The University of Cincinnati
November 2010 Fee Pledge Request - $37,500,000

I. Project Overview

The University of Cincinnati proposes to issue general receipts bonds in order to refinance existing Certificates of Participation (COP) that were issued in 2000 in support of the Jefferson Avenue Residence Hall Project.

The University intends for this debt to be financed through a permanent bond issuance that will be retired in 18 years.

Submission: November, 2010

II. Project Financing and Costs

The University of Cincinnati requests the authority to pledge fees in support of the issuance of general receipts obligation bonds in an aggregate amount not to exceed $37,500,000. Estimated project costs funded through the proposed debt issuance are presented below:

[redacted]

The University of Cincinnati estimates that the average annual debt service obligation for the proposed debt issuance will be $2,980,000, based on an average coupon of 4.67% over a period of 18 years. The debt transaction detailed in the issuance proposed by the University of Cincinnati will not result in additional debt or debt service; rather it will reduce the institution's existing debt service through reduced debt service payments. The University intends to continue supporting the debt service relating to the Jefferson Avenue Residence Hall project with auxiliary revenues.

The University of Cincinnati
November 2010 Fee Pledge Request - $37,500,000

III. Fee Impact

This proposed debt issuance will have no direct impact on student tuition and fees. While the University of Cincinnati 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.

The University of Cincinnati
November 2010 Fee Pledge Request - $37,500,000

IV. Project Description

The primary purpose of this project is to refinance existing debt relating to the University of Cincinnati's Jefferson Avenue Residence Hall project, which was designed and constructed by a developer in 2001. The project was financed in December 2000 through the issuance of $43,400,000 in Certificates of Participation (COPS). The COPS represent proportionate interests of the registered owners thereof in rental payments (base rent) to be made by the University under a lease agreement between the developer and the University, as rental for the residence hall complex. While the base rent is payable from the University's general receipts, the general receipts (including student fees) were never pledged to secure the payment of base rent, thus Ohio Board of Regents approval of this debt was not required prior to the original financing.

To date $7,310,000 of principal on the COPS has been retired, leaving the principal balance remaining at $36,090,000, with interest rates ranging from 5.125% to 5.5%. The University anticipates refunding the COPS with General Receipts Obligations at rates between 2.5% - 5%, thus achieving a total net present value (NPV) savings of $1,539,000 over the remaining life of the debt. This is a conservative estimate of savings based on current market conditions. The University would like to issue General Receipts Obligations to refund the COPS for the following reasons:

- **Interest Rates**: Current market spreads for COPS are 25-50 basis points greater than bonds, as of late November 2010;
- **Ratings**: Current debt ratings for General Receipt Bonds would be an A1/A+ versus A2/A for COPS;
- **Market Demand**: A larger market exists for General Receipt Bonds;
- **Greater Savings**: All of the above will result in the University being able to achieve greater debt service savings over the remaining life of the debt.

The University of Cincinnati estimates that $37,500,000 in total debt authority is sufficient to refund the current Certificates of Participation relating to this project. Moreover, the institution estimates the maximum annual debt service to be $2,994,900; which will be supported with auxiliary funds generated from Campus Service's housing revenue.

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November 2010 Fee Pledge Request - $37,500,000

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 the University of Cincinnati 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 $108,350,000 in debt is added to the actual FY 2009 calculations. This amount equals the estimated net new debt issuances since June 30, 2009. Also, $7,990,000 in related debt service expenses have been added to the calculations. Since this fee pledge request does not represent net new debt, the additional $37.5 million included in this authorization has not been added to the FY 2009 proforma analysis. 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 University of Cincinnati's viability ratios for FY 2006, FY 2007, FY 2008 and FY 2009 are as follows:

FY 2006	FY 2007	FY 2008	FY 2009	*FY 2009**
24.0%	21.1%	24.5%	24.3%	*22.2%*

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 University of Cincinnati's primary reserve ratios for FY 2006, FY 2007, FY 2008 and FY 2009 are as follows:

FY 2006	FY 2007	FY 2008	FY 2009	*FY 2009**
24.3%	23.1%	27.4%	26.8%	*26.6%*

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 University of Cincinnati's net income ratios for FY 2006, FY 2007, FY 2008 and FY 2009 are as follows:

FY 2006	FY 2007	FY 2008	FY 2009	*FY 2009**
+4.4%	+9.7%	-4.9%	-43.5%	*-44.6%*

As outlined in the Management's Discussion and Analysis section of the University's 2009 Financial Report, the net assets of the University declined in FY08 and FY09 as there are significant transactions included in the non-operating revenues (expenses) that are influenced significantly by the economy and investment markets. These items include: Fluctuations in the market value of investments; additions to permanent endowments and state capital appropriation revenue. A new strategic asset allocation policy was implemented on October 1, 2009 that will improve the ability of the endowment to sustain spending while maintaining its real, inflation-adjusted value. The University is committed to continuing its strategic vision while continuing to build upon its financial strength.

The negative net income ratio for FY09 is due mainly to a $330,000,000 decrease in the fair value of investments. For FY10, the university is estimating a $330,000,000 positive change in the fair value of investments from FY09. When comparing FY09 to FY10, for total operating/non-operating revenue, a positive delta of $380,000,000 is projected.

The university strategically aligned its FY10 budget to offset any potential reductions in future fiscal years' funding streams. Moreover, preliminary FY 2010 ratio calculations indicate significant positive improvement in UC's net income ratio which is expected to be +5.6%.

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. The University of Cincinnati's composite scores have been above the minimum threshold:

FY 2006	FY 2007	FY 2008	FY 2009	*FY 2009**
2.60	2.80	2.50	2.30	*2.30*

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VI. Financial Outlook and Bond Rating

According to its FY 2009 audited financial report, the University of Cincinnati's financial position remains strong, having reported total assets of $2,964,366,000 and liabilities of $1,339,995,000. Net assets, which represent the value of the University's assets after liabilities are deducted, decreased by $301,144,000 in FY 2009 to $1,624,371,000 or 54.8% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. On November 9, 2010, The University of Cincinnati's Moody's Investors Services affirmed the institution's *A1* rating and revised the University's outlook from stable to positive. In addition, Standard & Poor's affirmed the 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 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.

While statewide institutional debt increased by $445.6 million or 11.0% in FY 2009, the University of Cincinnati's plant debt decreased by $376,000 or 0.03%.

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**