Ohio University
June 2008 Fee Pledge Request - $15,350,000

I. Project Overview

Ohio University proposes to issue general receipts obligation bonds to:

- finance the acquisition of the Harold D. Laughlin (HDL) Center and the 4.35 acres that accompany the building; and
- refinance $5.5 million of general receipts bond anticipation notes

The University intends for this debt to be financed through a permanent debt issuance that will be retired in 25 years.

Submission: June, 2008

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 $15,350,000. The purchase of the HDL Center and refinancing of the bond anticipation notes ("BANS") 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 (Capital Only)	
HDL Center Purchase Price	$ 9,250,000
Facility infrastructure upgrades	$ 300,000
Refinancing of BAN's	$ 5,550,000
Financing Costs (estimated)	$ 250,000
Total Project Costs:	$15,350,000
Project Resources (Capital Only)	
Gifts, Grants, etc. (non-state only):	$0
State Capital Appropriations:	$0
Transfers from Existing Resources:	$0
Other Revenue (itemize):	$0
Total Project Resources:	$0
Difference, **Total Costs - Total Resources:**	$15,350,000

This project's annual debt service obligation for the incremental debt (e.g., excluding the portion associated with the BANs) is estimated to be $730,584 per year, based on 5.50% interest for 25 years. The University will service this debt with proceeds from rental income, generated from the HDL facility, and general funds.

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

Harold D. Laughlin Center Acquisition, $9,800,000

The primary purpose of this project is to finance the purchase of the Harold D. Laughlin (HDL) Center and the 4.35 acres that accompany the building. The HDL Center, located off East Union Street at 51 Smith Street, contains approximately 105,000 gross square feet of space. A portion of this facility has been under lease by Ohio University since July 1, 1997. When the lease began, the University was using 46,900 gross square feet of space. Today, Ohio University is utilizing approximately 68,890 gross square feet of space in the HDL Center. When the most recent lease on the HDL center expired on June 30, 2007 the University was able to extend the lease for an additional 180 days at a rate of $12 per square foot and a utility fee of $2 per square foot.

In early 2007, when the lease on the HDL Center was approaching its expiration date, Ohio University began to examine its options. Each of the following options were considered:

1. Extending the lease for another five to ten years;
2. Leaving the HDL Center immediately and occupying vacant space that currently exists on the campus;
3. Staying at the HDL Center for approximately two years while renovating space at another location on campus to meet the needs of the University units, occupying the HDL Center.
4. Moving to another off-campus location; or
5. Pursuing the acquisition of the HDL Center.

After careful consideration, Ohio University's administration recommended that the most cost effective option would be to purchase the HDL Center for $9,250,000. By obtaining ownership of the building, Ohio University will gain needed flexibility and potential for additional space utilization and expansion, in addition to the following benefits:

- The facility can be readily renovated for other uses. This is an option not afforded by many other buildings on campus.
- Parking for approximately two hundred additional spaces is included in the purchase which will help the current parking shortage, or can eventually be a feasible site for adding a parking facility close to campus.
- The University will take ownership of a major capital investment it made in the fiber optics backbone in the facility that provides connectivity for the entire University.

The University recently performed a physical inspection of the facility and has determined that the HDL Center is in good condition. The inspection revealed that the center’s HVAC system should be replaced within the first three years of ownership. Other recommended improvements to the interior include carpeting, paint and reconfiguration. The estimated costs of the recommended upgrades total $953,000; $300,000 of which are included in this request.

Ohio University estimates that the annual debt service for this project will be $730,584 with additional operating costs ranging from $500,000 to $1.3 million per year. The University will support the debt service and operating costs with rental income, generated from the HDL Center, and general operating funds.

Refinancing of Bond Anticipation Notes, $5,550,000

In an effort to lower the costs associated with rolling over the previously approved BANs, Ohio University is refinancing them within this issuance. The BANs were initially issued in 2000 to finance the cost of a financial management system (“Enterprise”).

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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 2004, FY 2005, FY 2006 and FY 2007 audited financial statements—the most up-to-date financial data available.

*NOTE: The FY 2007 data shown in *italics* reflect the ratios and composite score when approximately $9.8 million in new debt is added to the calculations. This amount equals the net new debt requested here. Also, $730,584 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 2004, FY 2005, FY 2006 and FY 2007 are as follows:

FY 2004	FY 2005	FY 2006	FY 2007	*FY 2007**
59.7%	66.0%	57.7%	69.1%	*65.6%*

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 2004, FY 2005, FY 2006 and FY 2007 are as follows:

FY 2004	FY 2005	FY 2006	FY 2007	*FY 2007**
22.7%	23.0%	22.6%	23.9%	*23.9%*

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 2004, FY 2005, FY 2006 and FY 2007 are as follows:

FY 2004	FY 2005	FY 2006	FY 2007	*FY 2007**
+6.4%	+4.0%	+4.6%	+4.2%	*+4.1%*

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

FY 2004	FY 2005	FY 2006	FY 2007	*FY 2007**
3.10	3.20	2.90	3.20	*3.20*

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VI. Financial Outlook and Bond Rating

According to its FY 2007 audited financial report, Ohio University's financial position remains strong, having reported total assets of $813,017,756 and liabilities of $283,460,410. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by $23,267,484 in FY 2007 to $529,557,346 or 65% 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).

