

State Of Ohio; Federal or State Grant Programs

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Table Of Contents

Credit Highlights

Outlook

Credit Opinion

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Credit Profile		
US\$110.21 mil major new infrastructure proj rev bnds ser 2022-1 due 12/15/2034		
<i>Long Term Rating</i>	AA/Stable	New
Ohio grant		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio grant		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to the State of Ohio's approximately \$110.2 million major new state infrastructure project revenue bonds, series 2022-1.
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the state's \$764.7 million of grant anticipation revenue vehicle (GARVEE) bonds outstanding.
- The outlook is stable.

Security

Ohio's series 2022-1 bonds and GARVEE bonds outstanding constitute special obligations and are secured by a pledge of the state's share of Federal Title 23 Highway Funds, as apportioned and distributed to the Ohio Department of Transportation (ODOT) by the Federal Highway Administration (FHWA) under the Federal Aid Highway Program (FAHP). ODOT funds its GARVEE bond debt service requirements in advance, depositing funds with the state treasurer from the highway operating fund, including motor vehicle fuel tax revenues along with federal reimbursements and local deposits. The state legislature appropriates the funds to pay debt service on a biennial basis.

An additional pledge of state transportation funds that are unspent and available at fiscal year-end provides added security to the bonds. However, additional pledged state funds are subordinate and subject to availability on an annual basis. There is no debt service reserve fund for the series 2022-1 bonds or other GARVEE bonds outstanding.

Proceeds from the series 2022-1 bonds will finance various highway and bridge projects within the State that are state infrastructure projects under Ohio Revised Code as well as to pay costs of issuance.

Credit overview

The rating reflects our view of very strong maximum annual debt service (MADS) coverage based on historical federal grant receipts and good bond provisions that remain consistent with peers. Over the past three audited fiscal years (2019-2021), MADS coverage ranged from 8.0x-11.5x and pro forma MADS coverage was 9.33x in 2022 based on federal reimbursements. Unaudited federal reimbursements (unaudited) were approximately \$1.35 billion in 2022, which reflected a 5.8% decrease compared with the previous year. However, we view this decline to be a function of timing for the receipt of federal reimbursements rather than a reduction in federal support. Ohio anticipates federal reimbursements to rise to \$1.65 billion (or a 22.4% annual increase) during state fiscal year 2023, continuing to support

the state's very strong ability to cover its GARVEE bond debt service obligations.

In addition, we expect ODOT will maintain an ongoing commitment to oversight and compliance, with covenants and procedures set forth within its legal framework and the department will practice prudent management of the statewide transportation improvement plan, which officials submit to the U.S. Department of Transportation, in a manner that preserves very strong MADS coverage on the GARVEE bonds. We understand Ohio expects to issue additional GARVEE debt annually in fiscal years 2024 and 2025.

Key credit strengths, in our opinion, include:

- Very strong pro forma MADS of approximately 9.3x based on actual fiscal 2022 federal reimbursements and approximately 14.8x based on obligation authority. We expect MADS coverage will remain very strong despite additional near-term debt issuances;
- Good bond provisions, including an additional bonds test (ABT) restricting future bond issuance if annual debt service requirements on parity obligations and all additional bonds would exceed 20% of the highest annual amount of obligation authority distributed during any of the three most recently completed federal fiscal years, and a covenant by ODOT to replace any deficiencies in the pledged federal highway receipts with a subordinate pledge of lawfully available funds; and
- Strong federal and state programmatic support, evidenced by Ohio maximizing its share of Title 23 federal aid transportation grants, with the department typically using all of its obligation authority in each federal fiscal year, receiving additional obligation authority that the FHWA has redistributed from other states, and effectively managing the reimbursement process.

A key credit weakness, in our opinion, is:

- The possibility of declines in pledged revenue resulting from reduced distributions to states from the Highway Trust Fund (HTF) or from the amounts that Congress appropriates, modifications in the rules governing distribution of federal aid.

