

03 NOV 2023

## Fitch Rates Ohio's \$128MM GO Bonds 'AAA'; Outlook Stable

Fitch Ratings - New York - 03 Nov 2023: Fitch Ratings has assigned a 'AAA' rating to the following state of Ohio GO bonds:

--\$128 million GO highway capital improvement bonds, series Y (Full faith and credit/highway user receipts).

The bonds are expected to be sold via negotiation on or around Nov. 13, 2023. Proceeds of the bonds will be used to finance certain capital improvements to Ohio's highway system included in the state's transportation capital plan.

The Rating Outlook is Stable.

Ohio's 'AAA' Long-Term Issuer Default Rating (IDR) and GO ratings reflect the state's high level of financial resilience and superior budget management. Ohio's sustained trend of balanced budgets, coupled with its growing fiscal reserves and cash, supports robust gap-closing capacity. The ratings also factor in the state's proven ability to absorb the combined effects of economic cyclical and repeated tax policy changes, a long track record of conservative revenue forecasting and low long-term liability burden.

### SECURITY

Ohio's GO bonds, including the series Y bonds, are full faith and credit obligations of the state of Ohio, excluding lottery proceeds. Highway user receipts are also pledged for the payment of GO highway capital improvement bonds, including the series Y bonds.

### 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. Fitch anticipates revenue growth will likely remain slow and in line with historical trends, with state-source revenues expanding in line with, or slightly above, inflation when factoring in the effect of tax policy changes.

#### Expenditure Framework - 'aaa'

Ohio retains ample flexibility to cut spending through 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 levels are conservatively managed and debt primarily consists of GO bonds. On a combined basis, outstanding debt and net pension liabilities are below the U.S. states' median.

### **Operating Performance - 'aaa'**

The state generally takes a careful approach to financial operations, consistently achieving structurally balanced budgets and restoring its Budget Stabilization Fund during the previous economic expansion. The fund balance has grown substantially since 2021 and currently totals \$3.65 billion, equal to approximately 12% of fiscal 2023 state-source general revenue fund revenues.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--Failure to maintain fiscal balance and robust reserves at or near current levels when addressing future financial challenges, including absorbing the potential effects of major tax policy revisions.

--State revenue growth that falls below Fitch's expectations for the long-term level of U.S. inflation for an extended period.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--The rating is at the highest level on Fitch's scale and cannot be upgraded.

## **PROFILE**

Ohio's economy is large and diverse, and features six distinct economic regions, three of which are grouped around the state's largest urban centers (Cleveland, Cincinnati and Columbus). Ohio's economy has continued to become more diversified, with expansion in its finance, health care, insurance and real estate sectors, but the state's manufacturing sector remains large compared to national averages.

Manufacturing is concentrated in the more cyclically sensitive durable goods industries, such as transportation equipment, automotive and distribution and warehousing of manufactured goods. Aerospace and biomedical sciences are growing industries. Ohio's geography features multiple river systems connected via a network of canals, providing abundant sources of fresh water. The canals and rivers feature an extensive system of ports that facilitates the movement of agricultural and manufactured goods. Fitch expects Ohio's economy to achieve steady growth limited by slow population gains.

Intel Corporation is investing over \$20 billion to build new semiconductor manufacturing facilities in

Licking County, west of Ohio's state capitol of Columbus. Intel expects the project to be completed by 2025. The state estimates the project will result in the creation of some 20,000 new jobs, including 3,000 permanent jobs at Intel, approximately 10,000 related to support jobs connected to the project, and 7,000 short-term positions during construction. As Ohio currently does not have semiconductor manufacturing capacity, the Intel project will introduce a new high-tech sector to the state. Ohio offered \$1.7 billion of economic and tax incentives to Intel to bring the project to the state, inclusive of a \$600 million "on-shoring" grant.

## **Date of Relevant Committee**

28 August 2023

## **Sources of Information**

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**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## **Fitch Ratings Analysts**

### **Michael D'Arcy**

Director

Primary Rating Analyst

+1 212 908 0662

Fitch Ratings, Inc. Hearst Tower 300 W. 57th Street New York, NY 10019

### **Tammy Gamerman**

Director

Secondary Rating Analyst

+1 212 908 0216

### **Eric Kim**

Senior Director

Committee Chairperson

+1 212 908 0241

## Media Contacts



### Sandro Scenga

New York


+1 212 908 0278

sandro.scenga@thefitchgroup.com

## Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Ohio, State of (OH) [General Government]			
• Ohio, State of (OH) /General Obligation <sup>LT</sup> - Unlimited Tax/ 1 LT	AAA 	Affirmed	AAA 

## RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

## Applicable Criteria

[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 & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch

relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, 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 complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

## **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.