Ohio | Department of Higher Education

John R. Kasich, Governor
John Carey, Chancellor

DIRECTIVE 2016-022

May 16, 2016

Re: CONSIDERATION OF A REQUEST BY LAKELAND COMMUNITY COLLEGE TO PLEDGE FEES IN SUPPORT OF A BOND ISSUANCE NOT TO EXCEED $10,500,000 TO BE USED TO FINANCE VARIOUS CAPITAL PROJECTS

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.

§369.410 of Am. Sub. H.B. 64 of the 131st General Assembly requires that any new pledge of fees to secure bonds or notes of a state college or university be approved by the Chancellor of the Ohio Department of Higher Education.

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

- The proposed project is essential to fulfilling institutional goals.
- The institution's Board of Trustees approved a resolution authorizing this bond issuance during their April 7, 2016 meeting.
- The institution's proposal complies with §3345.11 and §3345.12.

Agency staff reviewed the request and posted its recommendations to the Department of Higher Education's 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 fees are attached to this document.

Based on my review of staff recommendations, I hereby approve the request to pledge fees by Lakeland Community College in support of general receipts obligation bonds in an aggregate amount not to exceed $10,500,000. Furthermore, any increase in 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.

Joe Carey

John Carey
Chancellor, Ohio Department of Higher Education

mlc

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End of Comment Period: May 13, 2016
No comments received, recommend approval

RECOMMENDATION
The Office of the Vice Chancellor for Finance has verified that Lakeland Community College has demonstrated that their request to pledge fees in support of general receipts obligation bonds, in an aggregate amount not to exceed $10,500,000, meets all the required guidelines for approval.
Jim Bennett   05.16.16
Signature   **Date**

LAKELAND COMMUNITY COLLEGE
Fee Pledge Request - $10,500,000
April 2016

I. Project Overview

Lakeland Community College (College) is seeking approval to pledge fees in support of borrowing up to $10.5 million from the Ohio Air Quality Development Authority (OAQDA). The funds will be used to pay for energy conservation measures related to the College's Health Technology Building Project.

The OAQDA will sell bonds and loan the proceeds to the College. One-half of the bonds sold will be Qualified Energy Conservation Bonds (QECB's), and the other half will be traditional federal tax exempt project development bonds. The term of the loan will be 15 years with fixed and level debt service.

The holders of QECB's receive a tax credit equal to 70 percent of the interest rate normally payable. Those savings are passed to the borrower (the College). As a result, Public Financial Management, Inc. (PFM), registered municipal advisors, estimates that the total all-in interest rate for the loan will be 1.26 percent, saving the College approximately $1.8 million in interest expense over the term of the loan.

While PFM uses a loan amount of $10,384,737 in its analysis, the aggregate not to exceed principal amount of debt to be incurred is $10.5 million as approved by both the College's Board of Trustees in its authorizing resolution and the OAQDA.

Submission: April 8, 2016

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II. Project Financing and Costs

The following is a summary of project costs to be financed:

	Energy Conservation Measures
PROJECT COSTS:	
Geothermal System	$ 4,732,312
Other HVAC Upgrades	117,645
R-30 Roof Replacement	539,198
Triple Pane Glazing	2,515,754
Decreased SHGC (glass)	79,430
Lighting Upgrades	1,518,900
Lighting Controls	785,798
Plug Load Controls	95,700
Total Project Costs	10,384,737
PROJECT RESOURCES:	
None	-
Total Project Resources	-
DIFFERENCE,	
TOTAL COSTS - TOTAL RESOURCES	$ (10,384,737)

Lakeland Community College has attached a debt service schedule documenting its debt service for the College's indebtedness as of June 30, 2015, as well as its projected indebtedness at June 30, 2016 that includes the proposed OAQDA borrowing, as well as other key debt and other changes.

PFM estimates that the maximum annual debt service obligation for the proposed OAQDA loan, net of its federal interest rate subsidy, will be $826,925.

For the Health Technology Building Project in its entirety, total project costs including construction, energy conservation measures, professional design fees, and project management fees, and outfitting costs, amount to $51.3 million. In addition to the OAQDA borrowing, project resources available also include State capital appropriations of $12.1 million, allocated bond proceeds of the College's Series 2016 Tax Levy-Backed Bonds of $25.0 million, and other College resources of $3.8 million.

