Topics To Be Addressed

- Context
- Debt Capacity
- Policy Issues
- Conclusions and Next Steps
A. How much debt do we have and what kind?
B. How is it apportioned?
C. How has it grown?
D. What are existing University policies?
Current Debt Structure
6/30/07  Total = 1.1 Billion

Capital Leases, $92,972,000
Notes Payable, $63,767,000
COPs, $5,465,000
Variable Rate Bonds, $404,425,000
Fixed Rate Bonds, $547,690,000

Source: Office of the Treasurer
Whose Debt Is It?

As of June 30, 2007

Source: Office of the Treasurer
Historical Debt Structure

As of June 30, 2007

Source: Office of the Treasurer
What Is Current University Policy?

Board approved, written policy has been in existence for a decade:

- Initial Approval 5/97
- Revised 12/03
- Expanded 5/05
Key Elements

- Comprehensive: Includes leases, internal loans and lines of credit

- No major capital project initiated without prior Board approval

- No debt is issued without prior Board approval

- Overall limits are approved by the Board before debt is issued

- Credit rating of at least AA must be maintained
Debt Capacity

A. What is it?
B. Why does it matter?
C. How is it determined?
D. How does OSU compare?
Debt Capacity: What Is It?

The amount of additional long-term debt that can be issued at a given credit rating.
Why Do Credit Ratings Matter?

• Helps determine interest rate for next 20 years
• Used as an external evaluation of financial strength of the institution
• Helps establish a focus for scarce resources
• Once it falls, it is very hard to re-establish
Debt Capacity In Higher Education As A Strategic Concept

• It is not determined by formulas and ratios alone
• Debt capacity reflects complex interplay of multiple factors, include:
  • Market position of “core” businesses
  • Financial Reserves
  • Capital funding profile
  • Operating performance
  • Relationship with the state
  • Management competencies

Source: Moody’s Investor Services, Special Comment, August 2002
Debt Capacity As A Strategic Concept

Continued

Additional Considerations

• Not a static concept
• Dependent on institutional risk tolerance
• Revenue generating projects have a different impact than others
• Off balance sheet financing included
• Debt policies are primarily a management tool

Source: Moody’s Investor Services, Special Comment, August 2002
## OSU Credit Rating v. Benchmarks

<table>
<thead>
<tr>
<th>University</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michigan</td>
<td>AAA</td>
</tr>
<tr>
<td>Texas – Austin</td>
<td>AAA</td>
</tr>
<tr>
<td>Washington</td>
<td>AA1</td>
</tr>
<tr>
<td>Minnesota</td>
<td>AA2</td>
</tr>
<tr>
<td>Ohio State</td>
<td>AA2</td>
</tr>
<tr>
<td>UCLA</td>
<td>AA2</td>
</tr>
<tr>
<td>Illinois at Champaign-Urbana</td>
<td>AA3</td>
</tr>
<tr>
<td>Arizona</td>
<td>AA3</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Moody’s Investor Services, 2007
## How OSU Compares (Continued)
### FY 2006

<table>
<thead>
<tr>
<th></th>
<th>Michigan</th>
<th>OSU</th>
<th>UC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Revenues</td>
<td>$5.4 billion</td>
<td>$3.7 billion</td>
<td>$1.0 billion</td>
</tr>
<tr>
<td>Debt</td>
<td>$0.9 billion</td>
<td>$1.1 billion</td>
<td>$1.0 billion</td>
</tr>
<tr>
<td>Expendable Net Assets</td>
<td>$6.4 billion</td>
<td>$1.4 billion</td>
<td>$0.3 billion</td>
</tr>
<tr>
<td>Credit Rating</td>
<td>AAA</td>
<td>AA2</td>
<td>A1*</td>
</tr>
</tbody>
</table>

* On negative credit watch

Source: FY 2006 Official Financial Statements
How OSU Compares (Continued)

OSU versus AA Medians FY 2006

<table>
<thead>
<tr>
<th></th>
<th>OSU</th>
<th>AA2</th>
<th>Relative Standing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Resources to Direct Debt</td>
<td>2.3X</td>
<td>2.7X</td>
<td>(-)</td>
</tr>
<tr>
<td>Annual Debt Service to Operations</td>
<td>2.4%</td>
<td>2.6%</td>
<td>(+)</td>
</tr>
<tr>
<td>Debt Service Coverage</td>
<td>5.7X</td>
<td>3.9X</td>
<td>(+)</td>
</tr>
</tbody>
</table>

Source: Moody’s Investor Services
Why Not Try For AAA Rating Like Michigan?

- Would reduce debt capacity making it impossible to meet existing deferred maintenance and other facility needs
- Would require a cash build up that would be difficult to achieve and may create unintended consequences
- Determination not totally under institutional control (e.g., financial health of state government)
Why Not Issue More Debt And Just Take A Lower Rating?

