OHIO BOARD OF REGENTS

Agenda item 3.10 Consideration of a request by Miami University to pledge student fees in support of a $65,000,000 bond issuance, to be used to support multiple 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, Miami University proposes to pledge student fees in support of general receipts obligation bonds and/or bond anticipation notes in an amount not to exceed $65,000,000 for the purpose of financing multiple capital projects and refinancing existing debt; 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 26, 2003; 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 the Miami University Board of Trustees, and upon the recommendation of the Chancellor and with the concurrence of the Resources & Systems Efficiency Committee of the Ohio Board of Regents, that the pledge of fees by Miami University in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $65,000,000 is hereby approved.

**Miami University**
**September 2003 Fee Pledge Request - $65 million**

## A. Project Overview

Miami University proposes to issue general receipts obligation bonds and/or bond anticipation notes to finance nine new capital projects on campus. As part of this request, the University also intends to refund the outstanding balance on Series 1993 Bonds. The University proposes to use auxiliary revenues and general receipts to meet the debt service requirements for this issuance. The new capital projects include:

- Construction of new student housing and parking facilities
- Utility service upgrades
- Improvements and renovations to existing academic, recreational, and auxiliary facilities
- Planning and design for the replacement of an ice arena and two academic buildings.

*Initial Submission to the Board: September 18, 2003.*

*Revised Submission:*

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## B. Project Financing and Costs

Miami University has established a 20-year debt service schedule for the $53,710,000 of proposed new debt. The University estimates the average debt service requirement to be roughly $4.2 million per year, at an average annual interest rate of approximately 4.7%. The pro-forma analysis submitted by the University forecasts annual auxiliary and general revenues sufficient to meet this annual debt service requirement.

Miami University proposes to refund the remaining balance on general receipts bonds issued in 1993, and has established a 10-year debt service schedule. By refunding the remaining balance, the University can re-issue the bonds at a lower annual interest rate estimated to be 3.6% on average. The University estimates the resultant net savings to be approximately $932,000.

A summary of project costs is presented below.

| New Debt: | Project Costs | Related Issuance Costs* | Total |
|---|---|---|---|
| Student Housing | $30,500,000 | $245,000 | **$30,745,000** |
| Parking Garage | $4,000,000 | $35,000 | **$4,035,000** |
| Athletic Complex | $4,500,000 | $40,000 | **$4,540,000** |
| Utility Upgrade | $5,500,000 | $45,000 | **$5,545,000** |
| Cogeneration Facility | $5,000,000 | $40,000 | **$5,040,000** |
| Shriver Center | $665,000 | $10,000 | **$675,000** |
| Presser Hall | $500,000 | $5,000 | **$505,000** |
| Psychology Bldg. | $500,000 | $5,000 | **$505,000** |
| Ice Arena | $2,100,000 | $20,000 | **$2,120,000** |
| Subtotal | $53,265,000 | $445,000 | **$53,710,000** |
| **Existing Debt:** | | | |
| Series 1993 Refund | $10,551,724 | $78,276 | **$10,630,000** |
| Subtotal | $10,551,724 | $78,276 | **$10,630,000** |
| Margin of Safety | $660,000 | $0 | **$660,000** |
| Total | $63,816,724 | $523,276 | **$65,000,000** |

* Other costs include underwriters discount, general issuances costs, insurance premium, and contingencies.

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## C. Project Description

**Construction of Student Housing, $30.5 million**

A primary goal of Miami University's Student Housing Comprehensive Plan is to expand and diversify the campus housing stock to include approximately 400 to 450 beds of apartment-style student housing. The apartments will be fully furnished and will offer an optimal student independent living environment that the University expects will lead to an increase in the number of students requesting on-campus housing. Some of the features of the new housing facility include enhanced technology, such as computer and cable television connectivity, and improved campus security and fire safety. The annual debt service requirement associated with this project will be funded entirely by proceeds from apartment rentals.

**Construction of Parking Facilities, $4 million**

In response to an increasing demand for parking, this project will provide new parking facilities in various locations on campus. The debt service for this project will be entirely funded by revenues from parking fees, permits and fines.

**High Voltage Electric Distribution and Other Utility Upgrades, $5 million**

A new 12,470-volt primary electric distribution for the campus will be installed to supplement the existing 4,170-volt distribution system that currently serves the Oxford campus. This project will involve the installation of two new transformers at the McGuffey substation, three new switch houses on campus and underground electric feeders connecting these switches to the McGuffey substation and to each other. This upgrade is required to support the new Engineering and Psychology buildings that will be located in the north side of campus and the Ice Arena, Parking Garage and Student Apartments located in the southwest part of campus. Ultimately, new and existing buildings will be connected to the new high-voltage distribution system, therefore reducing the load on the existing system. The new high-voltage system will become the primary system for the next 30-40 years as the lower voltage system is phased out. This project will be supported with unrestricted auxiliary and general revenues from the University's electrical utility budget.

