

06 MAY 2022

Fitch Rates Ohio's \$82.2MM GO Bonds 'AA+'; Outlook Positive

Fitch Ratings - New York - 06 May 2022: Fitch Ratings has assigned a 'AA+' rating to the following state of Ohio GO bonds:

--\$82.21 million GO highway capital improvement bonds, series X (full faith and credit/highway user receipts).

The bonds are expected to be sold via negotiation on May 24, 2022.

In addition, Fitch has also affirmed the following ratings:

--Ohio's Issuer Default Rating (IDR) at 'AA+';

--Ohio's outstanding GO bonds at 'AA+';

--Ohio's outstanding appropriation-backed bonds at 'AA';

--Short-Term rating on adjustable GO bonds and annual appropriation bonds for which the state provides liquidity upon the event of a failed remarketing at 'F1+'.

Fitch has also affirmed its ratings on other debt linked to the state IDR as listed at the end of this release.

The Rating Outlook is Positive.

Proceeds of the bonds will be used to fund the costs of capital improvements to Ohio's state highway system and to pay the costs of bond issuance.

SECURITY

GO bonds, including the series X bonds, are full faith and credit obligations of the state of Ohio, excluding lottery proceeds. Highway user receipts are also pledged to payment of the bonds and other series of GO highway improvement bonds.

ANALYTICAL CONCLUSION

Ohio's 'AA+' IDR and GO rating are based on its careful financial management, which has supported financial stability and the rebuilding of reserves over time, and low liabilities. The 'AA' rating on Ohio's annual appropriation debt is one notch below the state's IDR, reflecting a higher degree of optionality

associated with payment of appropriation debt.

The 'F1+' short-term rating reflects ample liquidity provided by investments in the state treasurer's liquidity account, the state's 'AA+' IDR, and procedures in place to ensure timely payment of optional tenders of bonds that have not been remarketed.

The Positive Outlook reflects Ohio's sustained trend of balanced finances and growth in reserves that strengthens the state's financial resilience as it confronts cyclical economic and revenue trends. The state has prioritized tax cuts over time, but its revenue actions to date have not limited its ability to absorb economic cyclicity while maintaining structural balance and ample reserves. Further action on the rating will look to the state's fiscal and economic position beyond the pandemic as federal aid expires, including the longer-term direction of economic growth and the state's continued ability to maintain structural balance and high resilience.

Economic Resource Base

The state economy is large and diverse, featuring distinct economic regions centered on several large urban areas. Ohio's economy has continued to become more diversified, with expansion in its finance, insurance and real estate sectors, but manufacturing remains disproportionately large, relative to national averages, with a concentration in more cyclically sensitive durable goods industries. Transportation equipment and related suppliers also have a strong presence. Fitch expects to see steady growth in Ohio's economy, limited by slow population gains.

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. Revenue growth has historically been slow, with state-source revenues expanding in line with inflation. The revenue implications of 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.

Long-Term Liability Burden: 'aaa'

Debt is typically conservatively managed and debt issuance primarily consists of GO bonds. On a combined basis, outstanding debt and net pension obligations are below the state median.

Operating Performance: 'aaa'

The state generally has a careful approach to financial operations, consistently achieving budgetary

balance and restoring its Budget Stabilization Fund (BSF) during the last economic expansion. The fund now totals a strong \$2.7 billion, about 10% of fiscal 2021 state-source GRF revenues.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Ability to maintain structural balance and high financial resilience, including robust reserves at or near current levels, while emerging from pandemic-related uncertainty and absorbing fiscal effects of state tax policy actions and the removal of federal stimulus support from the general economy.

--Sustained economic growth at a level that improves Fitch's expectations for Ohio's revenue growth to above inflationary levels and closer to our long-term expectations for national GDP, indicating a higher level of economic resilience that would provide greater support for fiscal balance over time.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Failure to maintain fiscal balance in addressing potential financial challenges, including related to continued pandemic-driven uncertainty or absorbing the effect of tax policy revisions;

--Fiscal stress leading to sustained budget actions that significantly diminish expenditure flexibility;

--State revenue growth that falls below Fitch's expectations for the long-term level of U.S. inflation over an extended period of time.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure 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, visit <https://www.fitchratings.com/site/re/10111579>.

CURRENT DEVELOPMENTS

Recent Operating Results

Fiscal 2021 actual tax revenue performance was above estimate. Receipts exceeded projections by about \$1.5 billion (6.2%), with both personal income tax (PIT) and sales tax collections ahead by 4.5% and 9.0%, respectively. Total fiscal 2021 revenues exceeded estimates by 4.2% and the prior year by 18%, or about 13% accounting for deferred tax filing deadline. Growth was driven by sales and income tax collections (even net of the deferred filing effect) and increased federal receipts.

