

# RatingsDirect®

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## Summary:

# Ohio; Appropriations; General Obligation

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## Summary:

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### Credit Profile

US\$39.495 mil Hgr Ed GO rfdg bnds ser 2016A due 08/01/2023		
<i>Long Term Rating</i>	AA+/Stable	New
US\$22.355 mil Third Frontier Research and Dev GO rfdg bnds ser 2016B due 11/01/2022		
<i>Long Term Rating</i>	AA+/Stable	New
US\$15.790 mil Natural Resources GO rfdg bnds ser U due 10/01/2024		
<i>Long Term Rating</i>	AA+/Stable	New
Ohio GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<b>Ohio State Treasurer, Ohio</b>		
Ohio		
Ohio State Treasurer (Ohio) adult correctional		
<i>Long Term Rating</i>	AA/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to various refunding general obligation (GO) bonds issued by the State of Ohio. The issues include:

- Series U natural resources refunding bonds;
- Series 2016A higher education refunding bonds; and
- Series 2016B Third Frontier Research and Development refunding bonds.

In addition, S&P Global Ratings affirmed its 'AA+' long-term rating and underlying rating (SPUR) on Ohio's previously issued GO debt and its 'AA' long-term rating and SPUR on the state's previously issued appropriation debt. The outlook is stable.

S&P Global Ratings also affirmed its 'AA-' rating and stable outlook on Ohio's tax credit bonds issued by Columbus-Franklin County Finance Authority (for more information on the authority, please refer to the full analysis published on Ratings Direct on Nov. 19, 2015. Finally, S&P Global Ratings affirmed its 'AA+/A-1+' GO variable-rate demand debt backed by the state's self-liquidity. The outlook on the long-term rating is stable.

The 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 has been 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 (OPEB).

The bonds are secured by the state's full faith and credit, revenue, and taxing power. Among receipts not included in that pledge are highway user receipts and net state lottery proceeds. The GO bonds will be used to refund bonds previously issued for a variety of purposes. The state is issuing the bonds for net present value savings.

Ohio's economy continues to expand and, although the expansion has been slow compared with previous post-recession phases, the state's unemployment rate significantly improved in 2014 and 2015, with the rate holding at 5.1% in March 2016, just above the U.S. level of 5.0% for the same time period. This rate compares very favorably with Ohio's 10.2% unemployment rate at its recessionary peak in 2009. Steady economic improvement has translated into expanding revenue and improved financial performance.

Revenues through the first 10 months of the fiscal year show a gain above the previous year and sit just below estimates. Fiscal 2016 revenues through April are tracking above fiscal 2015 revenues for the same period, by 10.1%, and just below estimates for the year, by 1.1%. The revenue variance from estimates is made up of negative 0.7% tax receipts, negative 1.8% non-tax receipts, and an additional 2.0% of transfers. The decline in income tax is in part due to House Bill 64 that lowered tax rates by 6.3% and an increase in the small business tax deduction. April is a significant month for general revenue fund (GRF) tax revenues due to the income tax filing deadline. Ohio initiates a mid-biennium review process to make midcycle budget adjustments. For the 2016-2017 biennium, adjustments and changes were introduced to the House Finance Committee on May 3, 2016. Five targeted bills were introduced regarding various spending categories including higher education, developmental disabilities, parks and natural resources, water quality, and opiate abuse. In our opinion, the changes proposed are minor and include \$18 million to the Department of Rehabilitation and Correction, and a \$25 million transfer to the Emergency Purposes Contingency Fund to replenish funds after a greater than expected amount of requests. The estimated ending GRF is at \$469.7 million, which, with two months left in the fiscal year, is \$33.3 million short of budgeted expectations of \$503 million for fiscal 2016. The BSF balance remains at \$2 billion.

The enacted 2016-2017 biennium budget is balanced with what we view as minimal reliance on one-time revenue sources. The total biennium appropriations are approximately \$71.2 billion and are based on expected total GRF biennial revenue of \$71.3 billion. The enacted budget continued the implementation of significant tax reform as part of the state's goal of making itself more competitive in attracting jobs and investments and to help small businesses. The tax reforms included small business tax relief and personal income tax reduction, which are partly offset with an increase to the cigarette tax, restriction of the retirement income tax credit, and increased allocation of certain taxes to the GRF. The budget also increased funding of kindergarten to grade 12 education, higher education, and Medicaid. The fiscal 2016 budget anticipates a 10.8% increase of total sources primarily as a result of an increase in federal grants. Total sources are projected to rise by 4.6% by fiscal 2017. Appropriations in fiscal 2016 are budgeted at \$34.9 billion or a 13.1% increase over fiscal 2015, with Medicaid being the largest driver of the increase. According to the state, this is due to the shift of federal Group 8-related appropriations/reimbursements to the GRF. State share

appropriations increase by a more moderate, in our view, 5.3% from fiscal 2015. The fiscal 2017 budget shows a 4.2% total increase; again, state share growth is more modest at 3.5% from fiscal 2016.

