



## Fitch Rates Ohio's \$189MM GO Bonds 'AA+'; Outlook Stable

Fitch Ratings-New York-15 November 2018: Fitch Ratings has assigned a 'AA+' rating to the following state of Ohio general obligation (GO) bonds:

--\$188.795 million highway capital improvements bonds, series V (full faith and credit/highway user receipts).

The bonds are expected to be sold via negotiation on or around Nov. 28, 2018.

The Rating Outlook is Stable.

### SECURITY

General obligation, full faith and credit of the state of Ohio, excluding lottery proceeds. Highway user receipts are also pledged to payment of the bonds.

### ANALYTICAL CONCLUSION

The state's 'AA+' Issuer Default Rating (IDR) and GO rating is based on its careful financial management including recent rebuilding of reserves, ongoing record of maintaining fiscal balance, and low liabilities. Ohio's economy is demonstrating slow but steady growth after steep declines during the Great Recession, which compounded losses related to retraction nationally and locally in manufacturing. Sustained growth may be limited by Ohio's very slowly growing population.

### Economic Resource Base

Ohio's economy is large and diverse, with distinct economic regions centered on several large urban centers. Manufacturing remains a disproportionately large sector with a concentration in more cyclically sensitive durable goods industries. Transportation equipment and related suppliers also have a strong presence. Economic growth has begun to pick up, with GDP growth and median household income trending higher.

### KEY RATING DRIVERS

#### Revenue Framework: 'aa'

Like most states, Ohio maintains unlimited legal ability to raise operating revenues. Its revenue base is diverse and relies on broad-based income and sales taxes. Tax policy changes pursued over the past several biennia have been manageable, aided by favorable economic and fiscal trends.

#### Expenditure Framework: 'aaa'

Ohio retains ample flexibility to cut spending throughout the economic cycle. As in most states, the natural pace of spending growth is likely to be somewhat above revenue growth, requiring ongoing budget management. Carrying costs for debt and retiree benefits are below the median for states. Spending pressure in Medicaid and education appears to be well controlled.

#### Long-Term Liability Burden: 'aaa'

Debt is typically conservatively managed and primarily consists of GOs. On a combined basis, outstanding debt and pension obligations are low and an average burden on the state.

#### Operating Performance: 'aaa'

The state generally has a careful approach to financial operations and has consistently managed to achieve budgetary balance. In recent years, the state has relied more on budget reductions than revenue enhancements to balance the budget and also utilized several one-time sources during the recession. The state's budget stabilization fund (BSF) has been restored after being drawn down during the recession and now totals \$2.7 billion, or 8.3% of GRF revenues.

#### RATING SENSITIVITIES

Ohio's IDR is sensitive to shifts in fundamental credit characteristics, including sustained economic growth that improves expectations for revenue growth, and to maintaining fiscal balance in light of ongoing efforts to reduce the tax burden.

#### CREDIT PROFILE

The rating on the GO/highway bonds is based on the strength of the GO pledge and the rating is capped at the state's IDR as constitutional and statutory language do not create a framework that clearly distinguishes highway user receipts from operations of the state.

The state constitution limits uses of motor vehicle license, registration and fuel taxes to permitted costs related to transportation, including: payment of highway obligations; costs for construction and reconstruction; maintenance and repair of public highways and bridges and other statutory highway purposes; the expense of state enforcement of traffic laws; and expenditures authorized for hospitalization of indigent persons injured in motor vehicle accidents on the public highways. There is no additional bonds test; however, the state constitution limits outstanding highway capital improvement bonds to \$1.2 billion.

The bonds are being issued to finance highway capital improvements.

For more information on Ohio's IDR, see "Fitch Rates Ohio's \$162MM GO Bonds 'AA+'; Outlook Stable" dated Oct. 15, 2018.

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Date of Relevant Rating Committee: Oct. 15, 2018

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

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### **Applicable Criteria**

U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)  
(<https://www.fitchratings.com/site/re/10024656>)

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