

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns Aa1 to Ohio's Project Revenue Bonds, Series 2024-1 (GARVEEs); outlook stable

25 Jul 2024

New York, July 25, 2024 -- Moody's Ratings (Moody's) has assigned a Aa1 rating to the State of Ohio's \$122.4 million Major New State Infrastructure Project Revenue Bonds, Series 2024-1, issued on behalf of the Ohio Department of Transportation (ODOT). The outlook is stable.

RATINGS RATIONALE

The Aa1 rating on the bonds, also known as GARVEE bonds, is based on ample debt service coverage provided by pledged revenues generated from a very broad, national tax base and a strong 5x additional bonds test. In addition, the bonds benefit from early set-asides for debt service and ODOT's covenant to appropriate from other available transportation funds if federal revenues are insufficient, which offsets the federal reauthorization risk. These strengths are balanced against the subject-to-appropriation nature of the pledged revenues.

RATING OUTLOOK

The stable outlook on the GARVEEs reflects the outlook on the state and our view that the State of Ohio (Aaa stable) is on solid footing financially and making gradual improvements to its demographics, where possible. We expect this trend of positive demographics to continue as the announced economic development projects come online over the next two to three years. The state's strong financial position, including its purposeful efforts to build reserves and budget conservatively, will support Ohio's strong credit quality going forward.

The outlook also incorporates our expectation that ODOT's covenant to appropriate from other available resources will mitigate any funding disruption caused by either a lapse in highway program authorization or depletion of the federal Highway Trust fund over the medium term.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Removal of the requirement for biennial legislative appropriation of pledged revenue, combined with a very strong flow of funds
- Other structural enhancements that further diminish reauthorization risk

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Large, sustained decrease in ODOT's other available resources that can pay GARVEE debt service
- Failure to provide timely appropriation to allow for the payment of debt service
- Discontinuation of or reduction in federal transportation grant program
- Issuance of parity debt with significantly longer maturities than in the past, or a substantial increase in leverage

LEGAL SECURITY

Ohio's Major New State Infrastructure Project bonds, also known as GARVEE bonds, are secured by a lien on Title 23 Federal Highway Administration (FHWA) reimbursements to the Ohio Department of Transportation (ODOT) for eligible highway construction projects. In addition, the DOT Director has covenanted to pay debt service using other lawfully available funds in the event of an interruption in Title 23 funding. The other funds would consist of appropriations of DOT revenues from sources including state gasoline tax receipts. Other available funds amounted to \$671 million in fiscal 2023.

USE OF PROCEEDS

Proceeds of the issuance will be used to finance the costs of various highway and bridge projects throughout the state.

PROFILE

The State of 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 (2022 nominal GDP of \$822.7 billion) that is the seventh largest among the states.

The Ohio Department of Transportation is responsible for planning, designing, constructing, maintaining and rehabilitating the state's highway system. It administers federal funds -- including those used by local jurisdictions for local road and bridge projects -- as well as funding that both the state and federal governments allocate to public transportation, bridge, waterway and aviation infrastructure. ODOT is overseen

by an appointee of the governor of Ohio and is one of the state's largest agencies, with approximately 4,900 employees.

METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Debt published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425427>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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