

RatingsDirect®

Summary:

State of Ohio; Appropriations

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Credit Profile

US\$100.0 mil cap facilities lse-approp bnds (Parks & Rec Imp Fund Projects) ser 2017A dtd 12/14/2017 due 12/01/2032

Long Term Rating AA/Stable New

US\$30.0 mil cap facs lse-approp bnds (Cultural & Sports Facs Bldg Fund Projects) ser 2017A dtd 12/14/2017 due 10/01/2027

Long Term Rating AA/Stable New

US\$10.24 mil cap facs lse-approp rfdg bnds (Juv Correctional Bldg Fund Projects) ser 2017A dtd 12/14/2017 due 10/01/2026

Long Term Rating AA/Stable New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to various capital facilities lease appropriation bonds issues by the State of Ohio. The outlook on all ratings is stable. The issues are as follows:

- Series 2017A capital facilities lease appropriation bonds (Parks and Recreation Improvement Fund Projects);
- Series 2017A capital facilities lease appropriation bonds (Cultural and Sports Facilities Building Fund Projects); and
- Series 2017A capital facilities lease appropriation bonds (Juvenile Correctional Building Fund Projects).

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 understand that proceeds for the bond issuances will be used as follows:

- The series 2017A bonds for parks and recreation improvement fund projects will finance various capital facilities projects for the Department of Natural Resources (DNR);
- The series 2017A bonds for cultural and sports facilities building fund projects will finance various capital facilities projects for the Ohio Facilities Construction Commission (OFCC); and
- The series 2017A bonds for juvenile correctional building fund projects will advance-refund bonds previously issued to pay capital costs for facilities leased to the Department of Youth Services (DYS).

Debt service savings for the 2017A refunding bonds for DYS are approximately level throughout most of the remaining life of the bonds with somewhat heightened savings in the first year followed by lesser savings in the next three. There is no extension of maturities.

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 DNR, OFCC, 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 DNR, OFCC, and DYS have 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.

Lease payments are due on or before the two days prior to each debt service due dates. Debt service payments for the 2017A bonds for OFCC and DYS are due Oct. 1, for principal and interest, and April 1, for interest only. Debt service payments for the 2017A bonds for DNR are due Dec. 1, for principal and interest, and June 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 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.capitaliq.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

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