

## RATING ACTION COMMENTARY

# Fitch Rates The Ohio State University's Ser 2025A Bonds 'AA+'; IDR Affirmed at 'AA+'; Outlook Stable

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Fitch Ratings - Chicago - 18 Mar 2025: Fitch Ratings has assigned a 'AA+' rating to \$575 million of series 2025A fixed rate general receipt revenue refunding bonds to be issued by The Ohio State University (OSU). Fitch has also affirmed OSU's 'AA+' Issuer Default Rating (IDR) and the 'AA+' ratings on existing general receipt bonds, as well as OSU's bonds supported by self-liquidity at 'F1+'.

The Rating Outlook is Stable.

Proceeds from the series 2025A bonds will be used to refinance series 2010C bonds (Build America Bonds) and pay the costs of issuance. The bonds may price the week of March 31, 2025.

## RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
The Ohio State University (OH)	LT IDR	AA+	Affirmed	AA+
The Ohio State University (OH) /General Revenues/1 LT	LT	AA+	Affirmed	AA+
The Ohio State University (OH) /Self-Liquidity/1 ST	ST	F1+	Affirmed	F1+

## [VIEW ADDITIONAL RATING DETAILS](#)

OSU's 'AA+' IDR reflects its strong demand characteristics, with continued growth in freshmen applications, sound cash flow generation, and good balance sheet metrics. Adjusted cash flow margins have remained robust despite macro headwinds in recent years, such as the pandemic, labor displacement, and generationally elevated inflation. OSU's health system continues to generate strong cash flow and bolster the university's operating platform. OSU benefits from its position as a leading, comprehensive, flagship public research university with a strong regional and national draw.

OSU retains a strong financial profile, despite its still-sizable capital plans. Even in a forward-looking stress scenario, available funds (AF)-to-adjusted debt remains strong and soundly in the upper end of the broad AA rating category.

### **SECURITY**

The general receipt bond obligations are secured by a gross pledge of and first lien on all general receipts of OSU; the pledge specifically excludes restricted gifts and state operating appropriations.

### **KEY RATING DRIVERS**

#### **Revenue Defensibility - 'aa'**

#### **Flagship Research University with Leading Healthcare Enterprise**

OSU benefits from its strong student quality, high retention rates, sustained and significant growth in freshmen applications, good fundraising, and profitable health system.

OSU is a leading public flagship research university and is anchored by a healthcare enterprise that has remained profitable despite the pandemic and subsequent labor disruption and elevated inflation. While the university's revenue base is diverse, healthcare operations constitute more than half of total operating revenue (about 55% in FY 2024). The OSU Wexner Medical Center (OSUWMC) is the region's primary academic referral center.

Student quality remains strong and the freshmen to sophomore retention rate is well above 90%. The freshmen class in fall 2024 was the university's largest freshmen class ever. Average SAT and ACT scores are well above average (OSU is bringing back a SAT/ACT mandate). Just over 75% of OSU's undergraduates are in-state, and the state does not place an explicit limit on the number of out-of-state or international students. Management reports that international student enrollment continues to rebound post pandemic.

Freshman applications continue to grow, reflecting robust demand, although the matriculation rate remains somewhat modest at under 25%. Total FTE enrollment was 60,820 in fall 2024, up nearly 3% over fall 2023.

## **Operating Risk - 'a'**

### **Sufficient Cash Flow Margins Despite Macro Industry Headwinds; Robust Capex Through FY 2026**

Between fiscal years 2020 and 2024, OSU's adjusted cash flow margin averaged a very good 16%. The cash flow margin compressed to a still sufficient 11.3% in FY 2024.

Continued cash flow generation is driven by good top-line revenue growth (up more than 35% between FY 2020 and FY 2025, including nearly 15% in net tuition and fees), ongoing efficiency and cost management initiatives, and a health system that has remained profitable and generated strong operating EBITDA margins despite macro labor disruption and elevated inflation. The health system continues to record volume gains, particularly surgical and outpatient visits.

Fitch expects OSU to sustain operating results sufficient to meet capital spending needs and build balance sheet strength, although adjusted cash flow margins will likely not remain at levels achieved prior to FY 2024 due to ongoing industry pressures. Per management unaudited results, OSU's operating profitability through 2Q FY 2025 is ahead of budget, including for both the university and OSUWMC.

## **Capital Spending**

OSU's capital spending has been robust, as the capital spending ratio averaged more than 185% between FY 2020 and FY 2024. As a result, the average age of plant was a sound 11.0 years at FYE 2024. Capex should remain ahead of depreciation expense through FY 2026 as the university completes its major capital program.

