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ERIC D. FINGERHUT, CHANCELLOR

DIRECTIVE 2008-004

May 8, 2008

Re: CONSIDERATION OF A REQUEST BY SOUTHERN STATE COMMUNITY COLLEGE TO PLEDGE STUDENT FEES IN SUPPORT OF A BOND ISSUANCE NOT TO EXCEED \$2,840,000, TO BE USED TO FINANCE THE FAYETTE CAMPUS RENOVATION AND ADDITION PROJECT.

Ohio Revised Code §3345.11 enables a state university or college to issue general receipts obligation bonds in the manner provided by and subject to the applicable provisions of Ohio Revised Code §3345.12.

§375.70.60 of Am. Sub. H.B. 119 of the 127th General Assembly requires that any new pledge of student fees to secure bonds or notes of a state college or university be approved by the Chancellor of the Ohio Board of Regents.

Pursuant to Ohio Revised Code, Southern State Community College has demonstrated the following:

- The proposed projects are essential to fulfilling institutional goals.
- The College's Board of Trustees will vote upon a resolution authorizing this bond issuance at its next meeting on May 14, 2008.
- Southern State Community College has demonstrated that their proposal complies with §3345.11 and §3345.12.

Agency staff reviewed the request and posted its recommendations to the Regents' web site for purposes of providing a period of public comment before final approval by the Chancellor. The materials posted for comment and the request to pledge student fees are attached to this document.

Based on my review of staff recommendations, I hereby approve the Request to Pledge Student Fees by Southern State Community College in support of general receipts obligation bonds in an aggregate amount not to exceed \$2,840,000.

Sincerely,

Eric D. Fingerhut
Chancellor, Ohio Board of Regents

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Southern State Community College

April 2008 Fee Pledge Request - \$2,840,000

I. Project Overview

Southern State Community College proposes to issue general receipts bonds to finance the Fayette campus renovation and expansion project that will add 17,000 square feet of space to its existing facility; including general classrooms, laboratories, office, and support space.

The College intends for this debt to be financed through a permanent debt issuance that will be retired in 20 years.

Submission: April, 2008

Southern State Community College
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II. Project Financing and Costs

Southern State Community College requests the authority to pledge student fees in support of the issuance of general receipts obligation bonds in an aggregate amount not to exceed \$2,840,000. This submission represents a request for permanent debt approval for a capital project on the Fayette campus to be funded through multiple sources including gifts, grants, state capital appropriations and the permanent debt requested here. A breakdown of the estimated project costs is presented below:

Project Costs:	
<i>Construction</i>	\$ 3,715,231
<i>Moveable Equipment</i>	\$ 35,000
<i>Architects and Engineers</i>	\$ 281,900
<i>Finance Costs</i>	
<i>Debt Service Reserve</i>	\$ 238,960
<i>Underwriting Discount</i>	\$ 25,000
<i>Cost of Issuance</i>	\$ 50,000
<i>Other</i>	\$ 26,040
<i>Contingency</i>	\$ 187,512
<u>Total Project Costs:</u>	<u>\$ 4,559,643</u>
Project Resources (Capital Only)	
<i>Gifts, Grants, etc. (non-state only):</i>	\$ 500,000
<i>State Capital Appropriations:</i>	\$ 1,000,000
<i>Transfers from Existing Resources:</i>	\$ 219,643
<u>Total Project Resources:</u>	<u>\$ 1,719,643</u>
Total Debt Authority Requested:	<u>\$ 2,840,000</u>

This project's annual debt service obligation is estimated to be approximately \$235,000, based upon a variable rate bond, not exceeding 5.70% interest, for 20 years. The College will service this debt with general funds.

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III. Fee Impact

This proposed debt issuance will have no direct impact on student tuition and fees. While the College may use unrestricted student fee revenues to service the debt and pay for related operating costs, student fees are not expected to increase as a direct result of this fee pledge.

