S&P Global
Ratings

RatingsDirect®

# Ohio State University; Auxiliary - System; Private Coll/Univ - General Obligation; Public Coll/Univ - Unlimited Student Fees


**Primary Credit Analyst:**
Ken W Rodgers, New York + 1 (212) 438 2087; ken.rodgers@spglobal.com

**Secondary Contact:**
Laura A Kuffler-Macdonald, New York + 1 (212) 438 2519; laura.kuffler.macdonald@spglobal.com


## Table Of Contents

# Ohio State University; Auxiliary - System; Private Coll/Univ - General Obligation; Public Coll/Univ - Unlimited Student Fees

| Credit Profile | | |
|---|---|---|
| US$600.0 mil gen receipt bnds ser 2021A due 12/01/2051 | | |
| *Long Term Rating* | AA/Stable | New |
| Ohio St Univ PCU_USF | | |
| *Long Term Rating* | AA/Stable | Affirmed |

## Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Ohio State University's (OSU) estimated $600 million series 2021A tax-exempt (senior secured) general receipts bonds. In addition, S&P Global Ratings affirmed its 'AA' long-term rating and, where applicable, its 'AA/A-1+' dual rating on various series of tax-exempt and taxable (senior secured) general receipts bonds issued by and on behalf of OSU. The 'A-1+' short-term rating component of the dual-rated bonds reflects our opinion of the liquidity provided directly by OSU. S&P Global Ratings also affirmed its 'AA-' long-term rating on OSU's $337.96 million series 2013A tax-exempt special-purpose general receipts bonds. The outlook on all long-term ratings is stable.

These rating actions affect approximately $3.7 billion of debt including general receipt (including outstanding and current issuance senior-lien obligations and special-purpose general receipts obligations) bonds and a minor number of capitalized leases and notes payable. Future minimum payments for all significant operating leases with initial or remaining terms greater than one year total $161.6 million at fiscal year-end June 30, 2020. Bond proceeds are being used to support the university's key capital projects the largest of which is a major new hospital facility.

Securing the majority of the university's debt is a pledge of, and first lien, on OSU's gross general receipts, which include tuition, fees, and other student charges; hospital sales and services and auxiliary enterprise revenues; faculty practice revenues; and unrestricted government grants and contracts. For fiscal 2020, general receipts revenues totaled $5.3 billion and for fiscal 2021 totaled $5.5 billion with the latter figure based on preliminary unaudited results. The 'AA-' rating on the 2013A tax-exempt debt reflects our view of the bond's narrower security, which consists of a pledge of revenues from the university's student housing, dining, and recreational sports facilities. The pledge is subordinate to the one securing bonds backed by the university's general-receipts pledge. The subordination arises because the revenues securing the series 2013A bonds constitute part of the general-receipts pledge and, therefore, OSU would first have to use these revenues to satisfy bonds secured by the general-receipts pledge, if needed, before using them to satisfy the obligation of the special-purpose general receipts bonds. We understand in fiscal 2020 the pledged revenue backing these bonds totaled $185.4 million and produced debt service coverage of 7.4x on maximum annual debt service (MADS) of $25.1 million. We understand the covenant requirement on this bond issue is 1.10x current year debt service. For fiscal 2021 debt service is $14.9 million so OSU anticipates no issues complying with the rate covenant requirement.

OSU has a robust enterprise-risk-management program, and this aided the university in making timely adjustments to the coronavirus pandemic. OSU took many precautionary measures in response to the coronavirus threat. These included: transitioning face-to face classes to virtual learning for most of the spring 2020 semester and for the summer of that year as well and for fall 2020, 50% of classes were online with 20% a blend of online and in person (hybrid) and 30% in person, although it transitioned back to full online only instruction on Nov. 20, 2020 as area cases for COVID-19 were on the increase and remained remote through the first two weeks of the spring 2021 semester. For the fall 2021 semester there is both a vaccination requirement and a mask mandate.

Most university, dining and residency facilities were closed March 22, 2020, and remained closed through the summer semester of that year with the university refunding on a pro rata basis student housing, dining, and recreational fees of $22 million, $10 million, and $2.4 million, respectively. In addition, class action lawsuits were filed against the university, that remain unresolved, for the refund of spring 2020 tuition on the basis that in person instruction was not offered.

The university also implemented various cost containment measures in anticipation of the disruption in revenue due to the pandemic. These measures included a hiring pause, a temporary pause in merit-based compensation increases, curtailment of university travel, greater control over non-essential spending and realization of other efficiency initiatives. Similarly, visitor restrictions were implemented in Spring 2020 at all of OSU's hospitals and all university faculty, staff and students were strongly urged to adhere to Centers for Disease Control and Prevention (CDC) guidelines including travel restrictions and related self-quarantine procedures when returning from most countries abroad. The university and medical center remained open for business, although, the medical center on March 17, 2020, postponed elective surgeries and procedures by executive order of the Ohio Department of Health. In addition, all recreational sports, indoor facilities, and the university bookstores were temporarily closed as a precautionary measure.

