S&P Global
Ratings

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Summary:
Ohio State Treasurer
State of Ohio; Appropriations; General Obligation

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Credit Profile		
US$58.815 mil cap facs lse-approp rfdg bnds (federally taxable) (Administrative Bldg Fd Projs) ser 2020D due 10/01/2036		
Long Term Rating	AA/Stable	New
US$57.0 mil cap facs lse-approp variable rate bnds (Parks & Recreation Improvement Fund Projs) ser 2020B due 12/01/2040		
Long Term Rating	AA/A-1+/Stable	New
US$56.31 mil cap facs lse-approp bnds (tax-exempt) (Parks & Recreation Improvement Fund Projs) ser 2020A due 12/01/2032		
Long Term Rating	AA/Stable	New
Ohio GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to the Ohio State Treasurer's $56.31 million capital facilities lease-appropriation bonds (parks and recreation improvement fund projects), series 2020A (fixed-rate, tax-exempt), and $58.815 million capital facilities lease-appropriation refunding bonds (administrative building fund projects, series 2020D (fixed-rate, federally taxable), issued on behalf of the State of Ohio.

At the same time, we assigned our 'AA/A-1+' dual rating to the State Treasurer of Ohio's $57 million capital facilities lease-appropriation variable rate bonds (parks and recreation improvement fund projects).

S&P Global Ratings also affirmed its 'AA+' long-term rating on the state's GO bonds, its 'AA' rating on Ohio's appropriation-backed (capital facilities lease-appropriation bonds and certificates of participation) debt outstanding, and its 'AA-' rating on the state's tax credit bonds, issued by the Columbus-Franklin County Finance Authority.

The outlook on all long-term ratings is stable.

In addition, we affirmed our 'A-1+' short-term rating on the state's variable-rate demand obligations (VRDOs) outstanding, reflecting the short-term self-liquidity component of our 'AA+/A-1+' dual rating on the GO debt outstanding, and our 'AA/A-1+' dual rating on existing lease-appropriation debt.

Security and use of proceeds

Lease-rental payments and other pledged receipts (subject to biennial appropriation) received by the Ohio Public Facilities Commission (OPFC) from the state's Department of Natural Resources (DNR), in accordance with trust indenture and supplemental lease agreements between DNR (the lessee) and OPFC (the lessor), secure the series 2020A and series 2020B bonds. Lease-rental payments and other pledged receipts (subject to biennial appropriation) received by the OPFC from the state's Department of Administrative Services (DAS), in accordance with trust indenture and supplemental lease agreements between DAS (the lessee) and OPFC (the lessor), secure the series

2020D refunding bonds. We rate these obligations one notch lower than Ohio's general creditworthiness, as reflected in the state GO rating (AA+/Stable).

The state will use a portion of the proceeds from the series 2020A to refund bonds previous issued to pay costs of capital facilities leased to the DNR, and series 2020B bonds to finance the cost of various capital facilities that will be leased to the DNR. Proceeds from the series 2020D bonds will be issued to advance refund bonds previously issued to pay costs of capital facilities that are leased to the DAS.

Credit overview

The one-notch differential for the state's capital facilities lease-appropriation debt reflects appropriation risk associated with annual debt service payments. We view these bonds as having a strong relationship to the obligor. Ohio pledges to biennially appropriate sufficient funds to the DAS and DNR from its operating revenues to make lease-rental payments, and it has a long track record of appropriating for similar obligations. In our opinion, there is no unusual political, timing, or administrative risk related to the debt payment.

The series 2020B bonds mature Dec. 1 2040, and the state will enter into a remarketing agreement with Barclays Capital, Inc., as the initial remarketing agent. Debt service payments for the series 2020B variable-rate bonds are due on Dec. 1 for principal and interest, and June 1 for interest only. With at least 25 days' written notice to bondholders prior to the purchase date, these bonds are subject to mandatory tender upon conversion from the current weekly interest rate period to another period, or upon the provision of a substitute liquidity facility. In the event of a failed remarketing of the bonds, the maximum interest rate cannot exceed the lower of 9% or the maximum interest rate permitted by Ohio law.