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III. Fee Impact

This proposed debt issuance will have no direct impact on student tuition and fees. While Lakeland 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 will not increase as a direct result of this action.

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IV. Project Description

Proceeds of the loan will fund energy conservation measures as listed in the table under Section II. The College's Board of Trustees passed a Resolution authorizing this loan at its meeting on April 7, 2016.

For many years, the College has been committed to energy conservation, carbon neutrality, and programs that evidence environmental/fiscal stewardship and sustainability. The College is recognized for its leadership in energy conservation programs within the State of Ohio, as well as regionally and nationally, and has reduced its energy consumption per gross square foot of space by 40% since FY 2007.

As part of the Health Technology Building Project, the College will continue its journey to implement energy conservation measures that not only upgrade the comfort, safety, and operating infrastructure of the building, but also will reduce the total project area's energy consumption by 68% and greenhouse gas emissions by 55% (as certified by energy engineers from AECOM). Additionally, this project will holistically reduce the College's main campus overall energy footprint by 10%.

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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 Lakeland Community College performed when these measures are applied to its FY 2012, FY 2013, FY 2014 and FY 2015 audited financial statements—the most up-to-date financial data available.

*NOTE: The FY 2015 data shown in *italics* reflect the College's ratios and composite score as of June 30, 2015, after:

1. The requested issuance of the proposed $10,500,000 in Series 2016 OAQDA QECB and Project Development Bonds;
2. The issuance of the College's Series 2016 Tax Levy-Backed Bonds. Lakeland is the first and only community college in the State of Ohio to have the voters in its district (Lake County) pass a $40 million bond issue levy in November 2015. That voted levy fully funds the College's debt service on this issuance over its 27 year term.
3. The defeasance of the Series 2008 and Series 2011 Tax Anticipation Notes (using proceeds from the Series 2016 Tax Levy-Backed Bonds); and
4. Revenue recognition of the new 2016 bond issue tax levy.
5. The incorporation of the maximum annual OAQDA interest expense of $133,311.

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. Lakeland Community College's viability ratios for FY 2012, FY 2013, FY 2014 and FY 2015 are as follows:

Fiscal Year	2012	2013	2014	2015	*2015**
Viability Ratio	104.2%	91.32%	84.5%	42.3%	*21.8%*

It should be recognized that the College's Series 2016 Tax Levy-Backed Bonds amounting to $39 million are a significant reason for its Viability Ratio reduction in our FY 2016 presented data.

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. Lakeland Community College's primary reserve ratios for FY 2012, FY 2013, FY 2014 and FY 2015 are as follows:

Fiscal Year	2012	2013	2014	2015	*2015**
	22.1%	18.0%	19.1%	19.2%	*22.4%*

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. Lakeland Community College's net income ratios for FY 2012, FY 2013, FY 2014 and FY 2015 are as follows:

Fiscal Year	2012	2013	2014	2015	*2015**
Net Income Ratio	-3.3%	4.7%	0.4%	-3.1%	*0.2%*

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. Lakeland Community College's composite scores have been above the minimum threshold; and although the recalculated FY 2015 composite score decreases slightly, expectations are that it will increase in FY 2016 and beyond as the College recognizes State capital revenues from the Health Technology Building Project:

Fiscal Year	2012	2013	2014	2015	*2015**
Composite Score	2.9	3.2	2.8	2.3	*2.2*

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VI. Financial Outlook and Bond Rating

According to its FY 2015 audited financial report (the most recent available), Lakeland Community College's financial position remains strong, having reported total assets of $104,088,793 and liabilities of $143,954,600 (including pension liabilities recognized under GASB 68 of $86,363,245). Net position, which represents the value of the College's assets after liabilities are deducted, increased by $1,617,004 in FY 2015.

The College is currently rated by Moody's Investors Service as A1, and its Series 2016 Tax Levy-Backed Bonds of $39 million are rated as Aa1.

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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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 2011 and FY 2015, statewide plant debt increased 31.7%, or approximately $1.7 billion.

While statewide institutional plant debt increased by $244.0 million, or 3.5% in FY 2015, Lakeland Community College's plant debt increased by $16.0 million or 106.6%.

In December 2015, the College issued its Series 2015 Bond Anticipation Notes in the amount of $9.5 million.

