

# RatingsDirect®

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**Summary:**

## Ohio

### Ohio Enterprise Bond Fund; State Revolving Funds/ Pools; Water/Sewer

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## Summary:

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## Ohio Enterprise Bond Fund; State Revolving Funds/ Pools; Water/Sewer

### Credit Profile

US\$13.775 mil state econ dev rev bnds (federally taxable) (Ohio Enterprise Bond Fund) ser 2022-1 due 06/01/2045

<i>Long Term Rating</i>	AA+/Stable	New
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#### State of Ohio, Ohio

Ohio Enterprise Bnd Fd, Ohio

Ohio (Ohio Enterprise Bnd Fd) state revolv/fnds pool

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Ohio (Ohio Enterprise Bnd Fd) ws

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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## Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the State of Ohio's \$13.8 million series 2022-1 state economic development revenue bonds issued for the Ohio Enterprise Bond Fund (OEBF). At the same time, we affirmed our 'AA+' long-term rating on the OEBF's outstanding revenue bonds. After this issuance, the fund will have approximately \$106 million in bonds outstanding for 17 projects. The outlook is stable.

Security for bonds issued under the OEBF is provided by the following sources, in the following order:

- Loan payments received from loans under the OEBF program;
- Funds deposited into the collateral fund, primarily as a result of prepayments and proceeds from asset sales by a defaulting OEBF borrower causing the draw on this reserve fund to occur;
- Funds deposited into the primary reserve by an OEBF borrower causing the draw on this reserve fund to occur (typically 10% of the original loan amount);
- Principal and interest payments collected from direct loans under the Chapter 166 program, with the indenture requiring them to be held as pledged revenue for at least six to 12 months after collection, then with 50% transferred to the Future 166 Loan Account and the rest released from the security pledge for OEBF bonds;
- Program reserve funds, totaling \$10.9 million;
- Remaining funds in the primary reserve, drawn on a pro rata basis from the remaining borrower account balances;
- Remaining funds in the collateral fund, drawn on a pro rata basis from the remaining borrower account balances; and
- Any funds held in the Future 166 Loan Account.

Proceeds of the series 2022-1 bonds will be used to provide a loan to the Jeffrey Place New Community Authority for the construction of a parking garage in the Jeffrey Park Mixed-Use Development Project.

### **Credit overview**

The ratings reflect our assessment of the program's:

- Very strong enterprise risk profile, given that the pool is managed by a nonprofit, nonstock public corporation and the loan program has no geographic concentration; and
- Extremely strong financial risk profile, reflecting its loss coverage score (LCS), operating performance, and financial policies.

The stable outlook reflects our expectation that overcollateralization will remain consistent with the rating, and that the other program features will not deviate from historical trends and practices.

## **Stable Outlook**

### **Upside scenario**

Despite the strength of the program's overcollateralization, we believe that the supporting loan portfolios, which rely primarily on higher-risk corporate loans, constrain the rating. We could raise the rating if our view on the enterprise risk profile becomes more positive, although we view this as unlikely, absent statutory changes to the program that would improve the market position score.

### **Downside scenario**

We believe the most likely (though not anticipated) factor that could pressure the rating or outlook would be a significant increase in defaults or delinquencies in either the bond program or the Chapter 166 Loan Program. Although less likely given the creation of the Future 166 Loan Account and the new additional bonds test, a significant increase in primary reserves held as letters of credit (LOCs) or the amount of OEBF bonds relative to the amount of Chapter 166 loans outstanding could also pressure the rating.

## **Credit Opinion**

We view the program's enterprise risk profile as very strong given a combination of the low industry risk profile for municipal pools and our view of the program's market position, which we consider strong. The OEBF serves as an economic development program to aid businesses in the state and was authorized in 1980 under Chapter 166 of the Ohio Revised Code. The Ohio director of the Department of Development manages OEBF and direct loans under the same chapter. However, excess loan revenue collected under the Chapter 166 program is eventually released from the security pledge (provided that all debt service payments are current).

