MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Ohio State University's (OH) Aa1; outlook stable

11 Oct 2019

New York, October 11, 2019 -- Moody's Investors Service has affirmed Ohio State University's (OH) Aa1, Aa2 and Aa1/VMIG 1 on $3.1 billion of total rated debt. The outlook is stable.

RATINGS RATIONALE

The affirmation of the Aa1 rating on The Ohio State University's (OSU) General Receipts Bonds incorporates its significant scale and profile as the State of Ohio's flagship, land grant university, and member of the Big Ten Conference, with ample cash and investments and strong operating performance. For fiscal 2018 ending June 30, OSU reported $8.5 billon of total cash and investments, with $7.0 billion or over 80% spendable. Operating cash flow is strong with a 15.6% operating cash flow margin in fiscal 2018. The health care enterprise, which contributes over 50% of revenue, continues to perform well. However, OSU's sizeable health care presence does expose it to differing risks associated with that business line, including potential revenue volatility, competition and regulatory pressures. The university's leverage is moderately high, with an estimated $2.4 billion in capital spending from 2020-2024 and an outsized unfunded pension liability that materially increases adjusted debt. Further, the university confronts a potential liability related to settlements of a significant number of abuse claims related to a sports physician active at OSU from 1978-1998. Currently OSU is participating in mediation to settle the claims; however, the ultimate costs and settlements are uncertain.

The Aa2 rating on the Special Purpose Revenue Bonds is one rating notch below the Aa1 rating on the General Receipts Bonds due to the narrower pledge of certain auxiliary revenues for the Special Purpose General Receipts Bonds.

The VMIG 1 on the Variable Rate Demand General Receipts Bonds reflects good liquidity supporting the bonds' tender features through the university's self liquidity program, with strong treasury and debt management. For June 30, 2019 OSU reported $2.7 billion of same-day liquidity that comprised of bank deposit accounts, Aaa-mf rated money market funds, and US treasuries and agencies. Liquidity provided a strong 4.8x and 3.5x coverage of its VRDBs with and without its largest MMF holding respectively.

RATING OUTLOOK

The stable outlook reflects our expectation of favorable operating performance from strong student demand and positive health care operations, with careful expense oversight. We also expect steady growth in balance sheet reserves but slower than seen in recent years.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Materially improved financial leverage with moderation of the pension liability

- Significant growth in cash and investments, with manageable liquidity impact from legal settlements

- Consistently strong operating performance greater than Aa1 peers

- For the VMIG 1 rating, not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Further material increase in leverage given already elevated total adjusted debt levels

- Sustained weaker operations and thinner debt service coverage

- Material use of financial reserves and sustained reduction of unrestricted liquidity

- For the VMIG 1 rating, consistently weaker coverage of tender requirements from self liquidity

LEGAL SECURITY

The General Revenue Bonds, the majority of the university's outstanding debt, are payable from and secured by a first pledge of and lien on the general receipts of the university and the debt service fund. General receipts consist of all moneys received by the university for student charges, all unrestricted grants, gifts, donations and pledges, as well as bond proceeds. Specifically excluded from general receipts are state appropriations unless authorized by law; and any restricted grants, gifts, donations and pledges, and receipts.

The Special Purpose Revenue Bonds are secured by Special Purpose Pledged Revenues (SPPRs), consisting of all revenues, fees, rentals, rates, charges, insurance proceeds and other moneys derived by OSU from the ownership or operation of all Housing and Dining Facilities and Auxiliary Facilities used as recreation facilities owned by the university. The pledge of Special Purpose Pledged Revenues is subordinate to the pledge and lien of present and future General Receipts Bonds and any other obligations issued under the indenture and designated by the university as being secured by a lien on General Receipts. For fiscal 2018 the pledged Special Purpose Pledged Revenues totaled $137.3 million compared to approximately $25.9 million proforma maximum annual debt service. The SPPRs will have a rate covenant for student housing, dining and recreational sports systems of 1.1x. There is no debt service reserve fund.

PROFILE

The Ohio State University has a national market position as Ohio's flagship and land grant university, one of the nation's largest research universities and a Big Ten conference member. With over $6.7 billion in fiscal 2018 revenues, the university owns and operates the Ohio State University Wexner Medical Center, comprised of six hospitals and Ohio States primary-care and ambulatory health networks. The hospitals include University Hospital, its academic medical center offering tertiary and quaternary services and its Comprehensive Cancer Center with Arthur G. James Cancer Hospital. For fall 2018 OSU reported over 68,000 headcount students in fall 2018 at its main Columbus campus and its four extended campuses.

METHODOLOGY

The principal methodology used in the long-term ratings was Higher Education published in May 2019. The principal methodology used in the short-term ratings was Municipal Bonds and Commercial Paper Supported by a Borrower's Self-Liquidity Methodology published in October 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Diane Viacava
Lead Analyst
Higher Education
Moody's Investors Service, Inc.

7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Susan Fitzgerald
Additional Contact
Higher Education
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653