The long- and short-term ratings on the state's VRDOs reflect S&P Global Ratings view of both the ample self-liquidity and sufficient assets pledged by the State Treasurer of Ohio to cover the $398.78 million of VRDOs (or approximately 3% of direct debt outstanding). In our view, the risk of higher interest costs under the maximum interest rate is mitigated by the relatively small amount of variable-rate debt compared with both Ohio's overall debt profile and the state's sufficient liquidity to absorb higher interest rate costs on the bonds for the duration of the interest rate period. In addition, Ohio's clear and detailed liquidation procedures indicate a strong likelihood to guarantee full and timely purchase price of the bonds tendered when due, as the portfolio's duration is maintained at less than one year and is typically managed to a weighted-average maturity of 90 days or less. The liquidity fund alone had $7.99 billion (market value) of short-term assets with same-day liquidity as of June 30, 2020 and total assets of $9.98 billion. The liquidity account is invested in a diversified portfolio of cash and high-quality, short-term, fixed-income securities ('A' or better long-term ratings, and 'A-1/P-1' short-term ratings), primarily consisting of U.S. treasury and agency securities, high-grade U.S. corporate notes and commercial paper, and money market funds rated 'AA' or better. S&P Global Ratings Fund Ratings And Evaluations Group regularly monitors the credit quality, liquidity, and sufficiency of the treasurer-pledged assets.

Therefore, the 'AA' long-term rating on both the fixed- and variable-rate capital facilities lease-appropriation bonds reflects our view of:

- The strong contractual provisions of the master lease structure securing the lease appropriation bonds, including an absolute and unconditional payment provision once funds are appropriated;

- The state's longstanding and demonstrated commitment, within both the administrative and legislative branches, to allocate sufficient funds biennially to support appropriation-backed obligations; and
- The importance of appropriation debt to Ohio's overall capital bonding structure.

While the uncertainty of public health, economic, and financial risks that lie ahead for Ohio will likely depend on the depth and duration of the COVID-19 pandemic, the state's historically strong government framework and disciplined budgetary management have become increasingly important for Ohio to manage liquidity and mitigate budget pressures in an uncertain economic and operating environment. We believe the state's proactive expenditure adjustments to stabilize and balance the fiscal 2020 budget at year-end, coupled with its preservation of very strong reserves and internal liquidity underpin the stable outlook, place it in a firm financial position to address COVID-19 related social risks relative to other states as it enters the second year of its fiscal biennium.

The 'AA+' GO rating reflects what we view as Ohio's:

- Long track record of proactive financial and budget management, including the state's implementation of frequent and timely budget adjustments over time to mitigate revenue shortfalls;
- Commitment to funding budget reserves that have been, and are expected to remain, instrumental in managing budget gaps through the current and future economic cycles;
- Improved revenue and budget performance and the restoration of the budget stabilization fund (BSF), which was increased to a statutory target of 8.5% of revenue as part of the enacted 2016-2017 budget;
- Vast, broad, and diverse economy that had benefitted from steady expansion following weak performance during the past two recessions, although there is some concentration in manufacturing relative to the U.S., which anchors the employment base and is sensitive to exogenous demand shocks;
- Low-to-moderate debt levels, with rapid amortization and a conservatively managed capital and debt program, with very strong self-liquidity to withstand temporary volatility to its outstanding VRDO and interest rate swaps; and
- Significant pension reform changes and steady progress in funding other postemployment benefits (OPEB), although we continue to monitor the state's funding policy to assess the sustainability of this progress trend under more subdued investment return conditions.

Environmental, social, and governance factors

S&P Global Ratings views the state's environmental risks as being in line with the sector, and Ohio has historically maintained a strong management and regulatory framework to respond to developing risks. We also consider Ohio to have social risks that are in line with the sector, although it exhibits some demographic pressures due to its aging prime working-age population and low replacement rates statewide. Although these long-term social risks could slow statewide economic growth forecasts and alter spending demands that weigh on the state's financial position, Ohio's historically strong policies (including economic and financial forecasting) and recent economic diversification efforts help manage this risk. At the same time, we view Ohio's long-term governance risks as aligned with the sector due to the relative strength of the state's government framework and transparency of its policies, reporting, and disclosures. We do not expect the state's budget process or flexibility to be inhibited by recent headline risk involving the investigation of a state legislator.

