

DIRECTIVE 2012-028

September 7, 2012

Re: CONSIDERATION OF A REQUEST BY ZANE STATE COMMUNITY COLLEGE TO PLEDGE STUDENT FEES IN SUPPORT OF A BOND ISSUANCE NOT TO EXCEED \$10,000,000 TO BE USED TO FINANCE VARIOUS PROJECTS ON 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, Zane 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 June 27, 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 Zane State Community College in support of general receipts obligation bonds in an aggregate amount not to exceed \$10,000,000. 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.

As part of the fee pledge request, Zane 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 Zane State Community College's request to participate in the state's Credit Enhancement Program.

This Directive will take effect immediately.



Jim Petro
Chancellor, Ohio Board of Regents

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End of Comment Period: September 7, 2012
No comments received, recommend approval

RECOMMENDATION

The Office of the Vice Chancellor for Finance has verified that Zane State Community College has demonstrated that their request to pledge student fees in support of general receipts obligation bonds, in an aggregate amount not to exceed \$10,000,000, meets all the required guidelines for approval.



Signature



Date

ZANE STATE COLLEGE
Fee Pledge Request - \$10,000,000
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I. Project Overview

Zane State College intends to complete two projects:

1. Acquire, construct, renovate and equip new and existing facilities for its campus located in Zanesville, Ohio
 - a. Current not to exceed amount of the debt for this project is \$7,000,000
2. Acquire, construct, renovate and equip a new and existing facilities for its campus located in Cambridge, Ohio
 - a. Current not to exceed amount of the debt for this project is \$4,000,000

The aggregate not to exceed principal amount of debt for both projects is \$10,000,000, as approved by the Board in the authorizing resolution.

Zane State College intends to issue approximately \$6,845,000 in long-term Bond obligations and \$3,155,000 in short-term Bond Anticipation Note (BAN) obligations. The College has received pledges from the capital campaign to repay the short-term BAN obligations.

Submission: August, 2012

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II. Project Financing and Costs

Zane State College requests the authority to pledge student fees in support of the issuance of general receipts obligation bond issue in an aggregate amount not to exceed \$10,000,000.

Included as an attachment to this application is the Board approved Bond Resolution authorizing the College to issue debt obligations as outlined in this application.

Estimated project costs funded through the proposed debt issuance are presented below:

Total Issue Sources And Uses

	Presentation-5.23.12- 25Yr-CapI ^o CredEnhApp - Advanced Science & Tech Bldg	Note-2012- \$3.0mm - SINGLE PURPOSE	Summary
Sources Of Funds			
Par Amount of Bonds	\$6,845,000.00	\$3,000,000.00	\$9,845,000.00
Reoffering Premium	80,812.60	18,540.00	99,352.60
Total Sources	\$6,925,812.60	\$3,018,540.00	\$9,944,352.60
Uses Of Funds			
Total Underwriter's Discount (0.000%)	-	4,500.00	4,500.00
Costs of Issuance	80,000.00	10,000.00	90,000.00
Deposit to Capitalized Interest (CIF) Fund	344,322.74	-	344,322.74
Deposit to Project Construction Fund	6,500,000.00	3,000,000.00	9,500,000.00
Rounding Amount	1,489.86	4,040.00	5,529.86
Total Uses	\$6,925,812.60	\$3,018,540.00	\$9,944,352.60

The College intends to issue part of the debt in long-term Bond obligations, approximately \$6,845,000, and the remaining portion in short-term Bond Anticipation Notes (BANs).

Zane State College estimates that the maximum annual debt service obligation for the proposed long-term Bond issuance will be \$414,736.26; based on an estimated annual coupon rate of 3.178% over 25 years. Zane State anticipates retiring the short-term note in one year. The payment to retire the short-term note is \$3,063,750. The debt service related to this project will be supported with a combination of the capital component, auxiliary revenues, and general revenues.

Zane State College intends to repay the short-term BANs using campaign pledges. The annual coupon rate for this portion of debt will be no greater than 4.00%.

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III. Fee Impact

This proposed debt issuance will have no direct impact on student tuition and fees. While Zane State 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.

