



THE OHIO STATE UNIVERSITY

Annual University Financial Overview

Audit, Compliance & Finance Committee | August 27, 2020



Financial Overview – Fiscal 2020

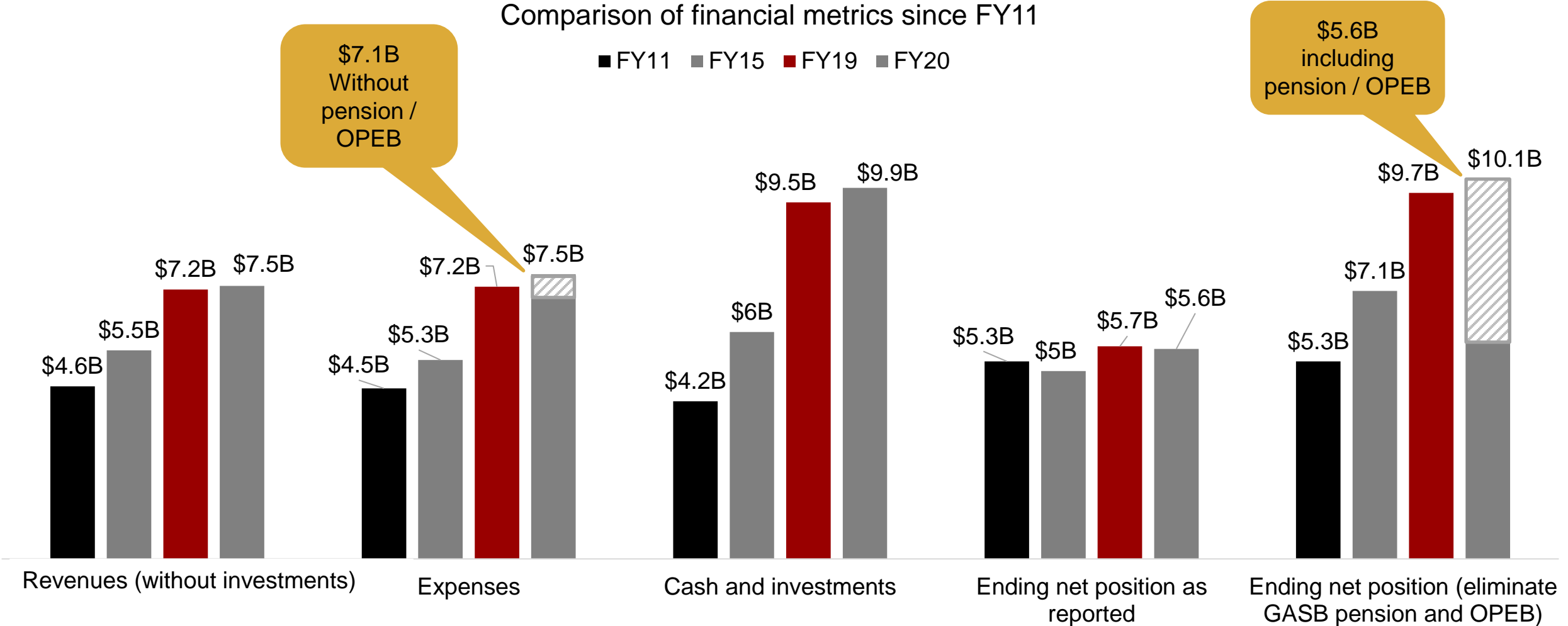
Our overall financial position remains strong. Our size, diversity of operations, and discipline enabled us to retain fiscal strength during this unprecedented disruption.

- FY20 cashflow was outpacing historical trends until March of 2020 when campus shut down due to COVID and Wexner Medical Center operations shifted to address the pandemic health care needs of the community.
- Federal stimulus funds of \$170M helped to offset increased costs and provided \$15M of emergency student financial aid.
- Financial controls implemented, including a hiring pause and business-essential only spend, curtailed 4th quarter cash outflows.
- Dramatic shift to tele-medicine mitigated some revenue loss and provided needed services at the WMC.
- 90% (~18K) of our full-time University employees (21K) shifted to work-from-home essentially overnight.
- Liquidity continues to be strong and is being continually monitored.
- The fiscal year ended with a positive net cashflow of \$248M.
- AA/AA/Aa1 bond rating is evidence of financial strength. (Affirmed in June 2020)

Financial Metrics Demonstrate Positive Momentum

Comparison of financial metrics since FY11

■ FY11 ■ FY15 ■ FY19 ■ FY20





Consolidated Balance Sheet

Assets and Liabilities (\$ in millions)	FY20 Total		FY19 Total	
Total Cash and Investments	\$	9,865	\$	9,476
Capital Assets, net	\$	5,836	\$	5,410
Pension and OPEB assets and deferred outflows	\$	763	\$	1,208
Other Assets	\$	966	\$	1,069
Total Assets	\$	17,430	\$	17,163
Debt	\$	3,267	\$	3,220
Pension and OPEB liabilities and deferred inflows	\$	5,271	\$	5,283
Other liabilities	\$	3,310	\$	3,006
Total Liabilities	\$	11,848	\$	11,509
Net Position (\$ in millions)	FY20 Total		FY19 Total	
Ending net position (eliminate pension and OPEB)	\$	10,089	\$	9,729
Ending net position - pension and OPEB	\$	(4,507)	\$	(4,075)
Final Ending Net Position	\$	5,582	\$	5,654

Increase primarily due to HS Medicare Advance stimulus payment of \$275M and CARES stimulus payment of \$143M.

