



**Department of  
Higher Education**

John R. Kasich, Governor  
John Carey, Chancellor

**DIRECTIVE 2017-082**

August 14, 2017

**Re: CONSIDERATION OF A REQUEST BY THE OHIO STATE UNIVERSITY TO PLEDGE FEES IN SUPPORT OF A BOND ISSUANCE NOT TO EXCEED \$400,000,000 TO BE USED TO FINANCE VARIOUS CAPITAL PROJECTS**

Ohio Revised Code §3345.11 enables a state university or college to issue general receipts obligation bonds in the manner provided by and subject to the applicable provisions of Ohio Revised Code §3345.12.

§381.390 of Am. Sub. H.B. 49 of the 132<sup>nd</sup> General Assembly requires that any new pledge of fees to secure bonds or notes of a state college or university be approved by the Chancellor of the Ohio Department of Higher Education.

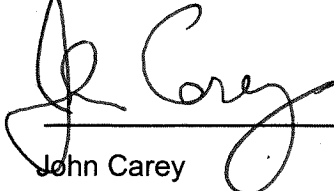
Pursuant to Ohio Revised Code, the Ohio State University has demonstrated the following:

- The proposed project is essential to fulfilling institutional goals.
- The institution's Board of Trustees approved a resolution authorizing this bond issuance during their June 9, 2017 meeting.
- The institution's proposal complies with §3345.11 and §3345.12.

Agency staff reviewed the request and posted its recommendations to the Department of Higher Education's web site for purposes of providing a period of public comment before final approval by the Chancellor. The materials posted for comment and the request to pledge fees are attached to this document.

Based on my review of staff recommendations, I hereby approve the request to pledge fees by the Ohio State University in support of general receipts obligation bonds in an aggregate amount not to exceed \$400,000,000. Furthermore, any increase in fees to support this issuance shall not be exempt from any future restraint to increases in undergraduate instructional and general fees imposed by the General Assembly.

This directive will take effect immediately.



John Carey  
Chancellor, Ohio Department of Higher Education

MLC

End of Comment Period: August 10, 2017  
No comments received, recommend approval

**RECOMMENDATION**

The Office of the Vice Chancellor for Finance has verified that Ohio State University has demonstrated that their request to pledge fees in support of general receipts obligation bonds, in an aggregate amount not to exceed \$400,000,000 meets all the required guidelines for approval.

Signature

A handwritten signature in black ink, appearing to read "Jim R. Smith", written over a horizontal line.

8/14/17  
Date



Geoffrey S. Chatas  
Chief Financial Officer  
Bricker Hall Suite 108  
190 North Oval Mall  
Columbus, OH 43201  
Phone: 614-292-7970

June 29, 2017

Mr. John Carey, Chancellor  
The Ohio Department of Higher Education  
25 South Front St., 7<sup>th</sup> Floor  
Columbus, OH 43215

Dear Chancellor Carey:

The Ohio State University is seeking renewal from The Ohio Department of Higher Education to pledge University general receipts in support of the multiyear debt issuance program for up to \$1 billion through the fiscal year ending June 30, 2018. To date, the University has issued \$600 million of the originally authorized \$1 billion under the program. This request is to allow for the University to issue the remaining \$400 million in general receipts bonds through the fiscal year ending June 30, 2018.

The University's goal is to work collaboratively with The Ohio Department of Higher Education to continue the multiyear debt issuance platform and efficiently raise funds for approved capital projects. Remaining debt would be issued through a single or series of separate tranches issued in various amounts, durations and market-favorable modes over an approved time period and structured as a general receipts pledge. The platform is modeled after corporate "shelf" style debt issuance programs.

The proposed debt will have no direct impact on student tuition and fees. The Ohio State University does not anticipate using unrestricted student fee revenues to service the debt for the approved capital projects. Student fees will not increase as a direct result of debt issued under this platform.

On June 5, 2015, The Ohio State University Board of Trustees approved authority to issue up to \$1 billion of bonds through June 30, 2018. On June 9, 2017, The Ohio State University Board of Trustees amended the resolution to exclude obligations issued for refunding purposes from the limitation on the total amount of debt to be issued under the original resolution. A copy of the amending board authorization is attached.



THE OHIO STATE UNIVERSITY

**Office of Business and Finance**

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190 North Oval Mall  
Columbus, OH 43201  
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Thank you for your consideration of this request. If you require additional information, please contact Michael Papadakis, Deputy Chief Financial Officer, Treasurer and Vice President of Financial Services & Innovation at The Ohio State University (614) 292-8520 or [papadakis.6@osu.edu](mailto:papadakis.6@osu.edu).

