FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Ohio State University's Revs at 'AA'; Outlook Revised to Positive

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Fitch Ratings - Chicago - 05 Feb 2021: Fitch Ratings has affirmed the 'AA' Issuer Default Rating (IDR) and approximately $3 billion of general receipt bonds issued on behalf of The Ohio State University (OSU) at 'AA'. Fitch has also affirmed the 'F1+' rating on certain bonds supported by self-liquidity.

The Rating Outlook has been revised to Positive from Stable.

SECURITY

The general receipt bond obligations are secured by a gross pledge of and first lien on all general receipts of the university; specifically excluded from the pledge are restricted gifts and state operating appropriations. The special purpose general receipts bonds (series 2013A, not rated by Fitch) are secured by a subordinate pledge of all revenues, fees, rentals, rates, charges, insurance proceeds and other moneys derived by the university from the ownership or operation of student housing, dining and recreational sports systems.

ANALYTICAL CONCLUSION

The Outlook revision to Positive reflects OSU's resiliency through 2020's challenging pandemic dynamics, with demonstrable cash flow and balance sheet stability. OSU generated a solid 10.8% cash flow margin and 4x debt service coverage (as calculated by Fitch) in FYE June 30, 2020, despite significant impacts to student fee, auxiliary, state appropriation, and healthcare revenues. The university recognized $158 million of CARES Act revenue in 2020, including $143 million of provider relieve funds and $15 million for emergency aid to students. While fiscal 2021 will see additional pressures, OSU is implementing $252 million in savings to counter the impact and is ahead of its budget revenue and expense targets through 1Q21.

The 'AA' IDR and revenue bond rating are supported by OSU's position as a comprehensive flagship public research university with a strong regional and national draw, sound demand characteristics and steady enrollment through the current academic year, consistently strong cash flow metrics, and solid balance sheet resources. Despite OSU's sizeable capital plans and a somewhat aggressive debt profile, it retains a strong and resilient leverage profile through Fitch's downside scenario. The 'F1+' Short-Term rating reflects OSU's long-term credit quality with a 'AA' IDR, together with its ability to cover the maximum potential liquidity demands presented by its self-supported variable rate obligations and commercial paper program from its available liquid resources.

Coronavirus Impact

The ongoing coronavirus pandemic create an uncertain environment for the U.S. Public Finance higher education sector. Fitch's forward-looking analysis is informed by management expectations and Fitch's macroeconomic scenarios, and scenarios will evolve as needed during this dynamic period. Fitch's expectations include an accelerated rebound from the third quarter of 2020 followed by some stagnation through the first quarter of 2021 before accelerating through 2H21. For OSU, the baseline case assumes the spring 2021 term will proceed similarly to its fall 2020 term, with a mix of in-person, hybrid and online instruction across its system, with housing occupancy and other auxiliary utilization below historical levels but still adequate in aggregate, and with elevated levels of telemedicine and lower levels of inpatient and surgical activity. The baseline scenario also incorporates the effect of steps taken by management starting in the spring 2020 semester to initiate meaningful expense controls across both the university and the health system, which continue in 2021.

The 'AA' ratings and sensitivities address potential rating implications under a downside scenario. Fitch's downside stress scenario assumes a slower economic recovery and prolonged or recurring pandemic-induced disruptions lasting through at least 2H21, including further tuition, auxiliary, and related revenue pressures into the 2021-2022 academic year. While our scenarios incorporate the additional stimulus provided by the December passage of the Coronavirus Response and Relief Supplemental Appropriations Act, it does not incorporate an expectation of further federal stimulus support. Fitch expects OSU's stronger operating and financial profiles will allow it to manage through this downside scenario at the current rating level.

Revenue Defensibility: 'aa'

Flagship Research University, Robust Healthcare Enterprise

The 'aa' Revenue Defensibility assessment reflects healthy demand characteristics including consistent enrollment and solid student demand, steady state support, and a profitable and growing healthcare enterprise. State support is limited at 6% of total revenues, and the passed 2021 budget effectively countered the modest reduction in support enacted late in the 2020 fiscal year.

Operating Risk: 'aa'

Resilient Cash Flow, Meaningful Capital Plans

The 'aa' Operating Risk assessment is supported by consistent operating performance and cash flow margins that are expected to be resilient beyond the near-term pressures in fiscal 2021. The 'aa' assessment also reflects OSU's solid core expense controls and strong management of the healthcare enterprise, which has thus far remained accretive throughout the pandemic. Capital plans are robust but flexible, and OSU has maintained a solid operating platform with a favorable 12-year average age of plant. OSU is a consistent fundraiser, which helps to support strategic operating and capital needs.

