

## State of Ohio

**Issuer: State of Ohio**

Affirmed	Rating	Outlook
General Obligation Highway Capital Improvement Bonds Series W	AAA	Stable
General Obligation Highway Capital Improvement Bonds Series V	AAA	Stable

**Methodology:**

[U.S. Special Tax Revenue Bond Rating Methodology](#)

[U.S. State General Obligation Rating Methodology](#)

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**Rating Summary:** The State's General Obligation Highway Capital Improvements Bonds (HCIBs) are well protected by the State's general obligation pledge, which is further enhanced by a pledge of highway user fees that consist primarily of gasoline taxes and vehicle registration fees levied state-wide. In KBRA's view, the constitutional provisions underpinning the bond authorization and pledge of the highway user fees provide stronger credit features to the HCIBs than would be present with solely a general obligation pledge. The structure effectively makes holders of these bonds senior secured creditors of the State, in a superior position to general State general obligation bondholders and supports the AAA rating.

Ohio's State constitution, which authorizes the HCIBs in an amount not to exceed \$1.2 billion (\$895 million now outstanding), provides that they be used solely for highway and road purposes. The highway user fees that secure the bonds are also authorized by the State constitution, which also specifies that they are only to be used for highway and road purposes, which includes debt service on the HCIBs.

The pledged revenues are designed to assess the users of roads and highways with the costs of building and maintaining them. The revenues pledged to pay debt service are motor vehicle fuel taxes and vehicle registration fees levied

statewide. One of the principal pledged taxes, the motor vehicle fuel tax on gasoline, was increased to 38.5 cents per gallon from 28 cents effective July 1, 2019. The HCIBs are provided coverage of approximately 20.0x by the pledged revenues. The debt structure is also very conservative. Over the next 10 years, 91% of the bonds mature.

Ohio is the 7th largest state in terms of population and gross state product. It has a broad and diverse economic base. The State's economic performance has been balanced. Population and gross state product growth has exceeded the Great Lakes region but trailed the U.S. over the last decade. Ohio's economy, like the U.S. overall has been negatively impacted since onset of the COVID-19 pandemic and related public health measures in March 2020. As of March 2021, State employment rests 2.8% below the average level in 2019, which compares favorably to the Great Lakes region (down 5.2%) and U.S. overall (down 4.5%).

The State's overall debt levels are low which is another positive credit feature. Tax supported debt per capita and as a percentage of personal income are \$927 and 1.8% respectively. Both measures are low when compared to other states.

The effects of the COVID-19 pandemic have been significant in Ohio and across U.S. Employment continues to recovery and State tax revenues have been negatively impacted. However, budget adjustments made in FY 2020 and Federal aid were sufficient to lead to a \$646 million increase in the ending General Fund balance to \$8,367 million. Thus far in FY 2021, no drawdown of the Budget Stabilization Fund is expected.

The Stable Outlook reflects the strong coverage, favorable historical performance of the pledged revenues and the State's diverse economic base.

## Key Credit Considerations

KBRA continues to monitor the direct and indirect impacts of the COVID-19 virus. Click [here](#) to access KBRA's ongoing research on the topic. The ratings were affirmed because of the following key credit considerations:

### Credit Positives

- Debt service coverage is very favorable at approximately 20.0x and is expected to improve following the increase to the motor vehicle gasoline tax effective July 1, 2019.
- The bonds enjoy the general obligation pledge of the State and additional credit protection from the pledged highway revenues, which effectively puts them in a position senior to GO bondholders.

### Credit Challenges

- Certain economic indicators have lagged national averages over the longer term, notably population and job growth. Should this divergence from national averages widen, it could develop into a rating consideration.

## Rating Sensitivities

- |  |   |
|--|---|
| ▪ Not applicable for a AAA rating.   | + |
| ▪ Significant deterioration in economic performance or a more pronounced and negative divergence from U.S. average indicators. | - |

## Pledged Revenue Details

**Motor vehicle fuel tax:** A tax of 38.5 cents per gallon of gasoline and 47.0 cents per gallon of diesel is paid by consumers and remitted to the Ohio Department of Taxation by the licensed dealer. A motor fuel use tax at the same rate is imposed upon operators of trucks for fuel purchased outside the State and consumed in Ohio. The tax rate was increased from 28 cents per gallon of gasoline and diesel on July 1, 2019.

**License and registration taxes and fees:** Initial and annual fee for passenger vehicle registration of \$31 per year. Registrations for trucks range from \$385 to \$1,370.

**Petroleum activity tax:** A wholesale tax levied on the suppliers at 0.65% of gross receipts upon the sale to retailers.

Key Ratios	
<b>Pledged Revenues (In Millions)</b>	<b>2020</b>
<b>Net Highway User Receipts</b>	<b>\$3,562.0</b>
Pro forma MADS (FY 2021)	\$156.4
DSCR MADS (FY 2021)	22.8x
<b>Economic Data</b>	<b>2020</b>
Population	11,693,2017
State Per Capita Personal Income	\$53,296 (89% of U.S.)
State Per Capita Real GSP	\$50,552 (90% of U.S.)
State % Change from 2010 in Real GSP per capita	12.1%
U.S. % Change from 2010 in Real GSP per capita	10.9%

Source: State of Ohio, US Census, & Bureau of Economic Analysis

## Rating Determinants (RD)

1. Legal Framework	AAA
2. Nature of Special Tax Revenues	AAA
3. Economic Base and Demographics	AA-
4. Revenue Analysis	AA-
5. Coverage and Bond Structure	AAA
6. Debt and Additional Continuing Obligations	AAA
7. Financial Performance and Liquidity Position	AA+

Determinants 1 to 5 taken from KBRA's U.S. Special Tax Revenue Bond Rating Methodology. Determinants 6 and 7 taken from KBRA's U.S. State General Obligation Rating Methodology.



## RD 1: Legal Framework

### Constitutional and Statutory Structure

KBRA has consulted outside counsel, and the following summarizes KBRA's understanding of the legal structure for authorization and payment of the HCIBs.

