University of Cincinnati
October 2009 Fee Pledge Request - $10,600,000

I. Project Overview

The University of Cincinnati proposes to issue general receipts obligation bonds to finance two renovation projects on campus that will address deferred maintenance issues and increase classroom space needed to support program growth and provide for needed swing space on the University's main campus.

The University intends for this debt to be financed through a permanent debt issuance that will be retired in 15-20 years.

Submission: October, 2009

II. Project Financing and Costs

The University of Cincinnati requests the authority to pledge student fees in support of the issuance of general receipts obligation bonds in an aggregate amount not to exceed $10,600,000. Estimated project costs funded through the proposed debt issuance are presented below:

Project	Estimated Project Costs	Net Capitalized Interest	Provision for Bond Discount and Issue Costs	Margin of Safety	Total Bond Authorization Requested
Procter Hall Façade Project	$4,000,000	$325,400	$89,600	$285,000	$4,700,000
Sander Classroom Project	$5,100,000	$375,800	$84,200	$340,000	$5,900,000
Total Debt Issuance	*$9,100,000*	*$701,200*	*$173,800*	*$625,000*	*$10,600,000*

The University estimates that the maximum annual debt service obligation for the proposed debt issuance will be $900,000 per year, based on an annual interest rate no greater than 5.25% over 20 years. The University expects to support the debt service costs with undesignated funds.

III. Fee Impact

This proposed debt issuance will have no direct impact on student tuition and fees. While the University of Cincinnati may use unrestricted student fee revenues to service the debt service for these capital projects, student fees are not expected to increase as a direct result of this action.

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IV. Project Description

The University of Cincinnati intends to use the funds from this bond issuance to finance the following two capital projects on its main campus:

<u>Procter Hall Façade Project, $4,700,000</u>

The primary purpose of this project is to replace and repair the deteriorating façade of Procter Hall. The renovation to Proctor Hall has been designed to eliminate ongoing safety and maintenance issues associated with an asbestos based façade, dating back to its initial construction. This renovation project will replace and repair the façade to Procter Hall, as appropriate, and will improve the energy efficiency of the building.

The Procter Hall Façade project was approved within the FY 2008-2009 Capital Budget at the June 24, 2008 Board of Trustees meeting. The design for this project is currently underway and the construction is expected to be complete in December 2010.

The University of Cincinnati estimates that $4,700,000 in total debt authority is sufficient to fund the $4,000,000 in project costs, estimated debt issuance costs and capitalized interest. Moreover, UC estimates the average annual debt service for this project to be $362,000 beginning in FY 2012; which will be repaid over 20 years with undesignated funds.

<u>Sander Classroom Renovation Project, $5,900,000</u>

The primary purpose of this project is to renovate the aging mechanical system and a portion of the first and second floors within the Sander Dining building. The renovated space will: (1) accommodate the growth in the English as a Second Language (ESL) program for incoming international students; and (2) relocate classrooms and offices for the College of Arts & Sciences and the College of Education.

The Sander Classroom Renovations project was approved at the University's June 23, 2009 Board of Trustees meeting. The design for this project is currently underway and the construction is expected to be complete during fall of calendar year 2010.

The University of Cincinnati estimates that $5,900,000 in total debt authority is sufficient to fund the $5,100,000 in project costs, estimated debt issuance costs and capitalized interest. Moreover, UC estimates the average annual debt service for this project to be $538,000 beginning in FY 2012; which will be repaid over 15 years with undesignated funds.

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 the University of Cincinnati performed when these measures are applied to its FY 2005, FY 2006, FY 2007 and FY 2008 audited financial statements—the most up-to-date financial data available.

*NOTE: The FY 2008 data shown in *italics* reflect the ratios and composite score when approximately $69,600,000 in new debt is added to the calculations. This amount equals the estimated FY 2009 debt issuances of approximately $59,000,000 and $10,600,000 in net new debt requested here. Also, $3,411,000 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. The University of Cincinnati's viability ratios for FY 2005, FY 2006, FY 2007 and FY 2008 are as follows:

FY 2005	FY 2006	FY 2007	FY 2008	*FY 2008**
32.2%	24.0%	21.1%	24.5%	*23.0%*

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. The University of Cincinnati's primary reserve ratios for FY 2005, FY 2006, FY 2007 and FY 2008 are as follows:

FY 2005	FY 2006	FY 2007	FY 2008	*FY 2008**
32.2%	24.3%	23.1%	27.4%	*27.3%*

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. The University of Cincinnati's net income ratios for FY 2005, FY 2006, FY 2007 and FY 2008 are as follows:

FY 2005	FY 2006	FY 2007	FY 2008	*FY 2008**
+6.4%	+4.4%	+9.7%	-4.9%	*-5.2%*

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. The University of Cincinnati's composite scores have been above the minimum threshold:

FY 2005	FY 2006	FY 2007	FY 2008	*FY 2008**
3.60	2.60	2.80	2.50	*2.30*

The University of Cincinnati anticipates that the institution's FY 2009 Senate Bill 6 composite score will be 2.3. The additional debt relating to this fee pledge request would not alter the institution's FY 2009 pro-forma score of 2.3.

