FitchRatings

State of Ohio

The state of Ohio's 'AAA' Long-Term Issuer Default Rating (IDR) and GO ratings reflect its high level of financial resilience and superior budget management. Ohio's sustained trend of balanced budgets, coupled with its growing fiscal reserves and cash, supports robust gap-closing capacity. The ratings also reflect the state's proven ability to absorb the combined effects of economic cyclicality and repeated tax policy changes, long track record of conservative revenue forecasting and low long-term liability burden.

Ohio's economy is large and diverse, and features six distinct economic regions, three of which are grouped around the state's largest urban centers (Cleveland, Cincinnati and Columbus). Ohio's economy continues to further diversify, with expansion in its finance, healthcare, insurance and real estate sectors, but the state's manufacturing sector remains large compared to national averages.

Manufacturing is concentrated in the more cyclically sensitive durable goods industries such as transportation equipment, automotive, and distribution and warehousing of manufactured goods. Aerospace and biomedical sciences are growing industries. Fitch Ratings expects Ohio's economy to achieve steady growth, limited by slow population gains.

Public Finance
State General Obligation
United States

Ratings

Long-Term IDR	AAA

New Issue

$174,240,000 Infrastructure Improvement General Obligation Bonds, Series 2024A	AAA

Sale Date

The bonds will be sold via negotiation on or about March 12, 2024.

Outstanding Debt

State Liquidity Rating	F1+
School Bond Program	AA+
(I-90 Bridge Design Build Finance Project) Payment Obligations	AA–
Capital Facilities Lease Appropriation Bonds	AA+
General Obligation Bonds	AAA
(Parks and Recreation Improvement Fund Projects) Capital Facilities Lease Appropriation Variable-Rate Bonds	AA+/F1+
General Obligation Highway Capital Improvement Bonds	AAA
General Obligation Common Schools Adjustable-Rate Bonds	AAA/F1+

Rating Outlook

Long-Term IDR	Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates Ohio's $174MM GO Bonds 'AAA'; Outlook Stable (February 2024)

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Key Rating Drivers

Revenue Framework — 'aa'

Like most states, Ohio has an unlimited legal ability to raise operating revenues. Its revenue base is diverse, and relies on broad-based income and sales taxes. Fitch anticipates revenue growth will likely remain slow and in line with historical trends, with state-source revenues expanding in line with, or slightly above, inflation when factoring in the effect of tax policy changes.

Expenditure Framework — 'aaa'

Ohio retains ample flexibility to cut spending through the economic cycle. As in most states, the natural pace of spending growth is likely to be somewhat above revenue growth, requiring ongoing budget management. Carrying costs for debt and retiree benefits are below the median for states.

Long-Term Liability Burden — 'aaa'

Debt levels are conservatively managed, and debt primarily consists of GO bonds. On a combined basis, outstanding debt and net pension liabilities are below the U.S. states' median.

Operating Performance — 'aaa'

The state generally takes a careful approach to financial operations, consistently achieving structurally balanced budgets and restoring its Budget Stabilization Fund (BSF) during the previous economic expansion. The BSF balance has grown substantially since 2021 and currently totals $3.65 billion, equal to approximately 12% of fiscal 2023 state-source general revenue fund (GRF) revenues.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Failure to maintain fiscal balance and robust reserves at or near current levels when addressing future financial challenges, including absorbing the potential effects of major tax policy revisions.
- State revenue growth that falls below Fitch's expectations for the long-term level of U.S. inflation for an extended period.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- The rating is at the highest level on Fitch's scale and cannot be upgraded.

Current Developments

Ohio Economic Update

The pandemic had a pronounced short-term effect on Ohio's economy. Nonfarm payrolls declined by 16% from February to April 2020, slightly worse than the national payroll decline of 15%. Ohio's payrolls recovery through December 2023 was solid, as employment expanded to 0.9% above pre-pandemic levels. Ohio's jobs recovery, nevertheless, lags the 3% national employment recovery. Ohio's slow payroll rebound derives from a combination of factors, including early retirements; weaker growth in IT, finance and service sector jobs relative to the U.S.; and weaker employment growth for lower-wage workers.

