

# State of Ohio

## General Government Full Rating Report

### Ratings

Issuer Default Rating AA+

### New Issue

Capital Facilities Lease-Revenue Appropriation Bonds, Series 2016A (Cultural and Sports Facilities Building Fund Projects) AA

### Outstanding Debt

General Obligation Bonds AA+

Lease Appropriation Bonds AA

### Rating Outlook

Stable

### New Issue Details

**Sale Information:** \$40,000,000 Capital Facilities Lease-Revenue Appropriation Bonds, Series 2016A (Cultural Facilities and Sports Facilities Building Fund Projects), via negotiation on Aug. 16, 2016.

**Security:** Special obligation payable under a lease agreement between the Ohio Public Facilities Commission and the Ohio Facilities Construction Commission, subject to appropriation.

**Purpose:** To fund various capital facilities.

**Final Maturity:** Oct. 1, 2026.

### Key Rating Drivers

The 'AA' appropriation bond rating is one notch below the state's Issuer Default Rating of 'AA+', reflecting the state's careful financial management, ongoing record of maintaining fiscal balance, and moderate, rapidly amortizing debt burden. Liabilities are supported by an economy that is slowly adding jobs lost during the most recent recession.

**Economic Resource Base:** Ohio's economy is large and diverse, with distinct economic regions centered on several large urban centers. Manufacturing remains a disproportionately large sector, with a concentration in more cyclically sensitive durable goods industries. Transportation equipment and related suppliers have had a strong presence. The state's economy is expanding but at a slower pace than immediately following the recession. Shale gas development along the Utica Shale formation is a potential stimulus in the eastern part of the state.

**Revenue Framework ('aa' factor assessment):** Like most states, Ohio maintains nearly unlimited ability to raise operating revenues. Its revenue base is diverse and relies on broad-based income and sales taxes. Tax policy changes implemented over the past several biennia have been manageable, aided by favorable economic and fiscal trends.

**Expenditure Framework ('aaa' factor assessment):** Ohio retains ample flexibility to cut spending throughout the economic cycle. Spending pressure in Medicaid and education appears to be well controlled.

**Long-Term Liability Burden ('aaa' factor assessment):** Debt is typically conservatively managed and primarily consists of GOs. On a combined basis, outstanding debt and pension obligations are manageable and a well below-average burden on the state.

**Operating Performance ('aaa' factor assessment):** The state generally has a careful approach to financial operations and has consistently managed to achieve budgetary balance. In recent years, the state has relied more on budget reductions than revenue enhancements to balance the budget and also utilized several one-time sources during the recession. The state's budget stabilization fund is fully funded, having been drawn down during the recession.

### Rating Sensitivities

**Fundamental Credit Characteristics:** Ohio's rating is sensitive to shifts in its fundamental credit characteristics and to continued successful maintenance of fiscal balance in light of ongoing efforts to reduce the tax burden.

### Analysts

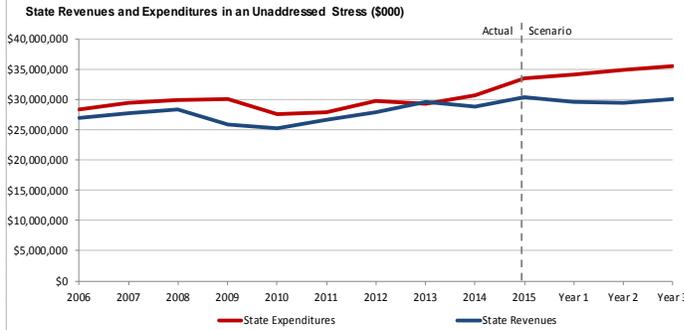
Karen Krop  
+1 212 908-0661  
[karen.krop@fitchratings.com](mailto:karen.krop@fitchratings.com)

Marcy Block  
+1 212 908-0239  
[marcy.block@fitchratings.com](mailto:marcy.block@fitchratings.com)

