

Rating Action: Moody's assigns Aa2 to Ohio's Major New State Infrastructure Project Revenue Bonds, Series 2019-1; outlook stable

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New York, November 19, 2019 -- Moody's Investors Service has assigned a Aa2 rating to the State of Ohio's \$182 million Major New State Infrastructure Project Revenue Bonds, Series 2019-1. The outlook is stable.

RATINGS RATIONALE

The Aa2 rating on the bonds, also known as GARVEE bonds, is based on pledged revenues generated from a very broad, national tax base, a strong 5x additional bonds test, ample debt service coverage and a covenant to appropriate from other available transportation revenues if pledged revenues are insufficient. The credit profile also incorporates the subject-to-appropriation nature of the pledged revenues and federal reauthorization risk.

RATING OUTLOOK

The rating outlook for Ohio's Major New State Infrastructure Project Revenue Bonds is stable, based on our expectation that federal funding will remain stable through the Fixing America's Surface Transportation Act (FAST Act) authorization, and that the program's covenant to appropriate from other available transportation revenues will limit future risks of funding disruption caused by either a lapse in program authorization or depletion of the federal Highway Trust Fund (HTF) over the medium term.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Removal of requirement for biennial legislative appropriation of pledged revenue
- Other structural enhancements

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Large, sustained decrease in the amount of other available transportation funds available to the ODOT for GARVEE debt service
- Discontinuation of or reduction in federal transportation grant program, or a 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. While no other state resources are pledged as a backup to the federal reimbursements, 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. Such other funds in fiscal 2019 amounted to \$356 million on an available cash basis.

The risk of federal funding interruption is also mitigated by ODOT's practice of fully funding the debt service account with state motor-fuel tax receipts early in the state fiscal year, well in advance of the debt service dates. Under an agreement between the state treasurer and the director of ODOT, ODOT cannot use federal highway aid for other purposes in the course of a federal fiscal year until it has first paid the annual debt

service on all outstanding GARVEEs. As a result, ODOT typically funds the full GARVEE debt service requirement in August, several months prior to the December 15 debt service date. The typical timing for a direct GARVEE would be to request federal reimbursement several days before debt service is due, which is mid-way through the state's fiscal year. By prefunding debt service with state revenues, ODOT can satisfy the requirement that GARVEE debt service be paid first, and begin requesting federal reimbursement for projects early in the state fiscal year.

As previously noted, payment of Title 23 funds is subject to biennial appropriation by the state legislature, a feature that is not common among GARVEE programs in other states. Ohio state law broadly prohibits agencies from spending without appropriations. Moody's views the risk of non-appropriation of funds for debt service as remote, especially in view of the requirement that debt service on the securities be provided for prior to any other uses. In addition, ODOT and the state have a long history of timely budget adoption, and the interest and principal payment dates on the bonds, June 15 and December 15, are far removed from the July 1 start of the state's fiscal biennium, offsetting risk of default caused by late budget adoption.

USE OF PROCEEDS

Bond proceeds, which will amount to an estimated \$220 million (reflecting bonds sold at a premium to their face amounts) 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 July 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Baye Larsen
Lead Analyst
State Ratings

Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Emily Raimes
Additional Contact
State Ratings
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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