OHIO BOARD OF REGENTS

Agenda item 3.13 Consideration of a request by the University of Toledo to pledge student fees in support of a bond issuance not to exceed $52,000,000 to be used to finance capital projects and improvements 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, the University of Toledo proposes to pledge student fees in support of general receipts obligation bonds and/or bond anticipation notes in an amount not to exceed $52,000,000 for the purpose of financing capital construction and improvement projects on campus; and

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

WHEREAS, the University of Toledo Board of Trustees approved a resolution authorizing this bond issuance at its meeting of February 22, 2006; 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 the University of Toledo in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $52,000,000 is hereby approved.

The University of Toledo
May 2006 Fee Pledge Request - $52 million

I. Project Overview

The University of Toledo proposes to issue general receipts obligation bonds to finance capital projects on campus. The total debt issuance shall not exceed $52 million, which includes roughly $39 million of new debt and $13 million in existing debt that will be refinanced.

- Rehabilitation and expansion a field house into a classroom building;
- Renovation of Carlson Library to establish an Information Commons area;
- Refunding of previously issued bond anticipation notes for three separate projects that are already underway or have been completed.

Initial Submission to the Board: April 2006

Revised Submission:

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II. Project Financing and Costs

The University of Toledo requests the authority to issue general receipts obligation bonds in an amount not to exceed $52 million, to provide financing for five separate capital projects. The University has established a 30-year debt service schedule with an estimated average annual debt service obligation ranging between $2 million to $700,000.

Additionally, the University plans to use a projected $7.8 million state capital appropriation in the FY 2015-2016 capital cycle to pay down the principal. This is reflected in the University's debt service schedule as a one-time balloon payment of $8.3 million in FY 2015. Most of the funds in this balloon payment consist of future state capital allocations anticipated by the University. In effect, the University is committing a share of its future state capital appropriations to pay a portion of the debt associated with these projects, not unlike the practice adopted by other campuses, such as the University of Cincinnati. As with all other such decisions, the University acknowledges that there is no obligation on the part of the state to provide this future funding, and assumes all risks should the funds not be available for use.

The University plans to service the debt and cover annual operating expenses primarily with a special student fee that is expected to raise an additional $2.6 million in revenues per year. Also, other revenues related to the projects included in this request will be used to cover the debt and operating costs, including income from UT's cell phone program, rental revenues from tenants leasing space in the research facility, and energy cost savings resulting from the Southwest Mechanical Utilities project. None of these revenues are identified in the summary of project costs and resources presented on the following page.

Estimated project costs total $54.4 million, for which the University has identified $3.75 million in current available resources. While the net total to be financed is estimated at $50.65 million, the University requests debt authority of $52 million to allow for changes in cost estimates.

Summary of Project Costs and Resources

	FMP Phase One Financing		2005/2006 Bond Anticipation Notes			
	Classroom Building: Rehabilitate/ Expand Field House	Information Commons: Carlson Library Renovation	Southwest Mechanical Utilities	Telecommuni-cations Infrastructure Upgrade	Research Facility Acquisition	TOTAL
Project Costs (Capital Only)						
Construction:	$23,200,000	$2,685,000	$6,960,194	$200,000	$0	$33,045,194
Moveable Equipment:	$880,000	$220,000	$0	$471,914	$0	$1,571,914
Architects and Engineers:	$3,500,000	$356,400	$340,000	$150,000	$0	$4,346,400
Land Acquisition/Preparation:	$0	$0	$0	$0	$2,650,000	$2,650,000
Capitalized Interest:	$5,112,000	$648,000	$0	$0	$0	$5,760,000
Contingency:	$2,320,000	$238,000	$534,782	$571,000	$0	$3,663,782
Other Costs (itemize):						$0
Administrative Fees	$600,000	$70,600	$160,024	$146,250	$0	$976,874
Installation	$0	$0	$0	$570,500	$0	$570,500
Pre-Bid Costs	$100,000	$30,000	$5,000	$0	$0	$135,000
Property Acquisition Costs	$0	$0	$0	$0	$100,000	$100,000
System & Software	$0	$0	$0	$1,583,250	$0	$1,583,250
Total Project Costs:	**$35,712,000**	**$4,248,000**	**$8,000,000**	**$3,692,914**	**$2,750,000**	**$54,402,914**
Project Resources (Capital Only)						
State Capital Appropriations	$2,200,000	$0	$0	$0	$0	$2,200,000
Transfers from Existing Resources	$0	$0	$0	$1,000,000	$0	$1,000,000
Deferred Capital	$0	$0	$550,000	$0	$0	$550,000
Total Project Resources:	**$2,200,000**	**$0**	**$550,000**	**$1,000,000**	**$0**	**$3,750,000**
Amount to be Financed	**$33,512,000**	**$4,248,000**	**$7,450,000**	**$2,692,914**	**$2,750,000**	**$50,652,914**

