Kent State University
April 2011 Fee Pledge Request - $210,000,000

I. Project Overview

Kent State University proposes to issue general receipts bonds to finance various capital projects on its main campus that can be categorized into three types of projects below:

- Space Reassignment, Repurposing, Additions and Renovations
- General Improvements, Minor Renovations, Energy Enhancements and Efficiencies
- Construction and Infrastructure Improvements, Health/Safety Codes and Standards

All of the above projects will target the reduction of the campus deferred maintenance needs.

Due to the scope of work involved, the University intends to issue the bonds in multiple issuances to correlate with the construction process. The University intends for this debt to be financed through a combination of permanent debt that will be retired in 30 years.

Submission: April, 2011

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II. Project Financing and Costs

Kent State 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 $210,000,000. Estimated project costs funded through the proposed debt issuance are presented below:

Project	Total Costs	Other Resources*	Costs Included in Debt Issuance
Space Reassignment, Additions and Renovations			
College of Public Health	*$ 9,686,100*	*$ 50,000*	*$ 9,636,100*
Science Facilities	*$ 47,312,475*	*$ -*	*$ 47,312,475*
College of Architecture & Environmental Design	*$ 45,000,000*	*$ 3,000,000*	*$ 42,000,000*
Consolidation of Programs, Services and Administration	*$ 26,129,200*	*$ 14,354,200*	*$ 11,775,000*
School of Art	*$ 44,293,090*	*$ 50,000*	*$ 44,243,090*
College of Technology	*$ 18,500,000*	*$ -*	*$ 18,500,000*
Subtotal	**$ 190,920,865**	**$ 17,454,200**	**$ 173,466,665**
General Improvements, Renovations, Energy Savings	**$ 71,028,489**	**$ 56,904,489**	**$ 14,124,000**
Construction and Infrastructure Improvements	**$ 10,775,000**	**$ 7,425,000**	**$ 3,350,000**
Total Project Costs	**$ 272,724,354**	**$ 81,783,689**	**$ 190,940,665**
Bond Issuance Costs ***(Including: Capitalized Interest, Bond Discount, Margin of Safety)***			**$ 19,059,335**
Total Bond Issuance Included in the Pledge of Student Fees			**$ 210,000,000**

*Provided by other internal resources generally used for maintenance, renovation, and upgrades.

Kent State University estimates that the annual debt service obligation for the proposed debt issuance will be $15,742,363, based upon an annual interest rate estimated at 5.25% over a period of 30 years. Moreover, the related debt service and incremental operating costs relating to the capital projects will be supported through the use of undesignated general funds as well as pledged funds and revenues from a newly proposed student fee.

III. Fee Impact

Kent State University plans to implement a special student fee to support the debt service costs resulting from this bond issuance. The fee will be charged at a rate of $24 per credit hour for in-state students and $28 for out-of-state students. The average course load for Kent State University students is 13.5 credits which would equal a fee of $324 per semester or $648 annually for the average in-state student. This represents 8.5% of Kent State University's in-state undergraduate tuition for the current academic year. The fee would be $360 per semester and $720 annually for the student taking 15 credit hours.

Because the current students will not experience the full impact of the improvements, the University intends to delay full implementation of this capital improvement fee. The fee will be phased in over the span of five years, the estimated project completion time period. The fee will be applied at $0 per credit hour in FY 2012, $7 per credit hour in FY 2013, $12 per credit hour in FY 2014, $16 per credit hour in FY 2015, and $20 per credit hour in FY 2016. The full implementation of the out-of-state student fee will be delayed in a similar manner over the same five year period. After full implementation, the University expects this fee to generate $14,054,400 in annual revenues that will be used to support the debt service obligation and operating costs of the capital projects described herein.