The HCIBs are general obligations of the State. The full faith and credit, revenue, and taxing power of the State are pledged to the timely payment of the HCIBs. In addition, the HCIBs are "double-barreled bonds" because the Ohio Constitution, together with Ohio finance law, require, that the State pledge (i) all fees, excises, or license taxes relating to the registration, operation, or use of vehicles on the public highways or to fuels used for propelling those vehicles, but excluding statutory refunds and adjustments ("Highway User Receipts"), and (ii) moneys deposited in the State Highway Capital Improvements Bond Service Fund (the "Bond Service Fund") and the respective Cost of Issuance Funds, including all accounts in those funds and all moneys deposited therein and the investment earnings thereon (all collectively, together with the revenue and taxing power of the State (except for net State lottery proceeds), the "Pledged Excises and Taxes"). The structure effectively makes holders of these bonds senior secured creditors of the State, in a superior position to the generally unsecured position of State general obligation bondholders.

The State has fulfilled this State Constitutional mandate by enacting Ohio Revised Code Sections 151.01 and 151.06 (the "Act"). The Ohio Constitution does not require acts of further appropriation with respect to payment of the HCIBs. Through the Act, the State covenants that so long as any of the Highway Obligations are outstanding, the State and applicable officers and governmental agencies of the State, including the General Assembly, will maintain statutory authority for and cause to be levied, collected and applied an amount of pledged excises, taxes, and revenues of the State sufficient to make payment on the Bonds when due. The Pledged Excises and Taxes are not limited as to amount and to the extent required to pay the Bond Service Charges.

The HCIBs are authorized and issued on behalf of the State by its Treasurer and are issued pursuant to specific provisions of the Ohio Constitution and Ohio State law. There is no indenture or trustee in this structure, and thus the Treasurer, as Bond Registrar, is responsible for the payment of the principal and interest on the HCIBs.

### State Constitutional Limitations on Use of Highway User Receipts

In addition to the above Constitutional and statutory mandates to levy, collect and apply funds to payment of the HCIBs, there are also parallel State Constitutional limits on the use of the Highway User Receipts. Since the 1940s, the Ohio Constitution has prohibited the use of Highway User Receipts for anything other than the costs of administration of the laws levying such taxes; statutory refunds and adjustments; payments of HCIBs; construction, reconstruction, maintenance and repair of public highways and bridges and other statutory highway purposes; traffic enforcement by the State; and hospitalization of indigent persons injured in motor vehicle accidents on the public highways. Highway User Receipts are not and cannot be used for any other purpose or be pledged to the payment of bonds issued for other purposes.

Given the clear duties imposed on the State through these provisions of the Ohio Constitution and related statutes, KBRA is advised that holders of the Bonds could readily access the Ohio courts (and in fact proceed directly to the Ohio Supreme Court, KBRA is informed) for mandamus relief against the Treasurer and the State in the case of non-payment.

It is also important to note that, as KBRA is advised, the State cannot easily change the Ohio Constitution. Proposed constitutional amendments relating to taxation, revenues, expenditures, debt or other subjects require initial approval by three-fifths of the members elected to each house of the General Assembly, or by initiative petition signed by electors numbering at least 10% of the total number of votes last cast for the office of Governor. The ultimate adoption of a proposed amendment requires approval by a majority of electors at a statewide election. Accordingly, KBRA is informed, Constitutional-level protections for bondholders are thus of a higher order than those granted only by statute.

### Substitution and Non-impairment

There is a limited power of substitution. The General Assembly may from time to time repeal or reduce any excise, tax, or other source of revenue pledged to the payment of bonds, and may levy any new or increased excise, tax, or revenue source to meet the pledge of the State's full faith and credit, revenue, and taxing power to the payment of debt service on outstanding obligations. However, the General Assembly cannot impair the State's obligation to levy, charge, and collect sufficient pledged excises, taxes, and revenues to pay debt service on such obligations, as the Ohio Constitution expressly provides that the General Assembly has no power to pass laws impairing the obligation of contracts.

In the event that the State were to fail to perform its State Constitutional and Statutory obligations, KBRA is informed that bondholders would have claims for breach of contract, contractual impairment under the State Constitution, and, as stated, for mandamus relief. In addition, bondholders could also have Federal claims for constitutional impairment under the Contract Clause of the U.S. Constitution.



## Debt Service Reserve Fund

There is no debt service reserve fund. However, the absence of a reserve fund is offset by the substantial coverage provided by pledged revenues and the requirement that monthly set asides of annual debt service requirements in the Debt Service Fund from September through February each year. The general obligation pledge also helps offset any concerns arising from the absence of a reserve fund.

## Additional Bonds Test

There is no additional bonds test. However, the ability to issue additional bonds is limited, and now nearly exhausted, by the overall limitation that the total amount of parity bonds outstanding not exceed \$1.2 billion.

## Bankruptcy

The United States Bankruptcy Code is not applicable to states. Because Ohio is a state, it is thus not eligible for relief under the U.S. Bankruptcy Code.

## ESG Management



### Governance Factors

**Reliance on Oil Consumption:** KBRA anticipates that the gasoline and diesel sales that currently underly about two thirds of the pledged revenues available for payment of the HCIBs will likely gradually decline in the coming decades due to the phase-in of alternative fuels and electric cars. Risk of a potentially declining revenue source however is balanced by the State's covenant in the Act authorizing the HCIBs to levy and collect pledged revenues sufficient to make payment when due. Also favorable in this context is the State's practice of limiting tenure of HCIBs to 15 years which together with strong coverage exceeding 20x insulates bondholders against longer-term uncertainty with respect to pledged revenues.

## RD 2: Nature of Special Tax Revenues

The pledged revenues consist of motor vehicle fuel taxes, license and registration taxes and fees, and other motor vehicle and highway use taxes levied across the State of Ohio. Although motor fuel tax collections can be cyclical, they are levied on essential transportation activities.

KBRA views the nature of the special taxes as broad based and levied upon essential transportation activities and services.

## RD 3: Economic Base and Demographics

Ohio's economic base is strong and diverse. The state ranked 7<sup>th</sup> among the states in 2020 by population and gross state product (GSP). Growth in both metrics exceeded the Great Lakes region<sup>1</sup> between 2010 and 2020 but trailed the U.S. average.

