Ohio University
April 2009 Fee Pledge Request - $28,300,000

I. Project Overview

Ohio University proposes to issue general receipts obligation bonds to finance:

- The acquisition of a new Student Information System (SIS); and
- Phase I of an upgrade to the main campus network infrastructure.

The University intends for this debt to be financed through a permanent debt issuance that will be retired in 10 years.

Submission: April, 2009

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II. Project Financing and Costs

Ohio University requests the authority to pledge student fees in support of the issuance of general receipts obligation bonds in an aggregate amount not to exceed $28,300,000. The purchase of the new Student Information System and the network upgrades will be funded through the use of permanent debt. A breakdown of the estimated project costs, to be funded by this debt issuance, is presented below:

Project Costs		
Construction:	$	3,650,000
Moveable Equipment:	$	8,863,400
Contingency:	$	1,793,102
Other Costs:		
Software	$	3,670,965
Management/Analysis Tools	$	871,000
Cabling	$	3,639,600
Staffing (project team and other)	$	5,370,000
Consulting	$	8,949,840
Other Related Projects	$	2,463,710
Training	$	1,495,000
Total Project Costs:	**$**	**39,271,617**
Project Resources		
Transfers from Existing Resources:		
Series 2006B Bonds	$	3,272,150
Total Project Resources:	**$**	**3,272,150**
Project Costs to be Financed in the Future*:	**$**	**8,218,498**
Difference (Total Costs - Total Resources):	$	27,780,969

**The difference amount, detailed above, equals the amount of project costs to be financed in the University's upcoming issuance. A future issuance, anticipated in FY2012, will provide funding for a second phase of the network infrastructure upgrade project.*

Project Costs to be Financed:

Project Costs:	$	27,780,969
Underwriting Discount (0.25%):	$	69,453
Costs of Issuance (0.50%):	$	138,906
Insurance Premium (1.00%):	$	277,811
Other Costs of Issuance:	$	32,861
Total Bond Issuance:	$	28,300,000

Ohio University estimates that the maximum annual debt service obligation for the proposed debt issuance will be $3,582,553 per year, based on 5.00% interest over 10 years. The University will service this debt with proceeds from a student fee and general funds.

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III. Fee Impact

Ohio University plans to implement a special student fee, effective fall 2009. The fee will be charged at a rate of approximately $22 per quarter for full-time students or $66 annually as an academic year is comprised of three quarters for most students typically. This represents less than 0.75% of Ohio University's in-state undergraduate tuition for the current academic year. The University expects this fee to generate $1,800,000 in annual revenues that will be used to support a portion of the debt service obligation and operating costs of the new student information system.

The University anticipates that this special fee would be exempt from limitations on increases in tuition and fees, which the General Assembly may impose in the future. The budget bills passed in recent biennia have permitted this exemption. House Bill 119, the current budget act for FY 2008 and FY 2009, contains this exemption in section 375.30.25:

"These limitations shall not apply to increases required to comply with institutional covenants related to their obligations incurred or commitments made prior to the effective date of this section with respect to which the institution had identified such fee increases as the source of funds."

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IV. Project Description

Student Information System

The Student Information System (SIS) is a secure, integrated software package that supports critical university business functions including admissions, financial aid, registration, student accounts, student records, advising, and housing. In addition, the University's Institutional Research department is a core user of transactional data recorded in SIS for accurate and timely institutional reporting to various users including the Ohio Board of Regents. The impetus for the replacement of the current student system occurred when Informs Inc., developer of the University's existing middleware product (Enterprise Server, or CORE), announced that support would be discontinued. In early 2006, the University's Board of Trustees (the "Board") approved of the project to replace the system. Through a vendor selection process, followed by Board approval, Oracle/PeopleSoft Campus Solutions was selected as the replacement for SIS and Adirondack was selected as the housing management software vendor.

