MOODY'S

Rating Action: Moody's affirms Ohio's Aa1 Issuer Rating and other outstanding debt; revises outlook to positive from stable

11 Oct 2022

New York, October 11, 2022 -- Moody's Investors Service has affirmed the State of Ohio's Aa1 Issuer Rating and revised the state's outlook to positive from stable. Moody's has also affirmed the Aa1 general obligation rating on Ohio's $7.3 billion of outstanding general obligation (GO) bonds (which includes $866 million of outstanding highway GO bonds); the Aa2 rating on the state's $2.3 billion of outstanding lease appropriation bonds and certificates of participation (COPs); the Aa2 pledge specific rating on the Ohio Board of Regents Community and Technical College Credit Enhancement Program; the Ohio School District Credit Enhancement Program's Aa2 pledge specific rating; and the Aa2 rating on the Ohio Department of Transportation Federal Grant Anticipation Program's $765 million outstanding Major New State Infrastructure Project bonds, also known as GARVEE bonds. In addition, Moody's affirmed the VMIG 1 short-term rating on Ohio's outstanding variable rate demand general obligation and lease appropriation debt with tenders supported by the state's self-liquidity program. Moody's also affirmed the P-1 rating on the State of Ohio Liquidity Program. The outlook on the general obligation bonds, lease appropriation bonds and COPs, GARVEEs, and the pledge specific ratings on the intercept programs has been revised to positive from stable.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM907879810 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

RATINGS RATIONALE

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 rapid 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.

Ohio's Aa1 general obligation rating is the same as the state's Aa1 issuer rating, given the state's pledge of its full faith, credit and taxing power and broad revenue base to pay the bonds.

The Aa2 rating on the lease-appropriation bonds and COPs 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 limited to 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 Aa2 programmatic pledge specific ratings on the Ohio School District Credit Enhancement Program and the Ohio Board of Regents Community and Technical College Credit Enhancement Program are notched off of the State of Ohio's general obligation rating based on the programs' strong position in the state's hierarchy of debt and spending priorities, and strong program mechanics, including the timely payment of aid to the debt service trustee.

The highest short-term ratings of VMIG 1 on the state's variable rate demand bonds reflect the State of Ohio's high long-term credit quality (Aa1) and the strength of the state treasury's commitment to support unremarketed tenders with substantial, highly liquid balances available for this purpose. Ample balances are also supported by a sophisticated, dedicated Treasury staff with well-developed procedures in place to monitor the remarketing process and liquidate investment assets as necessary to provide sufficient funds to purchase unremarketed bonds.

The P-1 pledge specific rating on the State of Ohio Liquidity Program is based on the State of Ohio's high long-term credit quality (Aa1) and the strength of the state treasury's commitment to purchase program participants' unremarketed bonds, with substantial, highly-liquid balances available for this purpose. Ample balances are also supported by a sophisticated, dedicated Treasury staff with well-developed procedures in place to monitor the remarketing process and liquidate investment assets as necessary to provide sufficient funds to purchase unremarketed bonds.

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 general obligation bonds, lease appropriation bonds and COPs, GARVEES, and intercept programs 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 short-term ratings do not carry an outlook.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

For the Issuer Rating:

- 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

For the GO, appropriation bonds, COPs, and Enhancement Program pledge specific ratings:

- An upgrade of the state's issuer rating

For the GARVEE bonds:

- 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

For the short-term and State of Ohio Liquidity Program pledge specific ratings:

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

For the state's Issuer Rating:

- Lack of improvement in employment, personal income or demographic trends relative to the US average
- Reduced liquidity and materially lower reserve levels, other than for strategic one-time purposes
- Financial deterioration including a return to budgetary structural imbalance and/or protracted response and recovery to budget gaps
- Unanticipated rise in long-term liabilities and an increase in fixed-costs

For the GO bonds, appropriation bonds, COPs, and Enhancement Program pledge specific ratings:

- A downgrade of the state's Issuer Rating

For the GARVEE bonds:

- 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

For the short-term and State of Ohio Liquidity Program pledge specific ratings:

- A multi-notch downgrade of the state's issuer rating
- Significant deterioration in the state Treasury's liquid assets or increase in liabilities that reduces liquidity coverage below 1x, and/or evidence of weak management of unremarketed tenders

LEGAL SECURITY

The general obligation bonds are secured by a pledge of the full faith and credit, revenue and taxing power of the State of Ohio. Highway user receipts (i.e. motor vehicle fees and taxes, and fuel taxes) and net lottery proceeds are specifically excluded from the state's general obligation pledge. Debt service payments on the bonds do not depend on the progress, completion, or operation of the facilities or projects that they finance.

