Century of Debt Suiting Ohio State at These Rates.

Ohio State University is joining issuers going into hock for 100 years as dwindling borrowing costs kindle the appeal of locking in interest rates for a century.

The school, with its main campus in Columbus, may sell $150 million in taxable century bonds as soon as this week. It will issue as the relative cost of borrowing for longer periods is shrinking: Thirty-year debt yielded as little as 0.83 percentage point more than 10-year bonds last week, the smallest gap since 2012, data compiled by Bloomberg show.

Even with the advantageous rates, century bonds are rare because they rely on confidence that the issuer will be around in 100 years. While top-rated universities have been the primary users of the securities, interest rates close to generational lows have brought more deals to market. Last week, the Cleveland Clinic became the first not-for-profit health-care system to borrow for a century. In July, the first U.S. public utility sold the securities.

“Century bonds give the ultimate flexibility when it comes to having cost of capital set for a very long period of time,” said Michael Papadakis, treasurer of Ohio State, which was established in 1870. “As a public university, we don’t have equity, so this is the longest capital you can get.”

Century Club

This would be Ohio State’s second century offer. In 2011, it became the first public school to issue 100-year taxable debt when it sold $500 million. In earlier issues, Walt Disney Co. (DIS) sold centuries in 1993 and the Port Authority of New York and New Jersey followed a year later. Yale University and the Massachusetts Institute of Technology have sold centuries into the corporate market. So has railroad Norfolk Southern Corp.

Ohio State is determining whether to issue taxable bonds due in 2114 or tax-free securities due in 30 years, Papadakis said. The Cleveland Clinic borrowed Sept. 11 via the corporate market at an interest rate of 4.86 percent for a century, data compiled by Bloomberg show.

While historically low yields are luring issuers, some investors are balking at longer debt.

BlackRock Inc., the world’s largest asset manager, is shifting to 10- to 15-year bonds from longer maturities, Peter Hayes, the company’s head of municipal debt, said in a Sept. 10 report. Fidelity Investments is also focusing on intermediate debt, said Kevin Ramundo, a money manager who helps oversee its $28.6 billion of state and local securities.

Matching Liabilities

Loews Corp. (L), the holding company run by New York’s Tisch family, is still interested in 30-year debt, though not centuries, said Mark Muller, a money manager who helps oversee $13 billion of munis in New York. Demand from philanthropies and insurers looking for assets to match indefinite liabilities dwarfs the supply of 100-year bonds, which means more borrowers may emerge, he said.

“It has been more about supply in century bonds than it has been about demand — demand is always there,” Muller said in an interview. “We will go through so many interest-rate cycles by the time these bonds ultimately mature” that investors will have the opportunity to buy higher-yielding debt in the future, he said.

Ohio State’s 2011 centuries reflect the appetite. The debt, rated Aa1 by Moody’s Investors Service, traded last week at a 4.54 percent yield, the lowest since May 2013, Bloomberg data show.

‘Permanent Capital’

The Cleveland Clinic, which opened in 1921, sold $400 million of debt last week.

“We looked at it as an opportunity for the clinic to raise the closest thing to permanent capital that a not-for-profit organization can have,” said Steven Glass, chief financial officer of the institution, the 12th-biggest Moody’s-rated U.S. health-care system by revenue and the largest employer the city has ever had.

“There’s a very unique group of organizations that could access the market to do 100-year bonds,” he said. “The investors feel like this is an organization that, with all the changes in health care, is going to be one of those that’s here to stay.”

Buyers had a similar stance toward about the District of Columbia Water & Sewer Authority, which serves the White House. It issued $350 million of taxable 100-year debt in July, with proceeds going toward a $2.6 billion project to curb sewer overflows.

Cancer Center

Ohio State’s sale, which will also include $150 million of variable-rate debt, will complete a capital plan that began in 2010, Papadakis said. The bonds will help fund a $1.1 billion medical-center expansion, he said. They will also finance other infrastructure projects for the school, which enrolls about 63,000 students.

Though munis and Treasuries have slumped the past two weeks, longer bonds have still outperformed their shorter-term counterparts.

Benchmark 30-year munis yield 3.15 percent, compared with 2.29 percent for 10-year maturities. The difference has shrunk from 1.3 percentage points to start the year. Longer-maturity bonds typically have higher yields to compensate for the added risk of the lengthier holding period.

Bonds maturing in longer than 22 years have earned the most in the $3.7 trillion municipal market this year. Their 12 percent gain compares with the broad market’s 7 percent rally, Barclays Plc data show.

“This is a historically great opportunity to lock in low-yielding long-term debt,” said Muller at Loews.

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