

RatingsDirect®

Summary:

Ohio; Federal or State Grant Programs

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Credit Profile

US\$122.355 mil major new st infrastructure proj rev bnds ser 2024-1 due 12/15/2036

<i>Long Term Rating</i>	AA+/Stable	New
Ohio grant		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Ohio grant		
<i>Long Term Rating</i>	AA+/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating on the State of Ohio's grant anticipation revenue vehicle (GARVEE) bonds to 'AA+' from 'AA.'
- At the same time, we assigned our 'AA+' long-term rating to the State of Ohio's approximately \$122.4 million major new state infrastructure project revenue bonds, series 2024-1.
- The outlook is stable.
- The upgrade reflects our expectation that pro forma maximum annual debt service (MADS) coverage will remain very strong. It also reflects Ohio's demonstrated history of maintaining an adequate level of lawfully available funds that we expect will remain sufficient to pay debt service if there were a disruption or reduction to Federal Title 23 Highway Fund receipts.

Security

Ohio's series 2024-1 bonds and GARVEE bonds outstanding 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.

Other lawfully available funds, which represent previous year unused state appropriations to the highway operating fund provide additional security to Ohio's GARVEE bonds. There is no debt service reserve fund for the series 2024-1 bonds or other GARVEE bonds outstanding.

Proceeds from the series 2024-1 bonds will finance various highway and bridge projects within the state.

Credit overview

The 'AA+' rating reflects our view of very strong projected debt service coverage (DSC) based on historical and pro forma, federal grant receipts and lawfully available funds, and good bond provisions that remain consistent with those

of peer. 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. Although the additional ODOT pledge is subordinate to the department's other obligations, we view this added pledge as a credit strength given its consistent historical and projected availability.

Pro forma MADS coverage, incorporating the proposed series 2024-1 issuance and the states existing GARVEE bonds outstanding, is 10.9x based on fiscal 2023 federal reimbursements alone, or 15.6x including fiscal 2023 lawfully available funds. Lawfully available funds increased 18% in 2023 to \$671 million. ODOT is not required to maintain minimum balances of other lawfully available funds, however, budget officials anticipate that through bond maturity, lawfully available funds will range from \$431.7-\$510.9 million. We view the projections as reasonable provided historical collection levels. Pro forma MADS equals \$143.6 million and occurs in 2025.

Over the last three audited fiscal years (2021-2023), MADS coverage ranged from 9.3x-10.9x based on actual federal reimbursements. When adding in lawfully available funds, MADS coverage improved to 13.3-15.6x for the same period.

Ohio is a relatively frequent GARVEE bond issuer, with the series 2024-1 bonds being the 22nd series of bonds issued under the original trust agreement. 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.

Key credit strengths, in our opinion, are the state's:

- Very strong pro forma MADS of approximately 10.9x based on actual fiscal 2023 federal reimbursements and 15.6x including lawfully available funds. We expect MADS coverage will remain very strong despite additional borrowing plans.
- A strong 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,
- 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.

The credit strengths above, are somewhat offset by 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.

GARVEE ratings that we maintain assume that the supportive legislative framework and congressional appropriations will continue through the enactment of multiyear authorizations or ongoing temporary extensions. We apply our "Federal Future Flow Securitization" criteria (published March 17, 2017) to determine the highest possible rating relative to the U.S. debt rating. Our application of such criteria on Ohio's GARVEE-only program resulted in an overall

score of '1.2.', indicating that the highest possible rating is 'AA', one notch below the U.S. sovereign rating.

We also apply our "Methodology And Assumptions: Rating U.S. Federal Transportation Grant-Secured Obligations" criteria (published May 29, 2009), which allows ratings higher than indicated by the FFF criteria to backstopped GARVEES depending on the nature of the additional revenue stream. We expect Ohio will continually maintain an adequate level of lawfully available funds sufficient to pay debt service if there were a disruption or reduction to Federal Title 23 Highway Fund receipts, and therefore, we rate the bonds one notch above the rating established under the FFF criteria.

Outlook

The stable outlook reflects our expectation that ODOT will continue to receive its share of annual Title 23 distributions under the longstanding FAHP, federal reimbursement revenue will continue to provide very strong MADS coverage on the state's GARVEE debt, and the state will continue to maintain a sufficient level of lawfully available funds.

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, or if other lawfully available funds significantly decline, and we no longer believe they could support the GARVEE programs debt service.

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.

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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