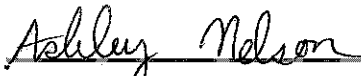


End of Comment Period: March 09, 2012
No comments received, recommend approval

RECOMMENDATION

I have collected all necessary information from the University of Cincinnati for their request to pledge fees in support of general receipts obligation bonds in an aggregate amount not to exceed \$27,900,000. I have reviewed this information and confirm that it meets required guidelines for approval.


Signature

3-09-12
Date

RECOMMENDATION

The Office of the Vice Chancellor of Finance & Data Management has verified that the University of Cincinnati has demonstrated that their request to pledge fees in support of general receipts obligation bonds, in an aggregate amount not to exceed \$27,900,000, meets all the required guidelines for approval.


Signature

12 Mar 12
Date



John R. Kasich, Governor
Jim Petro, Chancellor

University System of Ohio
Board of Regents

DIRECTIVE 2012-008

March 13, 2012

Re: CONSIDERATION OF A REQUEST BY THE UNIVERSITY OF CINCINNATI TO PLEDGE STUDENT FEES IN SUPPORT OF A BOND ISSUANCE NOT TO EXCEED \$27,900,000 TO BE USED TO FINANCE VARIOUS PROJECTS ON ITS 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, the University of Cincinnati 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 January 24, 2012 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 the University of Cincinnati in support of general receipts obligation bonds in an aggregate amount not to exceed \$27,900,000. 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.

This directive will take effect immediately.

Jim Petro
Chancellor, Ohio Board of Regents

mlc

**The University of Cincinnati
January 2012 Fee Pledge Request - \$27,900,000**

I. Project Overview

The University of Cincinnati proposes to issue general receipts bonds in order to finance various capital projects.

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

Submission: January 2012

**The University of Cincinnati
January 2012 Fee Pledge Request - \$27,900,000**

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 \$27,900,000. Estimated project costs funded through the proposed debt issuance are presented below:

Project Costs:	
Roof Replacements - Phase 4	\$ 3,000,000
Rieveschl Lab Renovations Phases 5&6	\$ 12,000,000
Energy Savings Projects/Initiatives - Phase 4	\$ 4,000,000
Campuswide Wireless Upgrade and Bandwidth Expansion	\$ 7,000,000
Margin of Safety	\$ 1,900,000
Total Project Costs:	\$ 27,900,000
Total Debt Authority Requested:	\$ 27,900,000

The University of Cincinnati estimates that the average annual debt service obligation for the proposed debt issuance will be \$3,175,300 based on an average coupon of 5.0% over a period of 20 years. The debt service related to the roof replacement project and the Rieveschl Lab renovations will be paid over 20 years with undesignated funds. The Energy Savings Project debt service will be paid over 15 years by the Consolidated Utilities Service Center. The debt service related to the campus-wide wireless upgrade and bandwidth expansion will be paid over 5 years by Information Technologies.

**The University of Cincinnati
January 2012 Fee Pledge Request - \$27,900,000**

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
January 2012 Fee Pledge Request - \$27,900,000

IV. Project Description

There are four projects for which the University of Cincinnati is requesting debt authority. The projects address deferred maintenance issues; structural, code, safety and building system requirements and improvements to existing building systems or facilities to improve utility efficiencies. These projects are necessary for the university to fulfill its research and teaching missions and to keep facilities functioning.

Roof Replacement Phase 4 ~ \$3,250,000

The Roof Replacements Phase 4 project will replace the current roof structure and parapet on the Health Professions Building (HPB). This roof has been prioritized to be in the greatest need for replacement/improvement, with additional roofs being added as the project budget allows or if other roofs deteriorate to a point requiring reprioritization. The roof will be replaced with roofing material that will add both energy efficiencies and sustainable design qualities to the buildings. The life expectancy of this new roof is 20 to 25 years. Each roof replacement project will be approved through the appropriate process based on individual project cost. Design for the HPB roof project will begin in the fall of 2011; construction is anticipated to commence in the summer of 2012.