From the total, significant capital improvement projects include Comprehensive Energy Management Plan Improvements of \$119M, University improvements of \$210M, and WMC capital improvements of \$133M.

Pension assets declined due to the change in OPERS discount rate from 3.96% to 3.16%, which was partially offset by investment returns of +17.23% for pension and +19.59% for OPEB.



Consolidated Income Statement

Total Revenue (\$ in millions)	2020		2019	
University	\$	3,345	\$	3,403
Health System & OSUP	\$	3,882	\$	3,707
Total Revenues (w/o investments)	\$	7,227	\$	7,110
Investment income	\$	240	\$	232
Total Revenues (w/ investments)	\$	7,467	\$	7,342

Total Expenses (\$ in millions)	2020		2019	
University	\$	3,516	\$	3,308
Health System & OSUP	\$	3,594	\$	3,395
Total Expenses (w/o pension and OPEB)	\$	7,110	\$	6,703
Net Margin	\$	357	\$	639
Pension and OPEB expense	\$	429	\$	480
Total Expenses (w/ pension and OPEB)	\$	7,539	\$	7,183
Change in Net Position	\$	(72)	\$	159

Fiscal year 2020 was trending up for the first three quarters. The fourth quarter was negatively impacted by the COVID-19 pandemic, resulting in a decrease in sales and services and auxiliary revenue due to campus closure.

Overall strong growth in revenue year over year through first 3 quarters was impacted by COVID-19. CARES funding of \$155M helped offset 4th quarter COVID impact to overall volumes in admissions, patient days, surgeries, and outpatient visits.

Investment income consists of \$56M LTIP return, net of expenses, and \$184M from short and intermediate term portfolios, self insurance funds and other investment returns.

University expenses increased due to strategic investments in faculty & staff and legal settlements. These increases were offset in the 4th quarter with a focus on business essential spend and a hiring pause in response to the campus shutdown resulting from COVID-19.

Operating expenses increased due to increases in number of staff & physicians (+14%) representing investment in growth of healthcare services and the higher cost of drugs. Pricing increases specifically seen in Chemotherapy and COVID related supplies, drugs and services.

Net change in expense is due to the impact of changes in investment returns and discount rates for OPERS.



Consolidated Cash Flow Statement

Cash Flow From: (\$ in millions)	2020	2019
Operating Activities	\$ 40	\$ 38
Financing Activities	\$ 942	\$ 773
Capital Financing Activities	\$ (804)	\$ (715)
Investing Activities	\$ 70	\$ (8)
Net change in cash	\$ 248	\$ 88
Beginning Cash and Cash Equivalent Balance	\$ 2,201	\$ 2,113
Ending Cash Balance	\$ 2,449	\$ 2,201

Cash flow received from financing activities increased due to the receipt of \$170M in CARES Act assistance.

Main driver was a \$77M increase in capital project investments in FY20.

Investing activities decreased by \$34M due to the purchase, sale and maturities of investments, offset by an increase of \$114M in investment income.



Highlights: Patient Care

As the Wexner Medical Center grows, metrics show expenses per AA outpaced revenue growth due to the impact of decreased volumes from COVID-19.

- **Revenue per adjusted admit:** Flat
 - Revenue shortfall offset by CARES Act funding of \$143.3M
- **Expense per adjusted admit:** 5.0% increase

VOLUME METRICS

- **Admissions:** 3.4% decrease (February YTD 4.5% increase)
- **Patient Days:** 4.6% decrease (February YTD 3.1% increase)
- **Surgeries:** 4.2% decrease (February YTD 8.7% increase)
- **Outpatient visits:** 2.5% increase (February YTD 12.0% increase)
- **Chemotherapy:** 0.9% increase (February YTD 3.7% increase)
- **Radiation Oncology:** 9.4% increase (February YTD 18.5% increase)



Medical Center Income Statement

Revenue (\$ in millions)	2020		2019	
Patient Revenue	\$	9,965	\$	10,077
Total Deductions	\$	6,875	\$	6,961
Net Patient Revenue	\$	3,090	\$	3,116
Other Revenue	\$	125	\$	124
Total Operating Revenue	\$	3,215	\$	3,240
Expenses (\$ in millions)	2020		2019	
Operating Expenses	\$	2,741	\$	2,613
Depreciation	\$	172	\$	164
Interest	\$	32	\$	35
Total Expense		2,945		2,812
Medical Center Investments	\$	(174)	\$	(150)
Income from Investments	\$	22	\$	6
Other Gains (Losses)	\$	163	\$	-
Change in Net Position	\$	281	\$	284

Net patient revenue decreased due to COVID-19, with impacts to the volume in admissions, patient days, surgeries, and outpatient visits.

