S&P Global
Ratings

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Summary:

Ohio State Treasurer
State of Ohio; Appropriations

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Credit Profile		
US$75.0 mil cap facs lse-approp bnds (State of Ohio) (Pks & Recreation Imp Fd Projs) ser 2022A due 12/01/2031		
Long Term Rating	AA/Stable	New
US$75.0 mil cap facs lse-approp var rate bnds (State of Ohio) (Pks & Recreation Imp Fd Projs) ser 2022B due 12/01/2041		
Long Term Rating	AA/A-1+/Stable	New
US$9.965 mil cap facs lse-approp rfdg bnds (State of Ohio) (Administrative Bldg Fd Projs) ser 2022A due 04/01/2031		
Long Term Rating	AA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to the Ohio State Treasurer's $75 million fixed-rate capital facilities lease-appropriation bonds, series 2022A (parks and recreation improvement fund projects) and approximately $10 million fixed-rate capital facilities lease-appropriation refunding bonds, series 2022A (administrative building fund projects), issued for the State of Ohio.

In addition, we assigned our 'AA/A-1+' dual rating to the Ohio State Treasurer's $75 million capital facilities lease-appropriation variable rate bonds, series 2022B (parks and recreation improvement fund projects). The outlook on all ratings is stable.

Lease-rental payments and other pledged receipts received by the Ohio Public Facilities Commission (OPFC) from the state's Department of Administrative Services (DAS), in accordance with the supplemental trust agreements and lease agreements between DAS (the lessee) and OPFC (the lessor), secure the series 2022A (administrative building fund projects) refunding bonds. Lease-rental payments and other pledged receipts received by the Ohio Public Facilities Commission (OPFC) from the state's Department of Natural Resources (DNR), in accordance with the supplemental trust agreements and lease agreements between DNR (the lessee) and OPFC (the lessor), secure the series 2022A (fixed-rate) and series 2022B (variable-rate) parks and recreation improvement fund bonds. Lease-rental payments and other pledged receipts are subject to biennial appropriation by the Ohio General Assembly.

The 'AA/A-1+' dual rating on the series 2022B bond also reflects the short-term self-liquidity component on the state's variable-rate demand obligations (VRDOs) provided by the State Treasurer's Liquidity Fund.

Proceeds from the series 2022A and series 2022B parks and recreation improvement fund bonds will finance the costs of capital facilities that will be leased to the DNR, and to pay costs of issuance. The series 2022A (administrative building fund projects) refunding bond proceeds will refund certain maturities of outstanding series 2012A bonds, originally issued for the purpose of financing capital facilities leased to the DAS.

Credit overview

We rate these obligations one notch lower than Ohio's general creditworthiness, as reflected in the state GO rating (AA+/Stable). The one-notch differential for the state's capital facilities lease-appropriation debt reflects appropriation risk associated with annual debt service payments on the series 2022 bonds. We view these bonds as having a strong relationship to the obligor. Ohio pledges to biennially appropriate sufficient funds to the DAS and DNR from its operating revenues to make lease-rental payments, and it has a long track record of appropriating for similar obligations. In our opinion, there is no unusual political, timing, or administrative risk related to the debt payment.

The series 2022B variable-rate bonds mature Dec. 1, 2041, and the state will enter into a remarketing agreement with RBC Capital Markets LLC, as the initial remarketing agent. Debt service payments for the series 2022B variable-rate bonds are due on Dec. 1 for principal and interest, and June 1 for interest only. With at least 25 days' written notice to bondholders prior to the purchase date, these bonds are subject to mandatory tender upon conversion from the current weekly interest rate period to another period, or upon the provision of a substitute liquidity facility. In the event of a failed remarketing of the bonds, the maximum interest rate cannot exceed the lower of 9% or the maximum interest rate permitted by Ohio law.

The short-term rating on the state's VRDO bonds reflects S&P Global Ratings view of the ample self-liquidity and sufficient assets pledged by the State Treasurer of Ohio to cover the $469.6 million of VRDOs (or approximately 4.3% of direct debt outstanding) as of Sept. 30, 2021. In our view, the risk of higher interest costs under the maximum interest rate is mitigated by the relatively small amount of variable-rate debt compared with both Ohio's overall debt profile and the state's sufficient liquidity to absorb higher interest rate costs on the bonds for the duration of the interest rate period. In addition, Ohio's clear and detailed liquidation procedures indicate a strong likelihood to guarantee full and timely purchase price of the bonds tendered when due, as the portfolio's duration is maintained at less than one year and is typically managed to a weighted-average maturity of 90 days or less.

