S&P Global Ratings

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Summary:

State of Ohio
Ohio State Treasurer; Appropriations

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Credit Profile		
US$85.0 mil cap facs lse approp bnds (State of Ohio) (Transportation Building Fnd Projs) ser 2018A due 04/01/2033		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to the State of Ohio's series 2018A capital facilities lease appropriation bonds (Transportation Building Fund Projects). The outlook is stable.

The rating reflects our view of:

- Ohio's general creditworthiness (general obligation [GO] rating: AA+/Stable) as lessee;
- The state's demonstrated commitment, within both the administrative and legislative branches, to repaying appropriation-backed obligations;
- 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; and
- The importance of appropriation debt to Ohio's overall capital bonding structure.

State lease-rental payments, subject to separate biennial appropriation, secure the capital facilities lease appropriation bonds. We understand that proceeds for the 2018A bonds will be used to finance the cost of various capital facilities to be leased by the Ohio Department of Transportation (ODOT).

The bonds are authorized under the state constitution, which allows for special obligation bonds for the purpose of paying the costs for capital facilities for housing branches and agencies of state government. The series 2018A bonds are special obligations of the state issued by the state treasurer and payable from pledged receipts, which are the lease rental payments made to the Ohio Public Facilities Commission (OPFC) by the ODOT in the supplemental lease agreements. The OPFC, the lessor, is a state agency and has assigned the lease payments to the trustee. The ODOT has agreed to include all lease payments due under the master lease in its budget request each biennium, which is part of the budget submitted by the director of the State Office of Budget and Management and the governor to the state general assembly.

Lease payments are due on or before two days prior to each debt service due dates, and debt service payments are due April 1 for principal and interest, and Oct. 1 for interest only. The state follows a biennial budget cycle with a fiscal year-end of June 30. Once the general assembly makes the appropriations, the obligation to make lease payments is absolute and unconditional. There are no abatement provisions under the lease agreements. While there is no debt service reserve funds established for the lease appropriation bonds, the timing of lease-rental and debt service payments, coupled with the state's history in managing appropriations for debt service, mitigates any concern over late budget adoption in our opinion. Ohio has a strong record of approving budgets on time, in our view. The general assembly passed, and the governor signed, a continuing appropriation measure that included funds for debt service-lease payments and related appropriations for the full biennium when there was late budget adoption. All payments for appropriation obligations of the state have been expressly excluded from budget reduction measures historically.

(For additional information, see the full analysis on the state's GO bonds published Sept. 27, 2017, on RatingsDirect.)

Outlook

The stable outlook reflects our view of Ohio's improved structural budget alignment and steady economic growth, which has increased revenue and allowed for contributions to the budget stabilization fund. The state, we believe, has proactively responded to budget imbalance over time, and this is also factored into our outlook. We also note the statutory debt limits in place and meaningful reform efforts focused on postretirement liabilities, which should limit fixed-cost pressure. The pace of economic recovery and continuation of structural budget alignment will be important to future credit direction. Were financial, budget, and economic trends to improve significantly, this could result in positive credit implications. Although unlikely based on current trends and policy decisions, deterioration in structural budget alignment and a sharp decline in the reserve position could pressure the rating.