

**Youngstown State University
January 2010 Fee Pledge Request - \$5,000,000**

I. Project Overview

Youngstown State University proposes to issue general receipts obligation bonds to finance the second phase of the institution's Centennial Master Plan. Debt authority for the initial phase of this project was approved in January of 2007 through a \$42,000,000 fee pledge request.

The University intends to finance the second phase of the master plan through the use Build America Bonds that will be retired in 20-25 years.

Submission: December, 2009

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II. Project Financing and Costs

Youngstown State University intends to use the funds from this bond issuance, in conjunction with bond authority from 2007, to finance the continued implementation of the institution's Centennial Master Plan. In January 2007, YSU received debt approval in the amount of \$42 million to begin the Centennial Master plan. To date, approximately \$21 million in plant debt has been issued in support of the capital project on campus.

During the initial implementation of the University's Centennial Master Plan, some of the projects evolved or were modified to recognize emerging needs and priorities. In order to accommodate the goals of both the original master plan and the new capital improvement projects identified in the second phase of the plan, Youngstown State University has identified the need for an additional \$5 million in debt authority. The table on the following page summarizes the projects identified in phase one of the master plan, the current schedule and budget for the initial plan, as well as the three new projects that will be supported with the additional debt authority included in this request.

YOUNGSTOWN STATE UNIVERSITY
Bond Financed Capital Projects

	<u>Original Plan</u>	<u>Revised/ Current Plan</u>	<u>Change</u>
<u>Phase I Debt Issuance (series 2009)</u>			
New Williamson College of Business	\$19,775,166	\$17,050,000 *	(\$2,725,166)
Wick Pollock Inn & Mansion	\$877,654	\$3,950,000	\$3,072,346
Total	<u>\$20,652,820</u>	<u>\$21,000,000</u>	<u>\$347,180</u>
<u>Phase II Debt Issuance (series 2010)</u>			
Kilcawley Student Center	\$2,663,584	\$10,000,000	\$7,336,416
Parking Improvements	\$8,771,930	\$4,500,000	(\$4,271,930)
Intramural Sports Fields	\$1,144,500	\$2,100,000	\$955,500
WATTS Center	\$0	\$7,000,000	\$7,000,000
STEM Bldg. Programming	\$0	\$500,000	\$500,000
Old Williamson Business College Bldg.	\$0	\$400,000	\$400,000
Total	<u>\$12,580,014</u>	<u>\$24,500,000</u>	<u>\$11,919,986</u>
<u>Projects deferred or funded by other sources</u>			
Moser Hall	\$3,750,000	\$0	(\$3,750,000)
Melnick Hall	\$325,166	\$0	(\$325,166)
University Plaza	\$1,610,000	\$0	(\$1,610,000)
Greenway Enhancements	\$1,082,000	\$0	(\$1,082,000)
Total	<u>\$6,767,166</u>	<u>\$0</u>	<u>(\$6,767,166)</u>
 Grand Total	 <u>\$40,000,000</u>	 <u>\$45,500,000</u>	 <u>\$5,500,000</u>
OBR Debt Authority, January 2007	\$42,000,000		
Actual Phase I debt issued (includes issuance costs)		\$21,731,949	
Total Debt Authority remaining		\$20,268,051	
Total Phase II Debt Issuance		\$24,500,000	
Add'l Debt Authority requested, Jan. 2010		\$5,000,000	

*Includes \$1 million in bond proceeds for property acquisition.

The University estimates that the maximum annual debt service obligation for the remaining \$25 million in debt authority, \$5 million of which is included in this request, will be approximately \$2 million per year, based on an average annual interest rate of 6% financed over a period of 20-25 years. Note that the institution expects to issue Build America Bonds (BABs), which may be used in lieu of qualified tax-exempt bonds and enables governmental issuers to issue taxable bonds with an imbedded subsidy. The subsidy is 35% of the annual interest payment, resulting in significant cost savings relative to a traditional tax-exempt

issuance. Therefore, the effective, annual interest rate for this bond issuance is expected to be 3.9%. Youngstown State University expects to finance the debt service costs with a combination of auxiliary revenues and University general receipts.

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III. Fee Impact

At this time, Youngstown State University does not intend to levy a special student fee to service the debt or operating costs for any of the proposed projects contained within the Centennial Master Plan. However, as a contingency, the University does reserve the right to levy such a fee in the future should the need arise. Such a fee, if necessary, would only apply to the Student Life portion of the bond issuance, detailed in the initial request phase of the Centennial Master Plan, and would be exempted from the state-imposed tuition limitations, assuming the existing language permitting such exemptions would be retained in future temporary legislation. The current language permitting such exemptions is located in section 371.20.90 of Amended Substitute House Bill 1:

"These limitations [on tuition and fee increases] 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. Any increase required by such covenants and any such mandates, obligations, or commitments shall be reported by the Board of Regents to the Controlling Board.

