FITCH AFFIRMS OHIO STATE UNIVERSITY REVS AT 'AA'; OUTLOOK STABLE

Fitch Ratings-Chicago-12 December 2019: Fitch Ratings has affirmed the 'AA' rating on approximately $3.1 billion of debt issued on behalf of The Ohio State University (OSU), and assigned an Issuer Default Rating (IDR) of 'AA'. Fitch has also affirmed the 'F1+' rating on certain bonds supported by self-liquidity.

The ratings are as follows:
--$1,373 million fixed rate general receipts bonds (GRBs) at 'AA';
--$654.8 million fixed rate GRBs, series 2010C (Federally Taxable Build America Bonds-Direct Payment) at 'AA';
--$500 million fixed rate GRBs, series 2011A (Taxable) at 'AA';
--$588.4 million variable rate GRBs at 'AA'/'F1+'.

The Rating Outlook is Stable.

SECURITY

Senior Lien Obligations are secured by a gross pledge of and first lien on all general receipts of the main campus of the university; specifically excluded from the pledge are restricted gifts and state operating appropriations.

ANALYTICAL CONCLUSION

The 'AA' IDR and revenue bond rating is driven by OSU's position as a comprehensive flagship public research university with a strong regional and national draw, sound demand characteristics and steady enrollment, consistently positive financial performance and strong cash flow metrics, a fairly diverse revenue base, solid balance sheet resources against sizeable capital plans and a somewhat aggressive debt profile, and a strong leverage profile which remains resilient in Fitch's stress case scenario. The 'F1+' 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 by at least 1.25x from its available liquid resources.

KEY RATING DRIVERS

Revenue Defensibility: 'aa'; Flagship Research University, Robust Healthcare Enterprise

The 'aa' Revenue Defensibility assessment reflects robust demand characteristics including very consistent enrollment and solid student demand, steady state support, and a profitable and growing healthcare enterprise. While state support is relatively limited, it is steady and expected to remain so.

Operating Risk: 'aa'; Consistent Cash Flow, Meaningful Capital Plans

The 'aa' Operating Risk assessment is supported by very consistent operating performance and cash flow, driven by strong management of the healthcare entity as well as by solid core expense controls. Capital plans are robust but manageable, as OSU is a consistent fundraiser and has maintained a solid operating platform with a modest 11 year age of plant.

Financial Profile: 'aa'; Solid Financial Cushion against Debt Burden

OSU's financial profile is very strong, with available fund levels which have consistently improved over time and equate to over 100% of expenses and nearly 85% of adjusted debt. OSU retains additional debt capacity at its current rating level, 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

STEADY OPERATING PERFORMANCE: Rating stability is predicated on The Ohio State University's (OSU) ability to generate steady cash flow across the enterprise, and preserve the profitability of the medical center given its relative importance to OSU's bottom line performance. Upward rating movement is possible should OSU effectively manage through an elevated capital improvement period while preserving its leverage profile.

FINANCIAL DETERIORATION: Erosion to OSU's internal resource base or to the university's broader general credit quality, while unlikely, would pressure the short-term rating.

CREDIT PROFILE

The Ohio State University, founded in 1870, is one of 14 state-supported universities in Ohio and is the state's flagship 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 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 enrollment and full-time equivalent (FTE) enrollment. Fall 2019 enrollment reached 68,262 across all OSU campuses. The academic organization consists of 15 colleges, seven schools, the Graduate School and the Agricultural Technical Institute.

The medical center is a large and comprehensive organization, and includes the College of Medicine, along with 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 64,000 adult inpatients and more than 1.9 million outpatients annually.

Revenue Defensibility

The 'aa' demand assessment reflects OSU's relatively competitive demand characteristics, solid student quality and retention levels, consistently high selectivity, relatively consistent state support, meaningful fundraising and endowment support, and an expectation for solid enrollment trends going forward. Further, OSU's role as the state's top tier public flagship university supports a thriving research platform, further anchored by a robust and accretive healthcare enterprise.

OSU's demand profile is robust, as is typical of a major public flagship institution, and student quality has remained solid. The fall 2019 class average ACT score of 29.5 is well ahead of the national average of 21. Further, freshman retention rates remained very strong, near 94% in 2019.

OSU's main Columbus campus is relatively selective with acceptance rates near 50% for freshman with about 30% matriculation.