Ohio's general obligation highway bonds are secured by the state's full faith and credit as well as a pledge of constitutionally-dedicated state highway user receipts, which includes gasoline taxes and motor vehicle license and registration fees. Pledged revenues are constitutionally dedicated to state highway purposes, including debt repayment, and provide substantial coverage of maximum debt service. Bonds have been historically paid entirely from highway user receipts, and the GO backstop has not been tapped.

The capital facilities lease-appropriation bonds and COPs are payable from separate lease-purchase agreements various state departments, as lessees, and the Ohio Public Facilities Commission, as lessor, subject to annual appropriation. Debt service is payable from base rental payments, which are assigned and remitted directly to the trustee. 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 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.

The Ohio School District Credit Enhancement Program provides credit enhancement to participating schools through the intercept of state aid revenues to a trustee to ensure timely debt service payments.

The Ohio Board of Regents Community and Technical College Credit Enhancement Program provides credit enhancement to participating schools by allowing the Chancellor of the Ohio Department of Higher Education to redirect the college's state aid in the form of SSI to the bond trustee to pay debt service if there is a shortfall in general receipts revenue.

The liquidity for the demand feature of the variable rate bonds (VMIG 1) is provided by the state of Ohio's daily investments, managed by the Treasury Department. The state has covenanted in the bond resolutions to provide liquidity to purchase the bonds in the event that tendered securities cannot be fully remarketed. Although the covenant on the state's outstanding VRDO general obligation bonds is absolute and unconditional, the state is not required to purchase unremarketed appropriation bonds in the event of non-appropriation or an event of default on regularly scheduled debt service. All the outstanding VRDO are in a weekly rate mode.

The Ohio Treasurer's Office has established the Ohio (State of) Liquidity Program (OSLP) to extend liquidity to Ohio-based governmental issuers of weekly variable rate demand obligations (VRDO) whose bonds are eligible investments of the state treasury. The goal of the program is to lower issuers' borrowing costs and increase earnings in the state's investment portfolio. The OSLP is similar to the Treasury's existing self-liquidity program for the state's weekly VRDO.

Pursuant to a standby bond purchase agreement with the issuing entity, the state treasury commits to purchase unremarketed VRDBs, unless a termination event has occurred. The state treasury will hold the securities until they can be successfully remarketed. The liquidity for the state's commitment to purchase program participants' unremarketed variable rate demand bonds is provided by the state of Ohio's daily and weekly investments, managed by the Treasury Department. All VRDO that is being supported by the Ohio Treasury is in a weekly mode.

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 $419 million in fiscal 2020.

PROFILE

Ohio has a population of 11.8 million, located in the Midwest region of the US with 312 miles of shoreline along Lake Erie, according to NOAA. The state is the seventh-largest US state by population, and has a large, diverse economy (2021 nominal GDP of $736 billion) that is the seventh largest among the states.

METHODLOGY

The principal methodology used in the issuer, lease and general obligation ratings was US States and Territories Methodology published in March 2022 and available at https://ratings.moodys.com/api/rmc-documents/356901. The principal methodology used in enhancement pledge specific ratings was State Aid Intercept Programs and Financings Methodology published in March 2022 and available at https://ratings.moodys.com/api/rmc-documents/356903. The principal methodology used in the GARVEE special tax ratings was US Public Finance Special Tax Methodology published in January 2021 and available at https://ratings.moodys.com/api/rmc-documents/70024. The principal methodology used in the short-term and State of Ohio Liquidity Program pledge specific ratings was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at https://ratings.moodys.com/api/rmc-documents/67339. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM907879810 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Rating Solicitation

- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents
- Endorsement

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

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