• It will cost more over the long run in terms of higher interest rates
• Shows a lack of institutional focus and leadership
• Once a rating is lowered, it is very hard to re-establish
• It provides a significantly reduced capacity for unforeseen events (e.g., market downturn).
Issues

A. Relative Priorities
B. Off Balance Sheet Debt
C. Future Capacity
## Relative Priorities
### State Capital Appropriations

<table>
<thead>
<tr>
<th>Unit</th>
<th>Share FY 2007-2008</th>
<th>FY 2009-2010 (Preliminary)</th>
<th>FY 2011-2012 (Preliminary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Center*</td>
<td>7%</td>
<td>7%</td>
<td>0</td>
</tr>
<tr>
<td>Athletics</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Student Affairs</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Colleges and Libraries</td>
<td>80%</td>
<td>80%</td>
<td>87%**</td>
</tr>
<tr>
<td>Campus Partners</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Transportation &amp; Parking</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Regionals</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
</tr>
</tbody>
</table>

* Medical Center is College of Medicine Only

** Assumes $58.7M requested for Academic Core North and recommendation regarding remainder of allocation will be determined as part of the 2011-2012 capital process
## Relative Priorities – Bond Financing

<table>
<thead>
<tr>
<th>Unit</th>
<th>Share of Budget 6/30/07</th>
<th>Share of Debt 6/30/07</th>
<th>FY 2008 Issue (Preliminary)</th>
<th>FY 2010 Issue (Preliminary)</th>
<th>FY 2012 Issue (Preliminary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Center</td>
<td>42%</td>
<td>24%</td>
<td>33%</td>
<td>48%</td>
<td>51%</td>
</tr>
<tr>
<td>Athletics</td>
<td>3%</td>
<td>21%</td>
<td>**</td>
<td>**</td>
<td>**</td>
</tr>
<tr>
<td>Student Affairs</td>
<td>5%</td>
<td>20%</td>
<td>29%</td>
<td>26%</td>
<td>19%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>2%</td>
<td>11%</td>
<td>17%</td>
<td>11%</td>
<td>27%</td>
</tr>
<tr>
<td>Colleges and Libraries</td>
<td>33%</td>
<td>10%</td>
<td>**</td>
<td>**</td>
<td>**</td>
</tr>
<tr>
<td>Campus Partners</td>
<td>NA</td>
<td>9%</td>
<td>**</td>
<td>**</td>
<td>**</td>
</tr>
<tr>
<td>Transp. &amp; Parking</td>
<td>1%</td>
<td>5%</td>
<td>11%</td>
<td>7%</td>
<td>1%</td>
</tr>
<tr>
<td>Other *</td>
<td>10%</td>
<td>**</td>
<td>5%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>Regionals</td>
<td>4%</td>
<td>**</td>
<td>6%</td>
<td>3%</td>
<td>1%</td>
</tr>
</tbody>
</table>

* Other includes Blankenship Renovation, Student Academic Services Building and Airport Improvements.

** May be eligible for limited short term lines of credit.
"Some universities mistakenly believe that because privatized housing financings are off balance sheet, they are therefore "off credit." Moody's generally views these financings as either direct or indirect debt of the university, depending on how closely tied the project is to the university."

Source: Moody's Investor Services, Special Comment, August 2003
Factors to be considered:

- Does the university or related foundation own the land?
- Does the university have "material involvement" in the marketing, management or leasing of the house?
- Does the university or related foundation benefit from the property's surplus cash flow?

Source: Moody's Investor Services, Special Comment, August 2003
Future Capacity

• Conclusions
  – Bond Issuance FY 2008 @ $349 Million
    • University should maintain bond rating
  – Bond Issuance FY 2010 @ $500 Million
    • University could be on the “outer edge” of maintaining current bond rating, but well within the “AA3” rating range
Future Capacity - Continued

OSU is relatively aggressive in paying off debt

Proforma Debt Structure as of June 30, 2007

Source: Office of the Treasurer
Future Capacity – Continued

The approved cap is not a floor

(in millions)

<table>
<thead>
<tr>
<th>Year of Issue</th>
<th>Approved Cap</th>
<th>Actual Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$400</td>
<td>$360</td>
</tr>
<tr>
<td>2008</td>
<td>$450</td>
<td>$349</td>
</tr>
<tr>
<td>2010</td>
<td>$500</td>
<td>TBD</td>
</tr>
</tbody>
</table>

Source: Office of the Treasurer
Next Steps

A. Completion of key elements of capital planning process
   1. Review of Strategic Alignment
   2. Housing Task Force Plan
   3. Revised Medical Center Master Facilities Plan
   4. Deferred Maintenance Plan
B. Resourcing Issues

1. FY 2008 bond issue and visit from rating agencies

2. State decisions regarding FY 2009 – 2010 capital appropriations

3. Revised University financial goals
Conclusion

1. Debt management is a strategic concept. This means it merits senior management and Board involvement to insure alignment with academic and financial goals.

2. OSU has had a Board approved debt management policy since May, 1997. The latest revision was March, 2005.

3. Continued maintenance of a credit rating of AA is most consistent with current and future academic goals and likely financial resources.

4. Maintaining this rating in the future will require discipline in the allocation of debt and careful planning in the management of cash reserves.
5. Off balance sheet debt may be advantageous in highly selective cases, but is neither a panacea or a substitute for strategic decision making.

6. Priorities are shifting towards deferred maintenance issues regarding infrastructure, student housing and clinical facilities, and away from athletics, student activities (other than housing) and leveraging development funding for projects of individual colleges.

7. The single largest remaining challenge is how to replace the erosion of state capital dollars for renovation and replacement of academic buildings.