Ohio | Department of Higher Education

Mike DeWine, Governor
Randy Gardner, Chancellor

DIRECTIVE 2020-052

October 26, 2020

Re: CONSIDERATION OF A REQUEST BY BOWLING GREEN STATE UNIVERSITY TO PLEDGE FEES IN SUPPORT OF A DEBT ISSUANCE NOT TO EXCEED $39,245,000 TO REFUND OUTSTANDING DEBT TO RESTRUCTURE THE SERIES 2014 BONDS

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, Bowling Green 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 September 25, 2020 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 Bowling Green State University in support of general receipts obligation bonds in an aggregate amount not to exceed $39,245,000. 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

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Chancellor, Ohio Department of Higher Education

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Bowling Green State University Fee Pledge

Bowling Green State University is requesting to pledge fees to support the refunding of $39.25 million of debt. The debt issuance will provide a refunding of Series 2014 variable rate bonds which is a direct purchase bond held by a single bank. There is no new debt being issued.

The Series 2014 interest rate formula, which is based on LIBOR, generates a 5-year historical average variable rate of 1.26%. The bank commitment period currently extends to December 1, 2020. BGSU has negotiated a new variable rate formula, also based on LIBOR, that generates a 5-year average variable rate of 2.17%. The commitment period is five years. The increased rate reflects the longer duration bank commitment period and the current credit market conditions, which include higher credit spreads as a result of, but not limited to, the uncertainty and implications of COVID-19 on the University, the higher education sector, and the U.S. economic landscape as a whole.

Assuming the new variable rate of 2.17% remained for the life of the debt, the net present value cost of the refunding would be $5.1 million relative to the current variable rate. However, the current variable rate is expiring and could not be continued even if BGSU was not refunding the debt, and the new commitment period is only five years. Therefore, the NPV cost is simply an estimate of the fiscal impact of the refunding over the life of the bonds. As with the original issuance, the University intends to retire the debt by 2048.

BGSU had $266.7 million of outstanding debt at the end of FY 2020. Their SB 6 Composite Score in FY 2020 is projected to be 3.1. Since this refunding will not increase the University's debt, this issuance will not negatively impact their SB 6 score.

Analysis

1) Does the request provide an overview and project descriptions with supporting documentation?

   NA, proposed debt will support a refunding of 2014 debt.

2) Does the proposal provide a projected cost break down?

   NA

3) Does the proposal specify that the project(s) will have no direct impact on student tuition and fees?

   BGSU affirms in their request that: "The proposed debt issuance will have no direct impact on student tuition and fees. While Bowling Green State University may use unrestricted student fee revenues to support the debt service, 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:

FY2016	FY2017	FY2018	FY2019	FY2020*
3.9	3.1	3.3	3.3	3.1

*FY 20 is BGSU's projected SB 6 score. The refunding would not have impacted Composite score if debt had been issued in FY 20.

5) Does the proposal provide a financial outlook and bond rating? Also, does the proposal discuss change in plant debt?
    - BGSU's current rating from Standard & Poor's is A+/Stable and from Moody's is A1/Stable.
    - BG had outstanding debt - $272.3 million at the end of FY 2019. Their Viability ratio was 66.6%; which generates a score of 3 on this ratio.

BGSU®
Bowling Green State University

Bowling Green State University
Fee Pledge Request - $39,245,000

Submitted to the Ohio Department of Higher Education
September 25, 2020

Bowling Green State University
Fee Pledge Request - $39,245,000

Project Overview

Bowling Green State University requests the authority to pledge fees in support of a variable-rate tax exempt refinancing of its outstanding Series 2014 bonds. The University's Series 2014 bonds is a direct purchase bond held by a single bank with a mandatory tender date of December 1, 2020. On that date, BGSU will need to either refinance or re-issue the bonds or pay the outstanding principal amount in full.

Fee Impact

The proposed debt issuance will have no direct impact on student tuition and fees. While Bowling Green State University may use unrestricted student fee revenues to support the debt service, the tuition and fees that are included in the legislatively controlled cap are not expected to increase as a direct result of this action.

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 Bowling Green State University performed when these measures are applied to its FY 2016 through FY2020 audited financials. The ratios shown indicate how BGSU performed when the measures are applied against the audited financials, excluding the impact of GASB 68 and GASB 75. Further, given the timing of this request, the FY2020 audited financials have yet to be approved by the Ohio Auditor of State and therefore are still considered draft numbers.

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. Bowling Green State University's viability ratios for FY 2016 through FY 2020 are as follows:

FY 2016	FY 2017	FY 2018	FY2019	FY 2020
82%	82%	63%	67%	64%

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. Bowling Green State University's primary reserve ratios for FY 2016 through FY 2020 are as follows:

FY 2016	FY 2017	FY2018	FY 2019	FY2020
44.0%	47.7%	43.8%	46.4%	43.0%

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. Bowling Green State University's net income ratios for FY 2016 through 2020 are as follows:

FY 2016	FY 2017	FY2018	FY 2019	FY 2020
+6.3%	+6.9%	-4.2%	+0.2%	*-1.6%*

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

FY 2016	FY 2017	FY2018	FY 2019	FY2020
3.9	3.9	3.1	3.3	3.1

Financial Outlook and Bond Rating

According to its FY 2020 audited financial report, Bowling Green State University's financial position remains strong, having reported total assets of $885.9 million, and liabilities of

$589.1 million (including the impact of GASB 68 & 75); liabilities of $354.0 million (excluding the impact of GASB 68 & 75).

