution authorizing this bond issuance at its January 26, 2007 meeting; 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 Cleveland State University in support of general receipts bonds and/or bond anticipation notes in an aggregate amount not to exceed $52,135,000 is hereby approved; and

BE IT FURTHER RESOLVED: That this approval is contingent upon authorization of the bond issuance by the Cleveland State University Board of Trustees.

Cleveland State University
January 2007 Fee Pledge Request - $52,135,000

I. Project Overview

Cleveland State University proposes to issue general receipts bonds to finance the following two capital projects on campus:

- A new student center to replace the University Center Building; and
- A new building for the College of Education & Human Services.

Cleveland State University has provided adequate documentation for each project as well as provided a proposed pro-forma analysis and debt service schedule.

Initial Submission to the Board: January, 2007

Revised Submission: March, 2007

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II. Project Financing and Costs

Cleveland State University proposes to issue up to $52,135,000 in general receipts bonds to finance two capital projects. This amount includes construction costs, an underwriting discount, an insurance premium, the cost of issuance, and other related costs. A breakdown of the project costs and resources appears below:

Cleveland State University
Schedule of Project Capital Costs and Resources

	Student Center	College of Education	Total
PROJECT COSTS:			
Construction Costs	$49,102,759	$32,675,654	$81,778,413
Architects & Engineers	$5,155,790	$3,430,944	$8,586,734
Administrative Fee	$736,541	$490,135	$1,226,676
Bid Advertising	$4,910	$3,267	$8,177
Total Project Costs	$55,000,000	$36,600,000	$91,600,000
PROJECT RESOURCES	$16,000,000	$27,600,000	$43,600,000
DIFFERENCE, TOTAL COSTS - TOTAL RESOURCES	$39,000,000	$9,000,000	$48,000,000
Bond Issuance Costs:			
Capitalized Interest			$3,695,248
Underwriting Discount			$125,740
Cost of Issuance			$129,841
Insurance Premium			$184,171
Total Bond Issuance			$52,135,000

The debt service for the new student center is estimated to be approximately $2,710,000 per year, based on a 4.136 % interest rate for 30 years. The debt service will be funded from the University's unrestricted operating budget. Furthermore, debt service for the College of Education building is estimated to be $531,000 per year, based on a 4.136 % interest rate for 30 years. The debt service will be funded from either the University's unrestricted operating budget or from its Capital Component funding. The University plans to retire the College of Education portion of this bond issuance with future state capital appropriations.

III. Fee Impact

At this time, Cleveland State University does not intend to levy a special student fee to service the debt or operating costs for either of the proposed projects. However, as a contingency, the University does reserve the right to levy such a fee in the future should the need arise. Such a fee, if necessary, would only apply to the Student Center portion of the bond issuance and would be exempted from the state-imposed tuition limitations, assuming the existing language permitting such exemptions would be retained in future temporary legislation. The current language permitting such exemptions is located in section 209.63.60 of Amended Substitute House Bill 66:

> *"These limitations [on tuition and fee increases] shall not apply to increases required to comply with institutional covenants related to their obligations or to meet unfunded legal mandates or legally binding obligations incurred or commitments made prior to the effective date of this section with respect to which the institution had identified such fee increases as the source of funds. Any increase required by such covenants and any such mandates, obligations, or commitments shall be reported by the Board of Regents to the Controlling Board.*

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IV. Project Description

Student Center, $39,000,000

Renovation of the current student center, the University Center Building, was initially proposed in 2004 when the University issued its Series 2004 bonds. Since 2004, however, the University has determined that due to the age of the existing University Center Building (32 years) and since the building contains 50% more space than is required, it is more cost-effective to demolish the current structure and construct a new facility, rather than renovate the existing student center.

As such, the student center project includes the demolition of the 199,000 square-foot University Center Building and the construction of a new 120,000 square-foot student center on the same site, at the corner of Euclid Avenue and East 21st Street. The new building will serve as the University's student union, inclusive of a food court, resident student dining facilities, student lounges, student meeting places and a bookstore.

The estimated construction cost of this project is $55,000,000, of which $16,000,000 will be paid for from the Series 2004 bond proceeds.

Annual operating costs are expected to be approximately $625,000; this represents a decrease of $800,000 in annual operating costs due to the smaller size and increased energy efficiency of the new building.

College of Education & Human Services, $9,000,000

The purpose of this project is to construct a new building for the College of Education & Human Services. Currently the college's operations are housed in three buildings across campus. The new building for the College of Education & Human Services will be built on Euclid Avenue, just east of Fenn Tower, and will contain classrooms, offices, and laboratories. The new building will contain approximately 120,000 square-feet of space.

The estimated construction cost of this project is $36,600,000. State capital funds have been appropriated for this project during the last three biennia in the aggregate amount of approximately $27,600,000. The remaining $9,000,000 in costs will be paid for with proceeds from this bond sale.

Annual operating costs are expected to be approximately $625,000.

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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 Cleveland State University performed when these measures are applied to its FY 2003, FY 2004, FY 2005 and FY 2006 audited financial statements—the most up-to-date financial data available.