Operating expense increases were primarily due to higher cost of drugs, specifically an increase at the James for chemotherapy and COVID related supplies, drugs and services.

Increase due to the Health and Human Services CARES stimulus payment of \$143M.



OSU Physicians Income Statement

REVENUE (\$ in millions)	2020	2019
Total revenue	\$ 483	\$ 461
EXPENSES (\$ in millions)	2020	2019
Operating expenses	\$ 576	\$ 527
Depreciation	\$ 3	\$ 4
Medical Center Investments	\$ (103)	\$ (98)
Total expenses	\$ 476	\$ 433
Margin (\$ in millions)	2020	2019
Net Position	\$ 7	\$ 28

OSU Physicians experienced growth year over year, trending ahead of prior year by \$47M through March, then revenues declined in the 4th quarter.

Operating expenses increased primarily due to increases in the number of staff and physicians (+14%) representing investment in growth of healthcare services. Expense mitigation efforts began in April in response to the rapid decline in revenue.

Growth in Medical Center Investments was proportionate to the increase in providers and services.

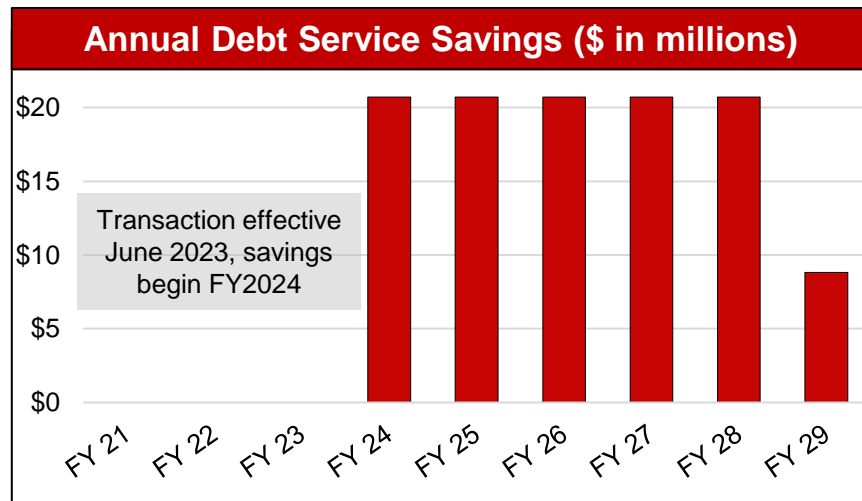
Total expenses were offset by federal government subsidies of \$12M under the CARES Act Provider Relief Fund.

FY20 net position reflects efforts by OSUP to mitigate COVID impact through expense moderation and planned recovery efforts.

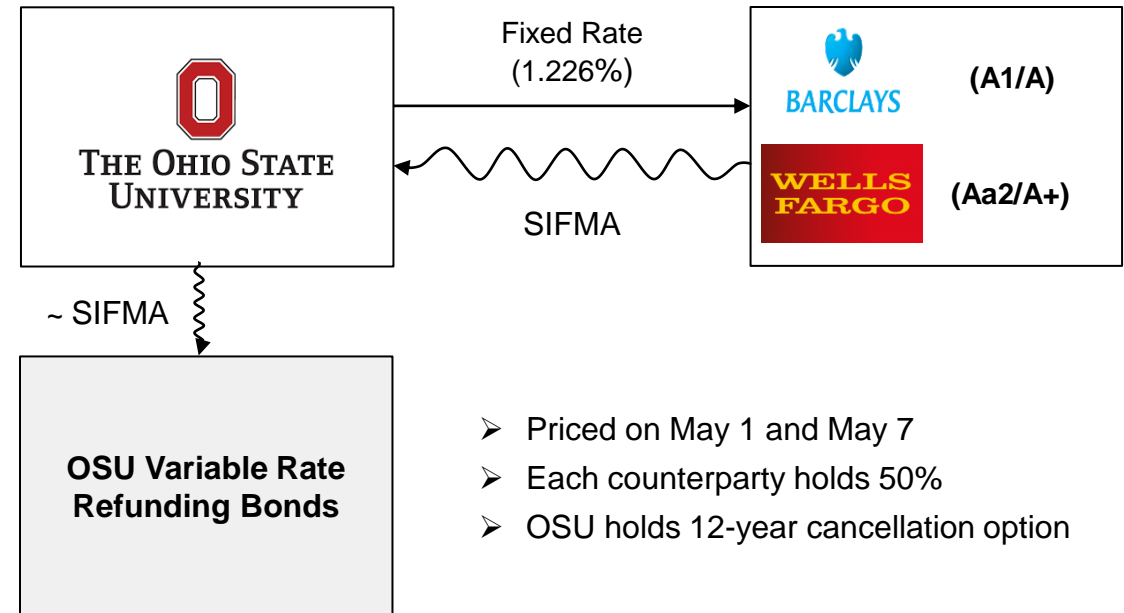
Series 2013A Bond Refunding Summary (Effective June 2023 via Fixed Rate Swaps)

Highlights

- The university was able to take advantage of historically low interest rates by advance refunding its series 2013A Bonds (callable 6/1/23 at par) using a forward starting swap.
- The swap becomes effective June 2023 at which time OSU begins making fixed payments and receiving floating rate payments. The university's cost of capital = the swap's fixed rate of 1.226% as the two variable rate legs offset.
- Savings are achieved by replacing the average coupon of the 2013 Bonds (4.54%) with the swap's fixed rate.
- OSU can exit the trade anytime at the then current market value or at par after the date of the cancellation option.