Fitch also considers the employment to population ratio (EPOP) when evaluating the health of state and local labor markets, as EPOP helps to gauge what proportion of a labor force is actively employed. Ohio's EPOP indicates a greatly improved, but not yet fully recovered, labor market. Ohio's EPOP of 59.7% in December 2023 trailed the 60.1% national median and remains below Ohio's 60.8% EPOP in February 2020, indicating further employment growth potential. Ohio's official unemployment rate was 3.7% in December 2023, equal to the national rate.

Revenues Comfortably Exceeded Budget in Fiscal Years 2022 and 2023

Tax revenues have comfortably exceeded budget since fiscal 2021. Fiscal 2022 tax revenues exceeded estimates by $2.7 billion, or 10.8%, and were $1.7 billion (6.4%) above prior-year actuals. Fiscal 2023 revenues, likewise, exceeded prior forecasts by a healthy margin, with tax collections finishing the year at $994 million (3.6%) above estimate and $763 million (2.7%) above prior-year levels. All major tax revenue categories exceeded estimates, with personal income tax (PIT) receipts again performing well above budget, finishing the year $645 million (6.4%) above estimate. Total fiscal 2023 GRF revenues, including nontax sources, exceeded fiscal 2022 levels by $1.89 billion (4.7%).

State policymakers and the Ohio Legislature are focused on directing one-time revenues, including federal funding, toward nonrecurring spending items. As mentioned above, the BSF (i.e. the rainy-day fund) balance currently totals

$3.65 billion, equal to 8.5% of fiscal 2023 (GRF) revenues and about 12% of state-source GRF revenues. No draws were made on the BSF in fiscal years 2022 and 2023, and none are expected for the current biennium.

Fiscal 2024–2025 Budget Focuses on Tax Cuts, Boosts Education and Transportation Spending

Ohio's biennial budget for fiscal years 2024–2025 assumes 2.9% average annual tax revenue growth with a 0.6% projected decline to $42.3 billion (0.6%) in fiscal 2024, from $42.5 billion in fiscal 2023, followed by 6.3% growth (to $45 billion) in fiscal 2025. The biennial budget includes several notable tax policy changes, principally the compression of Ohio's PIT rate brackets to two brackets from the previous four. Effective July 1, 2023, Ohio levies the PIT at a 2.75% rate for incomes above $26,050 and below $100,000, along with a 3.5% rate for incomes above $100,000 per annum. The new lower bracket replaces two prior low brackets of 2.8% and 3.2%, and the new higher bracket replaces two prior top rates of 3.69% and 3.99%.

In addition to the PIT bracket compression and rate cuts, Ohio broadened exclusions for businesses that pay the state's commercial activity tax, eliminated sales taxes on baby products, introduced tax credits to fund lower-income housing and expanded a late summer sales tax holiday starting in 2024. These changes and the aforementioned PIT revisions are estimated to reduce state tax revenues by $2.1 billion (3%) for the biennium compared to prior forecasts.

Ohio's previous round of tax reductions, adopted in mid-2021, were projected to result in similar revenue losses but collections ultimately surpassed budget by a wide margin. This conforms to a trend of Ohio's revenues beating budget after tax policy changes. Fitch therefore believes, absent an unexpectedly deep economic downturn, that the latest round of cuts is unlikely to substantially weaken Ohio's revenue growth prospects.

Aside from tax policy changes, the fiscal 2024–2025 budget boosts K-12 education spending by 10.4% in fiscal 2024 and 2.2% in fiscal 2025, and raises higher education spending by 6.8% in fiscal 2024, followed by a 2% increase the following year. Fiscal 2024 Medicaid spending will rise by 10.8%, followed by a 13.9% increase in fiscal 2025. Fitch views these appropriations as conservative — Ohio is likely to underspend budget as the number of program enrollees declines and the effects of the pandemic on hospitalizations and patient visits recede. Fitch draws added comfort from Ohio's $2.6 billion of Medicaid reserves, which the state set aside to smooth unexpected spending increases and which are separate from the aforementioned reserves held in Ohio's BSF.