Rieveschl Lab Renovations Phase 5 & 6 ~ \$12,900,000

Phase 5 and 6 of the Rieveschl Lab Renovations project continues the strategic upgrade of the oldest basic science education facilities at the University in order to meet current teaching needs. The project entails the renovation of existing undergraduate teaching and research laboratories on the 600 and 700 levels of Rieveschl Hall for the Department of Biology. This project was approved at the June 21, 2011 Board meeting within the 2011/2012 Capital budget. Project design will commence in the spring of 2012.

Energy Savings Projects/Initiatives Phase 4 ~ \$4,500,000

Phase 4 of the Energy Savings Projects/Initiatives consists of various projects, designed to improve efficiencies within existing buildings with new/updated building systems, and throughout various areas of campus, as identified with the University's Energy Master Plan. These 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. Projects included within Phase 4 of the Energy Savings Projects/Initiatives include, but are not limited to, a portion of the Rieveschl hall Lab Renovation Phase 5&6, Reading Campus Air Valve Modifications and Exterior Lighting Modifications. The Rieveschl Hall Lab Renovation Phases 5&6 project was approved at the June 21, 2011 Board meeting within the 2011/2012 Capital Budget. The remaining projects will be approved through the appropriate process based on individual project costs.

Campus-wide Wireless Upgrade and Bandwidth Expansion ~ \$7,250,000

The campus Wireless and Bandwidth Expansion project will expand wireless coverage to 100% for the Uptown campus, meeting one of the specific goals identified under the core principal of learning, within the UC2019 strategic plan. In addition, campus connection to the Internet will expand to enable projected Internet bandwidth needs for the next five years. This project was approved at the June 21, 2011 Board meeting within the 2011/2012 Capital Budget. Implementation of the project is underway and is expected to be complete in the spring of 2012.

The University of Cincinnati
January 2012 Fee Pledge Request - \$27,900,000

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 2008, FY 2009, FY 2010 and FY 2011 audited financial statements—the most up-to-date financial data available.

*NOTE: The FY 2011 data shown in *italics* reflect the ratios and composite score when approximately \$27,900,000 in debt is added to the actual FY 2011 calculations. Also, \$3,175,300 in related debt service expenses have been added to the calculations. 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. The University of Cincinnati's viability ratios for FY 2008, FY 2009, FY 2010 and FY 2011 are as follows:

FY 2008	FY 2009	FY 2010	FY 2011	<i>FY 2011*</i>
24.5%	24.3%	27.8%	34.1%	33.3%

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. The University of Cincinnati's primary reserve ratios for FY 2008, FY 2009, FY 2010 and FY 2011 are as follows:

FY 2008	FY 2009	FY 2010	FY 2011	<i>FY 2011*</i>
27.4%	26.8%	31.6%	38.8%	38.7%

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 2008, FY 2009, FY 2010 and FY 2011 are as follows:

FY 2008	FY 2009	FY 2010	FY 2011	FY 2011*
-4.9%	-43.5%	+5.6%	+20.0%	+19.7%

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.

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 2008	FY 2009	FY 2010	FY 2011	FY 2011*
2.50	2.30	3.30	3.60	3.60

The University of Cincinnati
January 2012 Fee Pledge Request - \$27,900,000

VI. Financial Outlook and Bond Rating

According to its FY 2011 audited financial report, the University of Cincinnati's financial position remains strong, having reported total assets of \$3,380,561,000 and liabilities of \$1,447,092,000. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by \$249,219,000 in FY 2011 to \$1,933,469,000 or 57.2% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. Moody's Investors Services' rating for the University is Aa3 with a stable outlook. Standard & Poor's rating of the University is an AA 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).

The University of Cincinnati
January 2012 Fee Pledge Request - \$27,900,000

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, the University of Cincinnati's plant debt increased by \$62,997,000 or 5.8%.

The chart below only depicts FY 2006 to FY 2010 for all institutions because we are in the process of finalizing the institutions ratios. The University of Cincinnati has finalized their ratios allowing us to use their FY 2011 ratios and plant debt. In FY 2011, the University of Cincinnati has plant debt of \$1,186,317,000 which is an increase of \$32,676,000 or 2.83% from FY 2010.

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	\$957,508
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