MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 and Aa2/VMIG 1 to Ohio's Capital Facilities Lease-Appropriation Bonds; outlook stable

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New York, March 23, 2021 -- Moody's Investors Service has assigned a Aa2 rating to the State of Ohio's $57 million Capital Facilities Lease-Appropriation Bonds, Series 2021A (Adult Correctional Building Fund Projects) and a Aa2/VMIG 1 rating to the $57 million Capital Facilities Lease-Appropriation Variable Rate Bonds, Series 2021B (Adult Correctional Building Fund Projects). The outlook is stable.

RATINGS RATIONALE

The Aa2 rating on the lease-appropriation bonds is one notch below the state's general obligation rating, reflecting a moderate legal structure that includes the need for biennial legislative appropriation of lease payments and the more essential nature of the various projects financed. There are no bondholder remedies in the event of non-appropriation, however the state has very strong incentive to appropriate, given the importance of maintaining continued market access for subject-to-appropriation lease debt.

The highest short-term ratings of VMIG 1 on the state's appropriation-backed variable rate demand bonds reflect the State of Ohio's high long-term credit quality (Aa1 stable) and the strength of the state treasury's commitment to support unremarketed tenders with substantial, highly liquid balances available for this purpose. Ample balances are also supported by a sophisticated, dedicated Treasury staff with well-developed procedures in place to monitor the remarketing process and liquidate investment assets as necessary to provide sufficient funds to purchase unremarketed bonds.

The Aa1 general obligation rating is based on the state's strong budgetary and financial management, sound reserve levels, and affordable fixed costs associated with below-average long-term debt, pension and retiree healthcare (OPEB) liabilities. These strengths are offset by below-average economic growth, compounded by weak demographic trends.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the State of Ohio. If our view of the credit quality of the State of Ohio changes, we will update the rating and/or outlook at that time.

RATING OUTLOOK

The short-term rating does not carry an outlook.

The stable outlook is based on our expectation that the state's proactive financial management, low fixed costs, fully funded rainy day fund and substantial available liquidity will continue to support satisfactory budget flexibility during the significant economic disruption related to the coronavirus outbreak.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

For the appropriation bonds:

- An upgrade of the state

For the short-term rating:

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

For the appropriation bonds:

- A downgrade of the state

For the short-term rating:

- Significant deterioration in the state Treasury's liquid assets or increase in liabilities that reduces liquidity coverage below 1x, and/or evidence of weak management of unremarketed tenders

LEGAL SECURITY

The capital facilities lease-appropriation bonds are secured by lease-purchase agreements with the Department of Rehabilitation and Correction (DRC), as lessee, and the Ohio Public Facilities Commission, as lessor, subject to annual appropriation. Debt service is payable from base rental payments, which are assigned and remitted directly to the trustee.

The leases stipulate that the obligation to make lease payments is absolute and unconditional, contingent only upon the appropriation of funds by the legislature, and not on whether the financed projects are in use. Debt service payment dates rely on appropriations enacted every other year and are far enough removed from the July 1 start of the state's fiscal biennium to limit risk of non-appropriation due to late budget adoption.

Pursuant to the leases, the DRC is required to include the lease payments in its biennial budget request to the Office of Budget and Management. There are no debt service reserve funds associated with these bonds, and there are no bondholder remedies in case of default due to non-appropriation. In the event of non-appropriation, the leases would terminate. The importance of maintaining continued market access for subject-to-appropriation lease debt, in general, provides a strong incentive to continue making timely appropriations.

The liquidity for the demand feature of the variable rate bonds is provided by the state of Ohio's daily investments, managed by the Treasury Department. The state has covenanted in the bond resolutions to provide liquidity to purchase the bonds in the event that tendered securities cannot be fully remarketed. Although the covenant on the state's outstanding VRDO general obligation bonds is absolute and unconditional, the state is not required to purchase unremarketed appropriation bonds in the event of non-appropriation or an event of default on regularly scheduled debt service. All the outstanding VRDO, including the Series 2021B bonds, are in a weekly rate mode, and KeyBanc Capital Markets Inc. will be the remarketing agent for the current offering.

The state treasury will hold the securities until they can be successfully remarketed. The state has never had a failed remarketing, and maintains clearly articulated process documents and has successfully implemented its liquidity support procedures.

The liquidity for the state's commitment to purchase program participants' unremarketed variable rate demand bonds is provided by the state of Ohio's daily and weekly investments, managed by the Treasury Department. Treasury's investment policies are established in Ohio Revised Code 135.143.

The state has well-organized staff and clearly-articulated policies and procedures for monitoring the VRDO portfolio and potential liquidity calls. The state receives notices of tender 7 days prior to the purchase date for bonds in the weekly mode, and at least one day prior to the purchase date for bonds in the Alternative Trading System Mode (the Series 2016 bonds). With this timing, the state is prepared to begin liquidating assets the evening before the purchase date, and have sufficient funds available well in advance of the deadline on the purchase date. The state has never had a failed remarketing, but has successfully implemented its liquidity support procedures.

After the current offering, Ohio will have $490.1 million of variable-rate demand debt outstanding (or 3% of total debt), for which it maintains an internal liquidity program for unremarketed bonds, including $75 million supported through the State Liquidity Program (more below). The short-term ratings on these bonds are VMIG 1, reflecting the state's strong management of available liquid resources.

As of February 2021, Ohio had $5.9 billion of daily assets available to support the bonds, on a discounted basis, which provides 7.3x coverage of potential liabilities, including OMAP and the State Liquidity Program (more below). Assets are very liquid (66% in money market funds, checking accounts, and treasuries with less than 2-year maturities) and are exclusively state-owned, including the $2.7 billion budget stabilization fund (BSF). Assets do not include the local government investment pool which is also managed by the state treasury department.

The state treasury also has potential liabilities to liquidity programs that the state treasury offers through its Ohio Market Access Program (OMAP) and its Ohio Liquidity Program (OLP; P-1 issuer rating). Through OMAP, the Ohio treasury provides back-up liquidity to qualified local governments that have issued bond anticipation notes (BANs). The program authorization is capped at $300 million, and as of February 26, 2021, there were $191 million of BANs outstanding.

Through OLP, the treasury also provides liquidity to VRDB of qualified governmental issuers that have entered into standby bond purchase agreements with the state. The program currently covers $75 million of outstanding bonds. The state does detailed credit analysis and monitoring of participants in both programs and has never had a liquidity call related to either. All VRDO that is being supported by the Ohio Treasury is in a weekly mode.

USE OF PROCEEDS

Proceeds of the Series 2021A and Series 2021B will finance capital projects for the DRC.

PROFILE

Ohio has a population of 11.7 million, located in the Midwest region of the US with 312 miles of shoreline along Lake Erie, according to NOAA. The state is the seventh-largest US state by population, and has a large, diverse economy that is the seventh largest among the states.

METHODOLOGY

The principal methodology used in the long-term ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260202 . The principal methodology used in the short-term rating was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1210749 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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