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IV. Project Description

Fayette Campus Renovation and Expansion, \$2,840,000

The purpose of this project is to finance the renovation and expansion of Southern State Community College's Fayette Campus. The Fayette Campus is one of four campuses and is located at the southern edge of Washington Court House, Ohio in Fayette County. The Fayette Campus has a prime location at the intersection of U.S. 35 and U.S. 62 and serves the following five counties: Adams, Brown, Clinton, Fayette and Highland. This portion of the College's service district has experienced substantial growth and appears to be well positioned for that to continue. The size of the current Fayette campus facility, approximately 20,000 square feet, has limited Southern State's ability to respond to the educational needs of the community.

The planned renovation and addition to the Fayette Campus will include the following:

- general classrooms
- biology laboratory
- chemistry laboratory
- large group meeting room
- offices and support spaces

The planned expansion will add 17,000 square feet and will result in the Fayette Campus being of similar size to the Clinton County and Brown County facilities. With the additional space, especially the science labs, needed program offerings can be made available to the community.

The total project and financing costs are estimated to be \$4.5 million; \$2.84 million of which will be financed through this request. Moreover, the College estimates that the additional operating costs resulting from this expansion will range from \$60,000 to \$90,000 annually. Southern State Community College will support the debt service and increased operating costs through the use of general funds derived from the increased enrollments at the Fayette Campus.

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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 Southern State Community College performed when these measures are applied to its FY 2004, FY 2005, FY 2006 and FY 2007 audited financial statements—the most up-to-date financial data available.

~~*NOTE: The FY 2007 data shown in *italics* reflect the ratios and composite score when approximately \$2,840,000 in new debt is added to the calculations. This amount equals the net new debt requested here. Also, \$235,000 in related debt service expenses have been 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

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. Southern State Community College's viability ratios for FY 2004, FY 2005, FY 2006 and FY 2007 are as follows:

<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u><i>FY 2007*</i></u>
86.4%	123.1%	144.6%	169.1%	<i>82.6%</i>

2. Primary Reserve Ratio

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. Southern State Community College's primary reserve ratios for FY 2004, FY 2005, FY 2006 and FY 2007 are as follows:

<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u><i>FY 2007*</i></u>

16.8% 20.7% 20.4% 21.0% 20.8%

3. Net Income Ratio

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 expenses exceed its current year revenues. A positive net income ratio indicates that the institution experienced a net increase in current year fund balances. Southern State Community College’s net income ratios for FY 2004, FY 2005, FY 2006 and FY 2007 are as follows:

<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2007*</u>
+7.4%	+13.9%	-8.4%	+0.2%	-0.8%

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 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 at or below this level for two consecutive years. The highest possible score is a 5.0. Southern State Community College’s composite scores have been above the minimum threshold:

<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2007*</u>
3.40	3.70	2.70	3.10	2.60

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VI. Financial Outlook and Bond Rating

According to its FY 2007 audited financial report, Southern State Community College's financial position remains strong, having reported total assets of \$25,898,513 and liabilities of \$4,365,540. Net assets, which represent the value of the College's assets after liabilities are deducted, increased by \$172,568 in FY 2007 to \$21,532,973 or 83% of total assets.

The College's existing debt has received relatively good marks from independent bond-rating agencies. Southern State Community College's long-term debt was most recently assigned a rating of *Baa2* by Moody's Investors Services. This rating was based on the College's 2003 General Receipts Bonds issued in FY 2004.

These ratings indicate that the College's ability to meet its debt obligations is considered strong, as shown in Moody's and S&P's scale below.

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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VII. Institutional Plant Debt

The table on the following page depicts how long-term plant debt at Ohio's public colleges and universities has changed at the statewide level over the past five years. Between FY 2003 and FY 2007, statewide plant debt increased 61.9% or \$1.5 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 issue local debt.

While statewide institutional debt increased by \$261,225,893 or 7.2% in FY 2007, Southern State Community College's debt decreased by \$128,500 or 4.5% in FY 2007.

