



# OBM

Date: September 28, 2011

To: Digital Assurance Certification  
(Electronic Municipal Market Access and Ohio SID)

Subject: Fiscal Year 2011 Annual Information Pursuant to Continuing Disclosure Agreement Under SEC Rule 15c2-12 Relating to the following Bonds of the State of Ohio which are payable from Bureau of Workers' Compensation Lease Payments:

\$142,500,000 State of Ohio (Ohio Building Authority) State Facilities Refunding Bonds (BWC Bldg. Fund Projects), 2003 Series A dated April 22, 2003 - Issuer CUSIP No. 67755C

The State of Ohio, by its Office of Budget and Management (OBM), provides the attached information consisting of financial information and data of appropriate types, pursuant to the continuing disclosure agreement under SEC Rule 15c2-12 entered into and relating to the Bonds of the State identified above.

Unless otherwise indicated, the attached information speaks as of June 30, 2011. OBM will subsequently provide when available audited general purpose State financial statements for the Fiscal Year ended June 30, 2011, audited financial statements of the Ohio Building Authority for the Fiscal Year ended June 30, 2011 and audited financial statements of the Bureau of Workers' Compensation for Fiscal Year ended June 30, 2011.

There were in FY 2011 no material events filings to the Municipal Securities Rulemaking Board (MSRB), through the MSRB's Electronic Municipal Market Access System (EMMA). There has been no change in the applicable fiscal year or in the accounting principles applied in the preparation of pertinent annual financial statements, and there has been no amendment or waiver of any portion of any of the applicable continuing disclosure agreement.

Respectfully submitted,

/s/ Timothy S. Keen

Timothy S. Keen  
Director of Budget and Management

Copy w/attachments:  
Executive Director, Ohio Building Authority  
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## FISCAL MATTERS

### General

Consistent with the constitutional provision that no appropriation may be made for a period longer than two years, the State operates on the basis of a fiscal biennium for its appropriations and expenditures. Under current law that biennium for operating purposes runs from July 1 in an odd-numbered year to June 30 in the next odd-numbered year (e.g., the current fiscal biennium began July 1, 2011 and ends June 30, 2013). Within a fiscal biennium, the State operates on the basis of a July 1 to June 30 Fiscal Year. The biennium for general capital appropriations purposes runs from July 1 in an even-numbered year to June 30 in the next even-numbered year. See **FISCAL MATTERS – Recent and Current Finances – Current Biennium** for discussion of the 2012-13 biennial appropriations.

Authority for appropriating State moneys subject to appropriation rests in the bicameral General Assembly, which consists of a 99-member House of Representatives (elected to two-year terms) and a 33-member Senate (elected to overlapping four-year terms). Members of both houses are subject to term limits, with a maximum of eight consecutive years in either. The Governor has veto power, including the power to make line-item vetoes in bills making appropriations. Vetoes may be overridden by a three-fifths vote of each house.

The Constitution requires the General Assembly to “provide for raising revenue, sufficient to defray the expenses of the state, for each year, and also a sufficient sum to pay the principal and interest as they become due on the state debt.” The State is effectively precluded by law from ending a Fiscal Year or a biennium in a “deficit” position. State borrowing to meet casual deficits or failures in revenues or to meet expenses not otherwise provided for is limited by the Constitution to \$750,000.

Most State operations are financed through the General Revenue Fund (GRF). Personal income and sales and use taxes are the major sources of GRF tax revenue. The last complete fiscal year ended June 30, 2011 with a GRF fund balance (after year-end transfers) of \$138.8 million. The State has a “rainy day” fund (the Budget Stabilization Fund (BSF)) which under current law and until used may carry a balance of up to 5% of the GRF revenue for the preceding Fiscal Year. The current BSF balance is \$246.9 million, about 0.9% of Fiscal Year 2011 GRF revenue. See **FISCAL MATTERS – Recent and Current Finances – Recent Biennia – 2008-09** for discussion of the use of the then entire BSF balance in Fiscal Year 2009.

The Revised Code provides that if the Governor ascertains that the available revenue receipts and balances for the GRF or other funds for the then current Fiscal Year will in all probability be less than the appropriations for that Fiscal Year, the Governor shall issue such orders to State agencies as will prevent their expenditures and incurred obligations from exceeding those revenue receipts and balances. As discussed under **Recent and Current Finances**, the Governor implemented this directive in the 2008-09 biennium as had been done several times in prior fiscal years.

Listed in the tables below under **Recent Receipts and Disbursements** are the major categories of State revenue sources, including taxes and excises, and the amounts received from those categories. There is no present constitutional limit on the rates of those State levied taxes and excises (except for taxes on intangible property which the State does not currently levy).

At present the State itself does not levy ad valorem taxes on real or tangible personal property. Those taxes are levied by political subdivisions and local taxing districts. The Constitution has since 1934 limited the amount of the aggregate levy of ad valorem property taxes on particular property, without a vote of the electors or municipal charter provision, to 1% of true value in money, and statutes limit the amount of that aggregate levy without a vote or charter provision to 10 mills per \$1 of assessed valuation -- commonly referred to in the context of Ohio local government finance as the “ten-mill limitation.” See **TAX LEVELS AND TAX BASES** for a discussion of the phase-out of local tangible personal property taxes in 2006 through 2009.

The Constitution directs or restricts the use of certain revenues. Highway fees and excises, including gasoline taxes, are limited in use to highway-related purposes. Not less than 50% of the receipts from State income taxes and estate taxes must be returned to the originating political subdivisions and school districts. State net lottery profits are allocated to elementary, secondary, vocational and special education program purposes, including application to debt service on obligations issued to finance capital facilities for a system of common schools.

Constitutional amendments relating to taxation, revenues, expenditures, debt or other subjects may be proposed by action of three-fifths of the members elected to each house of the General Assembly or by initiative petition signed by electors numbering at least 10% of the total number of votes last cast for the office of governor. Adoption of a proposed amendment requires approval by a majority of electors voting on it at a statewide election. The Ohio Constitution expressly provides that the General Assembly has no power to pass laws impairing the obligation of contracts.

### **Accounts and Controls; Financial Reports**

With each office performing specific functions relating to State expenditures, the Office of Budget and Management (OBM) and the Treasurer of State account for and report on the State's fiscal affairs.

OBM maintains records of the appropriations made by the General Assembly, and its Director, appointed by the Governor, certifies the availability of unencumbered appropriations as a condition of contract validity. OBM fiscal functions include the development and oversight of operating and capital budgets as well as the review, processing, and reporting of financial transactions for most State departments and agencies (excluding, among others, higher education institutions). The OBM Director's certification is required for all expenditure vouchers before OBM may issue State warrants. Upon certification, OBM updates its accounting records to reflect the level of vouchered expenditures. The Treasurer of State maintains the cash and investments that comprise the State treasury, and invests State funds. The Treasurer redeems the warrants issued by OBM when presented for payment by financial institutions and monitors the amounts and the timing of payments to determine the State's cash flow position for investment purposes.