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. Amended Substitute House Bill 1, the current budget act for FY 2010 and FY 2011, contains this exemption in section 371.20.90:

> *"These limitations shall not apply to increases required to comply with institutional covenants related to their obligations or to meet unfunded legal mandates or legally binding 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."*

Statement of Student Support

On January 20, 2010, the Undergraduate Student Government of Kent State University voted unanimously to support the campus renovations and enhancements and the fee associated with the project was deemed fair and reasonable. The Undergraduate Student Government also affirmed its support of the project and associated fee in a resolution on March 3, 2010.

IV. Project Description

The various capital projects that are included in Kent State University's request span the majority of the education and general buildings on the institution's main campus. Rather than describe each of the projects in detail, they have been grouped into three categories described below. It should be noted, however, that throughout all phases of the renovation and improvement projects, particular attention will be directed to employing best practices with respect to sustainability and energy efficiency. Specifically, the energy efficiency projects will include:

- The replacement of outdated single-pane windows with "state-of-the-art" thermal rated windows.
- The replacement of inefficient HVAC systems with high-efficiency equipment.
- Installation of new lighting systems that utilize emerging technologies to achieve the highest possible efficiencies.

When possible, funding for the energy efficiency initiatives will be borrowed separately from the funds incorporated in this request, using tools permitted under Ohio Revised Code §3345.65 and §3345.61, commonly referred to as H.B. 251 and H.B. 7 respectively. In total, Kent State University estimates that the annual energy savings resulting from the sustainability and efficiency initiative will be $1,900,000; $1,400,000 of which would be attributable to the projects included within this request.

In addition to focusing on sustainability, the capital projects within this request have been carefully chosen to complement Kent State University's core mission and prioritized based upon supporting the institution's Centers of Excellence as listed below.

- Liquid Crystals/Bio-Science/Nanotechnology
- Information and Knowledge Management
- Fashion Design and Merchandising
- Public Health and Nursing: Now Models of Care for Communities and Individuals
- Science Education: Training Educators in Science and Mathematics
- Environmental and Natural Resource Sustainability/Urban Design

The following provides additional descriptions for the various projects identified in Kent State University's $210,000,000 debt authority request (*more detailed information is available upon request*):

Space Reassignment, Repurpose, Additions & Renovations ~ $173,466,665

The primary purpose of this project is to strategically reassign building space to provide efficient, properly designed facilities to better serve students and faculty. Nearly every building on campus, with the exception of those that have recently undergone significant renovations, will be impacted by the proposal. The end product of this space reassignment and renovation will be:

- Updated teaching and research labs for the sciences.
- A new multi-disciplinary laboratory expansion for Williams Hall.
- Creation of a student resource and service center in Schwartz Center that will combine a number of academic and administrative activities common to all students in one convenient and renovated building.
- Integration of the new College of Public Health to the academic core of campus through the relocation of administrative functions to repurpose facilities on the outer edges of campus.
- Consolidation of the architecture and environmental design programs into a new facility of adequate size to accommodate present and anticipated student demand.
- Reassignment of space, released from the architecture renovations, to facilitate the consolidation of other academic and student-oriented activities while relieving overcrowding that currently exists within academic facilities.
- A renovated and repurposed Art Building and Van Deusen Hall that will allow for the consolidation of six programs that are currently scattered in different campus locations.
- A renovated technology space that will occupy facilities vacated as part of the consolidation of the Art program.

Once completed, the capital improvement projects described above will effectively reduce the campus deferred maintenance in excess of $91.4 million.

Kent State University estimates that the total project costs will be $190,920,965; $173,466,665 funded with proceeds from this bond issuance. The other sources of funds that have been identified to support this project include future state capital funds and anticipated H.B. 7 bonding authority. The estimated annual debt service for this project is $14,301,685 and will be supported with a combination of undesignated general funds and revenue from the proposed student fee.

