OHIO BOARD OF REGENTS

Consideration of a request by the University of Cincinnati to pledge student fees in support of a bond issuance not to exceed $169,198,000, to be used to finance the construction of various capital projects on campus. The request for $169,198,000 in debt authority represents a total bond amount that will be issued in phases such that all debt will be issued by the summer of 2012.

RESOLUTION

WHEREAS, §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; and

WHEREAS, the University of Cincinnati proposes to pledge student fees in support of general receipts obligation bonds in an amount not to exceed $169,198,000 for the purpose of financing capital projects at the College's main campus; and

WHEREAS, the University of Cincinnati proposes to issue bond anticipation notes in the amount of $5,000,000 in anticipation of future state capital funds from the 2011-12 biennium, and

WHEREAS, the University 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 July 17, 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 the University of Cincinnati in support of general receipts obligation bonds and/or bond anticipation notes in an aggregate amount not to exceed $169,198,000 is hereby approved.

Eric D. Fingerhut
Chancellor

10/7/07
Date

The University of Cincinnati
September 2007 Fee Pledge Request - $169,198,000

I. Project Overview

The University of Cincinnati proposes to issue general receipts obligation bonds to finance capital projects on campus, including:

- The Clifton Court Garage Project
- The Kettering Preclinical Science Lab Renovation Project
- The College of Design, Architecture, Art and Planning (DAAP) Renovation
- Basic Renovation Projects
- Medical Sciences Building (MSB) Rehabilitation and Expansion Project

The University intends for this debt to be a combination of permanent and non-permanent debt. The long-term capital projects financed through permanent debt will be repaid over 20-25 years while the non-permanent debt will be retired with future state capital appropriations.

Initial Submission: September, 2007

Revised Submission:

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II. Project Financing and Costs

The University of Cincinnati requests the authority to issue general receipts obligation bonds in an aggregate amount not to exceed $169,198,000 to be issued in phases through the summer of 2012. This submission represents a request for permanent and non-permanent debt approval.

Permanent Debt

Of the five projects included in this fee pledge request, three will be funded through the use of permanent debt. A breakdown of the estimated project costs associated with the permanent debt projects is presented below:

	Clifton Court Garage	Kettering Preclinical Science Lab Renovation	DAAP Renovation	Total
Estimated Project Costs	$5,400,000	$2,760,000	$2,300,000	$10,460,000
Capitalized Interest & Issue Costs	$800,000	$740,000	$300,000	$1,840,000
Total Debt Authority Requested	$6,200,000	$3,500,000	$2,600,000	$12,300,000

- The Clifton Court Garage Project: This project's annual debt service obligation is estimated to be $465,000 per year, based on 5.00% interest for 20 years. The University will service this debt with revenue generated by Parking Services.

- The Kettering Preclinical Science Lab Renovation Project: This project's annual debt service obligation is estimated to be $268,400 per year, based on 5.00% interest for 20 years. Two departments within the University of Cincinnati's College of Medicine will pay for the debt service.

- The College of Design, Architecture, Art and Planning (DAAP) Renovation: This project's annual debt service obligation is estimated to be $197,800 per year, based on 5.00% interest for 20 years. The University will service this debt with undesignated funds.

Non-Permanent Debt

In addition to the permanent debt projects listed above, this fee pledge includes a $5,000,000 request to assist with basic renovation projects on campus.
These renovation funds are in anticipation of future state capital appropriations from the 2011-12 biennium. The net interest and issue costs for the basic renovation projects ultimately will be funded with state funds.

In the event that future state capital appropriations are not available for these purposes, the University would convert this debt to 20 year bonds that would have an estimated annual debt service obligation of $382,000, based on a 5.00% interest rate.

Medical Science Building

The remaining $151,898,000 included in this bond request represents the combination of permanent and non-permanent debt for the Medical Sciences Building (MSB) Rehabilitation and Expansion project. The Board of Regents has previously approved $169,300,000 ($145,900,000 of which has been issued) for the Medical Sciences Building project. As a result, this submission represents a net increase of $151,898,000 to the amount of student fees pledged for the MSB Rehabilitation and Expansion project. A breakdown of the estimated project costs to be funded with the debt proceeds associated with the Medical Sciences Building project appear below:

		Medical Sciences Building Rehabilitation & Expansion Project
Estimated Project Costs to be funded with debt proceeds	*Permanent Debt*	$195,928,507
	Non-Permanent Debt	$83,885,027
	Sub-Total	**$279,813,534**
Capitalized Interest & Issue Costs	*Net Capitalized Interest*	$29,776,493
	Provisions for Bond Discount & Issue Costs	$2,700,000
	Margin of Safety	$8,907,973
	Sub-Total	**$41,384,466**
Estimated Total		**$321,198,000**
Debt Authority	*Debt Previously Approved by BOR*	169,300,000
New Debt Authority Requested		**$151,898,000**

Of the total MSB debt financing, $237,312,973 will be permanent debt (including capitalized interest and issue costs) while the remaining $83,885,027 will be non-permanent debt. The non-permanent debt is being pledged in anticipation of future state capital appropriations ending with the FY 2013-14 biennium. In the event that future state capital appropriations are not available for these purposes, the University would convert this debt to 25 year bonds that would have an estimated annual debt service obligation of $4,400,000, based on a 5.00% interest rate.

