

RatingsDirect®

Summary:

Ohio

Ohio State Treasurer; Appropriations

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Credit Profile

US\$80.0 mil cap facs lse - appropriation bnds (Ohio) (Park And Recre Imp Fd Proj) ser 2016A due 02/01/2031

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to Ohio's \$80 million capital facilities lease appropriation bonds, series 2016A (Parks and Recreation Improvement 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 its 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 biennial appropriation, secure the capital facilities lease appropriation bonds. We understand that bond proceeds will be used to finance the costs of capital facilities to be leased to the Department of Natural Resources (DNR). 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 2016 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.

The OPFC, the lessor, is a state agency and has assigned the lease payments to the trustee. The DNR agrees to include all lease payments due under the master lease in its budget requests each biennium, which are part of the budget submitted by the director of the 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 full analysis on the state's GO bonds published Feb. 12, 2016, on RatingsDirect)

Outlook

The stable outlook mirrors our general credit outlook on Ohio. 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 budget stabilization fund. Ohio, 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 the 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.

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: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

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 Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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