OSU Swap Mechanics



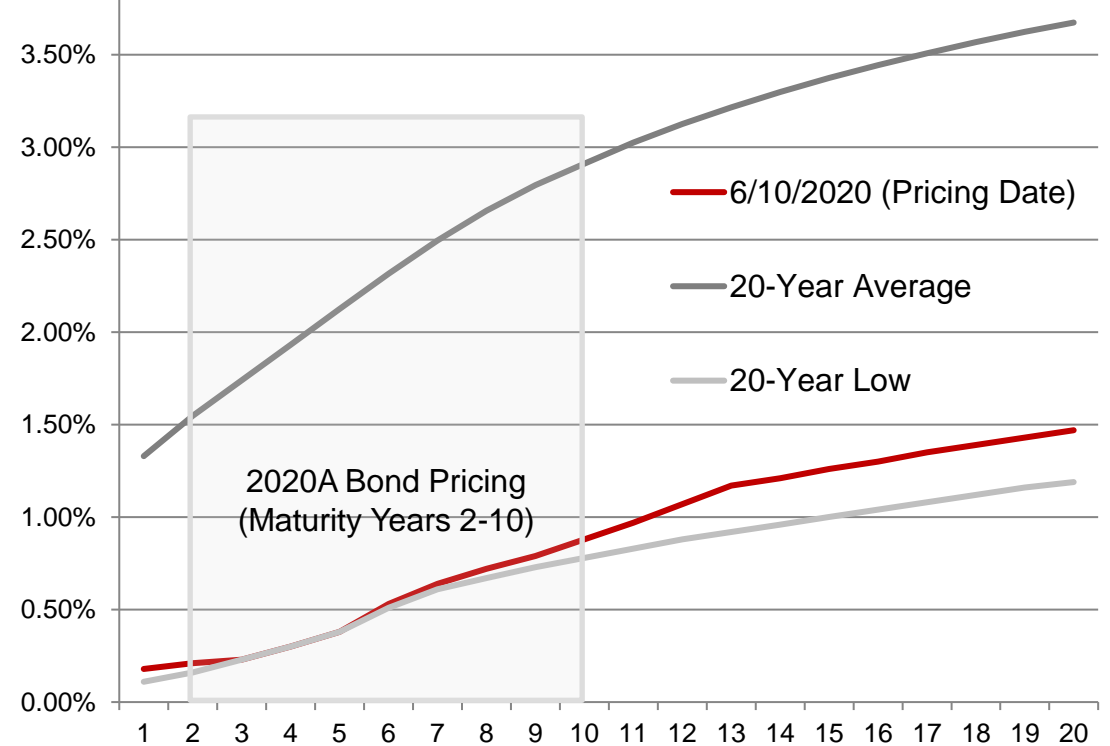
- Priced on May 1 and May 7
- Each counterparty holds 50%
- OSU holds 12-year cancellation option

Summary of Results	Total
Notional Amount	\$328.8M
Fixed Swap Rate	1.226%
Present Value Savings	\$105.1M
PV Savings Percent	32.1%
Gross Savings	\$114.1M

Series 2020A Bond Transaction Summary (Fix-Out of Variable Rate Debt)

- To take advantage of fixed rate bond yields at/near historical lows the university in June issued \$186 million in fixed rate bonds to refund \$227 million of its variable rate bonds.
- Over the last 20 years, the university has paid an average rate of 1.30% on its variable rate bonds. The 2020A Bonds fixed-out variable rate debt from FYs 2022-2030 at 0.85%.
- Priced fixed rate bonds ~1.8% below historical average fixed rates and within 10 basis points of historical lows.
- Reduced from 18% to 11% the percentage that variable rate debt comprises of the university's total outstanding debt.
- Positions the university for the issuance of variable rate refunding bonds in 2023 and for the use of variable rate debt in future financings that may occur in higher interest rate environments.

