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Ratings

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Summary:

State of Ohio; Federal or State Grant Programs

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Credit Profile		
US$217.185 mil rev bnds (GARVEEs) ser 2016-1 due 12/15/2028		
Long Term Rating	AA/Stable	New
Ohio major new st infra proj rev bnds		
Long Term Rating	AA/Stable	Affirmed
Ohio (Major New State Infrastructure Project)		
Long Term Rating	AA/Stable	Affirmed
Ohio major new state infrastructure proj		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA' rating to the state of Ohio's series 2016 grant anticipation revenue vehicle (GARVEE) bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and underlying rating (SPUR) on the state's GARVEE bonds outstanding. The outlook is stable.

The state's GARVEE bonds are secured by Federal Title 23 Highway Funds, as apportioned and distributed by the Federal Highway Administration (FHWA) under the Federal-Aid Highway Program (FAHP). An additional pledge of state transportation funds that are unspent and available at fiscal year-end provides added security to the bonds, although the added state funds pledge is subordinate and subject to availability on an annual basis.

The series 2016 bonds are being issued to fund state highway projects in 14 counties, as well as the statewide Bridge Partnership Program. Bond proceeds are expected to generate about $255 million in available capital projects funds.

The rating reflects our assessment of the following credit strengths:

- A track record of very strong maximum annual debt service (MADS) coverage based on actual federal receipts, above 7.0x each year since 2012, and at 7.9x in fiscal 2015;
- Our expectation that MADS coverage will remain very strong, with pro forma MADS coverage projected to remain above 7.0x through at least 2020, including obligations associated with the series 2016 bonds and planned series 2018 and 2019 bonds;
- A covenant by the Ohio Department of Transportation (ODOT) to replace any deficiencies in the pledged federal highway receipts with its lawfully available funds;
- Sound bond provisions, including an additional bonds test requiring that the average FHWA receipts that ODOT received during the three previous fiscal years equal 5.0x MADS on the state's outstanding and proposed GARVEE bonds; while we note the additional bonds test will change in 2021, we believe the new test will remain supportive of the current rating; and
- The state's demonstrated track record of maximizing its share of Title 23 federal aid transportation grants, with the

department typically using all of its obligation authority in each federal fiscal year, receiving additional obligation authority that the FHWA has redistributed from other states, and effectively managing the reimbursement process.

Factors tempering the above-mentioned credit strengths include:

- As with most grant anticipation revenue programs that the FHWA revenues back, the possibility of decreases in pledged revenues due to declines in revenues available for distribution from the Federal Highway Trust Fund (HTF), or in the amounts appropriated by Congress; changes to the federal aid program; delays in congressional reauthorization; or the state's failure to manage the reimbursement process prudently; and,
- The possibility of a decrease in available ODOT funds that provide back-up support to debt service requirements, since the additional funds are subordinate and net of the entity's other expenditures.

The state's GARVEE bonds finance projects included within ODOT's Statewide Transportation Improvement Plan (STIP), which officials submit to the U.S. Department of Transportation. A first lien on Title 23 FWHA reimbursements delivered to ODOT are the primary source of security for the state's GARVEE bonds. Upon receipt, ODOT deposits the funds required to pay debt service in the State Infrastructure Bank (SIB). The state legislature appropriates the funds to pay debt service on a biennial basis.

ODOT technically funds its GARVEE bond debt service requirements in advance, depositing motor vehicle fuel tax revenues into the SIB in the fiscal year preceding each scheduled debt service payment. Similar to most GARVEE bond programs, a debt service reserve fund does not secure the outstanding bonds. The Ohio GARVEE program is not exposed to interest-rate swaps or variable-rate debt, and the program has no direct purchase debt outstanding.

An additional security pledge requires ODOT to deposit other lawfully available money into the SIB in an amount sufficient to meet the state's GARVEE bond debt service requirements, in the event FHWA receipts are insufficient to cover debt service. The available ODOT funds are those appropriated by the state for a given fiscal year, but not spent by the department for other purposes. In our view, although the additional ODOT pledge is subordinate to the department's other obligations, the pledge provides a notable degree of additional security for bondholders.

The state has historically maximized available federal support to fund its GARVEE program. Furthermore, the state has demonstrated success in receiving additional funding under FHWA's annual redistribution of other states' unused obligation authority. Actual Title 23 receipts reported by the state exceeded the state's appropriation and obligation authority in each of the past four years. In our view, the state's proactive management of its STIP and maximizing of available federal funding is a credit strength indicative of a well-managed state GARVEE program.