It has been determined that the cost of developing and implementing this total solution is estimated at $26.9 million. Funding from the issuance of bonds in 2006B has provided approximately $3.3 million to this project. The cost estimate includes software and services associated with core and additional functionality, training and support, design, and data conversion, project management, and human resources for the new SIS, as well as new system architecture, an integrated identity management solution, an enterprise portal, a constituent relationship management solution, a data warehouse and an enterprise reporting solution. The entire system is expected to be operational in December 2010 which will allow for several months to plan and implement the academic calendar conversion from quarters to semesters.

Network Infrastructure Upgrades

The network infrastructure project is intended to address issues including outdated equipment, limited bandwidth, growing dependency on a limited data network, and improved network-based security strategies.

In 2004 the University began an initiative to address the most severe network infrastructure needs of the campus funded through both indebtedness and local funding. The result was an upgrade of user connections from 10 Mbps to 100 Mbps and one Gigabit links to 34 buildings on the Athens campus. The remaining 161 buildings continue to operate on aged equipment and a network design dating back to 1996.

The majority of the network equipment currently in use by the University was manufactured between 1996 and 2001 and is nearing the end of its useful life. Additionally, the equipment is increasingly incapable of supporting newer technology.

A study was performed to examine the historical network traffic and forecast future growth. The conclusion of this study indicated that users would experience varying levels of degradation in network performance until reaching maximum capacity at some point between now and 2012. Additionally, there are a number of emerging technologies that are increasing the demands for high performance data networks including Voice over Internet Protocol (VoIP), Internet Protocol (IP) television, on-line collaboration tools, multi-media streaming, centralized data storage, and backup applications.

Finally, the project includes renovations to the existing equipment locations and wiring closets along with the Computer Services Center.

The University expects the increased bandwidth from this project to improve speed and promote efficiency for students, faculty and staff. Further, the improvements to the network infrastructure will increase the level of information technology security which will protect both users of the system and the University.

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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 Ohio University performed when these measures are applied to its FY 2005, FY 2006, FY 2007 and FY 2008 audited financial statements—the most up-to-date financial data available.

*NOTE: The FY 2008 data shown in *italics* reflect the ratios and composite score when approximately $28.3 million in new debt is added to the calculations. This amount equals the net new debt requested here. Also, $3.5 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. Ohio University's viability ratios for FY 2005, FY 2006, FY 2007 and FY 2008 are as follows:

FY 2005	FY 2006	FY 2007	FY 2008	*FY 2008**
66.0%	57.7%	69.1%	81.3%	*69.5%*

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. Ohio University's primary reserve ratios for FY 2005, FY 2006, FY 2007 and FY 2008 are as follows:

FY 2005	FY 2006	FY 2007	FY 2008	*FY 2008**
23.0%	22.6%	23.9%	25.6%	*25.4%*

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. Ohio University's net income ratios for FY 2005, FY 2006, FY 2007 and FY 2008 are as follows:

FY 2005	FY 2006	FY 2007	FY 2008	*FY 2008**
+4.0%	+4.6%	+4.2%	+2.9%	*+2.3%*

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. Ohio University's composite scores have been above the minimum threshold:

FY 2005	FY 2006	FY 2007	FY 2008	*FY 2008**
3.20	2.90	3.20	3.50	*3.50*

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VI. Financial Outlook and Bond Rating

According to its FY 2008 audited financial report, Ohio University's financial position remains strong, having reported total assets of $819,225,452 and liabilities of $273,616,958. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by $16,051,148 in FY 2008 to $545,608,494 or 67% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. Ohio University's long-term debt was most recently assigned ratings of *A1* by Moody's Investors Services and *A+* by Standard and Poors.

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 changed at the statewide level over the past five years. Between FY 2004 and FY 2008, statewide plant debt increased 34.0% or approximately $1.0 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 $138,992,865 or 3.6% in FY 2008, Ohio University's decreased by $15,511,579 or 8.5%.

