

FITCH AFFIRMS OHIO'S SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM AT 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-13 May 2011: As part of its ongoing surveillance process, Fitch Ratings has affirmed the programmatic rating on the State of Ohio's school district credit enhancement program at 'AA'. The Rating Outlook remains Stable.

RATING RATIONALE:

--The rating is tied to the state's 'AA+' rating on outstanding general obligation (GO) bonds and to strengths of the program itself.

--Participating districts must be approved by the Ohio Department of Education (ODE) and Ohio Office of Budget and Management (OBM) for program participation. ODE and OBM requirements are stringent, and program oversight is strong.

--State foundation program payments are intercepted by ODE and sent to the bond paying agent or registrar if, prior to bond payment date, the district has not transmitted sufficient funds to cover debt service.

--State oversight of school districts is strong, helping to prevent financial erosion of school districts.

--Ohio's 'AA+' GO rating reflects the state's careful financial management, ongoing record of maintaining fiscal balance, and a moderate, rapidly amortizing debt burden, tempered by a severely weakened economy that remains closely tied to the troubled manufacturing sector.

KEY RATING DRIVERS:

--Maintenance of the state's 'AA+' bond rating on which this rating is based.

--Change in the statutes, regulations, or administrative procedures governing the program

SECURITY:

Before the bond payment date, state intercept of state school foundation payments should a district be unable to make required debt service payments.

CREDIT SUMMARY:

Upon request, Fitch will assign the 'AA' rating to GO bonds of Ohio school districts approved for participation in the program based on the credit protections established by Chapter 3317, Section 18, of the Ohio Revised Code. Participating Ohio school districts must be approved by ODE and OBM to qualify for the 'AA' rating. Participation requirements are stringent, including 2.5 times coverage of maximum annual debt service by state foundation aid on proposed bonds and any outstanding obligations covered by the program. Moreover, a 2008 regulatory change required that coverage calculations be based only on the unrestricted portion of foundation aid, further tightening program requirements.

Program mechanics are strong. Ohio law requires ODE to forward to a bond paying agent or registrar state foundation program payments otherwise due to a participating school district if, prior to the bond payment date, the district has not transmitted funds sufficient to cover a required debt payment. ODE and OBM exercise strong statutory oversight of school districts to help prevent financial erosion, further reducing the potential for bond defaults.

The long-term 'AA+' GO rating on the State of Ohio reflects the state's careful financial management, ongoing record of maintaining fiscal balance, and a moderate, rapidly amortizing debt burden, tempered by a severely weakened economy that remains closely tied to the manufacturing sector. The use of one-time revenues including debt restructuring, federal stimulus funds, and the draw-down of rainy day funds in the downturn combined with increased state responsibility for

education funding result in a structural budget gap to be addressed. The Stable Outlook reflects Fitch's expectation that the state will maintain budget balance and rebuild the budget stabilization fund as the economy recovers.

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In addition to the sources of information identified in the Tax-Supported Rating Criteria, this action was additionally informed by information from IHS Global Insight.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria', dated Aug. 16, 2010.
--'U.S. State Government Tax-Supported Rating Criteria', dated Oct. 8, 2010.

For information on Build America Bonds, visit 'www.fitchratings.com/BABs'.

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548605
U.S. State Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564546

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