The University of Cincinnati
September 2010 Fee Pledge Request - $35,050,000

I. Project Overview

The University of Cincinnati proposes to issue general receipts bonds to finance various capital projects on its main campus, including:

- DAAP Façade Improvement and Roof Replacement Project
- Phase III: Roof Replacements
- Phases III: Energy Savings Projects and Initiatives

The University intends for this debt to be financed through a permanent bond issuance that will be retired in 20 years.

Submission: September, 2010

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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 $35,050,000. Estimated project costs funded through the proposed debt issuance are presented below:

Project	Estimated Project Costs	Net Capitalized Interest	Provision for Bond Discount and Issue	Margin of Safety	Total Bond Authorization Requested
DAAP Façade Improvement & Roof Replacement	$19,500,000	$0	$400,000	$1,000,000	$20,900,000
Phase III: Roof Replacements	$3,000,000	$0	$46,000	$204,000	$3,250,000
Phase III: Energy Savings Projects/Initiatives	$10,000,000	$0	$205,000	$695,000	$10,900,000
Total Debt Issuance	$32,500,000	$0	$651,000	$1,899,000	$35,050,000

The University of Cincinnati estimates that the maximum annual debt service obligation for the proposed debt issuance will be $2,740,000, based on an annual interest rate no greater than 6.0% over a period of 20 years. Moreover, the related debt service and incremental operating costs relating to the capital projects will be supported through the use of undesignated general funds as well as pledged auxiliary revenues (as identified in the project description section).

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.

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IV. Project Description

The following provides project descriptions for the three projects identified in the University of Cincinnati's $35,050,000 debt authority request:

<u>DAAP Façade Improvement and Roof Replacement ~ $20,900,000</u>

The primary purpose of this project is to remediate water damage and renovate the Aronoff Center which houses the nationally-ranked College of Design, Architecture, Art and Planning. The project entails the investigation of the extent and causes of the water infiltration into the Aronoff Center and renovation of the façade to both correct the exterior detailing, in a manner that both facilitates long-term building maintenance and ensures the continued image of the building, and prevent future damage. The replacement of the roofs on the entire DAAP complex is also included in this scope of work. The DAAP Façade Improvement and Roof Replacement project was approved within the Capital Budget for Fiscal Year 2010-2011 on June 22, 2010; University debt authorization for the project was also received on June 22, 2010. The project is currently in design and is scheduled to be placed out to bid in January, 2011. Contract awards are expected in April 2011; construction is expected to commence in May 2011 with an estimated completion date of June 2012

The University of Cincinnati estimates that $20,900,000 in total debt authority is sufficient to fund the $19,500,000 in project costs and estimated debt issuance costs. Moreover, the institution estimates the average annual debt service for this project to be $1,600,000 based on a 5% annual interest rate; which will be repaid over 20 years with undesignated general funds.

<u>Phase III: Roof Replacements ~ $3,250,000</u>

The primary purpose of this project is to replace or improve numerous roofs on various buildings throughout campus. Current roof structures at Corbett Center for Performing Arts, the College of Applied Science Administration Building and French East were prioritized to be in the greatest need for replacement/improvement; with additional roofs being added or substituted as the project budget allows or in the event that other roofs deteriorate to a point requiring reprioritization. These roofs will be replaced with roofing material that will add both energy efficiencies and sustainable design qualities to each of the buildings. The roof life expectancy of these new roofs is 20 to 25 years. The roofs will be approved through the appropriate approval process based on their individual project cost; University debt authorization for the project was received on June 22, 2010. Design for the roof projects will begin in the fall of 2010; construction is anticipated to commence in the summer of 2011.

The University of Cincinnati estimates that $3,250,000 in total debt authority is sufficient to fund the $3,000,000 in project costs and estimated debt issuance. Moreover, the University estimates the average annual debt service to be $250,000 based on a 5% annual interest rate; which will be repaid over 20 years with undesignated general funds.

Phase III: Energy Savings Projects/Initiatives ~ $10,900,000

The primary purpose of this initiative is to fund a series of projects designed to improve existing utility plant efficiencies, improve efficiencies of existing major building systems and upgrade existing facilities with new or updated building systems. The projects being considered within this phase include, but are not limited to, work in Rieveschl Hall, Rhodes Hall, Kettering Lab Complex, Building G on the University's Reading Campus (formerly Genome Research Institute) and lighting modifications across campus. The projects are specifically designed to facilitate a reduction in energy use and to facilitate the university's compliance with the requirements of Ohio House Bill 251 and the American College & University Presidents' Climate Commitment, as outlined in the University's Energy Master Plan. The third phase of the Utility Energy Projects was approved during the June 22, 2010 Board Meeting as part of the Capital Budget Fiscal Year 2010-11; University debt authorization is expected to be received on September 21, 2010. The various projects being funded within this phase are currently in programming or design. Construction will be phased over a one to three year period, based on the requirements of the individual projects.

The University of Cincinnati estimates that $10,900,000 in total debt authority is sufficient to fund the $10,000,000 in project costs and estimated debt issuance. Moreover, the institution estimates the average annual debt service to be $890,000 based on a 6% annual interest rate; which will be repaid over 20 years by the Consolidated Utilities Service Center.

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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 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 new debt is added to the calculations. This amount equals the estimated FY 2009 debt issuances of approximately $72,850,000 and $35,500,000 in net new debt requested here. Also, $7,990,000 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. 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 has strategically aligned its FY10 budget to offset any potential reductions in future fiscal years' funding streams.

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*

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. In July 2010, The University of Cincinnati's Moody's Investors Services affirmed the institution's *A1* rating with a stable outlook. 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).

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**