We view the risks posed by the COVID-19 pandemic to public health and safety as a social risk, which if sustained could weaken the state's economy, liquidity, and budgetary performance. For more information on the potential effects of the COVID-19 pandemic on state credit conditions, see "The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions," published April 2, 2020, and "U.S. States Mid-Year Sector View: States Will Continue To Be Tested In Unprecedented Ways," published July 13, 2020.

Stable Outlook

While our outlook horizon is up to two years, given the fluid nature of developments relating to the direct and indirect financial and economic challenges of COVID-19 pandemic over the near term, we will continue to actively assess the implications to Ohio's credit fundamentals and debt obligations over the outlook period.

Downside scenario

Although unlikely based on recent operating trends and a strong framework for making fiscal policy decisions, sustained structural budget misalignment and a sharp decline in Ohio's reserve or liquidity position could pressure the rating. The state's concentration in the manufacturing sector could intensify this downside risk due to this exogenous economic shock or international trade conditions that materially weaken the state's core economic metrics relative to the U.S. level. We recognize that state governments across the nation will face unprecedented public health and economic challenges in the near term to contain the community spread of COVID-19. The duration and severity of recent events affecting the state's fiscal profile may result in faster deterioration of its credit quality as economic conditions change.

Upside scenario

If the state is able to preserve financial stability throughout the recession, including maintaining strong reserve balances and very strong liquidity at least at current levels while addressing near-term financial challenges, in conjunction with exhibiting resiliency and strong growth of its economic metrics relative to peers as conditions recover, we may consider a higher rating or outlook change.

Based on the analytic factors we evaluate for states, we have assigned a total score of '1.6' to Ohio under our state ratings methodology, in which '1.0' is the strongest score and '4.0' the weakest. This score corresponds to a 'AA+' GO rating.

For more information, see the full analysis published Feb. 4, 2020, and our previous summary analysis, published June 9, 2020.

Credit Opinion

Ohio entered the fiscal 2020-2021 biennium well-positioned financially, having demonstrated sound budget management during a strong period of economic growth over the last two biennia and setting aside surpluses in its budget stabilization fund (BSF) to achieve the highest rainy days savings in state history at the end of the fiscal 2018-2019 biennium. The state's current BSF balance of nearly $2.7 billion (approximately 8% of general revenue fund expenditures) and the treasurer's liquidity fund position of approximately $9.98 billion, will in our view, afford it a degree of flexibility to manage budgetary challenges as they arise over the next year. Currently, Ohio's executive branch and legislature have no plans to access BSF reserves to balance the budget in fiscal 2021, but the Office of Budget and Management (OBM) regularly monitors economic and revenue conditions, and it continues to prioritize potential expenditure reduction measures to mitigate a projected $2.43 billion revenue shortfall for the current fiscal year. Concurrently, resources made available through federal relief programs, including nearly $3.75 billion that was allocated to Ohio from the Coronavirus, Aid, Relief, and Economic Security (CARES) Act, will likely help offset the direct costs borne by the state to combat the COVID-19 pandemic in fiscal 2021 and could alleviate future liquidity pressures.

While a slow recovery has begun, S&P Global Economics forecasts that the resulting economic consequences from the COVID-19 pandemic and the accompanying recession will be substantial, with the baseline recession exceeding losses experienced during the Great Recession. We estimate that the annualized U.S. real GDP will contract 5.0% this year and 33.6% in the second quarter (see "The U.S. Faces a Longer and Slower Climb From The Bottom," published June 25, 2020, on RatingsDirect) before a recovery begins to take hold in the second half of 2020.

Similar to past recessions, we expect Ohio to experience a deeper near-term economic downturn relative to the nation as a whole, but IHS Markit forecasts that the state's gross state product (GSP) and employment conditions will more closely mirror the U.S. recovery between 2021 and 2023. Ohio's unemployment rate surged to 17.6% in April 2020, but declined to 10.9% in June 2020. Although subject to revision, IHS projections show that the annual unemployment rate for the state will be 12.4% for 2020, which is above S&P Global Economics' expectation for the national unemployment rate of 9.3% at the end of this year. However, we forecast the national unemployment rate will not get back to pre-recession levels until at least the end of 2023. A key credit consideration for the state's economic outlook will be the path its manufacturing sector follows through this contractionary period. The sector has a comparatively large presence in the state and accounts for 12.6% of its employment base. Should weakened demand for manufactured goods and transportation equipment be prolonged, the state's path out of the recession could be slower and weaken its overall credit metrics including state GSP and personal income gains. At the same time, we are continuing to watch if an uptick in new infections in the region could pose a setback for the economic recovery. This could compel states to reinstate containment measures that protect health and safety, which could depress economic activity and consumer confidence.

