FITCH RATES OHIO TREASURER OF STATE $80MM BONDS 'AA'; STATE-PROVIDED LIQUIDITY 'F1+'

Fitch Ratings-New York-11 October 2016: Fitch Ratings has assigned a 'AA' rating to the following state of Ohio (Treasurer of State) capital facilities lease-appropriation bonds (Adult Correctional Building Fund Projects):

--$32.3 million variable rate bonds, series 2016B;
--$32.3 million variable rate bonds, series 2016C;
--$15.4 million series 2016D.

Fitch has also assigned an 'F1+' rating to the variable rate series 2016B and 2016C bonds, for which the state provides liquidity upon a failed remarketing.

Series 2016D is expected to be sold via negotiation on Oct. 18, 2016. Series 2016B and 2016C are expected to be sold by negotiation on October 25, 2016.

Fitch has affirmed ratings related to the state Issuer Default Rating (IDR) and state liquidity as detailed at the end of this release.

The Rating Outlook is Stable.

SECURITY
The bonds are special obligations of the state, payable from payments under a lease agreement between the Ohio Public Facilities Commission (OPFC) and Department of Rehabilitation and Corrections (DRC). The lease agreement is subject to biennial appropriation from the state's general revenue fund (GRF). Liquidity for variable rate bonds that are tendered but not remarketed is provided by the state Treasurer's liquidity account.

KEY RATING DRIVERS

APPROPRIATION MECHANISM: The rating on the bonds backed by Ohio's lease appropriation is one notch below the state's 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, ongoing record of maintaining fiscal balance, and a moderate, rapidly amortizing debt burden. Liabilities are supported by an economy that is slowly adding jobs lost in the recession.

LIQUIDITY PROVIDED BY STATE: The 'F1+' rating on the variable rate bonds reflects the ample liquidity provided by investments in the state treasurer's liquidity account, the strength of the state's IDR, and the procedures in place to ensure timely payment of optional tenders of bonds that have not been remarketed.

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 have had a strong presence. The state's economy is expanding but at a slower pace than immediately following the recession. Shale gas development along the Utica Shale formation is a potential stimulus in the eastern part of the state.

Revenue Framework: 'aa' factor assessment
Like most states, Ohio maintains nearly unlimited 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' factor assessment
Ohio retains ample flexibility to cut spending throughout the economic cycle. Spending pressure in Medicaid and education appears to be well controlled.

Long-Term Liability Burden: 'aaa' factor assessment
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.

Operating Performance: 'aaa' factor assessment
The state generally has a careful approach to financial operations and has consistently managed to achieve budgetary balance. In recent years, the state 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) is fully funded, having been drawn down during the recession.

RATING SENSITIVITIES
CHANGES IN IDR: The appropriation rating is sensitive to changes in the state's 'AA+' IDR to which it is linked. Ohio's IDR rating is sensitive to shifts in its fundamental credit characteristics and to continued successful maintenance of fiscal balance in light of ongoing efforts to reduce the tax burden.

SIGNIFICANT EROSION OF COVERAGE: A significant erosion of coverage through declines in available resources could pressure the short-term rating. Given the very solid historical coverage, Fitch considers this unlikely.

CREDIT PROFILE

The bonds currently offered are secured by rental payments that are appropriated biennially under a lease agreement between the OPFC and the Department of Rehabilitation and Correction (DRC). The debt is authorized by the state's constitution and secured by the state's pledge of legislative appropriation, with the lease 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.

The state's liquidity fund has ample liquidity to meet tenders on variable rate debt that has not been remarketed. The fund is conservatively invested in U.S. agency securities, domestic commercial paper, and money market funds. Liquidity portfolio assets have consistently provided strong coverage of outstanding variable rate debt, including over 9x coverage by the 12-month average of portfolio holdings.

Revenue Framework
Ohio relies on a diverse set of broad-based taxes to support operations, including income and sales and use taxes. These major tax revenues are collected in the GRF with constitutional exceptions for highway-related revenues that are directed to highway purposes and lottery proceeds that are directed to education.

In recent biennia the state has pursued wide-ranging tax policy changes, shifting the source of GRF tax receipts and lowering overall receipts relative to baseline. To date, these tax policy changes have been manageable, aided by favorable economic and fiscal trends.

Ohio's historical revenue growth, adjusted for the estimated impact of policy changes, has lagged economic growth and has even declined on a real basis, with growth slightly below the inflation rate. Absent tax policy changes, recent performance has been a good deal stronger than is reflected in the historical trend. Fitch anticipates the long-term trend for revenue growth will be in line with historical performance.

Ohio has no legal limitations on its ability to raise revenues through base broadening, rate increases, or the assessment of new taxes or fees.

Expenditure Framework

Ohio has ample flexibility within its expenditure framework. The natural pace of spending growth is likely to be in line with or marginally above its somewhat slowly growing revenue stream. Carrying costs for debt and pensions are well below the median for states.

As with most states, Ohio's spending growth is expected to track future revenue growth. Primary cost drivers include Medicaid and education spending. With a shift to managed care, Medicaid spending growth is contained and with only modest population growth, education spending pressures should be manageable.