## Ohio, State of (OH)

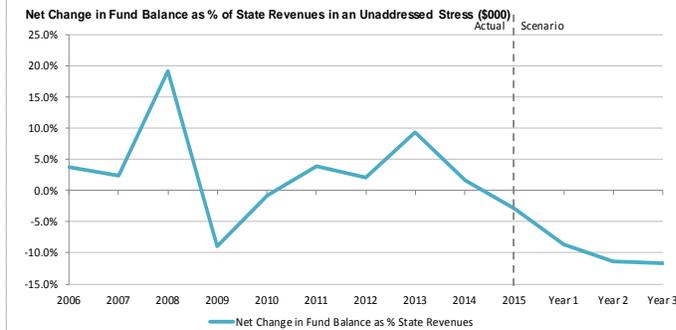
### Scenario Analysis

v. 1.01 2016/05/04



#### Analyst Interpretation of Scenario Results:

Ohio's ability to respond to cyclical downturns reflects its ample budget flexibility and availability of reserves. During the most recent recession, Ohio's revenues suffered significant declines, exacerbated by ongoing tax reductions. The state closed the resulting budgetary gaps with both ongoing and one-time measures. Some of these measures include use of the rainy day fund, refunding debt for current year savings, asset sales including the liquor enterprise, changes in the education funding formula, and eliminating tax reimbursements for schools and local governments. It is Fitch's expectation that Ohio will continue to rely primarily on expense reductions to address a future downturn and would again draw upon its now restored rainy day fund.



#### Scenario Parameters:

	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(2.6%)	(0.3%)	2.1%

Revenues, Expenditures, and Net Change in Fund Balance	Actuals										Scenario Output		
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Year 1	Year 2	Year 3
<b>Expenditures</b>													
Total Expenditures	43,817,188	45,112,929	45,739,194	48,987,312	49,495,495	51,255,563	51,177,175	50,876,071	53,690,264	58,064,992	59,226,292	60,410,818	61,619,034
% Change in Total Expenditures	5.7%	3.0%	1.4%	7.1%	1.0%	3.6%	(0.2%)	(0.6%)	5.5%	8.1%	2.0%	2.0%	2.0%
State Expenditures	28,396,093	29,449,781	29,999,186	30,081,532	27,525,951	27,954,118	29,781,323	29,338,970	30,769,509	33,531,021	34,201,641	34,885,674	35,583,388
% Change in State Expenditures	5.9%	3.7%	1.9%	0.3%	(8.5%)	1.6%	6.5%	(1.5%)	4.9%	9.0%	2.0%	2.0%	2.0%
<b>Revenues</b>													
Total Revenues	42,434,128	43,344,713	44,132,302	44,734,526	47,301,545	49,977,434	49,297,817	51,164,075	51,738,478	54,880,042	54,583,323	55,004,873	56,122,836
% Change in Total Revenues	5.5%	2.1%	1.8%	1.4%	5.7%	5.7%	(1.4%)	3.8%	1.1%	6.1%	(0.5%)	0.8%	2.0%
Federal Revenues	15,421,095	15,663,148	15,740,008	18,905,780	21,969,544	23,301,445	21,395,852	21,537,101	22,920,755	24,533,971	25,024,650	25,525,143	26,035,646
% Change in Federal Revenues	5.3%	1.6%	0.5%	20.1%	16.2%	6.1%	(8.2%)	0.7%	6.4%	7.0%	2.0%	2.0%	2.0%
State Revenues	27,013,033	27,681,565	28,392,294	25,828,746	25,332,001	26,675,989	27,901,965	29,626,974	28,817,723	30,346,071	29,558,672	29,479,730	30,087,189
% Change in State Revenues	5.5%	2.5%	2.6%	(9.0%)	(1.9%)	5.3%	4.6%	6.2%	(2.7%)	5.3%	(2.6%)	(0.3%)	2.1%
<b>Excess of Revenues Over Expenditures</b>	(1,383,060)	(1,768,216)	(1,606,892)	(4,252,786)	(2,193,950)	(1,278,129)	(1,879,358)	288,004	(1,951,786)	(3,184,950)	(4,642,969)	(5,405,944)	(5,496,198)
<b>Total Other Financing Sources</b>	2,402,809	2,422,375	7,059,329	1,923,823	1,984,605	2,326,274	2,457,660	1,010,348	2,440,585	2,284,308	2,103,835	2,059,347	1,979,685
<b>Net Change in Fund Balance</b>	1,019,749	654,159	5,452,437	-2,328,963	-209,345	1,048,145	578,302	2,761,858	488,799	-900,642	-2,539,134	-3,346,597	-3,516,514
% Total Expenditures	2.3%	1.5%	11.9%	(4.8%)	(0.4%)	2.0%	1.1%	5.4%	0.9%	(1.6%)	(4.3%)	(5.5%)	(5.7%)
% State Expenditures	3.6%	2.2%	18.2%	(7.7%)	(0.8%)	3.7%	1.9%	9.4%	1.6%	(2.7%)	(7.4%)	(9.6%)	(9.9%)
% Total Revenues	2.4%	1.5%	12.4%	(5.2%)	(0.4%)	2.1%	1.2%	5.4%	0.9%	(1.6%)	(4.7%)	(6.1%)	(6.3%)
% State Revenues	3.8%	2.4%	19.2%	(9.0%)	(0.8%)	3.9%	2.1%	9.3%	1.7%	(3.0%)	(8.6%)	(11.4%)	(11.7%)

