

RatingsDirect®

Summary:

State of Ohio; Appropriations

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Credit Profile

US\$32.3 mil cap facs lse approp variable rate bnds (Adult Correctional Bldg Fd Proj) ser 2016C due 10/01/2036		
<i>Long Term Rating</i>	AA/A-1+/Stable	New
US\$32.3 mil cap facs lse approp variable rate bnds (Adult Correctional Bldg Fd Proj) ser 2016B due 10/01/2036		
<i>Long Term Rating</i>	AA/A-1+/Stable	New
US\$15.4 mil cap facs lse approp bnds (Adult Correctional Bldg Fd Proj) ser 2016D due 10/01/2021		
<i>Long Term Rating</i>	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to the State of Ohio's capital facilities lease appropriation bonds, series 2016 B, C, and D (Adult Correctional Building Fund Projects). The outlook on all ratings is stable.

S&P Global Ratings also assigned its 'A-1+' short-term ratings to the series 2016B and 2016C variable-rate bonds based on the state's self-liquidity. The series 2016B bonds will be issued in a weekly rate mode until converted to another mode. The series 2016C bonds will be issued in the alternative trading system mode and will remain in that mode until converted.

The maximum rate for both series is the lower of the maximum rate permitted by law or 9%; Ohio currently budgets its outstanding variable the interest rate bonds at 3%. The state's operating budget bills have historically included (currently section 518.2 of House Bill 64), language authorizing additional appropriations if necessary for making lease rental payments on state bonds. According to the state, this additional appropriation is automatic and is evidenced by a memo from the Office of Budget Management (OMB) Director to the state accounting director. Therefore, we understand that during the biennium if interest rates were to rise above the budgeted 3% additional appropriation would be made to cover interest payments on the variable-rate bonds.

The rating reflects our view of:

- Ohio's general creditworthiness (general obligation [GO] rating: AA+/Stable) as lessee;
- The state's demonstrated commitment, within both the administrative and legislative branches, to repaying appropriation-backed obligations;
- The strong contractual provisions of the master lease structure securing the lease appropriation bonds, including an absolute and unconditional payment provision once funds are appropriated; and
- The importance of appropriation debt to Ohio's overall capital bonding structure.

State lease-rental payments, subject to separate biennial appropriation, secure the capital facilities lease appropriation bonds for each of the aforementioned bond series. We understand that bond proceeds will be used to finance the cost of capital facilities to be leased by the Department of Rehabilitation and Correction (DRC). The bonds are authorized under the state constitution, which allows for special obligation bonds for the purpose of paying the costs for capital

facilities for housing branches and agencies of state government. The series 2016 B, C, and D bonds are special obligations of the state issued by the state treasurer and payable from pledged receipts, which are the lease rental payments made to the Ohio Public Facilities Commission (OPFC) by the DRC the supplemental lease agreements.

The OPFC, the lessor, is a state agency and has assigned the lease payments to the trustee. The DRC has agreed to include all lease payments due under the master lease in its budget request each biennium, which is part of the budget submitted by the director of the State Office of Budget and Management and the governor to the state general assembly.

Once the general assembly makes the appropriations, the obligation to make lease payments is absolute and unconditional. There are no abatement provisions under the lease agreements. There are also no debt service reserve funds established for the lease appropriation bonds; the timing of lease-rental and debt service payments, coupled with the state's history in managing appropriations for debt service, mitigates any concern over late budget adoption. Ohio has a strong record of approving budgets on time, in our view. The general assembly passed, and the governor signed, a continuing appropriation measure that included funds for debt service-lease payments and related appropriations for the full biennium when there was late budget adoption. All payments for appropriation obligations of the state have been expressly excluded from budget reduction measures historically.

(For additional information, see the analysis on the state's GO bonds published Sept. 13, 2016, on RatingsDirect.)

Outlook

The stable outlook mirrors our general credit outlook on Ohio. The stable outlook also reflects our view of Ohio's improved structural budget alignment and steady economic growth, which has increased revenue and allowed for contributions to the budget stabilization fund. The state, we believe, has proactively responded to budget imbalance over time, and this is also factored into our current outlook. We also note the statutory debt limits in place and meaningful reform efforts focused on postretirement liabilities, which should limit fixed-cost pressure. The pace of economic recovery and continuation of structural budget alignment will be important to future credit direction. Were financial, budget, and economic trends to improve significantly, this could result in positive credit implications. Although unlikely based on current trends and policy decisions, deterioration in structural budget alignment and a sharp decline in the reserve position could pressure the rating.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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