

RatingsDirect®

Board of Regents of the University of Oklahoma University of Oklahoma; Public Coll/Univ - Unlimited Student Fees

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Board of Regents of the University of Oklahoma

University of Oklahoma; Public Coll/Univ - Unlimited Student Fees

Credit Profile

Brd of Regents of the University of Oklahoma, Oklahoma

University of Oklahoma, Oklahoma

Univ of Oklahoma Brd of Regents (Univ of Oklahoma)

Long Term Rating

A+/Stable

Current

Rationale

S&P Global Ratings' long-term rating on the Board of Regents Of The University of Oklahoma's (the board) debt, issued for the University of Oklahoma - Norman Campus (OU, or the university), is 'A+'. The outlook is stable.

We assessed the university's enterprise profile as very strong and its financial profile as strong, leading to an initial indicative stand-alone credit profile rating of 'a+' and a final rating of 'A+'. The university's very strong enterprise profile, in our view, continues to be characterized by its co-flagship status within the state's higher educational system that is composed of 25 public colleges and universities. In addition, the university's demand is solid, with modest enrollment increases recorded since fall 2015, strong student quality, and good retention. The university's strong financial profile reflects our view of its robust financial management policies, improved operating margins, and adequate available resources, but a moderately high maximum annual debt (MADS) burden.

The rating further reflects our assessment of the university's credit strengths, including its:

- Broad available funds security pledge, which includes tuition, fees, auxiliary income, and unrestricted revenue of the flagship Norman campus;
- Co-flagship status within the Oklahoma public higher educational system;
- Stable enrollment trend and strong student quality;
- Diverse revenue stream; and
- Significant philanthropic support.

The preceding credit strengths are diminished somewhat in our view by:

- Available resource ratios that lag those of comparably rated universities;
- OU's higher-than-median historical debt burden based on MADS for the Norman campus;
- Continuing capital needs; and
- Reductions in state operating funding support and no state funding for capital.

Currently, OU includes just the main Norman campus in the revenue financing system pledge, though the master resolution allows for future inclusion of other facilities managed by the OU Board of Regents. As the Norman campus is the only member of the revenue financing system at this time, figures in this report pertain only to the Norman campus. We view this security as a broad available funds pledge. OU is one of two co-flagship public university in the state. The University of Oklahoma comprises three campuses: the Norman Campus, the University of Oklahoma Health Sciences Center (OUHSC), and the OU-Tulsa Schusterman Center.

Outlook

The stable outlook reflects our view that demand will remain solid. We also believe financial performance will continue to improve, with consistent operating surpluses. In addition, the outlook assumes no diminution in available resources relative to operations and debt, as well as relatively consistent total debt.

Downside scenario

Credit factors that could lead to a negative rating action during the two-year outlook period include a significant weakening of financial operating performance or available resources relative to operations or debt. In addition, a significant increase in debt could pressure the rating.

Upside scenario

We could consider a positive rating action if the university realizes significant and sustainable stronger financial performance leading to markedly improved available resources and a lower debt burden.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclical and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, the university has good geographic diversity, with approximately 40% of students coming from out of state. As a result, our assessment of OU's economic fundamentals is anchored by the U.S. GDP per capita of \$64,670.

Market position and demand

We view the university's market position and demand as very healthy, marked by an overall enrollment growth trend in recent years. Total full-time-equivalent (FTE) enrollment increased year over year in six out of the seven past fall enrollment periods and was down only one year during this period (by a small 0.1% in fall 2013). Total FTE enrollment was 23,833 in fall 2018, up 0.2% over the prior year's enrollment, and fall 2017 enrollment was up 3.1% over the preceding year's enrollment. Total headcount dipped slightly in fall 2013 and 2014 but increased 0.6% in fall 2015, 1.8% in fall 2016, 2.2% in fall 2017, and 0.1% in fall 2018 to a total of 28,582. Fall 2019 enrollment is expected to follow this trend. In our view, the university has a broad geographical draw for a public flagship institution, with roughly 40%

of its student body coming from out of state.

Demand, as measured by first-time applications, is positive. Applications have been trending upward for the past six fall enrollment periods, growing to a total of 17,620 in fall 2018. The university typically accepts about 70% of those who apply, with about 40% of acceptees choosing to matriculate. In fall 2018, applications increased 5.0% and selectivity was 69.7%. Retention, at a strong 90.2% in fall 2018, has improved significantly in recent years from a still good 84.4% in fall 2012.