General Improvements and Minor Renovations ~ $14,124,000

The majority of the campus academic facilities were constructed more than 40 years ago and have undergone only minor renovations since construction. In order to address the deferred maintenance needs, the primary purpose of this project is to renovate and update classrooms, seminar rooms, hallways, and corridors across many of Kent State's main campus buildings; as well as the common areas in the library. The improvements and renovations include updated wall finishes, flooring, and lighting whose redesign will make the public campus more serviceable and appealing to present and future students. The University expects that the minor renovation project will have a direct benefit for virtually all of the main campus student body.

Kent State University estimates that the total project costs will be $71,028,489; $14,124,000 funded with proceeds from this bond issuance. The other sources of funds that have been identified to support this project include state capital funds, local funds, and anticipated H.B. 7 bonding authority. The estimated annual debt service for this project is $1,164,478 and will be supported with a combination of undesignated general funds and revenue from the proposed student fee.

Construction and Health/Safety Codes and Standards ~ $ 3,350,000

The primary purpose of this project is to address campus accessibility, safety, and code compliance issues across Kent State University's main campus. Moreover, the project will include a campus-wide evaluation to assess the needs and determine the associated costs to make strategic improvements. Once complete, this project will address a variety of safety and building code deficiencies and impact nearly all faculty, staff and students by providing better access and safer buildings.

As various components of building infrastructure are addressed, current health and safety standards will be pursued. Issues involving health and safety will be properly handled and treated in conformity with appropriate guidelines. Deterioration to concrete in the structural and cosmetic areas will be repaired and brick buildings will be inspected and tuck-pointed as needed.

Kent State University estimates that the total project costs will be $10,775,000; $3,350,000 funded with proceeds from this bond issuance with state capital funds identified to support the remaining costs. The estimated annual debt service for this project is $276,200 and will be supported with a combination of undesignated general funds and revenue from the proposed student fee.

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 Kent State University performed when these measures are applied to its FY 2007, FY 2008, FY 2009 and FY 2010 audited financial statements—the most up-to-date financial data available.

*NOTE: The FY 2010 data shown in *italics* reflect the ratios and composite score when approximately $210,000,000 in new debt is added to the calculations. Also, $15,742,000 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 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. Kent State University's viability ratios for FY 2007, FY 2008, FY 2009 and FY 2010 are as follows:

FY 2007	FY 2008	FY 2009	FY 2010	*FY 2010**
121.8%	111.9%	83.1%	91.8%	*53.8%*

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. Kent State University's primary reserve ratios for FY 2007, FY 2008, FY 2009 and FY 2010 are as follows:

FY 2007	FY 2008	FY 2009	FY 2010	*FY 2010**
70.6%	60.1%	40.5%	46.0%	*44.8%*

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. Kent State University's net income ratios for FY 2007, FY 2008, FY 2009 and FY 2010 are as follows:

FY 2007	FY 2008	FY 2009	FY 2010	*FY 2010**
+14.4%	-0.3%**	-12.6%**	+6.3%	*+3.9%*

**During fiscal year 2008 and 2009, the University's net income decreased due to investment losses resulting from the disruptions in the investment markets. Investment loss was $12.3 million and $51.9 million in fiscal years 2009 and 2009, respectively.

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

FY 2007	FY 2008	FY 2009	FY 2010	*FY 2010**
4.70	3.90	2.90	3.90	*3.40*

VI. Financial Outlook and Bond Rating

According to its FY 2010 audited financial report, Kent State University's financial position remains strong, having reported total assets of $997,067,000 and liabilities of $408,766,000. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by $40,645,000 in FY 2010 to $588,301,000 or 59.0% of total assets.

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

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).

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 2006 and FY 2010, statewide plant debt increased 28.8% or approximately $1.05 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 $203.7 million or 4.5% in FY 2010, Kent State University’s plant debt increased by $20,550,000 or 7.4%.

