

**Stark State College of Technology
May 2010 Fee Pledge Request - \$20,390,000**

I. Project Overview

Stark State College of Technology proposes to issue general receipts bonds to finance various capital projects on its campus, including:

- Construction of a new Business and Entrepreneurship Building
- Construction of a building addition that expands both classroom and laboratory space on campus
- The construction of up to three new parking venues
- Atrium renovation project

The College intends for this debt to be financed through a permanent debt issuance to include tax-exempt bonds that will be retired in 20 years.

Submission: March, 2010

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II. Project Financing and Costs

Stark State College of Technology requests the authority to pledge student fees in support of the issuance of general receipts obligation bonds in an aggregate amount not to exceed \$20,390,000. Estimated project costs funded through the proposed debt issuance are presented below:

Total Project Costs					
Project Name	Architects/ Engineers	Construction	Moveable Equipment	Contingency	Total Project Costs
Business & Entrepreneurship Building	\$596,052	\$9,142,891	\$960,000	\$363,509	\$11,062,452
Classroom and Laboratory Addition	\$664,800	\$7,634,571	\$1,160,000	\$353,197	\$9,812,568
Parking Facilities	\$70,000	\$1,896,226	\$0	\$47,170	\$2,013,396
Atrium Renovation	\$42,105	\$1,531,579	\$0	\$26,316	\$1,600,000
Subtotal	\$1,372,957	\$20,205,267	\$2,120,000	\$790,192	\$24,488,416

Total Project Resources					
Project Name	Gifts, Grants, Etc	State Capital Appropriations	Transfers from Existing Resources	Other Revenue	Total Project Resources
Business & Entrepreneurship Building	\$0	\$4,034,537	\$453,879	\$0	\$4,488,416
Subtotal	\$0	\$4,034,537	\$453,879	\$0	\$4,488,416

Requested Debt Authority	
Project Name	Total Project Costs
Business & Entrepreneurship Building	\$6,574,036
Classroom and Laboratory Addition	\$9,812,568
Land Acquisition & Parking	\$2,013,396
Atrium Renovation	\$1,600,000
Contingency Funds	\$390,000
Total	\$20,390,000

Stark State estimates that the maximum annual debt service obligation for the proposed debt issuance will be \$1,518,425, based on an annual interest rate no greater than 4.750% over 20 years. The College expects that the debt service and operating costs relating to the capital projects included in this request will be supported with a combination of facility fees and general funds.

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III. Fee Impact

This proposed debt issuance will have no direct impact on student tuition and fees. While Stark State College of Technology may use unrestricted student fee revenues to support the debt service and operating costs relating to this request, student fees are not expected to increase as a direct result of this action.

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IV. Project Description

The following provides project descriptions for the four projects identified in Stark State College of Technology's \$20,390,000 debt authority request:

Business & Entrepreneurship Building ~ \$6,574,036

The primary purpose of this project is to construct a new Business and Entrepreneurship building, which will be LEED certified. The new 39,000 square foot facility will house the institution's Entrepreneurial program and will provide for the campus addition of:

- 50 New Faculty Offices
- 10 New Classrooms and Laboratories
- State-of-the-Art Lecture Halls
- A Business Incubator, including a support facility that is fully integrated into the learning environment
- 2 Faculty Conference Rooms
- Fully Networked Student Lounge and Study Areas, with wireless access

The new facility will allow the College to assist with job creation and business development for small businesses in the local community.

The total project costs for the Entrepreneurial Center are estimated to be \$11,062,452; \$4,488,416 of which will be supported through the use of state capital funds and existing resources. The College expects that \$6.5 million of the total debt authority, requested within, will be used to construct the new building with an estimated completion date of spring term 2012. The maximum annual debt service and operating costs for this project are estimated to \$772,887 and will be funded with auxiliary revenues generated from facility fees.

Classroom and Laboratory Project ~ \$9,812,568

The primary purpose of the College's classroom and laboratory project will be to construct a building addition adjacent to the new Health Science facility. The proposed project includes the construction of the following:

- 10 Faculty Offices
- 17 Classrooms
- A Materials/Concrete Laboratory
- A Hydraulics Laboratory
- A Pedestrian Bridge, that will span Mega Street and provide safe access to a 600 space parking lot

Stark State College of Technology estimates that the cost of the classroom and addition project will be \$9,812,568 supported with funds included in this debt issuance request. The College expects that funding for the project will come solely from the debt authority,

requested within, with an estimated completion date of fall term 2011. The estimated annual debt service and operating costs of \$984,561 will be funded with the College's general funds.

Land Acquisition and Parking Facility ~ \$2,013,396

The primary purpose of this project is to finance new parking facilities on property adjacent to the main campus north of Mega Street. Stark State College of Technology proposes the construction of up to three additional parking areas on campus to accommodate an additional 300 parking spaces, adjacent to the institution's Advance Technology Center.

