DIRECTIVE 2020-001

January 14, 2020

Re: CONSIDERATION OF A REQUEST BY KENT STATE UNIVERSITY TO PLEDGE FEES IN SUPPORT OF A BOND ISSUANCE NOT TO EXCEED $29,000,000 TO BE USED TO FINANCE CONSTRUCTION OF A PARKING DECK ON ITS 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.

§381.390 of Am. Sub. H.B. 166 of the 133rd 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, Kent State University 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 December 4, 2019 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 student fees by Kent State University in support of general receipts obligation bonds in an aggregate amount not to exceed $29,000,000. 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.

Randy Gardner
Chancellor, Ohio Department of Higher Education
Kent State University Fee Pledge

Kent State University is requesting to pledge fees to support the issuance of up to $29 million of new debt. The new debt, will be used for the construction of a parking deck as part of the “Gateway to Distinctive Kent State” master plan.

The Main Street Parking Deck is included in Kent State’s 10-year, $1.2-billion master plan. As part of that plan, the university intends to create a re-imagined central gateway to campus from Main Street and to extend the iconic historic front campus landscape along Main Street. The new parking deck will replace and expand the capacity of ground parking that will be lost to the construction of a new building for the College of Business Administration (COBA).

In addition to the new debt KSU anticipates issuing approximately $173 million to refinance existing debt if the market conditions provide an opportunity to generate savings on the outstanding debt. KSU anticipates that the debt will be issued early in 2020. The University’s debt schedule assumes the debt will be retired within 30 years.

KSU had nearly $431 million of outstanding debt at the end of FY 2019. They had a viability ratio (assets/debt) of 91.5%. SB 6 Composite Scores are not yet finalized for FY 19; however, based on KSU’s audited statement, they estimate that their SB 6 Composite Score, excluding GASB 68, was 3.6. If the $29 million of additional debt had been issued in FY 2019 it would not have negatively impacted their SB 6 score.

Analysis

1) Does the request provide an overview and project descriptions with supporting documentation?
   Yes, the request identifies and describes the Main Street Parking Deck to be funded with this debt issuance.

2) Does the proposal provide a projected cost break down?
   For planning purposes, KSU assumed 30 year debt at a fixed rate of 3.3%. The pro forma projects annual payments of nearly $1.5 million for 30 years. However, the actual amount to be borrowed and the debt schedule are not yet finalized as KSU continues to evaluate options for the principal maturity structure.

3) Does the proposal specify that the project(s) will have no direct impact on student tuition and fees?
   Yes, as stated in the University’s Fee Pledge Request “The proposed debt issuance will have no direct impact on student tuition and fees. While Kent State University may use unrestricted student fee revenue 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.”

4) Does the proposal include a financial ratio analysis?
   Composite Scores below (FY 19 estimated):

<table>
<thead>
<tr>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.6</td>
<td>4.4</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
</tr>
</tbody>
</table>

* Composite score if debt had been issued in FY 19
5) Does the proposal provide a financial outlook and bond rating? Also, does the proposal discuss change in plant debt?

- Kent State's current rating from Standard & Poor's is A+/Stable and from Moody's is Aa3/Stable.
- Per their FY 2019 audited financial statement, KSU had outstanding debt of $431.0 on June 30, 2019. Their Viability ratio was 95.1%; it would have been 85.7% if the issuance of $29 million was included.
I. Project Overview

Kent State University requests the authority to pledge fees in support of a fixed rate bond in an aggregate amount not to exceed $29 million. The proceeds of the new bonds will be used for the construction of a parking deck as part of the Gateway to a Distinctive Kent State master plan. See page 4 for further information regarding the project.

In addition, Kent State University anticipates issuing approximately $173 million related to the refinancing of existing debt should market conditions afford the University an opportunity to incur savings on existing debt service. The $173 million of proceeds includes the escrow cost to refinance $158.2 million par amount of existing debt on a taxable basis in advance of the call date; and bond issuance costs.

Submission: December, 2019
II. Project Financing and Costs

Please see Exhibit A for an anticipated debt service schedule.

New Money Assumptions:

• Anticipated Closing Date: 01/29/2020
• Issuance Type: Fixed Rate
• Yield - All-in TIC: 3.322% (as of 11/21/2019)
• Average Life: 19.285
III. Fee Impact

The proposed debt issuance will have no direct impact on student tuition and fees. While Kent State University may use unrestricted student fee revenue 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.