We view the program's financial risk profile as extremely strong, based on a combination of the LCS, historical operating performance, and our view of management policies.

We consider the program's LCS extremely strong. Overcollateralization available to cure loan defaults arises from

Chapter 166 loan revenue (\$229 million in principal and interest outstanding as of Dec. 31, 2021, for 50 loans) and pledged reserves totaling \$25.5 million (24% of OEBF bonds outstanding) in the primary and program reserve funds (excluding additional project reserves available only to cure defaults on a particular series). If, after accounting for defaults, we project an excess of Chapter 166 loan revenue in any given year, we consider such revenue available to pay debt service in the next. The reason is that the indenture requires such revenue to be held for only six to 12 months, after which the revenue can be released from the indenture. Thereafter, 50% of excess collections are transferred to the Future Chapter 166 Loan Account, which may be used to pay debt service at the end of the flow of funds as well as to make future Chapter 166 Loans. The reserves consist of money market funds, cash reserves, eligible investments as defined under the indenture, and LOCs. Our default modeling also includes a weighted-average recovery of defaulted loan revenue.

We consider the program's operating performance score moderate. Given the nature of the Chapter 166 loan portfolios, at least several loans are typically delinquent or in default at any time. Officials report no delinquencies in the Chapter 166 portfolio, but we note that such delinquencies have occurred within the past few years.

Averaging all of the financial policies and practices, we view the corpus as adequate. We based our assessment on the following factors:

- Under the authorizing legislation, the director must consider various underwriting criteria, including economic development effects, project costs, and the needs of the company seeking financing. However, there is also wide latitude as to which projects are ultimately approved, what the security granted will be, and how creditworthiness is to be assessed.
- A dedicated staff monitors financial statements and compliance with loan terms, but the financial disclosure requirements vary depending on the project type and loan size. Management reports ongoing efforts to improve monitoring, enhance standards for financial statement submissions, and assess the risk posed by outstanding loans.
- Loan payments are made monthly, and the flow of funds directs the trustee to draw or replenish various funds in a specific order. Because all of the OEBF borrowers are corporate, defaults and delinquencies are handled differently depending on the circumstances.
- Management prioritizes projects as loan demand develops.
- The general indenture allows for funds to be invested in several investments in compliance with state statutes, although actual investment practices have been generally limited to cash, money market funds, U.S. Treasury obligations, and LOCs.
- Based on these enterprise and financial risk profiles, the indicative rating is 'AA+'. The final 'AA+' rating is equal to the indicative rating because we have made no overriding adjustments.

### **Program characteristics and bond provisions**

Although most pledged loans consist of those made to unrated corporate borrowers, most often the trustee holds a first mortgage and security interest in land, buildings, or equipment, depending on the asset financed with the loan. This feature, in our view, provides further security to bondholders; any cash generated from these asset sales is pledged revenue and available to restore reserve balances or cure any loan defaults.

Cash flows are structured for loan repayments to borrowers under the OEBF program to be equal to debt service on

OEBF bonds issued to finance the loans. Chapter 166 loan repayments provide excess annual cash flow, creating a greater financial cushion, in our view. Loans repaid under the Chapter 166 program accrue to pledged funds for at least six to 12 months, before being released (50%) or being transferred to the Future 166 Loan Account (50%). The program has further added an additional bonds test whereby revenue from bonds, outstanding Chapter 166 loans, and projected revenue from future loans made from the Future Chapter 166 Loan Account must cover projected bond debt service by 125%.

When OEBF and Chapter 166 loan revenue are combined, coverage of annual debt service exceeds 1.6x in every year that bonds remain outstanding. Chapter 166 Loan repayments extend beyond the life of the bonds without annual debt service payments. We view the available program reserve as sufficient to cure defaults throughout the life of the bonds.

## **Related Research**

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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