The College estimates that total project costs for the parking project will be \$2,013,396; supported solely with proceeds from the proposed debt issuance. The estimated debt service and operating costs of \$163,217 will be funded with auxiliary revenues and general funds, as needed.

Atrium Renovation ~ \$1,600,000

The primary purpose of this project is to renovate existing classroom, laboratory and atrium space that will be available for redevelopment upon completion of the new classroom and building addition project, detailed within this request. The renovated space will:

- Consolidate academic support services
- Expand the digital library
- Relocate the college's tutoring labs and computer testing center

The total project costs are estimated to be \$1,600,000. Stark State expects that debt authority will be used to fund this project. Moreover, the institution intends to support the debt service estimated to be \$126,884 through the use of general funds generated in part from an existing facilities fee.

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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 Stark State College of Technology performed when these measures are applied to its FY 2006, FY 2007, FY 2008 and FY 2009 audited financial statements—the most up-to-date financial data available.

*NOTE: The FY 2009 data shown in *italics* reflect the ratios and composite score when approximately \$20,390,000 in new debt is added to the calculations. This amount equals the net new debt requested here. Also, \$1,518,425 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 College'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. Stark State College of Technology's viability ratios for FY 2006, FY 2007, FY 2008 and FY 2009 are as follows:

<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2009*</u>
151,849.7%	No Debt	No Debt	No Debt	<i>71.1%</i>

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. Stark State College of Technology's primary reserve ratios for FY 2006, FY 2007, FY 2008 and FY 2009 are as follows:

<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2009*</u>
21.7%	19.4%	21.5%	21.7%	<i>21.2%</i>

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. Stark State College of Technology's net income ratios for FY 2006, FY 2007, FY 2008 and FY 2009 are as follows:

<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2009*</u>
+11.3%	+6.6%	+8.6%	+10.4%	+8.3%

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. Stark State College of Technology's composite scores have been above the minimum threshold:

<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2009*</u>
4.00	4.00	4.00	4.00	3.40

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VI. Ratio Analysis for Participation in Credit Enhancement Program

In conjunction with this fee pledge request, Stark State College of Technology has submitted a request to participate in the Credit Enhancement Program. As required in OAC: 3333-1-15 an eligible institution's proposal must meet the following ratio analysis:

Annual Debt Service Ratio: The projected amount of State Share of Instruction (SSI) payments must exceed the maximum annual debt charges by a ratio of (at least) **2.5 to 1**.

Estimated Debt Ratio for Remaining State Operating Support: The projected State Share of Instruction (SSI) payments, remaining to be distributed in the fiscal year, must exceed the debt charges remaining to be paid in the fiscal year by a ratio of (at least) **1.25 to 1**.

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010*
GRF SSI Payments	\$14,917,527	\$16,820,428	\$18,329,555	\$21,104,124	\$20,138,625
Aggregate Proposed Bonds Higher Debt Service (Occurs in FY 2024)	\$1,518,425	\$1,518,425	\$1,518,425	\$1,518,425	\$1,518,425
Annual Debt Service Ratio	9.82	11.08	12.07	13.90	13.26
Estimated Debt Ratio For Remaining State Operating Support (Occurs in June 2011)					4.24:1

** FY 2010 SSI figure reflects GRF support net of the federally supported SFSF-Education funds.*

As proposed, if there is a semi-annual debt service payment made on the 1st of June, Stark State College of Technology would reasonably anticipate one State Share of Instruction payment of \$1,678,219 remaining for the fiscal year. The highest semi-annual payment in June is \$395,444, resulting in a **4.24:1 ratio**.

As proposed, if there is a semi-annual debt service payment made on the 1st of December, Stark State College of Technology would reasonably anticipate seven State Share of Instruction payments of \$1,678,219 (or \$11,747,533 in total) remaining for the fiscal year. The highest semi-annual payment in December is \$1,515,150, resulting in a **7.75:1 ratio**.

Based on the debt service ratios and accompanying analysis, the Chancellor of the Board of Regents recommends Stark State College of Technology's participation in the state's Credit Enhancement program given subsequent approval by the Office of Budget Management and the Ohio Building Authority.

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VII. Financial Outlook and Bond Rating

According to its FY 2009 audited financial report, Stark State College of Technology's financial position remains strong, having reported total assets of \$73,992,000 and liabilities of \$7,394,000. Net assets, which represent the value of the College's assets after liabilities are deducted, increased by \$7,757,000 in FY 2009 to \$66,598,000 or 90.0% of total assets.

Historically, Stark State College of Technology has not obtained a bond rating because the institution has generally carried relatively small amounts of debt and has never before issued debt in the form of general receipts obligation bonds.

