OHIO BOARD OF REGENTS

Agenda item 3.8 Consideration of a request by Hocking College to pledge student fees in support of a bond issuance not to exceed $3,000,000, to be used to finance the renovation and expansion of the hospitality training center on campus.

RESOLUTION

WHEREAS, §209.64.69 of Am. Sub. H.B. 66 of the 126th 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, Hocking College proposes to pledge student fees in support of bond anticipation notes in an amount not to exceed $3,000,000 for the purpose of financing the expansion and renovation of the hospitality training center on campus; and

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

WHEREAS, the College's Board of Trustees approved a resolution authorizing this debt issuance at its meeting of June 28, 2005; and

WHEREAS, this proposal complies with the requirements of Ohio Revised Code §3357.112 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 Hocking College in support of bond anticipation notes in an amount not to exceed $3,000,000 is hereby approved.

Hocking College
September 2005 Fee Pledge Request - $3,000,000

I. Project Overview

Hocking College proposes to issue bond anticipation notes to finance the expansion and renovation of its hospitality training center. The training center houses the College's hospitality program, which has presently enrolled about 400 students. The training center was built in 1973 and the College has deemed its expansion and renovation as essential to the quality of instruction.

Initial Submission to the Board: September 2005

Revised Submission:

Hocking College
September 2005 Fee Pledge Request - $3,000,000

II. Project Financing and Costs

Hocking College requests the authority to issue bond anticipation notes in an amount not to exceed $3.0 million, to provide financing for a campus capital project. Total project costs are estimated to be roughly $4.5 million for which the College has approximately $1.5 million in available project resources. A breakdown of the estimated project costs and resources is presented below:

Project Costs:	
Construction	$2,950,000
Construction Manager	$240,000
Moveable Equipment	$500,000
Architects and Engineers	$210,000
Contingency	$333,437
Capitalized Interest	$150,000
Issuance Cost	$100,000
Total Costs	$4,483,437
Project Resources:	
Gifts and Grants	$200,000
State Capital Appropriations	$1,283,437
Total Resources	$1,483,437
Difference, Total Costs less Total Resources = Requested Debt Authority	$3,000,000

The debt would be structured as a bond anticipation note (BAN) for approximately 5 to 6 years with annual interest and a $100,000 minimum annual principal payment being paid by the College until the anticipated state capital appropriation becomes available. In the event that state capital appropriations are delayed or are unavailable, the College would refund the obligation to be repaid over a 15- or 20-year repayment period, using general receipts to support the debt.

The college undertook a similar project in 2000 with the construction of its student center and issued Regents-approved bond anticipation notes for $4,030,000. In FY 2003, the College used state capital appropriations to repay $3,638,700, with the remaining balance being retired with College funds. As of June 30, 2005, the debt issued in 2000 was paid in full. The College's current debt obligation consists only of equipment leases.

Hocking College
September 2005 Fee Pledge Request - $3,000,000

III. Fee Impact

This proposed bond issuance will have no impact on student tuition and fees.

The Hocking College Foundation plans to separately issue $13 million in general receipts obligation bonds to finance the construction of 500-bed student housing facility. The facility will be leased by the Foundation to the College, which will use auxiliary revenues from student rentals to pay for the lease. Because the debt and ownership of this facility will be with the Foundation, it will not be recorded as debt on the College's financial statements. And because the debt will be funded solely by auxiliary operations—not student fees—Regents approval is not requested for this separate issuance.

Hocking College
September 2005 Fee Pledge Request - $3,000,000

IV. Project Description

The purpose of this project is to enlarge and renovate the College's hospitality training center. The hospitality program, which includes culinary arts, hotel/restaurant management, and major sections of nutrition, eco-tourism, and business studies, has experienced rapid growth. A new program in spa operation and management will be launched with the renovation of the hospitality facility.

The College has deemed it necessary to enlarge the training facility, particularly the culinary kitchen and instructional area. Laboratory and classroom space has been provided at this facility since it was built in 1973. Current enrollment is approximately 400. The expansion and updating is critical to quality instruction.

