OHIO BOARD OF REGENTS

Agenda item 3.12 Consideration of a request by Wright State University to pledge student fees in support of a bond issuance not to exceed $48,190,000.

**RESOLUTION**

WHEREAS, §89.11 of Am. Sub. H.B. 95 of the $125^{th}$ 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, Wright State University proposes to pledge student fees in support of general receipts obligation bonds and/or bond anticipation notes in an amount not to exceed $48,190,000 for the purpose of financing capital projects; and

WHEREAS, the University has determined that the proposed project is essential to fulfilling institutional goals; and

WHEREAS, the University's Board of Trustees is expected to consider a resolution authorizing this bond issuance at its meeting of November 19, 2004; and

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

NOW THEREFORE,

BE IT RESOLVED: Contingent upon the approval of Wright State University Board of Trustees, and 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 Wright State University in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $48,190,000 is hereby approved.

**Wright State University**
**November 2004 Fee Pledge Request - $48,190,000**

## A. Project Overview

Wright State University proposes to issue bonds to finance five different applications:

- Purchase of new administrative software and hardware
- Renovation of science facilities
- Student union renovation
- Parking and road improvements
- Bridge financing for three capital projects

The University has established separate debt service schedules for each project and plans to service the annual debt and operating costs with auxiliary revenues from parking and transportation services and with general receipts. And although Wright State does not intend to assess a special student fee to help cover project costs, the University does reserve the right to do so as a contingency measure.

*Initial Submission to the Board: October 2004*

*Revised Submission:*

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## B. Project Financing and Costs

Wright State University requests the authority to issue general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $48.19 million, to provide financing for five capital-related projects. The combined estimated project costs, including construction and issuance costs, are estimated to be $70.8 million, for which the University has available $22.6 million in resources.

Wright State intends to issue 25-year bonds with an estimated average interest rate of 3.8% and an average annual debt service expense of $2.5 million. However, the University has established shorter debt service schedules of 5, 10 and 20 years for three of the five projects. This will save the University interest costs in the long-run but will result in a greater debt service burden in the first few years of the issuance: $5.4 million for the first five years. Related operating costs are projected to be $204,000 per year.

To service the debt and cover related operating costs, Wright State's pro-forma analysis indicates that sufficient auxiliary revenues will be available from University parking and transportation services, as well as from general receipts. Additionally, the University anticipates that the science facilities renovation project will lead to an increase in research awards that will create cost recoveries to help offset a portion of operating costs. And if necessary, Wright State may assess a special student fee to help cover a portion of the debt and operating costs.

Wright State expects the 5-year bridge financing component to be funded completely with gifts to the University and with state capital appropriations. A breakdown of the estimated project costs is presented below:

| Project Costs | Admin. Software & Hardware | Science Facilities Renovation | Student Union Renovation | Parking & Road Improvements | Bridge Financing | Total |
|---|---|---|---|---|---|---|
| Implementation & Consultation | $15,000,000 | - | - | - | - | $15,000,000 |
| Construction | - | $15,300,000 | $6,500,000 | $4,500,000 | $8,640,000 | $34,940,000 |
| Moveable Equipment | - | $4,100,000 | $2,900,000 | - | - | $7,000,000 |
| Architect Fees | - | $1,400,000 | $600,000 | - | - | $2,000,000 |
| Contingency | 2,299.23 | $698,938 | 440.86 | 1,411.58 | 396.91 | $703,486 |
| Phase II | - | $7,300,000 | - | - | - | $7,300,000 |
| Phase III | - | $3,300,000 | - | - | - | $3,300,000 |
| Cost of Issuance | $128,945 | $103,233 | $85,978 | $17,213 | $74,248 | $409,615 |
| Insurance Premium | $38,756 | $42,830 | $28,582 | $6,376 | $20,356 | $136,899 |
| Total Project Costs | $15,170,000 | $32,245,000 | $10,115,000 | $4,525,000 | $8,735,000 | $70,790,000 |
| | | | | | | |
| Available Resources | | | | | | |
| State Capital Appropriations | - | $20,100,000 | - | $1,500,000 | - | $21,600,000 |
| WSU Reserves | - | - | - | $1,000,000 | - | $1,000,000 |
| Total Resources Available | $0 | $20,100,000 | $0 | $2,500,000 | $0 | $22,600,000 |
| | | | | | | |
| Total Bond Authority Requested | $15,170,000 | $12,145,000 | $10,115,000 | $2,025,000 | $8,735,000 | $48,190,000 |

