04 FEB 2022

Fitch Rates Ohio's $427MM GO Bonds 'AA+'; Outlook Positive

Fitch Ratings - New York - 04 Feb 2022: Fitch Ratings has assigned a 'AA+' rating to the following state of Ohio general obligation (GO) bonds:

--$181.9 million infrastructure improvement GO refunding bonds, series 2022A

(federally taxable);

--$32.3 million conservation projects GO refunding bonds, series 2022A (federally taxable);

--$212.5 million common schools GO refunding bonds, series 2022A (federally taxable).

The bonds are expected to be sold via negotiation on or about Feb. 10, 2022. Bond proceeds will be used to refund bonds previously issued to finance public infrastructure capital improvement projects, conservation projects, and school capital facilities projects.

The Rating Outlook is Positive.

SECURITY

The bonds are general obligation, full faith and credit obligations of the state of Ohio, excluding lottery proceeds and highway user receipts.

ANALYTICAL CONCLUSION

The Positive Outlook reflects Ohio's sustained trend of balanced finances and growth in reserves that strengthens the state's financial resilience as it confronts cyclical economic and revenue trends. Although the state has prioritized tax cuts over time, revenue actions to date have not limited its ability to absorb economic and fiscal cyclicality while maintaining structural balance and ample reserve balances. Further action on the rating will look to the state's fiscal and economic position beyond the pandemic, as federal aid expires, including the longer-term direction of economic growth and the state's continued ability to maintain structural balance and high resilience.

The state's 'AA+' Issuer Default Rating (IDR) and GO rating are based on its careful financial management, which has supported financial stability and the rebuilding of reserves over time, and low liabilities.

Economic Resource Base

The state economy is large and diverse, featuring distinct economic regions centered on several large urban areas. While the economy has experienced continued economic diversification, including expansion in finance, insurance and real estate sectors, manufacturing remains a disproportionally large sector, relative to national averages, with a concentration in more cyclically sensitive durable goods industries. Transportation equipment and related suppliers also have a strong presence. Fitch anticipates slow but steady growth in Ohio's economy, limited by slow population gains.

In January, the state announced that Intel Corporation plans to invest over $20 billion to build semiconductor manufacturing facilities in Licking County, expected to be completed by 2025. The state expects that this will contribute significantly to its economic development if anticipated benefits are realized. State projections indicate the related creation of about 3,000 direct jobs at Intel and thousands more indirect jobs including construction and contracting jobs, and expansion in supporting businesses.

KEY RATING DRIVERS

Revenue Framework: 'aa'

Like most states, Ohio has an unlimited legal ability to raise operating revenues. Its revenue base is diverse and relies on broad-based income and sales taxes. Revenue implications of tax cuts implemented over the past several biennia have been manageable, aided by favorable economic and fiscal trends.

Expenditure Framework: 'aaa'

Ohio retains ample flexibility to cut spending throughout the economic cycle. As in most states, the natural pace of spending growth is likely to be somewhat above revenue growth, requiring ongoing budget management. Carrying costs for debt and retiree benefits are below the median for states.

Long-Term Liability Burden: 'aaa'

Debt is typically conservatively managed and debt issuance primarily consists of GO bonds. On a combined basis, outstanding debt and net pension obligations are below the state median.

Operating Performance: 'aaa'

The state generally has a careful approach to financial operations, consistently achieving budgetary balance and restoring its Budget Stabilization Fund (BSF) during the last economic expansion. The fund now totals a strong $2.7 billion, about 10% of fiscal 2021 state-source GRF revenues.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Sustained economic growth at a level that improves Fitch's expectations for Ohio's revenue growth over time to be maintained above inflation and closer to national GDP growth;

--Ability to maintain structural balance while emerging from pandemic-related uncertainty, given state tax policy actions, particularly as federal stimulus support is removed from the general economy.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Failure to maintain fiscal balance in addressing potential financial challenges, including related to continued pandemic-driven uncertainty or absorbing the impact of tax policy revisions;

