

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

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22 Feb 2021

New York, February 22, 2021 -- Moody's Investors Service has assigned Aa1 ratings to the State of Ohio's \$227 million Common Schools General Obligation Bonds, Series 2021A (Tax-Exempt), \$108 million Common Schools General Obligation Refunding Bonds, Series 2021B (Tax-Exempt), \$206 million Higher Education General Obligation Bonds, Series 2021A (Tax-Exempt) and \$25 million Higher Education General Obligation Bonds, Series 2021B (Federally Taxable). 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.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the State of Ohio. However, the situation surrounding Coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the State of Ohio changes, we will update the rating and/or outlook at that time.

**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 significant economic disruption related to the coronavirus outbreak.

Actual fiscal 2021 revenue performance through January has been above forecast; total taxes are \$539 million (3.7%) above estimate, mostly due to strong collections in sales taxes (6.0% above estimate) and personal income taxes (2.5%). In addition, continued spending holdbacks have kept expenditures \$1.2 billion (5.4%) below budget through January. This solid year-to-date performance provides key budget flexibility as the state continues to manage coronavirus cases through the winter. Ohio has a \$2.7 billion rainy day fund available to stabilize any remaining budget gap or any future increase in the forecasted revenue gap.

**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 2021A bonds and the Higher Education General Obligation Bonds, Series 2021B will finance various K-12 and higher education projects in the state. Proceeds of the Common Schools General Obligation Refunding Bonds, Series 2021B will refund outstanding 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](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1084466) . Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://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](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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