



THE OHIO STATE UNIVERSITY

University Financial Overview

Interim SVP and CFO Michael Papadakis

Finance Committee | Aug. 30, 2018



Financial highlights – Fiscal 2018

Projected year-end overview

- \$7.0 billion in revenue and \$6.2 billion in expenses

Our budget demonstrates our diversity of operations

- **Education:** Funded by tuition and state support (SSI)
- **Research:** Supported through grants (federal, state and private)
- **Patient care:** More than half of the budget; self-funded by services
- **Auxiliaries (Athletics, Student Life, etc.):** Self-funded through services

Stability ensures access to financial markets

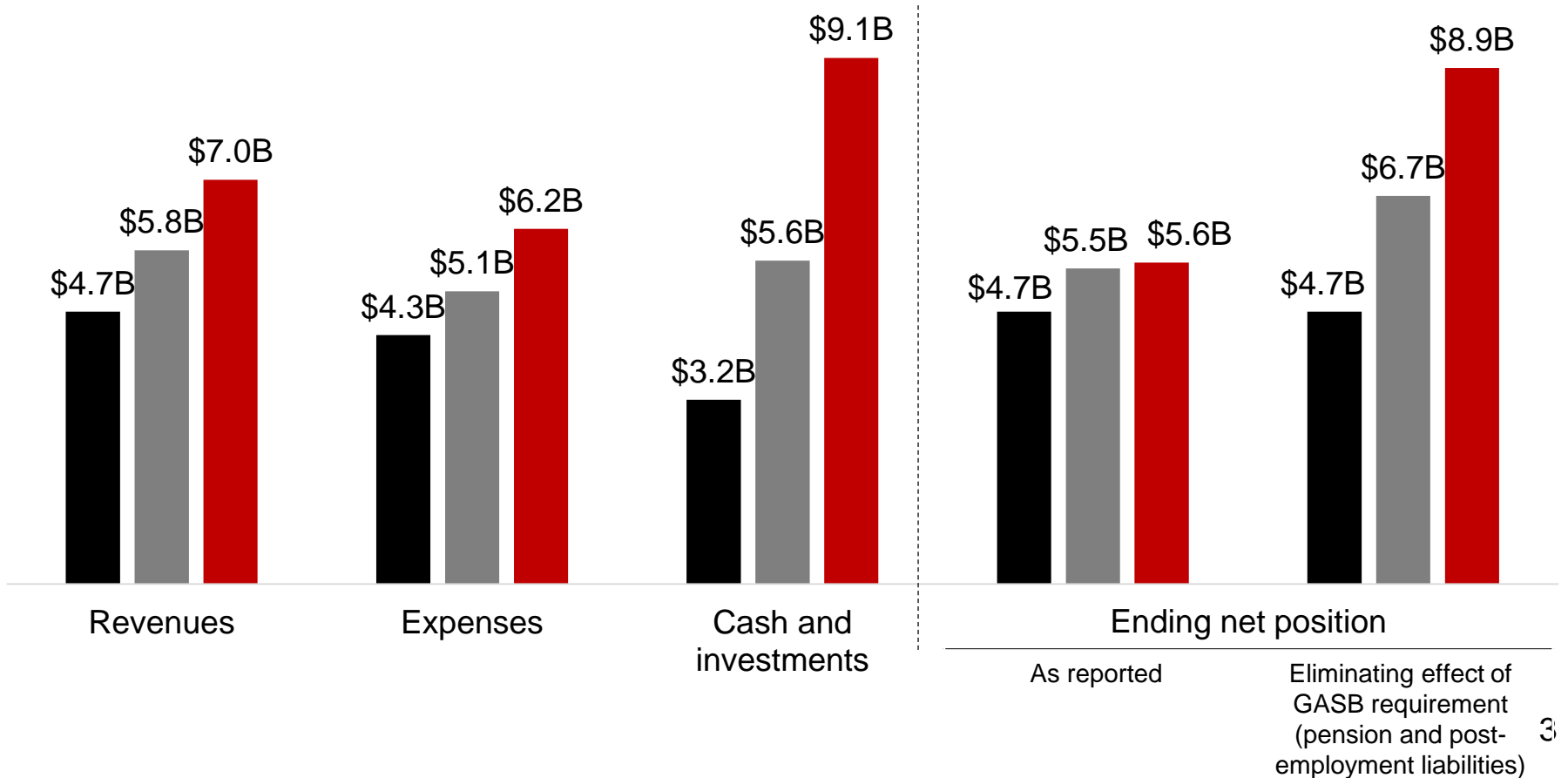
- **Credit ratings:** AA/AA/AA1 stable



Trend lines demonstrate positive momentum

Comparison of financial metrics since FY10

■ FY10 ■ FY14 ■ FY18





Overview: Balance sheet

Ending net position (\$5.6 billion) flat after pension/post-employment benefits

DETAILS

- **Total cash and investments:** 22.5% increase, to \$9.1 billion
 - Strong performance of short, intermediate and long-term investments
 - Addition of \$800 million in endowments funded by energy project
- **Debt:** Retired \$61 million in principal, bringing total outstanding to \$3.3 billion
 - Annual debt service to operating expense (2.78%) within policy (5%)
 - Leverage metrics in AAA/AA range, e.g. total debt to cash flow = 3.30x
- **Other liabilities:** 35% increase, to \$7.3 billion
 - Net pension liabilities are driving this trend



Balance sheet

Net position increases \$1.1 billion prior to OPEB change

Assets and Liabilities	FY17	FY18
Total Cash and Investments	\$7.4B	\$9.1B
Capital Assets, net	\$5.0B	\$5.1B
Other Assets	\$2.1B	\$1.7B
Total assets	\$14.5B	\$15.9B
Debt	\$3.3B	\$3.3B
Other liabilities	\$5.4B	\$7.3B
Total liabilities	\$8.7B	\$10.6B

Drivers: Energy partnership, WMC growth and market adjustments for pension plan assets

Net position	FY17	FY18
Change in net position prior to OPEB	\$590M	\$1.1B
Beginning Net Position	\$5.1B	\$5.7B