We understand 8.2% of OSU's enrollment is international students, a number somewhat lower than many large universities and therefore moderating somewhat the adverse impact to university tuition revenue. On May 1, 2020, non-essential or elective procedures not requiring an overnight stay resumed at the medical center. Management reports that the health system outperformed the budget for fiscal 2021 with all key measures of patient activity rebounding in fiscal 2021 and exceeding fiscal 2020 patient measures, which were depressed relative to the prior year due to the disruption in services resulting from the pandemic's initial onset.

Offsetting various losses from curtailment of activities associated with the preventative response to the pandemic are CARES Act receipts of $42.9 million (half of which was allocated to students for emergency financial aid grants) and $177.9 million from the CARES Act for the university's health facilities both of which are recognized in the financial statements of the university for fiscal 2020 and 2021. In addition, the university received $287.5 million in advance Medicare payments for services rendered at its health facilities for fiscal 2020 (with the recoupment of these funds started in April 2021 and $35 million recouped as of fiscal year end 2021). OSU was awarded $65 million in Coronavirus Response and Relief Supplemental Appropriations Act 2021 (CRRSAA) funds of which $21 million is for direct student aid. Early in fiscal 2021, OSU was awarded $42 million from the state from the Corona Virus Relief

Fund. We also understand OSU was awarded $114 million in American Recovery Plan funds in fiscal 2021 that it will realize in its financial statements in fiscal 2022.

OSU's main campus in Columbus is the third-largest individual campus in the U.S., with fall 2020 headcount enrollment of 61,369 students down slightly from the prior year's 61,391. Total fall 2020 full-time equivalent (FTE) enrollment for all of OSU's campuses is 61,902, just slightly under the previous year's enrollment of 62,476. OSU benefits from strong revenue diversity with 53.2% of its adjusted operating revenue derived from its health system, 15.7% from net tuition dependence, 6.1% from state operating appropriation and 3.9% from auxiliary revenue (including the athletic department) with other sources detailed in the financial performance section of this analysis. Fiscal 2020 operations (on an adjusted basis) produced an operating surplus of $363.3 million after a surplus of $518.1 million the previous year. In our view it appears OSU will have a healthy and profitable fiscal 2021 and is likely to have the same for fiscal 2022 although not quite as profitable as fiscal 2021 when one-time pension adjustments and very favorable investment performance boosted performance in that year.

In early May 2020, OSU announced details of a $40.9 million settlement reached with 162 sexual abuse survivors in 12 of 24 civil actions brought related to Richard Strauss, a university-employed physician from 1978-1998. Strauss died in 2005. The settlements were reached as part of a confidential mediation process overseen by the federal court. We understand to date the university has reached settlements totaling $46.7 million, settling an additional seven of the civil actions, with a total of 185 individual claimants. As of Sept. 10, 2021, there were 344 remaining plaintiffs. We also understand additional lawsuits could be filed. The university on May 7, 2021, participated in a mediation process with respect to the remaining five active legal cases (civil actions) and that process closed on Sept. 4, 2021. As of Sept. 10, 2021, there were 344 remaining plaintiffs. We believe the settlements reached to date and any settlement OSU might reach with the remaining survivors will not likely affect the rating given the university's overall financial wherewithal.

## Credit overview

The 'AA' long-term ratings reflect our view of OSU's extremely strong enterprise profile and very strong financial profile, which leads to an indicative stand-alone credit profile rating of 'aa+'. However, some of the university's balance-sheet and debt metrics trail peer comparisons at the upper range of the rating category and in our view are likely to not be as strong in the near future as OSU pursues its ambitious capital expansion program thereby leading us to issue an 'AA' rating on the university's (senior secured) general receipts bonds. An example, OSU retires on a pro forma basis including the current issuance only 25% of its debt in 10 years or less and we view its adjusted unrestricted net assets to pro forma debt of 115.2% to be adequate for the rating, but not sufficient for a higher rating given management's plan to use cash and investments and additional debt issuance anticipated within the next three years to support the capital program.

OSU's extremely strong enterprise profile recognizes its role as Ohio's flagship university of the state's higher educational system that consists of 14 public universities. In addition, as the state's comprehensive academic and medical university with more than 200 undergraduate majors, 166 master's degree programs, 120 doctoral degrees, and over 12,000 different courses, OSU receives both state operating and capital support. OSU operates under an excellent common governance and management structure for all campuses with multiple levels of oversight. Also, reflected in the enterprise profile are OSU's superior economic fundamentals operating in a state that has maintained S&P Global Ratings' second-highest rating for more than two decades and maintains a GDP per capita, $62,494, that trails the U.S., $69,206, slightly.

OSU's financial profile reflects its excellent financial management policies, robust financial performance through audited fiscal 2020 and on an unaudited basis in fiscal 2021, healthy available resources in relationship to its debt and a pro forma debt burden that is just slightly higher than the median for the rating category; however, the debt burden reflects smoothing of the debt service amortization necessary per our criteria due to multiple bullet maturities.