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. For further details, please see Fitch's US Tax-Supported Rating Criteria.

**Rating History — GOs**

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	5/17/16
AA+	Revised	Stable	4/5/10
AA	Downgraded	Stable	6/10/09
AA+	Affirmed	Negative	12/15/08
AA+	Assigned	—	8/14/96

**Rating History —  
Appropriation Bonds**

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	5/17/16
AA	Revised	Stable	4/5/10
AA-	Downgraded	Stable	6/10/09
AA	Affirmed	Negative	12/15/08
AA	Affirmed	Stable	2/13/07
AA	Upgraded	—	2/3/00
AA-	Assigned	—	8/14/96

**Credit Profile**

The recession's impact on the Ohio economy accelerated a longstanding slump in manufacturing and weighed on the slowly growing service sector. Important employment sectors include transportation, distribution, and warehousing of manufactured goods, which is facilitated by an extensive system of ports on Lake Erie, barge service on the Ohio River, and advanced air-cargo and rail infrastructure. Healthcare and education are growing as employment and economic sectors and relatively low non-manufacturing wages in the state have been a magnet for back-office, banking, personnel, and trade operations. While there has been steady year-over-year job growth since July 2010, the state has yet to fully achieve the peak employment reached prior to the recession.

**Revenue Framework**

Ohio relies on a diverse set of broad-based taxes to support operations, including income and sales and use taxes. These major tax revenues are collected in the general revenue fund (GRF) with constitutional exceptions for highway-related revenues that are directed to highway purposes and lottery proceeds that are directed to education.

In recent biennia, the state has pursued wide-ranging tax policy changes, shifting the source of GRF tax receipts and lowering overall receipts relative to baseline. To date, these tax policy changes have been manageable, aided by favorable economic and fiscal trends.

Ohio's historical revenue growth — adjusted for the estimated impact of policy changes — has lagged economic growth and has even declined on a real basis, with growth slightly below the inflation rate. Absent tax policy changes, recent performance has been a good deal stronger than is reflected in the historical trend. Fitch anticipates the long-term trend for revenue growth will be in line with historical performance.

Ohio has no legal limitations on its ability to raise revenues through base broadening, rate increases, or the assessment of new taxes or fees.

**Expenditure Framework**

Ohio has ample flexibility within its expenditure framework. The natural pace of spending growth is likely to be in line with or marginally above its somewhat slowly growing revenue stream. Carrying costs for debt and pensions are well below the median for states.

