

RatingsDirect®

Summary:

State of Ohio; Appropriations; General Obligation

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Summary:

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| Credit Profile | | |
|--|------------|----------|
| US\$300.0 mil common schs GO bnds ser 2018A due 06/15/2038 | | |
| <i>Long Term Rating</i> | AA+/Stable | New |
| Ohio GO | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Ohio State Treasurer, Ohio | | |
| State of Ohio, Ohio | | |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |

Rationale

S&P Global Ratings assigned its 'AA+' rating to the State of Ohio's series 2018A common schools general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the state's GO bonds and its 'AA' rating on Ohio's appropriation-backed debt outstanding. The outlook on all ratings is stable.

S&P Global Ratings also affirmed its 'AA-' rating, with a stable outlook, on Ohio's tax credit bonds issued by Columbus-Franklin County Finance Authority. (For more information, please refer to the full analysis published Feb. 22, 2018, on RatingsDirect.)

The ratings on the appropriation-backed debt and the tax credit bonds are based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria, published Jan. 22, 2018, on RatingsDirect.

Finally, S&P Global Ratings affirmed its 'AA+/A-1+' ratings on Ohio's GO variable-rate demand debt and its 'AA/A-1+' ratings on the state's appropriation variable-rate demand debt whereby the short-term rating reflects Ohio's self-liquidity. The outlook on the long-term ratings is stable.

The GO bonds are secured by a pledge of Ohio's full faith and credit, revenue, and taxing power. Highway user receipts and net lottery proceeds are excluded from the pledge.

The 'AA+' 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 was 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.

Total year-to-date fiscal 2018 general revenue fund (GRF) sources through April are slightly above estimates by 0.6%, or \$150 million. In addition, disbursements are lower than estimated at 0.9%, or \$234 million below expected total fund uses. Fiscal 2018 revenue performance is lower than for the same time period in fiscal 2017 (by 3.9% or \$1.1 billion); however, disbursements are lower by 7.9%, or \$2.3 billion below prior-year total fund uses.

Ohio's enacted 2018-2019 biennium budget is balanced with what we view as minimal reliance on one-time revenue sources. The total biennium appropriations are approximately \$65.5 billion and are based on expected total GRF biennial revenues of \$65.6 billion. The GRF ending balance is budgeted to close at \$196.8 million in fiscal 2018 and \$168.1 million in fiscal 2019, which meets the state's statutory target of a 0.5% ending GRF balance. Over the biennium, Medicaid and education represent the two largest spending categories at \$30.5 billion (46.6% of GRF expenditures) and \$22.2 billion (34.0% of GRF appropriations), respectively. The budget maintains the state's BSF at \$2 billion (about 6% of GRF revenues) through the biennium.

Appropriations in fiscal 2018 are budgeted at \$32.2 billion or a 6.7% decrease from fiscal 2017, with Medicaid being the largest driver of the decrease. GRF Medicaid spending as enacted for fiscal 2018 falls 15% from fiscal 2017 levels following a change in federal policy that excludes federally matched funds from the state's sales tax on Medicaid managed care plan premiums. The enacted 2018-2019 biennium budget establishes a Health Insurance Corp. provider assessment to offset the impending net negative impact to the state of approximately \$597 million in fiscal 2018. The assessment is expected to generate an offsetting net fiscal benefit of \$615 million annually, with revenues and federal reimbursements to be deposited and expended from a non-GRF dedicated purpose fund. Local governments that received state support stemming from the previous sales tax will not receive such revenues from the provider assessment; Ohio has developed a support plan to help local entities manage the change. The governor vetoed a provision that would have required the state to explore, with the Centers for Medicare and Medicaid Services, the option of increasing the assessment in a manner that provides an additional \$207 million each fiscal year in an effort to distribute these funds to affected local governments. In Ohio, the legislature could override the governor's veto with a three-fifths majority vote of each house of the general assembly. The house voted to override the veto while the senate did not vote on the matter in the session that ended Dec. 31, 2017.

Ohio's economy continues to expand, although the expansion has been slow compared with previous post-recession phases. The state's unemployment rate significantly improved from 2014 to 2017, with a rate of 4.4% in March 2018, compared with the U.S. level of 4.1% for the same time period. This rate compares very favorably with Ohio's 10.2% unemployment rate at the state's recessionary peak in 2009. Steady economic improvement has translated into expanding revenue and improved financial performance.