LONG-TERM PLANT DEBT, FY 2003 - FY 2007

Institution	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
UNIVERSITIES					
BOWLING GREEN	\$91,215,000	\$84,410,000	\$109,000,000	\$99,250,000	\$89,345,000
CENTRAL STATE	\$2,703,429	\$2,535,821	\$2,340,402	\$2,177,250	\$2,003,952
CLEVELAND STATE	\$55,977,422	\$53,754,446	\$115,923,075	\$113,522,226	\$161,098,196
KENT STATE	\$285,773,000	\$282,832,000	\$279,692,000	\$276,441,000	\$273,153,000
MCOT	\$8,837,000	\$8,730,000	\$56,299,000	\$53,827,000	<i>See UT</i>
MIAMI UNIV.	\$47,994,898	\$92,833,435	\$168,613,252	\$159,727,329	\$235,357,582
NEOUCOM	\$1,397,190	\$1,237,841	\$1,046,607	\$878,345	\$700,300
OHIO STATE	\$586,233,000	\$814,606,000	\$877,540,000	\$1,106,227,000	\$1,118,091,000
OHIO UNIVERSITY	\$133,002,202	\$175,592,164	\$167,529,147	\$192,862,349	\$182,914,606
SHAWNEE STATE	\$2,910,000	\$2,600,000	\$2,270,000	\$1,925,000	\$19,550,000
UNIV. AKRON	\$211,208,546	\$226,729,516	\$258,484,797	\$255,328,236	\$247,378,185
UNIV. CINCINNATI	\$647,688,000	\$893,004,000	\$877,453,000	\$966,516,000	\$1,074,333,000
UNIV. TOLEDO	\$172,577,000	\$167,367,000	\$176,779,000	\$171,134,000	\$269,554,000
WRIGHT STATE	\$18,570,323	\$29,584,121	\$46,189,820	\$42,513,677	\$38,738,096
YOUNGSTOWN ST.	\$14,263,619	\$13,492,373	\$13,268,653	\$22,162,550	\$20,397,972
COMMUNITY COLLEGES					
CINCINNATI ST.	\$49,173,132	\$47,580,000	\$47,530,000	\$47,923,408	\$47,701,975
CLARK STATE	\$0	\$72,800	\$46,400	\$8,195,000	\$8,175,000
COLUMBUS ST.	\$11,434,658	\$24,105,000	\$22,700,000	\$21,250,000	\$19,830,000
CUYAHOGA	\$59,095,229	\$65,222,373	\$64,840,147	\$62,974,601	\$57,393,209
EDISON STATE	\$68,676	\$604,972	\$532,347	\$5,109,018	\$4,975,254
JEFFERSON	\$0	\$2,170,485	\$2,023,978	\$1,838,573	\$1,623,724
LAKELAND	\$1,976,978	\$5,674,098	\$5,535,996	\$4,767,321	\$4,044,695
LORAIN	\$3,952,163	\$9,560,074	\$7,925,194	\$7,472,149	\$7,010,546
NORTHWEST ST.	\$106,207	\$73,705	\$82,001	\$35,594	\$25,249
OWENS STATE	\$0	\$0	\$749,152	\$579,288	\$401,212
RIO GRANDE	\$0	\$0	\$0	\$0	\$0
SINCLAIR	\$0	\$0	\$0	\$0	\$0
SOUTHERN ST.	\$168,506	\$3,245,886	\$3,022,204	\$2,839,083	\$2,710,583
TERRA STATE	\$35,171	\$839,738	\$655,721	\$464,012	\$264,285
WASHINGTON ST.	\$0	\$0	\$0	\$0	\$0
TECHNICAL COLLEGES					
BELMONT TECH	\$97,927	\$66,728	\$33,107	\$0	\$0
COTC	\$186,826	\$401,059	\$100,986	\$2,112,219	\$3,875,762
HOCKING	\$497,794	\$516,117	\$1,039,729	\$5,025,450	\$5,235,058
JAMES RHODES ST	\$0	\$3,087,383	\$3,067,812	\$3,018,241	\$2,968,669
MARION TECH	\$0	\$0	\$0	\$0	\$0
ZANE STATE (MATC)	\$182,571	\$341,385	\$285,586	\$223,983	\$156,401
NORTH CENTRAL	\$375,474	\$300,562	\$220,160	\$182,119	\$727,540
STARK STATE	\$620,993	\$620,080	\$16,738	\$6,137	\$0
STATEWIDE TOTAL	\$2,408,322,934	\$3,013,791,162	\$3,312,836,011	\$3,638,508,158	\$3,899,734,051