Fiscal 2024 Revenues Tracking Close to Budget

Through January, Ohio's tax revenues were running $89.4 million, or 0.5%, below budgeted estimates, while total state-source GRF revenues were $107.6 million, or 0.6% above forecast, due to relative outperformance by nontax revenues such as investment earnings, intra-state transfers, and fines and fees.

In a notable departure from recent practice, Ohio's fiscal 2024–2025 capital budget is primarily funded using available cash, rather than by bond issuance. The transportation budget increased by $3.5 billion (70%) yoy in fiscal 2024, from $4.9 billion to $8.4 billion, as the state is expending $3.0 billion of accumulated surpluses on bridge replacement and repairs, along with highway improvements. Transportation spending will revert to historical norms in fiscal 2025, dropping to $5.1 billion.

Credit Profile

Revenue Framework

Ohio relies on a diverse set of broad-based taxes to support operations, including the PIT and sales and use taxes. These major tax revenues are collected in the GRF with constitutional exceptions for highway-related revenues that are directed to transportation funding and lottery proceeds directed to fund a portion of public education costs.

In recent biennia, the state has pursued wide-ranging tax policy changes that include tax rate reductions. These actions have lowered collections relative to baseline growth patterns. The fiscal effects of these policy changes have been manageable, aided by conservative revenue forecasting and favorable economic trends.

The state's 10-year historical average revenue growth rate in recent years, adjusted for the estimated effect of policy changes, has lagged U.S. GDP growth, albeit above the inflation rate. Fitch anticipates Ohio's revenues will demonstrate steady growth, in line with our expectations for long-term U.S. inflation, with some upside potential if the state can meaningfully and sustainably improve its pace of economic growth. Ohio's future growth prospects do not yet factor in the effects of major new developments, such as Intel's planned semiconductor plants, that could meaningfully boost growth over time.

Ohio has no legal limits on its ability to raise revenues via base broadening, rate increases or assessing new taxes or fees.

Intel Corporation is investing over $20 billion to build new semiconductor manufacturing facilities in Licking County, east of Ohio's state capital of Columbus. Intel recently pushed back the project timeline and currently expects the project to be completed by late 2026. The state estimates the project will result in the creation of some 20,000 new jobs, including 3,000 permanent jobs at Intel, approximately 10,000 support jobs and 7,000 short-term positions during construction. Ohio currently does not have semiconductor manufacturing capacity. As such, the Intel project will introduce a new high-tech sector to the state. Ohio offered $1.7 billion of economic and tax incentives to Intel to be awarded to the project, inclusive of a $600 million "onshoring" grant.

Ohio's geography features multiple river systems connected via a network of canals, providing abundant sources of fresh water. The canals and rivers feature an extensive system of ports that facilitates the movement of agricultural and manufactured goods, which are important contributors to Ohio's economy.

Expenditure Framework

Ohio has ample flexibility within its expenditure framework. The natural pace of spending growth is expected to be marginally above its somewhat slowly growing revenue stream. Carrying costs for debt and retirement liabilities are low.

Ohio's primary cost drivers include Medicaid and education spending. The fiscal challenge of Medicaid is common to all U.S. states, and the nature of the program as well as federal government rules limit the states' options in managing the pace of spending growth. Federal action to revise Medicaid's fundamental programmatic and financial structure does not appear to be a near-term priority of the current federal administration or congressional leadership. As with all federal programs, Medicaid remains subject to regulatory changes that could affect various aspects of the program.

Ohio's Medicaid caseloads increased as a result of the pandemic and federal provisions mandating continued eligibility in exchange for enhanced Federal Medical Assistance Percentage (FMAP) funding (a 6.2 percentage point increase in the federal Medicaid reimbursement rate). The federal government wound down the enhanced FMAP through December 2023, with enhanced federal transfers declining each quarter. The federal public health emergency related to the pandemic ended on May 11, 2023.

The fiscal 2022–2023 biennial budget set aside $1.2 billion in extra health and human services reserves to provide a cushion against the enhanced FMAP being retired; these reserves remain in place for the current (i.e. 2024–2025) biennium. Ohio has an additional $1.4 billion of Medicaid-linked reserves in four other funds to lessen the phaseout's effect on hospitals and prescription drug plans. Medicaid enrollments are declining as the enhanced FMAP expires, as recent growth was driven by federal coverage provisions under the Covid-19 public health emergency, rather than by economic eligibility.

