S&P Global
Ratings

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Summary:
State of Ohio; Appropriations

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Credit Profile		
US$50.0 mil cap facs lse approp bnds (Mental Hlth Facs Imp Fnd Projs) ser 2018A due 04/01/2028		
Long Term Rating	AA/Stable	New
US$35.0 mil cap facs lse approp bnds (Juvenile Correctional Building Fnd Projs) ser 2018A due 04/01/2033		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to the State of Ohio's series 2018A capital facilities lease appropriation bonds (mental health facilities improvement fund projects) and series 2018A capital facilities lease appropriation bonds (juvenile correctional building fund projects), based on the application of its Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness criteria, published Jan. 22, 2018, on RatingsDirect. The outlook on all ratings is stable.

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. We rate these obligations one notch lower than Ohio's general creditworthiness (as reflected in the state GO rating) to account for the appropriation risk associated with the lease payment.

We understand that proceeds for the series 2018A mental health facilities improvement fund projects bonds will finance various capital facilities projects for the Department of Mental Health and Addiction Services and the Department of Developmental Disabilities (mental health departments). The proceeds from the series 2018A juvenile correctional building fund projects bonds will finance various capital facilities for the Department of Youth Services (DYS).

The state constitution authorizes the bonds and allows for special obligation bonds for the purpose of paying the costs for capital facilities for housing branches and agencies of state government. The 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 mental health departments and DYS in the supplemental lease agreements. The OPFC, the lessor, is a state agency and has assigned the lease payments to the trustee. The mental health departments and DYS have agreed to include all lease payments due under the master lease in their respective budget requests 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.

Lease payments are due on or before the two days before each debt service due dates. Debt service payments for the 2018A bonds for the mental health departments are due Jun. 1, for principal and interest, and Dec. 1, for interest only. Debt service payments for the 2018A bonds for DYS are due April 1, for principal and interest, and Oct. 1, for interest only. Ohio follows a biennial budget cycle with a fiscal year-end of June 30. 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. While there is no debt service reserve fund 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 in our opinion. 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 Ohio's appropriation obligations have been expressly excluded from budget reduction measures historically.

(For additional information, see the full analysis on the state's GO bonds published Sept. 27, 2017, 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 outlook. In addition, we note that there are statutory debt limits in place and meaningful reform efforts focused on postretirement liabilities, which should limit fixed-cost pressure. The pace of economic recovery, with continuous 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.