Fiscal 2022-23 Budget Update

Ohio's biennial budget for fiscal years 2022-2023 assumes 3% annual tax revenue growth, adjusting for the impact of 2020's delayed income tax payments. Factoring in policy-driven tax reductions, revenues were projected to decline by 4.0% in fiscal 2022 followed by 3.4% growth in fiscal 2023. The budget included various tax revisions, including PIT rate cuts and bracket changes, which are estimated to reduce revenues by \$1.6 billion (3%) for the biennium. The estimated revenue decrease associated with all enacted tax revenue revisions is \$2.0 billion for the biennium, equal to 3.9% of tax revenues.

The budget also includes increased spending for K-12 education and a revised funding formula for the biennium that considers resident income levels in addition to property tax values. Along with expanded funding for K-12 education, health and Medicaid, the budget includes a \$1 billion 'Investing in Ohio Initiative' that provides one-time funding for business sectors and communities negatively affected by the pandemic, largely from a portion of the \$5.4 billion in direct funding made available to Ohio through the federal American Rescue Plan Act (ARPA).

Fiscal 2022 YTD Revenue Update

Fiscal 2022 YTD tax revenue performance has been well above budget estimates. YTD tax revenues through March 2022 show tax receipts exceeding estimates by about \$2.9 billion or 10.9%. Sales tax collections exceed estimates by about \$391 million or 4.3%, while personal income tax collections are ahead by about \$886 million or 14.4%.

The state's budget planning has focused on directing one-time revenue sources, including federal funding, toward nonrecurring expenditures. The BSF balance currently totals \$2.7 billion, or 6.8% of total fiscal 2021 revenues and equal to 10% of state-source revenues. No draws were made on the fund in fiscal years 2020 and 2021, and none are expected in the current biennium.

Federal Aid Continues to Provide Some Support for State Budgets

The ARPA allocates \$11 billion in federal funding to the state of Ohio and its local governments. As mentioned above, approximately \$5.4 billion was allocated directly to the state, with an additional \$274 million allocation for state capital projects. In addition to infrastructure spending needs and local government recovery programs, ARPA moneys have been appropriated for the repayment of a \$1.5 billion borrowing from the federal government that supported the state's Unemployment Trust Fund.

Ohio Economic Update

Mandated shutdowns of nonessential businesses at the pandemic's start resulted in a sharp decline in economic activity, but with a phased reopening starting in May 2020, activity picked up. Nonfarm payrolls declined by 16% at the pandemic's start (from February to April 2020) compared with the national median decline of 15%. Since then, Ohio has seen a recovery in employment, with about 83% of lost jobs regained through March 2022. This is lower than the national median (87% regained) and US states' median (89% regained).

State unemployment has declined substantially from high levels at the onset of the pandemic but is higher than the national rate. Ohio's official monthly unemployment rate was 4.1% in March, higher than the comparable national rate (3.8%). Ohio's much higher 6.4% Fitch-adjusted unemployment rate, which adds back labor force declines since February 2020 and views persons who have departed the labor force as unemployed, indicates continuing labor market challenges for the state.

CREDIT PROFILE

Ohio's economy had demonstrated slow but steady growth leading into the pandemic, with performance in recent years more in line with national levels, though still slightly lagging. The state's key employment sectors include transportation, distribution and warehousing of manufactured goods, which is facilitated by an extensive system of ports on Lake Erie, barge service on the Ohio River and advanced air-cargo and rail infrastructure. The state experienced a sharp drop in economic activity due to the onset of the pandemic and related shutdown measures. As these were eased, and with the benefit of the federal stimulus, activity rebounded. Going forward, economic performance will likely return to a trend of steady growth that trails the nation.

For additional information on Ohio's IDR, see "Fitch Affirms OH IDR at 'AA+'; Rates Lease Appropriation Bonds 'AA'; Outlook Revised to Positive," dated Aug. 5, 2021, available at www.fitchratings.com.

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Ohio, State of (OH) [General Government]	LT IDR	AA+ ⊕	Affirmed	AA+ ⊕
<ul style="list-style-type: none"> Ohio School District Credit Enhancement Program (OH) /State School Bond Program Rating/ 1 LT 	LT	AA ⊕	Affirmed	AA ⊕
<ul style="list-style-type: none"> Ohio State Department of 	LT	A+ ⊕	Affirmed	A+ ⊕

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Transportation (OH) /Contract Obligation - Portsmouth Bypass DBFOM Project/ 1 LT			
<ul style="list-style-type: none"> Ohio, State of (OH) /General Obligation^{LT} - Unlimited Tax/ 1 LT 	AA+ ⊕	Affirmed	AA+ ⊕
<ul style="list-style-type: none"> Ohio, State of (OH) /Lease Obligations^{LT} - State Appropriation/ 1 LT 	AA ⊕	Affirmed	AA ⊕
<ul style="list-style-type: none"> Ohio, ST 	F1+	Affirmed	F1+

ENTITY/DEBT	RATING	RECOVERY	PRIOR
State of (OH) /Self- Liquidity/ 1 ST			

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	⊙	

Applicable Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(pub.04 May 2021\) \(including rating assumption sensitivity\)](#)

Applicable Models

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

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Ohio, State of (OH) EU Endorsed, UK Endorsed

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