AAA Tax-Exempt Bond Yield Curve
Historical vs. Current



Series 2020A Refunding Summary Statistics					
Refunding Par	Refunded Par	Interest Cost	Fixed-out Maturities	Est. Gross Savings	Est. PV Savings
\$186M	\$227.2M	0.85%	2022-2030	\$7.6M	\$6.7M

Maturity Year	2-Year	3-Year	4-Year	5-Year	6-Year	7-Year	8-Year	9-Year	10-Year
Pricing Yield	0.21%	0.23%	0.30%	0.38%	0.53%	0.64%	0.72%	0.79%	0.88%
Pricing vs. Average	-134 bps	-151 bps	-163 bps	-174 bps	-179 bps	-185 bps	-194 bps	-200 bps	-203 bps
Pricing vs. Low	+5 bps	+0 bps	+0 bps	+0 bps	+2 bps	+3 bps	+5 bps	+6 bps	+10 bps

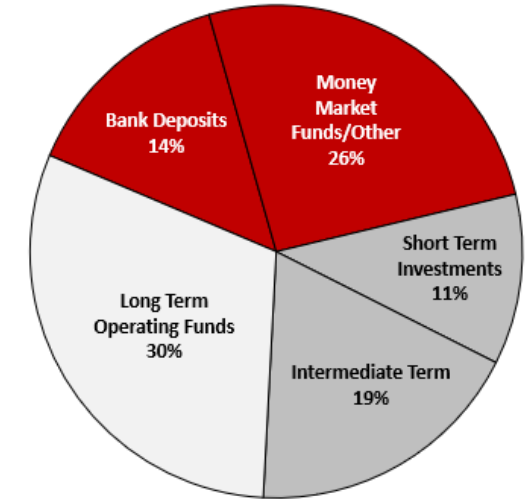


University Operating Funds (as of 6/30/2020)

Overview – University Cash and Investments are structured in two portfolios:

➤ **Operating Fund Portfolio - \$3.8B**

- Tier 1 = \$2.2B Cash & Cash Equivalents
 - Investment Objective – Liquidity and principal preservation.
 - Composition- Collateralized bank deposits, AAA rated MMFs and the State of Ohio local government investment pool.
- Tier 2 = \$1.6B Short and Intermediate Term Investments
 - Investment Objective – Return and principal preservation.
 - Composition – A+/A1 Portfolio of fixed income securities, separately custodied, and externally managed - treasuries, agencies, asset backed securities and high-grade corporate credits.



➤ **Long-Term Operating Fund Portfolio (Endowment) - \$1.65B**

- Tier 3 = \$1.65B of equity investments managed as a part of the endowment strategy.

FY20 Performance

- COVID-19 has had a material impact on fed policy, and interest rates.
- Despite the effects of COVID, Short & Intermediate Term Investment returns exceeded benchmark returns, and the portfolio did not experience any defaults during this period.
- Short & Intermediate Term Investment returns have exceeded benchmark returns each of the last 5 years.
- The university’s operating funds grew by a total of \$332M.
- FY21 interest earnings are projected to decline significantly and are expected to be less than half of FY20 amounts.

Operating Fund Portfolio

Tier 1 - Cash and Cash Equivalents	Market Value	1 yr Avg Yield	3 yr Avg Yield	5 yr Avg Yield
Consolidated Yield	\$2.2B	1.34%	1.55%	1.05%
<i>Composite Benchmark</i>		0.91%	1.10%	0.73%
Excess Yield		0.43%	0.45%	0.32%

Tier 2 - Short & Intermediate Term Investments	Market Value	1 yr Return	3 yr Return	5 yr Return
Consolidated Short Term	\$614M	3.08%	2.50%	2.08%
Consolidated Intermediate Term	\$1.01B	4.44%	3.30%	2.61%
Consolidated Return	\$1.6B	3.92%	3.00%	2.40%
<i>Composite Benchmark</i>		3.22%	2.47%	1.76%
Excess Return		0.70%	0.53%	0.64%