The permanent debt of $237,312,973 has and will be issued in phases with the first full year's debt service beginning in FY 2015 and continuing through FY 2039. Please note that $94,000,000 in permanent debt has already been issued with an annual debt service of $6,600,000. Moreover, the highest estimated annual debt service for the MSB project is $17,200,000 (including $6,600,000 previously issued) for FY 2020 through FY 2031. The University will service this debt through the use of indirect cost recoveries from research funding. The table below provides a summary of the University of Cincinnati' s grants, contracts and awards from FY 2003 through FY 2006:

	FY 2002-03	**FY 2003-04**	**FY 2004-05**	**FY 2005-06**
Total: All University Sources	197.1 Million	188.3 Million	210.8 Million	197.8 Million
University Faculty: Affiliated Institutions	113.3 Million	131.3 Million	121.4 Million	134.8 Million
Total	**310.4 Million**	**319.6 Million**	**332.2 Million**	**332.6 Million**

<u>Footnote</u>: The University has received these awards in a competitive environment.

III. Fee Impact

This proposed debt issuance will have no direct impact on student tuition and fees. While the University 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

The Clifton Court Garage Project, $6,200,000

The purpose of the Clifton Court Garage project is to finance the costs of major renovations such as structural repairs, HVAC, building code and safety upgrades implemented throughout the garage. A major rehabilitation of this garage has not been performed since its original construction 40 years ago. Revenues generated from Parking Services will support all debt service.

The Kettering Preclinical Science Lab Renovation Project, $3,500,000

The Kettering Preclinical Science Lab Renovation project will renovate and update current space in the Kettering Complex to accommodate planned research needs for the Department of Environmental Health. The College of Medicine will support the estimated annual debt service beginning in FY 2009.

The College of Design, Architecture, Art & Design Renovation, $2,600,000

The College of Design, Architecture, Art and Design (DAAP) renovation project is essential to support enrollment growth in one of the University's premier colleges with nationally ranked programs. Instructional delivery in the college requires additional space for studio-intensive programs which are fundamental to effective student learning. The University will service this debt with undesignated funds.

Basic Renovation Projects, $5,000,000

The purpose of this project is to provide short term financing for basic renovations on campus. The prioritized basic renovation projects include, but are not limited to:

- Medical College interim renovations;
- Infrastructure/building system upgrades;
- Roof replacements;
- Phoenix Controls;
- ADA modifications in public spaces; and
- Carpet replacement.

The actual projects that will be funded with these proceeds may change as future critical renovations and needs develop.

Medical Sciences Building Rehabilitation & Expansion Project, $151,898,000

The purpose of this project is to provide for the rehabilitation of the Medical Sciences Building (945,000 GSF) in multiple phases over approximately ten years and includes the replacement of failing and obsolete building systems. The expansion portion, Center for Academic and Research Excellence (CARE), creates a 200,000 GSF new state-of-the-art learning and research space for the College of Medicine.

This pledge of student fees supplements two previous requests for the MSB Rehabilitation and Expansion project totaling $169,300,000. The net increase in the amount of student fees being pledged for this project is $151,898,000. Most of the increase is for Phases 2 through 5 of the project. The total project cost is estimated at $418,227,000 which includes $49,600,000 of local funding, gifts, previously released state appropriations and $88,802,000 of future state capital appropriations for the three biennia between 2015 and 2020. A total of not to exceed $151,898,000 pledge of student fees is being requested to fund the remainder of the project, capitalized interest, provision for bond discount and issue costs.

While the University of Cincinnati's Board of Trustees has approved up to $410,000,000 in debt approval for the MSB project, the combined request to OBR for $321,898,000 is $88,802,000 less than that total. The difference represents future state capital appropriations for the three biennia between 2015 and 2020. Since advance financing of capital appropriations is permitted for up to three future biennia, the University plans to request debt approval for the additional biennial appropriations at a later date.