Management and governance

OU is led by a seven-member board of regents, whose members are appointed by the governor subject to confirmation by the state senate. In June 2018, following the retirement of the long-tenured 23rd president, David L. Boren, James L. Gallogly took the helm as the 24th president at the university. In May 2019, President Gallogly decided to retire, and Joseph Harroz Jr. was named the interim president. President Harroz has a long history with OU, most recently as the dean of the OU College of Law, and he also has served as VP of executive affairs and general counsel. In 2018, Kenneth Rowe was named chief financial officer at the university from OUHSC, where he served as vice president for administration and finance. Mr. Rowe has been with OU since 1998. While senior leadership has experienced a significant amount of change over the past year and a half, we believe the current management brings experience and stability to the university.

Financial Profile

Financial management policies

The university has formal policies for endowment, investments, and debt. It operates according to a multiyear strategic plan, and both cash and debt are centrally managed. OU meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the university's overall financial policies are not likely to negatively affect its future ability to pay debt service. Our analysis of OU's financial policies includes a review of its financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and a comparison of these policies with those of comparable institutions.

Financial performance

In fiscal 2018, the university recorded a positive 1.1% net operating margin, a full-accrual surplus of \$12 million. This positive margin followed three years of full-accrual deficits, with net operating income of negative 4.2% in fiscal 2017, negative 6.1% in fiscal 2016, and negative 2.0% in fiscal 2015. The two prior years were slightly positive, with margins of 0.6% in fiscal 2014 and 0.4% in fiscal 2013. On a cash basis, the university has historically reported annual recurring surpluses. In recent years, the university has been challenged by state appropriation cuts, as well as a lack of state funding for capital. In fiscal 2019, significant expense cuts were made to realign the budget.

The OU-Norman campus has a fairly diverse revenue mix, which we believe provides some financial flexibility. State operating appropriations and state-supported benefit expenses represented only about 9.9% of the university's fiscal 2018 adjusted operating revenue base of about \$1.128 billion, along with net tuition and fees at 39.5%, auxiliary revenue at 17.4%, grants and contracts at 10.3%, and gifts at 9.8%. The university's state appropriation peaked at approximately \$148 million in fiscal 2014 before declining to \$112 million in fiscal 2018. Over the years, management

has instituted several initiatives to reduce expenses to handle these cuts, including implementing a voluntary severance plan, and to increase revenue.

Available resources

In our view, available resource ratios are slim for a flagship public university, with fiscal 2018 adjusted unrestricted net assets representing 14.6% of operations and 20.3% of debt and fiscal 2017 representing 17.0% and 21.4%, respectively. Included in available resource calculations are certain expendable earnings of the university held at the University of Oklahoma Foundation (the foundation). Most of the funds donated to the university are held and managed by the foundation. However, the foundation holds funds for other entities in addition to the university, and therefore, the foundation holds a significant amount of the funds available for the university's use as temporarily restricted (i.e., expendable), rather than unrestricted, net assets. In figures provided by management, expendable earnings for university operations that were held by the foundation totaled \$117.1 million in fiscal 2018 and \$134.2 million in fiscal 2017. Cash and investments were stronger at 29.5% relative to operations and 34.9% relative to debt in fiscal 2018 and 31.2% and 34.8%, respectively, in fiscal 2017.

Debt and contingent liabilities

As of fiscal 2018, the university's debt, including capitalized leases, totaled \$944.4 million. The MADS burden in fiscal 2018 was 6.5%, which we consider moderately high. We understand the university has a debt policy that requires each revenue-based project on a stand-alone basis to meet an annual 1.25x debt service coverage test based on actual debt service. In addition, while not a direct debt of the university, OU in early 2017 was party to a public-private partnership wherein it ground leased to the private partner a parcel on its campus to facilitate the construction of a student housing facility (1,219 beds) and structured parking primarily for the benefit of students. The lessee and obligor, Provident Oklahoma Education Resources Group, issued approximately \$250 million of bonds through the Oklahoma Development Finance Authority and owns the project. The university is neither guaranteeing the debt nor providing any subsidy or other form of operating support for the project. As a result, we do not include this debt in the ratios for the university.

The university provides retirement benefits primarily through the Oklahoma Teachers' Retirement System (OTRS), as cost-sharing multiple-employer public employee retirement system that is self-administered. Benefits provisions are established and may be amended by the legislature of the state of Oklahoma. OTRS reported what we consider an adequate 72.7% funding level. The university's pension and other postemployment benefit expense relative to adjusted operating expense is 4.6%, which we view as manageable at this time. For more information, please see the debt and liabilities section in the Oklahoma state report published April 17, 2019, on RatingsDirect.

