OHIO BOARD OF REGENTS

Consideration of a request by Hocking Technical College to pledge student fees in support of a bond issuance not to exceed $3,000,000, to be used to finance the construction of the Hocking Energy Institute on campus.

RESOLUTION

WHEREAS, the state's biennial budget 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; and

WHEREAS, Hocking Technical College proposes to pledge student fees in support of general receipts obligation bonds in an amount not to exceed $3,000,000 for the purpose of financing a capital project at the College's main campus; and

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

WHEREAS, the University's Board of Trustees approved a resolution authorizing this bond issuance at its meeting on May 22, 2007; and

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

NOW THEREFORE,

BE IT RESOLVED: That the pledge of fees by Hocking Technical College in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $3,000,000 is hereby approved.

Eric D. Fingerhut
Chancellor

Date 7/18/07

Hocking Technical College
June 2007 Fee Pledge Request - $3,000,000

I. Project Overview

Hocking Technical College proposes to issue general receipts obligation bonds to finance the design and construction of the Hocking Energy Institute on campus. The proposed project is the first phase of an energy technology center that will accommodate future facility growth as new technology programs are developed.

Hocking Technical College has provided adequate documentation for the project as well as provided a proposed pro-forma analysis and debt service schedule.

Submission to the Chancellor: June, 2007

Hocking Technical College
June 2007 Fee Pledge Request - $3,000,000

II. Project Financing and Costs

Hocking Technical College requests the authority to issue general receipts bonds to finance the construction of the Hocking Energy Institute, a technology incubator, on their main campus.

The estimated pro-forma analysis provided by Hocking Technical College forecasts revenues sufficient to cover annual debt service costs and related operating expenses. A breakdown of the estimated project costs and available resources is presented below.

Project	Description	Estimated Cost
Hocking Energy Institute	Construction	$3,080,000
	Moveable Equipment	$700,000
	Architects and Engineers	$246,400
	Land Acquisition/Preparation	$0
	Capitalized Interest	$200,000
	Contingency	$286,582
	Issuance Costs	$100,000
	Subtotal	**$4,612,982**
Project Resources	Gifts, Grants, etc,	$1,612,982
	Subtotal	**$1,612,982**
Total Debt Authority Requested		**$3,000,000**

Hocking College currently estimates an annual debt service payment of $238,000 based upon an annual interest expense of 4.6% and a 30 year maturity. In addition, the College anticipates that the annual operating expenses for the Energy Institute will be approximately $817,700. According to the College's analysis, the debt service and operating costs will be supported through the use of undesignated funds.

Note that Hocking Technical College anticipates using future state capital appropriations to retire the $3,000,000 debt issuance no later than the FY 2011-12 biennium.

Hocking Technical College
June 2007 Fee Pledge Request - $3,000,000

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.

Hocking Technical College
June 2007 Fee Pledge Request - $3,000,000

IV. Project Description

Hocking Energy Institute, $3,000,000

The Hocking Energy Institute project includes the design and construction of the initial phase of an energy technology center on the campus of Hocking College. The first phase of the building includes the construction of a 12,075 square foot center that will include the following:

- Welcome/Information Area
- Administrative Support Space
- Computer Center
- Instructional Space
- Mechanical Room (to support the building's operation and maintenance)
- Flexible Auditorium/Conference Room

The site of the Hocking Energy Institute will be located on the west side of the City of Logan on property that was acquired by Hocking College's Board of Trustees in 2006. The proposed center will be a technology incubator that fosters partnerships with local, regional and national corporations committed to the development of sustainable energy technologies. Moreover, the facility will be designed to accommodate future facility growth as new technologies and new programs evolve.

The total project costs are estimated to be $4,612,982; $3,000,000 of which will be financed through the use of debt authority included in this proposal.

Hocking Technical College
June 2007 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 Technical College performed when these measures are applied to its FY 2003, FY 2004, FY 2005 and FY 2006 audited financial statements—the most up-to-date financial data available.

*NOTE: The FY 2006 data shown in *italics* reflect the ratios and composite score when $3,000,000 in new debt and $ 238,000 in related debt service expenses are added to the calculations. The figures in italics may be interpreted as a worse case scenario. 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 other 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. Hocking Technical College's viability ratios for FY 2003, FY 2004, FY 2005 and FY 2006 are as follows:

FY 2003	FY 2004	FY 2005	FY 2006	*FY 2006**
837.3%	903.9%	476.8%	102.1%	*63.9%*

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. Hocking Technical College's primary reserve ratios for FY 2003, FY 2004, FY 2005 and FY 2006 are as follows:

FY 2003	FY 2004	FY 2005	FY 2006	*FY 2006**
10.1%	10.4%	10.7%	10.4%	*10.4%*

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. Hocking Technical College's net income ratios for FY 2003, FY 2004, FY 2005 and FY 2006 are as follows:

FY 2003	FY 2004	FY 2005	FY 2006	*FY 2006**
+9.9%	+13.1%	-0.8%	+3.4%	*+3.0%*

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. Hocking Technical College's composite scores have been above the minimum threshold:

FY 2003	FY 2004	FY 2005	FY 2006	*FY 2006**
4.00	3.40	3.20	3.50	*3.00*

Hocking Technical College
June 2007 Fee Pledge Request - $3,000,000

VI. Financial Outlook and Bond Rating

According to its FY 2006 audited financial report, Hocking Technical College's financial position remains strong, having reported total assets of $54 million and liabilities of $8.5 million. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by $1.7 million in FY 2006 to $45.5 million or 84.3% of total assets.