The state has ample expenditure flexibility, with a tendency to rely on budget-cutting actions, rather than revenue increases, to maintain structural balance. During past recessions, Ohio has reduced distributions and phased out certain tax reimbursements to local governments and school districts. The state has also cut education funding and reduced headcount in the past to preserve fiscal flexibility. Ohio responded to the initial revenue effect of the pandemic by enacting spending reductions, including cuts to education and Medicaid spending.

Carrying costs for debt and retiree obligations are expected to remain low (i.e. close to 3%) as a percentage of budget, given Ohio's well-established track record of providing full actuarial funding for its public pension plans annually, as well as its adherence to conservative debt management policies. The state does not presently have any new issuance plans, and Fitch expects Ohio to engage in limited debt issuance over the medium-term horizon.

Long-Term Liability Burden

As per Fitch's "2023 State Liability Report (Post-Pandemic Asset Surge Lowers Pension Burdens)," published November 2023, Ohio's combined burden of long-term debt and net pension liabilities (NPLs) equaled 3.2% of personal income, below the 4% median for U.S. states. Reflecting more recent information in the state's fiscal 2023 Annual Comprehensive Financial Report, Fitch estimates Ohio's combined liability burden at about 3.7% of 2022 personal income. Ohio retains ample cash resources through which to fund pay-as-you-go capital projects, which will assist the state in maintaining its debt burden at or below current levels for the foreseeable future.

Fitch has historically considered Ohio's actuarial funding of its defined benefit retirement systems, which provide for both pensions and healthcare, to be a credit strength. Ohio has a history of making contributions sufficient to support full actuarial pension prefunding and partial retiree health benefit funding. Most of the state's pension and other post-employment benefit (OPEB) liabilities are with the Ohio Public Employees Retirement System (OPERS), with additional liabilities in other plans covering teachers and highway patrol.

As of the state's fiscal 2023 financial statement, combined pension system assets covered about 76% of liabilities. Using Fitch's more conservative 6% discount rate would lower the assets to liabilities ratio to 68%. The state and the plans have implemented changes over time to support sound funding; these include, at OPERS, shifting contributions toward pensions to support funding progress and modifying OPEB provisions to lower the liability.

Operating Performance

Ohio's superior ability to respond to downturns reflects its ample budget flexibility and proven gap-closing capacity. Revenues suffered significant declines during the Great Recession, exacerbated by ongoing tax reductions. Resulting budget gaps were addressed with both ongoing and one-time measures. These included use of the BSF, refunding debt for current-year savings, unpaid employee leave and accelerating the phaseout of tax reimbursements for schools and local governments.

In response to the initial pandemic-related stress on its finances, the state acted to reduce spending, relying also on increased federal aid, but did not make any draws on its BSF. Fitch expects that Ohio will continue to rely primarily on expense reductions to address future downturns, although it could draw on the BSF again, given the ample reserves now available within that fund.

Budget Management in Recoveries

Ohio has rebuilt its financial flexibility during economic recoveries, restoring and expanding the BSF and eliminating its prior reliance on one-time budget actions to close gaps. A statutory increase in the BSF's maximum funding requirement to 8.5% of prior-year GRF revenues, from 5.0% in 2015, has provided the state with added capacity to address future economic downturns. Fitch regards this decision as emblematic of Ohio's overall strategy of bolstering its finances during the 10-year expansion that followed the Great Recession. Ohio continues to make substantial deposits to the BSF during the present expansion.

The BSF balance currently totals $3.65 billion, equal to about 8.5% of fiscal 2023 GRF revenues and approximately 12% of state-source GRF revenues. Ohio also maintains a permanent contingency fund balance equal to 0.5% of prior-year GRF revenues. Together, the two funds equaled 12.5% of fiscal 2023 state-source revenues as of Sept. 30, 2023. The Ohio Legislature must act affirmatively to transfer reserves to the BSF; however, a statutory provision allowing the BSF to retain interest earnings implemented in 2021 will boost future fund balance growth.