Sincerely,

Geoff Chatas  
Senior Vice President and CFO

cc: Jim Bennett, Vice Chancellor, Finance and Data Management, The Ohio Department of Higher Education



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**The Ohio State University**  
**General Receipts Pledge Request Renewal - \$1 Billion**  
**(\$600 Million issued to date - \$400 Million remaining)**

**Single Campus Liaison or Contact**

Michael Papadakis, Deputy Chief Financial Officer, Treasurer and Vice President of Financial Services & Innovation, 614-292-8520, papadakis.6@osu.edu.

**Project Description**

Proceeds will be used for capital projects in various categories, including Academic, Student Life, Infrastructure, Wexner Medical Center, Athletics, and as otherwise permitted by sections 3345.11 and 3345.12 of the Ohio Revised Code.

As the University moves forward with the approved projects through the remainder of the term, adjustments may be made to the existing list of projects and additional projects will be added. An overview of the approved projects by category, and a general description with estimates of the projects that may be added prior to the end of the term are set forth below.

**Academic - \$410,000,000 (\$81,000,000 near term)**

Academic capital improvements to be approved by the University Board of Trustees include the early stages of the Arts District build-out, Koffolt-Fontana advanced materials corridor renovation, expansion and renovation of the College of Dentistry's Postle Hall, a controlled environment food production complex at Waterman Agriculture and Natural Resources Laboratory, a vet hospital simulation lab and a new multispecies research facility for large animals. Proposed Academic capital projects that may be added to the list of near term Academic capital improvements by the Board of Trustees prior to the end of the term include new and/or renovated facilities for a number of our colleges, renovating science laboratories and research facilities, and various academic building renovations or demolitions.

**Student Life - \$20,000,000 (\$10,000,000 near term)**

Student Life capital improvements to be approved by the University Board of Trustees include annual reinvestment in existing housing, dining, rec sports and student activity facilities.

**Infrastructure - \$282,300,000 (\$128,300,000 near term)**

Infrastructure capital improvements that have already been approved by the University Board of Trustees include the relocation of Cannon Drive. Infrastructure capital projects that may be added to the list of near term Infrastructure capital improvements by the Board of Trustees prior to the end of the term include a centralized maintenance facility and various renewal/replacement projects.



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**Ohio State University Wexner Medical Center - \$1,126,900,000 (\$466,900,000 near term)**

OSUWMC capital improvements focus on four tier one priorities to support strategic planning: research facilities, College of Medicine and Integrated Health Sciences Facilities, ambulatory facilities and enhanced inpatient care facilities. OSUWMC investments in Health Sciences education include upgraded and flexible facilities to create a collaborative campus for inter-professional education throughout the Health Sciences disciplines. Inpatient services desire best-of-class hospital facilities and inpatient clinical space with a focus on teaching, research and evidence-based health care and design. Best-of-class ambulatory facilities and clinical spaces with a focus on teaching, research and evidence-based health care and design will be the focus for outpatient services.

**Athletics - \$42,300,000 (\$17,300,000 near term)**

Athletics capital improvement projects to be approved by the University Board of Trustees include upgrades to stadium and arena Wi-Fi network, student athlete study and nutrition areas, and various replacement and renewal projects.



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### Debt Service Schedule

The debt service schedule shown is a conservative estimate for the remaining \$400 million debt issuance with a 30-year amortization and 4.00% fixed interest rate. The university's intent is to issue debt as needed for approved capital projects.

