S&P Global
Ratings

RatingsDirect®

Summary:

State of Ohio; Federal or State Grant Programs

Primary Credit Analyst:
Kenneth P Biddison, Centennial + 1 (303) 721 4321; kenneth.biddison@spglobal.com

Secondary Contact:
Joseph J Pezzimenti, New York (1) 212-438-2038; joseph.pezzimenti@spglobal.com

Table Of Contents

Summary:

State of Ohio; Federal or State Grant Programs

Credit Profile		
US$182.015 mil major new st infrastructure proj rev bnds ser 2019-1 due 12/15/2031		
Long Term Rating	AA/Stable	New
Ohio fed or st grant progs		
Long Term Rating	AA/Stable	Affirmed
Ohio (Major New State Infra Proj) fed or st grant progs		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to the state of Ohio's proposed $182.02 million series 2019-1 grant anticipation revenue vehicle (GARVEE) bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the state's GARVEE bonds outstanding. The outlook is stable.

Securing the GARVEE bonds is a pledge of the state's share of federal Title 23 highway funds, as apportioned and distributed by the Federal Highway Administration (FHWA) under the Federal Aid Highway Program. An additional pledge of state transportation funds that are unspent and available at fiscal year-end provides added security to the bonds. The added state funds pledge is subordinate and subject to availability on an annual basis.

The rating reflects our assessment of the following credit strengths:

- Pro forma maximum annual debt service (MADS) coverage that we expect to exceed 7x;
- A covenant by the Ohio Department of Transportation (ODOT) to replace any deficiencies in the pledged federal highway receipts with its lawfully available funds;
- Sound bond provisions, including an additional bonds test requiring that the average FHWA receipts that ODOT received during the three previous fiscal years equal 5.0x MADS on the state's outstanding and proposed GARVEE bonds; and
- The state's demonstrated track record of 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.

Factors tempering the above-mentioned credit strengths include:

- As with most grant anticipation revenue programs that the FHWA revenues back, the possibility of decreases in pledged revenues due to declines in revenues available for distribution from the Federal Highway Trust Fund (HTF), or in the amounts appropriated by Congress; changes to the federal aid program; or delays in congressional approval; and
- The possibility of a decrease in available ODOT funds that provide back-up support to debt service requirements,

since the additional funds are subordinate to and net of the entity's other expenditures.

The state's GARVEE bonds finance projects included within ODOT's Statewide Transportation Improvement Plan (STIP), which officials submit to the U.S. Department of Transportation. A first lien on Title 23 FWHA reimbursements delivered to ODOT is the primary source of security for the state's GARVEE bonds. On receipt, ODOT deposits the funds required to pay debt service in the State Infrastructure Bank. The state legislature appropriates the funds to pay debt service on a biennial basis.

ODOT technically funds its GARVEE bond debt service requirements in advance, depositing motor vehicle fuel tax revenues with the state treasurer in the federal fiscal year preceding that in which each scheduled debt service payment is due. Similar to most GARVEE bond programs, the GARVEE bonds outstanding do not benefit from the added security of a debt service reserve (DSR) fund, although we do not consider this a credit risk. The Ohio GARVEE program is not exposed to interest-rate swaps or variable-rate debt, and the program has no direct-purchase debt outstanding.

An additional security pledge requires ODOT to apply other lawfully available money in an amount sufficient to meet the state's GARVEE bond debt service requirements, if FHWA receipts are insufficient to cover debt service. Funds that are appropriated by the state for a given fiscal year but are not spent by the department for other purposes constitute the other available funds, providing added security to the state's GARVEE bonds. In our view, although the additional ODOT pledge is subordinate to the department's other obligations, the pledge provides a material degree of additional security for bondholders.

The state has historically maximized available federal support to fund its GARVEE program. Furthermore, it has demonstrated success in receiving additional funding under FHWA's annual redistribution of other states' unused obligation authority. Actual Title 23 receipts reported by the state often exceed its appropriated funds and/or its obligated authority. In our view, Ohio's proactive management of its STIP and its track record of maximizing available federal funding indicate a well-managed state GARVEE program.