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III. Fee Impact

The University of Toledo plans to implement a special student facility fee, effective in FY 2009—after the Information Commons facility is open to students. The fee will be charged at a rate of $152.76 per academic year for full-time students and $12.73 per credit hour for part-time students. This represents 2.0% of UT's in-state undergraduate tuition for the current academic year. The University expects this fee to generate $2.6 million in annual revenues that will be used to support the debt service obligation and the operating costs of the new Classroom Building and Information Commons.

The University anticipates that this special fee would be exempt from limitations on increases in tuition and fees, which the General Assembly may impose in the future. The budget bills passed in recent biennia have permitted this exemption. House Bill 66, the current budget act for FY 2006 and FY 2007, contains this exemption in section 209.63.60:

> *"These limitations shall not apply to increases required to comply with institutional covenants related to their 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."*

Statement of Student Support

The UT Student Government and the UT Student Senate both passed formal resolutions in support of this special fee.

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IV. Project Description

Building - Rehabilitate/Expand Field House

The University's Board of Trustees approved the University's Long Range Facilities master plan in March 2005. One of the top priority projects presented in that Master Plan is the rehabilitation of the Memorial Field House into a state-of-the-art classroom building. This project was approved by the University's Board of Trustees in February of 2006.

Many of the University's classrooms are fair to poor quality, and some of the existing general classrooms need to be taken off-line for other master plan projects. One of the goals of the master plan is the consolidation of most undergraduate instruction on the Bancroft campus. The planned adaptive re-use of this historic building in the academic zone of the Bancroft campus will address all of these issues. At the completion of this project, and the other proposed projects involving general classrooms, the overall growth in the amount of classroom space for the University will only be 15,000 assignable square feet, but the improvement in quality and technology enhancement will be great.

The project will provide 150,000 gross square feet for instructional and academic use in a combination of renovated and new space. The existing lannon stone façade is planned to be refurbished and preserved. The project involved literally raising the roof on the main arena to create a total of three levels. In addition to the primary components of general classroom and student lounge space, the project will also provide office space and specialized instructional laboratories for the English and Foreign Languages Departments now housed in University Hall. Vacating this space in University Hall will allow other departments housed there to expand.

Programming and design work on the project is expected to begin in August 2006, with construction beginning in January 2008 and completion scheduled for January 2010. The projected increase in operating costs associated with the project is approximately $885,000 per year.

Information Commons - Carlson Library Renovation

This collaborative initiative of the Library and the Department of Information and Educational Technology was studied as part of the Long Range Facilities Master Plan and has received strong support from the student body. The project was approved by the University's Board of Trustees in February 2006. The project will renovate the first floor of Carlson Library (approximately 40,000 gross square feet) into a technology-rich learning and service area that integrates information, computing, and instructional services.

The project will include service points for reference services, technology support, consultation services, and circulation services for library resources. There will be approximately 130 computer work stations as well as laptop computers available for students to checkout and use in the facility. Group instructional space, areas for project-based and collaborative learning, and a café will also be included.

In addition, the project includes the modification of space on the lower level to accommodate the relocation of faculty and staff. The project also includes upgrades to electrical power, lighting, plumbing and HVAC systems in the renovated areas

Final design work on the project is projected to start in June 2006, with the construction starting in April 2007. Occupancy of the completed project is scheduled for February 2008. No significant change in operating costs is projected as a result of this project.

