THE BOND BUYER

University in Ohio readies unrated bonds

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Published

November 09, 2018, 3:45pm EDT

Columbus based Ohio Dominican University is readying a $49 million issue of unrated bonds to fund projects as it works to turnaround enrollment.

The unrated bonds will be issued through Columbus–Franklin County Finance Authority.

Proceeds will retire debt that was privately placed in 2014 and to fund critical maintenance needs at the school which include new roofs on some of its buildings, an upgrade to the wireless network and repaving of campus roads and parking lots.

Morgan Stanley is the senior manager. Ziegler is the co-manager. The bonds are secured by a general pledge of the university's revenue. Bricker and Eckler LLP is bond counsel.

An enrollment plan implemented in 2016 has shown signs of success, university President Robert Gervasi, who joined the school in 2017, said in an investor presentation. "The university has the largest class of incoming freshman in five years and retention and graduation rates are also up," Gervasi said.

The turnaround is good news for the school which has struggled to balance its budget. Roughly 65% of the schools revenue comes from tuition and fees.

Like many small private liberal arts institutions in the Midwest, Ohio Dominican has experienced declining enrollment and associated decreases in revenues. The drop stems in part from the declining number of high school graduates. In the last decade the school's traditional degree-seeking undergraduate enrollment decreased steadily to 891 in fall 2017 from 1,582 in fall 2007, according to bond documents.

In line with the drop in enrollment, revenues have fallen 20% to $30 million in 2018 from $36.4 million in 2014.

Al Rodack, vice president for finance and administration, said that in the last two years the operating challenges tied to revenue decline prompted the school to draw from its endowment. In 2017 it drew $2 million and in 2018 in drew $3.4 million.

“The university had not substantially drawn from the endowment until 2017 to cover losses,” said Rodack in the investor presentation.

The school’s five-year plan calls for obtaining financial equilibrium by fiscal 2022. “The growth on revenue side will come from increase in tuition revenue and other operation revenue and we hope to increase revenues by $6.7 million,” Rodack said.

As of June 30, 2018 the school had unrestricted net assets of $9.1 million. This amount has decreased $9.5 million over the last five years, according to the bond document.

The school took on debt in 2007 through private placement bond issue to finance its student center building. The bonds were refinanced in 2014. In 2016 the school breached a debt service coverage covenant and subsequently received a waiver of the covenant from bondholders. It reached a bond modification that instituted a new covenant with which the school is in full compliance.

The school has roughly $41 million in outstanding debt. For fiscal 2018 annual debt service was 9.5% of the university’s total operating expenses.