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New York, August 06, 2021 -- Moody's Investors Service has assigned a Aa2 rating to the State of Ohio's \$56.5 million Capital Facilities Lease-Appropriation Bonds, Series 2021A (Cultural and Sports Facilities Building Fund Projects). The outlook is stable.

RATINGS RATIONALE

The Aa2 rating on the lease-appropriation bonds is one notch below the state's general obligation rating, reflecting a moderate legal structure that includes the need for biennial legislative appropriation of lease payments and the moderately essential nature of the various projects financed. There are no bondholder remedies in the event of non-appropriation, however the state has very strong incentive to appropriate, given the importance of maintaining continued market access for subject-to-appropriation lease debt.

The Aa1 general obligation rating is based on the state's strong budgetary 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 RATING

- An upgrade of the state

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- A downgrade of the state

LEGAL SECURITY

The capital facilities lease-appropriation bonds are secured by a lease-purchase agreement with the Ohio Facilities Construction Commission (OFCC), as lessee, and the Ohio Public Facilities Commission, as lessor, subject to annual appropriation. Debt service is payable from base rental payments, which are assigned and remitted directly to the trustee 2 days prior to the debt service payment dates.

The lease stipulates that the obligation to make lease payments is absolute and unconditional, contingent only upon the appropriation of funds by the legislature, and not on whether the financed projects are in use. Debt service payment dates rely on appropriations enacted every other year and are far enough removed from the July 1 start of the state's fiscal biennium to limit risk of non-appropriation due to late budget adoption.

Pursuant to the lease, the OFCC is required to include the lease payments in its biennial budget request to the Office of Budget and Management. There are no debt service reserve funds associated with these bonds, and there are no bondholder remedies in case of default due to non-appropriation. In the event of non-appropriation, the lease would terminate.

The somewhat less essential nature of the cultural and sports facilities projects is balanced by the breadth of projects financed by this lease program and the state's history of appropriating for all lease-appropriation debt service in aggregate. In addition, the importance of maintaining continued market access for subject-to-appropriation lease debt, in general, provides a strong incentive to continue making timely appropriations.

USE OF PROCEEDS

Proceeds of the Series 2021A bonds will finance grants to various state and local entities for planning, construction, renovation, and expansion projects at non-profit theaters, museums, historical sites and publicly-owned professional sport venues.

PROFILE

Ohio has a population of 11.8 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 that is the seventh largest among the states.

METHODOLOGY

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments Methodology published in June 2021 and available at <https://www.moodys.com/researchdocumentcontentpage.aspx?>

[docid=PBM_1274696](#). Alternatively, please see the Rating Methodologies page on www.moody.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.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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