FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Ohio's $106MM Lease Appropriation Bonds 'AA'; Outlook Stable

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Fitch Ratings - New York - 03 Apr 2020: Fitch Ratings has assigned 'AA' ratings to the following State of Ohio (Treasurer of State) Capital Facilities Lease Appropriation bonds:

--$98.9 million Series 2020B (Administrative Building Fund Projects) (Tax-Exempt);

--$27.165 million Series 2020C (Administrative Building Fund Projects) (Federally Taxable);

--$56.705 million refunding Series 2020D (Administrative Building Fund Projects) (Federally Taxable).

The bonds are expected to be sold via negotiation on April 14, 2020.

Bond proceeds will finance capital improvements and refund outstanding bonds for debt service savings.

Fitch also affirmed the state's Issuer Default Rating (IDR) and outstanding general obligation bonds at 'AA+' and outstanding appropriation-backed bonds of the state at 'AA', including those issued by the Treasurer of State and the Ohio Building Authority.

The Rating Outlook is Stable.

SECURITY

The lease revenue 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 Administrative Services (DAS). The lease agreements are subject to biennial appropriation from the state's general revenue fund (GRF).

ANALYTICAL CONCLUSION

Appropriation Mechanism: The 'AA' rating on the bonds backed by Ohio's lease appropriation is one notch below the state's IDR, reflecting the slightly higher degree of optionality associated with payment of appropriation debt. The state's 'AA+' IDR is based on their careful financial management, which is reflected in maintenance of fiscal balance, the rebuilding of reserves and low liabilities. Ohio's economy is demonstrating slow but steady growth, with recent performance more in line with national levels, though still slightly lagging. Ohio's very slowly growing population may be limiting sustained growth.

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 also have a strong presence. Economic growth has picked up, with GDP growth and personal income trending higher, but still trailing national trends.

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. Tax cuts implemented 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. 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. Spending pressure in Medicaid and education appears to be well-controlled.

Long-Term Liability Burden: 'aaa'

Debt is typically conservatively managed and debt issuance primarily consists of GOs. On a combined basis, outstanding debt and net-pension obligations are low and a below average burden relative to other states.

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 used several one-time sources during the Great Recession. The state's budget stabilization fund has been restored after being drawn down during the recession and now totals $2.7 billion — more than 11% of state-source GRF revenues.

RATING SENSITIVITIES

Factors that May, Individually or Collectively, Lead to Negative Rating Action:

--Ohio's ability to maintain fiscal balance in light of ongoing efforts to reduce the tax burden.

Factors the May, Individually or Collectively, Lead to Positive Rating Action:

--Sustained economic growth at a level that improves expectations for revenue growth over time.

BEST/WORST CASE RATING SCENARIO

Best/Worst Case Rating Scenarios - Public Finance:

Ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Sector-Wide Coronavirus Implications:

The recent outbreak of coronavirus and related government containment measures worldwide creates an uncertain global environment for U.S. state and local governments and related entities in the near term. As severe limitations on economic activity have only begun within recent weeks, most state governments' fiscal and economic data do not reflect any credit impairment. However, material changes in revenues and expenditures are occurring across the country and likely to worsen in the coming weeks and months as economic activity suffers and public health spending increases. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in state and local governments as a result of the virus outbreak as it relates to severity and duration, and incorporate revised expectations for future performance and assessment of key risks.

In its baseline, Fitch assumes containment measures can be unwound in the second half of 2020 (2H20), allowing for recovery in sequential growth and labor markets. With so much depending on the progression of coronavirus, there is a large degree of uncertainty around economic forecasts. In Fitch's evolving baseline forecast, U.S. GDP would shrink by around 3% in 2020 (although this could be subject to further revision), an unprecedented occurrence in peacetime and a deeper contraction than in 2009. In the event of coronavirus being contained during 2H20, Fitch assumes real GDP growth will recover strongly in 2021, reflecting a sharp bounce-back. A plausible downside case, including a second wave of infections and longer lockdown periods across parts of the country, would see an even larger decline in output in 2020 and a weaker recovery in 2021.

Update on the State of Ohio:

Fitch will continue to monitor the economic effect on Ohio from the coronavirus. On March 9, 2020, in efforts to mitigate coronavirus' spread, Governor Mike DeWine declared a state of emergency and closed all non-essential businesses in the state, beginning March 23 through April 6.

The overall effects are unknown at this time, but Fitch believes Ohio's very strong financial resilience, as evidenced by its significant reserves and conservative budgeting, positions it well to manage through potential future revenue losses or additional expenditures due to the coronavirus. In addition to budget measures that have already been taken and the expected receipt of federal aid, the state has $2.7 billion in its budget stabilization fund, equal to more than 11% of state-source general revenue fund revenues. This healthy balance should also allow the state to bridge liquidity concerns over the extension of the income tax filing deadline to July 15.

As is the expectation for most U.S. states, Fitch anticipates Ohio's revenue collections, particularly for employment-based income and sales tax, to experience weakness through this period of reduced activity. Revenue expectations for the balance of fiscal 2020 and for fiscal 2021 are likely to be revised downward.

Revenue collections through the first part of fiscal 2020, as of February, were strong and ahead of forecast, but the state indicates the slowdown in collections is already apparent in the preliminary look at March revenues. Other revenues, such as lottery revenues, may also be affected with the closure of casinos and entertainment venues in the state. Further, stock market losses could affect net-pension liabilities and annual contributions.

While the revenue impact is not yet clear, Ohio is putting in place spending controls to address potential revenue shortfalls, including an immediate hiring freeze, a freeze on pay increases, promotions and new contracts, and a requirement that state agencies reduce spending up to 20% for the balance of fiscal 2020 and for fiscal 2021, the second year of the biennial budget.

Federal Aid will Provide Some Support to State Budgets:

Federal aid measures enacted in recent weeks will benefit state budgets, although details remain fluid. The Families First Coronavirus Response included a 6.2 percentage point (pp) increase in the Federal Medical Assistance Percentage (FMAP) for Medicaid for every quarter of the national emergency declared by the president on March 13. FMAP is the rate at which the federal government reimburses states for Medicaid spending. The Center on Budget and Policy Priorities estimates the 6.2pp increase could provide $35.7 billion in federal aid over a full year, or roughly $9 billion each quarter. Under the Coronavirus Aid, Relief and Economic Security (CARES) Act enacted on March 27, the U.S. Treasury department will distribute $150 billion to state and local governments within 30 days of enactment, essentially on a per-capita basis. The statute limits the use of funds to coronavirus expense reimbursement rather than to offset anticipated state tax revenue losses. Federal Funds Information for States projects Ohio is eligible for $4.5 billion, with at least $2.5 billion allocated to the state and up to $2 billion allocated to local governments in the state that have a population of 500,000 or more.

CREDIT PROFILE

The bonds currently offered are secured by rental payments that are appropriated biennially under a lease agreement between 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 Ohio's $96MM GO Bonds 'AA+'; Outlook Stable," dated Feb. 3, 2020.

CRITERIA VARIATION

No criteria variations.

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

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Ohio, State of (OH) [General Government]	LT IDR	AA+	Affirmed

ENTITY/DEBT	RATING		
• Ohio, State of (OH) /General Obligation - Unlimited Tax/1 LT	LT	AA+	Affirmed
• Ohio, State of (OH) /Lease Obligations - State	LT	AA	Affirmed

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Ohio, State of (OH)	EU Endorsed

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US Public Finance   North America   United States