Cumulative Effect of Accounting Change (OPEB)		(\$1.2B)
Change in net position after OPEB	\$590M	(\$151M)
Final Ending Net Position	\$5.7B	\$5.6B

\$1.1B increase in net position prior to cumulative OPEB adjustment

OPEB causes \$151M decrease in net position

OPEB = Other post-employment benefits.
Preliminary, unaudited data



Overview: Budget priorities for FY18

ACCESS AND AFFORDABILITY:

- **Tuition Guarantee:** Locks tuition, mandatory fees, housing, dining for Ohioans
- **Financial aid:** More than \$100 million in need-based aid added since FY15
- **25% summer tuition discount:** \$9.2 million in savings compared with full rate

ACADEMIC EXCELLENCE:

- **Discovery Themes:** 137 faculty hires, 52 searches under way
- **University Institute for Teaching and Learning:** \$10 million endowment
- **Digital Flagship:** Training and engagement in advance of FY19 iPad rollout

PATIENT CARE

- **Inpatient capacity expansion** (61 beds in FY18; 72 planned in FY19)
- **Planning for growth:** New hospital tower and ambulatory facilities



Income statement

Strong year reflected in continued margin growth

Total Revenue	FY17	FY18
University	\$3.0B	\$3.1B
Health System & OSUP	\$3.2B	\$3.5B
Total Revenues (w/o investments)	\$6.2B	\$6.6B
Investment income	\$615M	\$455M
Total Revenues (w/ investments)	\$6.8B	\$7.0B

Total Expenses	FY17	FY18
University	\$3.3B	\$2.8B
Health System & OSUP	\$2.9B	\$3.2B
Total Expenses	\$6.3B	\$5.9B

Margin	FY17	FY18
Change in Net Position	\$590M	\$1.1B

Three factors drive FY18 margin:

- Patient care: \$290M
- Accounting for asset growth-pension plan liability: \$397M
- Investment income: \$455M



Highlights: Innovation and academics

COMPREHENSIVE ENERGY MANAGEMENT

- **New endowments** support strategic initiatives, academic collaboration
 - Buckeye Opportunity Program covers tuition for 4,200 Ohio students
- **Sustainability projects** (lighting, Dreese) to improve energy efficiency
- **Academic collaboration** in sustainability and energy management