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## C. Project Description

### Purchase of New Administrative Software and Hardware - $15.17 million

In November 2003 the University entered into an agreement with Sungard SCT to purchase a new integrated Enterprise Resource Planning system (BANNER) to replace the university's aging legacy systems. The university intends to install modules for certain administrative departments. Implementation of two modules is underway with the goal of having all modules installed and operational by June 2007. The University has filed a declaration of intent to reimburse itself for costs expended to-date on the project. The University intends to fund the debt service through general receipts.

### Renovation/Expansion of Science Facilities and Laboratories – $12.15 million

The University is planning to renovate science facilities in four buildings and construct a new wing over three phases spanning a seven year period. Total cost for all phases is estimated at $32.1 million. Phase I includes renovation of Brehm Laboratory in FY 2005 and construction of a new wing (Biological Sciences III) late in that fiscal year. Phase I is scheduled to be completed by July 2007 at an estimated cost of $21.5 million. Phase II will begin in FY 2008 and involves renovating Biological Sciences II and renovating the bottom three floors of Oelman Hall at an estimated cost of $7.3 million. This phase is scheduled to be completed by FY 2010. Phase III will begin in FY 2010 and includes renovation of Biological Sciences I at an estimated cost of $3.3 million. The final phase is scheduled to be completed in 2011. The University anticipates $20.1 million in State capital appropriations over the next three biennia and desires to borrow the remaining $12 million to complete these projects. The University anticipates funding the debt service through general university receipts but reserves the right to assess a special fee if needed.

### Renovation of Student Union - $10.12 million

The University plans to renovate the existing Recreational & Fitness Center in the Student Union. In addition, a Health & Wellness Center will be created by renovating interior space and relocating pharmacy and student health services. The project is scheduled to begin in May 2005 and conclude by July 2007 with a projected cost of $10 million. The University anticipates funding the debt service through general receipts but reserves the right to assess a special fee if needed.

### Parking and Road Improvements - $2.025 million

The University plans to relocate a portion of University Boulevard for improved pedestrian safety and to improve related parking lots. The estimated cost for this project is $4.5 million. This work is scheduled to be substantially performed in the summer of 2005. The University will fund $2.5 million through local and state funds and desires to fund the remaining $2 million through a bond issue. Debt service on this project will be funded by Parking & Transportation revenues.

**Bridge Cash Flow Financing - $8.7 million**

The University wishes to obtain interim financing in the amount of $8.7 million for a five-year period to cover timing differences between expenditures and receipts for three projects: renovation of Lake Campus facilities in the amount of $4.2 million, Science renovation (see description above) in the amount of $3 million, and renovation of Russ Engineering in the amount of $1.4 million. The University anticipates that state capital funding and gift commitments for these projects will be received by FY 2010, thereby allowing for the complete retirement of this debt issue. Debt service will be funded through general university receipts.

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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 Wright State University performed when these measures are applied to its FY 2001, FY 2002 and FY 2003 audited financial statements—the most up-to-date financial data available—and preliminary (unaudited) FY 2004 financial statements.

