Ohio | University System of Ohio
Board of Regents

John R. Kasich, Governor
Jim Petro, Chancellor

DIRECTIVE 2012-016

May 15, 2012

Re: CONSIDERATION OF A REQUEST BY KENT STATE UNIVERSITY TO PLEDGE STUDENT FEES IN SUPPORT OF A BOND ISSUANCE NOT TO EXCEED $170,000,000 TO BE USED TO FINANCE VARIOUS CAPITAL IMPROVEMENT PROJECTS ON THE INSTITUTION'S MAIN 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, Kent State University has demonstrated the following:

- The proposed projects are essential to fulfilling institutional goals.
- The University's Board of Trustees approved a resolution authorizing this bond issuance during their March 14, 2012 meeting.
- Kent State University has demonstrated that their 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 Kent State University in support of general receipts obligation bonds in an aggregate amount not to exceed $170,000,000. 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

Jim Petro
Chancellor, Ohio Board of Regents

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End of Comment Period: May 14, 2012
No comments received, recommend approval

RECOMMENDATION

The Office of the Vice Chancellor for Finance has verified that Kent State University has demonstrated that their request to pledge student fees in support of general receipts obligation bonds, in an aggregate amount not to exceed $170,000,000, meets all the required guidelines for approval.

14 May 12

Signature **Date**

Kent State University
April 2012 Fee Pledge Request - $170,000,000

I. Project Overview

Kent State University proposes to issue general receipts bonds to finance various capital projects on its main campus to address renovation and expansion of academics facilities, energy enhancements and efficiencies, as well as health/safety codes and standards.

The University intends for this debt to be financed through a combination of a permanent debt that will be retired in 30 years.

Submission: April, 2012

Kent State University
April 2012 Fee Pledge Request - $170,000,000

II. Project Financing and Costs

Kent State University requests the authority to pledge student fees in support of the issuance of general receipts obligation bonds in an aggregate amount not to exceed $170,000,000. Estimated project costs funded through the proposed debt issuance are presented below:

Project	Estimated Cost	Capital Funding	Bond Funding
Sciences and Multidisciplinary Science Research	80,000,000	16,000,000	64,000,000
Art Facility	25,000,000	-	25,000,000
Technology and Engineering	10,000,000		10,000,000
Architecture & Environmental Design	44,800,000		44,800,000
Undergraduate Studies	5,000,000		5,000,000
Campus Accessability, Asset Preservation	12,000,000		12,000,000
Miscellaneous Aceademic Building Improvements and Relocati(	8,000,000		8,000,000
Cost of Issuance	1,200,000		1,200,000
	186,000,000	16,000,000	170,000,000

Kent State University estimates that the maximum annual debt service obligation for the proposed debt issuance will be $11,609,750, based on an annual interest rate no greater than 5.00% over a period of 30 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. The University intends to utilize funds made available through internal redistributions of base tuition revenue within the legislated cap and a change in the tuition structure outside of the legislated cap.

III. Fee Impact

The proposed debt issuance will have no direct impact on tuition and fees. While the University may use of unrestricted student fee revenues to support the debt service, student instructional and general fees are not expected to increase as a result of this action. The University has changed the tuition structure to phase in charges to students who take in excess of 17 credit hours the first year, and 16 credit hours in future years, and intends to utilize revenues from this change in support of the debt service.

Kent State University
April 2012 Fee Pledge Request - $170,000,000

IV. Project Description

The following provides descriptions for the various projects identified in Kent State University's $170,000,000 debt authority request:

Sciences and Multidisciplinary Science Research - $64M bond
Project involves the renovations to the Chemistry, Biology and Physic program space located in the science mall area of the campus and the construction of a new, multidisciplinary science addition. The project will include the renovation of existing classrooms, laboratories, seminar/lecture spaces and research laboratories and the construction of new research laboratories and faculty offices. The project will also address the major deferred maintenance associated with the failing mechanical, electrical, plumbing and building shell systems.

Art Facility - $25M
Project involves the adaptive renovation and expansion of existing campus facilities for the School of Art. The building will include classrooms, studios, faculty offices and lecture/seminar spaces.

Technology and Engineering - $10M
Project involves the construction of a new facility for the College of Technology and Engineering. The facility will include classrooms, research laboratories, faculty offices and lecture/seminar spaces.

Architecture and Environmental Design - $44.8M
Project involves the construction of a new facility for the College of Architecture and Environmental Design. The facility will include classroom, studios, research laboratories, faculty office and lecture/seminar rooms and site. Site development including pedestrian pathways and parking may also be included.

Undergraduate Studies - $5M
Project involves the adaptive renovation to Olson Center for the College of Undergraduate Studies. The target facility was originally constructed as a kitchen and dining facility but has been used as general offices, studios and classrooms since the mid 1980's. The project will involve the abatement of existing asbestos containing building materials, and the construction of offices, meeting rooms and study areas.

Campus Accessibility, Asset preservation - $12M
Project will address required improvements necessary to meet the American's with Disabilities Act (ADA) and complete critical deferred maintenance needs in the academic campus. The ADA work will involves the renovation of existing spaces to provide appropriate access or services to those with disabilities including toilet rooms, classrooms, elevators, ramps and door hardware. The deferred maintenance needs include but is not limited to, roof replacements, fire alarm upgrades, and building shell repairs.