State financial reporting practices have been and are in accordance with generally accepted accounting principles (GAAP basis). Each Comprehensive Annual Financial Report (CAFR) includes the State's Basic Financial Statements (BFS) for that Fiscal Year as examined by the Auditor of State. The most recent CAFRs are accessible via OBM's home page on the Internet at <http://obm.ohio.gov/Archives/FinancialReporting.aspx>, and copies may be obtained by contacting OBM, 30 E. Broad Street, 34<sup>th</sup> Floor, Columbus, Ohio 43215, phone (614) 466-4034. The 2009 CAFR received the Government Finance Officers Association certificate of achievement for excellence in financial reporting.

The BFS are presented in accordance with a fund classification system prescribed by the Governmental Accounting Standards Board. The GAAP basis financial statement presentation is comprehensive in scope and includes organizations and activities defined within Ohio's reporting entity that are not subject to the State's appropriation process. The "General Fund" as reported in the BFS includes more than just the GRF; it also encompasses the Budget Stabilization Fund and those reimbursement-supported funds that account for activities administered by State agencies and departments and for which special revenue or proprietary fund classifications are considered inappropriate.

In accordance with State law, financial statements and analyses (with supporting schedules) of State agencies' transactions, based on official records maintained by OBM, are incorporated into the Governor's Executive Budget. That budget, along with other information, is the subject of extended hearings and reviews in the General Assembly during the biennial appropriation process. See **FISCAL MATTERS – Recent and Current Finances – Current Biennium** regarding the 2012-13 biennial appropriations.

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## Recent Receipts and Disbursements

The following summary statements, prepared by OBM and based on its records, include (i) governmental and proprietary appropriated funds, cash receipts and cash disbursements, and (ii) GRF cash basis activity.

The governmental and proprietary appropriated funds encompass the General Fund (which includes the GRF and BSF), as well as special revenue, debt service, capital projects, and enterprise fund types, all as defined and included in each BFS.

### SUMMARY STATEMENT GOVERNMENTAL AND PROPRIETARY APPROPRIATED FUNDS (\$ in Millions)

#### Cash Receipts

SOURCE OF RECEIPTS	Fiscal Year				
	2007	2008	2009	2010	2011*
Taxes:					
Personal Income(a) .....	\$9,722.9	\$9,848.2	\$8,322.2	\$7,886.8	\$8,820.1
Sales and Use(b) .....	7,747.4	7,866.3	7,325.8	7,254.3	7,769.0
Corporate Franchise(c) .....	1,125.7	754.6	521.4	142.3	237.2
Commercial Activity Tax(d) .....	594.9	961.4	1,179.1	1,342.1	1,451.6
Gasoline.....	1,719.8	1,848.4	1,726.7	1,727.2	1,757.2
Public Utilities and Kilowatt Hour .....	800.3	801.1	799.9	721.5	728.0
Cigarette .....	986.3	950.9	924.8	886.9	855.6
Foreign Insurance .....	278.0	284.6	265.0	266.4	273.0
Highway Use .....	47.6	41.3	30.5	29.4	30.1
Estate(e) .....	72.1	61.4	64.4	55.0	72.1
Alcoholic Beverages.....	57.2	57.7	58.0	57.1	56.4
Liquor Gallonage.....	34.3	35.0	35.8	36.5	37.6
Domestic Insurance Franchise .....	169.6	159.3	160.1	166.5	194.3
Other .....	<u>60.8</u>	<u>80.6</u>	<u>84.0</u>	<u>83.9</u>	<u>84.1</u>
Total Taxes .....	23,416.9	23,750.8	21,497.7	20,655.9	22,366.3
Licenses, Permits and Fees .....	2,403.8	2,524.7	2,592.4	3,076.2	3,102.0
Sales, Services and Charges .....	1,697.5	1,771.7	1,921.2	1,758.2	1,958.9
Federal Government (including ARRA) .....	15,432.7	15,951.9	18,040.4	21,105.3	22,373.7
Other(f) ..	4,080.3	3,962.4	3,604.1	3,327.6	3,783.1
Proceeds from Sale of Bonds and Notes(g).....	<u>1,496.7</u>	<u>5,782.4</u>	<u>966.1</u>	<u>1,015.2</u>	<u>1,345.1</u>
Total Cash Receipts .....	\$48,527.9	\$53,743.9	\$48,621.8	\$50,938.6	\$54,929.1

- (a) Beginning in calendar year 2005 the personal income tax rate was being reduced by 21% (4.2% per year over five years, with the last reduction delayed from tax year 2009 to tax year 2011 as described in FISCAL MATTERS – Recent and Current Finances - Recent Biennia - 2010-11).
- (b) Reflects a sales and use tax rate of 5.5%.
- (c) Beginning in calendar year 2006, except for financial institutions, the State corporate franchise tax rate was phased out at a rate of 20% per year over five years.
- (d) See TAX LEVELS AND TAX BASES for a discussion of the commercial activity tax on gross receipts from doing business in Ohio – commenced in Fiscal Year 2006 at the initial rate of 0.06% and increased each year until reaching the current rate of 0.26% in Fiscal Year 2010.
- (e) Eliminated effective January 1, 2013.
- (f) Includes investment income and tobacco settlement receipts.
- (g) In Fiscal Year 2008, includes \$5.05 billion in proceeds resulting from the securitization of tobacco settlement receipts.

#### Cash Disbursements

FUND TYPE	Fiscal Year				
	2007	2008	2009	2010	2011*
General Fund:					
General Revenue Fund .....	\$25,147.5	\$25,725.0	\$26,783.4	\$24,141.4	26,247.6
General Services Fund(h).....	1,288.8	1,316.8	1,442.9	1,331.2	3,575.8
Special Revenue Fund(i) .....	19,114.2	19,559.8	21,144.2	24,597.1	24,618.2
Capital Projects Fund(j) .....	346.4	510.0	514.6	472.9	440.0
Debt Service Fund(k) .....	819.5	867.6	819.3	578.2	633.3
Enterprise Fund.....	<u>1,257.8</u>	<u>1,238.1</u>	<u>1,459.4</u>	<u>1,208.1</u>	<u>1,395.8</u>
Total Cash Disbursements .....	\$47,974.2	\$49,218.0	\$52,163.8	\$52,328.9	55,048.6

- (h) Includes the Internal Service Fund.
- (i) Includes local government support disbursements.
- (j) Includes amounts disbursed from proceeds of general obligation bonds and certain other State obligations.
- (k) Includes the several bond retirement funds for bonds secured by a pledge of taxes and excises.