OSU recently completed three of its five main strategic projects: the Arts District (opened in 2022 and 2023); the Pelotonia Research Center (opened June 2023); and the Interdisciplinary Health Sciences Center (opened May 2024). The two remaining major strategic projects are four outpatient facilities, with a cumulative cost estimate of \$839 million (three of which opened between 2021 and 2023, with the fourth due to open in 2026); and the new OSUWMC inpatient hospital (just over \$2 billion cost estimate, due to open in spring 2026).

OSU's capital plan is funded with internal resources, state support, fundraising, debt, and other sources. Management notes that ongoing projects are on schedule.

OSU has a track record of successful fundraising. In October 2019, the university launched its \$4.5 billion comprehensive "Time and Change" campaign. Management reports that the campaign fundraising target has already been exceeded.

## **Financial Profile - 'aa'**

### **Strong Financial Profile Sustained Despite Capex**

OSU's financial profile remains very strong, despite the pace of capital spending, even in a forward-looking stress scenario.

OSU's direct debt measured \$4.2 billion at FYE 2024, inclusive of bonds, capital leases, notes payable, and other obligations. Maximum annual debt service (MADS) is \$849 million, resulting from a \$654 million bullet payment due in 2040. Actual annual debt service was \$315 million in FY 2024, on which OSU recorded sound coverage of 3.4x.

Debt equivalents reflect OSU's participation in two state cost-sharing multi-employer retirement systems. OSU's combined proportionate net pension liability as of the FY 2024 audit was \$3.9 billion, which Fitch adjusts to \$5.9 billion to reflect a Fitch-adjusted discount rate of 6%.

Available funds (AF)-to-debt is very strong, measuring just over 220% at FYE 2024. AF-to-adjusted debt (including Fitch-adjusted net pension liability) totaled a good 94% at FYE 2024. Fitch believes OSU's financial profile will remain very strong, even in a stress scenario. In the forward-looking stress case, AF-to-adjusted debt never falls below 65% and exceeds 90% by year five.

The 'F1+' Short-Term rating reflects OSU's 'AA+' IDR. Adjusted available liquid resources exceed short-term demand obligations (adjusted internal liquidity coverage was nearly 4x self-liquidity supported debt as of Dec. 31, 2024, per management data).

### **Asymmetric Additional Risk Considerations**

No asymmetric risk considerations are applied to OSU's ratings.

**Debt Structure:** OSU's debt is 83% fixed rate and 17% variable rate. The variable-rate debt is partially hedged with two fixed-payor swaps with a notional amount of \$329 million.

**Federal Research Funding Exposure:** As a leading public flagship university, OSU has a significant portfolio of research activities, with research expenditures nearly doubling in the ten years to about \$1.6 billion in FY 2024. Consequently, OSU has exposure to current uncertainty regarding NIH and other federal research support. That said, total federal grants represent just over 6% of

total OSU revenue and the university should remain comparatively resilient to any potential funding changes.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--Sustained weakening of OSU's operations such that the adjusted cash flow margin is expected to remain consistently closer to 6%.

--Materially lower AF-to-adjusted debt closer to 60% or lower, particularly if compounded by the aforementioned weaker operating metrics.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--As OSU completes its major capital spending plan, an upgrade to 'AAA' or Outlook revision to Positive is not likely in Outlook period.

--Even stronger student demand characteristics leading to a 'aaa' demand assessment.

--Adjusted cash flow margin expected to be sustained closer to 15%.

--After completing the current major capex projects, sustained liquidity growth such that AF-to-adjusted debt were expected to remain above 150% even in a stress case.

## **PROFILE**

OSU was founded in 1870 and is one of 14 state universities in Ohio (state IDR: AAA). OSU is the state's flagship research university, as well as the designated land grant institution. The main campus and OSUWMC are located in Columbus. OSU operates extended academic campuses in Lima, Mansfield, Marion, and Newark, as well as additional healthcare facilities. The main campus in Columbus accounts for approximately 90% of total headcount.

Fall 2024 total headcount enrollment was approximately 66,900 across all campuses. OSUWMC hospitals treated about 60,500 inpatients and 3.1 million outpatients in FY 2024.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's

ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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## **APPLICABLE CRITERIA**

[U.S. Public Finance College and University Rating Criteria \(pub. 19 Sep 2023\) \(including rating assumption sensitivity\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 10 Jan 2025\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v2.0.1 ([1](#))

## **ADDITIONAL DISCLOSURES**

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The Ohio State University (OH)

EU Endorsed, UK Endorsed

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