The long-term rating on the senior-secured general receipts bonds reflects our assessment of OSU's:

- Role as Ohio's flagship university with comprehensive academic offerings, strong demand for its undergraduate, graduate, and professional programs and its role as one of the nation's top research institutions;
- Healthy financial operating performance on an adjusted (full-accrual) basis for each of the past five audited years, inclusive of the results of University Health System, and its principal affiliate--The Ohio State University Wexner Medical Center, with revenues that constitute 53.2% of the university's $7.6 billion total adjusted operating revenues in fiscal 2020;
- Favorable and low reliance on state operating support as this revenue source accounts for 6.1% of total fiscal 2020 adjusted operating revenue supplemented by limited capital support that over the past two fiscal biennia has averaged $71.6 million annually;
- Very strong available resources for the rating, with adjusted unrestricted net assets of $4.3 billion as of fiscal year end 2020 up 2.9% over the previous year's $4.2 billion and representing 59.4% of fiscal 2020 adjusted operating expenses and 115.2% of pro forma debt; and
- Very favorable philanthropic support with its current "Time and Change: The Ohio State Campaign" launched in October 2019, with a $4.5 billion goal and having raised more than $2.7 billion since its quiet phase began on Oct. 1, 2016.

Credit factors that to some degree offset these credit strengths, in our view, include:

- The university's increased debt leverage having increased its debt by more than one-third to $3.7 billion (pro forma at fiscal year-end 2020) from $2.3 billion at fiscal year-end 2012 and anticipation of additional debt issuance over the next five years;
- Limited tuition flexibility as OSU's Tuition Guarantee Program offers in-state students a locked-in rate for tuition (along with housing and dining fees) for four years. Although, we recognize the university passed a fall 2020 increase of 3.9% and 4.5% on tuition and general fees for first-year students for in-state and out-of-state students, respectively;
- Uncertainties about remaining legal and settlement costs associated with the five lawsuits still outstanding and the possibility of additional suits pertaining to Dr. Richard Strauss; and
- Financial performance that in the future may not be as robust as present results with the university's capital spending program likely placing some pressure on financial operations and key balance sheet ratios while uncertainties about the university health system's patient demand and revenue continue due to health reform.

The stable outlook reflects our belief that OSU's enrollment trend is likely to remain firm despite some continued uncertainty due to COVID-19 and its health system's patient volumes will continue to strengthen in fiscal 2022. The outlook also assumes that OSU will continue to take prudent measures to ensure the health of its community and also monitor closely its capital spending level. While the timing of additional debt issuance is uncertain, the future amount of such debt could be significant, in our view. However, OSU's healthy available resources support the rating.

The university's long-term capital plan from 2010-2015 totaled $2.03 billion and incorporated $1.64 billion of debt issuance. The largest component of the previous long-term capital plan was the $1.1 billion medical center expansion that began in 2010 and was operational in 2015. In fiscal years 2017, 2018, 2019, and 2020, the university spent $414.62 million, $497.96 million, $604.72 million, and $739.4 million, respectively, on capital while long-term debt declined slightly to $3.13 billion at fiscal year-end 2020 from $3.28 billion at the end of fiscal 2016. While we previously reported in early June 2020 that the university revised its capital plan, in light of the coronavirus pandemic, such that it would have the ability to reduce its capital plan expenditures by up to $614 million over the next six quarters, nevertheless, the university is moving forward over the next five years with most of its major capital initiatives that cumulatively total $3.4 billion.

In March 2016, OSU issued its $600 million taxable general receipts bonds that were part of a simultaneous plan to launch a $1 billion Multiyear Debt Issuance Program (MDIP) authorized by the state through June 30, 2023, of which the series 2016A issue is the first tranche of that program. The program is designed to facilitate future debt issuance by realizing certain efficiencies through advance standardization of offering documents and providing more timely access to markets when favorable economic/market opportunities arise. The initial MDIP authorization expired June 30, 2020. The current debt issuance represents the first issuance under the university's MDIP II, which was approved in August 2021 and authorizes up to $800 million in new issuance through June 30, 2025.

We believe that OSU's capital spending will remain healthy over the next five years and an increase in debt is likely as projects such as a new arts district, an interdisciplinary research facility, and an inpatient hospital, including a new central sterile facility and 1,800-space parking garage, are considered essential. University officials indicate there are no specific future debt-issuance plans at present outside of the recently authorized $800 million, but they acknowledge that funding sources for these projects may include fund-raising receipts, operating support, state capital support and debt.

In our opinion, there is a moderately high likelihood of extraordinary state support based on our government-related entities (GRE) criteria. As a result, our GRE rating and the stand-alone rating are equivalent with the university's senior rated debt, and we rate both 'aa'.