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 2003 and FY 2007, statewide plant debt increased 61.9% 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 issue local debt.

While statewide institutional debt increased by $261,225,893 or 7.2% in FY 2007, Ohio University's debt decreased by $9,947,743 or 5.2% in FY 2007.

LONG-TERM PLANT DEBT, FY 2003 - FY 2007

Institution	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
UNIVERSITIES					
BOWLING GREEN	$91,215,000	$84,410,000	$109,000,000	$99,250,000	$89,345,000
CENTRAL STATE	$2,703,429	$2,535,821	$2,340,402	$2,177,250	$2,003,952
CLEVELAND STATE	$55,977,422	$53,754,446	$115,923,075	$113,522,226	$161,098,196
KENT STATE	$285,773,000	$282,832,000	$279,692,000	$276,441,000	$273,153,000
MCOT	$8,837,000	$8,730,000	$56,299,000	$53,827,000	*See UT*
MIAMI UNIV.	$47,994,898	$92,833,435	$168,613,252	$159,727,329	$235,357,582
NEOUCOM	$1,397,190	$1,237,841	$1,046,607	$878,345	$700,300
OHIO STATE	$586,233,000	$814,606,000	$877,540,000	$1,106,227,000	$1,118,091,000
OHIO UNIVERSITY	**$133,002,202**	**$175,592,164**	**$167,529,147**	**$192,862,349**	**$182,914,606**
SHAWNEE STATE	$2,910,000	$2,600,000	$2,270,000	$1,925,000	$19,550,000
UNIV. AKRON	$211,208,546	$226,729,516	$258,484,797	$255,328,236	$247,378,185
UNIV. CINCINNATI	$647,688,000	$893,004,000	$877,453,000	$966,516,000	$1,074,333,000
UNIV. TOLEDO	$172,577,000	$167,367,000	$176,779,000	$171,134,000	$269,554,000
WRIGHT STATE	$18,570,323	$29,584,121	$46,189,820	$42,513,677	$38,738,096
YOUNGSTOWN ST.	$14,263,619	$13,492,373	$13,268,653	$22,162,550	$20,397,972
COMMUNITY COLLEGES					
CINCINNATI ST.	$49,173,132	$47,580,000	$47,530,000	$47,923,408	$47,701,975
CLARK STATE	$0	$72,800	$46,400	$8,195,000	$8,175,000
COLUMBUS ST.	$11,434,658	$24,105,000	$22,700,000	$21,250,000	$19,830,000
CUYAHOGA	$59,095,229	$65,222,373	$64,840,147	$62,974,601	$57,393,209
EDISON STATE	$68,676	$604,972	$532,347	$5,109,018	$4,975,254
JEFFERSON	$0	$2,170,485	$2,023,978	$1,838,573	$1,623,724
LAKELAND	$1,976,978	$5,674,098	$5,535,996	$4,767,321	$4,044,695
LORAIN	$3,952,163	$9,560,074	$7,925,194	$7,472,149	$7,010,546
NORTHWEST ST.	$106,207	$73,705	$82,001	$35,594	$25,249
OWENS STATE	$0	$0	$749,152	$579,288	$401,212
RIO GRANDE	$0	$0	$0	$0	$0
SINCLAIR	$0	$0	$0	$0	$0
SOUTHERN ST.	$168,506	$3,245,886	$3,022,204	$2,839,083	$2,710,583
TERRA STATE	$35,171	$839,738	$655,721	$464,012	$264,285
WASHINGTON ST.	$0	$0	$0	$0	$0
TECHNICAL COLLEGES					
BELMONT TECH	$97,927	$66,728	$33,107	$0	$0
COTC	$186,826	$401,059	$100,986	$2,112,219	$3,875,762
HOCKING	$497,794	$516,117	$1,039,729	$5,025,450	$5,235,058
JAMES RHODES ST	$0	$3,087,383	$3,067,812	$3,018,241	$2,968,669
MARION TECH	$0	$0	$0	$0	$0
ZANE STATE (MATC)	$182,571	$341,385	$285,586	$223,983	$156,401
NORTH CENTRAL	$375,474	$300,562	$220,160	$182,119	$727,540
STARK STATE	$620,993	$620,080	$16,738	$6,137	$0
STATEWIDE TOTAL	**$2,408,322,934**	**$3,013,791,162**	**$3,312,836,011**	**$3,638,508,158**	**$3,899,734,051**