Supported by the state's receipt of obligated federal funds unspent by other states, Ohio's GARVEE program demonstrates very strong MADS coverage based on actual federal reimbursements. Over the past five fiscal years, this metric ranged between 7.6x and 8.6x. Including ODOT's surplus cash available to pay debt service (the amount appropriated but not spent by fiscal year-end), MADS coverage was an even stronger 9.6x-11.0x over that same period. MADS coverage from obligated authority was 8.4x in fiscal 2019, improving from 8.2x in fiscal 2018. In our view, these metrics reflect the state's very strong ability to cover its GARVEE bond debt service obligations.

The state is a relatively frequent GARVEE bond issuer, with 17 issuances over the course of the program's approximately 20-year history. Ohio has approximately $852 million in GARVEE bonds outstanding prior to the proposed series 2019-1 issuance.

The rating on these GARVEE bonds, like all other GARVEE ratings we maintain, assumes that the supportive legislative framework and congressional appropriations funding transportation grant programs will continue into the future through the enactment of multiyear authorizations or continuing temporary extensions. This assumption is based 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.

The current federal highway transportation legislation, Fixing America's Surface Transportation (FAST) Act, took effect Dec. 4, 2015, and authorizes federal funding through federal fiscal 2020. We believe the FAST Act generally supports the sector's credit quality due to a longer period of funding certainty and increased funding levels. The multiyear legislation provides approximately $230 billion for highways, $60 billion for public transportation, $10 billion for passenger rail, and $5 billion for highway safety programs. This is an approximately 11% increase from previous funding levels over a five-year period extending through federal fiscal 2020.

Furthermore, FAST provided a 5.1% increase in highway fund distributions to states for fiscal 2016, and growth rates of 2.1%-2.4% thereafter. Previous funding growth rates were lower, and until the FAST Act, S&P Global Ratings had cited federal budget deficits as a credit risk affecting highway funding levels.

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 in this sector on the issuer's pledge of the HTF grants from the federal government. Overall, we believe the FAST Act's signing confirmed our views of ongoing and widespread congressional support for preserving and expanding the national highway system. States and local transportation agencies that receive distributions from the HTF can confidently move forward with complex multiyear transportation projects because the questions surrounding federal funding no longer loom. Nevertheless, we carefully evaluate the risks to state programs that leverage these funds, including the timing of receipts, level of funding, and erosion in dollars either due to lower authorized or appropriated levels or programmatic changes that hurt recipients. We will continue to monitor the sector to evaluate how each individual state issuer might adjust its debt or capital spending plans, given the new law.

Although reauthorization risk cannot be completely eliminated, it has been minimized through conservative financial structures inherent in all rated GARVEE transactions, which have resulted in the relatively high ratings on these transactions. This includes the use of back-up credit support, DSRs, robust debt service coverage levels, shorter final maturities, and restrictive additional debt provisions. In addition, many non-quantitative credit factors influence the rating, such as funding mechanics and timing; evaluation of state processes for managing and administering the program; history of federal receipts and volatility; each state's donor status, underlying economy, and transportation needs; and each state's respective political representation and congressional influence.

Outlook

The stable outlook indicates that we do not expect to change the rating during the two-year outlook period, because we expect that Ohio's obligation authority will remain stable, the state will continue to seek Title 23 reimbursements for its eligible project expenses, and its MADS coverage will not materially erode as a result of its additional planned GARVEE bond issuances.

Upside scenario

Although we do not expect to raise the rating during the outlook period, given our expectation that coverage metrics will remain in line with historical levels as the state issues additional GARVEE bonds, if MADS coverage improves materially to levels we believe are sustainable, we could consider raising the rating.

Downside scenario

We do not expect to lower the rating. However, if MADS coverage based on Title 23 reimbursements unexpectedly and materially declines, we could lower the rating.