

Fitch Ratings assigned an 'AA' rating to the series 2013A general revenue refunding bonds (the bonds) to be issued in the amount of \$18 million by the Regents of the Oklahoma Agricultural and Mechanical Colleges on behalf of Oklahoma State University (OSU, or the university): The bonds will be sold on a negotiated basis in or around the week of Dec. 10 and the proceeds will be used to refund OSU's outstanding recreational facilities revenue bonds series 2002 and pay costs of issuance. In addition, Fitch affirms the 'AA' rating on OSU's \$256 million of outstanding general revenue bonds. The rating outlook is stable. The bonds are secured by a pledge of all legally available revenues, excluding revenues appropriated by the legislature from tax receipts. The 'AA' rating reflects OSU's track record of positive to near break-even operating margins fueled by a fairly diverse revenue base, historic highs in recent-year enrollment levels and successful fundraising efforts which augment just adequate unrestricted balance sheet resources. OSU experienced overall enrollment growth year over year for five years and achieved record total enrollment for two consecutive years. This course reversal from previously weak demand trends reflects OSU's focus on enrollment management and competitive tuition and fee charges. The university maintains a low debt burden relative to its peers and maintains a conservative debt management policy, typically combining long-term debt issuance with a corresponding increase in resources available for its repayment. While state funding (state of Oklahoma GO bonds rated 'AA+' by Fitch) has somewhat stabilized, the end of federal stimulus funding and the possibility of sequestration of funds may challenge OSU's ability to sustain balanced operations. Offsetting this concern is OSU's seasoned management team, which successfully managed the university's operations through prior periods of economic stress. OSU's operations have generated a positive margin for four of the past five fiscal years. The fiscal 2012 margin of 1.2 percent, lower than the previous year's 1.6 percent margin, reflected growth in expenses related to compensation and employee benefits as well as contractual services and scholarships. This growth in expense was partially offset by growth in student tuition and fee revenue. OSU retains flexibility to raise tuition and fees, being

among the low-cost leaders for resident tuition and fees among the Big 12 schools.

The State Legislature requires the university's combined average of undergraduate residential tuition and mandatory fees to be lower than the combined average of big 12 state schools. Fitch considers OSU's ability to increase rates a viable offset to potential cuts in funding from governmental sources. Additionally, the university benefits from solid enrollment gains as demonstrated by consistently growing enrollment in the past five years. However, state funding levels for OSU have recovered from cuts in previous years and are expected to improve slightly for fiscal 2013. Fitch notes the strength of OSU's seasoned management team, which has consistently utilized conservative financial and budgeting practices to offset reductions in funding sources. Student demand remained strong for fall of 2012. Headcount increased to 25,544 students, growing 5.4 percent from fall 2011; the fall 2012 incoming freshmen class of 4,289 students is a record high for OSU. Student quality improved as the university tightened its acceptance rate for fall 2012 (77.6 percent down from 81.7 percent) as a result of strong demand; matriculation rates declined slightly by about 2 points to 45.9 percent. OSU continues to maintain a 35 percent out-of-state student population, originating mainly from the state of Texas, and includes additional resources to aid recruitment in other states, offering merit-based scholarships and financial aid. Retention rates, currently below 80 percent, are expected to improve for OSU in the coming years. Fitch considers the university's ability to improve retention rates necessary to maintain financial flexibility over the near term. Balance sheet liquidity is limited for the rating level. OSU's unrestricted cash and investments, defined as available funds, increased modestly to \$278.1 million in fiscal 2012 from \$276.1 million in 2011. These funds represent 27.3 percent of operating expenses (\$1.01 billion) and 55.3 percent of long-term debt (\$503.2 million). OSU benefits from fund-raising activities and is in midst of a capital campaign (Branding Success) that is expected to raise approximately \$1 billion for various capital needs. The campaign is expected to conclude in 2014. Additionally, the OSU Foundation, Inc., the Oklahoma State Regents for Higher Education and the Oklahoma Land Commission, as of

fiscal 2012, held \$675 million in endowment for the benefit of the university. Fitch recognizes that these endowment monies are restricted and only part of these funds may be available to OSU at any given time. OSU is undertaking the current refunding of its recreational facilities series 2002 debt for savings. The university intends to convert all its prior encumbered obligations (debt secured by discrete revenue sources) over time, to general revenue secured debt and realize savings as a result. Debt outstanding post issuance of the bonds, including capital leases, will total \$503.2 million and excludes \$100 million of Oklahoma Capital Improvement Authority lease obligations, which are paid by the state on the university's behalf. Pro forma maximum annual debt service (MADS - \$42.2 million) represents a moderate debt burden and equates to 4.1 percent of fiscal 2012 revenues. Coverage of pro forma MADS, as of fiscal 2012, with revenues available for debt service from operations, was equal to 2.2x, which is within expectations for the rating level.

While OSU does not have concrete plans for issuing debt, future capital needs include renovations and improvements to technology infrastructure, student housing and hospitality facilities. Fitch expects that additional debt and capital spending will be offset by a corresponding increase in resources sufficient for its repayment. Founded in 1890 as Oklahoma Agricultural and Mechanical College, the state's land grant university, OSU is a comprehensive public university system with a statewide presence. Operations include five academic campuses, agricultural experiment stations and extension offices serving counties. Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.