--Fiscal stress leading to sustained budget actions that significantly diminish expenditure flexibility;

--State revenue growth that falls below the level of U.S. inflation over an extended period of time.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Budget Update

Ohio has superior financial resilience that allowed it to absorb the immediate budgetary effects of the economic downturn. In response to the pandemic, Ohio quickly put in place spending controls including a hiring freeze, a freeze on pay increases, promotions and new contracts and a request to state agencies to reduce spending up to 20% for the balance of fiscal years 2020 and 2021, the second year of the biennial budget. The governor subsequently, by executive order, reduced the fiscal 2020 budget by $775 million, including cuts to education and Medicaid spending. A portion of these carried over to the fiscal 2021 budget. The state did not rely on any use of the BSF, the state's 'rainy day fund', to address revenue loss in fiscal 2020.

Ohio's revenue collections, particularly for employment-based income and sales tax, experienced weakness through the period of reduced activity brought on by the pandemic but have since recovered. Fiscal 2020 GRF tax receipts were 4.6% ($1.1 billion) below the original budget estimate for the fiscal year, with personal income tax collections 9.7% ($845 million) below estimate, due largely to the deferred tax filing deadline, and non-auto sales tax 3% ($283 million) below estimate. The underperformance in tax collections was partially offset by an increase in federal receipts. Overall GRF revenues were only 1.6% ($559 million) below estimate and down approximately 1.0% as compared with fiscal 2019.

The state's fiscal 2021 actual tax revenue performance was stronger than original budget estimates. Tax receipts exceeded projections by about $1.5 billion (6.2%), with both personal income tax and sales tax collections ahead by 4.5% and 9.0%, respectively. Total fiscal 2021 revenues exceeded estimates by about 4.2% and exceeded the prior year by about 18%, or about 13% accounting for deferred tax filing deadline. Growth was driven by sales and income tax collections (even net of the deferred filing impact) and also increased federal receipts.

Ohio's biennial budget for fiscal years 2022-2023 assumes about 3% base annual tax revenue growth, adjusting for the impact of the delayed 2020 income tax payment date. Factoring in policy changes, including tax revisions, revenues decline by about 4.0% in fiscal 2022, with about 3.4% growth in fiscal 2023. The budget included various tax revisions, with the most significant in terms of fiscal impact related to personal income tax rate reductions and bracket changes. These changes are estimated to decrease tax revenues by about $1.6 billion for the biennium, or about 3% of tax revenues. The estimated revenue decrease associated with all enacted tax revenue revisions is about $2.0 billion for the biennium, or about 3.9% of tax revenues.

The budget also includes increased spending for K-12 education and a revised funding formula for the biennium that considers resident income levels in addition to property tax values. In addition to expanded funding for education, health and Medicaid, the budget includes a $1 billion Investing in Ohio Initiative that provides one-time funding for business sectors and communities negatively affected by the pandemic, largely from funding made available by federal pandemic-related stimulus moneys.

Fiscal 2022 YTD tax revenue performance has been stronger than budget estimates. Collections through December 2021 show tax receipts exceeding estimates by about $580.3 million or 4.6%. Sales tax collections exceed estimates by about $212.2 million or 3.4%, while personal income tax collections are ahead by about $296.4 million or 6.4%. Total YTD revenues are ahead of estimates by a lesser amount, $434.1 million or 2.4%, reflecting lower than budget federal revenue performance, chiefly related to lower than expected Medicaid spending.

The state's budget planning has focused on directing one-time revenue sources, including federal funding, toward nonrecurring expenditures. The BSF balance currently totals $2.7 billion or about 6.8% of fiscal 2021 revenues. No draws were made on the fund in fiscal years 2020 and 2021, and none are expected in the current biennium.

Federal Aid Provides Some Support for State Budgets

Federal aid measures enacted since the pandemic's onset are benefiting state budgets and economies. The Families First Coronavirus Response Act included a 6.2% increase in the Federal Medical Assistance Percentage (FMAP) for Medicaid for every quarter of the national public health emergency. FMAP is the rate at which the federal government reimburses states for Medicaid spending. Ohio expects to receive approximately $350 million each quarter and is assuming the enhanced FMAP rate will continue through the end of the fiscal year, as indicated by the current federal administration.

