

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns Aa1 to Ohio's certificates of participation; outlook stable

01 May 2024

New York, May 01, 2024 -- Moody's Ratings (Moody's) has assigned Aa1 rating to the State of Ohio's approximately \$22 million Certificates of Participation, Series 2024 (Ohio Attorney General Claims Project). The outlook is stable.

RATINGS RATIONALE

The Aa1 rating is one notch below the state's Aaa issuer rating, reflecting the lease-purchase structure with payments subject to biennial legislative appropriation and the essential nature of the project being financed. There are limited bondholder remedies in the event of non-appropriation, but the state has very strong incentive to appropriate given the importance of maintaining continued market access for subject-to-appropriation lease debt.

RATING OUTLOOK

The stable outlook on the certificates is the same as the outlook on the state's issuer rating.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- N/A

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- A downgrade of the state's issuer rating

LEGAL SECURITY

The certificates of participation (COPs) are paid through a lease-purchase agreement with the State of Ohio Leasing Corporation, an Ohio non-profit, as lessor, and the Ohio Attorney General (OAG), as lessee. The lease is subject to biennial renewal, with final terminations that correspond to the final payment date on the COPs. The

COPs have a moderate legal structure as the certificates are secured by a lease agreement, payments for which the OAG has covenanted to request in each biennial budget. The payments are subject to appropriation by the state legislature but are absolute and unconditional once appropriated. There are no debt service reserve funds associated with these certificates, and there are limited bondholder remedies in case of default. In the event of non-appropriation, the lease would terminate and project assets would be surrendered to the trustee, but the assets provide limited recovery value. There are no bondholder remedies in the event of non-appropriation, but the state has very strong incentive to appropriate, given the importance of maintaining continued market access for subject-to-appropriation lease debt.

Rental payments will be paid from the Attorney General Claims Fund, which is funded by a set percentage of bad debt collections that the AG's office collects on behalf of the state and other governmental clients within the state. While the state intends to use only the claims fund, the attorney general's office is funded from multiple different funds, including the general revenue fund. The OAG has also covenanted to coordinate with the Office of Management and Budget to set the percentage of claims retained in the Claims Fund at a level sufficient to support all Claims Fund expenses and lease payments on the COPs. Debt service payment dates are March 1 and September 1 and is payable from base OAG rental payments, which are assigned and remitted directly to the trustee prior to the debt service payment dates. In the most recent case of a late budget (2010-2011 biennium) the state quickly passed a continuing resolution to appropriate for all outstanding lease obligations.

USE OF PROCEEDS

The proceeds of the Series 2024 certificates will be used to finance the acquisition, installation and implementation of hardware and software that will replace the Ohio Attorney General's existing computerized debt collection system used in connection with the Attorney General Claims Fund.

PROFILE

Ohio has a population of 11.8 million, located in the Midwest region of the US with 312 miles of shoreline along Lake Erie, according to NOAA. The state is the seventh-largest US state by population, and has a large, diverse economy (2022 nominal GDP of \$822.7 billion) that is the seventh largest among the states.

METHODOLOGY

The principal methodology used in this rating was US States and Territories Methodology published in March 2022 and available at <https://ratings.moodys.com/rmc-documents/356901>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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