<table><tr><td>Loan Amount</td><td>\$ 400,000,000</td></tr><tr><td>Fixed Interest Rate</td><td>4.00%</td></tr><tr><td>Years</td><td>30</td></tr></table>								Loan Amount	\$ 400,000,000	Fixed Interest Rate	4.00%	Years	30
Loan Amount	\$ 400,000,000												
Fixed Interest Rate	4.00%												
Years	30												
Fiscal Year	Balance	Multiyear Debt Service	Principal Payment	Interest Payment	Ending Balance	Total Current Debt Service	Total Debt Service						
2018	\$ 400,000,000	\$ 23,132,040	\$ 7,132,040	\$ 16,000,000	\$ 392,867,960	\$ 181,015,589	\$ 204,147,629						
2019	\$ 392,867,960	\$ 23,132,040	\$ 7,417,321	\$ 15,714,718	\$ 385,450,639	\$ 181,694,278	\$ 204,826,318						
2020	\$ 385,450,639	\$ 23,132,040	\$ 7,714,014	\$ 15,418,026	\$ 377,736,625	\$ 175,721,393	\$ 198,853,433						
2021	\$ 377,736,625	\$ 23,132,040	\$ 8,022,575	\$ 15,109,465	\$ 369,714,050	\$ 176,272,406	\$ 199,404,446						
2022	\$ 369,714,050	\$ 23,132,040	\$ 8,343,478	\$ 14,788,562	\$ 361,370,573	\$ 184,144,557	\$ 207,276,597						
2023	\$ 361,370,573	\$ 23,132,040	\$ 8,677,217	\$ 14,454,823	\$ 352,693,356	\$ 175,018,681	\$ 198,150,721						
2024	\$ 352,693,356	\$ 23,132,040	\$ 9,024,305	\$ 14,107,734	\$ 343,669,051	\$ 172,068,784	\$ 195,200,824						
2025	\$ 343,669,051	\$ 23,132,040	\$ 9,385,278	\$ 13,746,762	\$ 334,283,773	\$ 155,786,228	\$ 178,918,268						
2026	\$ 334,283,773	\$ 23,132,040	\$ 9,760,689	\$ 13,371,351	\$ 324,523,084	\$ 155,932,800	\$ 179,064,840						
2027	\$ 324,523,084	\$ 23,132,040	\$ 10,151,116	\$ 12,980,923	\$ 314,371,968	\$ 158,760,650	\$ 181,892,690						
2028	\$ 314,371,968	\$ 23,132,040	\$ 10,557,161	\$ 12,574,879	\$ 303,814,807	\$ 158,365,111	\$ 181,497,151						
2029	\$ 303,814,807	\$ 23,132,040	\$ 10,979,447	\$ 12,152,592	\$ 292,835,360	\$ 139,387,685	\$ 162,519,725						
2030	\$ 292,835,360	\$ 23,132,040	\$ 11,418,625	\$ 11,713,414	\$ 281,416,734	\$ 139,496,428	\$ 162,628,468						
2031	\$ 281,416,734	\$ 23,132,040	\$ 11,875,370	\$ 11,256,669	\$ 269,541,364	\$ 133,955,228	\$ 157,087,268						
2032	\$ 269,541,364	\$ 23,132,040	\$ 12,350,385	\$ 10,781,655	\$ 257,190,979	\$ 209,072,209	\$ 232,204,249						
2033	\$ 257,190,979	\$ 23,132,040	\$ 12,844,400	\$ 10,287,639	\$ 244,346,578	\$ 207,171,675	\$ 230,303,715						
2034	\$ 244,346,578	\$ 23,132,040	\$ 13,358,177	\$ 9,773,863	\$ 230,988,402	\$ 125,722,998	\$ 148,855,038						
2035	\$ 230,988,402	\$ 23,132,040	\$ 13,892,504	\$ 9,239,536	\$ 217,095,898	\$ 125,788,522	\$ 148,920,562						
2036	\$ 217,095,898	\$ 23,132,040	\$ 14,448,204	\$ 8,683,836	\$ 202,647,695	\$ 123,663,670	\$ 146,795,710						
2037	\$ 202,647,695	\$ 23,132,040	\$ 15,026,132	\$ 8,105,908	\$ 187,621,563	\$ 114,004,904	\$ 137,136,944						
2038	\$ 187,621,563	\$ 23,132,040	\$ 15,627,177	\$ 7,504,863	\$ 171,994,386	\$ 112,881,150	\$ 136,013,190						
2039	\$ 171,994,386	\$ 23,132,040	\$ 16,252,264	\$ 6,879,775	\$ 155,742,121	\$ 109,197,316	\$ 132,329,356						
2040	\$ 155,742,121	\$ 23,132,040	\$ 16,902,355	\$ 6,229,685	\$ 138,839,767	\$ 108,727,482	\$ 131,859,522						
2041	\$ 138,839,767	\$ 23,132,040	\$ 17,578,449	\$ 5,553,591	\$ 121,261,318	\$ 158,473,032	\$ 181,605,072						
2042	\$ 121,261,318	\$ 23,132,040	\$ 18,281,587	\$ 4,850,453	\$ 102,979,731	\$ 233,041,082	\$ 256,173,122						
2043	\$ 102,979,731	\$ 23,132,040	\$ 19,012,850	\$ 4,119,189	\$ 83,966,880	\$ 181,054,844	\$ 204,186,884						
2044	\$ 83,966,880	\$ 23,132,040	\$ 19,773,364	\$ 3,358,675	\$ 64,193,516	\$ 105,094,607	\$ 128,226,647						
2045	\$ 64,193,516	\$ 23,132,040	\$ 20,564,299	\$ 2,567,741	\$ 43,629,217	\$ 104,819,369	\$ 127,951,409						
2046	\$ 43,629,217	\$ 23,132,040	\$ 21,386,871	\$ 1,745,169	\$ 22,242,346	\$ 105,097,257	\$ 128,229,297						
2047	\$ 22,242,346	\$ 22,242,346	\$ 21,352,652	\$ 889,694	\$ -	\$ 104,810,282	\$ 127,052,628						
		\$ 693,071,496	\$ 399,110,306	\$ 293,961,190									