Enrollment at OSU has remained very stable, with five-year CAGR of about 1% with limited movement within a narrow band, characteristic of a comprehensive public flagship. OSU is largely insulated against the expected weakening of demographic trends in Ohio and the Midwest, given its position as a top tier public institution with a large student base.

OSU's revenue base is diverse, with the largest components being healthcare operations, student generated revenues, and grants and contracts, at 55%, 18% and 12%, respectively. Its healthcare enterprise remains the largest revenue component, and in recent years has contributed over $400 million in annual operating margin to the OSU entity. Given the robust level of growth and capital infusion ongoing, operating performance of the healthcare enterprise is likely to remain an integral component of OSU's performance going forward.

OSU does benefit from its endowment and quasi-endowment support, which provides consistent support via annual distributions ($217 million in fiscal 2019). The policy is for a 4.5% distribution on an annual basis, using a 7-year average of the market value for the Long Term Investment Pool (LTIP). While fiscal 2019 returns were well below typical at just 1.2% net of fees, over time OSU's LTIP has grown substantially, helped in recent years by the infusion from the energy concession agreement of April 2017.

State support has remained largely flat over the past three years, and is expected to remain so going forward. Appropriations are divided between State Share of Instruction (SSI) and State Operating Appropriations, and make up a limited 6.5% of fiscal 2019 adjusted operating revenue.

Operating Risk

The 'aa' operating risk assessment is supported by consistent cash flow margins near 14% which are expected to persist over time, as well as a robust yet manageable capital improvement plan. OSU's efficiency efforts have yielded results, both at the university and the hospital, helping to support key strategic and capital initiatives while sustaining accretive bottom line results that preserve liquidity.

OSU has an ongoing capital improvement program that consists of both new construction and rehabilitation. Consistent capital infusion has kept OSU's average age of plant low at near 11 years, which is key for a comprehensive research institution and its healthcare enterprise. Over the next five years, OSU's capital improvement plan includes approximately $1.4 billion in new projects, funded with a combination of internal resources, state capital support, fundraising and other sources. Major projects include construction of the region's first proton therapy facility, an interdisciplinary research facility and an arts district.

Fundraising is a strong credit consideration, given OSU's track record of successful campaigns and consistent annual giving. OSU just launched a $4.5 billion comprehensive 'Time and Change' campaign with the goal of engaging 1 million supporters.

Financial Profile

OSU's financial profile is characterized by leverage levels that Fitch considers comfortably consistent with a 'aa' assessment, even in the context of expected additional borrowing. Available funds to long term debt (unadjusted) equaled over 245% in fiscal 2019, indicative of OSU's sizeable balance sheet strength. AF to adjusted debt (including the Fitch-adjusted net pension liability) totaled about 85% in fiscal 2019.

Total long term debt of approximately $3.2 billion includes about $575 million of variable rate demand obligations and is relatively back-loaded with a weighted average life of 34 years. Fitch notes that OSU has set aside over $340 million in funds for future debt service as an offset to a somewhat lumpy debt structure with some bullet payments. MADS of over $800 million does not occur until 2040.

Debt equivalents of $6.1 billion primarily reflect OSU's participation in two of the state's cost-sharing multiemployer retirement systems, OPERS and STRS-Ohio. For both, OSU reported a $3.7 billion net liability for fiscal 2019 which Fitch adjusts to $6 billion to reflect a 6% discount rate down from the plan rates (STRS at 7.45 and OPERS at 7.2%). The overall plans are relatively well funded at 75% taken together, or 66% as Fitch adjusts. 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.

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, 2019, the cash portion alone of the pool totaled $1.3 billion, and there is a total $3.7 billion of resources available in the pool to support the $588 million in current short-term obligations. OSU's available resources are very comfortably above Fitch's 1.25x threshold consistent with the 'F1+' Short-Term rating.

Asymmetric Additional Risk Considerations
No asymmetric additional risk considerations apply to OSU's ratings.

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

ESG Considerations
Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - 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.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Public Sector, Revenue-Supported Entities Rating Criteria (pub. 07 Nov 2019)
https://www.fitchratings.com/site/re/10099396
U.S. Public Finance College and University Rating Criteria (pub. 03 Jun 2019)
https://www.fitchratings.com/site/re/10075131
U.S. Public Finance Short-Term Debt Rating Criteria (pub. 01 Nov 2017)
https://www.fitchratings.com/site/re/905637