### Environmental, social, and governance (ESG) factors

Vaccine progress in the U.S. has helped alleviate some of the health and safety social risk stemming from the pandemic; however, the higher education sector remains one at a greater risk than others given the importance of resumption in pre-pandemic activities and the corresponding impact on operating revenues. However, we acknowledge the OSU seems to have been less affected by the pandemic than many other rated entities, with overall stability in enrollment and the resumption of in-person learning on a limited basis in fall 2020 and in full for fall 2021. Despite the elevated social risk, we believe OSU's environmental and governance risk are in line with our view of the sector as a whole.

## Stable Outlook

### Downside scenario

We could consider a negative rating action if OSU's enrollment declines significantly, financial operating performance on a full-accrual basis deteriorates considerably or if available resources decline. Additional debt incurrence without a commensurate increase in available resources could also result in a lower rating.

### Upside scenario

A positive rating action could be considered if enrollment remains firm, financial operating surpluses on a full accrual basis can be maintained and improvement in the ratio of available resources to operations and debt occurs (factoring in any potential additional debt issuance). Also, since health care now accounts for approximately 53.2% of revenue, consideration of a higher rating would be predicated on further patient utilization growth leading to continuation of historically robust financial operating margins offsetting some of the risks associated with changing federal and state health care reimbursement policies and capital spending plans.

## Credit Opinion

## Enterprise Profile

### Market position and demand

OSU is both Ohio's land grant institution and a flagship public university for the state's 14 public universities. Founded in 1870 under the provisions of the Morrill Land Grant Act, today, OSU is a comprehensive and major research institution with a headcount enrollment of 67,957 students in fall 2020. We understand OSU's enrollment places it among the top five of the largest universities in the country. It is also physically one of the largest universities in the country, with 1,334 structures located on 16,095 acres . In addition to the main campus in Columbus, which operates under a perpetual full-time enrollment cap of 42,000 in-state undergraduate students, OSU also has four regional campuses: Lima; Mansfield; Marion and Newark. The university also operates the Ohio Agricultural Research and Development Center in Wooster, Ohio and the Molly Caren Agricultural Center in London, Ohio along with carious other research farms throughout Ohio. Because of a number of exceptions, the university has not reached its Columbus cap. As the state's land grant institution, OSU also operates numerous agricultural-related facilities and programs and receives state support for those operating activities. The university also has one of the largest athletic departments in the country and is self-supporting with 36 varsity sports.

Since fall 2012, OSU has realized FTE enrollment increases in most years, with steady improvement in student quality indicators. Typically, slightly more than three-quarters of all students are undergraduates, and the rest are graduate and professional students. Ohio residents represent 73% of the university's total enrollment, and a current objective is to increase the number of out-of-state students from current levels; currently about 19% are domestic out-of-state students and 8% are international. OSU provides comprehensive undergraduate, graduate, and professional degrees in a wide array of academic programs. Major professional programs include law, medicine, dentistry, optometry, and veterinary medicine.

We understand the university operates one of the most comprehensive health sciences campuses in the country with The Ohio State University Wexner Medical Center serving as center of its varied health operations, which include a large teaching hospital in Columbus, a cancer hospital, and other health-related facilities. Medical center revenue (excluding OSU Physicians-the faculty practice plan) totaled $3.5 billion in fiscal 2020, which was a less than 1% increase compared with the prior year's revenue of $3.4 billion.

For fall 2020, OSU received 49,068 freshman applications at its Columbus campus, which is an increase of 2.9% from the previous year's 47,675 applications. The selectivity rate in fall 2020 was approximately 68.5%, and in general, the matriculation rate, based on a five-year annual average, is approximately 30.4% per year. We understand fall 2021 enrollment is strong according to management and in further support of that assertion stated on campus dormitory occupancy for fall 2021 is 97%.

Student quality, as measured by standardized test scores, has been steadily improving; we consider the fall 2020 average ACT score for entering freshman very good at 28.8.

### Management and governance

On June 3, 2020, OSU's board of trustees elected Kristina M. Johnson, PhD as the university's 16th president. Ms. Johnson was most recently the chancellor of the State University of New York (SUNY) and also previously served as provost and senior vice president for academic affairs at Johns Hopkins University and brings more than 30 years of experience as an academic, business, and policy leader. Ms. Johnson joined the university on Sept. 1, 2020.

On Dec. 1, 2020, Dr. "Grace" Jinliu Wang became OSU's new executive vice president of research innovation and knowledge. This is a newly created position that is expected to enhance OSU's research and strategic partnerships with a goal over the next decade of increasing total research to $2 billion from approximately $1 billion. Prior to joining the university, Dr. Wang was the senior vice chancellor for research and economic development for the State University of New York.

On Aug. 1, 2021, OSU welcomed Dr. Melissa Gilliam as its new executive vice president and provost. Dr. Gilliam previously was the vice provost at the University of Chicago and has among other professional designations a medical degree from Harvard University.

