FITCH RATES OHIO'S $175MM GO BONDS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-17 December 2014: Fitch Ratings has assigned an 'AA+' rating to the following general obligation (GO) refunding bonds of the state of Ohio:

--$74.75 million Common Schools GO refunding bonds, series 2015A;
--$29.15 million Higher Education GO refunding bonds, series 2015A;
--$58.71 million Infrastructure Improvement GO refunding bonds, series 2015A;
--$12.03 million Conservation Projects GO refunding bonds, series 2015A.

The bonds are expected to be sold via competitive bid on Jan. 7, 2015.

The Rating Outlook is Stable.

SECURITY
General obligation, full faith and credit of the State of Ohio, excluding net lottery proceeds.

KEY RATING DRIVERS

BROAD ECONOMY WITH LARGE MANUFACTURING SECTOR: The state's economy is broad and diverse, although manufacturing remains a disproportionally large sector. The state's economy is expanding but at a slower pace than immediately following the recession. The unemployment rate is under the national average.

MODERATE LIABILITY BURDEN: The state's debt burden is moderate and rapidly amortized. Debt is typically conservatively managed and primarily consists of GOs. On a combined basis, outstanding debt and pension obligations are manageable and a well below-average burden on the state.

DEMONSTRATED ABILITY TO MANAGE BUDGET CHALLENGES: The state generally has a careful approach to financial operations and has consistently managed to achieve budgetary balance. The state's budget stabilization fund (BSF) is fully funded.

RISKS TO STRUCTURAL BALANCE: The budget enacted for the 2014-2015 biennium applies fiscal 2013 surplus revenues to pay for a large personal income tax rate cut while incorporating sizable growth in appropriations, creating some risk that structural balance may be difficult to achieve in future biennia.

RATING SENSITIVITY
The rating is sensitive to shifts in the state's fundamental credit characteristics, particularly its economic and financial profiles.

CREDIT PROFILE
The state's 'AA+' GO rating is based on its careful financial management, ongoing record of maintaining fiscal balance, and a moderate, rapidly amortizing debt burden. Debt is supported by an economy that is slowly adding jobs lost in the recession. The recession had a widespread impact on the Ohio economy, accelerating a longstanding slump in manufacturing and weighing on the slowly growing service sector. While there has been steady year-over-year job growth since July 2010, the

state has recovered less than half of jobs lost during the recession. Job growth has lagged the U.S., most recently recording 0.7% year-over-year growth in October 2014 versus the U.S. rate of 2%.

DEMONSTRATED ABILITY TO MANAGE BUDGET CHALLENGES

Fiscal management practices in Ohio are sound and the state has consistently maintained budgetary balance, including during the recession. The state's fiscal position has substantially improved since the downturn, when the state employed one-time measures for fiscal relief.

In the biennium that ended on June 30, 2013, broad budget balancing actions, notable growth in tax revenues, and the lease of the state's liquor distribution system to JobsOhio, a newly created not-for-profit economic development entity, enabled the state to record sizable operating surpluses and deposits to its rainy day fund. As of the close of fiscal 2013, the state reports that its BSF was fully funded at 5% of general revenue fund (GRF) revenues.

Although the fiscal 2014 enacted budget anticipated a sizeable operating deficit, leading to some concern over future ability to achieve balance, actual performance was better than anticipated primarily due to lower Medicaid spending. Tax revenues were just above forecast but 4.2% lower as compared to fiscal 2013, as would be expected with tax rate reductions, discussed below. Although personal income tax (PIT) revenues were $215 million (2.7%) above estimate, this represents a $1.4 billion (15.2%) reduction as compared to fiscal 2013. The reduction reflects tax policy changes, some timing differences between the two fiscal years, as well as the effect of taxpayers having accelerated income into fiscal 2013 in response to federal tax law changes. The reduced income taxes were partially offset by sales tax revenues that were just below estimate but increased $721 million (8.5%) year-over-year. As a result, the budget was essentially balanced in fiscal 2014, significantly better than forecast at the start of the budget year.

TAX CUTS INTRODUCE DOWNSIDE REVENUE RISK

The state is in the second year of its biennial budget, which began July 1, 2013. The legislatively enacted budget for the 2014-2015 biennium included a change to the personal income tax (PIT) that lowered rates by 10% over three tax years beginning in 2013, increased the sales tax rate by 0.25% as an offset, and reduced income taxes on small business owners, among other provisions. The PIT rate reductions and tax modifications for small business owners are expected to result in a sizable amount of foregone revenue over the biennium and are only partly offset by the sales tax rate increase, some PIT index and exemption freezes, and other tax reform measures. The mid-biennium review, completed prior to the start of fiscal 2015 (on July 1, 2014), accelerated the final 1% PIT rate reduction into tax year 2014 and made other adjustments to both spending and revenues.

Even with sound revenue performance in fiscal 2014 and fiscal 2015 revenue performance through December that is above forecast, Fitch believes there is downside risk to the state's expectation of future PIT growth given slower employment growth. In the event of economic and revenue under-performance, the state may face structural imbalance beyond the current 2014-2015 biennium, in part due to its reliance on use of fund balance in the current operating budget, but also due to further reductions in tax rates. Fitch notes the state's accurate and conservative forecasting and its history of taking action to achieve fiscal balance.

CONSERVATIVE DEBT MANAGEMENT

The state's debt management is generally conservative. Debt amortization is rapid, with all debt fully retired in 20 years and 79% of GRF-backed debt amortized in 10 years. Total tax-supported debt of $11.2 billion is equivalent to a manageable 2.4% of 2013 personal income. Debt ratios are expected to approximate current averages as GRF principal continues to roll off. Personal income is also expected to continue to grow. The current offerings will refund outstanding bonds for debt service savings.

Funding for Ohio's pension systems had declined significantly with market losses; the largest system, PERS, declined from a strong 96% funded ratio as of Dec. 31, 2007 to 77.4% funded as of Dec.

31, 2011. Reform measures enacted in September 2012 have contributed to the improved financial sustainability of all five of Ohio's pension systems. The most recent PERS valuation, from Dec. 31, 2013, showed the benefit of the reform measures as the reported funded ratio increased to 82.4%. Using Fitch's more conservative 7% discount rate assumption, PERS would have an estimated 72.9% funded ratio.

On a combined basis, the burden of the state's net tax-supported debt and adjusted unfunded pension (UAAL) obligations at approximately 3.3% remains well below the 6.1% median for U.S. states, assuming the state of Ohio accounts for 45% of the unfunded liability of the state division of PERS and a small share of the teachers' retirement system (TRS) UAAL for which the state is responsible.

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Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. State Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033