OHIO BOARD OF REGENTS

Agenda Item 3.8 Consideration of a request by Columbus State Community College to pledge student fees in support of a $17,200,000 bond issuance, to be used to finance certain capital projects.

**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, Columbus State Community College proposes to pledge student fees in support of general receipts obligation bonds and/or bond anticipation notes in an amount not to exceed $17,200,000 for the purpose of financing certain capital projects; and

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

WHEREAS, the College Board of Trustees is expected to consider a resolution authorizing this bond issuance at its meeting of November 13, 2003; and

WHEREAS, this proposal complies with the requirements of Ohio Revised Code sections 3345.07, 3345.11 and 3345.12;

NOW THEREFORE,

BE IT RESOLVED: Pending the approval of the Columbus State Community College Board of Trustees, and upon the recommendation of the Resources & System Efficiency Committee of the Ohio Board of Regents, that the pledge of fees by Columbus State Community College in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $17,200,000 is hereby approved.

**Columbus State Community College**
**November 2003 Fee Pledge Request - $17.2 million**

## A. Project Overview

Columbus State Community College proposes to issue general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $17,200,000 for the purpose of financing three capital projects, and to refund existing debt that was originally issued in 1993.

The College intends to support the debt with revenues from its auxiliary enterprises and projected state capital component appropriations. The three new capital projects include:

- Construction of a new bookstore and retail complex;
- Land acquisition to expand the College's service district to Delaware County. However, if the College opts not to pursue this acquisition, it requests authorization to use the bond proceeds to finance other capital projects described herein;
- Construction of a new child development center

*Initial Submission to the Board: October 16, 2003.*

*Revised Submission:*

**Columbus State Community College**
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## B. Project Financing and Costs

Columbus State Community College requests the authority to issue general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $17.2 million, to support three new capital projects and the refunding of existing Series 1993 debt. The College has established a 20-year debt service schedule with an average fixed interest rate of 4.03%. The College estimates that the estimated average annual debt service payment will be $1,210,762 per year. The financing aspect of each project is described below:

- <u>Bookstore/Retail Complex</u>: The $8 million total cost will be supported with $7 million bond proceeds and $1 million in available auxiliary service funds. The debt issue will provide financing to the costs of design, construction, equipment, issuance costs, and other related costs. The pro-forma analysis submitted by the College indicates sufficient revenues from bookstore operations to cover the annual debt service payment.

- <u>Land Acquisition</u>: The $3.4 million bond proceeds will cover the total expected cost of acquiring land. However, if the College does not pursue this land acquisition, it would use the bond proceeds to fund several other capital projects that are part of the College's $12.97 million facilities renovation plan.

- <u>Child Development Center</u>: The $3 million bond proceeds will cover the cost of design and construction, as well as provide a margin of safety for this project.

- <u>Series 1993 Refunding</u>: The $3,475,000 in bond proceeds will refund the outstanding balance on this debt. By refinancing this debt under a lower interest rate, the College expects to save approximately $167,588 in interest expenses.

The annual debt service requirements for the land acquisition, Child Development Center project, and the Series 1993 refunding will be covered by anticipated state Capital Component appropriations as well as $1.4 million that the College has currently allocated to support debt service.

A breakdown of project costs can be found on the following page.

**Columbus State Community College**
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## B. Project Financing and Costs (cont.)