Ohio has solid expenditure flexibility. The state has had a budget cutting bias rather than relying on revenue increases when necessary to maintain budgetary balance, even in core spending areas. During the last recession, Ohio reduced distributions and phased out certain tax reimbursements to both local governments and school districts. The state's carrying costs for debt and pension obligations are well below the state median and expected to remain low given the state's well-funded pensions and conservative debt management.

Long-Term Liability Burden

Ohio's liability position and structure are conservative and well below the median for U.S. states. The state carries a moderate amount of rapidly amortized net tax-supported debt and debt ratios are expected to approximate current averages as GRF principal continues to roll off and personal income grows.

Funding of retirement benefits, both for pensions and health care, have historically been considered a credit strength, with pension systems generally well-funded and a history of state full funding of annual contributions. Plans are cost-sharing, multi-employer with limited liabilities attributed to the state. However, funding for Ohio's five pension systems declined significantly with recessionary market losses and has only just begun to recover. Reform measures enacted in September 2012 have contributed to the improved financial sustainability of PERS and the state's other major systems.

The state has $428 million in outstanding GO variable rate debt with liquidity provided by the state (rated 'F1+'). Of that, $380.6 million is synthetically fixed through swap agreements. State policy is that all swap counterparties must be rated at least 'AA-'/'Aa3' with progressive collateral requirements if the rating falls below this threshold.

Operating Performance

Ohio's ability to respond to cyclical downturns reflects its ample budget flexibility and availability of reserves. During the most recent recession, Ohio's revenues suffered significant declines, exacerbated by ongoing tax reductions. The state closed the resulting budgetary gaps with both ongoing and one-time measures. Some of these measures include use of the rainy day fund, refunding debt for current year savings, asset sales including the liquor enterprise, changes in the education funding formula, and eliminating tax reimbursements for schools and local governments. It is Fitch's expectation that Ohio will continue to rely primarily on expense reductions to address a future downturn and would again draw upon its now restored rainy day fund.

During times of economic recovery, Ohio rebuilds its financial flexibility including restoring draws on its rainy day fund and reducing the use of one-time budget items. In recent biennia, natural revenue growth has been met with tax reductions, which have, to some extent, absorbed tax revenue increases related to overall economic expansion. While it has been a concern that ongoing tax reductions could limit future flexibility, a statutory increase in the rainy day funding requirement from 5% to 8.5% of prior year revenue provides additional capacity to address future downturns and is emblematic of the state's approach during this period of expansion.

The state benefitted from lower than anticipated Medicaid spending in fiscal 2016, the first year of the budget biennium, with lower spending offsetting a slight softening in revenue collection that has been reflected in the state's revised revenue estimate for fiscal 2017. Tax revenues grew 1.9% year-over-year in fiscal 2016, but were 1% below forecast, primarily due to lower than anticipated personal income tax revenues. The state made a small deposit to the budget stabilization fund from the FY 2016 ending balance, bringing its balance to just over $2 billion, or a sound 6.1% of GRF revenue. Through the first quarter of fiscal 2017, tax collections continue the trend of slight underperformance, at 1.3% below the revised forecast.

Liquidity for Variable Rate Debt
The state's cash position is sound. It does not borrow for cash flow purposes and has ample liquidity to provide liquidity for its own variable rate debt. The liquidity account, consisting of high-quality securities with maturities of one year or less, was valued at $5.75 billion as of Aug. 30, 2016. Balances in the liquidity account have notably increased since FY 2009 when the state spent its rainy day fund and drew down other reserves during the recession. Month-end balance in August 2016 provided 12.1x coverage of outstanding variable rate debt; over the recent 12-month period, the minimum ending monthly balance provided 7.3x coverage. When the portfolio is discounted to reflect the immediate availability of funds, coverage in August 2016 declines only modestly to 11.4x, reflecting the highly liquid nature of the portfolio. The investment profile is conservative as the fund is invested in U.S. Treasury and agency securities, highly rated commercial paper, repurchase agreements, and money market funds.

RELATED RATING ACTIONS

Fitch has affirmed the following ratings:
-- IDR at 'AA+';
--$8.6 billion outstanding state GO bonds at 'AA+' (including highway capital improvement bonds);
--$1.6 billion outstanding appropriation-backed bonds of the state at 'AA', including those issued by the Treasurer of State and the Ohio Building Authority.

Fitch has also affirmed the 'F1+' rating on the following adjustable rate general obligation (GO) bonds for which the state provides liquidity upon a failed remarketing:

--$42.6 million GO infrastructure improvement adjustable rate bonds, series 2001B;
--$18.575 million GO infrastructure improvement adjustable rate bonds, series 2003B;
--$28.895 million GO infrastructure improvement adjustable rate bonds, series 2003D;
--$53.34 million GO infrastructure improvement adjustable rate bonds, series 2004A;
--$67 million GO common schools adjustable rate bonds, series 2003D;
--$102.65 million GO common schools adjustable rate bonds, series 2005 A & B;
--$114.89 million GO common schools adjustable rate bonds, series 2006 B & C.

Contact:

Primary Analyst
Karen Krop
Senior Director
+1-212-908-0661
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Marcy Block
Senior Director
+1-212-908-0239

Committee Chairperson
Douglas Offerman
Senior Director
+1-212-908-0889

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
Rating U.S. Public Finance Short-Term Debt (pub. 17 Nov 2015)
https://www.fitchratings.com/site/re/873508
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/site/re/879478

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.
Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001