### Population

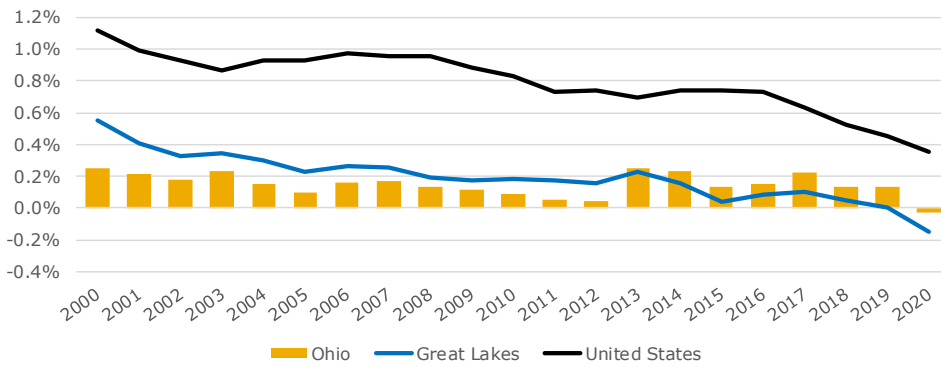
Ohio's population increased 1.3% over the last decade compared to Great Lakes region and U.S. growth at 0.9% and 6.5%, respectively.

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<sup>1</sup> The Great Lakes Region is comprised by Illinois, Indiana, Michigan, Ohio, and Wisconsin.



**FIGURE 1**  
**Change in Population**



	2010	2020	Δ 2010 to 2020 (%)
Ohio	11,539,449	11,693,217	1.3%
Great Lakes	46,438,684	46,834,910	0.9%
United States	309,327,143	329,484,123	6.5%

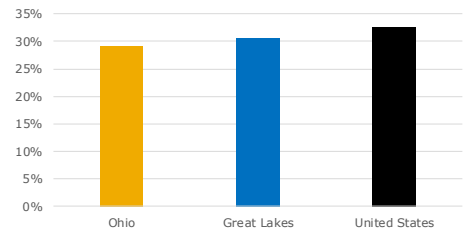
Source: U.S. Bureau of Economic Analysis

### Educational Attainment, Poverty, and Age Groups

Education attainment is improving but lags the region and U.S. overall. Poverty levels in the State are somewhat higher than the region and U.S. The population is slightly older than average, with the working aged population comprising a somewhat smaller percentage relative to the region and U.S.

**FIGURE 2**

**Educational Attainment**  
Portion of Population 25+ w/Bachelor's Degree+ (2019)

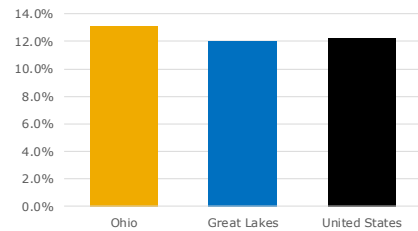


	2010	2019	Point Δ 2010 to 2019
Ohio	24.6%	29.0%	4.4
Great Lakes	26.3%	30.6%	4.3
United States	28.2%	32.6%	4.4

Source: U.S. Census Bureau

**FIGURE 3**

**Poverty Level**  
All People (2019)

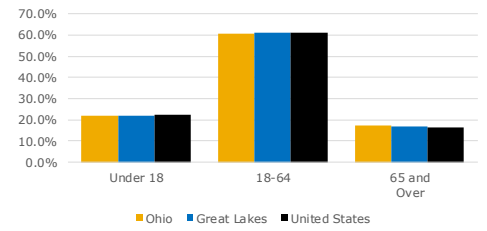


	2010	2019	Point Δ 2010 to 2019
Ohio	15.8%	13.1%	-2.7
Great Lakes	15.1%	12.0%	-3.1
United States	15.3%	12.3%	-3.0

Source: U.S. Census Bureau

**FIGURE 4**

**Age Groups**  
(2019)



	Under 18	18-64	65 and Over
Ohio	22.0%	60.5%	17.5%
Great Lakes	22.1%	60.9%	17.0%
United States	22.2%	61.3%	16.5%

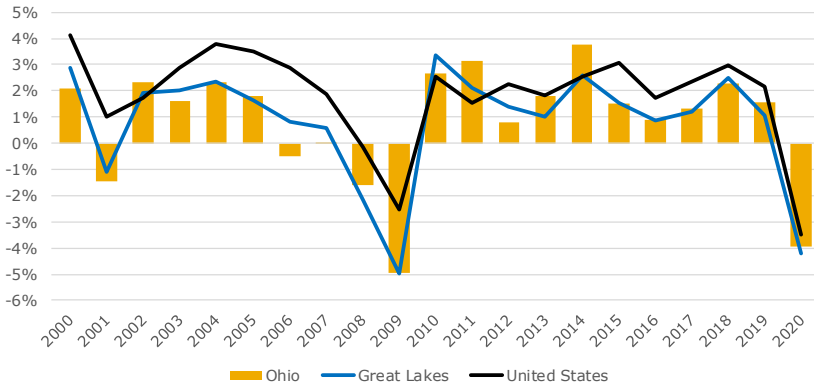
Source: U.S. Census Bureau

### Real Gross State Product

Ohio and the region experienced less real (inflation adjusted) gross state product (GSP) growth in the years leading up to the Great Recession and a more severe decline than the U.S. during the economic downturn. The COVID-19 pandemic resulted in reduced production across the State, region and U.S. in 2020. GSP growth from 2010 to 2020 of 13.6% surpassed that of the region (+10.3%) but continues to trail the U.S. overall (+18.3%). On a per capita basis, real GSP growth has exceeded that of the region and U.S. since 2010. As of 2020, real GSP per capita is 0.99x that of the Great Lakes region and 0.90x the U.S.



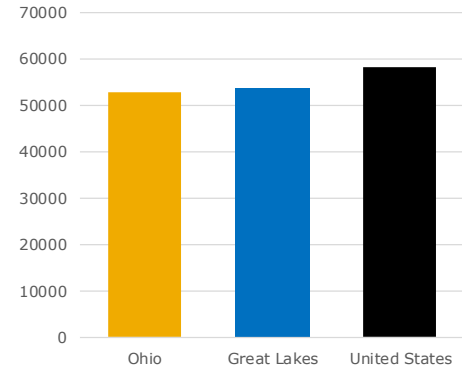
**FIGURE 5**  
**Real GSP Annual Change**  
(chained 2012 dollars)



(\$ millions)	2010	2020	Δ 2010 to 2020 (%)
Ohio	520,301	591,120	13.6%
Great Lakes	2,175,859	2,401,025	10.3%
United States	15,598,753	18,426,076	18.1%

Source: Bureau of Economic Analysis

**FIGURE 6**  
**Real GSP Per Capita**  
(chained 2012 dollars) (2020)



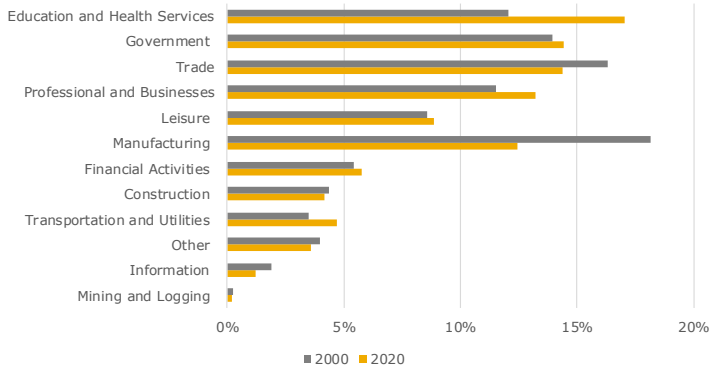
	2010	2020	Δ 2010 to 2020 (%)
Ohio	\$45,089	\$50,552	12.1%
Great Lakes	\$46,854	\$51,266	9.4%
United States	\$50,428	\$55,924	10.9%

Source: U.S. Bureau of Economic Analysis

## Employment

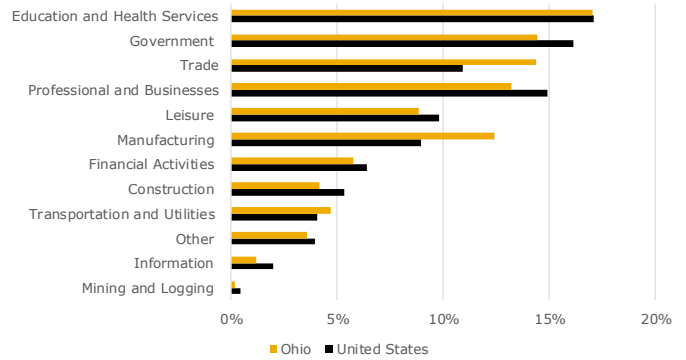
Ohio's employment base is broad with a degree of specialization in manufacturing, which as of 2020 accounts for 12.4% of employment versus the U.S. average at 9.0%. Employment concentration has been largely stable since 2010.

**FIGURE 7**  
**Ohio**  
**Employment by Sector**  
2000 vs. 2020



Source: U.S. Bureau of Labor Statistics

**FIGURE 8**  
**Ohio vs. United States**  
**Employment by Sector**  
Year 2020



Ohio's top employers are broadly diversified while manufacturing employment is somewhat concentrated in durable goods and autos.

**FIGURE 9**

Ohio's Top Employers in 2020		
All Sectors		
Company	Employment	Sector
Cleveland Clinic Foundation	52,800	Health Care
Wal-Mart Stores, Inc.	50,400	Retail: General Merchandise
Kroger Company	35,950	Retail: Food Stores
Mercy Health	32,300	Health Care
University Hospital Health System	30,650	Health Care
Ohio Health	30,000	Health Care
Amazon Inc.	23,500	Retail: General Merchandise
OhioHealth	26,600	Health
JPMorgan Chase & Co.	21,000	Finance: Bank
Giant Eagle Inc.	20,450	Retail: Food Stores

Manufacturing Sector Only		
Company	Employment	Sector
Honda Motor Co., Ltd.	13,200	Motor Vehicles
Procter & Gamble Company	10,000	Soaps & Consumer Goods
Berkshire Hathaway, Inc.	9,700	Machinery and Fiberglass Products
Whirlpool Corporation	9,600	Consumer Products
General Electric Company	9,300	Aerospace / Electrical Eqpt.
Marathon Petroleum Corporation	8,900	Petroleum
Ford Motor Company	6,850	Motor Vehicles
Fiat Chrysler Automobiles N.V.	6,800	Motor Vehicles
Cleveland Cliffs	6,750	Steel
Sherwin-Williams Company	5,000	Paints

Source: Ohio Research Office

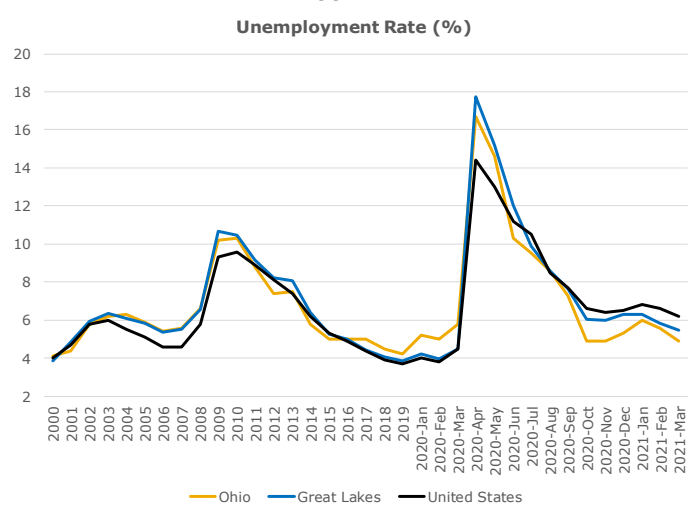
As of March 2021 State employment is 2.8% below the 2019 pre-pandemic level, marking a smaller decline than that observed across the region (down 5.2%) and U.S. (down 4.5%). Per onset of the pandemic, Ohio's unemployment rate spiked to a high of 16.7% in April 2020 compared to Great Lakes region and U.S. highs that same month of 17.7% and 14.4%, respectively. Unemployment quickly receded from these highs and had recovered to 4.9% in Ohio as of March 2021, lower than both the region (5.5%) and U.S. (6.2%).

**FIGURE 10**

	Employment (Not Seasonally Adjusted) (in thousands)					
	Ohio		Great Lakes		United States	
	Employment	Δ YOY	Employment	Δ YOY	Employment	Δ YOY
2000	5,544		22,635		136,891	
2001	5,566	0.4%	22,436	-0.9%	136,933	0.0%
2002	5,490	-1.4%	21,994	-2.0%	136,485	-0.3%
2003	5,499	0.2%	21,948	-0.2%	137,736	0.9%
2004	5,487	-0.2%	22,024	0.3%	139,252	1.1%
2005	5,531	0.8%	22,217	0.9%	141,730	1.8%
2006	5,636	1.9%	22,555	1.5%	144,427	1.9%
2007	5,679	0.8%	22,614	0.3%	146,047	1.1%
2008	5,609	-1.2%	22,344	-1.2%	145,362	-0.5%
2009	5,305	-5.4%	21,168	-5.3%	139,877	-3.8%
2010	5,267	-0.7%	21,035	-0.6%	139,064	-0.6%
2011	5,264	-0.1%	21,136	0.5%	139,869	0.6%
2012	5,290	0.5%	21,311	0.8%	142,469	1.9%
2013	5,281	-0.2%	21,392	0.4%	143,929	1.0%
2014	5,382	1.9%	21,797	1.9%	146,305	1.7%
2015	5,428	0.9%	22,106	1.4%	148,834	1.7%
2016	5,464	0.7%	22,419	1.4%	151,436	1.7%
2017	5,508	0.8%	22,567	0.7%	153,337	1.3%
2018	5,530	0.4%	22,709	0.6%	155,761	1.6%
2019	5,599	1.3%	22,802	0.4%	157,538	1.1%
2020	5,542	-1.0%	22,519	-1.2%	156,994	-0.3%
March 2021	5,441		21,621		150,493	
Chg. 2019 Avg. to March 2021		-2.8%		-5.2%		-4.5%

Source: U.S. Bureau of Labor Statistics

**FIGURE 11**



Source: U.S. Bureau of Labor Statistics

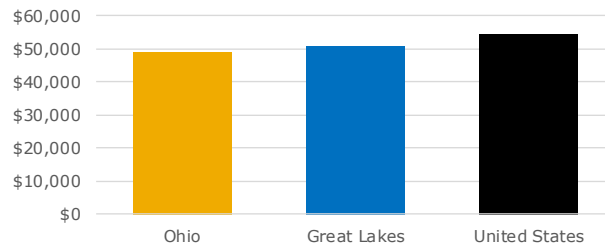
**Per Capita Personal Income**

Ohio's per capita personal income (PCPI) was \$53,296 in 2020, which was 95% that of the Great Lakes region and 89% that of the nation.



**FIGURE 12**

**Per Capita Personal Income**  
(2020)



Per Capita Personal Income			Δ 2010 to 2020
	2010	2020	
Ohio	\$36,574	\$53,296	45.7%
Great Lakes	\$37,988	\$55,823	46.9%
United States	\$40,546	\$59,729	47.3%

Source: U.S. Bureau of Economic Activity

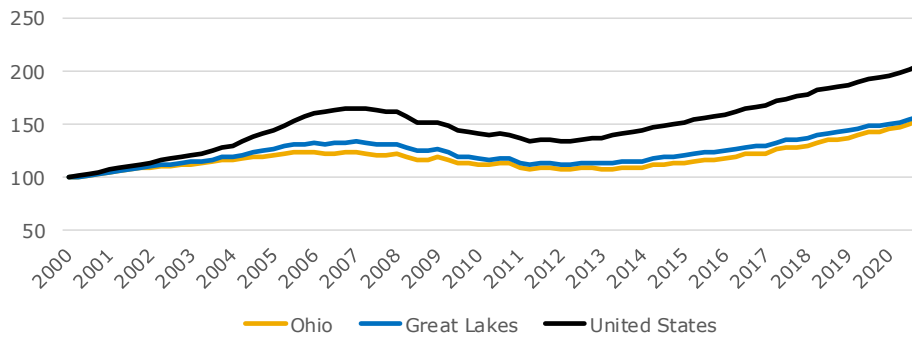
**Home Values**

Ohio home values experienced both less volatility and lower overall growth than the Great Lakes region and U.S. since the year 2000. As of Q4 2020, Ohio home values have appreciated to 125% of their prior 2006 high versus Great Lakes region home values at 118% and U.S. values at 125%. Home values generally were not negatively impacted by the pandemic.

**FIGURE 13**

**Home Values**

All Transaction Home Price Index Data 2000 to 2020 Q4  
(Indexed to Q1 2000)



Source: Federal Housing Finance Agency

**RD 4: Revenue Analysis**

KBRA views the pledged Highway User Receipts as providing a strong source of repayment for the State of Ohio's General Obligation Highway Capital Improvements Bonds. Highway user receipts are collected as follows:

Motor vehicle fuel tax: A tax of 38.5 cents per gallon of gasoline and 47.0 cents per gallon of diesel is paid by consumers at the point of purchase and remitted to the Ohio Department of Taxation by the licensed dealer. A motor fuel use tax at the same rate is imposed upon operators of trucks for fuel purchased outside the State and consumed in Ohio. The tax rate was increased from 28 cents per gallon of gasoline and diesel on July 1, 2019.

License and registration taxes and fees: Initial and annual fee for passenger vehicle registration of \$31 per year. Registrations for trucks range from \$385 to \$1,370.

Petroleum activity tax: A wholesale tax levied on the suppliers at 0.65% of gross receipts upon the sale to retailers.

In FY 2020, approximately 73% of Highway User Receipts were generated from motor fuel and use taxes. The remaining 27% consisted primarily of registration licenses and fees. The significant increase in motor vehicle fuel tax rates commencing July 1, 2019 of 37.5% for gasoline and 67.9% for diesel resulted in a 30.0% increase in motor vehicle fuel



tax receipts, as the rate increases served to more than offset large declines in motor vehicle consumption associated with the pandemic.

**FIGURE 14**

<b>Highway User Receipts</b>									
FYE June 30 (dollars in millions)									
	Motor Vehicle Fuel Tax	Highway Use Tax Permits	Motor Vehicle Fuel Use Tax	Petroleum Activity Tax	License and Registration Taxes and Fees	Less: Tax Refunds and Reductions		<b>Net Highway User Receipts</b>	<b>Δ YOY</b>
2009	\$ 1,732	\$ 12	\$ 85	\$ -	\$ 770	\$ (23)		<b>\$ 2,576</b>	
2010	1,729	22	68	-	785	(19)		<b>2,585</b>	<b>0.3%</b>
2011	1,760	25	67	-	811	(21)		<b>2,643</b>	<b>2.2%</b>
2012	1,687	28	72	-	826	(20)		<b>2,594</b>	<b>-1.9%</b>
2013	1,727	31	72	76	839	(19)		<b>2,727</b>	<b>5.1%</b>
2014	1,829	35	66	81	845	(21)		<b>2,835</b>	<b>4.0%</b>
2015	1,806	36	73	95	874	(23)		<b>2,861</b>	<b>0.9%</b>
2016	1,747	35	80	72	948	(25)		<b>2,858</b>	<b>-0.1%</b>
2017	1,815	38	73	56	938	(17)		<b>2,904</b>	<b>1.6%</b>
2018	1,800	45	71	66	968	(16)		<b>2,935</b>	<b>1.1%</b>
2019	1,843	41	102	84	1,001	(17)		<b>3,054</b>	<b>4.1%</b>
2020	2,395	41	103	74	969	(20)		<b>3,562</b>	<b>16.6%</b>

Source: State of Ohio and FY 2020 Continuing Disclosure Statement

## RD 5: Coverage and Bond Structure

The pledged Highway User Receipts provide strong coverage. Coverage has exceeded 20.0x in each of the last eight years and more than 13.0x coverage each year since 1998. Coverage should remain strong given Constitutional restrictions on issuance.

**FIGURE 15**

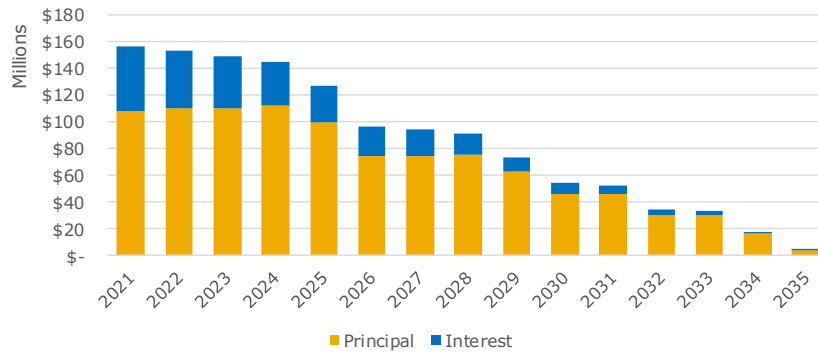
<b>Historic Pledged Revenues, Debt Service, and Coverage</b>			
FYE June 30 (dollars in millions)			
	Historical Highway User Receipts	Total Fiscal Year Debt Service	<b>Coverage</b>
1998	\$ 1,943.3	\$ 24.6	<b>79.0x</b>
1999	2,018.5	52.2	<b>38.6x</b>
2000	2,061.9	79.9	<b>25.8x</b>
2001	1,985.6	113.7	<b>17.5x</b>
2002	2,046.6	141.3	<b>14.5x</b>
2003	2,123.6	136.6	<b>15.5x</b>
2004	2,326.2	149.4	<b>15.6x</b>
2005	2,483.8	168.3	<b>14.8x</b>
2006	2,669.1	181.1	<b>14.7x</b>
2007	2,577.0	198.7	<b>13.0x</b>
2008	2,703.7	206.0	<b>13.1x</b>
2009	2,576.4	197.5	<b>13.0x</b>
2010	2,585.5	170.3	<b>15.2x</b>
2011	2,642.7	149.3	<b>17.7x</b>
2012	2,593.9	140.9	<b>18.4x</b>
2013	2,726.7	135.5	<b>20.1x</b>
2014	2,835.1	132.5	<b>21.4x</b>
2015	2,860.6	140.2	<b>20.4x</b>
2016	2,857.8	119.8	<b>23.8x</b>
2017	2,904.2	127.4	<b>22.8x</b>
2018	2,934.6	114.6	<b>25.6x</b>
2019	3,053.9	137.2	<b>22.3x</b>
2020	3,562.0	152.7	<b>23.3x</b>

Source: FY 2020 and Prior Continuing Disclosure Statements

The structure of outstanding debt is conservative with declining annual debt service and all principal scheduled to amortize by FY 2035. FY 2020 revenues provide strong coverage of 22.8x pro forma MADS (\$156.4 million in FY 2021).



**FIGURE 16**  
**Debt Service Schedule**  
FYE June 30



Source: Official Statement dated June 4, 2020

Based on \$3.56 billion in pledged revenues in FY 2020 and FY 2021 MADS at \$156.4 million, pledged revenues would need to decline by nearly 96% for the 1.0x debt service coverage threshold to be breached, which KBRA views as exceedingly unlikely given the nature of the pledged revenues and their history of stability.

### RD 6: Debt Burden and Continuing Obligations

The State has approximately \$12.0 billion in tax-supported debt as of June 30, 2020 including \$8.5 billion in general obligation bonds, \$2.0 billion in special obligation bonds subject to annual appropriation, and \$256 million in certificates of participation. Tax-supported debt at FYE 2020 is low at 1.9% of personal income or \$1,024 per capita. Tax-supported debt service for FY 2020 is equivalent to 2.8% of FY 2020 governmental expenditures.

**FIGURE 17**

Debt Ratios (in dollars)			
	Ohio	Average of U.S. States	Ohio Rank Among the 50 States
Tax-Supported Debt:			
Per Capita	\$927	\$1,645	Lowest 45%
as a % of Personal Income	1.8%	2.9%	Lowest 50%
as a % of GSP	1.6%	2.6%	Lowest 45%
Aggregate State and Local Debt:			
Per Capita	\$7,757	\$9,586	Lowest 50%
as a % of Personal Income	15.9%	17.6%	Lowest 55%
as a % of GSP	13.4%	15.2%	Lowest 40%

Source: U.S. Census Bureau, U.S. Bureau of Economic Activity, Credit Scope, and Annual Disclosures.

All part time and full time employees along with elected officials are eligible for retirement benefits under the following three plans: Ohio Public Employees Retirement System (OPERS), State Teachers Retirement System of Ohio (STRS), and State Highway Patrol Retirement System (HPRS).

OPERS is a cost sharing multiple employer retirement system. The plan is 82.2% funded and the State’s proportionate share NPL is \$4.1 billion. The State has paid 100% of the required contribution to the plan in each of the last five years. STRS is also a multiple employer retirement system. The plan is 77.4% funded and the State’s proportionate share NPL is \$80 million. The State paid the full actuarially determined contribution to the plan in each of the last four years. Lastly, HPRS is a single employer defined benefit plan that is administered by the State. The plan is 64.7% funded and the State’s NPL is \$446.0 million.

The State’s reported proportionate share net pension liability (NPL) for the three plans per the FY 2020 CAFR is \$4.3billion, which KBRA considers manageable at 0.7% of personal income.

**FIGURE 18**

<b>Net Pension Liability (NPL) Ratios</b> (in dollars)			
	Ohio	Average of U.S. States	Ohio Rank Among the 50 States
Net Pension Liability:			
Per Capita	\$371	\$1,963	Lowest 25%
as a % of Personal Income	0.7%	3.4%	Lowest 25%
as a % of GSP	0.6%	3.0%	Lowest 25%

Source: U.S. Census Bureau, U.S. Bureau of Economic Activity, Credit Scope, and Annual Disclosures.

In FY 2020 fixed costs totaling \$2.1 billion including \$1.7 billion for debt service, \$427 million in pension contributions (100% of ADC) and \$23 million in OPEB contributions. Fixed costs were equivalent to a manageable 3.5% of governmental expenditures.

## RD 7: Financial Performance and Liquidity Position

Governmental funds are reported in full compliance with modified accrual accounting standards while the State uses a modified cash basis of accounting for budgetary purposes. The State has a history of consistent and accurate revenue forecasting.

Financial results are shown for the General Fund on a GAAP basis and for the General Revenue Fund on a budgetary basis. Both presentations reflect generally balanced operations over the past several years. Operating surpluses have been more frequent than operating deficits and the latter have been minor. The Budget Stabilization Fund balance was \$2.7 billion at year end 2020 or 8% of General Revenue Fund receipts, a level viewed by KBRA as strong.

### FY 2020 General Fund Results (Audited, GAAP Basis)

General Fund operating results were favorable in FY 2020 despite the impact of the pandemic in the year's final months. Ending fund balance increased \$649 million (8.4%) to \$8.4 billion.

Revenues increased \$238 million (0.6%) to \$37.9 billion.

- Income taxes declined \$727 million (7.6%) due to a combination of tax policy changes providing a four percent personal income tax reduction effective for tax year 2019 and a rise in unemployment due to the pandemic.
- Federal aid increased \$659 million (7.0%) due to increases in Medicaid and COVID-19 related assistance.
- Motor fuel taxes increased \$238 million (20.7%) as the previously discussed increase in motor fuel tax rates commencing at the start of the fiscal year offset a decline in motor fuel consumption due to the pandemic.
- Sales tax revenues increased \$209 million (1.9%) reflecting strong performance leading up to the pandemic and a limited adverse impact thereafter due to the pandemic.

Expenditures increased \$1.45 billion (4.2%) to \$36.0 billion.

- Public assistance and Medicaid spending increased \$636 million (4.0%) to \$16.0 billion due to increased COVID-19 related spending.
- Primary, secondary, and other education spending increased \$542 million (5.4%) to \$10.0 billion reflecting increases spending for student wellness and success addressing non-academic barriers such as mental health services and mentoring.

Net other financing sources and uses outflows of \$1.2 billion comprised largely of recurring transfers out to debt service and special revenue funds reduced the net increase in fund balance to \$646 million, pushing ending fund balance \$8.4 billion.

FIGURE 19

<b>State of Ohio</b>					
<b>General Fund Summary Statement of Income and Balance Sheet</b>					
FYE June 30 (audited, GAAP Basis) (\$ in millions)					
	2016	2017	2018	2019	2020
<b>Statement of Income</b>					
Revenues	\$ 36,737	\$ 37,306	\$ 35,501	\$ 37,653	\$ 37,891
Expenditures	34,843	36,730	34,908	34,555	36,006
Excess (Deficiency) of Rev. Over Exp.	1,894	576	592	3,099	1,886
Other Financing Sources (Uses)	(1,243)	(841)	(484)	(879)	(1,240)
<b>Net Change in Fund Balance</b>	<b>650</b>	<b>(265)</b>	<b>108</b>	<b>2,219</b>	<b>646</b>
Beginning Fund Balance	5,004	5,654	5,389	5,498	7,718
Change in Inventories	(1)	(1)	1	1	3
Ending Fund Balance	5,654	5,389	5,498	7,718	8,367
<b>Statement of Assets</b>					
<b>Assets</b>					
Cash and Cash Equivalents	\$ 6,007	\$ 5,549	\$ 5,996	7,272	7,244
Investments and Collateral on Lent Securities	1,773	2,863	2,929	3,754	2,623
Receivables	3,358	3,669	3,684	3,531	4,086
Other	21	21	22	23	291
<b>Total Assets</b>	<b>11,159</b>	<b>12,102</b>	<b>12,631</b>	<b>14,579</b>	<b>14,245</b>
<b>Liabilities</b>					
Accounts Payable and Accrued Liabilities	416	463	431	409	456
Medicaid Claims Payable	980	1,084	1,065	627	511
Obligations Under Securities Lending	535	1,511	1,696	2,308	1,005
Intergovernmental, Interfund, and Component Unit Payables	1,254	1,208	1,172	1,113	1,168
Other	1,076	1,195	1,555	1,374	1,711
<b>Total Liabilities</b>	<b>4,261</b>	<b>5,463</b>	<b>5,919</b>	<b>5,832</b>	<b>4,851</b>
Deferred Inflows of Resources	1,243	1,251	1,214	1,029	1,026
<b>Fund Balance</b>					
Nonspendable	46	44	52	55	61
Restricted	1,270	1,370	1,465	1,593	1,411
Committed	821	740	773	729	764
Assigned	2,653	2,996	2,539	2,886	3,207
Unassigned	864	239	668	2,455	2,924
<b>Total Fund Balance</b>	<b>5,654</b>	<b>5,389</b>	<b>5,498</b>	<b>7,718</b>	<b>8,367</b>
<i>Unassigned Fund Balance as % of Expenditures</i>	<i>2.5%</i>	<i>0.7%</i>	<i>1.9%</i>	<i>7.1%</i>	<i>8.1%</i>

Source: State of Ohio CAFRs

The State was awarded \$4.53 billion from the Coronavirus Aid, Relief, and Economic Security Act (CARES) including \$780 million for local governments and \$3.75 billion allocated directly to the State government. These funds cannot be used to offset lost revenues but are to be used for COVID-19 related expenditures. Of the \$3.75 billion, the State claimed and spend \$430 million in federal monies in FY 2020. The State recorded this activity separately from the General Fund, with such funds flowing through the Coronavirus Relief Fund, a major governmental fund.

