Youngstown State University
April 2011 Fee Pledge Request - $20,500,000

I. Project Overview

Youngstown State University proposes to issue general receipts bonds to finance the University Courtyard Apartments, an existing student housing facility on its main campus. The construction of the facility was initially financed in 2002 by the University Housing Corporation (UHC) at Youngstown State University.

The University intends for this debt to be financed through a fixed rate, general obligations bond issuance that will be retired in 22 years.

Submission: April, 2011

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II. Project Financing and Costs

Youngstown State University requests the authority to pledge fees in support of the issuance of general receipts obligation bonds in an aggregate amount not to exceed $20,500,000. Estimated project costs funded through the proposed debt issuance are presented below:

University Courtyard Apartments		
Principal portion of bond	$	20,150,000
Net Capitalized Interest	$	-
Provision for Issue Costs	$	350,000
Total General Receipts Obligations Authorization Request	**$**	**20,500,000**

Youngstown State University estimates that the average annual debt service obligation for the proposed debt issuance will be $1,595,600, based on an average coupon of 5.25% over a period of 22 years. The institution intends to support the debt service and continued operating costs relating to the University Courtyard Apartments facility with auxiliary revenues generated from student housing fees.

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III. Fee Impact

This proposed debt issuance will have no direct impact on student tuition and fees. While Youngstown State University 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.

IV. Project Description

The primary purpose of this project is to finance the outstanding debt relating to Youngstown State University's Courtyard Apartment complex, which was opened to full occupancy in 2003. The project was initially financed in 2002 through the University Housing Corporation (UHC), a non-profit organization specifically formed in 2001 to develop student housing for Youngstown State University. Note that in 2002, the YSU Foundation guaranteed the letter of credit which secured the financing for the construction of the University Courtyard Apartments, a 408-bed UHC student housing development on YSU-owned property; located on the eastern edge of campus. Under the initial financing structure, ownership would revert back to YSU at the end of the 40 year ground lease

The 2002 construction financing, ***$22,040,000 County of Mahoning, Ohio, Adjustable Rate Housing Revenue Bonds, Series 2002 (University Housing Corporation at Youngstown State University Project),*** included a 10-year swap, which created a synthetic interest rate of approximately 4%. Both the swap and letter of credit expire in 2012, significantly increasing market and interest rate risk to UHC and to the YSU Foundation.

Since the inception of this project in 2001, the intent of UHC was to re-evaluate the project's debt structure near the expiration date of the swap. A potentially favorable municipal bond market presents relatively ideal conditions for YSU to acquire the Courtyard Apartments through a general receipts obligation bond issuance. In turn, UHC would retire its revenue bonds with a portion of the purchase price from YSU. There are a number of reasons YSU feels this action would be fiscally prudent:

- YSU acquiring the project facilitates the most cost-effective method of re-structuring the debt. The alternatives for UHC to refund or restructure the debt, including Certificates of Participation, all result in higher debt service estimates.

- YSU would most likely issue fixed rate debt, thereby minimizing the market and interest rate risks associated with the expiration of the 10-year swap and letter of credit in 2012.

- There would be no material impact on YSU's financial position because UHC is a component unit of YSU, thus already discretely presented in the University's audited financial statements and included in its CAFR. In addition, currently, 100% of the debt and assets associated with the Courtyard Apartments are factored into YSU's bond ratings as assigned by independent rating agencies. Therefore, although the issuance of general receipts bonds by YSU to acquire the facility would be new, direct general receipts debt of YSU, it would not result in an increase in liabilities or assets on YSU's consolidated financial statements, and would not affect YSU's bond ratings.

- The Courtyard Apartments will be a source of positive annual cash flow for YSU.

- Existing bond covenant restrictions on investments would be eliminated, thereby increasing YSU's ability to maximize investment income from the facility's positive cash flow.

- UHC could potentially be dissolved, which would eliminate entity-specific expenditures, an example of which is the separate financial audit of UHC, with a current cost of approximately $30,000 per year.

- YSU would gain full operational control over the facility, which would allow the University to apply its own policies and procedures on matters such as resident-student discipline and security, and take advantage of operational and management efficiencies.

Youngstown State University estimates that $20,500,000 in total debt authority is sufficient for this debt issuance request. Moreover, the institution estimates the maximum annual debt service to be $1,595,600; which will be supported with auxiliary funds generated from student housing revenue.

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 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 $20,500,000 in debt is added to the actual FY 2010 calculations. Also, $1,595,600 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. Youngstown 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**
205.7%	266.2%	135.5%	89.6%	*67.3%*

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. Youngstown 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**
23.9%	26.9%	27.4%	27.0%	*26.8%*

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. Youngstown 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**
+6.5%	+2.7%	+2.1%	+4.7%	*+4.0%*

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:

FY 2007	FY 2008	FY 2009	FY 2010	*FY 2010**
3.70	4.10	3.80	3.70	*3.70*

VI. Financial Outlook and Bond Rating

According to its FY 2010 audited financial report, Youngstown State University's financial position remains strong, having reported total assets of $304,216,347 and liabilities of $100,859,380. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by $10,385,211 in FY 2010 to $203,356,967 or 66.8% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. In March of 2010, Moody's Investors Services assigned Youngstown State University's long term debt an *A2* rating. In February of 2010, Standard & Poor's assigned the University's long-term debt a rating of *A+*.

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 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, Youngstown State University's plant debt increased by $23.1 million or 59.2%. The substantial increase in the institution's local debt is the result of a March 2010 debt issuance of $25.3 million in support of capital improvements on its main campus.

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**