\*Figures for Fiscal Year 2011 are preliminary.

**SUMMARY STATEMENT  
GENERAL REVENUE FUND CASH BASIS ACTIVITY  
(\$ in Millions)**

	<b>Fiscal Year</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Beginning Cash Balance .....	\$1,528.8	\$1,432.9	\$1,682.0	\$734.5	\$510.3
Cash Receipts:					
Taxes:					
Personal Income(a) .....	8,885.3	9,114.7	7,628.0	7,247.2	8,120.3
Sales and Use(b) .....	7,424.5	7,614.1	7,112.8	7,077.4	7,578.2
Corporate Franchise(c).....	1,076.5	753.5	520.8	141.8	236.6
Commercial Activity Tax(d).....	0.0	0.0	0.0	0.0	0.0
Public Utilities and Kilowatt Hour .....	487.2	388.9	320.5	293.0	278.7
Cigarette .....	986.3	950.9	924.8	886.9	855.6
Foreign Insurance .....	256.2	267.3	249.2	250.8	256.3
Other.....	<u>353.0</u>	<u>330.1</u>	<u>337.6</u>	<u>336.6</u>	<u>380.5</u>
Total Taxes .....	19,469.0	19,419.5	17,093.7	16,233.6	17,706.1
Federal Government (including ARRA).....	5,352.5	5,644.0	6,850.7	6,898.8	8,429.0
Licenses, Permits and Fees .....	77.7	67.7	65.8	66.2	59.0
Investment Income .....	176.2	169.6	137.1	28.7	7.1
Other(e) .....	<u>143.5</u>	<u>123.4</u>	<u>104.4</u>	<u>300.8</u>	<u>169.8</u>
Total Cash Receipts.....	25,218.9	25,424.2	24,251.7	23,528.1	26,371.1
Cash Disbursements:					
Primary, Secondary and Other Education(f) .....	6,816.9	6,876.9	7,005.0	6,743.4	6,740.0
Higher Education.....	2,205.7	2,543.6	2,632.6	2,424.1	2,411.0
Public Assistance and Medicaid .....	10,174.0	10,274.8	11,108.5	9,421.9(k)	11,425.8
Health and Human Services .....	1,214.9	1,283.6	1,194.6	1,017.0	1,099.1
Justice and Public Protection .....	1,876.8	2,084.5	2,088.1	1,933.6	1,940.2
Environmental Protection and Natural Resources .....	83.4	101.6	89.6	80.3	72.4
Transportation .....	22.0	22.6	21.4	17.5	13.4
General Government .....	247.1	357.7	354.4	283.2	275.5
Community and Economic Development.....	104.3	133.8	146.3	108.3	103.2
Tax Relief(g) and Other .....	1,230.0	1,386.0	1,526.2	1,711.4	1,691.0
Capital Outlay.....	0.1	0.1	0.3	0.4	0.2
Debt Service(h) .....	<u>1,172.3</u>	<u>656.5</u>	<u>616.3</u>	<u>400.5</u>	<u>475.9</u>
Total Cash Disbursements.....	25,147.5	25,721.8	26,783.4	24,141.4	26,247.5
Cash Transfers:					
Transfers-in(i) .....	559.5	1,235.0	2,432.8	1,422.2	1,392.1
Transfers-out(j) .....	<u>(726.8)</u>	<u>(688.4)</u>	<u>(848.6)</u>	<u>(1,033.0)</u>	<u>(1,181.5)</u>
Total Cash Transfers (net).....	(167.3)	546.6	1,584.2	389.2	210.6
Ending Cash Balance .....	\$1,432.9	\$1,682.0	\$734.5	\$510.3	\$844.5

- (a) Beginning in calendar year 2005 the personal income tax rate was reduced by 21% (4.2% per year over five years, with the last reduction delayed from tax year 2009 to tax year 2011 as described in FISCAL MATTERS – Recent and Current Finances - Recent Biennia – 2010-11).
- (b) Reflects a sales and use tax rate of 5.5%.
- (c) Beginning in calendar year 2006, except for financial institutions, the corporate franchise tax rate was phased out 20% per year over five years.
- (d) For a discussion of the commercial activity tax (CAT) on gross receipts from doing business in Ohio – commenced in Fiscal Year 2006 at the initial rate of 0.06% and increased each year until reaching the current rate of 0.26% in Fiscal Year 2010. CAT receipts were only deposited in the GRF in Fiscal Year 2006 and have been directed first and primarily to make compensating payments to school districts and other local taxing units in connection with the phase-out of the tangible personal property tax in 2006 through 2010, see TAX LEVELS AND TAX BASES – Property Tax.
- (e) Includes fines and penalties, rental receipts, refunds and certain intrastate transfers including in Fiscal Year 2010 \$250.0 million from the Unclaimed Property Trust Fund.
- (f) Mainly subsidies to local school districts for primary and secondary education and to colleges and universities for higher education.
- (g) State reimbursements to taxing subdivisions for the 12.5% property tax rollback granted to homeowners of real property (10% for commercial and industrial property until 2006), for partial real property homestead tax exemptions for the elderly and handicapped (expanded commencing in July 2007), and for revenue reductions resulting from phase-out of local taxes on tangible personal property.
- (h) In Fiscal Years 2006 and 2007, includes debt service on general obligations, lease-rental obligations and certain other State obligations paid from the GRF. Beginning in Fiscal Year 2008, includes only debt service on general obligations with debt service on other obligations reflected in the applicable program area. Reflects the restructuring of certain GRF debt service payments into later biennia resulting in net savings of \$52.8 million in Fiscal Year 2009, \$416.8 million in Fiscal Year 2010 and \$336.9 in Fiscal Year 2011 (see FISCAL MATTERS – Recent and Current Finances - Current Biennium).
- (i) Includes transfers in all fiscal years from the School District Property Tax Replacement Fund and from liquor profits; in Fiscal Years 2008 through 2011 interest earnings on tobacco securitization proceeds totaling \$95.8 million, \$176.2 million, \$61.7 million, and \$4.3 million, respectively; and in Fiscal Year 2009 \$1.01 billion from the BSF.
- (j) Fiscal Year 2007 transfers include \$395.6 million to the BSF.
- (k) Reflects shift of Medicaid funding to non-GRF sources due to ARRA.