Southwest Mechanical Utilities

This project, completed in August of 2005, brought central utilities, both steam and chilled water, south of the Ottawa River to serve both new and existing residence halls. The delivery method was a traditional design/bid/build method, which was approved by the University's Board of Trustees in June of 2004. The project cost was $8.0M. The University initially financed the project by borrowing funds utilizing a bond anticipation note, and now intends to roll that debt into this larger bond issuance. The debt will be paid from savings in the Residence Life budget. Projected annual savings are approximately $300,000. This includes energy savings, deferred capital expenses, and avoided maintenance and operations costs.

Telecommunications Infrastructure Upgrade

In a comprehensive manner, this project was undertaken to mitigate deficiencies and provide updated features and functions in the campus telephone system. This project was approved by the University's Board of Trustees in October 2004 at a cost of $3.7 million dollars. Prior to this project, the risk of equipment failure was considerable.

Research Space Acquisition

The University of Toledo purchased the former EISC Building located at 2600 Dorr Street, adjacent to the College of Engineering for $2.65M in January 2005, approved by the University Board of Trustees in October 2004. The property consists of 2.68 acres and a 37,229 square-foot research/office building. The University renamed the building "Research & Technology Complex 1."

This acquisition will be utilized to enhance the University's Research and Technology Corridor initiative for regional economic development. University researchers in the fields of alternative energy and alternative fuels are occupying parts of the building. The University is also leasing space to private companies doing similar research in the alternative energy field.

The University initially financed the acquisition by borrowing funds utilizing a bond anticipation note, and now intends to roll that debt into this larger bond issuance. The debt will be paid from a combination of lease payments from outside tenants in the building and University indirect cost recovery funds. The projected operating costs associated with the building are approximately $275,000 per year.

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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 the University of Toledo 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.

*NOTE: The FY 2005 data shown in *italics* reflect the ratios and composite score when $52 million in debt is added to the calculations. Also, $2+ million in related debt service expenses and operating costs have been 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 the additional revenues and savings the proposed projects are expected to create.

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. The University of Toledo'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**
58.0%	44.7%	52.6%	55.0%	*42.5%*

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. The University of Toledo'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**
24.3%	25.6%	28.3%	30.6%	*30.3%*

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. The University of Toledo'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**
-2.2%	+4.7%	+5.5%	+4.6%	*+3.7%*

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. The University of Toledo's composite scores have been above the minimum threshold:

FY 2002	FY 2003	FY 2004	FY 2005	*FY 2005**
2.3	3.4	3.6	3.4	*3.4*

NOTE: The University of Toledo submitted a ten-year pro forma analysis in which UT's S.B. 6 ratios and scores are modeled through FY 2015. Based on this analysis, UT projects its composite scores as follows:

FY 2006: 3.9	FY 2011: 3.9
FY 2007: 3.4	FY 2012: 3.9
FY 2008: 3.6	FY 2013: 3.9
FY 2009: 3.9	FY 2014: 3.9
FY 2010: 3.9	FY 2015: 3.9

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VI. Financial Outlook and Bond Rating

According to its most recent annual financial report (FY 2005), the University of Toledo's financial position remains strong, having reported total assets of $518.2 million and liabilities of $233 million. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by $15.6 million in FY 2005 to $284.6 million.

The University's existing debt has received relatively high marks from independent bond-rating agencies. UT's long-term debt was most recently assigned a rating of *A* by Standard & Poor's. Moody's Investors Services most recently assigned a rating of *A2.* Moody's and S&P's scale is presented in the table below.

In addition, after a January 2006 review of UT's bond anticipation notes, Moody's issued a "stable" outlook for the University. Moody's identified some of the University's strengths and challenges. The strengths identified include:

- Balance sheet growth;
- Essentially balanced operating performance, despite a challenging state funding environment and enrollment declines;
- Broad pledge of general receipts providing strong debt service coverage.

The challenges identified by Moody's include:

- Declining enrollment and moderate deterioration in freshmen applications;
- Recent cuts in state operating support;
- Future capital projects requiring an uncertain level of additional borrowing;
- Uncertain credit impact of merger with the Medical University of Ohio.