**Construction of a Cogeneration Facility, $5 million**

The cogeneration facility project involves the purchase and installation of two 6-megawatt natural gas engine generators that will be housed in a new addition to the steam plant. The purpose of this equipment is to reduce the peak electric demand and greatly reducing the cost of purchased electricity. These engines will run approximately nine hours per day when peak electrical demand is established, primarily during the summer months and at certain other times during the year. During the time the engines are operating, the units will supply approximately two-thirds of the total current electrical requirements of the campus. The engines will also serve as back-up generators to supply electricity to the campus in the event of a loss of power from our utility supplier. This bond issuance will provide funding for approximately half of the total cost of the project, and the debt service requirement will be supported with unrestricted auxiliary and general revenues from the University's electrical utility budget.

**Yager Athletic Complex Renovation, $4.5 million**

Constructed in 1983, Yager Stadium is home to the varsity football team. A major aspect of this project is to replace the east stands and end zone stands with new stadium seating. The purpose of this project is not to increase seating capacity, but rather to replace old and worn seating. New sport lighting will be added to allow for night football games and general extended time of operation for the field. Also, a new women's varsity softball field will be relocated from its current location which frequently floods. The debt service for this project will be covered by general fee proceeds and by auxiliary revenues from the athletic department.

**Shriver Center Improvements, $665,000**

This project entails general improvements and infrastructure/code upgrades to Shriver Center, which was built in 1955 and houses several of the University's auxiliary enterprises, such as the bookstore, restaurants and dining areas, a theater, and conference rooms. No additional space will be added to the building as a part of this project. This bond issuance will provide funding for half of the total cost of the project, while the remaining portion will be covered by available auxiliary funds. The annual debt service requirement will be covered by auxiliary revenues from sales and services at the Center.

**Planning and Design for Ice Arena Replacement, $2.1 million**

This project will provide architectural and engineering services for the design, construction documentation, bidding and construction administration for a new hockey and skating facility. The project site is between Phillips Hall and the Recreational Sports Center in the southwest area of the Oxford campus. The debt service for this project will be covered by auxiliary revenues from sales and services at the ice arena.

**Planning and Design for Rehabilitation of Presser Hall, $500,000**

This bond issuance will provide funding for the professional architectural and engineering services necessary for the design, construction documentation, bidding, construction administration and project closeout of Presser Hall. Presser Hall was constructed in 1931 by the Western College for Women and was purchased by Miami University in 1973. No major rehabilitation work has occurred since 1974. The annual debt service requirement associated with this project will be covered by the University's general unrestricted revenues.

**Planning and Design for Psychology Building, $500,000**

This bond issuance will provide funding for the professional architectural and engineering services necessary for design, construction documentation, bidding, construction administration and project closeout for a new facility that will house Miami University's Department of Psychology and the Laboratory Animal Resources Department. This new building will be located immediately north of Pearson Hall; the building site currently serves as a parking lot. The annual debt service requirement associated with this project will be covered by the University's general unrestricted revenues.

**Current Refunding of Series 1993 Bonds, $10.93 million**

The Series 1993 Bonds were issued primarily to fund the construction of a student recreational sports facility, as well as to renovate residence and dining halls and to make utility improvements. The current interest term bonds will be redeemed on December 1, 2003.

## 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 Miami 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 $54.4 million of proposed new debt is added to the calculations. All other factors being equal, the University'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 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 Miami University's viability ratios for FY 2000, FY 2001 and FY 2002 are as follows:

| FY 2000 | FY 2001 | FY 2002 | *FY 2002** |
|---|---|---|---|
| 286.7% | 344.5% | 301.5% | *148.9%* |

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

| FY 2000 | FY 2001 | FY 2002 | *FY 2002** |
|---|---|---|---|
| 43.8% | 45.6% | 46.0% | *46.0%* |

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

| FY 2000 | FY 2001 | FY 2002 | *FY 2002** |
|---|---|---|---|
| 5.70% | 6.50% | 7.40% | *7.40%* |

**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. Miami University's composite scores for FY 2000, FY 2001 and FY 2002 are above the minimum threshold:

| FY 2000 | FY 2001 | FY 2002 | *FY 2002** |
|---|---|---|---|
| 4.50 | 4.50 | 4.50 | *4.20* |

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**E. Bond Rating**

Miami University's existing long-term debt has received high marks from Standard & Poor's Rating Services. S&P's most recent rating was an *A+*, assigned to Miami in October 2001. Both S&P and Moody's Investors Services are scheduled to visit the Oxford campus in September 2003 to initiate updated ratings.

Miami's *A+* rating from S&P indicates that the University 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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