## Recent and Current Finances

### Introductory Information

The summary statements above identify receipts from specific taxes and excises that are sources of significant amounts of revenue to the State, and particularly to the GRF. As noted, there are constitutional limitations on the use of some taxes and excises, and mandated allocations of portions of some others. As the statements portray, a substantial amount of total State-level revenue is distributed to local governments and school districts under ongoing programs, including local property tax relief.

Economic activity in Ohio, as in other industrially-developed states, tends to be somewhat more cyclical than in some other states and in the nation as a whole. The GRF ending (June 30) fund balance tends to be reduced during less favorable national economic periods and then increases during more favorable economic periods. The GRF ending cash and fund balance for Fiscal Year 2011 were \$844.5 million and \$430.7 million, respectively. Recent biennium-ending GRF balances were:

<b>Biennium</b>	<b>Cash Balance</b>	<b>Fund Balance(a)</b>	<b>Fund Balance less Designated Transfers(b)</b>
2002-03	\$396,539,000	\$52,338,000	\$52,338,000
2004-05	1,209,200,000	682,632,000	127,800,000
2006-07	1,432,925,000	215,534,000	215,534,000
2008-09	734,526,000	389,103,000	389,103,000
2010-11	844,467,000	430,707,000	138,816,000

(a) Reflects the ending cash balance less amounts encumbered to cover financial commitments made prior to the end of the fiscal year.

(b) Reflects the ending fund balance less any amounts designated for transfer to other funds, including the BSF.

Actions have been and may be taken by the State during less favorable economic periods to ensure resource/expenditure balance (particularly in the GRF), some of which are described below. None of those actions were or are being applied to appropriations or expenditures needed for debt service or lease payments relating to any State obligations.

The appropriations acts for the 2012-13 biennium included all necessary appropriations for debt service on State obligations and for lease payments relating to lease rental obligations issued by the Ohio Building Authority and the Treasurer of State.

The following is a selective general discussion of State finances, particularly GRF receipts and expenditures, for recent and the current bienniums. As evidenced by actions discussed, the State administrations and both houses of the General Assembly have been and are committed to and have taken and are taking actions that ensure a balance of GRF resources and expenditures.

### Recent Biennia

#### 2002-03

Ongoing and rigorous consideration was given by the Governor and the General Assembly to revenues and expenditures throughout Fiscal Years 2002-03, primarily as a result of continuing weak economic conditions, with budgetary pressures during this period primarily due to lower than anticipated levels of receipts from certain major revenue sources.

Consideration came in four general time frames – the June 2001 biennial appropriation Act, late fall/early winter 2001, late spring and summer 2002, and late winter/spring 2003. Significant remedial steps included authorization to draw down and use the entire BSF balance, increased cigarette taxes, and use of tobacco settlement moneys previously earmarked for other purposes.

The biennial GRF appropriations Act passed in June 2001 provided for biennial GRF expenditures of approximately \$45.1 billion without increases in any major State taxes. That Act and the separate appropriations acts for the biennium included all necessary debt service and lease rental payments related to State obligations. That original appropriations act also provided for transfers to the GRF of \$160 million from the BSF and \$100

million from the Family Services Stabilization Fund aimed at achieving Fiscal Year and biennium ending positive GRF fund balances, based on then current estimates and projections.

The Ohio economy continued to be negatively affected by the national economic downturn and by national and international events, and in October 2001 OBM lowered its GRF revenue estimates and projected GRF revenue shortfalls of \$709 million for Fiscal Year 2002 and \$763 million for Fiscal Year 2003. Executive and legislative actions taken to address those shortfalls included:

- Spending reductions and limits on hiring and major purchases. The Governor ordered spending reductions were at the annual rate of 6% for most State agencies, with lesser reductions for correctional and other institutional agencies, and with exemptions for debt service related payments, primary and secondary education and the adjutant general.
- December 2001 legislation, the more significant aspects of which included authorizing the additional transfer of up to \$248 million from the BSF to the GRF during the current biennium thereby reducing the estimated BSF balance to \$607 million; reallocating to the GRF a \$260 million portion of tobacco settlement receipts in Fiscal Years 2002 and 2003; and authorizing Ohio's participation in a multi-state lottery game estimated to generate approximately \$40 million annually beginning in Fiscal Year 2003.

Continuing weak economic conditions and lower than anticipated personal income and corporate franchise tax receipts then led OBM in the spring of 2002 to project higher estimated GRF revenue shortfalls of approximately \$763 million in Fiscal Year 2002 and \$1.15 billion in Fiscal Year 2003. Further executive and legislative actions were taken to ensure positive GRF fund balances for Fiscal Year 2002 and the biennium. In addition to further appropriation reductions for certain departments and other management steps, those actions included legislation providing for: additional transfers to the GRF of the then remaining BSF balance (\$607 million) as needed in Fiscal Years 2002 and 2003, and of \$50.8 million of unclaimed funds; a \$50 million reduction in the Fiscal Year 2002 ending GRF balance to \$100 million; increasing the cigarette tax by 31¢ per pack (to a total of 55¢ per pack) estimated by OBM to produce approximately \$283 million in Fiscal Year 2003; additional transfers to the GRF of \$345 million from tobacco settlement moneys received in Fiscal Years 2002 and 2003 previously earmarked for construction of elementary and secondary school facilities and replacing the moneys for that purpose with authorized general obligation bonds; and extension of the State income tax to Ohio-based trusts and "decoupling" certain Ohio business taxes from federal tax law economic stimulus changes affecting business equipment depreciation schedules to produce approximately \$283 million in Fiscal Year 2003.

Fiscal Year 2002 ended with positive GRF balances of \$108.3 million (fund) and \$619.2 million (cash) based on the remedial steps described above, including transfers of \$289.6 million from tobacco settlement moneys and \$534.3 million from the BSF (leaving a Fiscal Year 2002 ending BSF balance of \$427.9 million, with that entire balance appropriated for GRF use if needed in Fiscal Year 2003).

On July 1, 2002, the Governor issued an executive order directing a total of approximately \$375 million in GRF spending cutbacks for Fiscal Year 2003 reflecting prior budget balancing discussions with the General Assembly. Excluded from those department and agency cutbacks ranging up to 15% were elementary and secondary education, higher education, alcohol and drug addiction services, and the adjutant general. Also expressly excluded were debt service and lease rental payments relating to State obligations, and ad valorem property tax relief payments (made to local taxing entities).

Based on continuing reduced revenue collections (particularly, personal income taxes and sales tax receipts) and projected additional Medicaid spending, OBM in late January 2003 announced an additional Fiscal Year 2003 GRF shortfall of \$720 million. The Governor ordered immediate additional reductions in spending intended to generate an estimated \$121.6 million of GRF savings through the end of the Fiscal Year (expressly exempted were appropriations for or relating to debt service on State obligations).

