

# RatingsDirect®

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## Summary:

# Ohio; Appropriations; General Obligation

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## Summary:

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### Credit Profile

US\$300.0 mil higher education GO bonds (Ohio) ser 2015C due 11/01/2035

*Long Term Rating*

AA+/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Ohio's higher education general obligation (GO) bonds, series 2015C.

In addition, Standard & Poor's affirmed its 'AA+' long-term rating and underlying rating (SPUR) on Ohio's previously issued GO debt and its 'AA' long-term rating and SPUR on the state's previously issued appropriation debt. The outlook is stable. The GO debt rated 'AA+/A-1+' is variable-rate demand debt that is backed by the state's self-liquidity.

The ratings reflect what we view as Ohio's:

- Long track record of proactive financial and budget management, including the state's implementation of frequent and timely budget adjustments over time to mitigate lower revenue;
- Commitment to funding budget reserves that have been, and are expected to remain, instrumental in managing budget gaps through economic cycles;
- Improved revenue and budget performance and restoration of the budget stabilization fund (BSF), which has been increased to a statutory target of 8.5% of revenue as part of the enacted 2016-2017 budget;
- Vast, broad, and diverse economy, which has expanded steadily following weak performance through the past two recessions. Employment is anchored by manufacturing and includes several regional centers and corporate headquarters, in addition to a diverse service sector;
- Moderate debt levels, with rapid amortization and a conservatively managed capital and debt program; and
- Significant pension reform changes and steady progress in funding other postemployment benefits (OPEB).

The bonds are secured by the state's full faith and credit, revenue, and taxing power. Among receipts not included in that pledge are highway user receipts and net state lottery proceeds. Proceeds of the bonds will be used to finance the costs of capital facilities for state-supported and state-assisted institutions of higher education.

Ohio's economy continues to expand and, although the expansion has been slow compared with previous post-recession phases, the state's unemployment rate significantly improved in 2014 and 2015, with the rate holding at 4.7% through August 2015, better than the U.S. level. This rate compares very favorably with Ohio's 10.2% unemployment rate at its recessionary peak in 2009. Steady economic improvement has translated into expanding revenue and improved financial performance.

The state ended fiscal 2015 with an unencumbered general fund balance of \$1.29 billion on an unaudited cash basis, \$655 million above the monthly financial report estimate. The fiscal 2015 unencumbered and unobligated general fund

balance was \$550.4 million, of which 0.5% is a statutorily required balance of \$157 million, and the remaining \$393 million will support the first-year costs of the income tax reduction that the state adopted as part of the 2014-2015 biennium. Ohio transferred \$526.6 million to the BSF on July 9, 2015, bringing the balance to \$2.0 billion; about 6.4% of fiscal 2015 revenue. The new statutory target for the BSF is 8.5% of revenue, an increase from the previous maximum of 5.0%, which we view as a credit positive for the state's fiscal flexibility and believe will aid the state in addressing future budget volatility. This is especially significant for Ohio, which has to maintain budget balance throughout the year.

The enacted 2016-2017 biennium budget is balanced with what we view as minimal reliance on one-time revenue sources. The total biennium appropriations are approximately \$71.2 billion and are based on expected total general revenue fund biennial revenue of \$71.3 billion. The enacted budget continued the implementation of significant tax reform as part of the state's goal of making itself more competitive in attracting jobs and investments and to help small businesses. The tax reforms included small business tax relief and personal income tax reduction, which are partly offset with an increase to the cigarette tax, restriction of the retirement income tax credit, and increased allocation of certain taxes to the general revenue fund. The budget also increased funding of kindergarten to grade 12 education, higher education, and Medicaid. The fiscal 2016 budget anticipates a 10.8% increase of total sources primarily as a result of an increase in federal grants. Total sources are projected to grow by 4.6% by fiscal 2017.

Appropriations in fiscal 2016 are budgeted at \$34.9 billion, or a 13.1% increase over fiscal 2015, with Medicaid being the largest driver of the increase. According to the state, this is due to the shift of federal Group 8-related appropriations/reimbursements to the general revenue fund. State share appropriations increase by a more moderate, in our view, 5.3% from fiscal 2015. The fiscal 2017 budget shows a 4.2% total increase; again, state share growth is more modest at 3.5% from fiscal 2016. Ohio budgeted a modest drawdown of about \$110 million in the general revenue fund over the biennium. The general revenue fund is budgeted to close at \$503 million in fiscal 2016 and \$439 million in fiscal 2017; the balances exceed the state's statutory 0.5% ending general fund balance requirement. Along with the substantial reserves in the BSF, the projected fund balance of \$439 million in fiscal 2017 is more than adequate, in our view. The August 2015 financial report shows revenue above forecast and expenditures under forecast, but some of this is due to timing, and the state's preliminary numbers for September show revenue slightly down from year-to-date estimates but still significantly above results for the prior-year period.

Standard & Poor's considers Ohio's debt ratios moderate. With limited exceptions, the state constitution caps debt service at 5% of revenue; Ohio has remained below this cap, and based on projected debt issuance we anticipate that debt service will remain within the constitutional cap. Debt amortization is rapid, in our view, with approximately 80% of tax-supported debt retired over the next 10 years.

Ohio has five public retirement systems to provide retirement, disability retirement, and survivor benefits. Based on the most recent valuation for all plans, funding has improved significantly, in our view. The funding ratio for the state's primary plan improved to 83.8% based on the actuarial value of assets and 86.3% based on the market value of assets. Contribution rates for the state are established by statute at 14% of salary. Ohio's postemployment liability profile has improved following various modifications. These reforms, in combination with better investment performance, should contribute to improved funded ratios, in our opinion. In contrast to many states, Ohio has actively managed its OPEB

liabilities and accumulated significant assets to offset these liabilities, which we believe will limit future cost pressure.