After recruiting in 2020 a new Dean of OSU's medical school, Dr. Carol Bradford, who was formerly at University of Michigan and also holds the title of Vice President for Health Sciences at The Ohio State University Wexner Medical Center, we understand the Chancellor of OSU's health system, Dr. Harold L Paz, who came to OSU in 2019, announced he is leaving on Oct. 4, 2021, to join the State University of New York-Stonybrook in a similar capacity. We anticipate a search for a successor to Dr. Paz will get underway shortly.

We believe the changes in organizational leadership are normal and the governance structure at OSU remains sound while recognizing that these transition issues have been handled in a timely and appropriate manner.

### Government-related entity profile

In accordance with our criteria for GREs, we based our view of a moderately high likelihood of extraordinary government support on our assessment of OSU's strong link with Ohio, which reflects the state's history of regular operating support, periodic capital support for academic facilities, ability to appoint the university's governing board, and relatively active role in overseeing the financial health of its public universities. In addition, we based our assessment on OSU's important role in the state's economy compared with that of other state GREs, given its position as the flagship university in the state, designated land-grant institution, and large research base with an indirect contribution to economic development in the state. The university is a state educational institution founded in 1870 by the Ohio General Assembly under provisions of the Morrill Act.

## Financial Profile

### Financial performance

OSU's financial operations are characterized by positive and consistent adjusted operating results on a full-accrual basis and very strong available resource levels--the latter strengthened by favorable investment returns for the past four fiscal years. The university's financial statements include The Ohio State University Wexner Medical Center and its hospitals and clinics, The Ohio State University Foundation, various research centers, and 13 independent legally separate corporations. Fiscal years 2020 and 2019 adjusted operating revenues were approximately $7.6 billion and $7.4 billion, respectively. We understand on a preliminary unaudited basis fiscal 2021 total operating revenue of $6.6 billion exceeds fiscal 2020's $6.3 billion. Health care activities were the largest single source of operating revenue in both fiscal years 2020 and 2019, accounting for about 53.2% of the university's overall adjusted operating revenues in fiscal 2020. Fiscal 2020 operations (on an adjusted basis) produced an operating surplus of $363.3 million after a surplus of $518.1 million the previous year. Results are even stronger on a cash basis and for fiscal 2020, adding back depreciation of $435.3 million, results in a surplus of $798.6 million consistent with prior year's results. Largely owing to good expense management and several one-time non-operating revenue items (mostly related to pension or investment performance) fiscal 2021's preliminary unaudited increase in net position per the series 2021A official statement rose to $2.96 billion from $9.4 million in fiscal 2020.

State operating appropriations to OSU decreased 1.3% to $466.9 million in fiscal 2020 from $473.1 million in fiscal 2019. OSU also received $69.9 million of state capital appropriations in fiscal 2020, $64.9 million in fiscal 2019, and $83.2 million in fiscal 2018. For fiscal 2021, OSU budgeted a state operating appropriation of $463.7 million, just slightly more than that realized in fiscal 2020, but realized an actual appropriation of $491.1 million. An appropriation similar to that realized for fiscal 2021 is budgeted for fiscal 2022.

The Ohio State University Health System demonstrated strong operating performance in fiscal years 2020 and 2019, with an operating margin of $125.5 million and $323.2 million, respectively. The lower operating performance in fiscal 2020 was almost exclusively due to the impact of COVID-19 as all key patient volume measures: inpatient admissions, outpatient visits and surgeries, declined slightly compared with fiscal 2019 patient volumes-the first time in recent years when there wasn't a year over year positive increase. Management attributes the trend of relatively healthy financial performance to increased patient volumes in all years excepting fiscal 2020, a strong payor mix, and ongoing expense control. Also, the performance of The James--one of 71 nationally designated comprehensive cancer centers and for which Medicare reimbursement is exempt from its prospective payment system rates contributes to the favorable financial results. On a combined basis, The Ohio State University Health System staffs over 1,400 inpatient beds and its Wexner Medical Center hospitals serve more than 64,000 adult inpatients and almost 1.9 million outpatients per year. We understand patient volumes rebounded in fiscal 2021 and the health system outperformed its budget.

### Available resources

In our opinion, OSU has a healthy financial cushion for a public university. OSU closed fiscal 2020 with cash and investments of $9.8 billion, up 4.2% over the previous year's balance of $9.4 billion, or 136.0% of adjusted fiscal 2020 operating expenses and 263.7% of total pro forma debt of $3.7 billion. Adjusted unrestricted net assets (UNA) rose 2.9% in fiscal 2020 to $4.3 billion from $4.2 billion in the previous year. The adjusted UNA balance at fiscal year-end 2020 is equivalent to 59.4% of adjusted operating expenses and 115.2% of pro forma debt. The increase in cash and investments, and to an extent adjusted UNA, reflects positive investment performance, healthy financial operating performance, record-setting fundraising and receipt of money from the leasing of non-core assets.

