MOODY'S
INVESTORS SERVICE

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

22 Apr 2020

New York, April 22, 2020 -- Moody's Investors Service has assigned Aa2 ratings to the State of Ohio's $21.5 million Certificates of Participation, Series 2020 (Enterprise Data Center Solutions Project) and $14.03 million Certificates of Participation, Series 2020 (Unemployment Insurance System 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 strong 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.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the State of Ohio. However, the situation surrounding Coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the State of Ohio changes, we will update the rating and/or outlook at that time.

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 severe economic disruption and revenues declines related to the coronavirus outbreak.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

For the GO bonds:

- Improved 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, together with an increase in pension contributions sufficient to "tread water"

- Development of governance tools such as consensus revenue forecasting or publicly available long-term forecasts that institutionalize current best practices, increase transparency, and ensure consistency across administrations

For the appropriation bonds:

- An upgrade of the state

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

For the GO bonds:

- Further weakening of employment, personal income or demographic trends

- Financial deterioration, including a return to budgetary structural imbalance and/or materially lower reserve levels

- Unanticipated rise in long-term liabilities and an increase in fixed-costs

For the appropriation bonds:

- A downgrade of the state

LEGAL SECURITY

The Enterprise Data Center Solutions Project (EDCS) and Unemployment Insurance System (UIS) certificates are secured by separate lease-purchase agreements with the State of Ohio Leasing Corporation, an Ohio non-profit, as lessor, and the Department of Administrative Services (DAS), as lessee. The leases are subject to biennial renewal, with final terminations that correspond to the final payment date on the COPs in 2029 (EDCS) and 2030 (UIS). Debt service is payable from base DAS rental payments, which are assigned and remitted directly to the trustee 15 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 (September 1 and March 1) 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. 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 director of DAS 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

Proceeds of the EDCS certificates will finance acquisition and installation of computer hardware and software that will expand and upgrade the online storage capacity of the state's electronic data storage system. Including the current offering, there will be approximately $81 million of outstanding EDCS certificates for this project.

Proceeds of UIS certificates will finance the acquisition of an unemployment insurance information and technology system, to be known as the Unemployment Insurance System (UIS) managed by the Ohio Department of Job and Family Services. This is the first issuance for the UIS project.

PROFILE

The state of 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 reflected in its GDP of $676 billion (also seventh 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 July 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1102364 . 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 ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

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