Miscellaneous Academic Building Improvements and Relocations - $8M

Project will include renovations to existing academic buildings to provide both permanent and temporary office or classroom spaces. A portion of the classrooms and offices provided by this series of projects will be used as temporary swing space while the larger projects are completed. A portion of the funds will be used for the demolition of obsolete facilities.

Kent State University
April 2012 Fee Pledge Request - $170,000,000

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 Kent State University performed when these measures are applied to its FY 2007, 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 $170,000,000 in new debt is added to the calculations. Also, $11,609,750 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. Kent State University'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 2011	*FY 2011**
121.8%	111.9%	83.1%	91.8%	115.6%	*76.0%*

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. Kent State University'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 2011	*FY 2011**
70.6%	60.1%	40.5%	46.0%	63.0%	*61.8%*

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. Kent State University's net income ratios for FY 2007, FY 2008, FY 2009 and FY 2010 are as follows:

FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	*FY 2011**
+14.4%	-0.3%**	-12.6%**	+6.3%	13.3%	*+11.6%*

**During fiscal year 2008 and 2009, the University's net income decreased due to investment losses resulting from the disruptions in the investment markets. Investment loss was $12.3 million and $51.9 million in fiscal years 2008 and 2009, respectively.

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. Kent State University's composite scores have been above the minimum threshold:

FY 2007	FY 2008	FY 2009	FY 2010	FY2011	*FY 2011**
4.70	3.90	2.90	3.90	4.70	*4.40*

VI. Financial Outlook and Bond Rating

According to its FY 2011 audited financial report, Kent State University's financial position remains strong, having reported total assets of $1,116,415,000 and liabilities of $436,088,000. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by $92,026,000 in FY 2011 to $680,327,000 or 60.9% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. Kent State University's long-term debt was most recently assigned ratings of *A+* by Standard & Poor's and *Aa3* by Moody's Investor Services.

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 2007 and FY 2011, statewide plant debt increased 40.5% or approximately $1.58 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 $789.4 million or 16.8% in FY 2011, Kent State University's plant debt increased by $29,445,000 or 9.9%.

FY 2007-2011 Long-Term Plant Debt

Institution	Long-Term Plant Debt				
	FY2007	FY2008	FY 2009	FY 2010	FY 2011
Universities					
Bowling Green	89,345,000	80,290,000	78,255,000	141,265,000	132,505,000
Centeral State	2,003,952	1,862,693	1,743,287	1,617,887	1,513,758
Cleveland State	161,098,196	163,591,508	207,067,009	217,893,028	217,354,270
Kent State	**273,153,000**	**277,532,000**	**276,019,000**	**296,569,000**	**326,014,000**
MCOT	See UT				
Miami University	235,357,582	228,484,393	224,325,090	213,566,272	325,614,330
NEOUCOM	700,300	2,291,713	1,992,413	1,676,808	16,454,983
Ohio State	1,118,091,000	1,076,097,000	1,360,245,000	1,354,259,000	1,973,883,000
Ohio University	182,914,606	167,403,027	192,718,265	177,027,086	164,745,879
Shawnee State	19,550,000	17,765,000	17,515,000	17,015,000	16,505,000
University of Akron	247,378,185	421,931,710	418,195,077	424,907,317	398,884,080
Uinversity of Cincnnat	1,074,333,000	1,091,020,000	1,090,644,000	1,153,641,000	1,186,317,000
University og Toledo	269,554,000	265,409,000	252,924,000	295,561,000	287,550,000
Wright State	38,738,096	35,624,887	31,564,022	37,870,633	32,690,128
Youngstown State	20,397,972	18,603,592	38,990,037	62,083,924	78,656,592
Community Colleges					
Belmont Tech	-	-	-	-	-
Cincinnati State	47,701,975	47,455,542	46,774,109	46,150,000	45,085,000
Clark State	8,175,000	7,900,000	7,900,000	7,615,000	16,845,000
Columbus State	19,830,000	18,255,000	16,620,000	14,910,000	13,690,000
COTC	3,875,762	3,470,979	2,394,382	2,078,251	1,477,666
Cuyahoga	57,393,209	79,449,916	178,119,296	179,599,118	173,508,483
Edison State	4,975,254	4,704,730	4,422,095	4,126,979	3,813,992
Hocking	5,235,058	6,384,650	6,089,638	5,498,634	3,191,976
James Rhodes State	2,968,669	2,914,098	2,859,527	2,799,956	2,740,385
Jefferson	1,623,724	1,422,593	1,211,968	957,506	734,426
Lakeland	4,044,695	3,308,426	11,096,151	9,590,647	17,537,805
Lorain	7,010,546	6,529,973	6,035,000	5,740,000	5,440,000
Marion Tech	-	-	-	-	-
North Central	727,540	97,879	51,308	1,504	-
Northwest State	25,249	59,860	40,300	40,230	5,063
Owens State	401,212	536,241	276,495	6,417,348	7,477,454
Rio Grande	-	2,411,421	2,256,498	2,114,858	1,968,337
Sinclair	-	-	-	-	-
Southern State	2,710,583	5,577,394	5,371,694	5,080,903	4,771,667
Stark State	-	-	-	-	19,443,994
Terra State	264,285	66,409	-	-	-
Washington State	-	-	-	-	-
Zane State (MATC)	156,401	309,075	654,117	460,366	1,095,272
Statewide Total	**3,899,734,051**	**4,038,760,709**	**4,484,369,778**	**4,688,134,255**	**5,477,514,540**