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Summary:

Ohio State Treasurer
Ohio; Gas Tax

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Credit Profile		
US$250.735 mil GO hwy cap imp bnds (full faith & credit/hwy user receipts) (Ohio) ser R dtd 06/11/2014 due 05/01/2029		
Long Term Rating	AAA/Stable	New
Ohio GO hwy		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating, and stable outlook, to Ohio series R general obligation (GO) highway capital improvement bonds. At the same time, Standard & Poor's affirmed its 'AAA' rating, and stable outlook, on the state's parity debt outstanding.

The rating reflects our opinion of:

- The pledge of statewide highway user receipts, which are restricted for transportation purposes pursuant to the state constitution;
- Relatively consistent performance of pledged revenues over time, due in part to tax increases. Taxes and charges are levied statewide and Ohio's 2013 population is estimated at 11.57 million;
- Very strong debt service coverage levels, in our view, combined with rapid amortization of all bonds in the next 15 years;
- Statutory limitations on the amount of debt that can be outstanding at any one time.

In addition to the pledge of highway user receipts, the bonds also have a full faith and credit pledge of the state of Ohio (GO rating: AA+/Stable; see the summary published April 23, 2014, on RatingsDirect on the Global Credit Portal). In our view, the highway user receipts represent the stronger of the two security pledges, mainly due to the very strong coverage levels. The Ohio constitution restricts highway user receipts to highway uses and cannot be used for nonhighway obligations or uses. We understand that bond proceeds from the series Q bonds will be used to fund highway capital projects.

The highway user receipts pledged to the bonds consist of motor fuel and use tax (68% of total revenues) and registration and license fees (32% of total revenues). Total fiscal 2013 pledged revenues were $2.73 billion, providing more than 19x coverage of maximum annual debt service, which is estimated to be $140.5 million in fiscal 2015. After this issuance, there will be a remaining statutory authorization of $420 million, and based on the amount of remaining debt authorization, we expect that debt service coverage will remain very strong.

Pledged revenues have expanded by an average of 1.2% per year from 2005 through 2013, with some cyclicality during recession periods. Highway user receipts have declined four times since 2000: 3.8% in fiscal 2001, 3.6% in fiscal

2007, 4.9% in fiscal 2009, and 1.9% in fiscal 2012. The state attributes part of the declines in fiscal years 2007, 2009, and 2012 to a delay in recording receipts, which was partially offset by expanded collections in the next year (growth of 4.9% in fiscal 2008 and 0.35% in fiscal 2010). Despite the recorded declines, coverage has remained extremely strong, in our opinion. Pursuant to the state's constitution, revenues cannot be diverted for nonhighway purposes, which we view as a credit strength for the bonds. Ohio's motor vehicle fuel tax is 28 cents per gallon, which is in line with the average rate for all states. Ohio's tax rate is below that of most contiguous states.

The series R highway capital improvement bonds are being issued pursuant to Section 2m Article VIII of the Ohio constitution and are payable from all excises and taxes levied by the state relating to registration, operation, or use of vehicles and fuel taxes. Bond proceeds will fund various highway capital improvements. The series R bonds are the 18th series of bonds issued under Article VIII. This constitutional amendment was approved by the electorate in November 1995 and authorizes the issuance of highway capital improvement bonds of up to $220 million per fiscal year, plus any previous fiscal year's unused authorization. No more than $1.2 billion of highway capital improvement bonds may be outstanding at any one time, and there will be about $863 million outstanding including this issue. Maximum maturity on the bonds cannot exceed 30 years but typically the state has amortized its bonds more rapidly. All debt (including the series R bonds) is amortized by fiscal 2029.

Outlook

The stable outlook reflects Standard & Poor's view that the broad pledge of statewide highway user receipts supporting the bond program has been stable over time. We believe that the bond provisions governing the issuance of additional debt will ensure that extremely strong debt service coverage levels will continue. Given both of these factors, we do not expect a lower rating during the two-year outlook horizon.

Economy

The U.S. Census Bureau's 2013 population estimate for Ohio is 11.57 million, making Ohio the seventh-most populous state in the nation. More than half of the state's residents reside in the Cleveland, Cincinnati, and Columbus metropolitan statistical areas. Ohio's population growth from 2000-2010 was relatively weak, averaging only 0.2% per year, which ranked 48th in the U.S.

Ohio's economy continues to expand, albeit at a slow pace, compared with previous post-recession phases. The Ohio Office of Budget and Management reports that state employment rose by 600 in March 2014 and the February data were adjusted upward. As of March 2014, the state's unemployment rate decreased by 0.4 percentage points to 6.1%. The Ohio Coincident Economic Index, which is compiled by the Federal Reserve Bank of Philadelphia and tracks four statewide indicators of current economic conditions, increased at an annual rate of 5.4% from December 2013 through March 2014. The Ohio Leading Economic Index, from the same source, projects a 1.9% increase in the coincident index over the next six months. We expect the economy to continue to expand at a modest pace.

State General Revenues And Expenditures

Ohio's tax receipts fell $111.7 million, or 5.5% short of estimates in April, due to personal income tax collections that were $156 million, or 14.8% below estimates. State officials attributed the income tax underperformance to a shortfall in the payments associated with annual tax returns as opposed to withholding collections. The total general revenue for the month, however, was $69.6 million, or 2.6% above estimates, although this was primarily due to increased federal funds tied to an increase in Medicaid spending. For fiscal year-to-date through April, both total tax receipts and total general revenues were above estimates, by $259.1 million (1.6%) and $261.7 million (1.1%), respectively. Total general revenue fund uses were $854.6 million, or 3.2% below estimates for the first 10 months of fiscal 2014.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

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