FY 2006-2010 Long-Term Plant Debt

Institution	Long-Term Plant Debt				
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
UNIVERSITIES					
BOWLING GREEN	$99,250,000	$89,345,000	$80,290,000	$78,255,000	$141,265,000
CENTRAL STATE	$2,177,250	$2,003,952	$1,862,693	$1,743,287	$1,617,887
CLEVELAND STATE	$113,522,226	$161,098,196	$163,591,508	$207,067,009	$217,893,028
KENT STATE	$276,441,000	$273,153,000	$277,532,000	$276,019,000	$296,569,000
MUO (b)	$53,827,000	See UT	See UT	See UT	See UT
MIAMI UNIV.	$159,727,329	$235,357,582	$228,484,393	$224,325,090	$213,566,272
NEOUCOM	$878,345	$700,300	$2,291,713	$1,992,413	$1,676,808
OHIO STATE	$1,106,227,000	$1,118,091,000	$1,076,097,000	$1,360,245,000	$1,354,259,000
OHIO UNIVERSITY	$192,862,349	$182,914,606	$167,403,027	$192,718,265	$177,027,086
SHAWNEE STATE	$1,925,000	$19,550,000	$17,765,000	$17,515,000	$17,015,000
UNIV. AKRON	$255,328,236	$247,378,185	$421,931,710	$418,195,077	$424,907,317
UNIV. CINCINNATI	$966,516,000	$1,074,333,000	$1,091,020,000	$1,090,644,000	$1,153,641,000
UNIV. TOLEDO	$171,134,000	$269,554,000	$265,409,000	$252,924,000	$295,561,000
WRIGHT STATE	$42,513,677	$38,738,096	$35,624,887	$31,564,022	$37,870,633
YOUNGSTOWN STATE	$22,162,550	$20,397,972	$18,603,592	$38,990,037	$62,083,924
COMMUNITY COLLEGES					
BELMONT TECH	$0	$0	$0	$0	$0
CINCINNATI STATE	$47,923,408	$47,701,975	$47,455,542	$46,774,109	$46,150,000
CLARK STATE	$8,195,000	$8,175,000	$8,175,000	$7,900,000	$7,615,000
COLUMBUS STATE	$21,250,000	$19,830,000	$18,255,000	$16,620,000	$14,910,000
COTC	$2,112,219	$3,875,762	$3,470,979	$2,394,382	$2,078,251
CUYAHOGA	$62,974,601	$57,393,209	$79,449,916	$178,119,296	$179,599,118
EDISON STATE	$5,109,018	$4,975,254	$4,704,730	$4,422,095	$4,126,979
HOCKING	$5,025,450	$5,235,058	$6,384,650	$6,089,638	$5,498,634
JAMES RHODES	$3,018,241	$2,968,669	$2,914,098	$2,859,527	$2,799,956
JEFFERSON	$1,838,573	$1,623,724	$1,422,593	$1,211,968	$957,506
LAKELAND	$4,767,321	$4,044,695	$3,308,426	$11,096,151	$9,590,647
LORAIN	$7,472,149	$7,010,546	$6,529,973	$6,035,000	$5,740,000
MARION TECH	$0	$0	$0	$0	$0
NORTH CENTRAL	$182,119	$727,540	$97,879	$51,308	$1,504
NORTHWEST STATE	$35,594	$25,249	$59,860	$40,300	$40,230
OWENS STATE	$579,288	$401,212	$536,241	$276,495	$6,417,348
RIO GRANDE	$0	$0	$2,411,421	$2,256,498	$2,114,858
SINCLAIR	$0	$0	$0	$0	$0
SOUTHERN STATE	$2,839,083	$2,710,583	$5,577,394	$5,371,694	$5,080,903
STARK STATE	$6,137	$0	$0	$0	$0
TERRA STATE	$464,012	$264,285	$66,409	$0	$0
WASHINGTON STATE	$0	$0	$0	$0	$0
ZANE STATE (MATC)	$223,983	$156,401	$309,075	$654,117	$460,366
STATEWIDE TOTAL	**$3,638,508,158**	**$3,899,734,051**	**$4,039,035,709**	**$4,484,369,778**	**$4,688,134,255**