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IV. Project Description

The following provides project descriptions for the three new projects identified in the second phase of the institution's Centennial Master Plan, which will be financed in part with the \$5,000,000 in debt authority requested within:

Watson and Tressel Training Site (WATTS) Center

The Watson and Tressel Training Site project was announced in the summer of 2007 when the Tressel and Watson Families presented the University with a \$1 million gift. This donation was part of the institution's \$43 million Centennial Capital Campaign.

The 120,000 square-foot facility will house a full-size indoor football field and 300-meter track, and will accommodate athletic team practices, intramural sports, campus-wide activities and special events benefiting students, faculty, staff and the community. Soccer, men's and women's track and field, baseball, softball and football will have the ability to practice in a safer, more comfortable environment. The facility will also provide a significantly prolonged practice season to meet the challenge of the elevated level of competition the University seeks to embrace. Youngstown State University also will be able to host numerous scholastic and community events that would equally benefit from the facility.

The total project cost is estimated to be between \$8 million and \$10 million. While a \$5 million fundraising target is attainable in the long-term, the University expects that debt authority of \$7 million will be used to begin construction on the WATTS Center in early 2010, with an estimated completion date of fall 2010. Debt service and operating costs will be funded by a combination of University general receipts and athletic department revenues, including game guarantees and event ticket sales.

STEM Facility Programming

Youngstown State University has the distinct honor of having Ohio's first College of Science Technology Engineering & Mathematics (STEM). A new facility will be essential in order to expand program offerings, stay competitive and to prepare students for the ever-changing global marketplace. While the construction of a new STEM facility would likely begin in 2011 or 2012, the University would like to commence the programming and planning process required for such a large-scale project. Therefore, \$500,000 in debt authority is requested.

Programming will include evaluating multiple sites (including rehabilitating the Garfield Building and Moser Hall, renovating or replacing Ward Beecher Hall, adaptively reusing the AT&T Tower building adjacent and connected to the Garfield Building and developing a new STEM laboratory facility on an existing University-owned surface parking lot); determining the most cost-effective combination of renovation and new construction to meet the College's needs; and developing a detailed program statement and financing plan for the selected combination.

Old Williamson Hall Conversion

While construction of the new Williamson College of Business is presently underway and on schedule to be completed by fall 2010, the current home of the Business College will become vacant and available for use as office and laboratory space for the STEM College's Department of Mathematics and classroom space to meet existing University needs. In order to make the old Williamson building usable for other academic departments and classroom swing space, \$400,000 in debt authority is requested to support basic renovations and building upgrades.

The debt service and operating costs for this conversion project will be funded by University general receipts.

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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 Youngstown State 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 \$47,000,000 in new debt is added to the calculations. This amount equals the \$42,000,000 in debt authority approved in 2007 with the initial phase of the Centennial Master Plan as well as the \$5,000,000 requested for the second phase. Also, \$2,967,705 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 Youngstown State University's viability ratios for FY 2005, FY 2006, FY 2007 and FY 2008 are as follows:

<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u><i>FY 2008*</i></u>
230.4%	123.1%	205.7%	266.2%	75.5%

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

<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u><i>FY 2008*</i></u>
18.6%	16.0%	23.9%	26.9%	26.5%

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

<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2008*</u>
+2.3%	-2.5%	+6.5%	+2.7%	+1.1%

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

<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2008*</u>
3.30	2.90	3.70	4.10	3.50

Youngstown State University anticipates that the institution's FY 2009 Senate Bill 6 composite score will be 3.8. Moreover, the institution anticipates that the additional debt relating to the remaining \$25 million in debt relating the Centennial Master Plan would change the institution's FY 2009 pro-forma score to 3.50.

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VI. Financial Outlook and Bond Rating

According to its FY 2008 audited financial report, Youngstown State University's financial position remains strong, having reported total assets of \$242,645,793 and liabilities of \$53,928,697. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by \$5,117,577 in FY 2008 to \$188,717,096 or 77.7% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. On October 8, 2009, S&P upgraded Youngstown State University's long term debt rating of A+ with a stable outlook.

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 \$139,026,658 or 3.6% in FY 2008, Youngstown State University's plant debt decreased by \$1,794,380 or 8.8%.

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	\$309,075
STATEWIDE TOTAL	\$3,013,791,162	\$3,312,836,011	\$3,638,508,158	\$3,899,734,051	\$4,038,760,709