Moody's

Rating Action: Moody's upgrades Ohio's issuer rating to Aaa; outlook revised to stable

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New York, December 01, 2023 -- Moody's Investors Service has upgraded the State of Ohio's issuer rating to Aaa from Aa1, based on its continuing trend of very strong financial management, improving reserves and liquidity, low and declining leverage and a state economy that is poised for diversification and growth despite lagging demographic trends. The outlook has also been revised to stable from positive.

Moody's has also assigned a Aaa rating to the state's approximately $391 million general obligation issuance that includes $187 million of Common Schools General Obligation Refunding Bonds, Series 2023A; $59 million of Infrastructure Improvement General Obligation Refunding Bonds, Series 2023A; and $145 million of Conservation Projects General Obligation Refunding Bonds, Series 2023A. The bonds are expected to price the week of Decembe 12.

In conjunction with the upgrade of the issuer rating Moody's also upgraded to Aaa from Aa1, $6.7 billion of outstanding general obligation (GO) bonds (which includes $864 million of outstanding highway GO bonds); to Aa1 from Aa2 $2.9 billion of outstanding lease appropriation bonds and certificates of participation (COPs); to Aa1 from Aa2 the pledge specific rating on the Ohio Community and Technical College Credit Enhancement Program; to Aa1 from Aa2 the pledge specific rating on the Ohio School District Credit Enhancement Program; and to Aa1 from Aa2 the rating on the Ohio Department of Transportation (ODOT) Federal Grant Anticipation Program's $879 million outstanding Major Ne State Infrastructure Project bonds, also known as GARVEE bonds.

In addition, Moody's has affirmed the VMIG 1 short-term rating on Ohio's outstanding variable rate demand general obligation and appropriation backed debt with tenders supported by the state's self-liquidity program. Moody's has also affirmed the P-1 rating on the Ohio (State of) Liquidity Program.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM908328533 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

The Aaa Issuer rating incorporates the state's sound budgetary and financial management, highlighted by a trend of strong and growing reserves and liquidity, and affordable fixed costs associated with Ohio's low and declining leverage: bonded debt, pension and retiree healthcare (OPEB) liabilities are well below the 50-state median and compare favorably to other Aaa-rated states. Economic and demographic trends have typically lagged the nation and while that will not change rapidly, recent major investments related to electric vehicles and microchips will drive growth in high paying manufacturing jobs. School districts also are pressured by large pension liabilities, which could be a challenge the state has to confront in the future. Ohio's low leverage, low economic reliance on federal spending and fiscal autonomy also support Ohio's ability to surpass the sovereign rating (Aaa negative) in the event of a one-notch US downgrade.

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

Ohio's Aaa general obligation highway bond rating is the same as the state's Aaa issuer rating, given the state's pledg of its full faith, credit and taxing power and broad revenue base to pay the bonds. These bonds are also supported by a pledge of state highway user revenues, including gasoline taxes and motor vehicle license and registration fees that provide substantial debt service coverage by a constitutionally dedicated revenue stream.

The Aa1 rating on the lease-appropriation bonds and COPs is one notch below the state's Aaa Issuer Rating, reflecting the contingent nature of the pledge given the need for biennial legislative appropriation of lease payments and the more essential nature of the various projects financed.

The Aa1 programmatic ratings on the Ohio School District Credit Enhancement Program and the Ohio Community and Technical College Credit Enhancement Program are notched off of the State of Ohio's issuer rating based on the programs' strong position in the state's hierarchy of debt and spending priorities, and strong program mechanics, including the timely payment of aid to the debt service trustee.

The highest short-term ratings of VMIG 1 on the state's variable rate demand bonds reflect the State of Ohio's high long-term credit quality (Aaa) and the strength of the state treasury's commitment to support unremarketed tenders with substantial, highly liquid balances available for this purpose. Ample balances are also supported by a sophisticated, dedicated Treasury staff with well-developed procedures in place to monitor the remarketing process and liquidate investment assets as necessary to provide sufficient funds to purchase unremarketed bonds.

The P-1 on the Ohio (State of) Liquidity Program is based on the state's high long-term credit quality (Aaa) and the strength of the state treasury's commitment to purchase program participants' unremarketed bonds, with substantial, highly-liquid balances available for this purpose. Ample balances are also supported by a sophisticated, dedicated Treasury staff with well-developed procedures in place to monitor the remarketing process and liquidate investment assets as necessary to provide sufficient funds to purchase unremarketed bonds.

