

**Northeastern Ohio Universities College of Medicine and Pharmacy
October 2010 Fee Pledge Request - \$42,000,000**

I. Project Overview

Northeastern Ohio Universities College of Medicine and Pharmacy proposes to issue general receipts bonds to finance two capital projects on its main campus. The projects include:

- The Research & Graduate Education Complex
- Renovations to the Comparative Medicine Unit

The University intends for this debt issuance to be financed through a permanent bond issuance which will be retired in 30 years.

Submission: October, 2010

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II. Project Financing and Costs

Northeastern Ohio Universities College of Medicine and Pharmacy requests the authority to pledge fees in support of the issuance of general receipts obligation bonds in an aggregate amount not to exceed \$42,000,000. Estimated project costs funded through the proposed debt issuance are presented below:

Project Costs:

Construction:	\$ 33,050,000
Construction Contingency:	\$ 2,500,000
Architects and Engineers:	\$ 2,725,000
Geotechnical Testing, Inspections & Other:	\$ 61,250
Construction Management Fee:	\$ 991,000
State Architects Fee:	\$ 355,000
FF&E:	\$ 1,700,000
Other Costs:	<u>\$ 617,750</u>
Total Project Costs:	\$ 42,000,000

Total Bond Issuance: \$ 42,000,000

Northeastern Ohio Universities College of Medicine and Pharmacy estimates that the maximum annual debt service obligation for the proposed debt issuance will be \$2,600,000, based on an average annual interest rate of 4.5% over a period of 30 years. Since the institution intends the total issuance to include taxable Recovery Zone (Build America) Bonds, conventional tax-exempt debt, and Build America Bonds (BAB's), NEOUCOM anticipates that the bond will be issued in a series with an effective interest rate of 4.0%; after accounting for the federal interest rate subsidies associated with the Build America Bonds. It should be noted that the principle amount of each subseries will be determined by market conditions at the time the bonds are sold.

The debt service and incremental operating costs relating to the proposed debt issuance will be supported through the use of externally funded research revenues, auxiliary revenue, private gifts, as well as undesignated general funds resulting from projected enrollment growth.

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III. Fee Impact

This proposed debt issuance will have no direct impact on student tuition and fees. While Northeastern Ohio Universities College of Medicine and Pharmacy 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

Northeastern Ohio Universities College of Medicine and Pharmacy's request to pledge fees includes two capital improvement projects that culminated from the University's campus master plan that was developed over the past three years. The campus master planning process included input from all campus constituencies as well as the guidance and contributions from external planning and design experts. Most importantly, the process involved an extensive review of the institution's existing facilities as well as a projection of future facility needs to support an expanding educational program.

The capital master plan identified an imminent need for facility modifications and expansion. Specifically, it identified a critical need for NEOUCOM to expand its educational, research and student space. As such, the capital plan integrates education and research activities such that it provides the best possible environment for learning and scholarship for its students, faculty and staff.

The implementation of the campus master plan begins with the following two capital improvement projects that are described in greater detail below:

Research & Graduate Education Complex ~ \$ 26,000,000

The primary purpose of this project is to construct a new campus facility, the Research and Graduate Education complex. Construction of the new facility also includes an expansion of the Comparative Medicine Unit (CMU) since the two facilities will be linked. Specifically, construction of the new complex will result in the addition of approximately 63,000 square feet in a three-story building that will include open laboratory space, specialized procedural rooms, faculty office space, support staff space, and small-group teaching space. The need for net new functional space is a direct result of: (1) the College of Pharmacy reaching full capacity of its new professional programs, an initiative that began in FY 2006; and (2) the tremendous growth in the institution's sponsored research program.

The proposed construction of the Research and Graduate Education Complex will assist the University to:

- Build on the recent successes in its research activities and maximize their return on investment.
- Position the University to take advantage of future opportunities for extramural support of research with the Ohio Research Scholars program, Austen BioInnovation Institute of Akron, the Third Frontier and other private collaborations.
- Provide the newly forming College of Graduate Students the required specialized resources for its mission of education and research. This expansion will provide small-group lab and lecture-based teaching facilities for both graduate students and health-professions students who want research experience.
- Create a positive and career-enhancing environment for its medical, pharmacy, and graduate students.
- Support the mandate for higher education to be a positive force in economic development.

Renovation of the Comparative Medicine Unit ~ \$9,550,000

The primary purpose of this project is to renovate the existing Comparative Medicine Unit to expand the University's capacity to support pre-clinical, animal-based research. The renovation projects will culminate in the renovation of approximately 2,500 square feet in the current CMU facility and construction of an additional 14,000 square feet of new space that will significantly increase the institution's capacity to support research. Specifically, NEOUCOM anticipates the future research conducted in the new space will focus on improved disease management and cures in the following high demand specialties:

- Cardiovascular disease
- Obesity
- Diabetes
- Osteoarthritis
- Alzheimer's disease
- Tinnitus
- Deafness
- Specific cancers
- Other medical conditions that are linked to the university's research focus areas

The Northeastern Ohio Universities College of Medicine and Pharmacy estimates that \$42,000,000 in total debt authority is sufficient to fund the \$35,550,000 in project costs and estimated debt issuance relating to both projects described above. Moreover, the institution estimates the average annual debt service to be \$2,600,000 based on a 4.5% annual interest rate; which will be repaid over 30 years. In addition the institution estimates the net new operating costs to be \$300,000 per year. NEOUCOM will support the debt service and new operating costs with revenues from: existing capital reserves, state capital appropriations, special capital funds, federal and state grants, investment research, private gifts, undesignated general funds from their operating budget, and indirect cost recovery revenues from externally sponsored research.

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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 Northeastern Ohio Universities College of Medicine and Pharmacy 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 \$42,000,000 in new debt is added to the calculations. Also, \$2,600,000 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. Northeastern Ohio Universities College of Medicine and Pharmacy'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><i>FY 2009*</i></u>
1690.1%	2946.6%	1029.3%	1230.9%	<i>55.7%</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. Northeastern Ohio Universities College of Medicine and Pharmacy'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><i>FY 2009*</i></u>
44.2%	58.6%	60.2%	58.1%	<i>54.8%</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. Northeastern Ohio Universities College of Medicine and Pharmacy'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>
+16.7	+15.0	+7.7	+0.7	-5.4

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. Northeastern Ohio Universities College of Medicine and Pharmacy'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>
4.50	5.00	5.00	4.40	3.10

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VI. Financial Outlook and Bond Rating

According to its FY 2009 audited financial report, Northeastern Ohio Universities College of Medicine and Pharmacy's financial position remains strong, having reported total assets of \$77,749,922 and liabilities of \$7,969,804. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by \$315,545 in FY 2009 to \$69,780,118 or 89.7% of total assets.

Historically, Northeastern Ohio Universities College of Medicine and Pharmacy 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. While the University does not currently have an official bond rating, NEOUCOM has applied to Moody's and made a presentation to their review team during a campus visit on September 20, 2010.

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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 \$445.3 million or 11.0% in FY 2009, Northeastern Ohio Universities College of Medicine and Pharmacy's plant debt decreased by \$299,300 or 13.1%.

FY 2005-2009 Long-Term Plant Debt

Institution	Long-Term Plant Debt				
	FY 2005	FY 2006	FY 2007	FY 2008	FY 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	\$8,175,000	\$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	\$4,039,035,709	\$4,484,369,778