*NOTE: The FY 2006 data shown in *italics* reflect the ratios and composite score when $52,135,000 in new debt and $3,200,000 in related debt service payments are added to the calculations. The figures in italics may be interpreted as a worse case scenario. 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 other 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. Cleveland State University's viability ratios for FY 2003, FY 2004, FY 2005 and FY 2006 are as follows:

FY 2003	FY 2004	FY 2005	FY 2006	*FY 2006**
91.5%	108.7%	61.2%	64.3%	*44.1%*

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. Cleveland State University's primary reserve ratios for FY 2003, FY 2004, FY 2005 and FY 2006 are as follows:

FY 2003	FY 2004	FY 2005	FY 2006	*FY 2006**
24.5%	25.8%	30.1%	30.2%	*29.8%*

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 expenses exceed its current year revenues. A positive net income ratio indicates that the institution experienced a net increase in current year fund balances. Cleveland State University's net income ratios for FY 2003, FY 2004, FY 2005 and FY 2006 are as follows:

FY 2003	FY 2004	FY 2005	FY 2006	*FY 2006**
+5.2%	+1.8%	+2.0%	+1.7%	*+0.4%*

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 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 at or below this level for two consecutive years. The highest possible score is a 5.0. Cleveland State University's composite scores have been above the minimum threshold:

FY 2003	FY 2004	FY 2005	FY 2006	*FY 2006**
3.40	3.80	3.50	3.50	*3.00*

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VI. Financial Outlook and Bond Rating

According to its FY 2006 audited financial report, Cleveland State University's financial position remains strong, having reported total assets of $479,808,931 and liabilities of $168,858,770. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by $4,156,605 in FY 2006 to $310,950,161 or 64.8% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. Cleveland State University's long-term debt was most recently assigned an "A" rating with a stable outlook by Standard & Poor's, in 2004.

These ratings indicate that the University's ability to meet its debt obligations is considered 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).

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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 2002 and FY 2006, statewide plant debt increased 73% or $1.5 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.

While statewide institutional debt increased by $325 million or 9.8% in FY 2006, Cleveland State University's debt decreased by approximately $1,800,000 or 1.5%.

LONG-TERM PLANT DEBT, FY 2002 - FY 2006					
Institution	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**
UNIVERSITIES					
BOWLING GREEN	$79,255,000	$91,215,000	$84,410,000	$109,000,000	$99,250,000
CENTRAL STATE	$3,192,444	$2,703,429	$2,535,821	$2,340,402	$2,177,250
CLEVELAND STATE	$10,849,215	$55,977,422	$53,754,446	$115,923,075	$113,522,226
KENT STATE	$290,735,000	$285,773,000	$282,832,000	$279,692,000	$276,441,000
MCOT	$6,392,000	$8,837,000	$8,730,000	$56,299,000	$53,827,000
MIAMI UNIV.	$53,168,773	$47,994,898	$92,833,435	$168,613,252	$159,727,329
NEOUCOM	$1,583,286	$1,397,190	$1,237,841	$1,046,607	$878,345
OHIO STATE*	$581,106,000	$586,233,000	$814,606,000	$877,540,000	$1,106,227,000
OHIO UNIVERSITY	$126,677,123	$133,002,202	$175,592,164	$167,529,147	$192,862,349
SHAWNEE STATE	$3,200,000	$2,910,000	$2,600,000	$2,270,000	$1,925,000
UNIV. AKRON	$191,864,557	$211,208,546	$226,729,516	$258,484,797	$255,328,236
UNIV. CINCINNATI	$567,181,000	$647,688,000	$893,004,000	$877,453,000	$966,516,000
UNIV. TOLEDO	$119,376,000	$172,577,000	$167,367,000	$176,779,000	$171,134,000
WRIGHT STATE	$11,575,625	$18,570,323	$29,584,121	$46,189,820	$42,513,677
YOUNGSTOWN ST.	$14,992,226	$14,263,619	$13,492,373	$13,268,653	$22,162,550
COMMUNITY COLLEGES					
CINCINNATI ST.	$0	$49,173,132	$47,580,000	$47,530,000	$47,923,408
CLARK STATE	$22,011	$0	$72,800	$46,400	$8,195,000
COLUMBUS ST.	$12,330,217	$11,434,658	$24,105,000	$22,700,000	$21,250,000
CUYAHOGA	$12,564,559	$59,095,229	$65,222,373	$64,840,147	$62,974,601
EDISON STATE	$738,589	$68,676	$604,972	$532,347	$5,109,018
JEFFERSON	$0	$0	$2,170,485	$2,023,978	$1,838,573
LAKELAND	$2,441,594	$1,976,978	$5,674,098	$5,535,996	$4,767,321
LORAIN	$5,426,817	$3,952,163	$9,560,074	$7,925,194	$7,472,149
NORTHWEST ST.	$123,260	$106,207	$73,705	$82,001	$35,594
OWENS STATE	$0	$0	$0	$749,152	$579,288
RIO GRANDE	$0	$0	$0	$0	$0
SINCLAIR	$0	$0	$0	$0	$0
SOUTHERN ST.	$122,950	$168,506	$3,245,886	$3,022,204	$2,839,083
TERRA STATE	$42,710	$35,171	$839,738	$655,721	$464,012
WASHINGTON ST.	$0	$0	$0	$0	$0
TECHNICAL COLLEGES					
BELMONT TECH	$126,878	$97,927	$66,728	$33,107	$0
COTC	$231,348	$186,826	$401,059	$100,986	$2,112,219
HOCKING	$5,213,938	$497,794	$516,117	$1,039,729	$5,025,450
JAMES RHODES ST	N/A	$0	$3,087,383	$3,067,812	$3,018,241
MARION TECH	N/A	$0	$0	$0	$0
ZANE STATE (MATC)	$0	$182,571	$341,385	$285,586	$223,983
NORTH CENTRAL	N/A	$375,474	$300,562	$220,160	$182,119
STARK STATE	$763,399	$620,993	$620,080	$16,738	$6,137
STATEWIDE TOTAL	**$2,101,296,519**	**$2,408,322,934**	**$3,013,791,162**	**$3,312,836,011**	**$3,638,508,158**