The expansion portion of the project will add a total of 7,190 square feet of space for the culinary arts program, including a demo kitchen, three laboratory kitchens, a meat preparation facility and administrative offices. In addition, the college plans to renovate 7,400 square feet of existing space, including but not limited to a computer lab, classrooms, an instructional kitchen, and improvements to the main entrance and lobby area.

The College estimates that this project will be completed by October 2006.

Hocking College
September 2005 Fee Pledge Request - $3,000,000

V. 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 Hocking College performed when these measures are applied to its FY 2001, FY 2002, FY 2003 and FY 2004 audited financial statements—the most up-to-date financial data available.

It is important to note that beginning in FY 2002, financial statements began being reported 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 in *italics* reflect the ratios and composite score when $3 million in new debt is added to the calculations. 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 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. Hocking College's viability ratios for FY 2001, FY 2002, FY 2003 and FY 2004 are as follows:

FY 2001	FY 2002	FY 2003	FY 2004	*FY 2004**
186.2%	110.4%	837.3%	495.8%	*132.7%*

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. Hocking College's primary reserve ratios for FY 2001, FY 2002, FY 2003, and FY 2004 are as follows:

FY 2001	FY 2002	FY 2003	FY 2004	*FY 2004**
18.6%	13.6%	10.1%	10.4%	*10.4%*

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. Hocking College's net income ratios for FY 2001, FY 2002, FY 2003 and FY 2004 are as follows:

FY 2001	FY 2002	FY 2003	FY 2004	*FY 2004**
1.0%	9.6%	9.9%	0.4%	*0.4%*

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. Hocking College's composite scores for FY 2001, FY 2002, FY 2003 and FY 2004 have been stable and are above the minimum threshold:

FY 2001	FY 2002	FY 2003	FY 2004	*FY 2004**
3.10	3.70	4.00	3.40	*3.10*

VI. Financial Outlook and Bond Rating

According to its most recent audited financial report, Hocking College's financial position improved during FY 2004, having reported an increase in total assets of $0.3 million or 4.9%. At the same time, the College's long-term liabilities rose by $0.2 million or 40%, an increase mainly due to a new capital lease.

The College is working with RBC Dain Rauscher in Columbus as its placement advisor for the bond anticipation notes. Historically, the College has not obtained a bond rating because the College has generally issued relatively small amounts of debt with short repayment periods. The College reports that it will follow the advice of RBC Dain Rauscher and seek a rating if deemed beneficial at the time of issuance.

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VII. Institutional Plant Debt

The table on the following page 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 2004, aggregate net plant debt increased by 206% or $2 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.

Between FY 1998 and FY 2004, Hocking College's long-term plant has ranged from a high-point of $5.2 million in FY 2002 to roughly $498,000 in FY 2003 when the College used state capital appropriations to retire the debt related to the construction of its new student center. In its most recent financial audit, the College reported long-term plant debt of $516,117.

