Fitch Rates The Ohio State Univ General Receipts Bonds 'AA'; Outlook Stable

Fitch Ratings-New York-19 February 2016: Fitch Ratings has assigned an 'AA' rating to The Ohio State University (OSU) $600 million general receipts bonds (Multiyear Debt Issuance Program), series 2016A (federally taxable) and $30 million series 2016 B tax-exempt refunding bonds.

The bonds are expected to sell the week of Feb. 29, 2016 via a negotiated sale. Series 2016A bond proceeds will be used for ongoing improvements to the capital plant, consisting of new construction and improvements, upgrades, renovations and repairs, in addition to the costs of issuance. Series 2016B bond proceeds will be used to currently refund outstanding series 2005A bonds.

At the same time, Fitch affirms the following ratings:

--$636.3 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';
--$596.4 million variable rate GRBs at 'AA/F1+'.

The Rating Outlook is Stable.

Security

The bonds are senior lien obligations, with 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.

Key Rating Drivers

Flagship Credit Characteristics: The 'AA' rating is supported by OSU's position as the state's flagship public university, exhibiting consistently positive financial performance, a fairly diverse revenue base, and solid balance sheet resources and liquidity.

Diverse Revenue Streams: OSU's primary revenue streams are diverse and show relative stability. Healthcare operations, which account for half of total operating revenues, continue to grow, along with growth in net tuition and fee revenues. As with most institutions with exposure to federal research funding, research revenues have seen some fluctuations, along with some variability in state funding for operations.

Positive Operating Performance: The consistent profitability of The Ohio State University Health System (OSUHS), the clinical care component of The Ohio State University Wexner Medical Center (OSUWMC) and an integral part of the university, strongly supports the rating. Positive healthcare operations are driven by healthy volume and utilization trends.

Sufficient Liquid Resources: The 'F1+' rating reflects the adequacy of OSU's internal liquidity resources to meet optional and mandatory tenders presented by its variable-rate debt obligations. Such resources are in excess of Fitch's 1.25x requirement.
BALANCED OPERATIONS: Rating stability is predicated on The Ohio State University's (OSU) ability to maintain fiscal balance in both healthcare and academic operations.

FINANCIAL DETERIORATION: Erosion to OSU's internal resource base or to the university's broader general revenue credit to the point where the university could no longer sufficiently cover its variable-rate obligations, while unlikely, would put downward pressure on the rating.

CREDIT PROFILE

The Ohio State University, founded in 1870, is one of 13 state-supported universities in Ohio and it is the state's flagship university, as well as a designated land grant institution. The main campus is located in Columbus on approximately 1,592 acres and is also the location of The Ohio State University Wexner Medical Center (medical center). The university operates extended campuses in Lima, Mansfield, Marion, and Newark.

The main campus, 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 2015 enrollment was 58,663, and overall enrollment reached 65,184. The academic organization consists of 15 colleges, 10 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 OSUHS (which includes various hospitals and clinics). Collectively the medical center hospitals serve more than 57,000 adult inpatients and more than 1.5 million outpatients annually.

REVENUE DIVERSITY SUPPORTS OPERATING PERFORMANCE

OSU’s revenue base is diverse, with the largest components being healthcare operations, student generated revenues, and grants and contracts, at 50%, 20% and 14%, respectively. The strong operating results in recent years have largely been attributed to strong healthcare operations.

As of June 30, 2015, available funds totaled $4.6 billion, equal to approximately 89% of total operating expenses and about 165% of debt. With the incorporation of $1 billion of additional debt authorized to be issued under the Multiyear Debt Issuance Program, inclusive of the series 2016 A and B bonds, the available funds to debt ratio declines, but is still acceptable for the rating category, at approximately 122%.

STRONG OPERATING PLATFORMS

Enrollment at OSU remains very stable, as is typical of a comprehensive public flagship institution, with a compound annual growth rate (CAGR) of 1% over the past five years. The majority of students are Ohio residents, at approximately 76%; however, the remaining 24% are from diverse locations, including all 50 states and 110 countries.

Student quality, as measured by standardized test scores, is very strong, with the fall 2015 entering freshmen class with an average ACT score of 28.9, versus the national average of about 21. Retention is also high, with 94% of freshmen returning for their sophomore year in fall 2015.
OSU’s health system is comprehensive, with approximately 1,300 beds, and is a major tertiary and quaternary referral center for Ohio and the Midwest. Volumes have been trending positive, with growing numbers of inpatient admissions, outpatient visits and increasing surgeries.

The recently opened Arthur James Cancer Hospital is a 306 bed facility and is the Midwest’s largest cancer hospital and third largest cancer hospital in the United States. Management reports that OSU’s improving operating margins are largely attributable to the results generated from the cancer hospital.

GROWING BUT STILL MANAGEABLE DEBT BURDEN

OSU continues to have a manageable level of debt; however, the structure in recent years has changed, with the inclusion of a $500 million century bond and other bullet maturities. The annual debt burden (debt service as a percentage of operating revenues) in fiscal 2015 was a relatively low 3.1%; however, with the inclusion of the bullets, the pro forma burden escalates to a high 14.1%. Concern over the high burden is mitigated though, as maximum annual debt service (MADS) doesn’t occur until 2040 and the calculation is based on 2015 revenues.

Annual debt service coverage has remained relatively healthy the past five years, averaging 2.74x and reached 4.1x in fiscal 2015. However, as with the burden, with the incorporation of the bullets and additional debt, pro forma MADS coverage declines to 0.8x.

At this time, there are no additional debt issuance plans beyond the $1 billion authorized to be issued under the Multiyear Debt Issuance Program.

LIQUIDITY SUPPORTS SHORT-TERM OBLIGATIONS

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 Jan. 31, 2016, the cash portion alone of the pool totaled $1.21 billion, versus $596.4 million outstanding variable debt obligations, well in excess of the 1.25x required for an ‘F1+’ rating. In addition to the cash, there is another $1 billion of resource available in the pool to support short-term obligations.

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Fitch's rating relies on certain information provided by Barclays acting as underwriter.

Applicable Criteria
Rating U.S. Public Finance Short-Term Debt (pub. 17 Nov 2015)
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
U.S. College and University Rating Criteria (pub. 12 May 2014)

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