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### **Financial Ratio Analysis**

Through the 1997 enactment of Senate Bill 6, the 122<sup>nd</sup> General Assembly established a standardized method for monitoring the financial health of Ohio's state-assisted colleges and universities. Subsequently, the administrative rules used to guide the implementation of S.B. 6 identified three financial ratios to evaluate an institution's fiscal health. The rules also established threshold factors for ranges of ratios, and created a weighted score of the threshold factors, termed the *composite score*, which provides a summary statistic to evaluate an institution's financial stability. The ratios and composite score are described in greater detail below, including how The Ohio State University performed when these measures are applied to its FY 2013, FY 2014, FY2015 and FY 2016 audited financial statements – the most up-to-date financial data available.

NOTE: The FY 2016 data shown in *italics* reflects the ratios and composite score when approximately \$400 million in new debt and \$23,132,040 in new debt service are added to the calculations. Other factors not taken into account here include the impact of the new debt on the University's expendable net assets, the effects of GASB 68 *Accounting and Financial Reporting for Pensions*, the future retirement of existing debt obligations, and future changes in revenues and expenses.

#### **1. Viability Ratio**

The viability ratio is defined as expendable net assets divided by plant debt. This ratio is a measure of an institution's ability to retire its long-term debt using available current resources. A viability ratio in excess of 100% indicates that the institution has expendable fund balances in excess of its plant debt. Pursuant to this analysis, a viability ratio of 60% or greater is considered good, while a ratio below 30% might be a cause for concern. The Ohio State University's viability ratios for FY 2013, FY 2014, FY2015 and FY 2016 are as follows:

<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u><i>FY 2016*</i></u>
82.5%	117.1%	117.9%	106.1%	<i>94.9%</i>

#### **2. Primary Reserve Ratio**

The primary reserve ratio is defined as expendable net assets divided by total operating expenses. This ratio is one measure of an institution's ability to continue operating at current levels without future revenues. Pursuant to the S.B. 6 analysis, a ratio of 10% or greater is considered good, while a ratio below 5% would be a cause for concern. The Ohio State University's primary reserve ratios for FY 2013, FY 2014, FY2015 and FY 2016 are as follows:

<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u><i>FY 2016*</i></u>
45.4%	60.5%	63.3%	63.4%	<i>63.2%</i>

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### 3. Net Income Ratio

The net income ratio represents the change in total net assets divided by total revenues. This ratio is an important measure of an institution's financial status in terms of current year operations. A negative net income ratio results when an institution's current year expenses exceed its current year revenues. A positive net income ratio indicates that the institution experienced a net increase in current year fund balances. The Ohio State University's net income ratios for FY 2013, FY 2014, FY2015 and FY 2016 are as follows:

<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2016*</u>
9.65%	12.31%	6.91%	4.29%	4.02%

### 4. Composite Score

The ratios are translated into a single composite score by assigning individual scores to ranges of ratios, weighting the individual scores, and summing the weighted scores. The primary reserve score is weighted more heavily than is the viability ratio, which in turn is weighted more heavily than the net income ratio. This scoring process effectively emphasizes the need for campuses to have strong expendable fund balances, manageable plant debt, and a positive operating balance. The minimum acceptable composite score is any score above 1.75. Institutions with composite scores at or below this level merit special monitoring, and would be placed on fiscal watch if the ratio analysis yielded a composite score at or below this level for two consecutive years. The highest possible score is a 5.0.