Operating Fund Portfolio Market Value **\$3.8B**



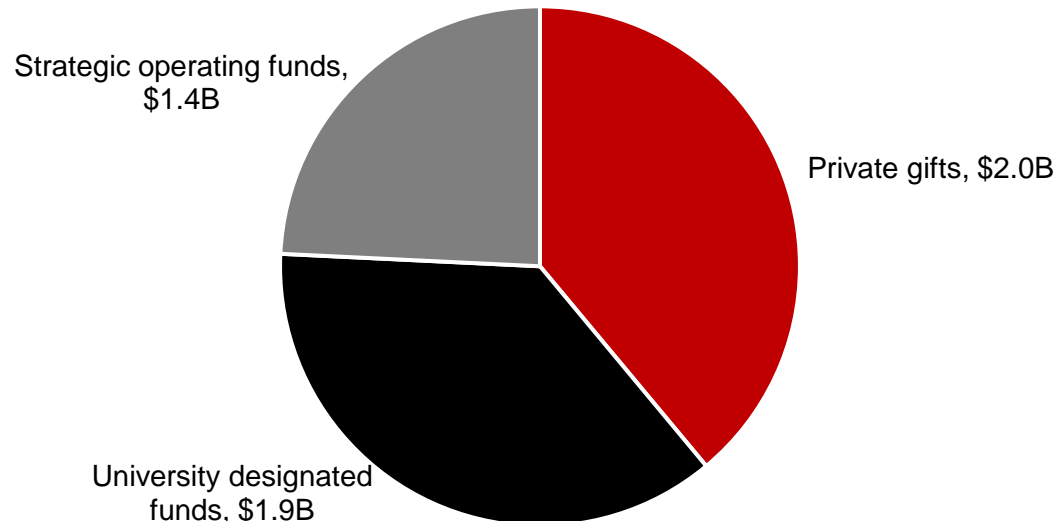
Investments



Overview: Long-Term Investment Pool

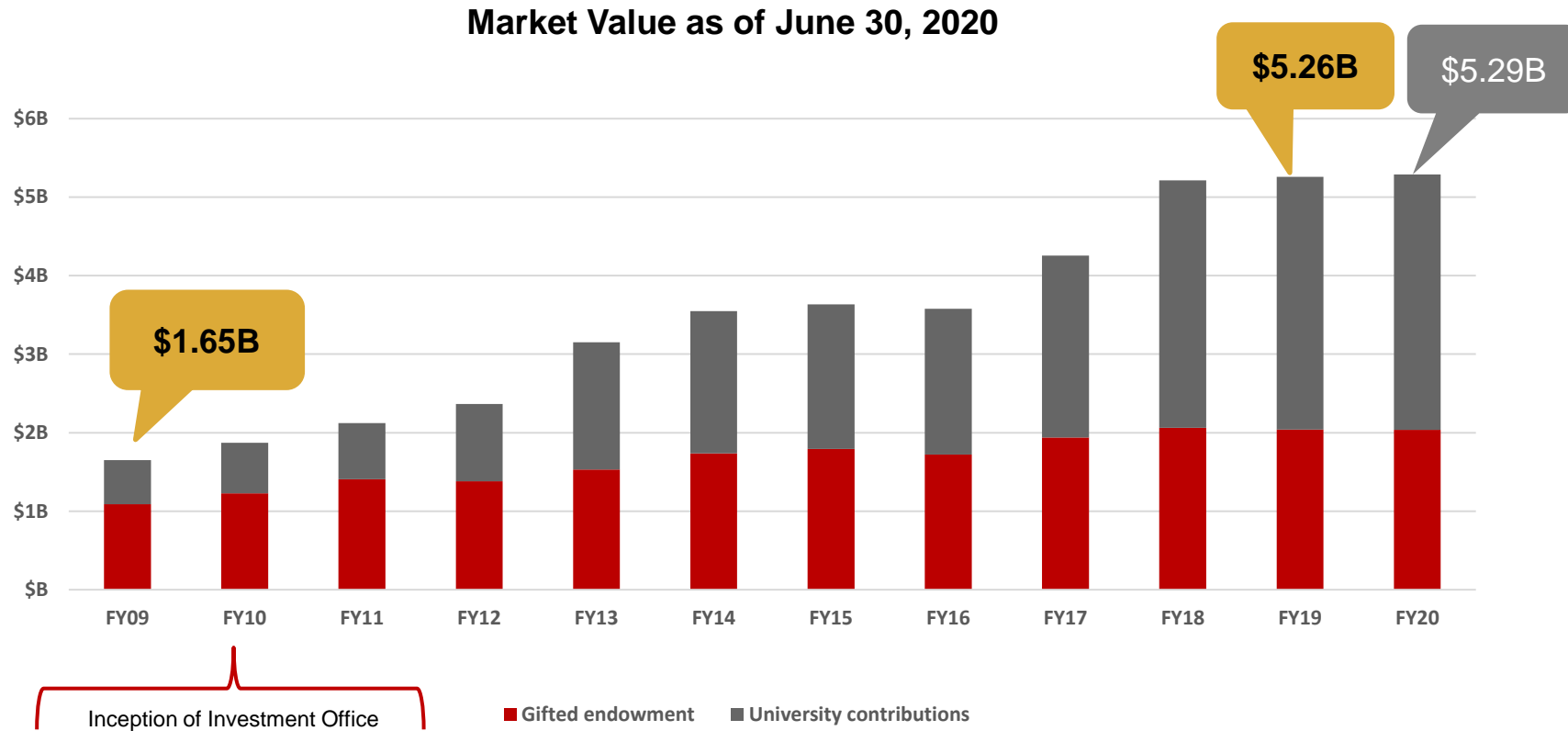
- Every dollar we invest in the LTIP supports our academic mission without expanding our reliance on tuition or tax dollars.
- The LTIP contains more than 5,900 endowments funded by private gifts, strategic investments by the university, and long-term savings to protect the financial health of the university and Wexner Medical Center.
- Asset allocation within policy guidelines: 64.7% global equities; 27.7% global fixed income; 7.6% real assets.
- Challenging year for Long Term Investment Pool with one-year return of 1.1% versus benchmark return of 4.6%.