Reflective of the state's receipt of obligated federal funds not used by other states in recent years, the state program demonstrates very strong MADS coverage based on actual reimbursements. Over the past four years, this metric ranged from 7.0x in fiscal 2012, to 8.7x in fiscal 2013, and 7.9x in fiscal 2015. Pro forma MADS coverage including ODOT surplus cash on hand available to pay debt service was an even stronger 9.1x to 10.5x over that same period, and 9.6x in fiscal 2015. The metrics reflect the state's very strong ability to cover its GARVEE bond debt service obligations, and represent a primary credit strength.

Our analysis considers the fact that the state has preliminary plans to issue additional GARVEE bonds in the next few years. Although subject to change, the state currently anticipates issuing GARVEE bonds in fiscal years 2017, 2018, and 2019, adding approximately $640 million in new debt. We also expect the state's appropriation and obligation authority levels to remain fairly stable through at least fiscal 2020. Under the preliminary plan for new debt issuances, the state would maintain very strong MADS coverage. Based on 2015 actual federal receipts and MADS reflected under the preliminary borrowing schedule, the state would maintain very strong MADS of 7.4x. The state's existing GARVEE bond debt service schedule is structured with descending amortization, providing the state ample room to layer new debt in the coming years. We do not expect the state's additional debt plans, as currently represented, to materially weaken coverage metrics.

The rating on these GARVEE bonds, like all other GARVEE ratings we maintain, assumes that the supportive legislative framework and Congressional appropriations funding transportation grant programs will continue into the future through the enactment of multiyear authorizations or continuing temporary extensions. This assumption is based on historical precedent, our view of the political and economic importance of national highway and mass transit systems, the broad historical bipartisan political support for transportation spending programs at all levels of government, and Congress' track record of continuing appropriations and extensions to budget authorizations when they expire.

The most recent highway transportation legislation, Fixing America's Surface Transportation (FAST) Act, took effect Dec. 4, 2015, and authorizes federal funding through federal fiscal 2020. We believe the FAST Act generally supports the sector's credit quality due to a longer period of funding certainty and increased funding levels. The multiyear legislation will provide approximately $230 billion for highways, $60 billion for public transportation, $10 billion for passenger rail, and $5 billion for highway safety programs. This is an approximately 11% increase from current funding levels over five years.

Furthermore, FAST provides a 5.1% increase in highway fund distributions to states for fiscal 2016, and growth rates of 2.1% to 2.4% thereafter. Previous funding growth rates were lower, and until the FAST Act, S&P Global Ratings had cited federal budget deficits as a credit risk affecting highway funding levels.

Our rating in this sector range from 'A-' to 'AA' where only federal funding is pledged, and as high as 'AAA' where state agencies blend the federal funding with an additional pledge of state funding. We base the relatively strong ratings in this sector on the issuer's pledge of the HTF grants from the federal government. Overall, we believe, the FAST Act's signing confirms our views of ongoing and widespread Congressional support for preserving and expanding the national highway system. States and local transportation agencies that receive distributions from the HTF can confidently move forward with complex multiyear transportation projects because the questions surrounding federal funding no longer loom. Nevertheless, we carefully evaluate the risks to state programs that leverage these funds, including the timing of receipts, level of funding, and erosion in dollars either due to lower authorized or appropriated levels or programmatic changes that negatively affect recipients. We will continue to monitor the sector to evaluate how each individual state issuer might adjust its debt or capital spending plans, given the new law.

Although reauthorization risk cannot be completely eliminated, it has been minimized through conservative financial structures inherent in all rated GARVEE transactions, which have resulted in the relatively high ratings on these transactions. This includes the use of back-up credit support, debt service reserves, robust DSC levels, shorter final maturities, and restrictive additional debt provisions. In addition, many nonquantitative credit factors influence the rating, such as funding mechanics and timing; evaluation of state processes for managing and administering the program; history of federal receipts and volatility; each state's donor status, underlying economy, and transportation needs; and each state's respective political representation and congressional influence.

Outlook

The stable outlook indicates that we do not expect to change the rating during the two-year outlook period, because we expect that the state's obligation authority will remain stable, that the state will continue to seek Title 23 reimbursements for its eligible project expenses, and that the state's additional GARVEE bond issuances planned for 2018 and 2019 will not result in significantly higher MADS and a resultant significant drop in coverage.

Upside scenario

Although we do not expect to raise the rating during the outlook period, if the state does not incur additional debt obligations, as currently reflected under its preliminary plans for 2018 and 2019, and/or if the state improves its MADS coverage markedly, we could consider raising the rating.

Downside scenario

If MADS coverage, based on title 23 reimbursements, significantly declines, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Methodology And Assumptions: Rating U.S. Federal Transportation Grant-Secured Obligations, May 29, 2009
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
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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.