The Governor also proposed and the General Assembly enacted by March 1, 2003, the following additional revenue enhancements, transfers and expenditure reductions for Fiscal Year 2003 to achieve a positive GRF fund balance at June 30, 2003 as then estimated by OBM: An additional 2.5% reduction in local government fund distributions to most subdivisions and local libraries, producing an estimated \$30 million savings; transfers of \$56.4 million to the GRF from unclaimed funds and various rotary funds; and a one-month acceleration in sales tax collections by vendors filing electronically to produce \$286 million.

To offset the General Assembly's enactment of legislation that did not include proposed additional taxes on cigarettes and liquor, beer and wine, the Governor on March 25 ordered additional reductions in GRF appropriations spending aggregating \$142.5 million for the balance of Fiscal Year 2003. Included were reductions (generally at an annualized rate of 2.5%) of \$90.6 million in State foundation and parity aid to school districts and an additional \$9.3 million in Department of Education administration spending, \$39.2 million in instructional support to higher education institutions, and other selected reductions totaling \$3.4 million. The Governor also identified approximately \$20 million in excess food stamp administration funds available to offset the need for further expenditure reductions. Expressly excepted from those reductions were appropriations for or relating to debt service on State obligations.

Based on the Administration's continuing monitoring of revenues, and as an anticipated step in the then ongoing 2004-05 biennial budget and appropriations process, OBM reported revised revenue estimates to the General Assembly on June 11, 2003. Those estimates revised Fiscal Year 2003 revenues downward by an additional \$200 million from OBM's January 2003 adjusted baseline, based primarily on updated income and sales tax receipts through May 31. The Governor and OBM addressed this additional Fiscal Year 2003 revenue shortfall through additional expenditure controls and by drawing upon \$193 million of federal block grant aid made available to the State prior to June 30 under a federal law effective on May 28, 2003.

The State ended the 2002-03 biennium with a GRF cash and fund balances of \$396.5 million and \$52.3 million, respectively, and a balance in the BSF of \$180.7 million.

Additional appropriations actions during the 2002-03 biennium, affecting most subdivisions and local libraries in the State, related to the various local government assistance funds. The original appropriations act capped the amount to be distributed in Fiscal Years 2002 and 2003 to essentially the equivalent monthly payment amounts in Fiscal Years 2000 and 2001. Subsequent legislation amended the level to the lesser of those prior Fiscal Year amounts or the amount that would have been distributed under the standard formula.

#### **2004-05**

The GRF appropriations Act for the 2004-05 biennium was passed by the General Assembly and signed (with selective vetoes) by the Governor in June 2003. The Act provided for total GRF biennial revenue of approximately \$48.95 billion and total GRF biennial expenditures of approximately \$48.79 billion. That Act and the separate appropriations acts for the biennium included all necessary debt service and lease-rental payments related to State obligations.

Among other expenditure controls, the Act included Medicaid cost containment measures including pharmacy cost management initiatives, limited expenditure growth for institutional services and implementation of managed care for higher-cost populations; continued phase-out of certain tangible personal property tax relief payments to local governments; the closing by consolidation of three institutional facilities during the biennium; adjustments in eligibility guidelines for subsidized child care from 185% to 150% of the federal poverty level and freezing certain reimbursement rates; no compensation increases for most State employees in Fiscal Year 2004 and limited one-time increases in Fiscal Year 2005; and continued the limitation on local government assistance fund distributions to most subdivisions and local libraries to the lesser of the equivalent monthly payments in Fiscal Year 2003 or the amount that would have been distributed under the standard formula.

The GRF expenditure authorizations for the 2004-05 biennium reflected and were supported by revenue enhancement actions contained in the Act including:

- A one-cent increase in the State sales tax (to six percent) for the biennium (expiring June 30, 2005), projected to generate approximately \$1.25 billion in each Fiscal Year.
- Expansion of the sales tax base to include dry-cleaning/laundry services, towing, personal care and other services, and satellite television, producing in aggregate approximately \$102 million annually. On February 12, 2009, an Ohio appeals court overruled a 2007 trial court decision and upheld the inclusion of satellite television in the sales tax base, which produces approximately \$54 million annually. The Ohio Supreme Court on December 27, 2010, affirmed the court of appeals decision in favor of the State.
- Moving local telephone companies from the public utility tax base to the corporate franchise and sales tax, projected at the time to produce approximately \$29 million annually.

- Elimination of the sales tax exemption for wide area telephone service (WATS) and 800 telecom services coupled with the enactment of a more limited exemption for call centers, projected at the time to produce approximately \$64 million annually.
- Adjustments in the corporate franchise tax through the adoption of the Uniform Division of Income for Tax Purposes Act (UDITPA) for apportionment of business income among states, and an increase in the corporate alternative minimum tax, projected at the time to produce in aggregate approximately \$35 million annually.

The Act also authorized and OBM on June 30, 2004 transferred \$234.7 million of proceeds received from the national tobacco settlement into the GRF. In addition, the Act authorized the draw down during the biennium of federal block grant and Medicaid assistance aid made available to the State under a federal law effective May 28, 2003. OBM drew down \$211.6 million and \$316.8 million of those federal monies in Fiscal Years 2004 and 2005, respectively.

Based on regular monitoring of revenues and expenditures, OBM in March 2004 announced revised GRF revenue projections for Fiscal Years 2004 and 2005 based primarily on reduced revenue collections from personal income taxes. In response to OBM reducing its GRF revenue projection by \$247.1 million (1.02%) for Fiscal Year 2004 and by \$372.7 million (1.48%) for Fiscal Year 2005, the Governor ordered Fiscal Year 2004 expenditure reductions of approximately \$100 million. On July 1, 2004 the Governor ordered additional Fiscal Year 2005 expenditure cuts of approximately \$118 million and a reduction of \$50 million in State spending on Medicaid reflecting an increased Federal share of certain Medicaid services. Expressly excluded from those reductions were debt service and lease rental payments relating to State obligations, State basic aid to elementary and secondary education, instructional subsidies and scholarships for public higher education, in-home care for seniors and certain job creation programs. The balance of those revenue reductions were offset by GRF expenditure lapses and, for Fiscal Year 2005, elimination of an anticipated \$100 million year-end transfer to the BSF while maintaining a one-half percent year-end GRF fund balance.