OTHER HIGHLIGHTS

- **Startups:** 18 new companies, bringing university startup portfolio to 75
- **Invention disclosures:** 458, continuing strong pace set in FY17
- **Parking:** More than \$128 million distributed; 200+ scholarships last year
- **Other partnerships:** \$4.6 million, plus 160+ internships per year



Highlights: Patient care

As Wexner Medical Center grows, metrics show revenue is outpacing expense

- **Revenue per adjusted admit:** 3.6% increase
- **Expense per adjusted admit:** 2.3% increase

VOLUME METRICS

- **Admissions:** 4.6% increase
- **Surgeries:** 1.8% increase
- **Outpatient visits:** 2.9% increase

Surgery activity reflect high demand across various specialties:

- 3,503 in neurosurgery, a 6.6% increase
- 1,178 in cardiac surgery, a 6.9% increase
- 1,142 in thoracic surgery, a 22.3% increase
- 1,242 in vascular surgery, a 4.4% increase



Highlights: Operational excellence

- Efficiency campaigns focus resources on our core mission
 - **Campus:** \$112.8 million in savings, on track for \$207 million by 2020
 - **Medical Center:** \$142.9 million in savings lift days cash on hand to 135.5

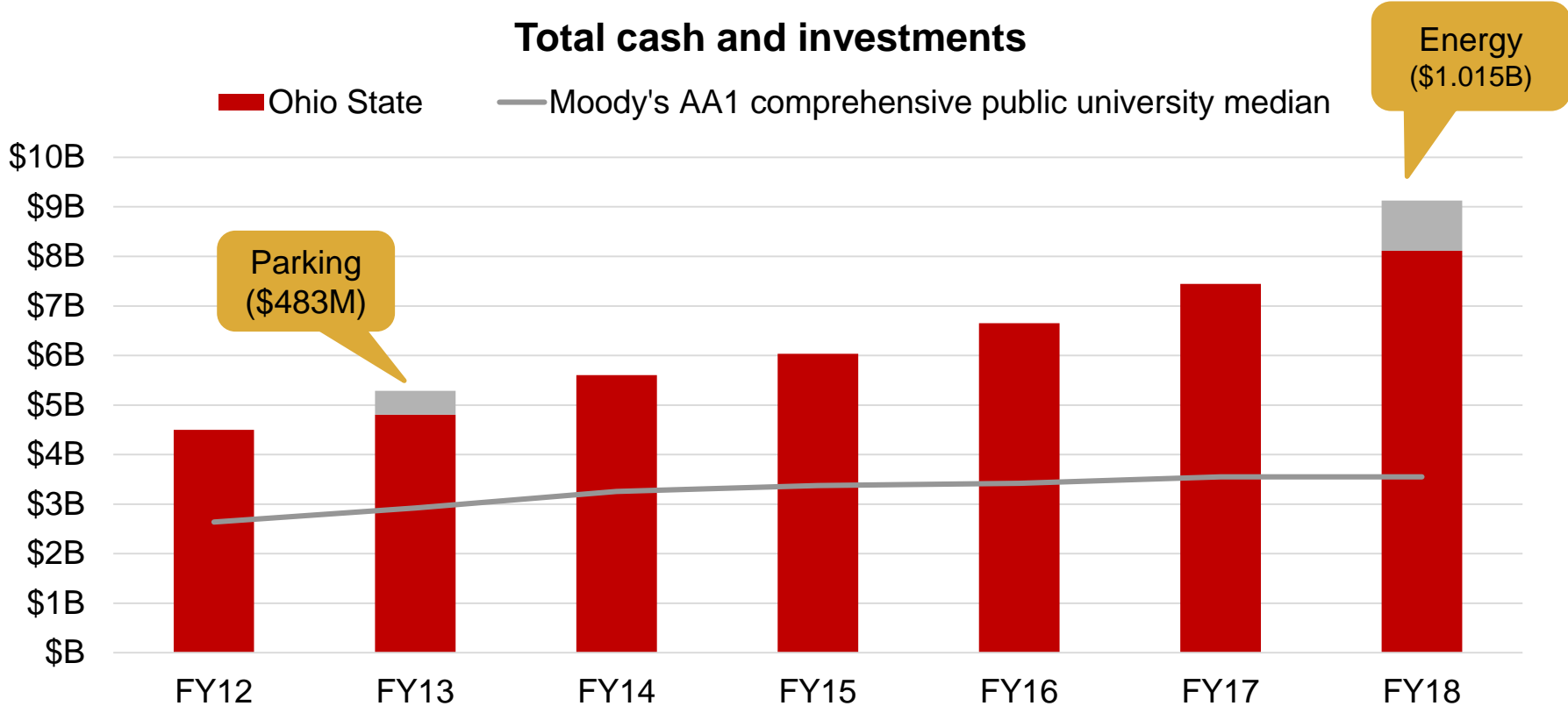
EXAMPLES: INITIATIVES IN ACTION

- **University strategic procurement:** \$324 million saved since FY12
- **OE@OSU:** More than 900 employees trained in Lean Six Sigma process
- **Performance audit:** Launched with state auditor; first university in Ohio



Highlights: Resource stewardship

- Cash and investments have grown past \$9B, double the FY12 total
 - Double the median for Aa1-rated public comprehensive universities





Investments



Results: Investments

- LTIP market value has grown to \$5.2 billion
 - More than \$200 million distributed for access, affordability and excellence
- Solid performance for all investment pools for FY18

	1 Year performance	Benchmark
Short-term cash	1.78%	1.36%
Short Term investments	1.81%	
Intermediate-term investments	0.72%	0.27%
Long-term investments	7.3-7.6% (preliminary*)	7.4%

*Preliminary FY2018 lacks a full quarter's pricing because of lagged illiquid investments reporting. Final FY2018 results with current illiquid pricing will be reported in September 2018.

