

**DIRECTIVE 2011-015**June 13, 2011

Re: CONSIDERATION OF A REQUEST BY YOUNGSTOWN STATE UNIVERSITY TO PLEDGE STUDENT FEES IN SUPPORT OF A BOND ISSUANCE NOT TO EXCEED \$20,500,000 TO BE USED TO FINANCE THE ACQUISITION OF THE UNIVERSITY COURTYARD APARTMENTS.

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.

§371.60.20 of Am. Sub. H.B. 1 of the 128<sup>th</sup> 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, Youngstown State University has demonstrated the following:

- The proposed project is essential to fulfilling institutional goals.
- The University's Board of Trustees is scheduled to consider a final resolution authorizing this bond issuance during its June 17, 2011 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, and pending approval by Youngstown State University's Board of Trustees, I hereby approve the Request to Pledge Student Fees by Youngstown State University in support of general receipts obligation bonds in an aggregate amount not to exceed \$20,500,000. 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

This directive will take effect immediately.

  
\_\_\_\_\_  
Jim Petro  
Chancellor, Ohio Board of Regents

End of Comment Period: June 13, 2011  
No comments received, recommend approval

**RECOMMENDATION**

The Office of the Vice Chancellor for Finance has verified that Youngstown 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 \$20,500,000, meets all the required guidelines for approval.

*Kathleen S. Hensel*

*June 13, 2011*

Signature

Date

**Youngstown State University  
April 2011 Fee Pledge Request - \$20,500,000**

**I. Project Overview**

Youngstown State University proposes to issue general receipts bonds to finance the University Courtyard Apartments, an existing student housing facility on its main campus. The construction of the facility was initially financed in 2002 by the University Housing Corporation (UHC) at Youngstown State University.

The University intends for this debt to be financed through a fixed rate, general obligations bond issuance that will be retired in 22 years.

*Submission: April, 2011*

**Youngstown State University**  
**April 2011 Fee Pledge Request - \$20,500,000**

**II. Project Financing and Costs**

Youngstown State University requests the authority to pledge fees in support of the issuance of general receipts obligation bonds in an aggregate amount not to exceed \$20,500,000. Estimated project costs funded through the proposed debt issuance are presented below:

| <b>University Courtyard Apartments</b>                          |                      |
|---|----------------------|
| Principal portion of bond                                       | \$ 20,150,000        |
| Net Capitalized Interest  | \$ -                 |
| Provision for Issue Costs                                       | \$ 350,000           |
| <b>Total General Receipts Obligations Authorization Request</b> | <b>\$ 20,500,000</b> |

Youngstown State University estimates that the average annual debt service obligation for the proposed debt issuance will be \$1,595,600, based on an average coupon of 5.25% over a period of 22 years. The institution intends to support the debt service and continued operating costs relating to the University Courtyard Apartments facility with auxiliary revenues generated from student housing fees.

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April 2011 Fee Pledge Request - \$20,500,000**

**III. Fee Impact**

This proposed debt issuance will have no direct impact on student tuition and fees. While Youngstown State University may use unrestricted student fee revenues to support the debt service and operating costs relating to this request, student fees are not expected to increase as a direct result of this action.

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**IV. Project Description**

The primary purpose of this project is to finance the outstanding debt relating to Youngstown State University's Courtyard Apartment complex, which was opened to full occupancy in 2003. The project was initially financed in 2002 through the University Housing Corporation (UHC), a non-profit organization specifically formed in 2001 to develop student housing for Youngstown State University. Note that in 2002, the YSU Foundation guaranteed the letter of credit which secured the financing for the construction of the University Courtyard Apartments, a 408-bed UHC student housing development on YSU-owned property, located on the eastern edge of campus. Under the initial financing structure, ownership would revert back to YSU at the end of the 40 year ground lease

The 2002 construction financing, ***\$22,040,000 County of Mahoning, Ohio, Adjustable Rate Housing Revenue Bonds, Series 2002 (University Housing Corporation at Youngstown State University Project)***, included a 10-year swap, which created a synthetic interest rate of approximately 4%. Both the swap and letter of credit expire in 2012, significantly increasing market and interest rate risk to UHC and to the YSU Foundation.

Since the inception of this project in 2001, the intent of UHC was to re-evaluate the project's debt structure near the expiration date of the swap. A potentially favorable municipal bond market presents relatively ideal conditions for YSU to acquire the Courtyard Apartments through a general receipts obligation bond issuance. In turn, UHC would retire its revenue bonds with a portion of the purchase price from YSU. There are a number of reasons YSU feels this action would be fiscally prudent:

- YSU acquiring the project facilitates the most cost-effective method of re-structuring the debt. The alternatives for UHC to refund or restructure the debt, including Certificates of Participation, all result in higher debt service estimates.
- YSU would most likely issue fixed rate debt, thereby minimizing the market and interest rate risks associated with the expiration of the 10-year swap and letter of credit in 2012.
- There would be no material impact on YSU's financial position because UHC is a component unit of YSU, thus already discretely presented in the University's audited financial statements and included in its CAFR. In addition, currently, 100% of the debt and assets associated with the Courtyard Apartments are factored into YSU's bond ratings as assigned by independent rating agencies. Therefore, although the issuance of general receipts bonds by YSU to acquire the facility would be new, direct general receipts debt of YSU, it would not result in an increase in liabilities or assets on YSU's consolidated financial statements, and would not affect YSU's bond ratings.
- The Courtyard Apartments will be a source of positive annual cash flow for YSU.

