S&P Global
Ratings

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Summary:
State Of Ohio; General Obligation

Primary Credit Analyst:
Rob M Marker, Denver + 1 (303) 721 4264; Rob.Marker@spglobal.com

Secondary Contact:
Thomas J Zemetis, New York + 1 (212) 4381172; thomas.zemetis@spglobal.com

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Credit Profile		
US$180.8 mil infrastructure imp GO bnds ser 2022A due 03/01/2042		
Long Term Rating	AA+/Stable	New
US$62.0 mil common schs GO rfdg bnds ser 2022A due 06/15/2029		
Long Term Rating	AA+/Stable	New
US$32.5 mil infrastructure imp GO rfdg bnds ser 2022B due 03/01/2031		
Long Term Rating	AA+/Stable	New
US$15.7 mil infrastructure imp GO rfdg bnds ser 2022C due 09/01/2031		
Long Term Rating	AA+/Stable	New
US$14.9 mil conservation proj GO rfdg bnds ser 2022A due 09/01/2030		
Long Term Rating	AA+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the State of Ohio's approximately $181 million general obligation (GO) infrastructure improvement bonds, series 2022A, $32 million GO infrastructure improvement refunding bonds, series 2022B, $16 million GO infrastructure improvement refunding bonds, series 2022C, $15 million GO conservation projection refunding bonds, series 2022A and $62 million GO common schools refunding bonds, series 2022A.
- The outlook on all ratings is stable.

Security

The bonds are general obligations of the state. Ohio's full faith and credit, revenue and taxing power secure the bonds.

Proceeds from the infrastructure improvement bonds will fund various public infrastructure capital improvement projects while the refunding bonds will be used to refund various outstanding debt obligations for cost savings.

Credit overview

The 'AA+' GO rating and stable outlook on Ohio reflect what we view as the state's strong government framework, supported by significant flexibility to adjust funding levels, a high degree of disbursement autonomy, and balanced budget requirements that preclude it from ending the year with an operating deficit. Prudent financial and budgetary management practices, a moderate debt burden, and adequate pension funding discipline further support the rating.

Similar to most state's, Ohio experienced significant revenue growth in fiscal years 2021 and 2022 and prudently maintained its Budget Stabilization Fund (BSF) balance. With $2.7 billion in its BSF at fiscal 2022 year-end (In our view, a very strong 9.4% of 2022 state only general revenue fund revenue), we believe the state is well positioned to mitigate potential challenges related to escalating economic pressures. Also, its 2023 revenue estimate conservatively projects an 0.82% decline in tax receipts compared with fiscal 2022, resulting in estimated total collections of $27.9

billion. However, through the first four months of fiscal 2023 ended Oct. 31, 2022, total tax receipts are outperforming the previous year by 5.6% and are exceeding estimates by 4.0%.

We view Ohio's economic fundamentals as stable with notable development strides made over the past two years, although the state exhibited sharper cyclical economic contractions in personal income and real gross state product (GSP) compared with the U.S., while its growth rate has generally trailed the U.S. In addition, slower population growth and aging demographic trends relative to the nation could be a potential constraint tempering long-term economic development. Ohio's manufacturing base remains a longstanding and substantial contributor to real GSP (approximately 16% of total state economic output) and employment (approximately 12% of total state employment) and the sector has been prone to higher volatility across business cycles. The rebound in manufacturing helped support Ohio following the 2020 recession, although, we believe it benefited from a temporary shift in consumer spending behavior (i.e., a higher portion of incomes were spent on durable and non-durable goods compared with services) coupled with significant federal stimulus payments supporting strong consumer demand. We recognize Ohio focused on creating a more competitive, diverse, and favorable business and tax climate through various incentive and grant programs, and the state recently attracted next-generation advanced manufacturing developments such as semiconductor, alternative and renewable energy, and electric vehicle (EV) production.

Intel Corp., a leading global semiconductor manufacturer, recently announced large-scale economic development plans that include construction of two state-of-the-art chip manufacturing facilities in central Ohio by 2025, making the project the largest private-sector investment in the state's history (more than $20 billion). More recently, in October 2022, Honda and LG Energy Solutions announced a combined $4.2 billion investment to establish a new EV battery plant and redesign an existing plant to incorporate EV production. While these private-sector investments are among the most significant in state history and other recent announcements could improve GSP and income metrics to levels more consistent with the U.S. average, we believe potential benefits are likely to evolve incrementally given the capital-intensive nature and extended ramp-up periods for these developments that could materialize over the medium-to-long term. Nevertheless, Ohio's continuing efforts to diversify its industry composition and grow its overall economic base to better insulate it from recessions and support faster recoveries will remain a primary credit consideration.