The University's existing debt has received relatively high marks from independent bond-rating agencies. This past year, Bowling Green State University's long-term debt rating of A1 and A+ by Moody's Investors Service and Standard and Poor's Global Ratings respectively, were confirmed 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.

Bowling Green State University contracts with Blue Rose Capital Advisors for financial advisory services. One of the services that Blue Rose provides under the terms of the agreement is a comprehensive review of the university's debt position and future debt plans with the Board of Trustees via an annual workshop. The purpose of this workshop is to ensure the Board is informed and aware of the impact of the pending debt on the University's ratio, how the rating agency will view the debt and any impact they might have on the University's ratings.

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).

Proposed Debt Service Comparison

Given the mandatory tender date of December 1, 2020, BGSU will need to either refinance or re-issue the bonds or pay the outstanding principal amount in full. BGSU has secured a five-year renewal term with a variable rate, which is shown in the comparison below. The original amortization schedule for this debt is expected to remain.

Bowling Green State University
General Receipts Bond, Series 2020B
Fiscal Year Debt Service Comparison

	Series 2014 Debt Service (Old Variable Rate Formula)[1]			Series 2020B Debt Service (New Variable Rate Formula)[2,3]			Increases in Debt Service by Fiscal Year	
Fiscal Year	Principal	Interest	Total DS	Principal	Interest	Total DS	Gross Debt	PV Debt
2021	$ 785,000	$ 287,683	$ 1,072,683	$ 785,000	$ 497,011	$ 1,282,011	$ 209,327	$ 208,247
2022	815,000	483,307	1,298,307	815,000	834,976	1,649,976	351,669	345,578
2023	850,000	473,065	1,323,065	850,000	817,282	1,667,282	344,217	333,040
2024	885,000	462,384	1,347,384	885,000	798,828	1,683,828	336,445	320,500
2025	920,000	451,262	1,371,262	920,000	779,615	1,699,615	328,353	307,969
2026	955,000	439,701	1,394,701	955,000	759,641	1,714,641	319,940	295,452
2027	995,000	427,700	1,422,700	995,000	738,908	1,733,908	311,208	282,956
2028	1,035,000	415,196	1,450,196	1,035,000	717,306	1,752,306	302,110	270,449
2029	1,075,000	402,190	1,477,190	1,075,000	694,836	1,769,836	292,646	257,937
2030	1,120,000	388,681	1,508,681	1,120,000	671,498	1,791,498	282,817	245,430
2031	1,160,000	374,607	1,534,607	1,160,000	647,182	1,807,182	272,576	232,895
2032	1,210,000	360,030	1,570,030	1,210,000	621,998	1,831,998	261,969	220,381
2033	1,255,000	344,824	1,599,824	1,255,000	595,729	1,850,729	250,905	207,819
2034	1,310,000	329,053	1,639,053	1,310,000	568,483	1,878,483	239,430	195,256
2035	1,360,000	312,591	1,672,591	1,360,000	540,042	1,900,042	227,451	182,628
2036	1,415,000	295,501	1,710,501	1,415,000	510,516	1,925,516	215,016	169,981
2037	1,470,000	277,719	1,747,719	1,470,000	479,796	1,949,796	202,077	157,289
2038	1,530,000	259,246	1,789,246	1,530,000	447,882	1,977,882	188,636	144,563
2039	1,590,000	240,020	1,830,020	1,590,000	414,666	2,004,666	174,646	131,778
2040	1,655,000	220,039	1,875,039	1,655,000	380,146	2,035,146	160,107	118,945
2041	1,720,000	199,241	1,919,241	1,720,000	344,216	2,064,216	144,974	106,042
2042	1,790,000	177,627	1,967,627	1,790,000	306,874	2,096,874	129,247	93,081
2043	1,860,000	155,133	2,015,133	1,860,000	268,013	2,128,013	112,880	80,040
2044	1,935,000	131,760	2,066,760	1,935,000	227,632	2,162,632	95,872	66,932
2045	2,015,000	107,443	2,122,443	2,015,000	185,623	2,200,623	78,179	53,738
2046	2,095,000	82,122	2,177,122	2,095,000	141,876	2,236,876	59,755	40,440
2047	2,175,000	55,795	2,230,795	2,175,000	96,393	2,271,393	40,598	27,052
2048	2,265,000	28,463	2,293,463	2,265,000	49,174	2,314,174	20,711	13,587
Total through Maturity	$ 39,245,000	$ 8,182,384	$ 47,427,384	$ 39,245,000	$ 14,136,146	$ 53,381,146	$ 5,953,762	$ 5,110,006
Total through Commitment Period	$ 4,255,000	$ 2,340,910	$ 6,595,910	$ 4,255,000	$ 4,044,229	$ 8,299,229	$ 1,703,320	$ 1,638,997

[1] Assumes the 5-year historical average of 1M LIBOR as of September 22, 2020 for a rate of 1.26% through maturity.

[2] Assumes the 5-year historical average of 1M LIBOR as of September 22, 2020 for a rate of 2.17% through maturity.

[3] The commitment period for the reissuance and new variable rate formula is only 5-years and will end on November 1, 2025, at which point the University is subject to re-pricing.