

**Rating Action: Moody's assigns Aa2 to Ohio's Capital Facilities Lease-Appropriation Bonds; outlook stable**

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New York, April 23, 2021 -- Moody's Investors Service has assigned Aa2 ratings to the State of Ohio's \$150 million Capital Facilities Lease-Appropriation Bonds, Series 2021A (Mental Health Facilities Improvement Fund Projects) and the \$78.7 million Capital Facilities Lease-Appropriation Bonds, Series 2021A (Administrative 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 more 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.

Our view incorporates the impact of COVID-19 to date, but the pandemic and its long-term credit implications remain fluid. If our view of the credit quality of rated debt changes, we will update the rating or outlook at that time. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

**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.

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS**

- An upgrade of the state

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS**

- A downgrade of the state

**LEGAL SECURITY**

The capital facilities lease-appropriation bonds are secured by lease-purchase agreements with the 1) Department of Mental Health and Addiction Services and the Department of Developmental Disabilities (together the Mental Health Departments, MHD) and 2) the Department of Administrative Services (DAS), as lessees, 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.

The leases stipulate 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 leases, the MHD and DAS are 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 leases would terminate. 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 MHD Series 2021A bonds and DAS Series 2021A bonds will finance capital projects for their respective agencies.

#### PROFILE

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 that is the seventh largest among the states.

#### METHODOLOGY

The principal methodology used in these ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in January 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM\\_1260202](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1260202) . Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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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](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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