OHIO BOARD OF REGENTS

Agenda 3.13 Consideration of a request by Southern State Community College to increase the Regents' approved May 22, 2003 pledge of student fees and related bond issuance from $2,581,000 to an amount not to exceed $2,800,000 to allow for the creation of a debt service reserve fund.

RESOLUTION

WHEREAS, Section 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, the Southern State Community College District received approval from the Board of Regents on May 22, 2003 to pledge student fees in support of general receipts bonds and/or bond anticipation notes in an amount not to exceed $2,581,000 for the purpose of financing the construction of a new multi-purpose facility on campus; and

WHEREAS, the College has since discovered the need to increase the total approved by the Regents on May 22, 2003 by an additional $219,000 in order to establish a debt service reserve fund; and

WHEREAS, the scope of the project approved for Southern State Community College by the Regents on May 22, 2003 by the Regents remains unchanged; and

WHEREAS, the additional $219,000 in debt will not materially change the financial assessment of Southern State Community College made in the spring of 2002; and

WHEREAS, the proposed bond issuance complies with the requirements of Ohio Revised Code §3345.11 and §3345.12;

NOW THEREFORE,

BE IT RESOLVED, contingent upon the approval of the Board of Trustees of Southern State Community College, and upon the recommendation of the Chancellor and with the concurrence of the Resources and System Efficiency Committee of the Ohio Board of Regents, that the request to amend the May 22, 2003 pledge of fees by Southern Community College in support of general receipts bonds and/or bond anticipation notes to increase the total from $2,581,000 to an amount not to exceed $2,800,000 is hereby approved.

The following pages are the original documents provided in support of the May 22, 2003 pledge of student fees.

Southern State Community College
May 2003 Fee Pledge Request not to exceed $2,581,000

A. Project Overview

Southern State Community College proposes to issue general receipt bonds to finance the construction of a 23,000 square-foot multi-purpose center at the College's Central Campus in Hillsboro. The College has provided sufficient supporting documentation for this request, including a schedule of project costs, a pro-forma analysis, and a 20-year debt service schedule. Additionally, the College expects the project to be fully self-financing with revenues from a mandatory student activity fee and from special events (to be held at the center) projected to cover both the annual operating costs and annual debt service payments associated with the project.

Initial Submission to the Board: May 22, 2003.

Revised Submission:

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B. Project Financing

Southern State Community College proposes to issue general receipts bonds in an amount not to exceed $2.581 million for the purpose of constructing a new multi-purpose center. The College has established a 20-year debt service schedule and estimates the average annual interest rate to be 4.33%. The average annual debt service payment is estimated to be $197,568 and net operating costs are estimated to be $105,000 annually. The College's pro-forma analysis indicates revenues sufficient to cover the annual debt service requirement and the center's annual operating costs. These revenues would come primarily from student activity fees and special events held at the center. The activity fee is a mandatory fee charged to all students and is currently assessed at a rate of $2 per credit hour. To help finance the debt service requirement and cover operating costs, this fee would be increased to $4 per credit hour in FY 2004. The College plans to increase the activity fee by an additional $1 per credit hour in FY 2005 to help cover the heating and cooling costs of the new facility.

Additionally, House Bill 675, the FY 2003-2004 capital bill passed by the General Assembly in December 2002, appropriates $1 million to Southern State specifically to support the construction of the multi-purpose center.

An outline of the costs and resources associated with this project is presented below:

Project Costs:	
Construction	$3,000,000
Moveable equipment	$37,353
Architects & engineers	$312,647
Contingency	$150,000
Subtotal	**$3,500,000**
Issuance Costs:	
Underwriting discount	$18,500
Cost of issuance	$44,750
Insurance premium	$17,750
Subtotal	**$81,000**
Total Costs	**$3,581,000**
Available Resources:	
State capital appropriations*	($1,000,000)
Debt authority requested	**$2,581,000**

* Provided in H.B. 675, enacted in December of 2002.

C. Project Description

The new multi-purpose center will be located at Southern State's central campus in Hillsboro, Ohio. It will be comprised of approximately 23,000 gross square feet, designed for the wellness and fitness needs of the community and campus. Primary spaces will include a gymnasium, aerobic and weight rooms as well as locker rooms and support areas. This facility will also serve as a conference and community center, providing a large meeting area for educational and community service events. The project schedule is divided into six phases:

- Phase 1: Program validation and schematic design, April 2003
- Phase 2: Design development, May 2003
- Phase 3: Construction document review and approval, September 2003
- Phase 4: Bidding and award, November 2003
- Phase 5: Completion of construction, November 2004
- Phase 6: Occupancy, December 2004

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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 Southern State Community College 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 College'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.

*NOTE: The FY 2002 data shown in *italics* reflect the ratios and composite score when the $2.581 million of proposed new debt is added to the calculations. All other factors being equal, Southern State's viability ratio and composite score would be reduced by the additional debt. Other factors not taken into account here include the impact of the new debt on the College's expendable net assets, the future retirement of existing debt obligations, and future changes in revenues and expenses.

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

FY 2000	FY 2001	FY 2002	*FY 2002**
1405.1%	1093.8%	1658.3%	*75.4%*

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

FY 2000	FY 2001	FY 2002	*FY 2002**
15.3%	11.2%	14.7%	*14.7%*

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

FY 2000	FY 2001	FY 2002	*FY 2002**
1.2%	0.7%	0.5%	*0.5%*

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. Southern State'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	*FY 2002**
3.60	3.40	3.40	*2.80*

E. Bond Rating

Southern State Community College's current long-term debt is comprised of capital lease obligations and accrued compensated absences. Because none of this debt is bond-related, Southern State does not have a bond rating.

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