

FITCH RATES OHIO TREASURER OF STATE'S \$80.9MM BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-13 June 2016: Fitch Ratings has assigned 'AA' ratings to the following state of Ohio (Treasurer of State) capital facilities lease-appropriation bonds:

- \$50 million series 2016A (Mental Health Facilities Improvement Fund Projects);
- \$18.1 million refunding series 2016B (Mental Health Facilities Improvement Fund Projects) ;
- \$12.81 refunding bonds, series 2016B (Parks and Recreation Improvement Fund Projects).

The bonds are expected to be sold via negotiation on June 21, 2016.

The Rating Outlook is Stable.

SECURITY

The bonds are special obligations of the state, payable from payments under separate lease agreements between the Ohio Public Facilities Commission (OPFC) and the three departments of the state, the Department of Mental Health, the Department of Addiction Services and of Developmental Disabilities (together the Departments of Mental Health), and between the OPFC and the Department of Natural Resources (DNR). The lease agreements are subject to biennial appropriation from the state's general revenue fund (GRF).

KEY RATING DRIVERS

APPROPRIATION MECHANISM: The rating on the bonds backed by Ohio's lease appropriation is one notch below the state's Issuer Default Rating (IDR), reflecting the slightly higher degree of optionality associated with payment of appropriation debt. The state's 'AA+' IDR is based on its careful financial management, ongoing record of maintaining fiscal balance, and a moderate, rapidly amortizing debt burden. Liabilities are supported by an economy that is slowly adding jobs lost in the 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 pursued 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 general obligations. 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 (BSF) is fully funded, having been drawn down during the recession.

RATING SENSITIVITIES

The appropriation rating is sensitive to changes in the state's 'AA+' IDR to which it is linked. Ohio's IDR 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.

CREDIT PROFILE

The bonds currently offered are secured by rental payments that are appropriated biennially under separate lease agreements between the OPFC and the Departments of Mental Health, and between the OPFC and the DNR as noted above. The debt is authorized by the state's constitution and secured by the state's pledge of legislative appropriation, with the lease renewable biennially until the bonds are repaid.

The treasurer of state is required to submit an estimate of the debt service requirements to each department as well as the director of budget and management prior to the start of each fiscal year. The trustee does not have the ability to take possession of or operate leased projects. The current offering includes both new money for capital projects and refunding for debt service savings.

For further information on Ohio, please see Fitch's press release from May 17, 2016, 'Fitch Rates State of Ohio GO Bonds 'AA+'; Outlook Stable', available at www.fitchratings.com.

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

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria

U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879478

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