It is expected that the annual debt service for the new debt issuance will be funded by Parking Services.
Kent State University December 2019
Fee Pledge Request - $29,000,000

IV. Project Description

The following provides a description of the project identified in Kent State University’s $29,000,000 debt authority request:

**Main Street Parking Deck**

In March 2018, the Kent State University Board of Trustees adopted the Gateway to a Distinctive Kent State master plan. The 10-year, $1.2-billion master plan envisions a transformed Kent campus to support learning, research and innovation and includes new and renovated buildings throughout campus. As part of the master plan, the university plans to create a re-imagined central gateway to campus from Main Street and to extend the iconic historic front campus landscape along Main Street. This transformed area will include a new building for the College of Business Administration (COBA), a new parking deck, renovations to White Hall, the removal of surface parking lots and the realignment of Terrace Drive to create a bucolic, pedestrian-focused green space in this area as well as improve the flow of traffic and people in the area.

This area of campus currently holds approximately 900 parking spaces in asphalt parking lots. To accommodate the replacement of the current spaces and provide additional capacity to support the COBA building and other facilities in the area, the university proposes to build a 1,100-car parking deck with vehicular access on levels one, two and three from surrounding roads at different elevations.

The university is working to develop a contextually sensitive and functionally efficient parking deck design to support the transformation of the campus landscape in this district. Vehicular movements within and around the deck will be coordinated with the surrounding campus and city roadway system to minimize congestion as well as provide appropriate pedestrian and mass-transit access to the facility.
Kent State University
December 2019
Fee Pledge Request - $29,000,000

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 public institutions of higher education. 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 2016, FY 2017, FY 2018 and FY 2019 audited financial statements—the most up-to-date financial data available. For the purpose of this analysis, all ratio calculations exclude associated impacts of GASB 68 and 75.

*NOTE: The FY 2019 data shown in italics reflect the ratios and composite score when $29,000,000 in new debt is added to the calculations. Also, $1,144,000 in related interest expenses have been added to the calculations. 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. Kent State University’s viability ratios for FY 2016, FY 2017, FY 2018 and FY 2019 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>93.6%</td>
<td>97.1%</td>
<td>96.4%</td>
<td>91.5%</td>
<td>85.7%</td>
</tr>
</tbody>
</table>

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 2012, FY 2013, FY 2014 and FY 2015 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>67.6%</td>
<td>64.3%</td>
<td>62.7%</td>
<td>55.2%</td>
<td>55.1%</td>
</tr>
</tbody>
</table>
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 2012, FY 2013, FY 2014 and FY 2015 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-0.06%</td>
<td>+6.4</td>
<td>-1.2%</td>
<td>-4.5%</td>
<td>-4.7%</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.60</td>
<td>4.40</td>
<td>3.60</td>
<td>3.60</td>
<td>3.60</td>
</tr>
</tbody>
</table>
VI. Bond Rating

The University’s existing long-term debt has received relatively high marks from independent bond-rating agencies. In March of 2019, Kent State University’s long-term debt was assigned a rating of Aa3 with a stable outlook by Moody’s Investors Service and a rating of A+ with a stable outlook from S&P.

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.

<table>
<thead>
<tr>
<th>Moody’s</th>
<th>S &amp; P</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa1</td>
<td>AAA</td>
<td>Best quality with little or no investment risk.</td>
</tr>
<tr>
<td>Aa1</td>
<td>AA</td>
<td>High quality with low investment risk.</td>
</tr>
<tr>
<td>A1</td>
<td>A</td>
<td>High quality with moderate investment risk.</td>
</tr>
<tr>
<td>Baa1</td>
<td>BBB</td>
<td>Good quality with some investment risk.</td>
</tr>
<tr>
<td>Ba1</td>
<td>BB</td>
<td>Medium quality with some investment risk.</td>
</tr>
<tr>
<td>B1</td>
<td>B</td>
<td>Medium quality with higher investment risk.</td>
</tr>
<tr>
<td>Caa1</td>
<td>CCC</td>
<td>Low quality and susceptible to default.</td>
</tr>
<tr>
<td>Ca1</td>
<td>CC</td>
<td>Low quality and highly vulnerable to default.</td>
</tr>
<tr>
<td>C1</td>
<td>C</td>
<td>Lowest quality and extremely vulnerable to default.</td>
</tr>
<tr>
<td>-</td>
<td>D</td>
<td>In payment default (S&amp;P rating only).</td>
</tr>
</tbody>
</table>
Kent State University December 2019
Fee Pledge Request - $29,000,000

VII. Estimated Timeline

December 4, 2019
Week of December 9, 2019
Week of December 16, 2019
Week of January 6, 2019
Week of January 6 or 13, 2019
Week of January 27, 2019

Approval by Board of Trustees
Submission to ODHE for approval
Receive Ratings
Receive approval from ODHE
Pricing
Closing