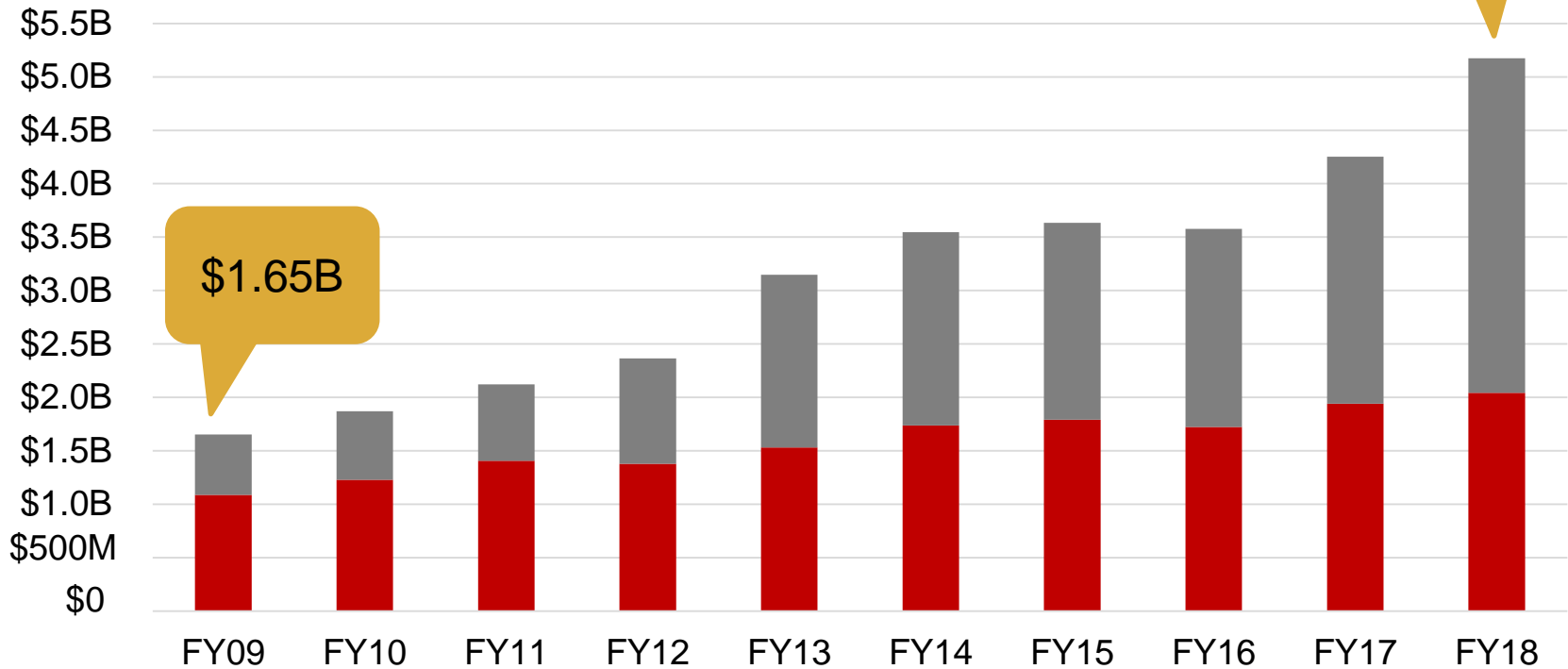


LTIP grows to \$5.2 billion

Energy project funds, investment returns and gifts drive growth

LTIP market value at fiscal year end

■ Gifted endowment ■ University contributions



Inception of Investment Office



LTIP performance overview

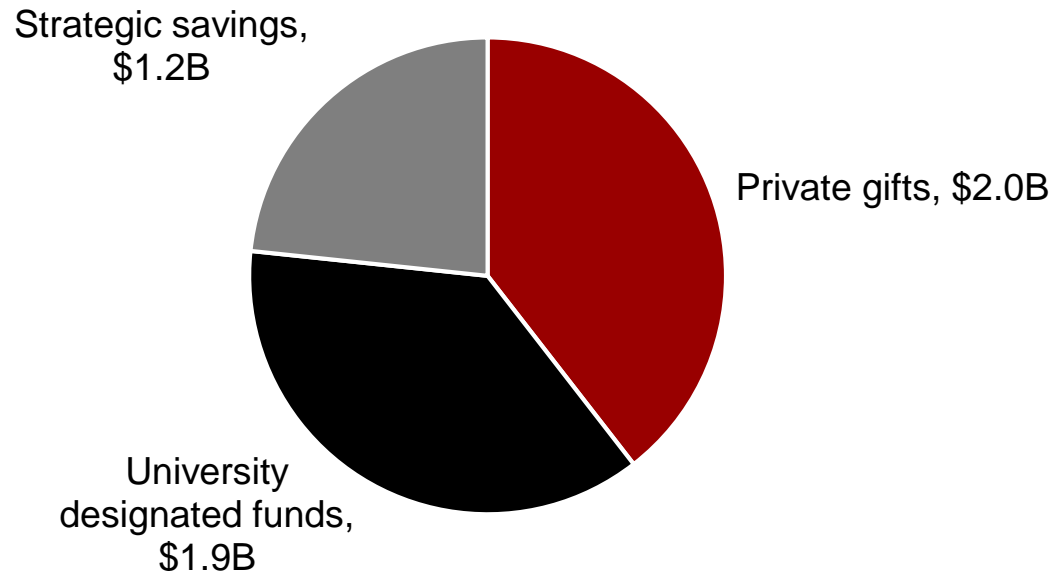
- Final year-end numbers to be available in September
 - LTIP return estimated at +7.3% to +7.6% for FY18
- Market value growth fueled by, Comprehensive Energy Management Project, investment returns and gifts
 - \$820 million from Comprehensive Energy Management Project
 - More than \$400 million in investment returns
 - \$55.5 million in gift receipts
- Asset allocation within policy guidelines
 - 60.5% global equities; 29.9% global fixed income; 9.6% real assets



Overview: Long-Term Investment Pool

- Every dollar we invest in the LTIP supports our academic mission without expanding our reliance on tuition or tax dollars
- The LTIP contains more than 5,900 endowments funded by private gifts, strategic investments by the university, and long-term savings to protect the financial health of the university and Wexner Medical Center.