It is important to note that beginning in FY 2002, all campus financial reports are 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 2004 data shown are based on preliminary (unaudited - DRAFT) financial statements provided by the Wright State University. The FY 2004 data shown in *italics* reflect the ratios and composite score when $48.19 million in proposed new debt and $5.4 million in related debt service 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

For FY 2001, the viability ratio is defined as expendable fund balances divided by plant debt. For FY 2001(B)*, FY 2002, and FY 2003 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. Wright State University's viability ratios for FY 2001, FY 2002, FY 2003 and FY 2004 (preliminary) are as follows:

| | | | PRELIMINARY | |
|---|---|---|---|---|
| FY 2001 | FY 2002 | FY 2003 | FY 2004* | *FY 2004** |
| 487.6% | 609% | 438.3% | 307% | *116.8%* |

**2. Primary Reserve Ratio**

For FY 2001, the primary reserve ratio is defined as expendable fund balances divided by total expenditures and mandatory transfers. For FY 2001(B)*, FY 2002, and FY 2003 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. Wright State University's primary reserve ratios for FY 2001, FY 2002, FY 2003, and FY 2004 (preliminary) are as follows:

| | | | PRELIMINARY | |
|---|---|---|---|---|
| FY 2001 | FY 2002 | FY 2003 | FY 2004* | *FY 2004** |
| 26.7% | 28.9% | 30.5% | 31.9% | 31.3% |

**3. Net Income Ratio**

For FY 2001, the net income ratio represents net total revenues divided by total current revenues. For FY 2001(B)*, FY 2002, and FY 2003 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. Wright State University's net income ratios for FY 2001, FY 2002, FY 2003 and FY 2004 (preliminary) are as follows:

| | | | PRELIMINARY | |
|---|---|---|---|---|
| FY 2001 | FY 2002 | FY 2003 | FY 2004* | *FY 2004** |
| 3.0% | 4.5% | 3.7% | 3.5% | 1.7% |

**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 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 5.00. Wright State University's composite scores for FY 2001, FY 2002, FY 2003 and FY 2004 (preliminary) have been stable and are above the minimum threshold:

| | | | PRELIMINARY | |
|---|---|---|---|---|
| FY 2001 | FY 2002 | FY 2003 | FY 2004* | *FY 2004** |
| 4.10 | 4.30 | 4.30 | 4.30 | 3.80 |

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## E. Financial Outlook and Bond Rating

Standard & Poor's recently reported that higher education institutions are likely to face more challenges in the future due to increased costs and physical plant needs. This uncertain outlook is also attributable to a change in students' educational needs and a changing demographic base. S&P believes this could affect the higher education sector's credit quality in the municipal market, which could cause institutional bond ratings to become more volatile. The S&P report also described the amount of investment needed to renew and upgrade technology in older higher education facilities as "staggering". [1]

The Wright State University's existing debt has received relatively high marks from independent bond-rating agencies. Wright State's long-term debt was assigned a rating of *A2* by Moody's Investors Services.

This rating indicates that Wright State's ability to meet its debt obligations is considered relatively 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 sometimes 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). |

[1] *The Bond Buyer* (online edition): "S&P: Higher Education Institutions to Face Challenges in Future" by Adam Cataldo, August 19, 2004.

