



John R. Kasich, Governor
Jim Petro, Chancellor

DIRECTIVE 2012-005

February 27, 2012

Re: CONSIDERATION OF A REQUEST BY SOUTHERN STATE COMMUNITY COLLEGE TO PLEDGE STUDENT FEES IN SUPPORT OF A BOND ISSUANCE NOT TO EXCEED \$20,000,000 TO BE USED TO FINANCE THE CONSTRUCTION OF A NEW CAMPUS.

Ohio Revised Code §3345.11 enables a state university or college to issue general receipts obligation bonds in the manner provided by and subject to the applicable provisions of Ohio Revised Code §3345.12.

§371.50.40 of Am. Sub. H.B. 153 of the 129th General Assembly requires that any new pledge of student fees to secure bonds or notes of a state college or university be approved by the Chancellor of the Ohio Board of Regents.

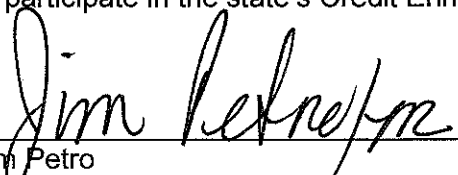
Pursuant to Ohio Revised Code, Southern State Community College has demonstrated the following:

- The proposed project is essential to fulfilling institutional goals.
- The College's Board of Trustees approved a resolution authorizing this bond issuance during its November 30, 2011 meeting.
- The institution's proposal complies with §3345.11 and §3345.12.

Agency staff reviewed the request and posted its recommendations to the Regents' web site for purposes of providing a period of public comment before final approval by the Chancellor. The materials posted for comment and the request to pledge student fees are attached to this document.

Based on my review of staff recommendations, I hereby approve the Request to Pledge Student Fees by Southern State Community College in support of general receipts obligation bonds in an aggregate amount not to exceed \$20,000,000. This \$20,000,000 issue includes a previously approved \$10,000,000 issue from December 2011 and \$10,000,000 to be issued before the end of the fiscal year. Furthermore, any increase in student fees to support this issuance shall not be exempt from any future restraint to increases in undergraduate instructional and general fees imposed by the General Assembly.

As part of the fee pledge request, Southern State Community College has requested to participate in the state's Credit Enhancement Program. Based on the debt service ratios and accompanying analysis conducted by staff, and contingent upon the advice and consent of the Office of Budget Management, I approve Southern State Community College's request to participate in the state's Credit Enhancement Program.



Jim Petro

Chancellor, Ohio Board of Regents

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End of Comment Period: February 24, 2012
No comments received, recommend approval

RECOMMENDATION

I have collected all necessary information from Southern State Community College for their request to pledge fees in support of general receipts obligation bonds in an aggregate amount not to exceed \$20,000,000. I have reviewed this information and confirm that it meets required guidelines for approval.



Signature



Date

RECOMMENDATION

The Office of the Vice Chancellor of Finance & Data Management has verified that Southern State Community College has demonstrated that their request to pledge fees in support of general receipts obligation bonds, in an aggregate amount not to exceed \$20,000,000, meets all the required guidelines for approval.



Signature



Date

Southern State Community College
January 2012 Fee Pledge Request - \$20,000,000*

I. Project Overview

Southern State Community College proposes to issue general receipts bonds to finance the land acquisition and building construction of a new campus. This project that will create a 50,000 square foot campus facility in the Mount Orab area in western Brown County that will replace the current Brown County campus, which is the oldest of the College's four campuses.

The college intends for this debt to be financed through a permanent debt issuance, which will be retired in 20 years.

**This \$20,000,000 fee pledge includes a previously approved 2011 new money issue of \$10,000,000 and a 2012 new money issue of \$8,250,000 and refunding of \$1,750,000.*

Submission: January, 2012

**Southern State Community College
January 2012 Fee Pledge Request - \$20,000,000**

II. Project Financing and Costs

Southern State Community College requests the authority to pledge student fees in support of the issuance of general receipts obligation bonds in an aggregate amount not to exceed \$20,000,000. While the costs of the land acquisition and campus construction are estimated to be \$14,000,000, Southern State has authorization from their board to issue up to \$20,000,000 in debt for this project. In December of 2011 Southern State was approved for a \$10,000,000 issue. The \$20,000,000 includes both this December 2011 issue and an issue in 2012 not to exceed \$10,000,000. This 2012 debt issuance includes \$1,750,000 in refunding of 2003 bonds and a new bond issue not to exceed \$8,250,000. The refunded debt will be retired on the ongoing maturity schedule of the 2003 bond issuance.

Southern State Community College estimates that the maximum annual new debt service obligation for the proposed \$8,250,000 new debt issue will be \$602,635. The College expects that there will be little, if any, additional operating costs for the facility as the new facility is intended to replace the existing campus. The debt service related to this project will be supported with a combination of the capital component, auxiliary revenues, and general revenues. General revenues will be provided by an estimated enrollment increase of 3%.

