MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to Ohio's $30M Cultural and Sports Facilities lease bonds; outlook stable

Global Credit Research - 24 Jul 2015

State has $1.67 billion in appropriation backed debt outstanding

New York, July 24, 2015 --

Moody's Rating

Issue: Capital Facilities Lease-Appropriation Bonds, Series 2015B; Rating: Aa2; Sale Amount: $30,000,000; Expected Sale Date: 08-12-2015; Rating Description: Lease Rental: Appropriation

Opinion

Moody's Investors Service has assigned an Aa2 rating to Ohio's planned issuance of $30,000,000 Capital Facilities Lease-Appropriation Bonds, Series 2015B (Cultural and Sports Facilities Building Fund Projects). Proceeds will finance capital facilities to be leased to the Ohio Facilities Construction Commission (lessee), from the Ohio Public Facilities Commission (lessor). The outlook is stable.

SUMMARY RATING RATIONALE

The bonds are rated Aa2, a notch below the state's Aa1 general obligation (GO) rating, reflecting the need for biennial legislative appropriation of the lease payments backing the bonds. There are no bondholder remedies in the event of non-appropriation. However, almost 20% of the state's net tax-supported debt is subject to appropriation, and the importance of maintaining access to the capital markets provides strong incentive for future legislatures to make these appropriations.

The state's Aa1 GO rating is supported by strong and proactive financial management, including timely response to budget shortfalls and moderate, affordable debt, pension and other post-employment benefit (OPEB) liabilities. Recent revenue growth has helped improve the state's financial position, mitigating exposure to an economy that will lag the nation. Newly enacted tax reforms are expected to reduce general revenue fund revenues, but are largely offset by baseline revenue growth.

OUTLOOK

The stable outlook for Ohio is based on our expectation that its recently enacted budget and proactive financial management will support a satisfactory financial position for the current budget year amid enacted tax reforms. It also reflects our view that the state's economy will remain stable, despite relatively weak demographic trends.

WHAT COULD MAKE THE RATING GO UP

- Sustained increase in reserves and fund balance position significantly above historic levels

- Economic performance that exceeds national averages over an extended period

WHAT COULD MAKE THE RATING GO DOWN

- Evidence of financial deterioration, including a return to budgetary structural imbalance

- Weakening of GAAP-basis general fund balances and liquidity position below current expectations

- Persistent economic weakness, reflected in below-average employment, personal income or demographic trends

OBLIGOR PROFILE

Ohio is the 7th largest US state by population. Its gross domestic product per capita also ranks 7th among the states (in current dollars).

LEGAL SECURITY

The capital facilities lease appropriation bonds are secured by a lease-purchase agreement between the Ohio Facilities Construction Commission (OFCC), as lessee, and the Ohio Public Facilities Commission, as lessor. Debt service is payable from base OFCC rental payments, which are assigned and remitted directly to the trustee 15 days prior to the debt service payment dates.

The lease stipulates that the obligation to make lease payments is absolute and unconditional, contingent only upon the appropriation of funds by the legislature, and not on whether the financed projects are in use. Debt service payment dates (April 1 and October 1) are far enough removed from the July 1 start of the state's fiscal biennium to limit risk of an event of non-appropriation due to late budget adoption.

Pursuant to the leases, the OFCC is required to include the lease payments in biennial budget request to the Office of Budget and Management. There are no debt service reserve funds associated with these bonds, and there are limited bondholder remedies in case of default. In the event of non-appropriation, the lease will terminate and project assets will be surrendered to the trustee, but the assets provide limited recovery value. The importance of maintaining continued market access for subject-to-appropriation lease debt, in general, provides a strong incentive to continue making timely appropriations. Approximately 20% of Ohio's net tax-supported debt requires appropriation for payments.

USE OF PROCEEDS

Proceeds will finance facilities to be leased to the Ohio Facilities Construction Commission, pursuant to the purposes of the state's Cultural and Sports Facilities Building Fund. Proceeds are used for planning, construction, renovation, and expansion projects at Ohio's non-profit theaters, museums, historical sites and publicly owned professional sport venues.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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