



## Rating Action: Moody's assigns Aa1 to the State of Ohio's GO bonds; outlook positive

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New York, November 29, 2022 – Moody's Investors Service has assigned Aa1 ratings to the State of Ohio's \$180.8 million Infrastructure Improvement General Obligation Bonds, Series 2022A, \$32.5 million Infrastructure Improvement General Obligation Refunding Bonds, Series 2022B, \$15.7 million Infrastructure Improvement General Obligation Refunding Bonds, Series 2022C, \$14.9 million Conservation Projects General Obligation Refunding Bonds, Series 2022A, \$62 million Common Schools General Obligation Refunding Bonds, Series 2022A. Moody's also maintains a Aa1 issuer rating on the state, and Aa1 ratings on the state's outstanding general obligation bonds. The outlook is positive.

### RATINGS RATIONALE

Ohio's Aa1 general obligation rating is the same as the state's Aa1 issuer rating, given the state's pledge of its full faith, credit and taxing power and broad revenue base to pay the bonds.

The Aa1 issuer rating incorporates the state's sound budgetary and financial management, strong reserves and liquidity, and affordable fixed costs associated with below-average long-term debt, pension and retiree healthcare (OPEB) liabilities. Together, these provide strong flexibility to weather moderate economic uncertainty and inflationary pressures. With recent rapid revenue surpluses, the state has set-aside reserves to smooth the ramp down of Federal Medicaid support and to fund capital projects and economic development. These investments support budget flexibility, reduce the state's planned borrowing needs, and promote long-term economic growth. However, the state's strengths are partially offset by a history of below-average economic growth, compounded by weak demographic trends as well as school districts that are pressured by large pension liabilities.

### RATING OUTLOOK

The outlook on the general obligation bonds reflects the outlook of the state. The positive outlook is based on growing evidence of new economic development that could diversify the state's economy, improve growth and strengthen demographic trends over the medium term. The outlook also reflects the recent improvement in the state's financial position and economic prospects, and our expectation that strong reserves, proactive financial management, and low fixed costs that will support budget flexibility during potential economic uncertainty in the next 18-24 months.

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

An upgrade of the state's issuer rating, which could come from:

- Continued improvement in 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, and/or quick response and recovery from an economically-driven budget shock
- Evidence that economic development is diversifying the state economy and improving growth and demographic trends

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

A downgrade of the state's issuer rating, which could come from:

- Lack of improvement in employment, personal income or demographic trends relative to the US average
- Reduced liquidity and materially lower reserve levels, other than for strategic one-time purposes
- Financial deterioration including a return to budgetary structural imbalance and/or protracted response and recovery to budget gaps
- 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

The Series 2022A Infrastructure Improvement bond proceeds will finance various capital infrastructure improvements of local governments in the state. Proceeds of the remaining bonds will refund outstanding general obligation bonds for net present value savings with no change in the final maturity.

#### 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 (2021 nominal GDP of \$736 billion) that is the seventh largest among the states.

#### METHODOLOGY

The principal methodology used in these ratings was US States and Territories Methodology published in March 2022 and available at <https://ratings.moodys.com/api/rmc-documents/356901>. Alternatively, please see the Rating Methodologies page on <https://ratings.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 on <https://ratings.moodys.com/rating-definitions>.

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