MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to Ohio's $85M Lease-Appropriation Bonds, Ser. 2018A; outlook stable

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New York, March 29, 2018 -- Moody's Investors Service has assigned Aa2 ratings to State of Ohio's $50 million Capital Facilities Lease-Appropriation Bonds, Series 2018A (Mental Health Facilities Improvement Fund Projects) and $35 million Capital Facilities Lease-Appropriation Bonds, Series 2018A (Juvenile Correctional Building Fund Projects). The outlook on the bonds is stable. The bonds are scheduled to price on April 10.

RATINGS RATIONALE

The Aa2 rating is a notch below the state's Aa1 general obligation (GO) rating, reflecting the need for biennial legislative appropriation of lease payments backing the bonds, the essential nature of the projects being financed, and the strong legal structure for payment of debt service. There are no bondholder remedies in the event of non-appropriation, however the state has very strong incentive to appropriate, given the importance of maintaining continued market access for subject-to-appropriation lease debt.

The Aa1 GO rating is based on the state's strong and proactive financial management, including timely budget responses to revenue shortfalls, moderate, albeit below-average economic growth, and affordable debt, pension and other post-employment benefit (OPEB) liabilities. With the introduction of GASB 74 accounting standards, Ohio's reported OPEB liabilities will increase, but remain affordable relative to other states.

RATING OUTLOOK

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

Ohio's stable outlook is also supported by positive year-to-date revenue performance. Through February, tax receipts are 1.4% ($202 million) above estimate, primarily due to a recent surge in income tax collections. In the month of January, personal income taxes were 25% above budget, primarily due to higher than expected quarterly estimated payments. Including February receipts, year-to-date income taxes are 4.3% above budget, and were previously 0.7% above budget through December. The state reports this surge was due to taxpayer behavior in response to state and local tax deduction limits in the federal tax reform. Therefore, the strong January gains will likely be balanced by lower payments later in the fiscal year. State revenue performance may be pressured by lower-than-expected non-auto sales tax collections, which are 1.2% ($70 million) below budget through February.

FACTORS THAT COULD LEAD TO AN UPGRADE

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

*Economic performance that exceeds national averages over an extended period

FACTORS THAT COULD LEAD TO A DOWNGRADE

*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

LEGAL SECURITY

The capital facilities lease appropriation bonds are secured by respective lease-purchase agreements between 1) the Department of Mental Health and Addiction Services and the Department of Developmental Disabilities (the "Mental Health Departments") and 2) the Department of Youth Services as lessees, and the

Ohio Public Facilities Commission, as lessor. Debt service is payable from base rental payments.

The leases stipulate 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 (October 1 and April 1 for the Juvenile Correctional Building Fund series, December 1 and June 1 for the Mental Health Series) rely on appropriations enacted every other year and are far enough removed from the July 1 start of the state's fiscal biennium to limit risk of non-appropriation due to late budget adoption.

Pursuant to the leases, the state agencies are 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 no bondholder remedies in case of default due to non-appropriation. In the event of non-appropriation, the leases would terminate. The importance of maintaining continued market access for subject-to-appropriation lease debt, in general, provides a strong incentive to continue making timely appropriations.

USE OF PROCEEDS

Proceeds of the Series 2018A Mental Health bonds will finance various capital projects for the two Mental Health Departments (listed above). Proceeds of the Series 2018A Juvenile Correctional Building Fund bonds will finance various capital projects for the Department of Youth Services.

PROFILE

Ohio is the seventh-largest US state by population. Its gross domestic product per capita also ranks seventh among the states.

METHODOLOGY

The principal methodology used in these ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Baye Larsen
Lead Analyst
State Ratings
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street

New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Timothy Blake
MANAGING DIRECTOR
Municipal Supported Products
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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