The treasurer's liquidity fund alone had nearly $8.14 billion (discounted market value) of short-term assets with same-day liquidity as of Sept. 30, 2021, and S&P Global Ratings measures the discounted market value of total assets of approximately $11.04 billion. The liquidity fund is invested in a diversified portfolio of cash and high-quality, short-term, fixed-income securities ('A' or better long-term ratings, and 'A-1/P-1' short-term ratings), primarily consisting of U.S. Treasury and agency securities, high-grade U.S. corporate notes and commercial paper, and money market funds rated 'AA' or better. S&P Global Ratings Fund Ratings And Evaluations Group regularly monitors the credit quality, liquidity, and sufficiency of the treasurer-pledged assets.

The 'AA' long-term rating on both the fixed- and variable-rate capital facilities lease-appropriation bonds reflects our view of:

- The strong contractual provisions of the lease structure securing the capital facilities lease appropriation bonds, including an absolute and unconditional payment provision once funds are appropriated;
- The state's longstanding and demonstrated commitment, within both the administrative and legislative branches, to allocate sufficient funds biennially to support appropriation-backed obligations; and
- The importance of appropriation debt to Ohio's overall capital bonding structure.

The stable outlook on the bonds reflects that of the State of Ohio. In our view, the state's credit fundamentals are underpinned by embedded financial discipline within Ohio's government framework and active budgetary management that stabilized the state's strong operating performance and reserve profile during a period of unprecedented economic and public health uncertainty brought on by the COVID-19 pandemic. Ohio's constitutional framework effectively precludes the state from ending a fiscal year or biennium in a deficit position, and as a result, the state's executive agencies used revenue and expenditure forecasting to develop structural budgetary solutions in response to the pandemic-induced challenges of the fiscal 2020-2021 biennium. The carryover effects of proactive expenditure management and better-than-forecasted revenue performance, in our view, coupled with the state's expectation to receive nearly $5.6 billion in direct federal aid under the American Rescue Plan Act (ARP) over two years to support its economic recovery, position Ohio well financially as it begins the fiscal 2022-2023 biennium. In addition, we anticipate Ohio's long-term funding discipline related to pension and other postemployment benefits (OPEB) liabilities profile will remain adequate, albeit manageable relative to its budgetary and economic metrics, and Ohio's longstanding 5% constitutional debt limit positions the state well to manage its fixed-cost profile, lending to our view of the state's long-term credit stability.

On an unaudited basis for fiscal year-end June 30, 2021, OBM reports an unencumbered GRF surplus totaling $4.03 billion, which significantly outperformed June 2020 forecasted estimates by nearly $3.74 billion. At the start of fiscal 2022, the state maintains a current BSF balance of $2.69 billion (approximately 6.8% of estimated fiscal 2021 GRF revenue, or 10.8% of GRF revenue net of federal Medicaid reimbursements). Furthermore, the state's statutory set-aside requirement to maintain 0.5% of prior year revenue (or $197.7 million as of June 30, 2021), in our view, affords it a degree of flexibility to manage lingering budgetary challenges.

In our opinion, Ohio's enacted budget for the fiscal 2022-2023 biennium is structurally balanced, with GRF agency appropriations plan totaling $34.9 billion (or a 2.0% year-over-year decrease) for fiscal 2022 and $39.3 billion (12.6% year-over-year increase) for fiscal 2023. Although the enacted budget includes cuts to personal income taxes, the state reports its budget will essentially achieve structural balance over the biennium, with in-year recurring revenue and transfers in exceeding expenditures and transfers out by 2.5% in 2022, and within negative 0.3% of expenditures in fiscal 2023. The anticipated GRF expenditure decline in fiscal 2022 largely reflects a one-time $1.2 billion ending balance transfer from the fiscal 2021 surplus to a non-GRF Medicaid cash fund to manage the state-share of Medicaid increases that will no longer be offset by higher federal reimbursement rates following the national public health emergency should it expire on Dec. 31, 2021. The fiscal 2023 budget increase largely reflects a more-normalized state-share of Medicaid costs over the biennium. While enrollment in Medicaid is projected to peak at 3.33 million in the state early in 2022, Ohio expects caseloads will decrease over the remainder of the biennium as the economic recovery continues and the state resumes Medicaid eligibility redeterminations.

