Rating_Action: Moody's assigns Aa2 to Ohio's Capital Facilities Lease-Appropriation Bonds, Series 2023A (Transportation Building Fund Projects); outlook positive

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New York, January 26, 2023 -- Moody's Investors Service has assigned a Aa2 rating to Ohio's $55 million Capital Facilities Lease-Appropriation Bonds, Series 2023A (Transportation Building Fund Projects). The bonds are expected to sell the week of February 13. The outlook is positive.

RATINGS RATIONALE

The Aa2 rating is one notch below the state's Aa1 issuer 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 Aa1 issuer rating incorporates the state's sound budgetary and financial management, strong reserves and liquidity, and affordable fixed costs associated with below-average long-term debt, pension and retiree healthcare (OPEB) liabilities. Together, these provide strong flexibility to weather moderate economic uncertainty and inflationary pressures. With recent revenue surpluses, the state has set aside reserves to smooth the ramp down of Federal Medicaid support and to fund capital projects and economic development. These investments support budget flexibility, reduce the state's planned borrowing needs, and promote long-term economic growth. However, the state's strengths are partially offset by a history of below-average economic growth, compounded by weak demographic trends as well as school districts that are pressured by large pension liabilities.

RATING OUTLOOK

The outlook on the lease appropriation bonds reflects the outlook of the state. The positive outlook is based on growing evidence of new economic development that could diversify the state's economy, improve growth and strengthen demographic trends over the medium term. The outlook also reflects the recent improvement in the state's financial position and economic prospects, and our expectation that strong reserves, proactive financial management, and low fixed costs will support budget flexibility during potential economic uncertainty in the next 18-24 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

An upgrade of the state's issuer rating, which could come from:

- Continued improvement in demographic trends, particularly in working age population growth, net migration and age distribution, that contribute to stronger economic growth relative to peers

- Maintenance of a budget in structural surplus, and/or quick response and recovery from an economically driven budget shock
- Evidence that economic development is diversifying the state economy and improving growth and demographic trends

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

A downgrade of the state's issuer rating, which could come from:

- Lack of improvement in employment, personal income or demographic trends relative to the US average

- Financial deterioration, including a return to budgetary structural imbalance and/or protracted response and recovery to budget gaps
- Reduced liquidity and materially lower reserve levels, other than for strategic one-time purposes
- Unanticipated rise in long-term liabilities and an increase in fixed costs

LEGAL SECURITY

The capital facilities lease appropriation bonds are secured by a lease-purchase agreement between the Ohio Department of Transportation (DOT) as lessee, and the Ohio Public Facilities Commission, as lessor. Debt service is payable from base rental payments. DOT's base rent is typically funded with motor fuel taxes from the Highway Operating Fund, but appropriations can also be made from any lawfully available revenues, including General Revenue Fund sources.

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 (October 1 and April 1) 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 lease, the DOT is required to include the lease payments in biennial budget request 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.

USE OF PROCEEDS

Bond proceeds will finance construction of various transportation capital facilities that will be leased to the state DOT.

PROFILE

Ohio is the seventh-largest US state by population (11.7 million). Its gross domestic product also ranks seventh among the states; 2021 nominal GDP of $736 billion.

METHODOLOGY

The principal methodology used in this rating was US States and Territories Methodology published in March 2022 and available at https://ratings.moodys.com/api/rmc-documents/356901. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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 on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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