Ohio experienced a steep decline in general revenue fund receipts in April, but revenue conditions had stabilized in May and June. This indicates that a modest uptick in economic activity and consumer spending started to take hold as the state lifted stay-at-home restrictions and public health measures in response to the pandemic in early May. At the end of April, general revenue fund tax receipts were $866.5 million (or 35.3%) below the April estimate and $777 million (or 4%) below the state's year-to-date estimate. However, May general revenue fund tax receipts came in $271.3 million, or 13%, below estimate for the month, and by the end of June, general revenue fund tax receipts were only $50.5 million (or 2.2%) below budgeted estimate for the month, and the year-to-date state tax receipts were $1.1 billion (or 4.6%) below the state's estimate. Among its three leading sources, actual personal income tax receipts were approximately 9.7% below budget estimate, as well as auto sales tax (2.9% below) and non-auto sales tax (3.0% below) through end of fiscal 2020.

OBM's preliminary revenue forecast for fiscal 2021 reflects the austere effects the COVID-19 induced economic shock on Ohio's economy and finances will likely continue for the remainder of the biennium. As of June 10, OBM conservatively estimates that the general revenue fund receipts and balances are projected to be approximately $2.43 billion (or nearly 7%) below original general revenue fund revenue (and transfers in) estimates for fiscal 2021. This comes on the back of a comparatively strong 2018-2019 biennium, which saw the state's gross general fund revenues and BSF balances grow relative to the preceding biennium.

During periods of economic stress, however, Ohio has demonstrated a willingness to make necessary adjustments to correct structural imbalances, which we anticipate will continue as the current economic cycle evolves. Reflecting Ohio's strong financial oversight and management, an executive order by the governor in early May tasked OBM and DAS with developing an expenditure reduction plan for agencies, boards, and commissions for fiscal 2021. The state has introduced several structural budget control measures that achieved expenditure savings of $781 million (or 3.3%) of budgeted state GRF appropriations for fiscal 2020. For fiscal 2021, Ohio has kept similar restrictions in place, and it has taken additional measures to hold state government spending level with post-budget-reductions (instituted in fiscal 2020), restructured debt that achieved net present value savings, and contain personnel costs through the end of the current biennium. We understand that OBM, the administration, and legislature continue to work with this plan to align expenditures with revenue expectations, and have discussed an amended appropriations bill for fiscal 2021. At present, the state does not have pending budget-related legislative items and the legislature has adjourned its session until later this year.

In addition, as it has done in past recessions, Ohio could potentially use BSF reserves over a multi-year recovery period to aid its economic recovery and stem the severity of cuts to state service levels should shortfalls in its general revenue fund extend beyond the current biennium. Although the state does not have constitutional or statutory restrictions that establish a minimum reserve level, we believe that Ohio will likely be prudent in its use of BSF reserves, complementing it with tight spending controls and other structural reforms. Therefore, the stable outlook factors in our expectation that the state will realize a decrease in budgetary reserves over the current or next biennium, but Ohio has demonstrated its commitment to restoring BSF reserves following recessionary declines.

Related Research

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

Ratings Detail (As Of July 24, 2020)		
Ohio GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio GO VRDBs		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Ohio GO VRDBs		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Columbus-Franklin Cnty Fin Auth, Ohio		
State of Ohio, Ohio		

Ratings Detail (As Of July 24, 2020) (cont.)		
Columbus-Franklin Cnty Fin Auth (Ohio) APPROP		
Long Term Rating	AA-/Stable	Affirmed
Columbus-Franklin Cnty Fin Auth (Ohio) APPROP		
Long Term Rating	AA-/Stable	Affirmed
Columbus-Franklin Cnty Fin Auth (Ohio) APPROP		
Long Term Rating	AA-/Stable	Affirmed
Ohio Pub Facs Comm, Ohio		
State of Ohio, Ohio		
Ohio Pub Facs Comm (Ohio)		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio)		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio)		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO VRDBs		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.