- Existing bond covenant restrictions on investments would be eliminated, thereby increasing YSU's ability to maximize investment income from the facility's positive cash flow.
- UHC could potentially be dissolved, which would eliminate entity-specific expenditures, an example of which is the separate financial audit of UHC, with a current cost of approximately \$30,000 per year.
- YSU would gain full operational control over the facility, which would allow the University to apply its own policies and procedures on matters such as resident-student discipline and security, and take advantage of operational and management efficiencies.

Youngstown State University estimates that \$20,500,000 in total debt authority is sufficient for this debt issuance request. Moreover, the institution estimates the maximum annual debt service to be \$1,595,600; which will be supported with auxiliary funds generated from student housing revenue.

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**V. Financial Ratio Analysis**

Through the 1997 enactment of Senate Bill 6, the 122<sup>nd</sup> 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 Youngstown State University performed when these measures are applied to its FY 2007, FY 2008, FY 2009 and FY 2010 audited financial statements—the most up-to-date financial data available.

\*NOTE: The FY 2010 data shown in *italics* reflect the ratios and composite score when approximately \$20,500,000 in debt is added to the actual FY 2010 calculations. Also, \$1,595,600 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. Youngstown State University's viability ratios for FY 2007, FY 2008, FY 2009 and FY 2010 are as follows:

|                |                |                |                |                        |
|----------------|----------------|----------------|----------------|------------------------|
| <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> | <u>FY 2010</u> | <u><i>FY 2010*</i></u> |
| 205.7%         | 266.2%         | 135.5%         | 89.6%          | <i>67.3%</i>           |

**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. Youngstown State University's primary reserve ratios for FY 2007, FY 2008, FY 2009 and FY 2010 are as follows:

|                |                |                |                |                        |
|----------------|----------------|----------------|----------------|------------------------|
| <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> | <u>FY 2010</u> | <u><i>FY 2010*</i></u> |
| 23.9%          | 26.9%          | 27.4%          | 27.0%          | <i>26.8%</i>           |



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

|                |                |                |                |                 |
|----------------|----------------|----------------|----------------|-----------------|
| <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> | <u>FY 2010</u> | <u>FY 2010*</u> |
| +6.5%          | +2.7%          | +2.1%          | +4.7%          | +4.0%           |

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

|                |                |                |                |                 |
|----------------|----------------|----------------|----------------|-----------------|
| <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> | <u>FY 2010</u> | <u>FY 2010*</u> |
| 3.70           | 4.10           | 3.80           | 3.70           | 3.70            |

**Youngstown State University**  
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**VI. Financial Outlook and Bond Rating**

According to its FY 2010 audited financial report, Youngstown State University's financial position remains strong, having reported total assets of \$304,216,347 and liabilities of \$100,859,380. Net assets, which represent the value of the University's assets after liabilities are deducted, increased by \$10,385,211 in FY 2010 to \$203,356,967 or 66.8% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. In March of 2010, Moody's Investors Services assigned Youngstown State University's long term debt an A2 rating. In February of 2010, Standard & Poor's assigned the University's long-term debt a rating of A+.

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.

| <b>Long-Term Bonds</b> |      |      |                  |   |
|------------------------|------|------|------------------|---|
| <b>Moody's</b>         |      |      | <b>S &amp; P</b> | <b>Description</b>                                  |
| 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 2006 and FY 2010, statewide plant debt increased 28.8% or approximately \$1.05 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 \$203.7 million or 4.5% in FY 2010, Youngstown State University's plant debt increased by \$23.1 million or 59.2%. The substantial increase in the institution's local debt is the result of a March 2010 debt issuance of \$25.3 million in support of capital improvements on its main campus.