The American Rescue Plan Act (ARPA) allocated $5.4 billion in federal funding directly to Ohio's state government. The state's $1.9 billion of remaining ARPA funds have been allocated to Ohio's fiscal 2024–2025 biennial budget to fund a variety of one-time projects targeted at improving local water and broadband infrastructure, along with behavioral and mental health programs and community violence prevention. Ohio did not use any of its ARPA allocation to supplant or replace state revenues or to finance recurring expenditures.

Peer Analysis

Ohio's peer group includes several other states in the second decile of U.S. states as measured by GDP. These include Pennsylvania (AA/Stable), Georgia (AAA/Stable), New Jersey (A+/Stable) and Washington (AA+/Stable). This peer group is extremely diverse in terms of credit profile and state economies. Ohio is at the stronger end for carrying costs and long-term liability burden but aligns more closely with Pennsylvania and New Jersey for growth prospects. As mentioned under the *Revenue Framework* section above, Ohio's growth prospects do not factor in the effects of new developments, such as Intel's planned semiconductor plants, that could boost revenue growth over time. Ohio's operating performance is comparable to those of Georgia and Washington (both score in the aaa range).

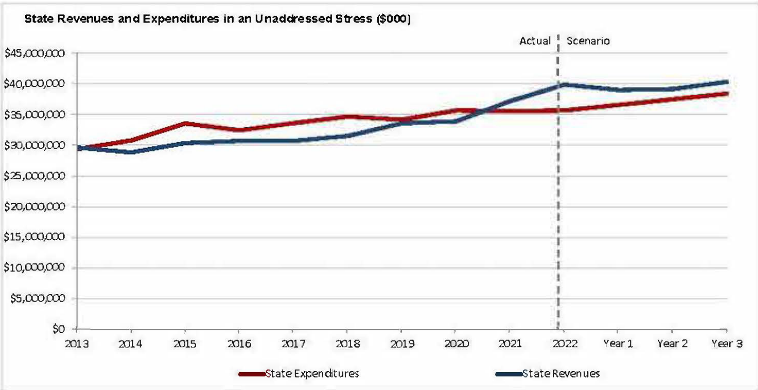
ESG Considerations

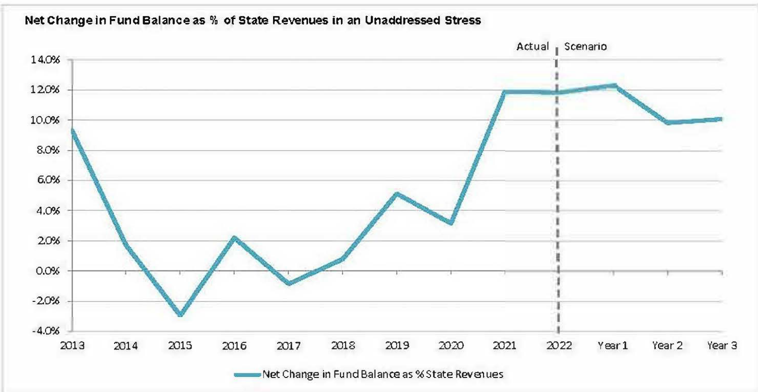
The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Ohio, State of (OH)

Scenario Analysis

Ver 38





Analyst Interpretation of Scenario Results

The Fitch Analytical Stress Test (FAST) model relates historical tax revenue volatility to GDP to support the assessment of operating performance under Fitch's criteria. FAST is not a forecast, but represents Fitch's estimate of possible revenue behavior in a downturn based on historical revenue performance. Actual revenue declines will vary from FAST results, which provide a relative sense of the risk exposure of a particular state compared to other states.

FAST indicates that Ohio's revenues would experience a smaller (2%) decline in the first year of a standard downturn scenario (U.S. GDP decline of 1%), compared to the U.S. state median first-year decline (3%). This suggests that Ohio's revenues are somewhat less volatile than those of other states. Ohio's history of actions to contain spending and its access to a $3.5 billion BSF balance provide the state with sufficient flexibility to address the magnitude of revenue loss associated with Fitch's scenario.

