STANDARD & POOR'S RATINGS SERVICES
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Summary:
Ohio Public Facilities Commission Ohio; General Obligation

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Summary:

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Credit Profile		
US$74.75 mil common schools GO rfdg bnds (Ohio) ser 2015A due 09/15/2026		
Long Term Rating	AA+/Stable	New
US$58.71 mil infra imp GO rfdg bnds (Ohio) ser 2015A due 09/01/2025		
Long Term Rating	AA+/Stable	New
US$29.15 mil higher education GO rfdg bnds (Ohio) ser 2015A due 08/01/2026		
Long Term Rating	AA+/Stable	New
US$12.03 mil conservation proj GO rfdg bnds (Ohio) ser 2015A due 09/01/2022		
Long Term Rating	AA+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to Ohio's $74.75 million common schools general obligation (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, and $12.03 million conservation projects GO refunding bonds series 2015A. At the same time, Standard & Poor's affirmed its 'AA+' ratings on Ohio's GO bonds outstanding.

The ratings reflect what we view as Ohio's:

- Long track record of proactive financial and budget management, including its implementation of frequent and timely budget adjustments over time to mitigate lower revenues;
- Commitment to funding budget reserves that have been and are expected to remain instrumental in managing budget gaps through economic cycles;
- Improved revenue and budget performance and restoration of the budget stabilization fund (BSF) to the statutory target of 5% of revenues;
- Vast, broad, and diverse economy, which has expanded steadily following weak performance through the past two recessions. Employment is anchored by manufacturing and includes several regional centers and corporate headquarters, in addition to a diverse service sector;
- Moderate debt levels, with rapid amortization and a conservatively managed capital and debt program; and
- Significant pension reform changes and steady progress in funding other postemployment benefits (OPEB).

Although the funding ratios for most of the major state-sponsored pension plans remain relatively low in our view, , recent reform efforts have led to some improvements.

The GO bonds are secured by Ohio's full faith and credit, revenue and taxing power. We understand that the new issue proceeds will be used to refund debt outstanding for savings taken throughout the life of the issue.

Ohio's economy continues to expand, and while the expansion has been slow compared with prior post-recession phases, the state's unemployment rate has significantly improved during 2014. The state's 2013 unemployment rate was 7.4%, equal to the U.S. rate, and improved to 5.3% in October, better than the U.S. level. Ohio's unemployment rate has improved from the recession peak of 10.2% in 2009.

Steady economic improvement has translated into expanding revenues and improved financial performance. Fiscal years 2013 and 2014 both ended with significant budget surpluses and full funding of the BSF at 5%, which is a significant amount relative to that of state peers, in our view.

Ohio's enacted budget for fiscal 2014-2015 includes significant changes to the state's tax structure with an overall emphasis on tax reduction. There are also significant changes to Medicaid and education programs, the key budget drivers in our view. The BSF will be funded at the 5% target, which we view positively from a credit standpoint and allows the state flexibility to address future budget volatility. This is especially significant for Ohio, which has to maintain budget balance throughout the year. The 2014-2015 budget was amended in June 2014 based on proposals in the governor's mid-biennium review. The amendments included about $39 million of spending increases in social services, K-12 education, and higher education; and a $388 million net reduction in general revenue fund revenues through acceleration of and increases to personal income tax cuts in the budget. Through November, general revenue sources were $36.2 million, or 0.3% below the year-to-date estimates, and expenditures were $433.1 million, or 2.8% below estimates. Officials attribute nearly all of these variances to lower-than-projected expenditures for Medicaid, which also resulted in lower federal reimbursements. Federal grant receipts were $223.3 million, or 5.1%, below estimates, with the next-largest variance being in corporate franchise taxes, which were $27.3 million below estimates. Total tax receipts were above estimates by $182.8 million, or 2.2%. Medicaid expenditures were $403.3 million, or 5.7% below the estimate.

Standard & Poor's considers Ohio's debt ratios to be moderate. With limited exceptions, the state constitution caps debt service at 5% of revenues; Ohio has remained below this cap, and based on projected debt issuance, we expect that future debt service will remain within the constitutional cap.

Ohio's postretirement liability profile has improved following various modifications focused on reducing liabilities. These reforms, in combination with improved investment performance, should contribute to improved funded ratios. In contrast to many states, the state has actively managed its OPEB liabilities and there has been significant asset accumulation to offset these liabilities, which we believe will limit future cost pressure.

Based on the analytic factors we evaluate for states, on a scale of '1.0' (strongest) to '4.0' (weakest), we have assigned Ohio a composite score of '1.8'.

For more information, see the full analysis on Ohio, published Sept. 22, 2014, on RatingsDirect.

Outlook

The stable outlook on Ohio reflects our view of the state's improved structural budget alignment and steady economic recovery underway, which has stabilized revenues and allowed for contributions to the BSF. The state, we believe, has proactively responded to budget imbalance over time, and this is also factored into the current outlook. The pace of economic recovery and continuation of structural budget alignment will be important credit factors over the two-year outlook time horizon. We also note the statutory debt limits in place and meaningful reform efforts focused on postretirement liabilities, which should limit fixed cost pressure in the future.

Related Criteria And Research

Related Criteria

USPF Criteria: State Ratings Methodology, Jan. 3, 2011

Ratings Detail (As Of December 19, 2014)		
Ohio GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio GO VRD common schs		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Ohio GO VRD infrastructure		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Ohio GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Ohio Pub Facs Comm, Ohio		
Ohio		
Ohio Pub Facs Comm (Ohio) hgr ed GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) infrastructure imp GO bnds (Ohio) ser 2014C due 03/01/2035		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) infrastructure imp GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO VRD		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Long Term Rating	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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