The State ended Fiscal Year 2004 with a GRF fund balance of \$157.5 million. Improving economic conditions had a positive effect on revenue in Fiscal Year 2005. With GRF revenue receipts modestly outperforming estimates for much of the Fiscal Year, OBM in June 2005 increased its GRF revenue estimates by \$470.7 million. Final Fiscal Year 2005 GRF revenue came in \$67.4 million above that revised estimate. With Fiscal Year 2005 spending close to original estimates, the State made the following Fiscal Year-end allocations and transfers: \$60 million to address a prior-year liability in the Temporary Assistance to Needy Families (TANF) program; \$40 million to a disaster services contingency fund; \$50 million to the State's share of the school facilities construction program; and \$394.2 million to the BSF. After these and certain smaller transfers, the State ended Fiscal Year 2005 and the biennium with a GRF fund balance of \$127.8 million and a BSF balance of \$574.2 million.

## 2006-07

Consistent with State law, the Governor's Executive Budget for the 2006-07 biennium was released in February 2005 and introduced in the General Assembly. After extended hearings and review, the GRF appropriations Act for the 2006-07 biennium was passed by the General Assembly and signed (with selective vetoes) by the then Governor on June 30, 2005. That Act provided for total GRF biennial revenue of approximately \$51.5 billion (a 3.8% increase over 2004-05 biennial revenue) and total GRF biennial appropriations of approximately \$51.3 billion (a 5.0% increase over 2004-05 biennial expenditures). Spending increases for major program categories over the 2004-05 actual expenditures were: 5.8% for Medicaid (the Act also included a number of Medicaid reform and cost containment initiatives); 3.4% for higher education; 4.2% for elementary and secondary education; 5.5% for corrections and youth services; and 4.8% for mental health and mental retardation. The Executive Budget, the GRF appropriations Act and the separate appropriations acts for the biennium included all necessary debt service and lease rental payments related to State obligations.

The GRF expenditure authorizations for the 2006-07 biennium reflected and were supported by a significant restructuring of major State taxes, including:

- A 21% reduction in State personal income tax rates phased in at 4.2% per year over the 2005 through 2009 tax years. See **FISCAL MATTERS – Recent and Current Finances – Recent Biennia – 2010-11 and Current Biennium** for discussion of postponement of the final installment of this personal income tax reduction until the end of tax year 2010.

- Phased elimination of the State corporate franchise tax at a rate of approximately 20% per year over the 2006 through 2010 tax years (except for its continuing application to financial institutions and certain affiliates of insurance companies and financial institutions).
- Implementation of a new commercial activity tax (CAT) on gross receipts from doing business in Ohio phased in over the 2006 through 2010 fiscal years. The CAT is being levied at its fully phased-in rate of 0.26% on gross receipts in excess of \$1,000,000. (See **TAX LEVELS AND TAX BASES** for a discussion of the use of a portion of the CAT to make compensating payments to school districts and other taxing units in connection with the phase-out of the local tangible personal property tax.) The fully implemented CAT produces about \$1.45 billion annually with \$139 million of that amount attributable to its application to motor fuels. In September 2009, the Ohio Supreme Court ruled that food sales for off-premise consumption may be included in the CAT base. On July 26, 2011, an Ohio appellate court affirmed the judgment of a trial court upholding the applicability of the CAT to gross receipts from the sales of motor fuels, which decision may be appealed to the Ohio Supreme Court.
- A 5.5% State sales and use tax (decreased from the 6.0% rate for the 2004-05 biennium).
- An increase in the cigarette tax from \$0.55 per pack (of 20 cigarettes) to \$1.25 per pack.

The Governor signed into law on June 5, 2006 legislation enacted by the General Assembly imposing a limitation on most GRF appropriations commencing with the 2008-09 biennium. This statutory limitation initially uses Fiscal Year 2007 GRF appropriations as a baseline (excluding appropriations for debt service, tax relief and refunds, and certain appropriations reflecting moneys received from the federal government) and then applies an annual growth factor equal to the greater of 3.5% or the sum of the inflation rates and rate of State population change. Every fourth fiscal year thereafter becomes a new base year. This legislation was enacted as an alternative to a proposed “tax and expenditure limitation” (TEL) amendment to the Ohio Constitution that was withdrawn from the November 2006 general election ballot. All GRF appropriations since, and including, the 2008-09 biennium have complied with this limitation.

The State ended Fiscal Year 2006 with a GRF cash balance of \$1.529 billion and a GRF fund balance of \$1.026 billion. Of that ending GRF fund balance, the State carried forward \$631.9 million to cover the expected and planned for variance of Fiscal Year 2007 GRF appropriations over estimated revenue, to offset the one-time cost of accelerating the phase-in of reductions in State personal income tax withholding rates, and to maintain the required 0.5% of Fiscal Year 2007 GRF revenue as an ending fund balance. The remaining approximately \$394 million was deposited into the BSF increasing its balance to \$1.012 billion (which includes \$40 million in receipts collected from a broad tax amnesty initiative and deposited in June 2006). The State ended Fiscal 2007 with a GRF cash balance of \$1.433 billion and a GRF fund balance of \$215.5 million.

### **2008-09**

Ongoing and rigorous consideration was given by the Governor and the General Assembly to revenues and expenditures throughout Fiscal Years 2008-09, primarily as a result of the Ohio economy being negatively affected by the national economic downturn. Budgetary pressures during this period were primarily due to continuing lower than previously estimated levels of receipts from certain major revenue sources.

Consideration came in three general time frames – winter 2007, fall/winter 2008, and spring 2009. Significant measures were taken including use of the entire Budget Stabilization Fund (BSF) balance and expenditure reductions and spending controls on State agencies and departments.

Consistent with State law, the Governor’s Executive Budget for the 2008-09 biennium was released in March 2007 and introduced in the General Assembly. After extended hearings and review, the GRF appropriations Act for the biennium was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2007. Reflecting the continued implementation of the restructuring of State taxes commenced in 2006-07, that Act was based upon then estimated total GRF biennial revenues of approximately \$53.5 billion (a 3.9% increase over the 2006-07 biennial revenue) and total GRF biennial appropriations of approximately \$52.4 billion (a 2.1% increase over the 2006-07 biennial expenditures). Spending increases for major program categories over the 2006-07 actual expenditures were: 2.2% for Medicaid (the Act also included a number of Medicaid reform and cost containment initiatives); 13.2% for higher education; 5.2% for elementary and secondary education; 4.9% for corrections and youth services; and 4.7% for mental health and mental retardation. The Executive Budget, the GRF appropriations Act and the separate appropriations acts for the biennium included all necessary debt service and lease rental payments related to State obligations.

The original GRF expenditure authorizations for the 2008-09 biennium reflected and were supported by tax law changes contained in the Act, including:

- Restructuring nonresident tax exemption for Ohio motor vehicle purchases projected to produce approximately \$54.0 million for the biennium.
- Restoring local government fund support by committing a specified percentage of all tax revenues deposited into the GRF, with local governments to receive 3.7% of total GRF tax revenues annually and local libraries to receive 2.22% of total GRF tax revenues annually (see **FISCAL MATTERS – Recent and Current Finances -- Current Biennium** below for discussion of changes to these allocations).
- Eliminating the \$300 per month cigarette and tobacco product importation exemption projected to produce approximately \$25.0 million annually.