LTIP market value: \$5.3 billion as of June 30, 2020



LTIP Balance

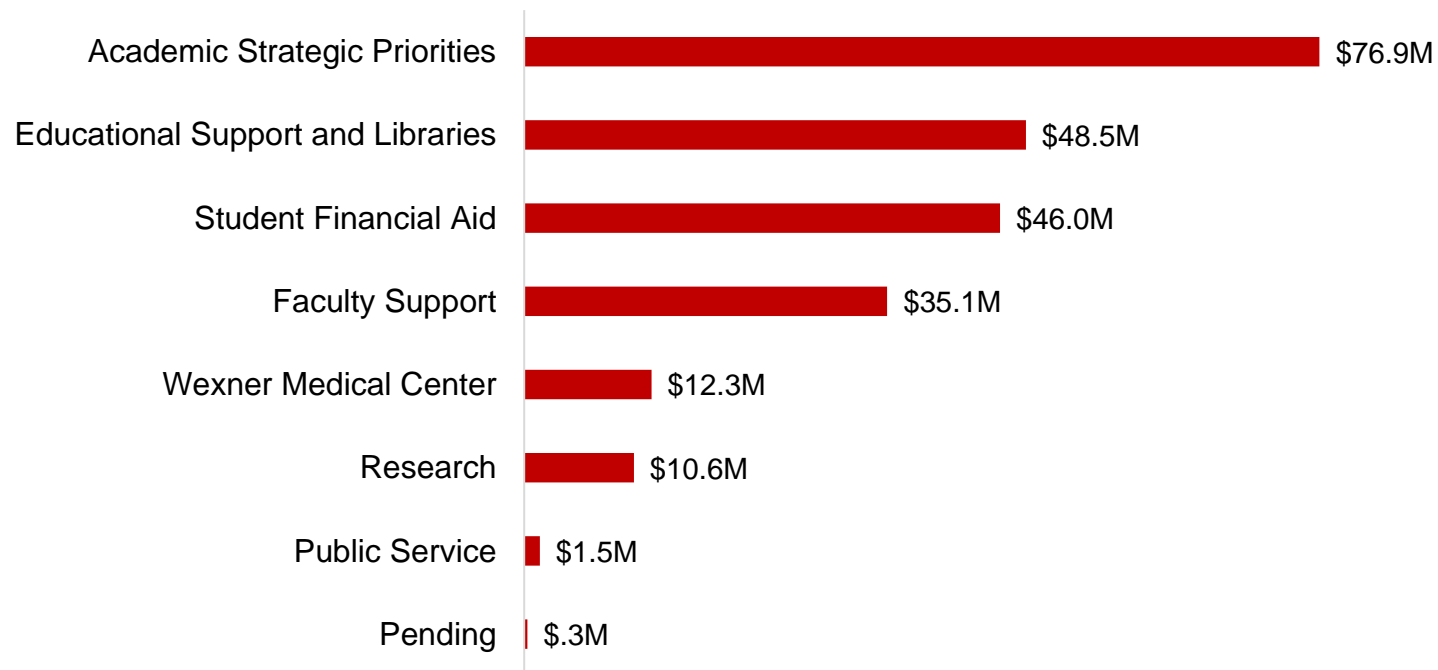
Gifts and investment returns drive growth



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

FY20 distributions: \$231.2M





Conclusion

Financial State of the University

- University's stability and fiscal strength provides resiliency during times of disruption.
- Administrative efficiencies re-direct funds to our core mission of access, affordability, academic excellence and patient care during a period of business disruption and revenue dilution.
- Scale and diversity of enterprise distinguished by ability to successfully pivot and navigate through unprecedented disruption:
 - Transitioned 12,000 courses online and transitioned thousands of employees to telework in a week;
 - Bursars Office adapted quickly to process 46,000 transactions over one weekend to issue refunds;
 - No disruption in service to Payroll or Financial Planning & Analysis as all shifted 100% online providing pre-COVID levels of service across campus;
 - Purchasing staff redeployed to support WMC and sourcing 100,000 PPE Welcome Back kits.
- Continued AA/AA/Aa1 bond rating evidence of financial strength.
 - Multi-year debt issuance program, economically advantageous refunding opportunities.



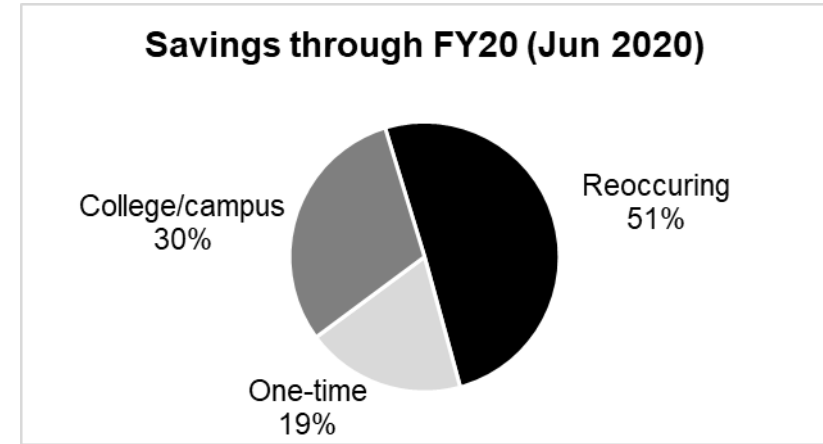
Appendix



Operational Efficiency Scorecard

The university set a 5-year, \$200 million goal for non-WMC efficiencies

FY20 goal	\$200M		
Progress to date	Total	% of goal	Status
Through FY18	\$114.2M	57%	●
Through FY19	\$167.8M	84%	●
Through FY20	\$219.6M	110%	●



