MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 and Aa2/VMIG 1 to Ohio's Capital Facilities Lease-Appropriation Bonds; outlook stable

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New York, November 12, 2021 -- Moody's Investors Service has assigned Aa2 ratings to the State of Ohio's $75 million Capital Facilities Lease-Appropriation Bonds, Series 2022A (Parks and Recreation Improvement Fund Projects), and the $10 million Capital Facilities Lease-Appropriation Refunding Bonds, Series 2022A (Administrative Building Fund Projects), as well as a Aa2/VMIG 1 rating to the $75 million Capital Facilities Lease-Appropriation Variable Rate Bonds, Series 2022B (Parks and Recreation Improvement Fund Projects). The outlook is stable.

RATINGS RATIONALE

The Aa2 rating on the lease-appropriation bonds is one notch below the state's general obligation rating, reflecting a moderate legal structure that includes the need for biennial legislative appropriation of lease payments and the more essential nature of the various projects financed. There are no bondholder remedies in the event of non-appropriation, however the state has very strong incentive to appropriate, given the importance of maintaining continued market access for subject-to-appropriation lease debt.

The highest short-term ratings of VMIG 1 on the state's appropriation-backed variable rate demand bonds reflect the State of Ohio's high long-term credit quality (Aa1 stable) 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 Aa1 general obligation rating is based on the state's strong budgetary 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.

RATING OUTLOOK

The short-term rating does not carry an 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 pandemic recovery period.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

For the appropriation bonds:

- An upgrade of the state

For the short-term rating:

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

For the appropriation bonds:

- A downgrade of the state

For the short-term 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 capital facilities lease-appropriation bonds are secured by separate lease-purchase agreements with the Department of Natural Resources (DNR) and the Department of Administrative Services (DAS), 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.

Pursuant to the leases, the DNR and the DAS are required to include the lease payments in their biennial budget requests to the Office of Budget and Management. There are no debt service reserve funds associated with these bonds, and there are no bondholder remedies in case of default due to non-appropriation. In the event of non-appropriation, the leases would terminate. The importance of maintaining continued market access for subject-to-appropriation lease debt, in general, provides a strong incentive to continue making timely appropriations.

The liquidity for the demand feature of the variable rate bonds 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, including the Series 2022B bonds, are in a weekly rate mode, and Royal Bank of Canada (RBC) will be the remarketing agent for the current offering.

The state treasury will hold the securities until they can be successfully remarketed. The state has never had a failed remarketing, and maintains clearly articulated process documents and has successfully implemented its liquidity support procedures.

The liquidity for the state's commitment to purchase program participants' unremarketed variable rate demand bonds is provided by the state of Ohio's daily investments, managed by the Treasury Department. Treasury's investment policies are established in Ohio Revised Code 135.143.

The state has well-organized staff and clearly articulated policies and procedures for monitoring the VRDO portfolio and potential liquidity calls. The state receives notices of tender 7 days prior to the purchase date for bonds in the weekly mode, and at least one day prior to the purchase date for bonds in the Alternative Trading System Mode (the Series 2016 bonds). With this timing, the state is prepared to begin liquidating assets the evening before the purchase date, and have sufficient funds available well in advance of the deadline on the purchase date. The state has never had a failed remarketing, but has successfully implemented its liquidity support procedures.

After the current offering, Ohio will have $545 million of variable-rate demand debt outstanding (or 3% of total debt), for which it maintains an internal liquidity program for unremarketed bonds, including $75 million supported through the State Liquidity Program (more below). The short-term ratings on these bonds are VMIG 1, reflecting the state's strong management of available liquid resources.

As of September 30, 2021, Ohio had $7.1 billion of daily assets available to support the bonds, on a discounted basis, which provides 8.4x coverage of potential liabilities, including OMAP and the State Liquidity Program (more below). Assets are very liquid (66% in money market funds, checking accounts, and treasuries with less than 2-year maturities) and are exclusively state-owned, including the $2.7 billion budget stabilization fund (BSF). Assets do not include the local government investment pool which is also managed by the state treasury department.

The state treasury also has potential liabilities to liquidity programs that the state treasury offers through its Ohio Market Access Program (OMAP) and its Ohio Liquidity Program (OLP; P-1 issuer rating). Through OMAP, the Ohio treasury provides back-up liquidity to qualified local governments that have issued bond anticipation notes (BANs). The program authorization is capped at $300 million, and as of September 30, 2021, there were $117 million of BANs outstanding.

Through OLP, the treasury also provides liquidity to VRDB of qualified governmental issuers that have entered into standby bond purchase agreements with the state. The program currently covers $75 million of outstanding bonds. The state does detailed credit analysis and monitoring of participants in both programs and has never had a liquidity call related to either. All VRDO that is being supported by the Ohio Treasury is in a weekly mode.

USE OF PROCEEDS

Proceeds of the Series 2022A and Series 2022B Parks and Recreation Improvement Fund Project bonds will finance capital projects for the DNR. Proceeds of the Series 2022A Administrative Building Fund Project refunding bonds will refund outstanding debt for debt service savings with no extension of maturity.

PROFILE

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 that is the seventh largest among the states.

METHODOLOGY

The principal methodology used in the long-term ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments Methodology published in November 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1298498 . The principal methodology used in the short-term rating was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1210749 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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.

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