FITCH RATES OHIO'S $68MM LEASE-APPROPRIATION BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-11 October 2019: Fitch Ratings has assigned 'AA' long-term ratings to the following State of Ohio (Treasurer of State) capital facilities lease-appropriation bonds:

--$33 million series 2019A (Juvenile Correctional Building Fund Projects);
--$13.17 million refunding series 2019B (Juvenile Correctional building Fund Projects);
--$22.045 million refunding series 2019B (Administrative Building Fund Projects).

The bonds are expected to be sold via negotiation on Oct. 22, 2019. They are being issued to finance various capital improvements and to refund outstanding debt for debt service savings.

The Rating Outlook is Stable.

SECURITY
The lease revenue bonds are special obligations of the state, payable from payments under separate lease agreements between the Ohio Public Facilities Commission (OPFC) and the Department of Youth Services (DYS) for the Juvenile Correctional Building projects and the Department of Administrative Services (DAS) for the Administrative Building Fund project. The lease agreements are subject to biennial appropriation from the state's general revenue fund (GRF).

ANALYTICAL CONCLUSION

APPROPRIATION MECHANISM: The rating on the bonds backed by Ohio's lease appropriation is one notch below the state's Issuer Default Rating (IDR), reflecting the slightly higher degree of optionality associated with payment of appropriation debt. The state's 'AA+' IDR 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 disproportionally 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 relative to other states.

Operating Performance: 'aaa'
The state generally has a careful approach to financial operations and has consistently managed to achieve budgetary balance. In recent years, it 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 over 11% of state source general revenue fund (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 bonds currently offered are secured by rental payments that are appropriated biennially under separate lease agreements between the OPFC and the DYS and DAS. The debt is authorized by the state's constitution and secured by the state's pledge of legislative appropriation, with the leases renewable biennially until the bonds are repaid. The treasurer of state is required to submit an estimate of the debt service requirements to each department as well as the director of budget and management prior to the start of each fiscal year. The trustee does not have the ability to take possession of or operate leased projects.

For more information on Ohio's IDR, see "Fitch Rates Ohio's $320MM GO Bonds 'AA+'; Outlook Stable" dated Aug. 20, 2019.

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ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 -- ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg

Date of Relevant Rating Committee: July 19, 2019

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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Additional information is available on www.fitchratings.com

Applicable Criteria
Short-Term Ratings Criteria (pub. 02 May 2019)
https://www.fitchratings.com/site/re/10073011
U.S. Public Finance Short-Term Debt Rating Criteria (pub. 01 Nov 2017)
https://www.fitchratings.com/site/re/905637
U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)
https://www.fitchratings.com/site/re/10024656