Finally, it should be noted that this project is of extreme importance to the University of Cincinnati Medical Center (UCMC). The University's Medical Center is a major force driving the economic health of the Tri-State region. Most recently the University of Cincinnati has signed a memorandum of understanding to establish a joint cancer center with Cincinnati Children's Hospital Medical Center and University Hospital to enhance and coordinate oncology care from childhood to adulthood in southern Ohio and beyond. This strategic partnership also will provide the scientific and intellectual resources to enable the three institutions to increase the internationally significant research performed. This is just one example of the University of Cincinnati's positive impact on research in the State of Ohio. Moreover, their role in the region's health is multi-faceted, consisting of research, education and clinical care. The University of Cincinnati is one of only 75 "Research I" universities in the United States. Currently, the University's Medical Center is engaged in funded research projects totaling $118 million, 80% of which are being conducted in the MSB.

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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 the University of Cincinnati 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 approximately $293 million in new debt is added to the calculations. This amount equals the estimated FY 2007 debt issuances of approximately $100 million plus the $193 million in net new debt requested here. Also, $21.9 million 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 University'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. The University of Cincinnati'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**
39.6%	31.4%	32.2%	24.0%	*18.5%*

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. The University of Cincinnati'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**
34.0%	34.5%	32.2%	24.3%	*23.7%*

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. The University of Cincinnati'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**
-3.2%	+13.0%	+6.4%	+4.4%	*+2.2%*

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. The University of Cincinnati's composite scores have been above the minimum threshold:

FY 2003	FY 2004	FY 2005	FY 2006	*FY 2006**
2.8	3.6	3.6	2.6	*2.4*

Note: The University of Cincinnati is aware that the debt associated with this pledge of student fees will have a temporary, negative impact on their Senate Bill 6 ratios. The approval requested here is predominantly for the rehabilitation of their largest research facility and other smaller projects that address deferred maintenance issues on campus. These projects have been identified by the University as essential to fulfilling its research and teaching missions as well as maintaining their auxiliary facilities. Furthermore, the University anticipates submitting significantly fewer debt requests in the future, barring unforeseen circumstances. The University seeks the support of the state as they achieve financial stability and increase revenues for the benefit of the University's current and future students in addition to the benefit of the economic welfare of the State of Ohio.

VI. Financial Outlook and Bond Rating

According to its FY 2006 audited financial report, the University of Cincinnati's financial position remains strong, having reported total assets of $3.1 billion and liabilities of $1.2 billion. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by $44 million in FY 2006 to $1.9 billion or 61% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. UC's long-term debt was most recently assigned ratings of *A+* and *AAA* (insured) by Standard & Poor's. Moody's Investors Services most recently assigned ratings of *A1* and *Aaa* (insured). These ratings are based on the University's Series 2007A General Receipts Obligations (fixed rate bonds) issued on January 23, 2007, which were affirmed as of September 2007 with the issue of Series 2007F BANS.

These ratings indicate that the University'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 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, the University of Cincinnati's debt increased by $90 million or 10.15 % in FY 2006. The respective increase in plant debt is the result of $165 million in new debt and a corresponding decrease in $75 million in outstanding debt. It should be noted that during FY 2006 the University scaled down or canceled certain capital projects in order to focus its capital program on Academic Health Center projects and the renovation of existing facilities. The development and renewal of capital assets have been critical factors in continuing the quality of the University's academic mission, research programs and student life.

Despite recently raising it admissions standards, the university is projecting an increase in freshman enrollments in the fall of 2007 for a total freshman class of approximately 4,300 students - 400 more students than what was initially expected. Information gathered from students and their parents strongly suggests that prospective students are favorably impressed with the physical facilities on campus. This in turn indicates that the university's strategy of major facility replacement and renovation is positively impacting student enrollment.

Finally, it should be noted that the state of Ohio is planning to securitize Ohio's future stream of tobacco settlement funds. The state of Ohio will issue bonds through the Buckeye Tobacco Settlement Financing Authority (BTSFA) to finance the FY 2008 through FY 2010 state capital appropriations for higher education institutions. The BTSFA expects to issue these tobacco revenue bonds in October (or November) 2007. Due to the BTSFA issuance, the state is not planning to issue General Revenue Fund (GRF) state higher education bonds until September 2010. This change in funding has resulted in the University of Cincinnati incurring additional interest expense and issue costs on a $32.8 million bond anticipation note that was issued in anticipation of FY 2007-08 state capital appropriations. Specifically, the University has incurred $661,000 in additional costs through September 30, 2007 and will be required to carry an additional $32.8 million in debt while paying an additional $100,000 in monthly interest expenses until proceeds from the BTSFA bond issue are available.

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	N/A	$0	$3,087,383	$3,067,812	$3,018,241
MARION TECH	N/A	$0	$0	$0	$0
ZANE STATE (MATC)	$0	$182,571	$341,385	$285,586	$223,983
NORTH CENTRAL	N/A	$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**