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## F. 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 1998 and FY 2003, aggregate net plant debt increased by 145% or $1.4 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 |
| **UNIVERSITIES** | | | | | | |
| BOWLING GREEN | $41,050,000 | $35,400,000 | $32,035,000 | $83,415,000 | $79,255,000 | $91,215,000 |
| CENTRAL STATE | $3,983,721 | $3,780,127 | $3,572,922 | $3,346,920 | $3,192,444 | $2,703,429 |
| CLEVELAND STATE | $16,543,399 | $16,420,347 | $16,153,641 | $12,393,540 | $10,849,215 | $55,977,422 |
| KENT STATE | $65,490,000 | $63,143,000 | $81,774,000 | $234,407,000 | $290,735,000 | $285,773,000 |
| MCOT | $2,946,693 | $2,883,387 | $2,184,779 | $1,229,464 | $6,392,000 | $8,837,000 |
| MIAMI UNIV. | $50,499,010 | $44,949,785 | $49,018,070 | $45,061,353 | $53,168,773 | $47,994,898 |
| NEOUCOM | $0 | $0 | $0 | $542,430 | $1,583,286 | $1,397,190 |
| OHIO STATE | $222,557,597 | $315,216,350 | $365,192,650 | $378,145,912 | $581,106,000 | $586,233,000 |
| OHIO UNIVERSITY | $49,448,971 | $79,696,363 | $84,103,403 | $132,049,339 | $126,677,123 | $133,002,202 |
| SHAWNEE STATE | $3,707,230 | $3,672,175 | $3,599,407 | $3,406,398 | $3,200,000 | $2,910,000 |
| UNIV. AKRON | $29,591,298 | $36,007,772 | $59,014,572 | $89,002,729 | $191,864,557 | $211,208,546 |
| UNIV. CINCINNATI | $340,715,000 | $365,895,000 | $375,212,000 | $577,365,000 | $567,181,000 | $647,688,000 |
| UNIV. TOLEDO | $89,660,778 | $93,722,220 | $88,467,721 | $121,691,439 | $119,376,000 | $172,577,000 |
| **WRIGHT STATE** | **$14,191,357** | **$15,669,753** | **$14,438,988** | **$13,232,584** | **$11,575,625** | **$18,570,323** |
| YOUNGSTOWN ST. | $19,933,000 | $19,096,590 | $17,840,681 | $16,368,157 | $14,992,226 | $14,263,619 |
| | | | | | | |
| **COMMUNITY COLLEGES** | | | | | | |
| CINCINNATI ST. | $1,254,220 | $771,204 | $592,494 | $423,417 | $0 | $49,173,132 |
| CLARK STATE | $306,496 | $0 | $68,172 | $47,234 | $22,011 | $0 |
| COLUMBUS ST. | $15,022,102 | $14,263,821 | $14,108,529 | $13,221,412 | $12,330,217 | $11,434,658 |
| CUYAHOGA | $0 | $0 | $0 | $4,083,210 | $12,564,559 | $59,095,229 |
| EDISON STATE | $220,000 | $0 | $800,000 | $800,000 | $738,589 | $68,676 |
| JEFFERSON | $0 | $0 | $0 | $0 | $0 | $0 |
| LAKELAND | $30,000 | $6,493,734 | $6,445,224 | $2,900,237 | $2,441,594 | $1,976,978 |
| LORAIN | $77,449 | $12,340,038 | $9,806,212 | $7,230,062 | $5,426,817 | $3,952,163 |
| NORTHWEST ST. | $991,860 | $0 | $0 | $0 | $123,260 | $106,207 |
| OWENS STATE | $12,947,278 | $136,892 | $141,049 | $206,317 | $0 | $0 |
| RIO GRANDE | $0 | $0 | $0 | $0 | $0 | $0 |
| SINCLAIR | $0 | $0 | $0 | $0 | $0 | $0 |
| SOUTHERN ST. | $371,229 | $259,010 | $138,968 | $155,855 | $122,950 | $168,506 |
| TERRA STATE | $5,121 | $0 | $0 | $49,805 | $42,710 | $35,171 |
| WASHINGTON ST. | $0 | $0 | $0 | $0 | $0 | $0 |
| | | | | | | |
| **TECHNICAL COLLEGES** | | | | | | |
| BELMONT TECH | $0 | $0 | $0 | $0 | $126,878 | $97,927 |
| COTC | $367,493 | $337,831 | $305,307 | $270,726 | $231,348 | $186,826 |
| HOCKING | $1,862,829 | $1,871,748 | $1,873,504 | $4,311,120 | $5,213,938 | $497,794 |
| JAMES RHODES ST | $0 | $0 | $0 | $0 | | $0 |
| MARION TECH | $0 | $0 | $0 | $0 | | $0 |
| ZANE STATE (MATC) | $0 | $0 | $0 | $0 | $0 | $182,571 |
| NORTH CENTRAL | $920,656 | $775,048 | $703,213 | $744,479 | | $375,474 |
| STARK STATE | $20,307 | $143,311 | $308,942 | $259,870 | $763,399 | $620,993 |
| 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 |