MOODY'S INVESTORS SERVICE

CREDIT OPINION
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New Issue

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State of Ohio

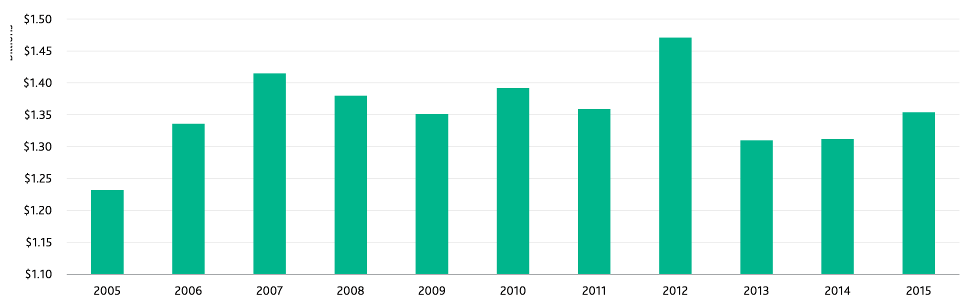
New Issue: Moody's Assigns Aa2 to Ohio's $217M Major New State Infrastructure Project Revenue Bonds, Series 2016-1

Summary Rating Rationale

Moody's Investors Service has assigned a rating of Aa2 to the State of Ohio's $217 million of Major New State Infrastructure Project Revenue Bonds Series 2016-1. The outlook is stable.

Ohio's Major New State Infrastructure Project bonds are secured by a lien on Federal Highway Administration (FHWA) reimbursements to the Ohio Department of Transportation (ODOT) for eligible highway construction projects. The Ohio program's limits on additional borrowing have maintained strong coverage of annual debt service by these pledged federal grant funds. The Aa2 rating recognizes the program's strong legal constraints as well as the challenges confronting the funding derived from the Title 23 Federal Aid Highway Program, which is subject to periodic renewal by Congress.

Exhibit 1
Ohio's federal highway obligation authority has grown modestly over the past decade.



Source: Ohio Major New State Infrastructure Project Revenue Bonds offering document.

Credit Strengths

- Additional bonds test (ABT) requiring five times debt service coverage
- Requirement that FHWA reimbursements be used for debt service prior to other ODOT purposes
- Federal Aid Highway Program's history of national support
- Short (12-year) maturity that limits exposure to FHWA risk

Credit Challenges

» Risk that federal government will fail to provide timely funding reauthorization

» Stagnant gasoline consumption and insufficient Federal Highway Trust Fund tax receipts

» Requirement for Ohio legislature to pass biennial appropriations of state's FHWA funds to allow debt service payment

Rating Outlook

The rating outlook for Ohio's Major New Infrastructure Project Revenue Bonds is stable, based on our expectation that the US government's December 2015 passage of the Fixing America's Surface Transportation Act (FAST Act) will mitigate risks of funding disruption caused by either a lapse in program authorization or depletion of the federal Highway Trust Fund (HTF) during the next five years. Given the essentiality and political appeal of transportation infrastructure, we expect the federal highway program to continue to be a high national priority and for Congress to continue providing sufficient federal aid to Ohio. We view a severe reduction or elimination of the federal program during the term of the bonds as unlikely.

Factors that Could Lead to an Upgrade

» Removal of requirement for biennial legislative appropriation of pledged revenue

» Other structural enhancements

Factors that Could Lead to a Downgrade

» Discontinuation of or reduction in federal transportation grant program, or a lapse in reauthorization of federal transportation spending

» Sharp HTF revenue decline caused by economic stress, tax inefficiency or redirection of fuel taxes to general fund

» Issuance of parity debt with significantly longer maturities than in the past, or substantial increase in leverage