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IV. Project Description

New Academic Building at main campus in Zanesville - While U.S. Census data shows that college attainment in Zane State College's service district lags behind the average for Ohio and the nation, FTE enrollment at Zane State College has grown 76% since 2003. This exponential enrollment growth is a boon toward the State's goal of enrolling more Ohioans in higher education. However, with 1,000 or more additional students on campus each academic quarter, Zane State College is challenged to provide appropriate learning spaces for course and program requirements. Portable computer carts with internet capability, expanded evening, weekend and distance-delivered offerings, repurposing of existing spaces, and temporary modular classrooms are being employed to accommodate student growth.

Enrollment growth within the service district of Zane State College is projected to continue through 2020 and beyond. The College's programs that carry the highest enrollments are in STEMM fields.

New Academic Building at secondary campus in Cambridge - Zane State College's Willett-Pratt Training Center has experienced tremendous growth since it opened as a regional manufacturing-related training center in 2001. The Cambridge facility is now accommodating over four times the student capacity for which it was designed. The growth is occurring in both credit and non-credit areas. Workforce training for area companies has increased annually at the rate of 36%. Last year, more than 4,391 workers at 135 local businesses received training. The College has also experienced unprecedented 29% increase in the number of students from Guernsey and surrounding counties who enroll in college courses at the Willett-Pratt Training Center.

College faculty and staff have been remarkably creative in repurposing space and scheduling offerings at nontraditional times. Training is scheduled literally at any time of the day or night, on weekends, and off-site where possible. A former student lounge is now a classroom; a storage closet is now an office. The corner of an industrial laboratory has been converted to a temporary classroom and a modular building has been erected to house an ultra-modern science laboratory so that the College can offer science courses to students at its Cambridge location.

Enrollment growth and steady growth in business and industry training contracts make it imperative that, to answer current and future needs of citizens and employers in and around Guernsey County and achieve the goals of the State, Zane State College needs a permanent solution to address critical space shortages.

The College has set aside \$1,000,000 from prior capital bills to go toward a new academic building at this location.

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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 Zane State College 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 the last column of each chart below reflect the ratios and composite score when approximately \$10,000,000 in new debt is added to the calculations. For the highest year debt service, \$3,063,750 in BAN debt expenses has been added to the calculations. This is the highest estimated annual debt service in any year over the life of the issue. The amount of the BAN debt payment is a one year expense and is expected to be retired within one year. Other factors not taken into account here include the impact of the new debt on the College'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. Zane State College's viability ratios for FY 2008, FY 2009, FY 2010 and FY 2011 are as follows:

<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2011*</u>
2077.6%	1194.6%	2128.8%	939.6%	92.8%

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. Zane State College's primary reserve ratios for FY 2008, FY 2009, FY 2010 and FY 2011 are as follows:

<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2011*</u>
30.5%	31.0%	35.6%	34.4%	30.4%

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. Zane State College's net income ratios for FY 2008, FY 2009, FY 2010 and FY 2011 are as follows:

<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2011*</u>
5.2%	6.0%	7.6%	5.0%	-4.5%

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

<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2011*</u>
4.5	4.5	4.5	4.5	3.10

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VI. Ratio Analysis for Participation in Credit Enhancement Program

In conjunction with this fee pledge request, Zane State College has submitted a request to participate in the Credit Enhancement Program. As required in OAC: 3333-1-15 an eligible institution's proposal must meet the following ratio analysis:

The ratios included are associated with the long-term debt only, as the College is not applying to the credit enhancement program for the BANs.

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**.

Debt Ratio Calculations

	FY 2009	FY 2010*	FY 2011*	FY 2012	FY 2013
GRF SSI Payments	\$5,662,365	\$5,496,590	\$5,711,145	\$6,034,654	\$6,082,840
Bond Issue Higher Debt Service for all Credit Enhancement Debt (Occurs in FY 2018)	\$ 414,736	\$ 414,736	\$ 414,736	\$ 414,736	\$ 414,736
Annual Debt Service Ratio (includes all Credit Enhancement bond issues)	13.65	13.25	13.77	14.55	14.67
*FY 2010 & FY 2011 SSI figure reflects GRF support net of the federally supported SFSF-Education funds.					

