OHIO BOARD OF REGENTS

Agenda item 3.7 Consideration of a request by Ohio University to pledge student fees in support of a bond issuance not to exceed $6,590,000, to be used to support three capital projects on campus.

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, Ohio University proposes to pledge student fees in support of general receipts obligation bonds and/or bond anticipation notes in an amount not to exceed $6,590,000 for the purpose of financing three capital projects; and

WHEREAS, the University has determined that the proposed capital 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 meeting of September 19, 2003; 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 Ohio University in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $6,590,000 is hereby approved.

Ohio University
October 2003 Fee Pledge Request - $6.59 million

A. Project Overview

Ohio University proposes to issue general receipts obligation bonds and/or bond anticipation notes to finance three new capital projects on campus. The University proposes to use general receipts, state capital appropriations, and student fee revenues to meet the debt service requirements for this issuance. The capital projects include site preparation for a new 180,000 square-foot University Center, as well as improvements to the University's energy/utility system.

Ohio University intends to implement a new student fee to help service the debt associated with the University Center project. The University plans to implement this fee after the completion and opening of the Center in September 2006, and intends for it to be exempt from legislative fee caps imposed in the future.

Initial Submission to the Board: October 16, 2003.

Revised Submission:

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B. Project Financing and Costs

Ohio University has established a 15-year debt service schedule for the proposed new debt. The University estimates the average debt service requirement to be roughly $407,961 per year, at an average annual interest rate of 4.75%.

The pro-forma analysis submitted by Ohio University forecasts annual state capital appropriations, general receipts, and student fee revenues sufficient to meet this annual debt service requirement. The University plans to levy a new student facilities fee of $60 per quarter for full-time Athens campus students effective with the opening of the University Center in September 2006. This fee will be used to retire the debt and operate the facility. Annual revenue estimates provided by the University, conservatively based on 19,500 students for three quarters, are $3.51 million. The University intends for this fee to be exempt from legislative fee caps. Additionally, the University expects the energy/utility projects to create significant cost savings that will also help support the debt service requirement and operating costs.

Ohio University has earmarked $20 million of future state capital and capital component appropriations that it will use to support the University Center project. The University also intends to seek Regents approval for another bond issue in 2004, to cover the remaining construction costs for the University Center project. A summary of project costs is presented below.

	University Center Site Preparation	Performance Contracting	Lausche Heating Plant	Total
PROJECT COSTS				
Construction	$41,490,000	$1,517,160	$2,497,600	$45,504,760
Moveable Equipment	$6,900,000	$0	$0	$6,900,000
Architects & Engineers	$5,802,000	$160,000	$290,000	$6,252,000
Land Acquisition/Prep.	$360,000	$0	$0	$360,000
Contingency	$3,217,000	$145,840	$242,400	$3,605,240
Project Management Fee	$672,000	$0	$0	$672,000
Miscellaneous	$1,559,000	$0	$0	$1,559,000
Underwriting Discount	-	-	-	$21,417
Issuance Costs	-	-	-	$85,000
Insurance Premium	-	-	-	$25,498
Additional Proceeds	-	-		$5,085
Total Project Costs	$60,000,000	$1,823,000	$3,030,000	$64,990,000
PROJECT RESOURCES				
St. Capital Appropriations	$20,000,000	$0	$0	$20,000,000
Series 2003 Bond	$3,800,000	$0	$0	$3,800,000
Series 2004 Bond	$34,600,000	$0	$0	$34,600,000
Total Project Resources	$58,400,000	$0	$0	$58,400,000
Total Costs less Resources	**$1,600,000**	**$1,823,000**	**$3,030,000**	**$6,590,000**

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C. Project Description

<u>University Center Site Preparation, $1.6 million</u>

Ohio University proposes an early site development package for the $60 million University Center Project, which is scheduled to open in September 2006. The new 180,000 square-foot University Center will be located on the southern edge of the college green and adjacent to Oxbow Drive and will become the physical connector between lower and upper campus. The total construction period for the University Center project is 35 months. The early site development for the project consists of utility relocation, building service utilities, river channel relocation and drilled caissons. Also included in this early site package is the relocation of an eight-inch gas line, the installation of domestic water and chilled water service to the building site, and the re-channeling of the existing river bed. The early site package will be completed by January 30, 2004. The building package and remaining site development will be bid in January 2004. The building construction is scheduled to commence in March 2004 and project completion is scheduled for September 2006. Annual operating costs are expected to be approximately $1,035,000.

<u>Performance Contracting, $1,823,000</u>

Two projects are covered under this project: Life Sciences heat recovery and steam extension to the Ridges. Ohio University estimates that these improvements will result in a $439,172 annual reduction in purchased utilities—electric, gas, coal and water—and in related operating costs. According to the University, the blended simple payback is 4.2 years. The construction of the improvements will be complete in two years or less.

<u>Lausche Heating Plant, $3.03 million</u>

This two-phase project consists of $1.03 million for the renovation of the Heating Plant, including the total rebuild of a boiler; and $2 million for design work, the rebuild of a second boiler, expansion of baghouse capacity, and design of the University Center chiller for the West Green central chilled water plant. The $3.03 million total cost for this project is reflected in the capital plan submitted by Ohio University to the Board of Regents in August 2003.

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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 Ohio University 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 University'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 $6.59 million of proposed new debt is added to the calculations. All other factors being equal, only the University's viability ratio would be reduced by the additional debt. 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 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 Ohio University's viability ratios for FY 2000, FY 2001 and FY 2002 are as follows:

FY 2000	FY 2001	FY 2002	*FY 2002**
103.1%	82.4%	81.8%	*77.7%*

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

FY 2000	FY 2001	FY 2002	*FY 2002**
21.5%	25.4%	23.9%	*23.9%*

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. Ohio University'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%	2.5%	5.7%	*5.7%*

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 5.0. Ohio University'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**
3.3	3.5	3.4	*3.4*

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E. Bond Rating

Ohio University's existing long-term debt has received high marks from independent rating agencies. Moody's Investors Services has assigned an *A1* to OU's existing debt, while Standard & Poor's most recent rating was an *A+*.

Ohio University's *A1* and *A+* ratings indicate that the University'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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