VI. Financial Outlook and Bond Rating

According to its FY 2008 audited financial report, the University of Cincinnati's financial position remains strong, having reported total assets of $3,270,008,000 and liabilities of $1,344,493,000. Net assets, which represent the value of the University's assets after liabilities are deducted, decreased by $45,225,000 in FY 2008 to $1,925,515,000 or 58.8% of total assets.

The University's existing debt has received relatively high marks from independent bond-rating agencies. On October 1, 2009, Moody's Investors Services reaffirmed the University of Cincinnati's long term debt rating of *A2* with a stable outlook. In addition, S&P affirmed their rating of *A+* 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.

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 2004 and FY 2008, statewide plant debt increased 34.0% or approximately $1.0 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 $139,026,658 or 3.6% in FY 2008, the University of Cincinnati's plant debt increased by $ 16,687,000 or 1.6 %.

LONG-TERM PLANT DEBT, FY 2004 - FY 2008

Institution	Long-Term Plant Debt				
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
UNIVERSITIES					
BOWLING GREEN	$84,410,000	$109,000,000	$99,250,000	$89,345,000	$80,290,000
CENTRAL STATE	$2,535,821	$2,340,402	$2,177,250	$2,003,952	$1,862,693
CLEVELAND STATE	$53,754,446	$115,923,075	$113,522,226	$161,098,196	$163,591,508
KENT STATE	$282,832,000	$279,692,000	$276,441,000	$273,153,000	$277,532,000
MUO (b)	$8,730,000	$56,299,000	$53,827,000	*See UT*	*See UT*
MIAMI UNIV.	$92,833,435	$168,613,252	$159,727,329	$235,357,582	$228,484,393
NEOUCOM	$1,237,841	$1,046,607	$878,345	$700,300	$2,291,713
OHIO STATE	$814,606,000	$877,540,000	$1,106,227,000	$1,118,091,000	$1,076,097,000
OHIO UNIVERSITY	$175,592,164	$167,529,147	$192,862,349	$182,914,606	$167,403,027
SHAWNEE STATE	$2,600,000	$2,270,000	$1,925,000	$19,550,000	$17,765,000
UNIV. AKRON	$226,729,516	$258,484,797	$255,328,236	$247,378,185	$421,931,710
UNIV. CINCINNATI	**$893,004,000**	**$877,453,000**	**$966,516,000**	**$1,074,333,000**	**$1,091,020,000**
UNIV. TOLEDO	$167,367,000	$176,779,000	$171,134,000	$269,554,000	$265,409,000
WRIGHT STATE	$29,584,121	$46,189,820	$42,513,677	$38,738,096	$35,624,887
YOUNGSTOWN ST.	$13,492,373	$13,268,653	$22,162,550	$20,397,972	$18,603,592
COMMUNITY COLLEGES					
BELMONT TECH	$66,728	$33,107	$0	$0	$0
CINCINNATI ST.	$47,580,000	$47,530,000	$47,923,408	$47,701,975	$47,455,542
CLARK STATE	$72,800	$46,400	$8,195,000	$8,175,000	$7,900,000
COLUMBUS ST.	$24,105,000	$22,700,000	$21,250,000	$19,830,000	$18,255,000
COTC	$401,059	$100,986	$2,112,219	$3,875,762	$3,470,979
CUYAHOGA	$65,222,373	$64,840,147	$62,974,601	$57,393,209	$79,449,916
EDISON STATE	$604,972	$532,347	$5,109,018	$4,975,254	$4,704,730
HOCKING	$516,117	$1,039,729	$5,025,450	$5,235,058	$6,384,650
JAMES RHODES ST	$3,087,383	$3,067,812	$3,018,241	$2,968,669	$2,914,098
JEFFERSON	$2,170,485	$2,023,978	$1,838,573	$1,623,724	$1,422,593
LAKELAND	$5,674,098	$5,535,996	$4,767,321	$4,044,695	$3,308,426
LORAIN	$9,560,074	$7,925,194	$7,472,149	$7,010,546	$6,529,973
MARION TECH	$0	$0	$0	$0	$0
NORTH CENTRAL	$300,562	$220,160	$182,119	$727,540	$97,879
NORTHWEST ST.	$73,705	$82,001	$35,594	$25,249	$59,860
OWENS STATE	$0	$749,152	$579,288	$401,212	$536,241
RIO GRANDE	$0	$0	$0	$0	$2,411,421
SINCLAIR	$0	$0	$0	$0	$0
SOUTHERN ST.	$3,245,886	$3,022,204	$2,839,083	$2,710,583	$5,577,394
STARK STATE	$620,080	$16,738	$6,137	$0	$0
TERRA STATE	$839,738	$655,721	$464,012	$264,285	$66,409
WASHINGTON ST.	$0	$0	$0	$0	$0
ZANE STATE (MATC)	$341,385	$285,586	$223,983	$156,401	$309,075
STATEWIDE TOTAL	**$3,013,791,162**	**$3,312,836,011**	**$3,638,508,158**	**$3,899,734,051**	**$4,038,760,709**