As per the fiscal 2017 comprehensive annual financial report, the balance of Ohio's general fund (which includes the

GRF and several other funds) decreased by \$265.8 million (4.7%), bringing the total general fund balance to approximately \$5.4 billion, or 14.7% of operating expenditures, which we consider strong. In fiscal 2016, the balance was approximately \$5.6 billion (a 13% increase from fiscal 2015). Contributing to the reduction in fiscal 2017 were increased general fund expenditures for public assistance and Medicaid, which rose by \$1.2 billion or 7.1%, primarily due to increases in Medicaid spending. The decrease brings the total general fund balance to approximately \$5.4 billion, or a strong, in our view, 14.7% of operating expenditures. As of June 30, 2017, the BSF balance is \$2.03 billion, or a good, in our view, 5.4% of fiscal 2017 revenues. The statutory ceiling for the BSF is 8.5% of revenues, and was previously increased from a maximum of 5.0%, which we view as a credit positive for Ohio's fiscal flexibility that will aid the state in addressing future budget volatility. This is especially significant for Ohio, which has to maintain budget balance throughout the year.

S&P Global Ratings considers Ohio's debt ratios moderate. With limited exceptions, the state constitution caps debt service at 5% of GRF revenue plus net state lottery profits; Ohio has remained below this cap and, based on projected debt issuance, we expect that debt service will remain within the constitutional cap. Debt amortization is rapid, in our view, with approximately 71% of tax-supported debt retired over the next 10 years.

Ohio's pension liabilities are average, in our view, with what we consider a good three-year average funded ratio of 76% across the three pension plans for which the state has a reported liability. Furthermore, the state benefits from a relatively small unfunded liability compared with income and population. Ohio receives a positive adjustment for this strength as its ratio of unfunded liability to personal income is low at 1% and its unfunded liability per capita is also low at \$450. However, we consider the funding discipline of Ohio's pension plans to be weak. State contributions to Ohio's two largest plans, Ohio's Public Employees Retirement System and State Teachers Retirement System, are statutorily limited to 14% of payroll. Somewhat offsetting this weakness is the state's ability to adjust statutory contribution requirements. We also note that total annual plan contributions were under amounts necessary for the plans to cover a portion of the amortization in unfunded liability as well as certain cost drivers of the annual change in the liability, which we believe could weaken the strength of the state's pension liability profile over time. 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. (For more information, see our full analysis published Sept. 27, 2017, on RatingsDirect.)

On a four-point scale on which '1.0' is strongest and '4.0' is the weakest, we have assigned an overall score of '1.7' to Ohio.

Outlook

The stable outlook reflects our view of Ohio'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 our 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, 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.

| Ratings Detail (As Of May 18, 2018) | | |
|--|-----------------|----------|
| Ohio cultural & sports APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio GO VRD | | |
| <i>Long Term Rating</i> | AA+/A-1+/Stable | Affirmed |
| Ohio GO VRD | | |
| <i>Long Term Rating</i> | AA+/A-1+/Stable | Affirmed |
| Ohio APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Administrative Bldg Fd Projs) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Administrative Bldg Fd Projs) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Adult Correctional Bldg Fd Projs) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Adult Correctional Bldg Fd Proj) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Adult Correctional Bldg Fd Proj) APPROP | | |
| <i>Long Term Rating</i> | AA/A-1+/Stable | Affirmed |
| Ohio (Adult Correctional Bldg Fd Proj) APPROP | | |
| <i>Long Term Rating</i> | AA/A-1+/Stable | Affirmed |
| Ohio (Adult Correctional Bldg Fd Proj) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Cultural & Sports Facs Bldg Fd Projs) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Cultural & Sports Fac Bldg Fund Proj) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Juv Correctional Bldg Fd Projs) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Mental Health Facs Imp Fd Projs) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |

| Ratings Detail (As Of May 18, 2018) (cont.) | | |
|--|-----------------|----------|
| Ohio (Mental Hlth Facs Imp Fd Projs) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Mental Hlth Facs Imp Fund Projs) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Parks & Recreation Imp Fund Projs) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Parks & Recre Imp Fund Projs) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio (Parks & Rec Imp Fd Projs) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| State of Ohio cap facs lse approp bnds (Juvenile Correctional Building Fnd Projs) ser 2018A due 04/01/2033 | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| State of Ohio cap facs lse approp bnds (Mental Hlth Facs Imp Fnd Projs) ser 2018A due 04/01/2028 | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Columbus-Franklin Cnty Fin Auth, Ohio | | |
| State of Ohio, Ohio | | |
| Columbus-Franklin Cnty Fin Auth (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA-/Stable | Affirmed |
| Columbus-Franklin Cnty Fin Auth (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA-/Stable | Affirmed |
| Columbus-Franklin Cnty Fin Auth (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA-/Stable | Affirmed |
| Ohio Bldg Auth, Ohio | | |
| State of Ohio, Ohio | | |
| Ohio Bldg Auth (Ohio) admin bldg APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio Bldg Auth (Ohio) adult correctional APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio Bldg Auth (Ohio) highway safety APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio Bldg Auth (Ohio) juvenile correctional APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio Bldg Auth (Ohio) st facs | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Ohio Bldg Auth (Ohio) (Admin Bldg Fd Projs) st facs | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Ohio Bldg Auth (Ohio) (Adult Correctional Bldg Fd Projs) st facs | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |
| Ohio Bldg Auth (Ohio) (Hwy Safety Bldg Fd Projs) st facs | | |
| <i>Unenhanced Rating</i> | AA(SPUR)/Stable | Affirmed |

Ratings Detail (As Of May 18, 2018) (cont.)

Ohio Dept of Admin Svc, Ohio

State of Ohio, Ohio

Ohio Dept of Adim Svcs (Ohio) (Multi-Agy Radio Comm) APPROP

Long Term Rating AA/Stable Affirmed

Ohio Dept of Adim Svcs (Ohio) (State Taxation Accounting) APPROP

Long Term Rating AA/Stable Affirmed

Ohio Dept of Adim Svc (Ohio) (Admin Knowledge Sys) APPROP

Long Term Rating AA/Stable Affirmed

Ohio Dept of Admin Svc (Ohio) APPROP

Long Term Rating AA/Stable Affirmed

Ohio Dept of Admin Svc (Ohio) APPROP

Long Term Rating AA/Stable Affirmed

Ohio Dept of Admin Svc (Ohio) APPROP

Long Term Rating AA/Stable Affirmed

Ohio Dept of Admin Svc (Ohio) (Administrative Knowledge Sys) APPROP

Long Term Rating AA/Stable Affirmed

Ohio Dept of Admin Svc (Ohio) (Bureau of Criminal Investigation Records) APPROP

Long Term Rating AA/Stable Affirmed

Ohio Dept of Admin Svc (Ohio) (Enterprise Data Center Solutions) APPROP

Long Term Rating AA/Stable Affirmed

Ohio Dept of Admin Svc (Ohio) (State Taxation Accounting) APPROP

Long Term Rating AA/Stable Affirmed

Ohio Pub Facs Comm, Ohio

State of Ohio, Ohio

Ohio Pub Facs Comm (Ohio)

Long Term Rating AA+/Stable Affirmed

Ohio Pub Facs Comm (Ohio)

Long Term Rating AA+/Stable Affirmed

Ohio Pub Facs Comm (Ohio)

Long Term Rating AA+/Stable Affirmed

Ohio Pub Facs Comm (Ohio) GO

Long Term Rating AA+/Stable Affirmed

Ohio Pub Facs Comm (Ohio) GO

Long Term Rating AA+/Stable Affirmed

Ohio Pub Facs Comm (Ohio) GO

Long Term Rating AA+/Stable Affirmed

Ohio Pub Facs Comm (Ohio) GO

Long Term Rating AA+/Stable Affirmed

Ohio Pub Facs Comm (Ohio) GO

Long Term Rating AA+/Stable Affirmed

Ohio Pub Facs Comm (Ohio) GO

Long Term Rating AA+/Stable Affirmed

Ohio Pub Facs Comm (Ohio) GO

Long Term Rating AA+/Stable Affirmed

Ratings Detail (As Of May 18, 2018) (cont.)

| | | |
|------------------------------------|-----------------|----------|
| Ohio Pub Facs Comm (Ohio) GO | | |
| <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 State Treasurer, Ohio | | |
| State of Ohio, Ohio | | |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |

Ratings Detail (As Of May 18, 2018) (cont.)

| | | |
|---|-----------|----------|
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (Ohio) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Ohio State Treasurer (State of Ohio) (Transp Bldg Fnd Projs) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |

Many issues are enhanced by bond insurance.

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