



Rating Action: Moody's assigns Aa2 to Ohio's Major New State Infrastructure Project Revenue Bonds, Ser. 2022-1 (GARVEEs); outlook positive

31 Oct 2022

New York, October 31, 2022 – Moody's Investors Service has assigned a Aa2 rating to the State of Ohio's \$110.2 million Major New State Infrastructure Project Revenue Bonds, Series 2022-1, issued on behalf of the Ohio Department of Transportation (ODOT). Moody's also maintains Aa2 ratings on \$765 million of the state's outstanding GARVEEs. The outlook is positive.

RATINGS RATIONALE

The Aa2 rating on the bonds, also known as GARVEE bonds, is based on ample debt service coverage provided by pledged revenues generated from a very broad, national tax base and a strong 5x additional bonds test. In addition, the bonds benefit from early set-asides for debt service and ODOT's covenant to appropriate from other available transportation funds if federal revenues are insufficient, which offsets the federal reauthorization risk. These strengths are balanced against the subject-to-appropriation nature of the pledged revenues.

RATING OUTLOOK

The outlook on the GARVEES 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 that will support budget flexibility during potential economic uncertainty in the next 18-24 months.

The outlook also incorporates our expectation that ODOT's covenant to appropriate from other available resources will limit future risks of funding disruption caused by either a lapse in highway program authorization or depletion of the federal Highway Trust Fund (HTF) over the medium term.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Removal of requirement for biennial legislative appropriation of pledged revenue, combined with a very strong flow of funds
- Other structural enhancements that further diminish federal reauthorization risk

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Large, sustained decrease in ODOT's other available resources that can pay GARVEE debt service
- Discontinuation of or reduction in federal transportation grant program

- Extended lapse in reauthorization of federal transportation spending
- Sharp HTF revenue decline caused by economic stress, tax inefficiency or redirection of fuel taxes to Federal general fund
- Issuance of parity debt with significantly longer maturities than in the past, or substantial increase in leverage
- Failure to provide timely appropriation to allow for payment of debt service

LEGAL SECURITY

Ohio's Major New State Infrastructure Project bonds, also known as GARVEE bonds, are secured by a lien on Title 23 Federal Highway Administration (FHWA) reimbursements to the Ohio Department of Transportation (ODOT) for eligible highway construction projects. In addition, the DOT Director has covenanted to pay debt service using other lawfully available funds in the event of an interruption in Title 23 funding. The other funds would consist of appropriations of DOT revenues from sources including state gasoline tax receipts. Other available funds amounted to \$570 million in fiscal 2022.

USE OF PROCEEDS

Proceeds of the Series 2022-1 bonds will finance federally approved capital transportation projects around the state in coming months.

PROFILE

Ohio is the seventh-largest US state by population. Its gross domestic product per capita also ranks seventh among states. The Ohio Department of Transportation is responsible for planning, designing, constructing, maintaining and rehabilitating the state's highway system. It administers federal funds – including those used by local jurisdictions for local road and bridge projects – as well as funding that both the state and federal governments allocate to public transportation, bridge, waterway and aviation infrastructure. ODOT is overseen by an appointee of the governor of Ohio and is one of the state's largest agencies, with approximately 4,900 employees.

METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in January 2021 and available at <https://ratings.moodys.com/api/rmc-documents/70024>. 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>.

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