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Ratings

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Ohio; Federal or State Grant Programs

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Credit Profile		
US$92.695 mil major new state infrastructure proj rev bnds ser 2021-1A dtd 06/08/2021 due 12/15/2032		
Long Term Rating	AA/Stable	New
US$59.805 mil major new state infrastructure proj rev bnds (federally Taxable) ser 2021-1B dtd 06/08/2021 due 12/15/2024		
Long Term Rating	AA/Stable	New
Ohio fed or st grant progs		
Long Term Rating	AA/Stable	Affirmed
Ohio (Major New State Infra Proj) fed or st grant progs		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to the estimated $96.7 million series 2021-1A grant anticipation revenue vehicle (GARVEE) and estimated $59.8 million series 2021-1B taxable refunding GARVEE for the state of Ohio. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the state of Ohio's GARVEE bonds outstanding. The outlook is stable.

Securing the state's GARVEE bonds is a pledge of the state's share of Federal Title 23 Highway Funds, as apportioned and distributed by the Federal Highway Administration (FHWA) under the Federal Aid Highway Program (FAHP). An additional pledge of state transportation funds that are unspent and available at fiscal year-end provides added security to the bonds. The added state funds pledge is subordinate and subject to availability on an annual basis.

Bond proceeds will fund the construction of various highway and bridge projects, refund a portion of the series 2012-1 GARVEE bonds (maturities 2022 to 2025) outstanding for interest rate savings, and pay costs of issuance. Post-issuance, the state will have approximately $881.9 million in GARVEE debt outstanding. We understand Ohio expects to issue additional GARVEE debt annually in fiscal years 2022-2025.

Credit overview

The rating reflects our expectation that the state will continue to receive federal highway reimbursements comparable with historical levels. Although the final form and dollar amount of a replacement for the highway authorization program (expiring on Sept. 30, 2021) is still uncertain, we believe historically strong bipartisan support will continue, ensuring that the state will receive its share of Title 23 federal aid transportation grants, comparable with historical levels. For additional information, see "GARVEE Bonds Benefit From Continuing Federal Government Support; Uncertainty About Future Funding Remains A Risk," published Dec. 4, 2020, on RatingsDirect.

The rating on the GARVEE bonds, like all other GARVEE ratings that we maintain, assumes that the supportive federal legislative framework and congressional appropriations will continue through the enactment of multiyear authorizations or ongoing temporary extensions. We base our assumption on historical precedent, our view of the political and economic importance of national highway and mass transit systems, the broad historical bipartisan political support for transportation spending programs at all levels of government, and Congress' track record of continuing appropriations and extensions to budget authorizations when they expire.

The rating further reflects our assessment of the following credit strengths:

- Pro forma maximum annual debt service (MADS) coverage that we expect to exceed 11.5x based on actual receipts in fiscal 2020, and MADS coverage that we expect to remain at or above 10x following near-term additional debt issuances;
- A covenant by the Ohio Department of Transportation (ODOT) to replace any deficiencies in the pledged federal highway receipts with its lawfully available funds;
- Sound bond provisions, including an additional bonds test (ABT) requiring that the average FHWA receipts that ODOT received during the three previous fiscal years equal 5.0x MADS on the state's outstanding and proposed GARVEE bonds; and
- The state's demonstrated track record of maximizing its share of Title 23 federal aid transportation grants, with the department typically using all of its obligation authority in each federal fiscal year, receiving additional obligation authority that the FHWA has redistributed from other states, and effectively managing the reimbursement process.

Partially offsetting the above strengths, in our view, is the possibility of decreases in pledged revenue resulting from reduced distributions to states from the Highway Trust Fund (HTF) or from the amounts that Congress appropriates.

The stable outlook reflects our expectation that the allocation of federal apportionments for Ohio's GARVEE program will remain consistent with historical trends. We do not expect to raise or lower the rating during the two-year outlook period.

Stable Outlook

Upside scenario

Although we do not expect to raise the rating during the outlook period, given our expectation that coverage metrics will remain in line with historical levels as the state issues additional GARVEE bonds, if MADS coverage improves materially to levels we believe are sustainable, we could consider raising the rating.

Downside scenario

We do not expect to lower the rating during the outlook period. Although unlikely, significant declines in pro forma MADS coverage as the state issues additional GARVEE debt could lead to downward rating pressure.

Credit Opinion

The state's GARVEE bonds finance projects included within ODOT's Statewide Transportation Improvement Plan (STIP), which officials submit to the U.S. Department of Transportation. A first lien on Title 23 FWHA reimbursements delivered to ODOT are the primary source of security for the state's GARVEE bonds. On receipt of FHWA funds, ODOT deposits the funds into the highway operating fund, and funds are then transferred to the state treasurer for payment of debt service. The state legislature appropriates the funds to pay debt service on a biennial basis.