In January and February 2016, the College issued $39.1 million in Tax Levy-Backed Bonds, of which $9.5 million was used to retire the Series 2015 Bond Anticipation Note, and $8.6 million was used to defease the Series 2008 and Series 2011 Tax Anticipation Notes.

LONG-TERM PLANT DEBT, FY 2011 - 2015

Institution	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
UNIVERSITIES					
BOWLING GREEN	$132,505,000	$124,675,000	$119,715,998	$147,067,224	$134,457,569
CENTRAL STATE	$1,513,758	$1,863,645	$18,225,857	$17,515,223	$16,403,259
CLEVELAND STATE	$217,354,270	$212,407,980	$258,656,081	$252,935,475	$239,322,461
KENT STATE	$326,014,000	$469,771,000	$492,032,000	$504,287,000	$505,173,000
MIAMI UNIV.	$325,614,330	$431,316,046	$528,156,951	$643,705,600	$622,306,800
NEOMED	$16,454,983	$42,000,000	$41,660,000	$40,825,000	$43,012,814
OHIO STATE	$1,973,883,000	$2,410,942,000	$2,574,238,000	$2,515,108,000	$2,743,351,000
OHIO UNIVERSITY	$164,745,879	$199,295,000	$324,941,582	$310,210,349	$543,347,988
SHAWNEE STATE	$16,505,000	$15,970,000	$17,657,225	$16,120,070	$15,602,553
UNIV. AKRON	$398,884,080	$386,676,812	$407,923,165	$473,999,582	$453,581,325
UNIV. CINCINNATI	$1,186,317,000	$1,133,438,000	$1,073,645,000	$1,175,815,000	$1,060,120,000
UNIV. TOLEDO	$287,550,000	$330,946,000	$326,663,000	$312,691,000	$298,187,000
WRIGHT STATE	$32,690,128	$84,425,012	$109,232,116	$106,769,168	$95,429,869
YOUNGSTOWN STATE	$78,656,592	$76,220,729	$73,508,103	$70,710,037	$67,819,444
COMMUNITY COLLEGES					
BELMONT TECH	$0	$0	$0	$0	$0
CINCINNATI STATE	$45,085,000	$43,612,347	$48,209,233	$45,734,380	$42,510,954
CLARK STATE	$16,845,000	$16,265,000	$15,675,000	$15,065,000	$14,440,000
COLUMBUS STATE	$13,690,000	$12,425,000	$11,460,000	$9,995,000	$8,475,000
COTC	$1,477,666	$93,910	$69,926	$44,876	$18,678
CUYAHOGA	$173,508,483	$162,247,557	$153,068,927	$148,906,753	$147,774,706
EDISON STATE	$3,813,992	$3,610,329	$3,368,736	$3,134,699	$3,047,498
HOCKING	$3,191,976	$2,775,926	$519,043	$21,468,907	$20,937,434
JAMES RHODES	$2,740,385	$2,675,815	$4,125,000	$3,886,667	$3,743,334
EASTERN GATEWAY	$734,426	$500,817	$256,182	$0	$1,831,736
LAKELAND	$17,537,805	$15,250,000	$13,660,000	$15,015,000	$31,020,000
LORAIN	$5,440,000	$69,845,000	$68,950,000	$67,645,000	$66,165,000
MARION TECH	$0	$0	$0	$0	$0
NORTH CENTRAL	$0	$0	$0	$0	$369,024
NORTHWEST STATE	$5,063	$0	$0	$0	$0
OWENS STATE	$7,477,454	$6,273,615	$5,962,323	$4,408,127	$3,207,962
RIO GRANDE	$1,968,337	$0	$0	$0	$0
SINCLAIR	$0	$0	$0	$0	$0
SOUTHERN STATE	$4,771,667	$18,960,007	$18,889,766	$18,579,087	$17,459,086
STARK STATE	$19,443,994	$18,636,250	$17,822,917	$16,994,167	$3,642,542
TERRA STATE	$0	$0	$6,000,000	$5,920,000	$5,795,000
WASHINGTON STATE	$0	$0	$0	$0	$0
ZANE STATE (MATC)	$1,095,272	$934,376	$6,866,596	$6,687,680	$6,685,510
STATEWIDE TOTAL	**$5,477,514,540**	**$6,294,053,173**	**$6,741,158,727**	**$6,971,244,071**	**$7,215,238,546**