S&P Global
Ratings

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Summary:

State Of Ohio; Appropriations

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US$55.0 mil cap facs lease - approp bnds (Transportation Building Fund Projects) ser 2023A due 04/01/2038		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to the Ohio State Treasurer's approximately $55 million capital facilities lease-appropriation bonds, series 2023A (transportation building fund projects).
- The outlook is stable.

Security

Under the supplemental trust and lease agreement between the state's Department of Transportation (DOT) and the Ohio Public Facilities Commission (OPFC), pledged receipts, primarily rental payments received by the OPFC (lessor) from the DOT (lessee), secure the series 2023A (transportation building fund projects) bonds. The obligations of the DOT to make the rental payments are subject to, and dependent upon, biennial appropriation by the Ohio General Assembly.

The bond proceeds will finance the cost of various capital facilities to be leased to the DOT by the OPFC.

Credit overview

We rate these obligations one notch lower than Ohio's general creditworthiness (AA+/Stable), reflecting the appropriation risk associated with annual debt service payments.

We view the obligor's involvement in the transaction as strong, provided the Treasurer's essential role within the state's executive department and position as a key officer of the state. Debt and financial obligations are recognized in the state's audited financial statements and continuing disclosures. Lease obligations and certificates of participation remain a common and integral vehicle through which the state executes its capital bonding. Projects are approved through the legislature and included in the statewide capital budget. Ohio pledges to biennially appropriate sufficient funds to the DOT from its operating revenues to make rental payments, and it has a long track record of appropriating for similar obligations. In our opinion, there is no unusual political, timing, or administrative risk related to the debt payment.

The 'AA' long-term rating reflects our view of:

- Ohio's general creditworthiness;
- The strong contractual provisions of the lease structure securing the capital facilities lease appropriation bonds, including an absolute and unconditional payment provision once funds are appropriated;
- The state's longstanding and demonstrated commitment, within both the administrative and legislative branches, to

allocate sufficient funds biennially to support appropriation-backed obligations; and

- The importance of appropriation debt to Ohio's overall capital bonding structure.

We rate the lease appropriation bonds under our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria, published Nov. 20, 2019.

Environmental, social, and governance

In our view, environmental, social, and governance (ESG) factors reflect those of the State of Ohio.

Outlook

The stable outlook is based on the linkage to the state's general creditworthiness. The stable outlook on Ohio reflects our expectation that the state will continue its commitment to active budget management and our expectation of ongoing economic cyclicality that could result in fluctuations in reserve balances and financial performance as it has during past recessions. The outlook further reflects our expectation that Ohio will continue its commitment to reducing its pension and other postemployment benefits liabilities, while also adhering to its longstanding 5% constitutional debt service limit, both of which support a predictable fixed-cost profile and supports to our view of the state's long-term credit stability.

Downside scenario

Although unlikely based on recent operating trends and a strong framework for making fiscal policy decisions, sustained or significant structural budget misalignment and a sharp decline in Ohio's reserve or liquidity position without a replenishment plan could pressure the rating. The state's concentration in the manufacturing sector could intensify this downside risk if economic shocks or other long-term pressures significantly weaken the state's core economic metrics relative to the U.S. level. We could also lower the rating if our view of the obligor's willingness to appropriate for lease appropriation debt decreases.

Upside scenario

We could take a positive rating action if the state's economy diversifies and is sustained in a way that we believe better mitigates cyclical pressures and if management demonstrates a commitment to active budget management and reserves.

For more information on the state's general credit characteristics and ESG factors, see our full analysis on Ohio (published Nov. 11, 2022) and summary analysis (published Nov. 30, 2022).

Credit Opinion

Capital facilities lease-appropriation bonds (transportation building fund projects)

The bonds are authorized under the state constitution, which allows for the issuance of special obligation bonds to fund capital facilities for housing branches and agencies of state government. The series 2023A bonds are special obligations of the state, issued by the state treasurer and payable from pledged receipts, which are the lease rental payments (subject to biennial appropriation by the Ohio General Assembly) made by the DOT to the OPFC. The DOT agreed to include all lease payments due in its budget request each biennium. The OPFC is an agency and instrumentality of the state and comprises six members, including the governor, attorney general, auditor of the state, secretary of state, treasurer of the state and the director of budget and management.

Rental payments from the DOT are assigned by the OPFC to the treasurer and credited to the "Series 2023A Payment Account," established under the supplemental trust as a trust fund held in the custody of the trustee for the purpose of paying debt service. Lease payments are due two days before debt service due dates, and debt service payments are due April 1 for principal and interest, and Oct. 1 for interest only. The state follows a biennial budget cycle with a fiscal year-end June 30. Once the General Assembly makes the appropriations, the obligation to make lease payments is absolute and unconditional. There are no abatement provisions under the lease agreement. While there are no debt service reserve funds established for the lease appropriation bonds, the timing of lease-rental and debt service payments, coupled with the state's history managing appropriations for debt service, helps mitigate risks regarding late budget adoption, in our opinion.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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