**Southern State Community College
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III. Fee Impact

This proposed debt issuance will have no direct impact on student tuition and fees. While Southern State Community College may use unrestricted student fee revenues to support the debt service related to this request, the tuition and fees that are included in the legislatively controlled cap are not expected to increase as a direct result of this action.

**Southern State Community College
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IV. Project Description

Land Acquisition and Construction of a New Campus Facility ~ \$14,000,000

The purpose of this project is to finance the construction of a 50,000 square foot campus facility, which includes both land acquisition and building construction. This project will replace the current Brown County Campus of Southern State Community College, which is the oldest of the four campuses. Recently, a college-wide facilities assessment was performed by a qualified architectural firm. This assessment revealed renovation needs for the current Highland County facility that would cost one-half of the cost of constructing a new facility. The current facility, along with needing extensive renovations, is poorly located in an area that provides limited access to students and municipal sewer systems.

This project should create little, if any, additional operating cost as the new facility is intended to replace the existing campus. The current facility has an annual operating cost of just over \$700,000, of which approximately \$360,000 is related to plant operations. Construction would begin in the summer of 2012 and be available for use by fall 2014.

**Southern State Community College
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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 Southern State Community College 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 \$18,250,000 in debt is added to the calculations. Also, \$1,350,168 in debt service expenses have been added to the calculations. This \$1,350,168 in debt service is the debt service for both the 2011 new money issue and the 2012 new money issue. The ratios do not reflect an adjustment for the \$1,750,000 refunding amount or related debt service expenses. Also, the ratios do not take into account 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. Southern State Community College'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*
169.1%	97.1%	112.8%	149.0%	32.4%

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. Southern State Community College'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*
21.0%	22.9%	21.8%	23.3%	21.9%

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. Southern State Community College's net income ratios for FY 2007, FY 2008, FY 2009 and FY 2010 are as follows:

<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2010*</u>
+0.2%	-0.5%	+8.5%	+3.8%	+0.6%

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. Southern State Community College's composite scores have been above the minimum threshold:

<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2010*</u>
3.10	2.60	3.70	3.50	2.50

Southern State Community College
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VI. Ratio Analysis for Participation in Credit Enhancement Program

Southern State Community College has submitted a request to participate in the Credit Enhancement Program for the 2012 issue of \$10,000,000 which includes both new debt and the refunding of the 2003 issue. Southern State also requested participation in the credit enhancement program for the 2011 issue of \$10,000,000. All debt that is a part of the credit enhancement program is considered when calculating these ratios. 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 2008	FY 2009	FY 2010*	FY 2011*	FY 2012
GRF SSI Payments	\$6,070,955	\$6,684,036	\$5,993,512	\$6,738,054	\$7,637,976
Bond Issue Higher Debt Service for all Credit Enhancement Debt (Occurs in FY 2019)	\$1,547,418	\$1,547,418	\$1,547,418	\$1,547,418	\$1,547,418
Annual Debt Service Ratio (includes all Credit Enhancement bond issues)	3.92	4.32	3.87	4.35	4.94
*FY 2010 & FY 2011 SSI figure reflects GRF support net of the federally supported SFSF-Education funds.					
SSI					
Annual	\$ 7,637,976			Estimated Debt Ratio for remaining State Operating Support all Credit Enhancement Debt	
Estimated monthly	\$ 636,498			1 month of SSI/highest June debt service	2.17
				7 months of SSI/highest Dec debt service	3.27
Debt Service					
Highest June Payment	\$ 293,409			Annual Debt Ratio (All Credit Enhancement Debt)	
Highest Dec Payment	\$ 1,364,259			Year of SSI/highest FY debt service	4.94
Highest FY Payment	\$1,547,418				

As proposed, if there is a semi-annual debt service payment made on the 1st of June, Southern State could reasonably anticipate one State Share of Instruction payment of \$636,498 remaining for the fiscal year. The highest semi-annual payment in June is \$293,409 resulting in a **2.17:1 ratio**.

As proposed, if there is a semi-annual debt service payment made on the 1st of December, Southern State would reasonably anticipate seven State Share of Instruction payments of \$636,498 (or \$4,455,486 in total) remaining for the fiscal year. The highest semi-annual payment in December is \$1,364,259 resulting in a **3.27:1 ratio**.

Based on the debt service ratios and accompanying analysis, the Chancellor of the Board of Regents recommends Southern State Community college's participation in the state's Credit Enhancement program given subsequent approval by the Office of Budget Management.

Southern State Community College
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VII. Financial Outlook and Bond Rating

According to its FY 2010 audited financial report, Southern State Community College's financial position remains strong, having reported total assets of \$32,310,592 and liabilities of \$7,667,145. Net assets, which represent the value of the College's assets after liabilities are deducted, increased by \$1,452,997 in FY 2010 to \$24,643,447 or 76.3% of total assets.

The College's existing long term debt has received relatively high marks from independent bond-rating agencies. In July of 2011, Southern State's long-term debt was assigned a rating of *A3 with a stable outlook* by Moody's Investors Service.

These ratings indicate that the institution'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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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 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, Southern State Community College's plant debt decreased by \$290,791 or 5.4%.

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