The U.S. Treasury allocated $4.5 billion in Coronavirus Aid, Relief and Economic Security (CARES) Act funds to Ohio, of which about $3.8 billion was received directly by the state, with the balance allocated to local governments in the state with a population of 500,000 or more. Of the $3.8 billion received by the state, Ohio shared about $1.2 billion with local governments. State CARES funds have been used for relief programs for small businesses and communities affected by the pandemic, support of health and long-term care facilities and personal protective equipment.

The American Rescue Plan ACT (ARPA) allocates about $11 billion in federal funding to the state of Ohio and its local governments. About $5.4 billion is allocated directly to the state, with an additional $274 million allocation for state capital projects. In addition to infrastructure spending needs and local government recovery programs, ARPA moneys have also been appropriated for the repayment of a $1.5 billion borrowing from the federal government that supported the state's Unemployment Trust Fund.

Economic Update

Mandated shutdowns of nonessential businesses at the pandemic's start resulted in a sharp decline in economic activity, but with a phased reopening starting in May 2020, activity picked up. Nonfarm payrolls declined by about 15.8% at the pandemic's start (from February to April 2020) compared with the national median decline of about 13.7%. Since then, Ohio has seen a recovery in employment, with about 77.0% of lost jobs regained through December 2021. This is lower than the national median (about 80.0% regained).

State unemployment has decreased from the high levels at the onset of the pandemic but is currently higher than the national rate. Ohio's official monthly unemployment rate was 4.5% in December, higher than the comparable national rate (3.9%). Ohio's much higher 7.8% Fitch-adjusted unemployment rate, which adds back declines in labor force since February 2020, indicates continuing labor market challenges.

CREDIT PROFILE

Ohio's economy had demonstrated slow but steady growth leading into the pandemic, with performance in recent years more in line with national levels, though still slightly lagging. The state's key employment sectors include transportation, distribution and warehousing of manufactured goods, which is facilitated by an extensive system of ports on Lake Erie, barge service on the Ohio River and advanced air-cargo and rail infrastructure. The state experienced a sharp drop in economic activity due to the onset of the pandemic and related shutdown measures. As these were eased, and with the benefit of the federal stimulus, activity rebounded. Going forward, economic performance will likely return to a trend of steady growth that trails the nation.

For additional information on Ohio's IDR, see "Fitch Affirms OH IDR at 'AA+'; Rates Lease Appropriation Bonds 'AA'; Outlook Revised to Positive," dated Aug. 5, 2021, available at www.fitchratings.com.

Date of Relevant Committee

03 August 2021

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Fitch Ratings Analysts

Maria Coritsidis
Director
Primary Rating Analyst
+1 212 908 0514
Fitch Ratings, Inc. Hearst Tower 300 W. 57th Street New York, NY 10019

Michael D'Arcy
Director
Secondary Rating Analyst
+1 212 908 0662

Douglas Offerman
Senior Director
Committee Chairperson
+1 212 908 0889

Media Contacts

Eleis Brennan
New York
+1 646 582 3666
eleis.brennan@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Ohio, State			

ENTITY/DEBT	RATING			RECOVERY	PRIOR
of (OH) [General Government]					
• Ohio, State of (OH) /General Obligation - Unlimited Tax/ 1 LT	LT	AA+ ⊕	Affirmed		AA+ ⊕

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◉	◆
STABLE	◘	

Applicable Criteria

[Public-Sector Counterparty Obligations in PPP Transactions Rating Criteria (pub.04 May 2021)]

[U.S. Public Finance Tax-Supported Rating Criteria (pub.04 May 2021) (including rating assumption sensitivity)]

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Ohio, State of (OH)	EU Endorsed, UK Endorsed

Disclaimer

Copyright

the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.
The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

Endorsement policy

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.