LTIP market value: \$5.2 billion as of June 30, 2018

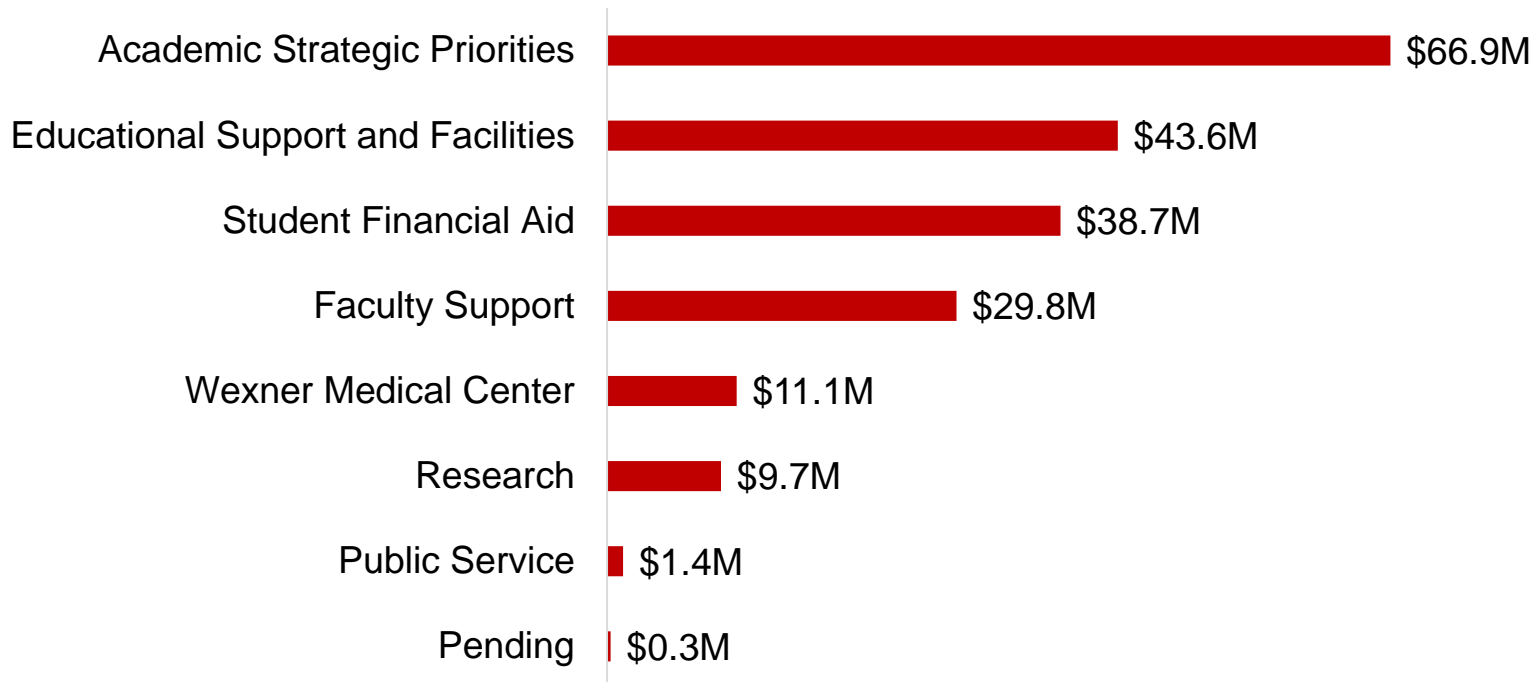




Distributions from the LTIP

- Annual payments are determined based on a seven-year average
 - 4.5% distributed on an annual basis
 - Policy provides steady, reliable funding for campus priorities

FY18 distributions: \$201.5 million





Recap



Recap: Financial state of the university

- Strength and stability provides access to low-cost financing for capital projects
 - AA/AA/Aa1 bond ratings, multi-year debt issuance program, economically advantageous refunding opportunities

- Administrative efficiencies are re-directing funds to our core mission
 - Access, affordability, academic excellence and patient care

- Innovative strategies are providing new funds to fulfill the strategic plan
 - Student financial aid (Buckeye Opportunity Program and others)
 - Educational technology (Digital Flagship)
 - Teaching excellence (University Institute for Teaching and Learning)
 - Accessible patient care (additional beds and planned expansions)