On a four-point scale on which '1' is strongest, we have assigned an overall score of '1.8' to Ohio.

(For further credit information please refer to our full analysis published on July 24, 2015 on RatingsDirect).

## Outlook

The stable outlook reflects our view of the state's improved structural budget alignment and steady economic growth, which has increased revenue and allowed for contributions to the BSF. The state, we believe, has proactively responded to budget imbalance over time, and this is also factored into the 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 pension liability trends to improve significantly, positive credit implications could result. 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.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Ratings Detail (As Of October 12, 2015)

Ohio GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio cap facs lse-approp bnds (adult correctiaonl bldg fd projs) ser 2014A due 04/01/2034		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio cap facs lse-approp rfdg bnds (pub safety bldg fd proj) ser 2014A due 04/01/2019		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio cultural & sports		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio infrastructure imp GO bnds ser 2006A dtd 11/16/2006 due 03/01/2007-2026		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Ohio mental hlth cap facs		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Ratings Detail (As Of October 12, 2015) (cont.)		
Ohio pub fac comm parks & recre		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio GO VRD common schs		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Ohio GO VRD infrastructure		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
<b>Ohio cultural &amp; sports cap facs bnds ser 2005A</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio mental hlth cap facs bnds ser II-2006A</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio parks &amp; recre cap facs ser II-2007A</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio pub fac comm parks &amp; recre</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth, Ohio</b>		
Ohio		
Ohio Bldg Auth (Ohio) admin bldg		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Bldg Auth (Ohio) adult correctional		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Bldg Auth (Ohio) arts fac		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Bldg Auth (Ohio) highway safety		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Bldg Auth (Ohio) juvenile correctional		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) st facs</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) (Admin Bldg Fd Projs) st facs</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) (Adult Correctional Bldg Fd Projs) st facs</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) (Hwy Safety Bldg Fd Projs) st facs</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) (Juvenile Correctional Bldg Fd Projs) st facs</b>		

Ratings Detail (As Of October 12, 2015) (cont.)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio Dept of Admin Svc, Ohio</b>		
Ohio		
Ohio Dept of Adim Svc rfdg certs of partic (Ohio) (Ohio Administration Knowledge Sys Proj)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Dept of Admin Svc (Ohio) certs of part (Ohio) (Enterprise Data Center Solutions Proj) ser 2014 due 09/01/2024		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Dept of Admin Svc (Ohio) certs of part (Ohio) (Multi-agy Radio Communications Sys Proj) ser 2014 due 09/01/2027		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Dept of Admin Svc (Ohio) certs of part (Ohio) (State Taxation Accounting & Rev Sys Proj) ser 2015 due 03/01/2025		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Dept of Adm Svces (Ohio) multi-agy radio communication		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Dept of Adm Svces (Ohio) state taxation accounting & rev sys		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Ohio Pub Facs Comm, Ohio</b>		
Ohio		
Ohio Pub Facs Comm (Ohio) common schools GO rfdg bnds (Ohio)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) common schs GO bnds (Ohio) ser 2007A dtd 03/08/2007 due 06/15/2008-2026		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) hgr ed GO rfdg bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) higher education GO rfdg bnds (Ohio)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) infrastructure imp GO bnds (Ohio) ser 2014C due 03/01/2035		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) infrastructure imp GO rfdg bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) infra imp GO rfdg bnds (Ohio)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO VRD		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Fac Com (Ohio) hgr ed cap facs		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Ohio Pub Facs Comm (Ohio) GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
<b>Ohio State Treasurer, Ohio</b>		
Ohio		
Ohio Dept of Admin Svc (Ohio) certs of part (Ohio) (Enterprise Data Center Solutions Proj) ser 2014 due 09/01/2024		
<i>Long Term Rating</i>	AA/Stable	Affirmed

## Ratings Detail (As Of October 12, 2015) (cont.)

Ohio State Treasurer (Ohio) admin bldg		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) adult correctional		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cap facs lease approp fed taxable (Ohio) (Juvenile Correctional Bldg Fd Proj) ser 2015A due 10/01/2018		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cap facs lease approp rfdg bnds tax-exempt (Ohio) (Admin Bldg Fd Proj) ser 2015C due 10/01/2022		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cap facs lse approp bnds (Mental Hlth Facs Imp Fd Proj) ser 2014A due 02/01/2024		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cap facs lse approp rfdg bnds fed taxable Ohio Cultural & Sports Facs Bldg Fd Proj ser 2015A due 10/01/2019		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cap facs lse approp rfdg bnds tax exempt (Ohio) (Adult Correctional Bldg Fd Proj) ser 2015A due 10/01/2022		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cap facs lse-approp bnds admin bldg fd projs, tax-exempt (Ohio) ser 2015A due 04/01/2035		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cap facs lse-approp bnds (transp bldg fd projs)(tax-exempt) (Ohio) ser 2015A due 04/01/2030		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cap facs lse-approp bnds (Ohio) (Cultural & Sports Facilities Building Fund Projects) ser 2015B		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cap facs lse-approp bnds (Ohio) (Juvenile Correctional Building Fund Projects) ser 2015B due 04/01/2030		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cap facs lse-approp bnds (Ohio) (Mental Hlth Facs Imp Proj) ser 2015A due 02/01/2025		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cap facs lse-approp bnds (Ohio) (Parks And Recreation Improvement Fund Projects)) ser 2015A due 02/01/2030		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cap facs lse-approp bnds, (admin bldg fd projs),taxable (Ohio) ser 2015B due 04/01/2025		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cultural & sports		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) juvenile correctional bldg		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) mental hlth fac		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) park & recre		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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