The GRF appropriations Act also created the Buckeye Tobacco Settlement Financing Authority to securitize tobacco settlement receipts payable to the State under the November 1998 national tobacco settlement. On October 29, 2007, the Authority issued \$5.53 billion of tobacco settlement asset-backed bonds to fund capital expenditures for higher education (\$938 million) and common school (\$4.112 billion) purposes over three years in lieu of the State issuing GRF-backed general obligation bonds to fund those capital expenditures. The resulting debt service savings to the GRF partially funded the expansion of the homestead exemption property tax relief program in the Act. The Act reprogrammed all prior General Assembly allocations of anticipated tobacco settlement receipts to enable the pledge of 100% of those receipts to the payment of debt service on the Authority's obligations. The State had previously enacted legislation allocating its anticipated share of those receipts through Fiscal Year 2012 and making a partial allocation thereafter through Fiscal Year 2025, with the largest allocations to elementary and secondary school capital expenditures, and with other amounts allocated for smoking cessation and health-related purposes, biomedical research and technology transfer, and assistance to the tobacco growing areas in the State.

*Winter 2007.* With the Ohio economy expected to be negatively affected by the national economic downturn, in January 2008 OBM reduced its original GRF revenue projections by \$172.6 million for Fiscal Year 2008 and \$385.1 million for Fiscal Year 2009. Based on those lower GRF revenue estimates and increased costs associated with rising Medicaid caseloads, OBM projected a budgetary shortfall for the 2008-09 biennium of \$733 million.

Executive and legislative actions taken in response to those OBM estimates, included:

- The Governor, on January 31, 2008, issued an executive order directing expenditure reductions and spending controls totaling approximately \$509 million (of which about \$402 million was realized) for the 2008-09 biennium, as well as limitations on major purchases, hiring and travel, based primarily on the transfers of unspent agency appropriations and the June 2008 action described below. Allocation of those reductions has been determined by the OBM Director in consultation with the affected agencies and departments, with annual expenditure reductions ranging up to 10%. An employee reduction plan was also announced aimed at reducing the State's workforce by up to 2,700 through selective elimination of positions, attrition, unfilled vacancies and an early retirement incentive program. Expressly excluded from the cutbacks are appropriations for or relating to debt service on State obligations, State higher education instructional support, foundation formula support for primary and secondary education, Medicaid entitlement programs, and ad valorem property tax relief payments.
- Transfer of unspent agency appropriations then expected to total \$120 million in Fiscal Year 2008 and \$78 million in Fiscal Year 2009.
- Authorizing expansion of the State-run lottery system to include "keno" games then projected to generate \$65 million in Fiscal Year 2009 of which approximately \$25 million was realized.

In June 2008, the General Assembly also passed legislation that provided for, among other things, transfers to the GRF (after a selective line-item veto) of up to \$63.3 million from the BSF for the State's share of increased Medicaid costs, \$55 million from rotary funds and \$25 million in uncommitted interest earnings from proceeds of the State's Tobacco Settlement Asset-Backed Bonds.

*Fall/Winter 2008.* With the Ohio economy continuing to be negatively affected by the national economic downturn, OBM on September 10, 2008 announced a \$540 million further reduction in its GRF revenue projections for Fiscal Year 2009 and a projected Fiscal Year budgetary shortfall of the same amount. Executive actions announced to offset the projected shortfall included:

- Use of additional planned Fiscal Year-end lapses and GRF carry forward totaling \$126.4 million.
- Use of balances in various non-GRF “rotary funds” totaling \$112 million.
- Transfer to the GRF an additional \$40 million of interest earnings on the proceeds of the tobacco securitization referred to above.
- As authorized by June 2008 legislation referred to above, a transfer to the GRF of \$63.3 million to pay for previously authorized Medicaid cost expenditures.

The \$198.3 million balance was offset by a 4.75% reduction in most agency appropriations, which does not apply to appropriations for debt service or tax relief, Medicaid and disability financial assistance, Department of Education aid to local school districts, the Departments of Rehabilitation and Corrections and Youth Services and selected others.

On December 1, 2008, OBM announced a further \$640.4 million reduction in GRF revenue projections for Fiscal Year 2009 expected to result in a projected Fiscal Year shortfall of the same amount. Executive actions announced to offset much of that projected shortfall included:

- Reducing total GRF Medicaid spending by \$311.1 million by using cash from non-GRF Medicaid accounts and the corresponding federal share previously planned for use in Fiscal Year 2010.
- Reducing total Medicaid program spending by \$21.3 million by enhanced focus on use of other third party liability sources and other program savings exceeding original estimates.
- Reducing other GRF expenditures by \$180.5 million through a further 5.75% reduction in most agency appropriations, which did not apply to appropriations for debt service or tax relief, Medicaid and disability financial assistance, Department of Education aid to local school districts, the Departments of Rehabilitation and Corrections and Youth Services among others. These reductions were in addition to the approximately \$1.27 billion of 2008-09 biennium budget adjustments previously undertaken.

The \$131.9 million remainder of the shortfall was offset by additional Federal Medical Assistance Payments (FMAP) received under the American Recovery and Reinvestment Act of 2009, which increased federal Medicaid match to the GRF by that amount (after taking into account loss of federal match from the two Medicaid related actions outlined above). Based on these expenditure reductions, spending controls and other measures – and before the revised revenue estimates referred to below – OBM was projecting a positive GRF fund balance at June 30, 2009.

*Spring 2009.* Based on the Administration’s continuing monitoring of revenues, and as an anticipated step in the then ongoing 2010-11 biennial budget and appropriations process, OBM reported revised revenue estimates to the General Assembly on June 11, 2009. Those estimates revised Fiscal Year 2009 revenues downward by an additional \$912 million over OBM’s December 2008 adjusted baseline, based primarily on updated income and sales tax receipts through May 31. To address this additional Fiscal Year 2009 revenue shortfall, the Governor received General Assembly approval for and used the entire remaining BSF balance of \$949 million for Fiscal Year 2009. Additional measures taken to address this shortfall included the restructuring of \$52.8 million of Fiscal Year 2009 general revenue fund debt service into Fiscal Years 2012 through 2021 and expenditure reductions of \$98 million in addition to the expenditure controls ordered by the Governor on April 22.