» Failure to provide timely appropriation to allow for payment of debt service

Key Indicators

Exhibit 2

Ohio Major New State Infrastructure Project Revenue Bonds					
Fiscal Year	2011	2012	2013	2014	2015
Coverage of Maximum Annual Debt Service	6.4 x	6.4 x	6.6 x	6.6 x	6.6 x
Total Debt Service (Millions)	$ 154.0	$ 173.0	$ 167.5	$ 177.4	$ 175.4
Nominal Pledged Revenue (Millions)	$ 1,082	$ 1,375	$ 1,542	$ 1,525	$ 1,408
Pledged Revenue Annual Change	2.8%	27%	12.2%	-1.1%	-7.7%
Debt Service as % of Pledged Revenue	14%	13%	11%	12%	12%
Additional Bonds Test	5 x	5 x	5 x	5 x	5 x

Source: Major New State Infrastructure Project Revenue Bond offering documents.

Recent Developments

Recent developments are incorporated in the Detailed Rating Considerations.

Detailed Rating Considerations

Tax Base and Nature of Pledge

Pledged revenues consist of Federal Title 23 funds received by the state under the Federal Aid Highway Program, which is administered by the US Department of Transportation's FHWA and funded by the HTF. ODOT deposits funds for payment of debt service with the state treasurer. ODOT's obligation to make such deposits, however, is subject to biennial appropriation by the state legislature.

The HTF is the repository for taxes derived mostly from a national motor fuel tax and subject to periodic reauthorization by Congress. The most recent reauthorization, the FAST Act, succeeded the "Moving Ahead for Progress in the 21st Century Act," known as MAP-21, after several temporary extensions. The federal highway program was initiated in 1956 and has changed emphasis through various reauthorizations, but it is premised on providing reimbursements to states for expenditures on road and transportation programs according to formulas that take into account population and other factors.

Debt Service Coverage and Revenue Metrics

FHWA funding received by states under the program can be measured in two ways: First, by the obligation authority (or authority to commit to eligible highway projects) allocated to the states each year under the program's formulas, and second, by actual funds received in a given year. These two figures vary from one year to the next because obligation authority is determined by the program formulas, while actual receipts are linked to reimbursements drawn for expenditures on authorized projects.

Ohio's federal highway aid obligation authority has averaged about $1.37 billion per year during the past decade, which includes the temporary impact of federal stimulus from the American Recovery and Reinvestment Act of 2009. With the passage of the FAST Act, which increased funding compared with recent authorization levels, the state expects its obligation authority to grow to almost $1.44 billion by fiscal 2020. During fiscal years 2012 through 2016, Ohio's actual receipts averaged 107% of obligation authority.

The average of Ohio's reimbursements during the past three years ($1.49 billion) would provide 9.7 times coverage of projected maximum annual debt service (MADS) after issuance of the 2016 bonds. The state also plans two subsequent issues, of $190 million each, in 2017 and 2018, which would increase MADS to a projected $183.6 million. Using the state's actual 2015 obligation authority, MADS coverage of all currently anticipated borrowings is 7.4 times. These coverage ratios do not include federal debt service subsidies received on Ohio's 2010-2 and 2010-4 Build America Bonds, which are pledged to bondholders.

LIQUIDITY

The department maintains substantial liquidity in the form of unused prior-year appropriations that are legally available to pay debt service on the Major New State Infrastructure Revenue Bonds. As of the end of fiscal 2015, these funds totaled $321 million.

Debt and Legal Covenants

Under the bond documents, new bonds may only be issued as long as federal revenue will cover resulting maximum annual debt service by a 5-1 ratio. The revenue specified in the additional bonds test is the average of actual FHWA reimbursements to the state in the most recent three state fiscal years.