Hocking Technical College
June 2007 Fee Pledge Request - $3,000,000

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 2002 and FY 2006, statewide plant debt increased 73% 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 locally issue debt.

While statewide institutional debt increased by $325 million or 9.8% in FY 2006, Hocking Technical College's debt increased by $3.9 million in FY 2006. The respective increase in plant debt is primarily the result of a $3 million bond project issued for the purpose of financing the renovation and expansion of a hospitality training center on campus.

LONG-TERM PLANT DEBT, FY 2002 - FY 2006

Institution	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
UNIVERSITIES					
BOWLING GREEN	$79,255,000	$91,215,000	$84,410,000	$109,000,000	$99,250,000
CENTRAL STATE	$3,192,444	$2,703,429	$2,535,821	$2,340,402	$2,177,250
CLEVELAND STATE	$10,849,215	$55,977,422	$53,754,446	$115,923,075	$113,522,226
KENT STATE	$290,735,000	$285,773,000	$282,832,000	$279,692,000	$276,441,000
MCOT	$6,392,000	$8,837,000	$8,730,000	$56,299,000	$53,827,000
MIAMI UNIV.	$53,168,773	$47,994,898	$92,833,435	$168,613,252	$159,727,329
NEOUCOM	$1,583,286	$1,397,190	$1,237,841	$1,046,607	$878,345
OHIO STATE*	$581,106,000	$586,233,000	$814,606,000	$877,540,000	$1,106,227,000
OHIO UNIVERSITY	$126,677,123	$133,002,202	$175,592,164	$167,529,147	$192,862,349
SHAWNEE STATE	$3,200,000	$2,910,000	$2,600,000	$2,270,000	$1,925,000
UNIV. AKRON	$191,864,557	$211,208,546	$226,729,516	$258,484,797	$255,328,236
UNIV. CINCINNATI	$567,181,000	$647,688,000	$893,004,000	$877,453,000	$966,516,000
UNIV. TOLEDO	$119,376,000	$172,577,000	$167,367,000	$176,779,000	$171,134,000
WRIGHT STATE	$11,575,625	$18,570,323	$29,584,121	$46,189,820	$42,513,677
YOUNGSTOWN ST.	$14,992,226	$14,263,619	$13,492,373	$13,268,653	$22,162,550
COMMUNITY COLLEGES					
CINCINNATI ST.	$0	$49,173,132	$47,580,000	$47,530,000	$47,923,408
CLARK STATE	$22,011	$0	$72,800	$46,400	$8,195,000
COLUMBUS ST.	$12,330,217	$11,434,658	$24,105,000	$22,700,000	$21,250,000
CUYAHOGA	$12,564,559	$59,095,229	$65,222,373	$64,840,147	$62,974,601
EDISON STATE	$738,589	$68,676	$604,972	$532,347	$5,109,018
JEFFERSON	$0	$0	$2,170,485	$2,023,978	$1,838,573
LAKELAND	$2,441,594	$1,976,978	$5,674,098	$5,535,996	$4,767,321
LORAIN	$5,426,817	$3,952,163	$9,560,074	$7,925,194	$7,472,149
NORTHWEST ST.	$123,260	$106,207	$73,705	$82,001	$35,594
OWENS STATE	$0	$0	$0	$749,152	$579,288
RIO GRANDE	$0	$0	$0	$0	$0
SINCLAIR	$0	$0	$0	$0	$0
SOUTHERN ST.	$122,950	$168,506	$3,245,886	$3,022,204	$2,839,083
TERRA STATE	$42,710	$35,171	$839,738	$655,721	$464,012
WASHINGTON ST.	$0	$0	$0	$0	$0
TECHNICAL COLLEGES					
BELMONT TECH	$126,878	$97,927	$66,728	$33,107	$0
COTC	$231,348	$186,826	$401,059	$100,986	$2,112,219
HOCKING	$5,213,938	$497,794	$516,117	$1,039,729	$5,025,450
JAMES RHODES ST		$0	$3,087,383	$3,067,812	$3,018,241
MARION TECH		$0	$0	$0	$0
ZANE STATE (MATC)	$0	$182,571	$341,385	$285,586	$223,983
NORTH CENTRAL		$375,474	$300,562	$220,160	$182,119
STARK STATE	$763,399	$620,993	$620,080	$16,738	$6,137
STATEWIDE TOTAL	**$2,101,296,519**	**$2,408,322,934**	**$3,013,791,162**	**$3,312,836,011**	**$3,638,508,158**