We understand the university's additional debt plans at present are uncertain as to the exact timing, but management indicates that it will probably be just beyond two years before the university issues its next, new money, additional bond issuance. OSU continues to assess market conditions and its other funding sources to determine the optimal time for considering additional debt issuance. We anticipate that through June 30, 2025, OSU may issue up to its remaining $200 million of its $800 million current authorization in additional debt to support its key projects in the capital plan, the largest of which is an estimated $1.9 billion new inpatient hospital and other associated facilities such as a parking garage.

The university closed fiscal 2020 with a long-term investment pool of $5.29 billion up 10.6% over the prior year's $5.26 billion. We understand, based on preliminary unaudited results, the long-term investment pool's market value rose to $6.8 billion at fiscal year-end 2021. Management reports that the return for the long-term investment pool was 1.1% for fiscal 2020 compared with a return of 1.2% in fiscal 2019, a return of 7.7% for fiscal 2018 and negative 14.5% for fiscal 2017. The return for fiscal 2021 on a preliminary basis is 29.2%. The long-term investment pool as of June 30, 2021, is invested in a diversified mix of asset classes, the largest of which was equities at 42.8% followed by private equity at 27.5%, real assets at 10.6%, other at 10.3% (includes hedge funds and cash) and fixed income at 8.8%. In addition to its long-term investment pool, which provides a spending distribution, the university maintains substantial operating reserves, which consist of highly liquid investments.

In fiscal 2017, OSU adopted a new spending policy that increased the annual distribution to 4.5% from 4.25% of a seven-year market value average per share. Before fiscal 2011, the university-based distributions on a five-year average, with the spending rates varying over time. In fiscal 2020 the spending rate was 4.39% if based off the beginning market value over that period and 4.37% if based off of the ending market value.

The university concluded its "But for Ohio State" fundraising campaign at the end of September 2016, that went public in 2012, realizing more than $3.0 billion in gifts, surpassing its goal of $2.5 billion by $500 million and nine months ahead of schedule. In September 2016 the quiet phase of OSU's current Time and Change: The Ohio State Campaign began and was formally announced on Oct. 4, 2019. The campaign's goal is $4.5 billion, and over $2.7 billion has been raised thus far. We understand the university's annual fundraising approached $300 million in fiscal 2020. We believe OSU has significant fundraising potential, with a large base of loyal alumni. The alumni-participation rate as of fiscal 2020 was 12.6%.

### Debt and contingent liabilities

OSU's outstanding debt at its latest audited fiscal year-end June 30, 2020, totaled $3.1 billion (inclusive of capital leases and notes). On a pro forma basis debt will rise to $3.7 billion with the current issuance. Of the bonds outstanding at fiscal year-end 2021, 90% are fixed rate and 10% are variable-rate demand bonds (VRDBs). The current series 2021A issuance is all fixed rate. The university has historically had a commercial paper (CP) program, but no CP notes are outstanding as of June 30, 2020 and 2021. OSU, as of fiscal year end 2021, has approximately $290.0 million of outstanding VRDBs secured by general receipts and supported by its own liquidity. Investments that are available to support the university's liquidity for the VRDBs consist primarily of cash, rated money market funds, publicly traded domestic equities, and U.S. Treasury and agency securities. S&P Global Ratings monitors the quality and availability of these funds on a monthly basis. We understand as of July 31, 2021, OSU had more than 10.0x of surplus funds available on a same day or next day basis to support the level of its VRDB exposure.

If OSU issues its full remaining $200 million of its authorized $800 million in additional debt through June 30, 2025, pro forma debt should remain at its current level approximately after giving effect to planned principal repayment of about $60 million annually. As OSU issued its series 2016A bonds with a long-term bullet maturity with principal due in fiscal years 2047 and 2057 and has previously issued $500 million of debt with a bullet maturity for principle amortization of 2111 we consider (smoothed) pro forma MADS of $265.3 million slightly elevated for the rating category at 3.7% of fiscal 2020 adjusted operating expenses. The university has entered into two interest rate swaps in connection with a future refunding in June 2023 of series 2013A bonds of a notional amount of $328 million.

OSU's facilities are extensive and require considerable renewal and expansion. However, we still consider the average age of plant moderate at 11.7 years, and consistent with other public universities in the 'AA' rating category. OSU plans to use fundraising results for addressing physical facility's needs, state capital support and on a more limited basis debt.

The university's debt policy establishes a debt limit to keep debt service at less than 5% of operating expenses.

With the implementation in fiscal 2015 of Governmental Accounting Standards Board Statement No. 68 OSU recorded a $2.8 billion pension liability. At fiscal year-end 2020, the net pension liability was $3.0 billion. The university does not provide post-retirement health care and other postemployment benefits (OPEB), these are provided by the state retirement systems according to OSU officials. However, the university's allocated share of both liabilities is reflected on its balance sheet. The net OPEB liability at fiscal year-end 2020 is $1.4 billion. We understand that combined pension and OPEB liability amounts are expected to decline significantly when fiscal year 2021 audited results are available.