Ohio budgeted a modest drawdown of about \$110 million in the GRF over the biennium. The GRF was budgeted to close at \$503 million in fiscal 2016 and \$439 million in fiscal 2017; the balances exceed the state's statutory 0.5% ending general fund balance requirement. Along with the substantial reserves in the BSF, the projected fund balance of \$439 million in fiscal 2017 is more than adequate, in our view. GRF receipts for fiscal 2016 through January show total revenues down 1.1% from estimates; however, compared with year-to-date performance for fiscal 2015, revenues are up 12.6%. Ohio transferred \$526.6 million to the BSF on July 9, 2015, bringing the balance to \$2.0 billion; about 6.4% of fiscal 2015 revenue. The new statutory ceiling for the BSF is 8.5% of revenue, an increase from the previous maximum of 5.0%, which we view as a credit positive for the state's fiscal flexibility and believe 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 revenue; 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 76% of tax-supported debt retired over the next 10 years. Ohio's pension liability profile has improved as of the state's fiscal 2015 audited financial statements because of the lower reported net pension liability based on Ohio's allocation across three pension plans. According to the fiscal 2015 comprehensive annual financial report, Ohio's share of the net pension liability across three pension plans total \$2.9 billion or \$252 per capita (using 2014 U.S. Census population figures), which is low in our view. Relative to total personal income, the state's share of the net pension liability is 0.6%, which we consider very low. The aggregate funded ratio across plans is average, in our view, at nearly 79%.

Contribution rates for the state are established by statute at 14% of salary. Ohio's postemployment liability profile has improved following various modifications. These reforms, in combination with better investment performance, should contribute to improved funded ratios, in our opinion. 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.

On a four-point scale on which '1.0' is strongest, we have assigned an overall score of improved to a '1.7' from a '1.8' to Ohio based on the improved debt and liabilities score.

(For more information on Ohio please refer to the full analysis published Feb. 12, 2016, on RatingsDirect).

## **Outlook**

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 BSF. The state, we believe, has proactively responded to budget imbalance over time, and this is also factored into our current 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 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.

<b>Ratings Detail (As Of May 16, 2016)</b>		
Ohio cultural & sports		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio mental hlth cap facs		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio pub fac comm parks & recre		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio GO VRD common schs		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
Ohio GO VRD infrastructure		
<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
<b>Ohio cultural &amp; sports cap facs bnds ser 2005A</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio mental hlth cap facs bnds ser II-2006A</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio parks &amp; recre cap facs ser II-2007A</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio pub fac comm parks &amp; recre</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
<b>Columbus-Franklin Cnty Fin Auth, Ohio</b>		
Ohio		
Columbus-Franklin Cnty Fin Auth (Ohio) research & dev		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Columbus-Franklin Cnty Fin Auth (Ohio) taxable R&D rfdg rev bnds (ohio cap fd financing) (Ohio)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Columbus-Franklin Cnty Fin Auth (Ohio) APPROP		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Ohio Bldg Auth, Ohio</b>		
Ohio		
Ohio Bldg Auth (Ohio) admin bldg		

<b>Ratings Detail (As Of May 16, 2016) (cont.)</b>		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Bldg Auth (Ohio) adult correctional		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Bldg Auth (Ohio) arts fac		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Bldg Auth (Ohio) highway safety		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Bldg Auth (Ohio) juvenile correctional		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) st facs</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) (Admin Bldg Fd Projs) st facs</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) (Adult Correctional Bldg Fd Projs) st facs</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) (Hwy Safety Bldg Fd Projs) st facs</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio Bldg Auth (Ohio) (Juvenile Correctional Bldg Fd Projs) st facs</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Ohio Dept of Admin Svc, Ohio</b>		
Ohio		
Ohio Dept of Adim Svc (Ohio) (Ohio Administration Knowledge Sys Proj)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Dept of Admin Svc (Ohio) APPROP		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Dept of Admin Svc (Ohio) APPROP		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Dept of Admin Svc (Ohio) APPROP		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Dept of Adm Svces (Ohio) multi-agy radio communication		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio Dept of Adm Svces (Ohio) state taxation accounting & rev sys		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Ohio Pub Facs Comm, Ohio</b>		
Ohio		
Ohio Pub Facs Comm (Ohio)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Ratings Detail (As Of May 16, 2016) (cont.)		
Ohio Pub Facs Comm (Ohio) coal dev GO bnds (Ohio) due 02/01/2026		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) hgr ed GO rfdg bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) higher education GO rfdg bnds (Ohio)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) infrastructure imp GO rfdg bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) infra imp GO rfdg bnds (Ohio)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ohio Pub Facs Comm (Ohio) GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
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 Pub Fac Com (Ohio) hgr ed cap facs		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Ohio Pub Facs Comm (Ohio) GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
<b>Ohio State Treasurer, Ohio</b>		
Ohio		
Ohio State Treasurer (Ohio)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) admin bldg		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) cultural & sports		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) juvenile correctional bldg		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) mental hlth fac		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) park & recre		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ohio State Treasurer (Ohio) APPROP		



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