<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2016*</u>
3.9	4.7	4.7	4.5	4.2



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**University Bond Rating**

The most recent available bond rating for the University from Standard & Poor's is AA/Stable and from Moody's is Aa1/Stable. Copies of the most recent rating reports are attached. Updated bond ratings are expected by the rating agencies for each debt issuance under this platform.

**Funded Project Status**

Semi-annually through the term, the University will provide to the Ohio Department of Higher Education an update of capital projects financed under the multiyear debt issuance program.

**Program Renewals**

The University understands future program approvals from The Ohio Department of Higher Education are contingent on receiving the University's annual audited financial statements through the term, and that The Ohio Department of Higher Education may decline program renewals if the annual audited financial statements indicate a material deteriorating financial position at the University.



**AMENDMENT TO THE AUTHORIZATION FOR THE ISSUANCE OF ADDITIONAL  
GENERAL RECEIPTS BONDS, COMMERCIAL PAPER NOTES, AND SUBORDINATED INDEBTEDNESS**

Resolution No. 2017-121

Synopsis: Amendment to the authorization for issuance of additional general receipts bonds, commercial paper notes, and subordinated indebtedness, to exclude the principal amount of any obligations issued for refunding purposes from the limitation on the total amount of debt to be issued, is proposed.

WHEREAS this Board of Trustees (the "Board") of The Ohio State University (the "University") adopted a resolution dated June 5, 2015 titled "Authorization for the Issuance of Additional General Receipts Bonds, Commercial Paper Notes, and Subordinated Indebtedness" (the "Bond Authorization") wherein this board, among other things, authorized the issuance of senior obligations and subordinated indebtedness of the university during the period ended June 30, 2018 in an aggregate principal amount not in excess of \$1 Billion (\$1,000,000,000) (the "Issuance Limitation"); and

WHEREAS it is in best the interest of the university that any senior obligations or subordinated indebtedness issued to retire or refund any outstanding obligations not be counted against the Issuance Limitation to the extent that their principal amount does not exceed the principal amount of the outstanding obligations to be retired or refunded; and

WHEREAS this board wishes to amend the Bond Authorization for such purpose, with all terms used herein and not otherwise defined having the respective meanings given them in the Bond Authorization:

**NOW THEREFORE**

BE IT RESOLVED, That the Board of Trustees hereby approves that the first paragraph of the Bond Authorization be amended to read as follows, with the amendments thereto shown below being underlined:

BE IT RESOLVED, That the Board of Trustees of The Ohio State University hereby authorizes the issuance of the Senior Obligations and Subordinated Indebtedness in an aggregate principal amount not to exceed \$1 billion (\$1,000,000,000) for the purposes as set forth in the recitals to this resolution; provided, however, that such limitation shall not apply to any Bonds or Notes authorized to be issued under this Resolution to retire or refund Commercial Paper Notes previously issued under this Resolution or any other Outstanding Obligations to the extent that the principal amount of such refunding Obligations does not exceed the principal amount of the Commercial Paper Notes or Outstanding Obligations to be retired or refunded, as the case may be; and provided, further, that the authority of the University to issue Obligations from and after the date of this resolution shall be governed by this resolution and any remaining authorization under the 2014 Bond Resolution is hereby rescinded and shall have no further force and effect; and

BE IT FURTHER RESOLVED, That no further amendment, change, or modification of any kind whatsoever to the Bond Authorization is intended to be made thereto other than that which is expressly stated in the foregoing paragraph; and

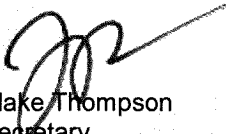
BE IT FURTHER RESOLVED, That the Bond Authorization and this resolution shall be read together as one document, which may be referred to as the "Amended Bond Authorization"; and

**AMENDMENT TO THE AUTHORIZATION FOR THE ISSUANCE OF ADDITIONAL  
GENERAL RECEIPTS BONDS, COMMERCIAL PAPER NOTES, AND SUBORDINATED INDEBTEDNESS (cont'd)**

BE IT FURTHER RESOLVED, That any outstanding obligations or other obligation issued or to be issued under the authority of the Bond Authorization or the Amended Bond Authorization shall remain in full force and effect and continued to be secured in the accordance with their original terms.

**CERTIFIED**

This is to certify that the foregoing is a true and accurate excerpt from the minutes of the Board of Trustees meeting held June 9, 2017.

  
Blake Thompson  
Secretary