Financial Profile: 'aa'

Solid Financial Cushion against Debt Burden

OSU's financial profile is very strong, with available fund levels improving over time and equate to over 100% of expenses and nearly 95% of adjusted debt. Available fund levels are expected to provide flexibility as needed over the near term as OSU navigates a challenged operating environment. OSU retains additional debt capacity at its current rating and continues to build reserves to fund bullet payments due in 2040.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric additional risk considerations apply to OSU's ratings.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Operating performance that proves resilient beyond expected pressures in fiscal 2021 could support an upgrade, if it recovers to levels more consistent with historical performance between 12%-15% cash flow margins.

--Leverage levels that remain steady at or above 80%-90%, inclusive of a healthy capital improvement plan which incorporates additional debt, could support an upgrade.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Prolonged operating pressures at either the university or healthcare enterprise, particularly if operating cash flow margins that weaken to below 8%-10% over time could prompt a reversion back to a stable outlook.

--A significant increase in leverage without commensurate improvement in reserves and adequate cash flow at levels that bring the available funds to adjusted debt ratio down closer to 60%, could result in a revision back to a stable outlook.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

CREDIT PROFILE

OSU, founded in 1870, is one of 14 state-supported universities in Ohio (AA+/Stable IDR) and is the state's flagship research university, as well as the designated land grant institution. The main campus is located in Columbus on approximately 1,665 acres and is also the location of the 554-staffed bed Wexner Medical Center (University Hospital). OSU also operates extended academic campuses in Lima, Mansfield, Marion, and Newark, as well as additional healthcare facilities at University Hospital East.

The main university campus in Columbus, which accounts for approximately 90% of total headcount, is one of the largest individual campuses in the United States, in terms of headcount and full-time equivalent (FTE) enrollment. Fall 2020 enrollment reached 61,369 in Columbus and 67,957 across all OSU campuses. The academic organization consists of 15 colleges, seven schools, the Graduate School and the Agricultural Technical Institute.

The medical center includes the OSU physicians, OSU faculty group practice, research center, The Ohio State University Comprehensive Cancer Center and Ohio State University Health System (OSUHS, which includes various hospitals and clinics). Collectively the medical center hospitals serve more than 62,000 adult inpatients and more than 1.8 million outpatients annually.

REVENUE DEFENSIBILITY

The 'aa' revenue defensibility assessment reflects OSU's competitive demand characteristics characteristic of a flagship institution, solid student quality and retention levels, consistently high selectivity, relatively consistent state support, meaningful fundraising and endowment support, and an expectation for stable enrollment going forward.

OSU's role as the state's public flagship university supports a thriving research platform, anchored by a growing and accretive healthcare enterprise. OSU's revenue base is diverse, with the largest components being healthcare operations, student generated revenues, and grants and contracts, at 55%, 17% and 12%, respectively in fiscal 2020. The healthcare enterprise has largely recovered from the constrained volume and revenue environment during the peak of the coronavirus pandemic, although it ended fiscal 2020 with fewer admissions and higher levels of telemedicine. However, its role as the region's primary academic tertiary medical center is expected to support strong clinical demand for services going forward.

Currently, OSU plans for students to return to campus for the fall 2021 semester. Currently about half of instruction is conducted virtually in the spring semester, and campus density remains reduced. As a result, auxiliary revenue fell in fiscal 2020, due largely to housing and dining refunds in the spring semester ($32 million). OSU's football program was able to participate in an abbreviated Big 10 season, ending with an appearance in the national title game. This, along with expense reductions enacted may help offset expectations of an overall athletic department budget deficit for 2021 and support its plans to preserve all 36 varsity athletics programs.

OSU's comparative cost of attendance near the median of the Big 10 does afford some room to maneuver beyond fall 2021. Although each class has a tuition guarantee, incoming student tuition is expected to increase by between 2% and 5% for in-state and out-of-state students. Nearly 80% of OSU's students are in-state residents, and the remainder is out-of-state, including about a 5%-10% international student base.

OSU's demand profile is robust, as is typical of a large public flagship institution, and student quality remains very strong. The fall 2020 entering class average ACT score of 28.8 is well ahead of the national average. Freshman retention rates are also very strong, near 94% in 2020. Enrollment at OSU is stable, down under 1% on an FTE basis yoy, and with a five-year CAGR of about 0.6%, characteristic of a comprehensive public flagship. OSU is largely insulated against the expected weakening of demographic trends in Ohio and the

Midwest, given its strong demand niche and position as a top tier public institution with a wide range of research, graduate, and professional programs.

State support had been largely flat in recent years, and declined by 1% yoy to $466.5 million in fiscal 2020 following state budgetary reductions in general revenue fund appropriations and state share of instruction appropriations for higher education in the final two months of the year. For 2021, management is planning for stable support. Appropriations are divided between State Share of Instruction (SSI) and State Operating Appropriations and accounted for just 6.3% of fiscal 2020 adjusted operating revenue.

