STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:
Ohio; Federal or state grant programs

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Summary:

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Credit Profile		
US$156.39 mil major new st infra proj rev bnds ser 2014-1A dtd 12/16/2014 due 12/15/2024		
Long Term Rating	AA/Stable	New
US$62.175 mil major new st infra proj rev rfdg bnds ser 2014-1B dtd 12/16/2014 due 06/15/2020		
Long Term Rating	AA/Stable	New
Ohio (Major New State Infrastructure Project)		
Long Term Rating	AA/Stable	Affirmed
Ohio major new state infrastructure proj		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Ohio (Major New State Infrastructure Project)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' rating to Ohio's series 2014-1A grant anticipation revenue vehicle (GARVEE) bonds and to the proposed series 2014-1B refunding GARVEE bonds, secured by anticipated federal highway program receipts. At the same time, Standard & Poor's affirmed its 'AA' rating on Ohio's GARVEE bonds outstanding. The outlook is stable.

The rating reflects our assessment of the following credit strengths:

- Strong historical maximum annual debt service (MADS) coverage of 8.60x based on actual 2014 federal receipts. It has been no lower than 5.07x since 2004 based on current MADS;
- A covenant by Ohio Department of Transportation (ODOT) to replace any deficiencies in the pledged federal highway receipts with its lawfully available funds;
- Sound bond provisions, which include an additional bonds test requiring that the average Federal Highway Administration (FHWA) receipts ODOT receives during the previous three years equal 5x MADS on existing and proposed bonds; and
- A long history of the state maximizing its share of Title 23 federal aid transportation grants, with the department typically using all of its obligation authority in each federal fiscal year, receiving additional obligation authority that the FHWA has redistributed from other states, and effectively managing the reimbursement process.

In our opinion, offsetting credit factors include the narrow pledge of FHWA reimbursements to the state; the possibility of a decrease in pledged revenues resulting from a decline in funds for states from the Highway Trust Fund (HTF) or in Congress-appropriated amounts; changes to the federal aid highway program; delays to congressional reauthorization; or ODOT's failure to prudently manage the reimbursement process.

Bond proceeds will finance 18 highway and bridge projects across Ohio. ODOT's Statewide Transportation Improvement Plan, which officials submitted to the U.S. Department of Transportation, includes the projects. After the proposed 2014 bonds are issued, Ohio will have approximately $925 million in GARVEE debt outstanding, and it might issue $300 million more through 2018. The state's GARVEE program is direct, secured by a first lien on FHWA payments of debt service to ODOT, held in the State Infrastructure Bank, and subject to biennial appropriation by the Ohio General Assembly. Like most GARVEE bond issuances, a debt service reserve fund does not secure the bonds. The Ohio GARVEE program has no exposure to swaps or variable-rate debt.

An agreement between the state treasury and ODOT provide important credit strengths, including ODOT covenanting to deposit all bond debt service for the federal fiscal year with the State Infrastructure Bank before making any other payment from FHWA receipts. In the event that sufficient deposits have not been made 45 days before a scheduled debt service payment, ODOT covenants to make the required deposit from its lawfully available money. This back-up pledge is subject to state appropriation and consists primarily of ODOT funds that were budgeted or appropriated but not spent during the fiscal year.

Unlike some other GARVEE programs, debt service on the Ohio GARVEE bonds is not paid directly to the trustee; rather, funds must pass through ODOT and the State Infrastructure Bank. Nor does the state use a memorandum of agreement with the FHWA to clarify the process by which it receives debt service. Because bondholders benefit from the back-up pledge of state money, Standard & Poor's does not consider the lack of these features to be a significant credit concern.

ODOT's practice of not issuing GARVEE bonds for a specific list of projects, but rather for the program's immediate needs, will require the additional GARVEE bonds in the next three fiscal years. The state may substitute projects with others, provided the FHWA has approved them. In connection with the series 2012-1 bonds, the state changed the ABT to 5x MADS coverage based on the highest annual obligation authority in the three most recent federal fiscal years. Ohio is issuing the series 2014-1 bonds under the old ABT and the modification will take effect upon maturity of series 2010-2 bonds in fiscal 2021.

Coverage of projected MADS on the entire GARVEE program including existing and projected debt through 2018, is very strong, in our view. It is 7.4x based on fiscal 2014 obligation authority (the level at which annual eligible highway grants are capped) and 8.6x based on fiscal 2014 receipts. The estimated obligation authority for fiscal 2014 would need to drop dramatically for pro forma MADS coverage to fall under 1x, a possibility that Standard & Poor's considers remote.

We believe potential delays in authorizations, changes in law, declining Highway Trust Fund (HTF) balances, or Congressional or administrative modifications to grant programs will not end the long-standing practice of federal aid for transportation on which we base our grant anticipation ratings. However, program rule changes, constrained funding sources, and federal budget pressures could lead to lower authorization and appropriation levels and diminish coverage, which we currently view as very strong for most transportation grant-backed bonds we rate.

On July 31, 2014, Congress approved a bill to provide $10.8 billion in short-term funding to address the dwindling balance in the HTF. If no action had been taken, funding for states and other transportation agencies would have been curtailed by 28% as of Aug. 1, and the HTF would have run out of money that was promised to states for highway and transit programs by September 2014. However, this patch provides only enough money to sustain the highway and transit programs through May 2015. We will continue to monitor the situation. Congress is continuing to seek a long-term funding solution.

Although Standard & Poor's believes this congressional action alleviates the immediate pressure on GARVEE issuers, the delay and uncertainty regarding renewal authorizations to the surface transportation bill highlight the key credit weakness of GARVEE ratings. Although the likelihood that federal transportation funding will be discontinued is remote, in our view, we carefully evaluate the risks to state programs that leverage these funds, including the timing of receipts, level of funding, and erosion in dollars either due to lower authorized or appropriated levels or programmatic changes that negatively affect recipients. In our opinion, both the history of the program and its vital role in preserving and expanding the national highway system, as well as the significant funding needs facing surface transportation and the lack of resources to fund those needs, support continued reauthorization of the program for the foreseeable future. We will closely monitor the sector both during and after reauthorization to evaluate how issuers of federal grant-backed bonds alter their debt programs.

As a result of the application of the U.S. Federal Future Flow Securitization criteria, the maximum indicative rating level for GARVEEs or grant anticipation notes secured solely by federal aid funds is one notch below the rating on the U.S. (AA+/Stable/A-1+).

Outlook

The stable outlook reflects our expectations that the long-standing federal aid highway program will continue to receive significant funding and that Ohio will continue to receive its historical share of annual Title 23 distributions. Should there be a significant decline in debt service coverage or should the state fail to prudently manage the reimbursement process, we could downgrade the bonds. We do not expect to raise the rating during the outlook period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Methodology And Assumptions: Rating U.S. Federal Transportation Grant-Secured Obligations, May 29, 2009
- USPF Criteria: Federal Future Flow Securitization, March 12, 2012

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