**FY 2006-2010 Long-Term Plant Debt**

| Institution               | Long-Term Plant Debt   |                        |                        |                        |                        |
|---------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|                           | FY 2006                | FY 2007                | FY 2008                | FY 2009                | FY 2010                |
| <b>UNIVERSITIES</b>       |                        |                        |                        |                        |                        |
| BOWLING GREEN             | \$99,250,000           | \$89,345,000           | \$80,290,000           | \$78,255,000           | \$141,265,000          |
| CENTRAL STATE             | \$2,177,250            | \$2,003,952            | \$1,862,693            | \$1,743,287            | \$1,617,887            |
| CLEVELAND STATE           | \$113,522,226          | \$161,098,196          | \$163,591,508          | \$207,067,009          | \$217,893,028          |
| KENT STATE                | \$276,441,000          | \$273,153,000          | \$277,532,000          | \$276,019,000          | \$296,569,000          |
| MUO (b)                   | \$53,827,000           | See UT                 | See UT                 | See UT                 | See UT                 |
| MIAMI UNIV.               | \$159,727,329          | \$235,357,582          | \$228,484,393          | \$224,325,090          | \$213,566,272          |
| NEOUCOM                   | \$878,345              | \$700,300              | \$2,291,713            | \$1,992,413            | \$1,676,808            |
| OHIO STATE                | \$1,106,227,000        | \$1,118,091,000        | \$1,076,097,000        | \$1,360,245,000        | \$1,354,259,000        |
| OHIO UNIVERSITY           | \$192,862,349          | \$182,914,606          | \$167,403,027          | \$192,718,265          | \$177,027,086          |
| SHAWNEE STATE             | \$1,925,000            | \$19,550,000           | \$17,765,000           | \$17,515,000           | \$17,015,000           |
| UNIV. AKRON               | \$255,328,236          | \$247,378,185          | \$421,931,710          | \$418,195,077          | \$424,907,317          |
| UNIV. CINCINNATI          | \$966,516,000          | \$1,074,333,000        | \$1,091,020,000        | \$1,090,644,000        | \$1,153,641,000        |
| UNIV. TOLEDO              | \$171,134,000          | \$269,554,000          | \$265,409,000          | \$252,924,000          | \$295,561,000          |
| WRIGHT STATE              | \$42,513,677           | \$38,738,096           | \$35,624,887           | \$31,564,022           | \$37,870,633           |
| YOUNGSTOWN STATE          | \$22,162,550           | \$20,397,972           | \$18,603,592           | \$38,990,037           | \$62,083,924           |
| <b>COMMUNITY COLLEGES</b> |                        |                        |                        |                        |                        |
| BELMONT TECH              | \$0                    | \$0                    | \$0                    | \$0                    | \$0                    |
| CINCINNATI STATE          | \$47,923,408           | \$47,701,975           | \$47,455,542           | \$46,774,109           | \$46,150,000           |
| CLARK STATE               | \$8,195,000            | \$8,175,000            | \$8,175,000            | \$7,900,000            | \$7,615,000            |
| COLUMBUS STATE            | \$21,250,000           | \$19,830,000           | \$18,255,000           | \$16,620,000           | \$14,910,000           |
| COTC                      | \$2,112,219            | \$3,875,762            | \$3,470,979            | \$2,394,382            | \$2,078,251            |
| CUYAHOGA                  | \$62,974,601           | \$57,393,209           | \$79,449,916           | \$178,119,296          | \$179,599,118          |
| EDISON STATE              | \$5,109,018            | \$4,975,254            | \$4,704,730            | \$4,422,095            | \$4,126,979            |
| HOCKING                   | \$5,025,450            | \$5,235,058            | \$6,384,650            | \$6,089,638            | \$5,498,634            |
| JAMES RHODES              | \$3,018,241            | \$2,968,669            | \$2,914,098            | \$2,859,527            | \$2,799,956            |
| JEFFERSON                 | \$1,838,573            | \$1,623,724            | \$1,422,593            | \$1,211,968            | \$957,506              |
| LAKELAND                  | \$4,767,321            | \$4,044,695            | \$3,308,426            | \$11,096,151           | \$9,590,647            |
| LORAIN                    | \$7,472,149            | \$7,010,546            | \$6,529,973            | \$6,035,000            | \$5,740,000            |
| MARION TECH               | \$0                    | \$0                    | \$0                    | \$0                    | \$0                    |
| NORTH CENTRAL             | \$182,119              | \$727,540              | \$97,879               | \$51,308               | \$1,504                |
| NORTHWEST STATE           | \$35,594               | \$25,249               | \$59,860               | \$40,300               | \$40,230               |
| OWENS STATE               | \$579,288              | \$401,212              | \$536,241              | \$276,495              | \$6,417,348            |
| RIO GRANDE                | \$0                    | \$0                    | \$2,411,421            | \$2,256,498            | \$2,114,858            |
| SINCLAIR                  | \$0                    | \$0                    | \$0                    | \$0                    | \$0                    |
| SOUTHERN STATE            | \$2,839,083            | \$2,710,583            | \$5,577,394            | \$5,371,694            | \$5,080,903            |
| STARK STATE               | \$6,137                | \$0                    | \$0                    | \$0                    | \$0                    |
| TERRA STATE               | \$464,012              | \$264,285              | \$66,409               | \$0                    | \$0                    |
| WASHINGTON STATE          | \$0                    | \$0                    | \$0                    | \$0                    | \$0                    |
| ZANE STATE (MATC)         | \$223,983              | \$156,401              | \$309,075              | \$654,117              | \$460,366              |
| <b>STATEWIDE TOTAL</b>    | <b>\$3,638,508,158</b> | <b>\$3,899,734,051</b> | <b>\$4,039,035,709</b> | <b>\$4,484,369,778</b> | <b>\$4,688,134,255</b> |