MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to Ohio's certificates of participation; outlook stable

15 Oct 2021

New York, October 15, 2021 -- Moody's Investors Service has assigned Aa2 rating to the State of Ohio's $20.5 million Certificates of Participation, Series 2021 (Ohio Attorney General Claims Fund Project). The outlook is stable.

RATINGS RATIONALE

The Aa2 rating is a notch below the state's Aa1 general obligation (GO) rating, reflecting the need for biennial legislative appropriation of lease payments backing the bonds, the essential nature of the projects being financed, and the satisfactory legal structure for payment of debt service. There are limited bondholder remedies in the event of non-appropriation, but 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 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 RATING

- An upgrade of the state

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- A downgrade of the state

LEGAL SECURITY

The certificates of participation (COPs) are paid through a lease-purchase agreement with the State of Ohio Leasing Corporation, an Ohio non-profit, as lessor, and the Ohio Attorney General (OAG), as lessee. The lease is subject to biennial renewal, with final terminations that correspond to the final payment date on the COPs. Rental payments will be paid from the Attorney General Claims Fund, which is funded by a set percentage of bad debt collections that the AG's office collects on behalf of the state and other governmental clients within the state. While the state intends to use only the claims fund, the attorney general's office is funded from multiple different funds, including the general revenue fund. In addition, the Attorney General has covenanted to request an appropriation sufficient to pay debt service, and as an executive branch office we expect the state will do that. The OAG has also covenanted to coordinate with the Office of Management and Budget to set the percentage of claims retained in the Claims Fund at a level sufficient to support all Claims Fund expenses and lease payments on the COPs.

The COPs have a moderate legal structure, reflecting the need for biennial legislative appropriation of lease payments backing the certificates, and the strong legal structure for payment of debt service. There are no bondholder remedies in the event of non-appropriation, but the state has very strong incentive to appropriate, given the importance of maintaining continued market access for subject-to-appropriation lease debt.

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 (August 15 and February 15) are far enough removed from the July 1 start of the state's fiscal biennium to limit risk of an event of non-appropriation due to late budget adoption. Debt service is payable from base OAG rental payments, which are assigned and remitted directly to the trustee immediately prior to the debt service payment dates. In the most recent case of a late budget (2010-2011 biennium) the state quickly passed a continuing resolution to appropriate for all outstanding lease obligations.

Pursuant to the leases, the state attorney general is required to include the lease payments in biennial budget requests to the Office of Budget and Management. There are no debt service reserve funds associated with these certificates, and there are limited bondholder remedies in case of default. In the event of non-appropriation, the leases would terminate and project assets would be surrendered to the trustee, but the assets provide limited recovery value. The importance of maintaining continued market access for subject-to-appropriation lease debt, in general, provides a strong incentive to continue making timely appropriations. Approximately 20% of Ohio's net tax-supported debt requires appropriation for payments.

USE OF PROCEEDS

COPs proceeds will finance the acquisition, installation and implementation of hardware and software that will replace the Lessee's existing computerized debt collection system to be used in connection with the Attorney General Claims Fund.

PROFILE

Ohio has a population of 11.7 million, located in the Midwest region of the U.S. with 312 miles of shoreline along Lake Erie, according to NOAA. The state is the seventh-largest U.S. state by population, and has a large, diverse economy (2020 nominal GDP of $675 billion) 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.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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435 .

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