This report does not constitute a rating action.

University of Oklahoma

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated public colleges & universities
	2019	2018	2017	2016	2015	2018
Enrollment and demand						
Headcount	28,582	28,541	27,937	27,445	27,278	MNR
Full-time equivalent	23,833	23,785	23,060	22,582	22,460	12,854
Freshman acceptance rate (%)	69.7	68.9	70.4	72.5	75.9	74.3
Freshman matriculation rate (%)	35.7	38.7	41.0	45.1	45.3	MNR
Undergraduates as a % of total enrollment (%)	75.8	75.5	77.4	77.7	77.1	83.3
Freshman retention (%)	90.2	92.1	90.4	86.1	85.2	77.3
Graduation rates (six years) (%)	67.2	67.3	66.2	65.5	67.4	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	1,127,557	1,027,461	983,436	965,207	MNR
Adjusted operating expense (\$000s)	N.A.	1,115,602	1,072,675	1,047,051	985,255	MNR
Net adjusted operating income (\$000s)	N.A.	11,955	(45,214)	(63,615)	(20,048)	MNR
Net adjusted operating margin (%)	N.A.	1.07	(4.22)	(6.08)	(2.03)	(1)
Estimated operating gain/loss before depreciation (\$000s)	N.A.	84,468	28,732	12,417	56,619	MNR
Change in unrestricted net assets (UNA; \$000s)	N.A.	(179,597)	(54,342)	(29,158)	(319,016)	MNR
State operating appropriations (\$000s)	N.A.	112,046	120,427	128,032	147,149	MNR
State appropriations to revenue (%)	N.A.	9.9	11.7	13.0	15.2	21.0
Student dependence (%)	N.A.	56.9	58.2	56.9	55.1	52.4
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	0.0	MNR
Research dependence (%)	N.A.	10.3	10.1	10.2	9.8	MNR
Endowment and investment income dependence (%)	N.A.	1.2	1.6	0.7	1.3	0.7
Debt						
Outstanding debt (\$000s)	N.A.	944,393	960,881	982,442	766,934	169,922
Proposed debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	944,393	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	5.92	6.72	6.97	6.22	MNR
Current MADS burden (%)	N.A.	6.52	6.79	7.06	7.61	4.50
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	1,109,797	1,048,554	950,597	1,555,000	115,187
Related foundation market value (\$000s)	N.A.	N.A.	1,540,000	1,430,000	1,463,000	138,714

University of Oklahoma (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated public colleges & universities
	2019	2018	2017	2016	2015	2018
Cash and investments (\$000s)	N.A.	329,592	334,652	482,886	397,509	MNR
UNA (\$000s)	N.A.	(557,642)	(378,045)	(323,703)	(294,545)	MNR
Adjusted UNA (\$000s)	N.A.	162,485	182,760	202,786	260,554	MNR
Cash and investments to operations (%)	N.A.	29.5	31.2	46.1	40.3	46.3
Cash and investments to debt (%)	N.A.	34.9	34.8	49.2	51.8	100.6
Cash and investments to pro forma debt (%)	N.A.	34.9	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	14.6	17.0	19.4	26.4	31.3
Adjusted UNA plus debt service reserve to debt (%)	N.A.	20.3	21.4	23.2	37.1	57.3
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	20.3	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	13.2	13.9	12.9	12.2	14.6
OPEB liability to total liabilities (%)	N.A.	13.9	6.4	6.3	7.0	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.

Ratings Detail (As Of September 23, 2019)

Brd of Regents of the University of Oklahoma, Oklahoma

University of Oklahoma, Oklahoma

Brd of Regents of the University of Oklahoma (University of Oklahoma) go rev bnds, Tax-Exempt (University of Oklahoma)

Long Term Rating A+/Stable Current

Brd of Regents of the University of Oklahoma (University of Oklahoma) PCU_USF

Long Term Rating A+/Stable Current

Univ of Oklahoma Brd of Regents (Univ of Oklahoma)

Long Term Rating A+/Stable Current

Univ of Oklahoma Brd of Regents (Univ of Oklahoma)

Long Term Rating A+/Stable Current

Univ of Oklahoma Brd of Regents (University of Oklahoma)

Long Term Rating A+/Stable Current

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