

THE BOND BUYER

Ohio State University tees up green bonds for hospital facility

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Ohio State University hits the market Tuesday with \$600 million of green-designated bonds to finance a hospital facility.

Proceeds will go toward construction at the school's Wexner Medical Center, with opening expected in 2026. It will house up to 820 beds in private-room settings, 60 neonatal intensive care beds, and state-of-the-art diagnostic, treatment and inpatient service areas.

Kestrel Verifiers has determined the bonds are “in conformance with the four core components of the International Capital Market Association Green Bond Principles” and “the new facility will meet robust energy efficiency standards for hospitals and incorporate green building features.”

Barclays Capital is senior manager with RBC Capital Markets and Wells Fargo Securities serving as co-senior managers. Swap Financial Group is advising the university and Bricker & Eckler LLP is bond counsel. The bonds mature in 2051.

“As a massive flagship institution with a global brand, we expect strong demand for the new bonds, which will be bolstered further by the green bond designation,” CreditSights wrote in its latest Muni New Issue Notes report authored by John Ceffalio, senior municipal research analyst, and Patrick Luby, senior municipal strategist.



Ohio State University reopened for in-class learning last year. Bloomberg News

“OSU's existing bonds are already priced tight to the triple-A, so we see no room for outperformance,” they wrote. “Yet, the OSU bonds will enjoy much better secondary market liquidity than the bonds from smaller schools.

The bonds will sell under the university’s second multiyear debt issuance program adopted in August that permits up to \$800 million borrowing through June 2025.

The university first adopted a multiyear issuance program in 2016 with the goal of streamlining issuance and allowing it to keep borrowing costs down and move quickly if needed. It uses a corporate-like shelf registration structure that establishes a base offering statement. It was believed to be the first in the municipal market at the time.

The bonds are a general obligation secured by the university's general receipts. The school has \$2.9 billion outstanding under the credit. Debt totals nearly \$3.8 billion when counting all bonds, capital leases, notes payable, and other obligations.

The university's balance sheet has so far weathered the COVID-19 pandemic's impact. Operating revenues rose to \$6.56 billion in 2021, based on unaudited results, from \$6.28 billion in 2020 and with non-operating revenues counted, totaled \$8.9 billion for 2021. Expenses were down to \$6.17 billion from \$7.53 billion due largely to reductions in pension and retiree healthcare accruals.

Tuition and fees accounted for 13% of consolidated revenues. The state provided \$491 million in operating aid and \$156 million in capital support for fiscal 2021. The university and its hospital system received \$734 million in federal relief from various support programs.

"The fiscal 2022 financial plan projects total revenue growth of 9.6% reflecting an expected post-pandemic rebound for the university's operations with students returning to housing and dining, normal attendance at athletic and other events and for the health system, increases in patient volume and some rate increases," the university tells potential investors in a presentation.

The university launched a \$4.5 billion fundraising campaign in 2019 and has commitments for \$2.7 billion so far.

The school halted in-person instruction in the spring of 2020 shifting to remote learning, closing down housing facilities and cancelling events. The university reopened for the autumn 2020 semester with a hybrid version and returned to full in-person learning this autumn.

With cases surging due to the Delta variant the university reinstated masking requirements and vaccination status reporting and began requiring vaccinations for all staff and students after the Federal Drug Administration gave full approval to the Pfizer vaccine. Enrollment totaled 68,000 in 2020 at the university's Columbus main campus and four extended campuses.

Ahead of the sale, Fitch Ratings and S&P Global Ratings affirmed the university's AA rating. Fitch assigns a positive outlook and S&P a stable one. Moody's affirmed its Aa1 and stable outlook.

"The positive outlook reflects OSU's resiliency despite the challenges presented by the coronavirus pandemic in 2020 and 2021, with demonstrable cash flow generation and balance sheet stability," Fitch said.

"The AA long-term ratings reflect our view of OSU's extremely strong enterprise profile and very strong financial profile," said S&P analyst Ken Rodgers.

The university's "excellent brand and strategic positioning as Ohio's flagship land-grant university with a large research activity" support the high-grade rating, Moody's said.

The Ohio State Buckeyes area member of the Big Ten conference. The school is the state's flagship among a system of 14 public universities.

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