The Aa1 rating on the Major New State Infrastructure Project Revenue 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 outlook on the general obligation bonds, lease appropriation bonds and COPs, the pledge specific ratings on the intercept programs and Ohio's Major New State Infrastructure Project Revenue Bonds (GARVEEs) reflects the outlook of the state. The stable outlook reflects the expectation that Ohio 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 medium term. The outlook also incorporates the state's strong financial position, including its purposeful efforts to build reserves and budget conservatively that will support Ohio's strong credit quality going forward.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

For the Issuer Rating and GO Ratings:

- Not applicable

For the appropriation bonds, COPs, and Enhancement Program ratings:

- Not applicable

For the GARVEE bonds:

- Removal of requirement for biennial legislative appropriation of pledged revenue, combined with a very strong flow of funds

- Other structural enhancements that further diminish federal reauthorization risk

For the short-term ratings:

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

For the Issuer Rating:

- Reduced liquidity and materially lower reserve levels, other than for strategic one-time purposes

- Financial deterioration including 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

For the GO, appropriation bonds, COPs, and Enhancement Program ratings:

- A downgrade of the state's issuer rating

For the GARVEE bonds:

- Large, sustained decrease in ODOT's other available resources that can pay GARVEE debt service

- Discontinuation of or reduction in federal transportation grant program

- Issuance of parity debt with significantly longer maturities than in the past, or substantial increase in leverage

For the short-term ratings:

- A multi-notch downgrade of the state's issuer rating

- Significant deterioration in the state Treasury's liquid assets or increase in liabilities that reduces liquidity coverage below 1x, and/or evidence of weak management of unremarketed tenders

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.

Ohio's general obligation highway bonds are secured by the state's full faith and credit as well as a pledge of constitutionally-dedicated state highway user receipts, which includes gasoline taxes and motor vehicle license and registration fees. Pledged revenues are constitutionally dedicated to state highway purposes, including debt repayment, and provide substantial coverage of maximum debt service. Bonds have been historically paid entirely from highway user receipts, and the GO backstop has not been tapped.

The capital facilities lease-appropriation bonds are payable from separate lease-purchase agreements with various state departments, 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. The COPs are paid through a lease-purchase agreement with the State of Ohio Leasing Corporation, an Ohio non-profit, as lessor, and various state departments, including the Ohio Attorney General (OAG), as lessees. The lease is subject to biennial renewal, with final terminations that correspond to the final payment date on the COPs.

The Ohio School District Credit Enhancement Program provides credit enhancement to participating schools through the intercept of state aid revenues to a trustee to ensure timely debt service payments.

The Ohio Community and Technical College Credit Enhancement Program provides credit enhancement to participating schools by allowing the Chancellor of the Ohio Department of Higher Education to redirect the college's state aid in the form of SSI to the bond trustee to pay debt service if there is a shortfall in general receipts revenue.

The liquidity for the demand feature of the variable rate bonds (VMIG 1) is provided by the state of Ohio's daily investments, managed by the Treasury Department. The state has covenanted in the bond resolutions to provide liquidity to purchase the bonds in the event that tendered securities cannot be fully remarketed. Although the covenant on the state's outstanding VRDO general obligation bonds is absolute and unconditional, the state is not required to purchase unremarketed appropriation bonds in the event of non-appropriation or an event of default on regularly scheduled debt service. All the outstanding VRDO are in a weekly rate mode.

The Ohio Treasurer's Office has established the Ohio (State of) Liquidity Program (OSLP) to extend liquidity to Ohio-based governmental issuers of weekly variable rate demand obligations (VRDO) whose bonds are eligible investments of the state treasury. The goal of the program is to lower issuers' borrowing costs and increase earnings i the state's investment portfolio. The OSLP is similar to the Treasury's existing self-liquidity program for the state's weekly VRDO.

USE OF PROCEEDS

The Series 2023A bond proceeds will refund a portion of the state's outstanding debt including some or all of Commo Schools General Obligation Bonds, Series 2017A (Tax-Exempt), Infrastructure Improvement General Obligation Bonds, Series 2016B and 2017A and Conservation Projects General Obligation Bonds, Series 2017A and 2018A.

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 (2022 nominal GDP of $826 billion) that is the seventh largest among the states.

METHODOLOGY

The principal methodology used in the general obligation, lease appropriation, and COP ratings was US States and Territories Methodology published in March 2022 and available at https://ratings.moodys.com/rmc-documents/356901. The principal methodology used in the short-term ratings was US Municipal Short-term Debt Methodology published in May 2023 and available at https://ratings.moodys.com/rmc-documents/398329. The principal methodology used in the special tax ratings was US Public Finance Special Tax Methodology published in January 2021 and available at https://ratings.moodys.com/rmc-documents/70024. The principal methodology used in the long-term programmatic ratings was State Aid Intercept Programs and Financings Methodology published in March 2022 and available at https://ratings.moodys.com/rmc-documents/356903. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM908328533 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

-Rating Solicitation

-Issuer Participation

-Participation: Access to Management

-Participation: Access to Internal Documents

-Endorsement

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.

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 issuer/deal page for the respective issuer on https://ratings.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.

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

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