FitchRatings

FITCH RATES OHIO'S (TREASURER OF STATE) $222MM BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-06 October 2017: Fitch Ratings has assigned a 'AA' rating to the following state of Ohio (Treasurer of State) capital facilities lease-appropriation bonds:

--$100 million series 2017A (Adult Correctional Building Fund Projects);
--$66.265 million refunding bonds, series 2017B (Adult Correctional Building Fund Projects);
--$38.520 million refunding bonds, series 2017B (Administrative Building Fund Projects);
--$17.550 million refunding bonds, series 2017A (Mental Health Facilities Improvement Fund Projects).

The bonds are expected to be sold via negotiation on Oct. 17, 2017.

The Rating Outlook is Stable.

SECURITY
The bonds are special obligations of the state, payable from payments under separate lease agreements between the Ohio Public Facilities Commission (OPFC) and the Department of Rehabilitation and Correction (DRC), the OPFC and two mental health departments (the Department of Mental Health and Addiction Services and the Department of Developmental Disabilities), and between the OPFC and the Department of Administrative Services (DAS). The lease agreements are subject to biennial appropriation from the state's general revenue fund (GRF).

ANALYTICAL CONCLUSION

APPROPRIATION MECHANISM: The rating on the bonds backed by Ohio's lease appropriation is one notch below the state's Issuer Default Rating (IDR), reflecting the slightly higher degree of optionality associated with payment of appropriation debt. The state's 'AA+' IDR is based on its careful financial management, ongoing record of maintaining fiscal balance, and a moderate, rapidly amortizing debt burden. Liabilities are supported by an economy that is slowly adding jobs lost in the recession.

Economic Resource Base
Ohio's economy is large and diverse, with distinct economic regions centered on several large urban centers. Manufacturing remains a disproportionally large sector with a concentration in more cyclically sensitive durable goods industries. Transportation equipment and related suppliers have had a strong presence. The state's economy is expanding but at a slower pace than immediately following the recession.

KEY RATING DRIVERS

Revenue Framework: 'aa'
Like most states, Ohio maintains unlimited legal ability to raise operating revenues. Its revenue base is diverse and relies on broad-based income and sales taxes. Tax policy changes pursued over the past several biennia have been manageable, aided by favorable economic and fiscal trends.

Expenditure Framework: 'aaa'

Ohio retains ample flexibility to cut spending throughout the economic cycle. The natural pace of spending growth is likely to be in line with its somewhat slowly growing revenue stream. Carrying costs for debt and pensions are below the median for states. Spending pressure in Medicaid and education appears to be well controlled.

Long-Term Liability Burden: 'aaa'
Debt is typically conservatively managed and primarily consists of GOs. On a combined basis, outstanding debt and pension obligations are low and a well below-average burden on the state.

Operating Performance: 'aaa'
The state generally has a careful approach to financial operations and has consistently managed to achieve budgetary balance. In recent years, the state has relied more on budget reductions than revenue enhancements to balance the budget and also utilized several one-time sources during the recession. The state's budget stabilization fund (BSF) has been restored after being drawn down during the recession, and now totals $2 billion, or 6% of general revenue fund (GRF) revenues.

RATING SENSITIVITIES
The rating is sensitive to changes in the state's IDR, to which it is linked. Ohio's IDR is sensitive to shifts in its fundamental credit characteristics and to continued successful maintenance of fiscal balance in light of ongoing efforts to reduce the tax burden.

CREDIT PROFILE

The bonds currently offered are secured by rental payments that are appropriated biennially under separate lease agreement between the OPFC and the Mental Health Departments, the OPFC and the DRC, and the OPFC and the DAS. The debt is authorized by the state's constitution and secured by the state's pledge of legislative appropriation, with the leases renewable biennially until the bonds are repaid. The treasurer of state is required to submit an estimate of the debt service requirements to each department as well as the director of budget and management prior to the start of each fiscal year. The trustee does not have the ability to take possession of or operate leased projects.

For more information on Ohio's IDR, see "Fitch Rates $265MM State of Ohio GO Bonds 'AA+'; Stable Outlook" dated Sept. 27, 2017.

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Date of Relevant Rating Committee: Sept. 11, 2017

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Additional information is available on www.fitchratings.com

Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)
https://www.fitchratings.com/site/re/898466