OPERATING RISK

The 'aa' operating risk assessment is supported by consistent cash flow margins that are expected to persist beyond pandemic conditions, as well as a robust yet manageable capital improvement plan. In fiscal 2020, OSU's operating cash flow dipped to 10.8% as the university absorbed a 3.4% decline in clinical admissions and a 4.4% decline in student fee revenue, among other coronavirus-related revenue impacts. Cash flow margins were 15.5% in fiscal 2019 and 15% in fiscal 2018. Management reports that its cost control efforts have begun to yield results, both at the university and the hospital, and should help preserve sufficient cash flow in fiscal 2021 to ensure key strategic and capital initiatives are supported while also preserving liquidity.

OSU's capacity for expenditure management will be important through the near-term due to challenges presented by the coronavirus pandemic, and the 'aa' assessment reflects Fitch's expectation that OSU's operating performance will be resilient beyond this weaker period in fiscal 2021.

Consistent capital investment has kept OSU's average age of plant quite manageable at approximately 12 years, which shows steady capital investment for a comprehensive research institution and its healthcare enterprise. OSU's capital improvement plan is being funded with a combination of internal resources, state capital support, fundraising and other sources. OSU's capital investment plan is large, and incorporates a sizeable inpatient hospital project.

Fundraising is a favorable credit consideration, given OSU's track record of successful campaigns and consistent annual giving. In October 2019 OSU launched a $4.5 billion comprehensive 'Time and Change: The Ohio State Campaign', which has raised over $2 billion from over 550,000 donors in the year since its launch. Total gifts to the university increased nearly 30% yoy to $299 million in fiscal 2020. OSU's prior major capital campaign, 'But for Ohio State', reached its conclusion in September 2016, having raised over $3 billion from more than 750,000 donors, and well exceeding its respective targets of $2.5 billion and 500,000 donors.

FINANCIAL PROFILE

Long-term debt of approximately $3 billion includes about $300 million of variable rate demand obligations, and is relatively back-loaded with a weighted average life of 34 years, in part due to several bullet maturities. MADS of over $800 million do not occur until 2040. OSU has set aside over $313 million for future debt service as an offset to its future payments, including an $819 million payment due in 2040 and a $500 million century bond plus $24 million interest payment due in 2111. OSU has another $400 million in multi-year debt authorization capacity through June 2023. Actual annual debt service was $185 million in 2020, on which OSU generated 4x coverage.

Available funds to long-term debt (unadjusted) equaled over 253% in fiscal 2020, reflecting OSU's sizeable balance sheet strength. AF to adjusted debt (including the Fitch-adjusted net pension liability) totaled about 94% in fiscal 2020. Fitch considers OSU's financial profile assessment of 'aa' to be strong, with room for additional debt and resilience through a downside scenario. Fitch's downside scenario contemplates significant revenue impacts not fully absorbed by expenditure controls, including the continuation of primarily virtual learning, reduced auxiliary and athletic revenue, state funding pressure, and another wave of operating pressure in the healthcare enterprise.

Debt equivalents of $5.5 billion primarily reflect OSU's participation in two of the state's cost-sharing multi-employer retirement systems, OPERS and STRS-Ohio. For both, OSU reported a $5 billion net liability for fiscal 2020, which Fitch adjusts to $5.3 billion to reflect a 6% discount rate down from the plan rates (STRS at 7.45% and OPERS at 7.2%). The overall pension plans are relatively well funded at 81% taken together, or 71% as adjusted by Fitch. Contributions to the state's cost-sharing multi-employer retirement systems are established by statute and have long been sufficient to support full actuarial funding. Fitch includes the $141 million carrying amount of OSU's long-term lease and concession agreement with Ohio State Energy Partners in its debt calculations.

Liquidity support for OSU's variable-rate debt program is primarily derived from the strength of its Short- and Intermediate-Term Non-Endowment Pool. As of Sept. 30 2020, a total of $3.9 billion was available in the pool to support the $302 million in current short-term demand obligations and $49.8 million in maximum authorized commercial paper (of which $5.2 million is outstanding), in support of the 'F1+' short-term rating.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric additional risk considerations apply to OSU's ratings.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR

ENTITY/DEBT	RATING			PRIOR
The Ohio State University (OH)	LT IDR	AA Rating Outlook Positive	Affirmed	AA Rating Outlook Stable
• Ohio State University (OH) /General Revenues/1 LT	LT	AA Rating Outlook Positive	Affirmed	AA Rating Outlook Stable
• Ohio State University	ST	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

U.S. Public Finance College and University Rating Criteria (pub. 07 Oct 2020) (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), v1.3.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

The Ohio State University (OH)	EU Endorsed, UK Endorsed

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