As with most states, Ohio's spending growth is expected to track future revenue growth. Primary cost drivers include Medicaid and education spending. With a shift to managed care, Medicaid spending growth is contained and with only modest population growth, education spending pressures should be manageable.

Ohio has solid expenditure flexibility. The state has had a budget-cutting bias rather than relying on revenue increases when necessary to maintain budgetary balance even in core spending areas. During the most recent recession, Ohio reduced distributions and phased out certain tax reimbursements to both local governments and school districts. The state's carrying costs for debt and pension obligations are well below the state median and are expected to remain low given the state's well-funded pensions and conservative debt management.

**Long-Term Liability Burden**

Ohio's liability position and structure are conservative and well below the median for U.S. states. The state carries a moderate amount of rapidly amortized net tax supported debt and

**Related Criteria**

[U.S. Tax-Supported Rating Criteria \(April 2016\)](#)

debt ratios are expected to approximate current averages as GRF principal continues to roll off and personal income grows.

Funding of retirement benefits — both for pensions and healthcare — have historically been considered a credit strength, with pension systems generally well funded and a history of state full funding of annual contributions. Plans are cost-sharing, multi-employer with limited liabilities attributed to the state. However, funding for Ohio's five pension systems declined significantly with recessionary market losses and has only just begun to recover. Reform measures enacted in September 2012 have contributed to the improved financial sustainability of the Ohio Public Employees Retirement System and the state's other major systems.

The state has \$463 million in outstanding general obligation variable-rate debt, with liquidity provided by the state (rated 'F1+'). Of that, \$388 million is synthetically fixed through swap agreements. State policy is that all swap counterparties must be rated at least 'AA-'/'AA3' with progressive collateral requirements if the rating falls below this threshold.

### Operating Performance

Ohio's ability to respond to cyclical downturns reflects its ample budget flexibility and availability of reserves. For details, see "Scenario Analysis" on page 2.

During times of economic recovery, Ohio rebuilds its financial flexibility including restoring draws on its rainy day fund and reducing the use of one-time budget items. In recent biennia, natural revenue growth has been met with tax reductions, which have, to some extent, absorbed tax revenue increases related to overall economic expansion. While it has been a concern that ongoing tax reductions could limit future flexibility, a statutory increase in the rainy day funding requirement from 5.0% to 8.5% of prior year revenue provides additional capacity to address future downturns and is emblematic of the state's approach during this period of expansion.

The state's cash position is sound. Ohio does not borrow for cash flow purposes and has ample liquidity to provide liquidity for its own variable-rate debt.

The budget for the 2016–2017 biennium was balanced as enacted, while incorporating further tax policy changes. Personal income tax (PIT) rates were lowered further across all brackets, with additional reductions for certain small businesses. Some offset to the reductions was provided by an increase in cigarette taxes, although the governor's proposed increase and expansion of the sales tax was not enacted. The net impact of tax policy changes was expected to reduce biennial revenues by \$869 million in fiscal 2016 and \$952 million in fiscal 2017, moderating what would otherwise have been strong revenue growth.

The enacted budget was based on an assumption of GRF tax revenue growth, while incorporating the tax reform and policy changes, of 3.3% in fiscal 2016, to \$22.1 billion, and another 4.1% in fiscal 2017, to \$23.0 billion. In fiscal 2016, tax revenues slightly underperformed forecast, increasing 1.9% year-over-year as compared to the 3.3% estimate. PIT revenues were 2.7% below budget and 8.3% below fiscal 2015. Overall financial performance remained stable with lower spending. The state made a \$29.5 million deposit to the rainy day fund bringing its balance to just over \$2 billion, or 6% of prior year revenues. The state revised its forecast for fiscal 2017, lowering expected tax receipts by 1.2% to \$22.7 billion, to reflect the lower fiscal 2016 revenues.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.