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VIII. 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 2005 and FY 2009, statewide plant debt increased 35.4% or approximately \$1.17 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.

FY 2005-2009 Long-Term Plant Debt

Institution	Long-Term Plant Debt				
	FY 2005	FY 2006	FY 2007	FY 2008	2009
UNIVERSITIES					
BOWLING GREEN	\$109,000,000	\$99,250,000	\$89,345,000	\$80,290,000	\$78,255,000
CENTRAL STATE	\$2,340,402	\$2,177,250	\$2,003,952	\$1,862,693	\$1,743,287
CLEVELAND STATE	\$115,923,075	\$113,522,226	\$161,098,196	\$163,591,508	\$207,067,009
KENT STATE	\$279,692,000	\$276,441,000	\$273,153,000	\$277,532,000	\$276,019,000
MUO (b)	\$56,299,000	\$53,827,000	See UT	See UT	See UT
MIAMI UNIV.	\$168,613,252	\$159,727,329	\$235,357,582	\$228,484,393	\$224,325,090
NEOUCOM	\$1,046,607	\$878,345	\$700,300	\$2,291,713	\$1,992,413
OHIO STATE	\$877,540,000	\$1,106,227,000	\$1,118,091,000	\$1,076,097,000	\$1,360,245,000
OHIO UNIVERSITY	\$167,529,147	\$192,862,349	\$182,914,606	\$167,403,027	\$192,718,265
SHAWNEE STATE	\$2,270,000	\$1,925,000	\$19,550,000	\$17,765,000	\$17,515,000
UNIV. AKRON	\$258,484,797	\$255,328,236	\$247,378,185	\$421,931,710	\$418,195,077
UNIV. CINCINNATI	\$877,453,000	\$966,516,000	\$1,074,333,000	\$1,091,020,000	\$1,090,644,000
UNIV. TOLEDO	\$176,779,000	\$171,134,000	\$269,554,000	\$265,409,000	\$252,924,000
WRIGHT STATE	\$46,189,820	\$42,513,677	\$38,738,096	\$35,624,887	\$31,564,022
YOUNGSTOWN STATE	\$13,268,653	\$22,162,550	\$20,397,972	\$18,603,592	\$38,990,037
COMMUNITY COLLEGES					
BELMONT TECH	\$33,107	\$0	\$0	\$0	\$0
CINCINNATI STATE	\$47,530,000	\$47,923,408	\$47,701,975	\$47,455,542	\$46,774,109
CLARK STATE	\$46,400	\$8,195,000	\$8,175,000	\$7,900,000	\$7,900,000
COLUMBUS STATE	\$22,700,000	\$21,250,000	\$19,830,000	\$18,255,000	\$16,620,000
COTC	\$100,986	\$2,112,219	\$3,875,762	\$3,470,979	\$2,394,382
CUYAHOGA	\$64,840,147	\$62,974,601	\$57,393,209	\$79,449,916	\$178,119,296
EDISON STATE	\$532,347	\$5,109,018	\$4,975,254	\$4,704,730	\$4,422,095
HOCKING	\$1,039,729	\$5,025,450	\$5,235,058	\$6,384,650	\$6,089,638
JAMES RHODES	\$3,067,812	\$3,018,241	\$2,968,669	\$2,914,098	\$2,859,527
JEFFERSON	\$2,023,978	\$1,838,573	\$1,623,724	\$1,422,593	\$1,211,968
LAKELAND	\$5,535,996	\$4,767,321	\$4,044,695	\$3,308,426	\$11,096,151
LORAIN	\$7,925,194	\$7,472,149	\$7,010,546	\$6,529,973	\$6,035,000
MARION TECH	\$0	\$0	\$0	\$0	\$0
NORTH CENTRAL	\$220,160	\$182,119	\$727,540	\$97,879	\$51,308
NORTHWEST STATE	\$82,001	\$35,594	\$25,249	\$59,860	\$40,300
OWENS STATE	\$749,152	\$579,288	\$401,212	\$536,241	\$276,495
RIO GRANDE	\$0	\$0	\$0	\$2,411,421	\$2,256,498
SINCLAIR	\$0	\$0	\$0	\$0	\$0
SOUTHERN STATE	\$3,022,204	\$2,839,083	\$2,710,583	\$5,577,394	\$5,371,694
STARK STATE	\$16,738	\$6,137	\$0	\$0	\$0
TERRA STATE	\$655,721	\$464,012	\$264,285	\$66,409	\$0
WASHINGTON STATE	\$0	\$0	\$0	\$0	\$0
ZANE STATE (MATC)	\$285,586	\$223,983	\$156,401	\$309,075	\$654,117
STATEWIDE TOTAL	\$3,312,836,011	\$3,638,508,158	\$3,899,734,051	\$4,038,760,709	\$4,484,369,778