

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Aa1 to Ohio's \$300M GO Bonds, Ser. 2018A; outlook stable

23 May 2018

New York, May 23, 2018 -- Moody's Investors Service has assigned a Aa1 rating to State of Ohio's \$300 million Common Schools General Obligation Bonds, Series 2018A. The outlook on the bonds is stable. The bonds are scheduled to price on June 5.

RATINGS RATIONALE

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 modest 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 April, total tax receipts are 2% (\$360.7 million) above estimate, primarily due to a surge in income tax collections over the past four months. Most recently, April personal income taxes were 12% above budget and 20% above April collections in the prior year. Through April, year-to-date income taxes are 4.7% above budget. The income tax over-performance is widespread across withholdings, estimated payments and annual payments. The state reports this surge is partially due to taxpayer behavior in response to state and local tax deduction limits in the federal tax reform. Therefore, the strong gains may be balanced by lower payments or higher refunds later in the tax year (state fiscal year 2019).

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 general obligation bonds are secured by a pledge of the full faith and credit, revenue and taxing power of the State of Ohio and are on parity with other general obligation bonds issued by the state. Highway user receipts (i.e. motor vehicle fees and taxes, and fuel taxes) and net lottery proceeds are specifically excluded from the state's general obligation pledge. Debt service payments on the bonds do not depend on the progress, completion, or operation of the facilities or projects that they finance.

USE OF PROCEEDS

Bond proceeds will finance capital projects for K-12 public schools in the state.

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 this rating was US States and Territories published in April 2018. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

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