| Project Costs | Bookstore | Land Acquisition | Child Dev. Center | Total |
|---|---|---|---|---|
| Architects/engineers | $560,000 | - | $219,884 | $779,884 |
| Construction | $5,645,000 | - | $2,642,689 | $8,287,689 |
| Moveable equipment | $1,035,000 | - | - | $1,035,000 |
| Land acquisition | - | $3,400,000 | - | $3,400,000 |
| Contingency | $300,000 | - | $137,427 | $437,427 |
| IT and security | $345,000 | - | - | $345,000 |
| Electric | $16,000 | - | - | $16,000 |
| Water taps | $65,000 | - | - | $65,000 |
| City inspection | $29,000 | - | - | $29,000 |
| Advertisements | $5,000 | - | - | $5,000 |
| Subtotal | $8,000,000 | $3,400,000 | $3,000,000 | $14,400,000 |
| **Other Costs:** | | | | |
| 1993 Series refunding | - | - | - | $3,475,000 |
| Cost of issuance | - | - | - | $223,030 |
| Bond insurance | - | - | - | $101,970 |
| Subtotal | $0 | $0 | $0 | $3,800,000 |
| Total costs | $8,000,000 | $3,400,000 | $3,000,000 | $18,200,000 |
| **Available resources:** | | | | |
| Auxiliary services | $1,000,000 | - | - | $1,000,000 |
| **Total request (total less resources)** | **$7,000,000** | **$3,400,000** | **$3,000,000** | **$17,200,000** |

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**Project Description**

## Bookstore/Retail Complex, $7 million

Columbus State Community College plans to build a new bookstore/retail complex to meet an increasing demand for retail space. This project includes 22,000 square feet of retail space for textbooks, computer electronics, supplies, gifts, and clothing, a copy center, a convenience store, a cyber café, and a general books section. It will also include the college's warehouse (10,000 square feet), and its printing and mail service functions (3,500 square feet). This project is anticipated to begin in December 2003 with the design phase and conclude in the fall of 2005.

## Refunding of 1993 Series Bonds, $3.5 million

Columbus State Community College proposes to refund its Series 1993 general receipts obligations. The College estimates that refinancing this debt will result in cost savings of approximately $167,588.

## Land Acquisition, $3.4 million

In November 2003, the Columbus State Board of Trustees directed the administration to explore business options for a potential second campus to expand service to its four-county service district encompassing Delaware, Franklin, Madison, and Union counties. This purchase will require the use of current local and state resources allocated for land acquisition, plus monies that would be financed through this bond issue.

If the college does not pursue this land acquisition, the college requests the authority to use the bond proceeds to fund other capital projects that will be under construction in 2004 and that are part of its locally-funded $12.97 million facilities renovation plan. These alternative projects include:

- $1.7 million renovation of a 6th Street building to include a machine shop, office space and art studios.
- $328,000 conduit extension for Eibling Hall.
- $235,000 Disability Service improvements at Eibling Hall.
- $540,000 renovation of Union Hall to include a data center.
- $610,000 renovation to Aquinas Hall to accommodate the College's testing center.

**Child Development Center, $3 million**

Columbus State Community College plans to build a new child development center as part of a state-funded 142,000 square-foot academic building. The first step of construction—moving utility infrastructure—will occur this fall. The college plans to open the new building by spring 2006. Because state guidelines prohibit the use of state funds for child development centers, local funding will be used. This facility will serve children of Columbus State employees and the neighboring community.

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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 Columbus State Community 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 $13.725 million of proposed new debt is added to the calculations. All other factors being equal, only the College'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. Columbus State's viability ratios for FY 2000, FY 2001 and FY 2002 are as follows:

| FY 2000 | FY 2001 | FY 2002 | *FY 2002** |
|---|---|---|---|
| 344.0% | 411.0% | 445.0% | *210.6%* |

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

| FY 2000 | FY 2001 | FY 2002 | *FY 2002** |
|---|---|---|---|
| 55.5% | 56.1% | 52.6% | *52.69%* |

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

| FY 2000 | FY 2001 | FY 2002 | *FY 2002** |
|---|---|---|---|
| 8.3% | 4.6% | 12.3% | *12.3%* |

**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. Columbus State's composite scores for FY 2000, FY 2001 and FY 2002 are well above the minimum threshold:

| FY 2000 | FY 2001 | FY 2002 | *FY 2002** |
|---|---|---|---|
| 5.0 | 4.8 | 5.0 | *4.7* |

## E. Financial Outlook and Bond Rating

Columbus State's existing long-term debt has received relatively high marks from independent rating agencies. When last rated in 1997, Moody's Investors Services assigned an *A2* to the College's existing debt, while Standard & Poor's assigned an *A*- rating.

These ratings indicate that the College'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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