ODOT funds its GARVEE bond debt service requirements in advance, depositing funds with the state treasurer from the highway operating fund, including motor vehicle fuel tax revenues along with federal reimbursements and local deposits. Similar to most GARVEE bond programs, the GARVEE bonds outstanding do not benefit from the added security of a debt service reserve (DSR) fund, although we do not consider this a credit risk. The Ohio GARVEE program is not exposed to interest-rate swaps or variable-rate debt, and the program has no direct-purchase debt outstanding.

An additional security pledge requires ODOT to apply other lawfully available money in an amount sufficient to meet the state's GARVEE bond debt service requirements, if FHWA receipts are insufficient to cover debt service. Funds that are appropriated by the state for a given fiscal year but are not spent by the department for other purposes constitute the other available funds, providing added security to the state's GARVEE bonds. In our view, although the additional ODOT pledge is subordinate to the department's other obligations, the pledge provides a material degree of additional security for bondholders.

The state has historically maximized available federal support to fund its GARVEE program. Furthermore, it has demonstrated success in receiving additional funding under FHWA's annual redistribution of other states' unused obligation authority. Actual Title 23 receipts reported by the state often exceed the state's appropriated funds and/or its obligated authority. In our view, Ohio's proactive management of its STIP and its track record of maximizing available federal funding indicate a well-managed state GARVEE program.

Supported by the state's receipt of obligated federal funds unspent by other states, Ohio's GARVEE program demonstrates very strong MADS coverage based on actual federal reimbursements. In fiscal 2020, pro forma MADS debt service coverage (DSC) improved to 11.5x based on actual federal reimbursements and 11.7x based on obligation authority, following a stepdown in MADS to $134 million from $187 million in fiscal 2019. Historically, pro forma MADS coverage has been generally stable, ranging from 7.6x to 8x from fiscal years 2015 to 2019, based on actual federal reimbursements. Including ODOT's surplus cash available to pay debt service, which is subject to appropriation (the amount appropriated but not spent by fiscal year-end), MADS coverage was an even stronger 13.9x in fiscal 2020. In our view, these metrics reflect the state's very strong ability to cover its GARVEE bond debt service obligations.

The state is a relatively frequent GARVEE bond issuer, with 18 issuances over the course of the program's approximately 22-year history. Post-issuance, Ohio will have approximately $881 million in GARVEE bonds outstanding. Furthermore, the state expects to issue an estimated $287 million in additional GARVEE debt through 2025, with annual GARVEE issuances from fiscals 2022 to 2025.

The most recent highway transportation legislation, the Fixing America's Surface Transportation (FAST) Act, took effect Dec. 4, 2015, and authorized federal funding through federal fiscal 2020. The FAST Act was reauthorized and extended by Congress until Sept. 30, 2021, and we expect it to be reauthorized and extended again before its expiration. We believe the FAST Act generally supports the sector's credit quality, given a longer period of funding certainty and increased funding. The multiyear legislation will provide approximately $230 billion for highways, $60 billion for public transportation, $10 billion for passenger rail, and $5 billion for highway safety programs. This is an approximately 11% increase over five years. Furthermore, FAST provides a 5.1% increase in highway fund distributions to states for fiscal 2016, and growth rates of 2.1% to 2.4% thereafter.

Our ratings in this sector range from 'A-' to 'AA' where only federal funding is pledged, and as high as 'AAA' where state agencies blend the federal funding with an additional pledge of state funding. We base the relatively strong ratings in this sector on the issuer's pledge of HTF grants from the federal government. The FAST Act's signing confirms our view of widespread congressional support for preserving and expanding the national highway system. States and local transportation agencies that receive distributions from the HTF can confidently move forward with complex multiyear transportation projects, as the near-term questions surrounding federal funding no longer loom. Nevertheless, we carefully evaluate the risks to state programs that leverage these funds, including the timing of receipts, levels of funding, and erosion in dollars as a result of either lower authorized or appropriated levels, or programmatic changes that negatively affect recipients. We will monitor the sector to evaluate how each individual state issuer might adjust its debt or capital spending plans.

Although reauthorization risk cannot be eliminated, it has been minimized through conservative financial structures inherent in all rated GARVEE transactions, which have resulted in the relatively high ratings on these transactions. This includes the use of backup credit support, DSRs, robust DSC levels, shorter final maturities, and restrictive additional debt provisions. Additionally, many qualitative credit factors influence the rating, such as funding mechanics and timing, evaluation of state processes for managing and administering the program, history of federal receipts and volatility, each state's donor status, underlying economy, transportation needs, and each state's political representation and congressional influence.

In addition to applying our "Methodology And Assumptions: Rating U.S. Federal Transportation Grant-Secured Obligations" criteria (published May 29, 2009), we apply our "Federal Future Flow Securitization" criteria (published March 17, 2017) to determine the highest possible rating relative to the U.S. debt rating, because Ohio's GARVEE bonds are solely secured by federal aid cash flows. Our application of such criteria on Ohio's GARVEE program resulted in an overall score of '1.2,' indicating that the highest possible rating is 'AA', one notch below the U.S. debt rating.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020