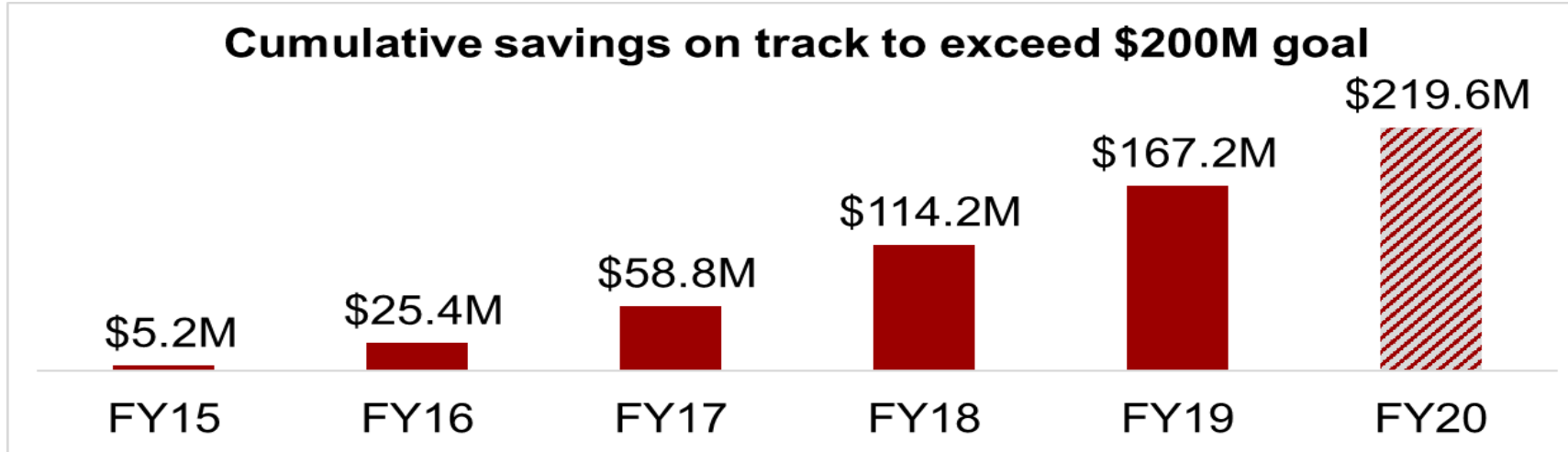
OTHER EFFICIENCY HIGHLIGHTS

The university's 2020 goals focused on savings that could be redeployed to student financial aid and other strategic initiatives. Other initiatives reduce the cost of capital projects and operating costs at colleges and the Wexner Medical Center.

	Progress through FY20	Status	Notes
Strategic procurement	\$451.6M compared with FY12	●	Savings largely benefit colleges and units through discounted rates on goods and services
Wexner Medical Center	\$657.3M since FY15	●	Margin improvement has increased days cash on hand metric from 81 days to 193 days
Capital projects	\$99.0M In FY18 thru FY20 YTD	●	Costs avoided by improving project accounting, capturing bid favorability, budget reductions



University Efficiency Program



OTHER EFFICIENCY HIGHLIGHTS


The university's 2020 goals focused on savings that could be redeployed to student financial aid and other strategic initiatives. Other initiatives reduce operating costs and the cost of capital projects.

	Progress through FY20	Status	Notes
Strategic procurement	\$451.6M compared with FY12	●	Savings largely benefit colleges and units through discounted rates on goods and services
Wexner Medical Center	\$657.3M since FY15	●	Margin improvement has increased days cash on hand metric from 81 days to 193 days
OE@OSU	\$134M saved or avoided since FY14	●	More than 1000 belts trained in Lean Six Sigma methodology
Capital projects	\$99.0M In FY18 and FY19	●	Costs avoided by improving project accounting, capturing bid favorability, budget reductions



New Resource Scorecard

The university set a 5-year, \$200 million goal for innovative funding

FY20 goal	\$200M	
Major projects	Upfront total	Annual funding through FY20
NIKE extension	\$22.5M	\$6.4M
Comprehensive Energy Management	\$1.07B	\$99.1M
Coca-Cola extension	\$6M	\$550,000
Total	\$1.1B 	\$106.1M

OTHER NEW RESOURCE HIGHLIGHTS

The university continues to benefit from innovative funding work that pre-dated the 2020 goal. Examples include:

Project	New resource metric	Notes
Parking	\$176.4M distributed FY13-FY20	Supports 200+ scholarships per year, 137 Discovery Themes faculty hires, Arts District and more
Affinity relationships	160+ internships per year	Relationships with Nationwide, Huntington and other partners support the campus in various ways