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 below 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 2000 and FY 2005, statewide plant debt increased by 170% or $2.1 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 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
UNIVERSITIES						
BOWLING GREEN	$32,035,000	$83,415,000	$79,255,000	$91,215,000	$84,410,000	$109,000,000
CENTRAL STATE	$3,572,922	$3,346,920	$3,192,444	$2,703,429	$2,535,821	$2,340,402
CLEVELAND STATE	$16,153,641	$12,393,540	$10,849,215	$55,977,422	$53,754,446	$115,923,075
KENT STATE	$81,774,000	$234,407,000	$290,735,000	$285,773,000	$282,832,000	$279,692,000
MCOT	$2,184,779	$1,229,464	$6,392,000	$8,837,000	$8,730,000	$56,299,000
MIAMI UNIV.	$49,018,070	$45,061,353	$53,168,773	$47,994,898	$92,833,435	$168,613,252
NEOUCOM	$0	$542,430	$1,583,286	$1,397,190	$1,237,841	$1,046,607
OHIO STATE	$365,192,650	$378,145,912	$581,106,000	$586,233,000	$814,606,000	$877,540,000
OHIO UNIVERSITY	$84,103,403	$132,049,339	$126,677,123	$133,002,202	$175,592,164	$167,529,147
SHAWNEE STATE	$3,599,407	$3,406,398	$3,200,000	$2,910,000	$2,600,000	$2,270,000
UNIV. AKRON	$59,014,572	$89,002,729	$191,864,557	$211,208,546	$226,729,516	$258,484,797
UNIV. CINCINNATI	$375,212,000	$577,365,000	$567,181,000	$647,688,000	$893,004,000	$877,453,000
UNIV. TOLEDO	**$88,467,721**	**$121,691,439**	**$119,376,000**	**$172,577,000**	**$167,367,000**	**$176,779,000**
WRIGHT STATE	$14,438,988	$13,232,584	$11,575,625	$18,570,323	$29,584,121	$46,189,820
YOUNGSTOWN ST.	$17,840,681	$16,368,157	$14,992,226	$14,263,619	$13,492,373	$13,268,653
COMMUNITY COLLEGES						
CINCINNATI ST.	$592,494	$423,417	$0	$49,173,132	$47,580,000	$47,530,000
CLARK STATE	$68,172	$47,234	$22,011	$0	$72,800	$46,400
COLUMBUS ST.	$14,108,529	$13,221,412	$12,330,217	$11,434,658	$24,105,000	$22,700,000
CUYAHOGA	$0	$4,083,210	$12,564,559	$59,095,229	$65,222,373	$64,840,147
EDISON STATE	$800,000	$800,000	$738,589	$68,676	$604,972	$532,347
JEFFERSON	$0	$0	$0	$0	$2,170,485	$2,023,978
LAKELAND	$6,445,224	$2,900,237	$2,441,594	$1,976,978	$5,674,098	$5,535,996
LORAIN	$9,806,212	$7,230,062	$5,426,817	$3,952,163	$9,560,074	$7,925,194
NORTHWEST ST.	$0	$0	$123,260	$106,207	$73,705	$82,001
OWENS STATE	$141,049	$206,317	$0	$0	$0	$749,152
RIO GRANDE	$0	$0	$0	$0	$0	$0
SINCLAIR	$0	$0	$0	$0	$0	$0
SOUTHERN ST.	$138,968	$155,855	$122,950	$168,506	$3,245,886	$3,022,204
TERRA STATE	$0	$49,805	$42,710	$35,171	$839,738	$655,721
WASHINGTON ST.	$0	$0	$0	$0	$0	$0
TECHNICAL COLLEGES						
BELMONT TECH	$0	$0	$126,878	$97,927	$66,728	$33,107
COTC	$305,307	$270,726	$231,348	$186,826	$401,059	$100,986
HOCKING	$1,873,504	$4,311,120	$5,213,938	$497,794	$516,117	$1,039,729
JAMES RHODES ST	$0	$0		$0	$3,087,383	$3,067,812
MARION TECH	$0	$0		$0	$0	$0
ZANE STATE (MATC)	$0	$0	$0	$182,571	$341,385	$285,586
NORTH CENTRAL	$703,213	$744,479		$375,474	$300,562	$220,160
STARK STATE	$308,942	$259,870	$763,399	$620,993	$620,080	$16,738
STATEWIDE TOTAL	**$1,227,899,448**	**$1,746,361,009**	**$2,101,296,519**	**$2,408,322,934**	**$3,013,791,162**	**$3,312,836,011**