

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

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New York, October 18, 2021 -- Moody's Investors Service has assigned Aa1 ratings to the State of Ohio's \$157.5 million Infrastructure Improvement General Obligation Bonds, Series 2021A, \$47.9 million Infrastructure Improvement General Obligation Refunding Bonds, Series 2021B, \$40.2 million Conservation Projects General Obligation Bonds, Series 2021A, and \$98.95 million Common Schools General Obligation Refunding Bonds, Series 2021C. 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, low fixed costs, fully funded rainy day fund and substantial available liquidity will continue to support satisfactory budget flexibility during the pandemic recovery period.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- 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 OF THE RATINGS

- 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

Proceeds of the Infrastructure Improvement General Obligation Bonds, Series 2021A bonds will finance grants to local governments for public infrastructure capital improvement projects.

Proceeds of the Conservation Projects General Obligation Bonds, Series 2021A bonds will finance grants to local governments for public parks and land conservation projects.

Proceeds of the Infrastructure Improvement General Obligation Refunding Bonds, Series 2021B and the

Common Schools General Obligation Refunding Bonds, Series 2021C will refund outstanding general obligation (GO) bonds for net present value savings.

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 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1084466 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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