OSU participates in contributory retirement plans administered by the State Teachers Retirement System of Ohio (STRS) and the Ohio Public Employees Retirement System (OPERS). As an alternative to STRS and OPERS, eligible employees may elect to participate in the university's Alternative Retirement Plan (a defined-contribution plan). By far the largest percentage of OSU employees contribute to OPERS. STRS and OPERS offer three separate retirement plans: a defined-benefit plan, a defined-contribution plan, and a combined plan. The defined-benefit plans are cost-sharing multiple-employer defined-benefit pension plans. OSU's pension expense in fiscal 2020 totaled $808 million--just over 11% of adjusted operating expenses and, in our view, quite manageable. OSU made required contributions for its participation in these plans of $379.9 million in fiscal 2020, a 6.1% increase over fiscal 2019's required contribution of $358.2 million. We understand the overall funding level of the state sponsored plans is 77%. For additional information on the plans, see our report on Ohio, published Nov. 23, 2020, on RatingsDirect).

The university has various operating leases in place with annual payments ranging from $19.8 million in fiscal 2022 to less than $2 million annually after fiscal 2036 and these payments appear manageable at the current rating.

In early July of 2017, the university entered into a 50-year lease and concession agreement with an unaffiliated party, Ohio State Energy Partners, to manage its on-campus energy systems including its electricity, chilled water/cooling, steam/heating, and natural gas. The university realized a substantial up-front payment of $1.1 billion. The OSU board of trustees approved the establishment of a $700 million Strategic Initiatives Endowment Fund with the proceeds of the partnership. This fund will support student scholarships for low- and moderate-income students, teaching excellence programs for faculty and other academic priorities according to university officials. In addition, nine other endowment funds that support programs in the graduate school, four faculty chairs, and additional student scholarships were established. In 2018, $250 million of the proceeds from the partnership were earmarked to fund future capital projects and are invested in the university's short- and intermediate-term pool. One goal of the partnership is to improve energy efficiency on the Columbus campus by at least 25% in the first decade of the agreement.

In September 2012, OSU closed on a 50-year lease and concession agreement with Queensland Investment Corp. (QIC) for its parking facilities. Upon the expiration of the lease, the parking facilities revert to the university. In accordance with the terms of this agreement, parking revenues will flow to the private operator rather than the university and, in return, the university received a $483 million up-front payment from QIC. The university defeased $75 million of debt related to the parking facilities with internal funds in November 2012. OSU is investing the up-front payment proceeds in its long-term investment pool. The university is using the distributions over the 50-year horizon for various purposes such as faculty initiatives and research support, transportation, and sustainability initiatives, student scholarships, and support of a university arts district with specific amounts for each category up to the total $483 million realized from the privatization.

**Ohio State University, Ohio Enterprise And Financial Statistics**

| | --Fiscal year ended June 30-- | | | | | Medians for 'AA' rated public colleges and universities |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2019** | **2018** | **2017** | **2020** |
| **Enrollment and demand** | | | | | | |
| Headcount | 67,957 | 68,262 | 68,100 | 66,444 | 66,046 | MNR |
| Full-time equivalent | 61,902 | 62,476 | 62,495 | 61,016 | 60,701 | 38,513 |
| Freshman acceptance rate (%) | 72.9 | 62.6 | 61.2 | 55.6 | 60.4 | 68.9 |
| Freshman matriculation rate (%) | 27.1 | 28.9 | 30.1 | 32.1 | 33.8 | MNR |
| Undergraduates as a % of total enrollment (%) | 78.8 | 78.6 | 78.9 | 79.0 | 79.3 | 78.7 |
| Freshman retention (%) | N.A. | 93.9 | 94.1 | 94.5 | 94.2 | 86.7 |
| Graduation rates (six years) (%) | 87.0 | 85.8 | 83.5 | 82.5 | 83.6 | MNR |
| **Income statement** | | | | | | |
| Adjusted operating revenue ($000s) | N.A. | 7,588,045 | 7,434,311 | 6,931,134 | 6,556,574 | MNR |