Ohio also received and the legislature appropriated portions of the state's approximately $5.6 billion share of ARP funds, including $1.5 billion to repay the Unemployment Insurance Trust Fund advancement from the federal government, $422 million to support local communities, and $250 million to address water and sewer infrastructure needs statewide. In our view, recurring expenditures in enacted fiscal 2022-2023 biennial budget are funded from recurring revenue, and management will use ARP funding for one-time expenditures. Concurrently, Ohio's fiscal year-to-date revenues (through Sept. 30, 2021) continue to outperform budget estimates, with actual tax receipts totaling $134 million (or approximately 2.1%) ahead of budget. Among the state's primary tax revenue sources, personal income tax receipts are $85.7 million (or 3.6%) above budget estimate, while sales and use tax receipts (auto- and non-auto) tax receipts remain in line with the budget. The state's preliminary October 2021 revenue report indicates continuing improvement of actual tax receipts, totaling $260.9 million (or approximately 3.1%) above the enacted budget estimate.

Our view of Ohio's general creditworthiness reflects what we view as the state's:

- Long track record of proactive financial and budget management, including the state's implementation of frequent and timely budget adjustments to mitigate revenue shortfalls;
- Commitment to structural budgetary performance and funding budget reserves that have been, and are expected to remain, instrumental in managing budget gaps through current and future economic cycles;
- The U.S.' seventh-largest state economy measured by total real gross state product that benefitted from steady expansion following weak performance during the past two recessions, and higher concentration in manufacturing relative to the U.S., which exhibits some sensitivity to cyclicality and exogenous demand shocks;
- Low-to-moderate debt levels, with rapid amortization and a conservatively managed capital and debt program, with very strong self-liquidity to withstand temporary volatility to its existing VRDO and interest rate swaps; and
- Significant pension reform changes that have contributed to improved funding progress and significant benefit flexibility to adjust OPEB, although we continue to monitor the state's funding discipline and policies to assess the sustainability of this progress under more subdued investment return conditions.

Environmental, social, and governance (ESG) factors

S&P Global Ratings views the Ohio's environmental risks as being in line with the sector. In our view, the state's efforts to address legacy environmental risks related to water quality, land management, and natural resource conservation through its policy and legal framework as supportive of its credit profile. At the same time, we view Ohio's long-term governance risks as aligned with the sector due to the relative strength of the state's government framework, strong cyber-security risk management framework, and transparency of its policies, reporting, and disclosures. We consider Ohio to have social risks that are generally in line with the sector, although it exhibits some demographic pressures due to its aging prime working-age population and low replacement rates. While these longer-term social risks could slow statewide economic growth forecasts and alter current service demands that could weigh on the state's financial position, Ohio's historically strong policies (including economic and financial forecasting) and initiatives to promote economic diversification and improve statewide standard of living for its residents, help manage this risk.

Stable Outlook

Upside scenario

A positive rating action would be predicated on Ohio's income levels strengthening to a level that more closely aligns with broader U.S. economy and higher-rated peers, and if the state's economy diversifies and is sustained in a way that we believe better insulates the state from cyclicality. This would be in conjunction with the state preserving financial stability--including maintaining strong BSF balances and very strong liquidity--and managing around potential tail-end revenue and expenditure cliffs that occur through the fiscal recovery and as the state's share of enhanced federal transfer payments and stimulus wanes over time.

Downside scenario

Although unlikely based on recent operating trends and a strong framework for making fiscal policy decisions, sustained structural budget misalignment and a sharp decline in Ohio's reserve or liquidity position could pressure the rating. The state's concentration in the manufacturing sector could intensify this downside risk due to an exogenous economic shock or international trade conditions that significantly weaken the state's core economic metrics relative to the U.S. level.

Based on the analytic factors we evaluate for states, we have assigned a total score of '1.6' to Ohio under our state ratings methodology, in which '1.0' is the strongest score and '4.0' the weakest. This score corresponds to a 'AA+' GO rating.

For more information, see our most recent summary analysis, published Oct. 18, 2021, and the full analysis for the State of Ohio, published Feb. 23, 2021.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors