

MOODY'S

INVESTORS SERVICE

Rating Action: **Moody's assigns Aa1 to Ohio's GO bonds; outlook stable**

04 Feb 2020

New York, February 04, 2020 -- Moody's Investors Service has assigned Aa1 ratings to the State of Ohio's \$50 million Conservation Projects General Obligation Bonds, Series 2020A, \$38 million Natural Resources General Obligation Bonds, Series X and \$8 million Coal Development General Obligation Bonds, Series P. The outlook is stable.

RATINGS RATIONALE

The Aa1 general obligation rating is based on the state's strong budget and financial management, sound reserve levels, and affordable fixed costs associated with below-average long-term debt, pension and retiree healthcare (OPEB) liabilities. These strengths are offset by below-average economic growth, compounded by weak demographic trends.

RATING OUTLOOK

The stable outlook is based on our expectation that the state's proactive financial management and low fixed costs will continue to support satisfactory budget flexibility even as weak demographic trends may lead to revenue growth below the national average over the medium term.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Improved demographic trends, particularly in working age population growth, net migration, and age distribution, that contribute to stronger economic growth relative to peers
- Maintenance of a budget in structural surplus, together with an increase in pension contributions sufficient to "tread water"
- Development of governance tools such as consensus revenue forecasting or publicly available long-term forecasts that institutionalize current best practices, increase transparency, and ensure consistency across administrations

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Further weakening of employment, personal income or demographic trends
- Financial deterioration, including a return to budgetary structural imbalance and/or materially lower reserve levels
- Unanticipated rise in long-term liabilities and an increase in fixed-costs

LEGAL SECURITY

The general obligation bonds are secured by a pledge of the full faith and credit, revenue and taxing power of the State of Ohio. Highway user receipts (i.e. motor vehicle fees and taxes, and fuel taxes) and net lottery proceeds are specifically excluded from the state's general obligation pledge. Debt service payments on the bonds do not depend on the progress, completion, or operation of the facilities or projects that they finance.

USE OF PROCEEDS

The Conservation Projects Series 2020A bond proceeds will finance conservation projects such as land acquisition and farmland protection. The Natural Resources Series X bond proceeds will finance grants to local governments for the acquisition and development of recreational areas. The Coal Development Series P bond proceeds will finance grants and loans to utility power producers and research institutions for research and development of clean coal technology in the state.

PROFILE

The state of Ohio has a population of 11.7 million, located in the Midwest region of the US with 312 miles of shoreline along Lake Erie, according to NOAA. The state is the seventh-largest US state by population, and has a large, diverse economy reflected in its GDP of \$676 billion (also seventh among the states).

METHODOLOGY

The principal methodology used in these ratings was US States and Territories published in April 2018. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

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