LONG-TERM PLANT DEBT, FY 2004 - FY 2008

Institution	Long-Term Plant Debt				
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
UNIVERSITIES					
BOWLING GREEN	$84,410,000	$109,000,000	$99,250,000	$89,345,000	$80,290,000
CENTRAL STATE	$2,535,821	$2,340,402	$2,177,250	$2,003,952	$1,862,693
CLEVELAND STATE	$53,754,446	$115,923,075	$113,522,226	$161,098,196	$163,591,508
KENT STATE	$282,832,000	$279,692,000	$276,441,000	$273,153,000	$277,532,000
MUO (b)	$8,730,000	$56,299,000	$53,827,000	*See UT*	*See UT*
MIAMI UNIV.	$92,833,435	$168,613,252	$159,727,329	$235,357,582	$228,484,393
NEOUCOM	$1,237,841	$1,046,607	$878,345	$700,300	$2,291,713
OHIO STATE	$814,606,000	$877,540,000	$1,106,227,000	$1,118,091,000	$1,076,097,000
OHIO UNIVERSITY	**$175,592,164**	**$167,529,147**	**$192,862,349**	**$182,914,606**	**$167,403,027**
SHAWNEE STATE	$2,600,000	$2,270,000	$1,925,000	$19,550,000	$17,765,000
UNIV. AKRON	$226,729,516	$258,484,797	$255,328,236	$247,378,185	$421,931,710
UNIV. CINCINNATI	$893,004,000	$877,453,000	$966,516,000	$1,074,333,000	$1,091,020,000
UNIV. TOLEDO	$167,367,000	$176,779,000	$171,134,000	$269,554,000	$265,409,000
WRIGHT STATE	$29,584,121	$46,189,820	$42,513,677	$38,738,096	$35,624,887
YOUNGSTOWN ST.	$13,492,373	$13,268,653	$22,162,550	$20,397,972	$18,603,592
COMMUNITY COLLEGES					
BELMONT TECH	$66,728	$33,107	$0	$0	$0
CINCINNATI ST.	$47,580,000	$47,530,000	$47,923,408	$47,701,975	$47,455,542
CLARK STATE	$72,800	$46,400	$8,195,000	$8,175,000	$7,900,000
COLUMBUS ST.	$24,105,000	$22,700,000	$21,250,000	$19,830,000	$18,255,000
COTC	$401,059	$100,986	$2,112,219	$3,875,762	$3,470,979
CUYAHOGA	$65,222,373	$64,840,147	$62,974,601	$57,393,209	$79,449,916
EDISON STATE	$604,972	$532,347	$5,109,018	$4,975,254	$4,704,730
HOCKING	$516,117	$1,039,729	$5,025,450	$5,235,058	$6,384,650
JAMES RHODES ST	$3,087,383	$3,067,812	$3,018,241	$2,968,669	$2,914,098
JEFFERSON	$2,170,485	$2,023,978	$1,838,573	$1,623,724	$1,422,593
LAKELAND	$5,674,098	$5,535,996	$4,767,321	$4,044,695	$3,308,426
LORAIN	$9,560,074	$7,925,194	$7,472,149	$7,010,546	$6,529,973
MARION TECH	$0	$0	$0	$0	$0
NORTH CENTRAL	$300,562	$220,160	$182,119	$727,540	$97,879
NORTHWEST ST.	$73,705	$82,001	$35,594	$25,249	$59,860
OWENS STATE	$0	$749,152	$579,288	$401,212	$536,241
RIO GRANDE	$0	$0	$0	$0	$2,411,421
SINCLAIR	$0	$0	$0	$0	$0
SOUTHERN ST.	$3,245,886	$3,022,204	$2,839,083	$2,710,583	$5,577,394
STARK STATE	$620,080	$16,738	$6,137	$0	$0
TERRA STATE	$839,738	$655,721	$464,012	$264,285	$66,409
WASHINGTON ST.	$0	$0	$0	$0	$0
ZANE STATE (MATC)	$341,385	$285,586	$223,983	$156,401	$275,282
STATEWIDE TOTAL	**$3,013,791,162**	**$3,312,836,011**	**$3,638,508,158**	**$3,899,734,051**	**$4,038,726,916**