Ohio's general creditworthiness reflects what we view as the state's:

- Long track record of proactive financial and budget management, including the state's implementation of frequent and timely budget adjustments to mitigate revenue shortfalls;
- Well-embedded financial oversight and a commitment to structural budgetary performance and funding budget reserves that have been, and are expected to remain, instrumental in managing budget gaps through economic cycles;
- Seventh-largest state economy as measured by total real GSP that benefitted from steady expansion and some industry diversification following weak performance during the past two recessions, although the state exhibits a higher concentration in manufacturing relative to the U.S., which could make it sensitive to cyclicality and exogenous demand shocks;
- Low-to-moderate debt levels, with rapid amortization and a conservatively managed capital and debt program, and very strong self-liquidity to withstand temporary volatility to its existing variable-rate debt obligation (VRDO) and

interest rate swaps; and

- Significant pension-reform changes that have contributed to improved funding progress and significant benefit flexibility to adjust other postemployment benefits (OPEB), although we continue to monitor the state's funding discipline and policies to assess the sustainability of this progress under more subdued investment return conditions.

S&P Global Ratings currently believes that the U.S economy will fall into a recession in 2023. Supply-chain disruptions remain and will continue to drive inflation, which remains high, although it likely peaked in third-quarter 2022. As the weight of high prices adversely affects purchasing power and the Federal Reserve remains aggressive in its policies to combat inflation, borrowing costs are expected to increase. Our U.S. GDP growth forecast is 1.8% for 2022 and a 0.1% decline for 2023 (compared with 1.6% and 0.2% growth, respectively, in September 2022). While economic momentum has protected the U.S. economy this year, what is in store for 2023 is the larger concern. Extremely high prices and aggressive rate hikes will weigh on affordability and aggregate demand. With the Russia-Ukraine conflict ongoing, tensions over Taiwan escalating, and the China slowdown exacerbating supply-chain and pricing pressures, the U.S. economy appears to be teetering on the edge of recession. We expect the unemployment rate, at 3.7% in October and just above its pre-pandemic level, will remain near that rate until early 2023 before rising to 5.6% by the end of 2023 then slowly descend to 4.7% by the fourth quarter of 2025. The Fed will keep its tight monetary policy stance until inflation begins to moderate in late 2023 with the risk for more rate hikes this year and the next. Our lower GDP and inflation forecasts for 2023 and 2024 reflect the likely outcome of this more aggressive policy stance. See "Economic Outlook U.S. Q1 2023: Tipping Toward Recession," Nov. 28, 2022, on RatingsDirect.

Environmental, social, and governance

ESG credit indicators: E-2, S-2, G-2

Environmental risks do not have a material influence on our credit rating analysis for Ohio. In addition, we view Ohio's governance risks as aligned with the sector due to the relative strength of the state's government framework, strong cyber-security risk management practices, and transparency of its policies, reporting, and disclosures. We consider Ohio to have social risks that are generally in line with the sector and an overall neutral influence on its credit profile. Social capital risks related to regional and local demographics vary widely, partially due to an aging prime working-age population, outmigration, and low population-replacement rates, and these risks could be influential for regional or local government credit ratings. In our view, Ohio's historically strong economic and financial forecasting and policy efforts aimed at diversifying the state's economic base are key state-level mitigants.

Outlook

The stable outlook reflects our expectation that Ohio will continue its commitment to active budget management although the rating also incorporates our expectation of ongoing economic cyclicality that could result in fluctuations in reserve balances and financial performance as it has during past recessions. The outlook further reflects our expectation that Ohio will continue its commitment to reducing its pension and OPEB liabilities, while also adhering to its longstanding 5% constitutional debt service limit, both of which support a predictable fixed-cost profile and support to our view of the state's long-term credit stability.

Downside scenario

Although unlikely based on recent operating trends and a strong framework for making fiscal policy decisions, sustained or significant structural budget misalignment and a sharp decline in Ohio's reserve or liquidity position without a replenishment plan could pressure the rating. The state's concentration in the manufacturing sector could intensify this downside risk if economic shocks or other long-term pressures significantly weaken the state's core economic metrics relative to the U.S. level.

Upside scenario

We could take a positive rating action if the state's economy diversifies and is sustained in a way that we believe better mitigates cyclical pressures and if management demonstrates a commitment to active budget management and reserves.

For more information, see our full analysis on Ohio, published Nov. 11, 2022.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022