S&P Global Ratings

Research

Summary:

Ohio Attorney General; Appropriations

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Credit Profile		
US$23.045 mil certs of part (Ohio) (Claims Fd Proj) ser 2024 dtd 05/21/2024 due 09/01/2039		
Long Term Rating	AA+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the Ohio Attorney General's (OAG) approximately $23 million certificates of participation (COPs), series 2024 (Ohio Attorney General Claims Fund Project).
- The outlook is stable.

Security

Lease-rental payments payable solely from amounts collected and deposited to the Attorney General Claims Fund, pursuant to the master lease-purchase agreement and supplemental lease agreement between the State of Ohio Lease Corp. Inc (the lessor) and the OAG (the lessee), secure the COPs. Under the trust agreement, Ohio Leasing Corp Inc. assigned the OAG to make COP payments directly from the Attorney General Claims Fund to the trustee. The obligation of the OAG to make lease-rental payments from the Attorney General Claims Fund is subject to and dependent on biennial appropriations by the Ohio General Assembly.

The Attorney General Claims Fund receives up to 11% of total collections by the OAG (or agents of the Attorney General or by special counsel) that are paid into the state treasury and then credited to the Attorney General Claims Fund for administering the law and other certified claims for the State of Ohio in accordance with Section 131.02 of the Ohio Revised Code. The OAG, in consultation with the Director of the Office of Budget and Management (OBM), determines the exact percentage (with administrative authority to raise the rate up to 11%) credited to the Attorney General Claims Fund. Amounts available in the Attorney General Claims fund are then used for payment of expenses incurred by the OAG, including lease payments under the lease.

Proceeds from the series 2024 COPs will finance the acquisition, installation, and implementation of hardware and software that will replace the OAG's existing computerized debt collection system used in connection with the Attorney General Claims Fund.

Credit overview

We rate the COPs one notch lower than Ohio's general creditworthiness, as reflected in the state general obligation (GO) rating (AAA/Stable), based on our consideration of the appropriation risk associated with the lease payments. Under the lease, the OAG is required to include in its budget requests to the Director of OBM, for purposes of the biennial budget requests to the Generally Assembly, sufficient money to make lease payment and will use best efforts to budget sufficient appropriated money to pay lease payments. We consider the affordability and likelihood of the lease payments, which is reflected in the appropriation rating. The one-notch rating differential also reflects the master-lease agreement, and our view that there are sufficient assets under the lease to enhance our view of the incentive to appropriate.

Ohio's fiscal 2024-2025 biennial budget is conservative, in our view, and projects recurring tax revenue of $28.4 billion in fiscal 2024 (a 1.7% decline compared with actual fiscal 2023) and $29.2 billion in fiscal 2025 (a 2.7% increase from projected fiscal 2024). We believe there is significant cushion within the budget to manage potential revenue declines. The state intends to transfer $850 million out of the general revenue fund (GRF) in fiscal years 2024 and 2025 to cash-fund capital projects, which could be adjusted if revenues unexpectedly and significantly fall below expectations. In addition, the state's statutory set-aside requirement to maintain 0.5% of previous-year revenue (or $212 million as of June 30, 2023) affords it a degree of flexibility to manage potential budgetary challenges.

For the first nine months of the current fiscal year ended March 31, 2024, Ohio's GRF total revenue collections of $30.5 billion are 2.8% below estimates. Sales and use tax collections of $10.1 billion are 0.2% above estimates and personal income tax collections of $6.7 billion are 4.3% below estimates. Favorably, disbursements are also tracking lower than estimates by approximately 1.6% or $636 million.

The 'AA+' long-term rating reflects our view of:

- Strong contractual provisions, including an absolute and unconditional payment provision once funds are appropriated;
- Ohio's longstanding and demonstrated commitment to allocate sufficient funds to support appropriation-backed obligations; and
- The importance of appropriation debt to Ohio's overall bond structure.

For further information on the state's general credit characteristics, refer to the most recent analysis on Ohio, published Feb. 26, 2024, on RatingsDirect.

Environmental, social, and governance

Environmental, social, and governance (ESG) risk factors do not have a material influence on our credit rating analysis for Ohio. Social capital risks related to regional and local demographics vary widely, partially due to outmigration, and low population-replacement rates, and these risks could be influential for regional or local government credit ratings. In our view, Ohio's historically strong economic and financial forecasting and policy efforts aimed at diversifying the state's economic base are key state-level mitigants.

Outlook

The stable outlook reflects and moves in tandem with the outlook on the State of Ohio GO rating.

Downside scenario

We could lower the rating if we lowered the rating on the State of Ohio, which, while unexpected, could result from sustained or significant structural budget misalignment (due to economic pressures or otherwise) leading to a sharp decline in Ohio's reserve or liquidity position without a replenishment plan.

Credit Opinion

In our opinion, the bond provisions and structure provide a strong incentive to appropriate. Under the lease agreement, the obligation to make lease-rental payments from the Attorney General Claims Fund is absolute and unconditional once appropriated. Under the provisions of the master lease-purchase agreements, the OAG is required to discontinue lease payments on all obligations if it discontinues payments with respect to any leases. No debt service reserve fund is required under the trust indenture, which is acceptable under our criteria for leases and COPs.

On or before Aug. 15 of the fiscal year immediately following the previous lease term, OBM provides a certified copy of the appropriation legislation by the Ohio General Assembly and a statement by the OBM director certifying that the general assembly has appropriated sufficient funds to make all payments during the lease term. The OAG is required to have on deposit with the trustee the aggregate amount of base lease-rental payments due on each lease payment date. Lease-rental payment dates occur on Sept. 1 for principal and interest, and March 1 for interest only. Ohio operates on a fiscal biennium cycle that ends on June 30 of each odd year, and appropriations are made for a two-year lease term. In our view, the timing difference between the beginning of the fiscal year and when debt service payments are due mitigates late budget adoption risk.

Upon the incidence of nonappropriation, OAG could terminate the lease and return possession of the project to the Ohio State Leasing Corp. Inc. by no later than Aug. 15 of the fiscal year immediately following the termination date. However, if by Aug. 15, the Ohio General Assembly appropriates sufficient funds to enable the lease-rental payment, then the lease shall be reinstated and renewed as of the first day following the termination date. OAG will not withhold any lease payments or assert any right of set-off or counterclaim, and no provision for the abatement of lease payments exists. Based on our assessment of bond documents, however, we do not believe these include unusual structural features that impair the OAG's ability to make timely debt service payments from the Attorney General Claims Fund, or permissive events of default that increase the risk of nonappropriation.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.