Ohio is revising the terms of its additional bonds test so that obligation authority, rather than actual receipts, will be the basis for demonstrating compliance with the required five-times debt service coverage ratio. Under the current ABT, compliance has been demonstrated using a three-year average of actual federal reimbursements received, as previously noted. The change, which is intended to limit possible future impacts from low-reimbursement years, will take effect after June 15, 2021, when all debt issued under the pre-existing covenant has matured. The state previously altered the terms of its additional bonds test. In connection with the issuance of the Series 2007-1 bonds, Ohio eliminated an absolute cap on annual program debt service ($100 million) and increased coverage required under the additional bonds test to five times MADS from four times. While this change allowed for additional program leverage, it maintained coverage at a high level relative to other federal grant anticipation vehicle (or GARVEE) programs.

DEBT STRUCTURE

All of the Ohio Major New State Infrastructure Project Revenue Bonds, including Series 2016-1, are fixed-rate bonds. Principal amortizes fairly rapidly, because the bonds have been issued with final maturities of no more than 12 years. Peak debt service occurs in the near term, rather than being back-loaded. MADS including Series 2016-1 will occur in fiscal 2017.

DEBT-RELATED DERIVATIVES

There are no derivatives associated with Ohio's Department of Transportation federal grant anticipation program.

PENSIONS AND OPEB

Pensions and OPEB are not rating factors under the special tax methodology.

Management and Governance

Ohio uses a biennial budget. The state constitution has no revenue raising caps or mandated spending levels, providing flexibility to increase revenues and cut expenditures when needed. The governor also has the ability to reduce appropriations through executive orders. The state rainy day fund's statutory target is 8.5% of the prior year's general revenue fund revenues. The state is also required to retain funding equal to 0.5% of fiscal year revenues in the general revenue fund that could be carried over to the following fiscal year.

Legal Security

The bonds are secured by a pledge of Federal Title 23 funds received by the state. ODOT, under an agreement between the state treasurer and the director of ODOT, cannot use federal highway aid for other purposes in the course of a federal fiscal year until it has first provided for payment on outstanding GARVEEs. This requirement should ensure that sufficient funds are set aside for principal and interest payments. As previously noted, payment of Title 23 funds is subject to biennial appropriation by the state legislature, a feature that is not common among GARVEE programs. Ohio state law broadly prohibits agencies from spending without appropriations. Moody's views the risk of non-appropriation of funds for debt service as remote especially in view of the requirement that debt service on the securities be provided for prior to any other uses. In addition, ODOT and the state have a long history of timely budget adoption, and the interest and principal payment dates on the bonds, June 15 and December 15, are far removed from the July 1 start of the state's fiscal biennium, offsetting risk of default caused by late budget adoption.

While no other state resources are pledged as a back-up to the federal reimbursements, the DOT Director has covenanted to pay using other funds lawfully available in the event of an interruption in Title 23 funding. The other funds would consist of appropriations of DOT revenues from sources including state gasoline tax receipts. Such other funds in fiscal 2015 amounted to $321 million on an available cash basis. In practice, the DOT pays for GARVEE debt service using motor-fuel tax receipts, setting aside these funds early in the federal fiscal year before debt service is due.

Use of Proceeds

Proceeds of the current offering, which will amount to an estimated $255 million (reflecting bonds sold a premium to their face amounts) will fund 22 capital projects around the state in coming months.

Obligor Profile

Ohio is the seventh-largest US state by population. Its gross domestic product per capita also ranks seventh among states. The Ohio Department of Transportation is responsible for planning, designing, constructing, maintaining and rehabilitating the state's highway system. It administers federal funds -- including those used by local jurisdictions for local road and bridge projects -- as well as funding that both the state and federal governments allocate to public transportation, bridge, waterway and aviation infrastructure. ODOT is overseen by an appointee of the governor of Ohio and is one of the state's largest agencies, with approximately 4,900 employees.

Methodology

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in January 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

Ohio Dept. of Transp. Fed. Grant Antic. Prog.

Issue	Rating
Major New State Infrastructure Project Revenue Bonds, Series 2016-1	Aa2
Rating Type	Underlying LT
Sale Amount	$217,185,000
Expected Sale Date	07/25/2016
Rating Description	Special Tax: Transportation-Related

Source: Moody's Investors Service

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