SSI

Annual	\$ 6,082,840
Estimated monthly	\$ 506,903

Estimated Debt Ratio for remaining State Operating Support all Credit Enhancement Debt

1 month of SSI/highest June debt service	5.05
7 months of SSI/Highest Dec debt service	8.71

Debt Service

Highest June Payment	\$ 100,343
Highest Dec Payment	\$ 407,500
Highest FY Payment	\$ 414,736

Annual Debt Ratio (All Credit Enhancement Debt)

Year of SSI/highest FY debt service	14.67
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*FY 2010 & FY 2011 SSI figure reflects GRF support net of the federally supported SFSF-Education funds.

As proposed, if there is a semi-annual debt service payment made on the 1st of June, Zane State College could reasonably anticipate one State Share of Instruction payment of \$506,903 remaining for the fiscal year. The highest semi-annual payment in June is \$100,343 resulting in a **5.05:1 ratio**.

As proposed, if there is a semi-annual debt service payment made on the 1st of December, Zane State College would reasonably anticipate seven State Share of Instruction payments of \$506,903 (or \$3,548,321 in total) remaining for the fiscal year. The highest semi-annual payment in December is \$407,500 resulting in an **8.71:1 ratio**.

As proposed, Zane State College will receive total SSI payments of \$6,034,654 for this fiscal year. The highest annual Fiscal Year debt service is \$414,736.26, compared to the fiscal year SSI amount results in a ratio of 14.67:1 ratio. This occurs in Fiscal Year 2018.

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

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VII. Financial Outlook and Bond Rating

According to its FY 2011 audited financial report, Zane State College's financial position remains strong, having reported total assets of \$29,486,413 and liabilities of \$4,521,130. Net assets, which represent the value of the College's assets after liabilities are deducted, increased by \$2,192,392 in FY 2011, or 8.0% from the previous year.

The College is currently not rated by either Moody's Investors Service or Standard & Poor's.

The College intends to apply to Moody's Investors Service to request the long-term Bond issue be rated.

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

This will be the first Bond issuance completed by Zane State College. The purpose of the debt issuance is to address critical capital needs on the College's campuses. 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.

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 40.46% 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 16.84% in FY 2011, Zane State College's plant debt increased by \$634,906 or 137.91%.

LONG-TERM PLANT DEBT, FY 2007 - 2011

Institution	Long-Term Plant Debt				
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
UNIVERSITIES					
BOWLING GREEN	\$89,345,000	\$80,290,000	\$78,255,000	\$141,265,000	\$132,505,000
CENTRAL 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
MUO (b)	See UT	See UT	See UT	See UT	See UT
MIAMI UNIV.	\$235,357,582	\$228,484,393	\$224,325,090	\$213,566,272	\$325,614,330
NEOMED	\$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
UNIV. AKRON	\$247,378,185	\$421,931,710	\$418,195,077	\$424,907,317	\$398,884,080
UNIV. CINCINNATI	\$1,074,333,000	\$1,091,020,000	\$1,090,644,000	\$1,153,641,000	\$1,186,317,000
UNIV. 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	\$0	\$0	\$0	\$0	\$0
CINCINNATI STATE	\$47,701,975	\$47,455,542	\$46,774,109	\$46,150,000	\$45,085,000
CLARK STATE	\$8,175,000	\$8,175,000	\$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	\$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	\$0	\$0	\$0	\$0	\$0
NORTH CENTRAL	\$727,540	\$97,879	\$51,308	\$1,504	\$0
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	\$0	\$2,411,421	\$2,256,498	\$2,114,858	\$1,968,337
SINCLAIR	\$0	\$0	\$0	\$0	\$0
SOUTHERN STATE	\$2,710,583	\$5,577,394	\$5,371,694	\$5,080,903	\$4,771,667
STARK STATE	\$0	\$0	\$0	\$0	\$19,443,994
TERRA STATE	\$264,285	\$66,409	\$0	\$0	\$0
WASHINGTON STATE	\$0	\$0	\$0	\$0	\$0
ZANE STATE (MATC)	\$156,401	\$309,075	\$654,117	\$460,366	\$1,095,272
STATEWIDE TOTAL	\$3,899,734,051	\$4,039,035,709	\$4,484,369,778	\$4,688,134,255	\$5,477,514,540