MOODY'S
INVESTORS SERVICE

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

03 Sep 2020

New York, September 03, 2020 -- Moody's Investors Service has assigned a Aa2 rating to the State of Ohio's $44 million Capital Facilities Lease-Appropriation Bonds, Series 2020A (Cultural and Sports Facilities Building Fund Projects) and the $5.3 million Capital Facilities Lease-Appropriation Refunding Bonds, Series 2020A (Juvenile 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 Aa1 general obligation rating is based on the state's strong budget 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. However, the situation surrounding Coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. 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 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 severe economic disruption and revenue declines related to the coronavirus outbreak.

Based on preliminary revenue figures through June, the fiscal 2020 revenue gap shrank to 1.3% ($425 million) below budget from 4.5% in the prior month. June monthly tax collections were 8.3% above budget and 13.8% above June 2019. The state fully balanced the fiscal 2020 budget gap with spending reductions.

The state forecasts that fiscal 2021 revenues will be $2.4 billion (9%) less than previously expected. This revenue gap will be partially balanced with the extension of budget cuts implemented in fiscal 2020, the increase in Federal Medical Assistance Percentages (FMAP) through December 2020, and salary freezes and reductions across all state departments. Ohio has a $2.7 billion rainy day fund available to stabilize any remaining budget gap or any future increase in the forecasted revenue gap.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

For the GO bonds:

- Improved demographic trends, particularly in working age population growth, net migration, and age distribution, that contribute to stronger economic growth relative to peers

- Maintenance of a budget in structural surplus, together with an increase in pension contributions sufficient to "tread water"

- Development of governance tools such as consensus revenue forecasting or publicly available long-term forecasts that institutionalize current best practices, increase transparency, and ensure consistency across administrations

For the appropriation bonds:

- An upgrade of the state

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

For the GO bonds:

- Further weakening of employment, personal income or demographic trends

- Financial deterioration, including a return to budgetary structural imbalance and/or materially lower reserve levels

- Unanticipated rise in long-term liabilities and an increase in fixed-costs

For the appropriation bonds:

- A downgrade of the state

LEGAL SECURITY

The capital facilities lease-appropriation bonds are secured by separate lease-purchase agreements between the Ohio Facilities Construction Commission (OFCC) and the Department of Youth Services (DYS), as lessees, 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 OFCC and DYS are required to include the lease payments in their biennial budget requests 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.

USE OF PROCEEDS

Proceeds of the $44 million Series 2020A new money bonds will finance capital projects for the Ohio Facilities Construction Commission. Proceeds of the $5 million Series 2020A refunding bonds will refund outstanding DYS bonds for net present value savings with no extension of maturity.

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 these ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1102364 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

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