Institution	Long-Term Plant Debt						
	FY 1998	**FY 1999**	**FY 2000**	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**
UNIVERSITIES							
BOWLING GREEN	$41,050,000	$35,400,000	$32,035,000	$83,415,000	$79,255,000	$91,215,000	$84,410,000
CENTRAL STATE	$3,983,721	$3,780,127	$3,572,922	$3,346,920	$3,192,444	$2,703,429	$2,535,821
CLEVELAND STATE	$16,543,399	$16,420,347	$16,153,641	$12,393,540	$10,849,215	$55,977,422	$53,754,446
KENT STATE	$65,490,000	$63,143,000	$81,774,000	$234,407,000	$290,735,000	$285,773,000	$282,832,000
MCOT	$2,946,693	$2,883,387	$2,184,779	$1,229,464	$6,392,000	$8,837,000	$8,730,000
MIAMI UNIV.	$50,499,010	$44,949,785	$49,018,070	$45,061,353	$53,168,773	$47,994,898	$92,833,435
NEOUCOM	$0	$0	$0	$542,430	$1,583,286	$1,397,190	$1,237,841
OHIO STATE	$222,557,597	$315,216,350	$365,192,650	$378,145,912	$581,106,000	$586,233,000	$814,606,000
OHIO UNIVERSITY	$49,448,971	$79,696,363	$84,103,403	$132,049,339	$126,677,123	$133,002,202	$175,592,164
SHAWNEE STATE	$3,707,230	$3,672,175	$3,599,407	$3,406,398	$3,200,000	$2,910,000	$2,600,000
UNIV. AKRON	$29,591,298	$36,007,772	$59,014,572	$89,002,729	$191,864,557	$211,208,546	$226,729,516
UNIV. CINCINNATI	$340,715,000	$365,895,000	$375,212,000	$577,365,000	$567,181,000	$647,688,000	$893,004,000
UNIV. TOLEDO	$89,660,778	$93,722,220	$88,467,721	$121,691,439	$119,376,000	$172,577,000	$167,367,000
WRIGHT STATE	$14,191,357	$15,669,753	$14,438,988	$13,232,584	$11,575,625	$18,570,323	$29,584,121
YOUNGSTOWN ST.	$19,933,000	$19,096,590	$17,840,681	$16,368,157	$14,992,226	$14,263,619	$13,492,373
COMMUNITY COLLEGES							
CINCINNATI ST.	$1,254,220	$771,204	$592,494	$423,417	$0	$49,173,132	$47,580,000
CLARK STATE	$306,496	$0	$68,172	$47,234	$22,011	$0	$72,800
COLUMBUS ST.	$15,022,102	$14,263,821	$14,108,529	$13,221,412	$12,330,217	$11,434,658	$24,105,000
CUYAHOGA	$0	$0	$0	$4,083,210	$12,564,559	$59,095,229	$65,222,373
EDISON STATE	$220,000	$0	$800,000	$800,000	$738,589	$68,676	$604,972
JEFFERSON	$0	$0	$0	$0	$0	$0	$2,170,485
LAKELAND	$30,000	$6,493,734	$6,445,224	$2,900,237	$2,441,594	$1,976,978	$5,674,098
LORAIN	$77,449	$12,340,038	$9,806,212	$7,230,062	$5,426,817	$3,952,163	$9,560,074
NORTHWEST ST.	$991,860	$0	$0	$0	$123,260	$106,207	$73,705
OWENS STATE	$12,947,278	$136,892	$141,049	$206,317	$0	$0	$0
RIO GRANDE	$0	$0	$0	$0	$0	$0	$0
SINCLAIR	$0	$0	$0	$0	$0	$0	$0
SOUTHERN ST.	$371,229	$259,010	$138,968	$155,855	$122,950	$168,506	$3,245,886
TERRA STATE	$5,121	$0	$0	$49,805	$42,710	$35,171	$839,738
WASHINGTON ST.	$0	$0	$0	$0	$0	$0	$0
TECHNICAL COLLEGES							
BELMONT TECH	$0	$0	$0	$0	$126,878	$97,927	$66,728
COTC	$367,493	$337,831	$305,307	$270,726	$231,348	$186,826	$401,059
HOCKING	**$1,862,829**	**$1,871,748**	**$1,873,504**	**$4,311,120**	**$5,213,938**	**$497,794**	**$516,117**
JAMES RHODES ST	$0	$0	$0	$0		$0	$3,087,383
MARION TECH	$0	$0	$0	$0		$0	$0
ZANE STATE (MATC)	$0	$0	$0	$0	$0	$182,571	$341,385
NORTH CENTRAL	$920,656	$775,048	$703,213	$744,479		$375,474	$300,562
STARK STATE	$20,307	$143,311	$308,942	$259,870	$763,399	$620,993	$620,080
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**	**$3,013,791,162**

(a) FY 2002 was first year of reporting under new GASB 34/35 requirements.
(b) FY 2003 figures are preliminary. The FY 2003 analysis is still under review and is subject to revision.