Scenario Parameters:				Year 1	Year 2	Year 3
GDP Assumption (% Change)				(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)				2.5%	2.5%	2.5%
Revenue Output (% Change)	*Minimum Y1 Stress:* -1%	*Case Used:*	**Moderate**	(2.2%)	0.4%	3.0%

Revenues, Expenditures, and Net Change in Fund Balance	Actuals										Scenario Output		
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Year 1	Year 2	Year 3
Expenditures													
Total Expenditures	50,876,071	53,690,264	58,064,992	58,708,554	59,869,809	60,956,137	60,966,546	64,994,756	73,734,021	80,545,965	82,559,614	84,623,604	86,739,195
% Change in Total Expenditures	(0.6%)	5.5%	8.1%	1.1%	2.0%	1.8%	0.0%	6.6%	13.4%	9.2%	2.5%	2.5%	2.5%
State Expenditures	29,338,970	30,769,509	33,531,021	32,426,854	33,611,309	34,661,565	34,152,614	35,659,646	35,585,225	35,672,194	36,563,999	37,478,099	38,415,051
% Change in State Expenditures	(1.5%)	4.9%	9.0%	(3.3%)	3.7%	3.1%	(1.5%)	4.4%	(0.2%)	0.2%	2.5%	2.5%	2.5%
Revenues													
Total Revenues	51,164,075	51,738,478	54,880,042	56,989,243	56,959,027	57,815,314	60,384,156	63,218,285	75,347,089	84,741,679	84,986,017	86,295,354	88,655,891
% Change in Total Revenues	3.8%	1.1%	6.1%	3.8%	(0.1%)	1.5%	4.4%	4.7%	19.2%	12.5%	0.3%	1.5%	2.7%
Federal Revenues	21,537,101	22,920,755	24,533,971	26,281,700	26,258,500	26,294,572	26,813,932	29,335,110	38,148,796	44,873,771	45,995,615	47,145,506	48,324,143
% Change in Federal Revenues	0.7%	6.4%	7.0%	7.1%	(0.1%)	0.1%	2.0%	9.4%	30.0%	17.6%	2.5%	2.5%	2.5%
State Revenues	29,626,974	28,817,723	30,346,071	30,707,543	30,700,527	31,520,742	33,570,224	33,883,175	37,198,293	39,867,908	38,990,402	39,149,849	40,331,748
% Change in State Revenues	6.2%	(2.7%)	5.3%	1.2%	(0.0%)	2.7%	6.5%	0.9%	9.8%	7.2%	(2.2%)	0.4%	3.0%
Excess of Revenues Over Expenditures	288,004	(1,951,786)	(3,184,950)	(1,719,311)	(2,910,782)	(3,140,823)	(582,390)	(1,776,471)	1,613,068	4,195,714	2,426,403	1,671,750	1,916,697
Total Other Financing Sources	1,010,348	2,440,585	2,284,308	2,393,066	2,643,785	3,383,641	2,299,661	2,842,139	2,810,396	521,323	2,371,432	2,168,990	2,142,856
Net Change in Fund Balance	2,761,858	488,799	(900,642)	673,755	(266,997)	242,818	1,717,271	1,065,668	4,423,464	4,717,037	4,797,835	3,840,740	4,059,553
% Total Expenditures	5.4%	0.9%	(1.6%)	1.1%	(0.4%)	0.4%	2.8%	1.6%	6.0%	5.9%	5.8%	4.5%	4.7%
% State Expenditures	9.4%	1.6%	(2.7%)	2.1%	(0.8%)	0.7%	5.0%	3.0%	12.4%	13.2%	13.1%	10.2%	10.6%
% Total Revenues	5.4%	0.9%	(1.6%)	1.2%	(0.5%)	0.4%	2.8%	1.7%	5.9%	5.6%	5.6%	4.5%	4.6%
% State Revenues	9.3%	1.7%	(3.0%)	2.2%	(0.9%)	0.8%	5.1%	3.1%	11.9%	11.8%	12.3%	9.8%	10.1%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. For further details, please see Fitch's US Tax-Supported Rating Criteria.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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