The rating on the GARVEE bonds, like those on all other GARVEE ratings, assumes that the supportive legislative framework and congressional appropriations will continue through the enactment of multiyear authorizations or temporary extensions. We base our assumption on historical precedent, our view of the political and economic importance of national highway and mass transit systems, the broad historical bipartisan political support for transportation spending programs at all levels of government, and Congress' track record of continuing appropriations and extensions to budget authorizations when they expire.

In addition to applying our criteria, "Methodology And Assumptions: Rating U.S. Federal Transportation Grant-Secured Obligations," published May 29, 2009, we also apply our criteria, "U.S. Federal Future Flow Securitization Methodology," published March 12, 2012, to determine the maximum possible rating relative to the U.S. rating because Ohio's GARVEE bonds are primarily secured by federal aid cash flows and additional state funds that are subordinate to ODOT's other obligations and subject to availability on an annual basis. Our application of such criteria on the state's GARVEE program resulted in an overall score of 1.2, indicating that the maximum possible rating is 'AA', one notch below the U.S. rating.

Outlook

The stable outlook reflects our expectation that we will not raise or lower the rating over the outlook horizon.

Specifically, we expect that ODOT will receive its share of annual Title 23 distributions under the longstanding FAHP and that federal reimbursement revenue will continue to provide very strong MADS coverage on the state's GARVEE debt.

Downside scenario

Although unlikely, we could lower the rating if pro forma MADS coverage weakens materially due to significant new debt issuance or substantially reduced federal reimbursements to states. If we lower the U.S. rating or revise the U.S. outlook to negative it would result in a corresponding rating action on the GARVEE rating, which is capped at one notch below the U.S. rating.

Upside scenario

We do not expect to raise the ratings during the next two years based on our opinion of the security pledge and our view that pro forma MADS coverage will stay near current levels with anticipated additional GARVEE debt issuance.

Credit Opinion

The state is a relatively frequent GARVEE bond issuer, with 21 issuances over the course of the program's approximately 23-year history. If FHWA funds are insufficient to cover debt service, funds appropriated to ODOT by the state for a given fiscal year but are not spent by the department for other purposes constitute the other lawfully available funds for payment of the state's GARVEE bonds. Other lawfully available funds totaled \$569.7 million in during fiscal year 2022. Although the additional ODOT pledge is subordinate to the department's other obligations, we view the pledge as providing a degree of additional security for bondholders.

Our ratings in this sector range from 'A' to 'AA', where only federal funding is pledged, and as high as 'AAA' where state agencies blend the federal funding with an additional pledge of state funding. We base the relatively strong ratings within this sector on the issuer's pledge of the HTF grants it receives from the federal government. Nevertheless, we evaluate the risks to state programs that leverage these funds, including the timing of receipts, level of funding, and erosion in dollars as a result of either lower authorized or appropriated levels or programmatic changes that negatively affect grant recipients. In our opinion, both the program's history and vital role in preserving and expanding the national highway system, as well as the significant funding needs facing surface transportation and the lack of resources to fund them, support continued reauthorization of the program.

Federal authorization update

In November 2021, Congress passed, and the President signed the Infrastructure Investment and Jobs Act (IIJA), which reauthorized the FAHP through Sept. 30, 2026, making \$350.8 billion over five years for the program funded from the HTF available and \$47.3 billion in advanced appropriations from U.S. Treasury general fund for existing and new highway programs. The IIJA replaces the previous Fixing America's Surface Transportation Act. The FHWA announced it is providing \$52.5 billion in funding in federal fiscal year 2022 (a 20% increase compared with FAHP

apportionment during the previous federal fiscal year) under the IIJA. Although we believe this five-year reauthorization creates near-to-medium-term predictability of federal transportation aid available for GARVEE debt service, it does not exceed the maturity dates of the state's GARVEE bonds outstanding, and we would consider future delays and uncertainty regarding reauthorization of the FAHP a potential credit weakness. In addition, the amount of and availability of federal transportation aid and future obligation authority is contingent on a variety of factors, including changes to federal laws, regulations, and potential declines in revenues in the HTF.

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