That State was additionally awarded \$11.2 billion under the American Rescue Plan Act of 2021 (ARP). This amount includes \$5.6 billion directly for the State, \$274 million for State capital projects, and \$5.3 billion for local governments to mitigate the fiscal effects stemming from COVID-19. ARP was passed subsequent to Governor DeWine's February 2021 Executive Biennium Budget for FY 2022 to FY 2023 and these receipts are not reflected in the below discussion of the proposed budget.

## Liquidity

The State maintains \$14.8 billion in cash and cash equivalents across governmental funds as of FY 2020 which provides a strong 83 day's cash on hand relative to annual governmental expenditures. The State currently has \$414.6 million in outstanding variable rate debt with the liquidity support provided by the State for all these issues. The State's liquidity position has been stable over the last three years.

## Budgetary Basis 2020 Results and Projections (Unaudited, Cash Basis)

The State's main operating fund for budgetary purposes in the General Revenue Fund (GRF), which comprised slightly less than 90% of the GAAP basis General Fund revenues. The GRF ending cash balance declined \$268 million (17.4%)

in FY 2020 to \$1.27 billion and is estimated in the Governor's Proposed FY 2022 to FY 2023 Biennium Budget to decline further to \$263 million in FY 2022.

The State however maintains a Budgetary Stabilization Fund (BSF) which is a rainy-day savings account, including within the unassigned balance of the General Fund in the CAFR. By State law, the maximum balance of the BSF is up to 8.5% of the prior fiscal year's GFR revenues. As of FY 2020, the BSF was \$2.69 billion (8.0% of GRF revenue).

The State did not draw on the BSF per the COVID-19 pandemic and no draws are proposed in the Governor's FY 2022 to FY 2023 Biennium Budget.

**FIGURE 20**

<b>State of Ohio</b>								
<b>Summary Statement of General Revenue Fund Cash Basis Activity and Budget Stabilization Fund Balance</b>								
FYE June 30 (unaudited, Cash Basis) (dollars in millions)								
	Actual					FY 2022 to FY 2023 Executive Budget (Feb 2021)		
	2016	2017	2018	2019	2020	2021 Est.	2022 Proj.	2023 Proj.
<b>Cash Receipts</b>								
Taxes:								
Personal Income	\$ 7,799	\$ 7,607	\$ 8,411	\$ 8,910	\$ 7,881	\$ 9,390	\$ 9,176	\$ 9,571
Sales and Use	10,348	10,615	10,148	10,573	10,686	11,039	11,604	11,970
Financial Institutions Tax	214	187	201	202	215	190	190	190
Commercial Activity Tax	1,255	1,302	1,523	1,630	1,672	1,535	1,660	1,746
Public Utilities and Kilowatt Hour	502	516	531	563	533	481	507	497
Cigarette	1,008	981	940	918	913	928	910	899
Domestic Insurance	258	269	278	276	303	304	315	322
Foreign Insurance	294	302	277	296	305	308	311	314
Other	144	109	114	121	116	119	116	118
<b>Total Taxes</b>	<b>21,822</b>	<b>21,886</b>	<b>22,423</b>	<b>23,490</b>	<b>22,623</b>	<b>24,294</b>	<b>24,789</b>	<b>25,627</b>
Federal Government	11,646	11,761	9,470	9,764	10,482	11,449	11,000	13,250
Licenses, Permits and Fees	56	57	59	64	67	59	65	65
Investment Income	35	49	64	114	131	25	10	10
Other	50	69	266	88	121	104	114	118
<b>Total Cash Receipts</b>	<b>33,608</b>	<b>33,822</b>	<b>32,283</b>	<b>33,520</b>	<b>33,425</b>	<b>35,931</b>	<b>35,978</b>	<b>39,070</b>
<b>Cash Disbursements</b>								
Primary, Secondary, and Other Education	\$ 7,624	\$ 7,946	\$ 8,064	\$ 8,214	\$ 7,929			
Higher Education	2,223	2,295	2,305	2,293	2,282			
Public Assistance and Medicaid	16,996	17,437	14,483	15,053	15,472			
Health and Human Services	1,284	1,290	1,252	1,272	1,344			
Justice and Public Protection	1,984	2,053	2,130	2,223	2,386			
General Government	249	248	244	391	440			
Property Tax Reimbursement	1,787	1,790	1,802	1,801	1,801			
Debt Service	1,334	1,323	1,344	1,431	1,450			
<b>Total Cash Disbursement, As Stated</b>	<b>33,593</b>	<b>34,504</b>	<b>31,727</b>	<b>32,678</b>	<b>33,104</b>	<b>34,185</b>	<b>35,386</b>	<b>39,273</b>
<b>Cash Transfers and Ending Fund Balance</b>								
Transfers-In	\$ 322	\$ 356	\$ 189	\$ 248	\$ 81	\$ 278	\$ 373	\$ 468
Transfers-Out <sup>2</sup>	(856)	(311)	(80)	(773)	(670)	(3,031)	(646)	(649)
Beginning Cash Balance	1,712	1,193	557	1,221	1,538	1,270	263	583
<b>Ending Cash Balance</b>	<b>1,193</b>	<b>557</b>	<b>1,221</b>	<b>1,538</b>	<b>1,270</b>	<b>263</b>	<b>583</b>	<b>199</b>
<b>Budget Stabilization Fund</b>								
Ending Balance <sup>1</sup>	\$ 2,034	\$ 2,034	\$ 2,692	\$ 2,692	\$ 2,692	\$ 2,692	\$ 2,692	\$ 2,692
as a % of GRF Receipts	6.0%	6.0%	8.3%	8.0%	8.0%	7.4%	7.4%	6.8%

Source: State of Ohio FY 2020 Continuing Disclosure and Proposed Executive Biennium Budget for FYs 2022-2023

<sup>1</sup>Reflects balance after year-end transfer into BSF; actual cash transfers into the BSF occur early in the following FY.

<sup>2</sup>Transfers-out for FY 2021 implied based on receipts, disbursements, transfers in, and change in cash balance presented in Governors FY 2022-2023 Executive



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