**Ohio State University, Ohio Enterprise And Financial Statistics (cont.)**

| | --Fiscal year ended June 30-- | | | | | Medians for 'AA' rated public colleges and universities |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2019** | **2018** | **2017** | **2020** |
| Adjusted operating expense ($000s) | N.A. | 7,224,791 | 6,916,194 | 6,489,329 | 6,126,792 | MNR |
| Net adjusted operating income ($000s) | N.A. | 363,254 | 518,117 | 441,805 | 429,782 | MNR |
| Net adjusted operating margin (%) | N.A. | 5.03 | 7.49 | 6.81 | 7.01 | 0.80 |
| Estimated operating gain/loss before depreciation ($000s) | N.A. | 798,538 | 938,623 | 843,940 | 811,535 | MNR |
| Change in unrestricted net assets (UNA; $000s) | N.A. | (316,878) | (101,134) | (512,699) | 210,025 | MNR |
| State operating appropriations ($000s) | N.A. | 461,838 | 469,679 | 475,593 | 473,061 | MNR |
| State appropriations to revenue (%) | N.A. | 6.1 | 6.3 | 6.9 | 7.2 | 19.3 |
| Student dependence (%) | N.A. | 19.6 | 20.6 | 21.1 | 21.6 | 40.0 |
| Health care operations dependence (%) | N.A. | 53.2 | 53.7 | 52.4 | 51.0 | MNR |
| Research dependence (%) | N.A. | 6.4 | 6.4 | 6.6 | 6.6 | MNR |
| Endowment and investment income dependence (%) | N.A. | 2.6 | 2.7 | 2.3 | 1.8 | 1.3 |
| **Debt** | | | | | | |
| Outstanding debt ($000s) | N.A. | 3,126,632 | 3,127,455 | 3,151,711 | 3,206,636 | 1,021,735 |
| Proposed debt ($000s) | N.A. | 600,000 | N.A. | N.A. | N.A. | MNR |
| Total pro forma debt ($000s) | N.A. | 3,726,632 | N.A. | N.A. | N.A. | MNR |
| Pro forma MADS | N.A. | 265,273 | N.A. | N.A. | N.A. | MNR |
| Current debt service burden (%) | N.A. | 2.63 | 2.79 | 4.15 | 3.35 | MNR |
| Current MADS burden (%) | N.A. | 3.24 | 3.49 | 3.87 | 4.04 | 3.30 |
| Pro forma MADS burden (%) | N.A. | 3.67 | N.A. | N.A. | N.A. | MNR |
| **Financial resource ratios** | | | | | | |
| Endowment market value ($000s) | N.A. | 1,038,113 | 1,070,008 | 1,104,236 | 1,062,321 | 999,171 |
| Related foundation market value ($000s) | N.A. | 996,177 | 969,429 | 958,750 | 877,261 | 681,584 |
| Cash and investments ($000s) | N.A. | 9,825,338 | 9,437,085 | 9,106,014 | 7,430,229 | MNR |
| UNA ($000s) | N.A. | (292,026) | 24,852 | 125,986 | 638,685 | MNR |
| Adjusted UNA ($000s) | N.A. | 4,292,987 | 4,173,913 | 3,716,659 | 3,229,057 | MNR |
| Cash and investments to operations (%) | N.A. | 136.0 | 136.4 | 140.3 | 121.3 | 53.0 |
| Cash and investments to debt (%) | N.A. | 314.2 | 301.7 | 288.9 | 231.7 | 167.7 |
| Cash and investments to pro forma debt (%) | N.A. | 263.7 | N.A. | N.A. | N.A. | MNR |
| Adjusted UNA to operations (%) | N.A. | 59.4 | 60.3 | 57.3 | 52.7 | 36.2 |
| Adjusted UNA plus debt service reserve to debt (%) | N.A. | 137.3 | 133.5 | 117.9 | 100.7 | 104.9 |
| Adjusted UNA plus debt service reserve to pro forma debt (%) | N.A. | 115.2 | N.A. | N.A. | N.A. | MNR |
| Average age of plant (years) | N.A. | 11.7 | 11.3 | 10.9 | 10.7 | 13.6 |

| Ohio State University, Ohio Enterprise And Financial Statistics (cont.) | | | | | | |
|---|---|---|---|---|---|---|
| | --Fiscal year ended June 30-- | | | | | Medians for 'AA' rated public colleges and universities |
| | **2021** | **2020** | **2019** | **2018** | **2017** | **2020** |
| OPEB liability to total liabilities (%) | N.A. | 11.5 | 10.8 | 11.7 | N.A. | MNR |

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

## Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

| Ratings Detail (As Of September 15, 2021) | | |
|---|---|---|
| Ohio St Univ | | |
| *Long Term Rating* | AA-/Stable | Affirmed |
| Ohio St Univ gen receipts bnds | | |
| *Long Term Rating* | AA/Stable | Affirmed |
| Ohio St Univ PCU_USF | | |
| *Long Term Rating* | AA/Stable | Affirmed |
| Ohio St Univ PCU_USF | | |
| *Long Term Rating* | AA/Stable | Affirmed |
| Ohio St Univ PCU_USF | | |
| *Long Term Rating* | AA/Stable | Affirmed |
| Ohio St Univ PCU_USF | | |
| *Long Term Rating* | AA/Stable | Affirmed |
| Ohio St Univ PCU_USF | | |
| *Long Term Rating* | AA/A-1+/Stable | Affirmed |
| Ohio St Univ PCU_USF | | |
| *Long Term Rating* | AA/A-1+/Stable | Affirmed |
| Ohio St Univ PCU_USF | | |
| *Long Term Rating* | AA/A-1+/Stable | Affirmed |
| Ohio St Univ PCU_USF | | |
| *Long Term Rating* | AA/A-1+/Stable | Affirmed |
| Ohio St Univ PCU_USF | | |
| *Long Term Rating* | AA/Stable | Affirmed |