The State ended Fiscal Year 2009 with GRF cash and fund balances of \$734.5 million and \$389.1 million respectively, and a \$-0- balance in the BSF. Of the ending GRF fund balance, \$133.4 million represents the one-half of one percent of Fiscal Year 2009 GRF revenues the State is required to maintain as an ending fund balance.

## **2010-11**

Rigorous consideration was given by the General Assembly to the Governor’s Executive Budget proposed for the 2010-11 biennium in light of the difficult economic and fiscal conditions resulting from the national recession. The final GRF appropriations Act for the 2010-11 biennium, which was preceded by three seven-day interim appropriations acts, was passed by the General Assembly and signed (with selective vetoes) by the Governor on July 17, 2009. All necessary debt service and lease-rental payments related to State obligations for the entire 2010-11 biennium were fully appropriated for the three week interim appropriations period and under that final Act. Reflecting the final implementation of the restructuring of State taxes commenced in 2006-07 and a conservative underlying economic forecast, that Act provided for total GRF biennial appropriations of

approximately \$50.5 billion (a 3.8% decrease from 2008-09 biennial expenditures) and total GRF biennial revenue of approximately \$51.1 billion (a 4.2% decrease from 2008-09 biennial revenues). GRF appropriations for major program categories compared to 2008-09 actual GRF spending reflected increases of 3.4% for Medicaid (excluding ARRA funding referred to below) and 0.7% for corrections and youth services; and decreases of 13.8% for mental health and developmental disabilities, 8.3% for higher education, and 5.15% for elementary and secondary education. Among other expenditure controls, the act included a number of Medicaid reform and cost containment initiatives and also included the restructuring of \$736 million of Fiscal Years 2010 and 2011 general revenue fund debt service into Fiscal Years 2012 through 2025.

Major new sources of revenues or savings reflected in the 2010-11 appropriations act included:

- \$2.4 billion of “Federal Stimulus” funding received under the American Recovery and Reinvestment Act of 2009, including \$1.464 billion for elementary and secondary education, \$628 million for Federal Medical Assistance Payments, and \$326 million for other purposes.
- \$933 million in gaming and license revenues from the Ohio Lottery Commission’s implementation of video lottery terminals (VLTs) at the seven horse racing tracks in the State. OBM estimated the VLTs would result in an approximate \$851 million net increase in revenues for the biennium (\$285 million in Fiscal Year 2010 and \$566 million in Fiscal Year 2011) after taking into account offsetting effects of the VLTs on other lottery revenues. On September 21, 2009, the Ohio Supreme Court ruled that the statutory provisions in the biennial appropriations Act for the implementation of VLTs were subject to voter referendum and granted petitioners in that case until December 20, 2009 to submit referendum petitions with the required number of signatures. The Ohio Secretary of State on March 26, 2010 confirmed those petitions contained a sufficient number of valid signatures to place the referendum on the November 2, 2010 ballot, but on July 1, 2010 the committee for the petitioners withdrew the referendum from the ballot.
- \$259 million from the Ohio Tobacco Use Prevention and Control Foundation Endowment Fund (TUPAC) to be deposited into a special State fund (non-GRF) and then intended to be used for various health care initiatives. On August 11, 2009, a trial court ruled in favor of the plaintiffs and ordered these monies must remain in that endowment fund and be used for the purpose of reducing tobacco use. The State immediately appealed this trial court ruling and on December 31, 2009, the court of appeals ruled in favor of the State and reversed the trial court’s order. The Ohio Supreme Court on December 22, 2010, affirmed the court of appeals decision in favor of the State.
- \$1.036 billion of “one-time” revenues or savings (\$640 million in Fiscal Year 2010 and \$396 million in Fiscal Year 2011), including \$364 million from the spend-down of carry-forward balances (that required temporary suspension of the one-half of one percent ending fund balance requirement for the 2010-11 biennium), \$250 million transferred from a cash account at the Ohio School Facilities Commission funds, \$272 million savings from subjecting State employees to a two week unpaid “furlough” during each year of the biennium, \$84 million from a reduction in State funding to public libraries, and \$65 million from the transfer to the GRF of interest on the proceeds of the State’s 2007 tobacco securitization.
- \$530 million from transfers to the GRF of unclaimed funds and from other non-GRF funds.

In September 2010 the State also received from the federal government an award of \$518.6 million of enhanced Federal Medical Assistance Payments funding (“eFMAP”), and \$361.2 million of funding was also received by Ohio school districts for teacher salaries and personnel costs for primary and secondary education (“Ed Jobs”).

In response to the above-referenced September 21 decision of the Ohio Supreme Court declaring the VLT provisions in the biennial appropriations Act subject to referendum, the Governor proposed for General Assembly consideration postponing for two years the final installment of the personal income tax reduction then scheduled to take effect in tax year 2009 (for returns filed in 2010). After extended hearings and review, the General Assembly approved, and the Governor signed into law on December 22, 2009, legislation keeping personal income tax rates at 2008 levels through tax year 2010 (see **FISCAL MATTERS - Recent and Current Finances – Current Biennium** for discussion of implementation of the final phase of that personal income tax reduction).

The appropriations act for the 2010-2011 biennium created a six member (three from each of the House and Senate) Budget Planning and Management Commission (BPMC) to “study and make recommendations that are designed to provide relief to the state during the current difficult fiscal and economic period”. The BPMC commenced meeting in June 2010, heard testimony, received suggestions and released two reports -- one from its three Republican members dated November 30 and one from its three Democratic members dated December 8. Both reports contained estimates of “non-recurring” revenues reflected in the 2010-11 budget as enacted ranging from \$4.887 billion in the GRF to \$8.339 billion for all GRF and non-GRF funds. These estimates included the effect of the postponement of the final installment of the personal income tax reduction.

The State ended Fiscal Year 2011 with GRF cash and fund balances of \$844.5 million and \$430.7 million, respectively. Of that ending GRF fund balance, the State reserved \$138.8 million in the GRF reflecting the one-half of one percent of Fiscal Year 2011 GRF revenues the State is required to maintain as an ending fund balance and transferred \$45.0 million into disaster services/emergency funds. The remaining \$246.9 million was deposited into the BSF. These ending balances reflect the use of approximately \$680 million in Fiscal Year 2011 GRF revenue to make payments for Medicaid managed care, the State’s share of instruction for higher education, payroll and other commitments that were previously scheduled to be deferred into Fiscal Year 2012.

### **Current Biennium**

Consistent with State law, the Governor’s Executive Budget for the 2012-13 biennium was released in March 2011 and introduced in the General Assembly. After extended hearings and review, the 2012-13 biennial appropriations Act was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2011. To address the use of non-recurring funding sources in the prior 2010-11 biennium including amounts received under ARRA, the Act includes targeted spending cuts across most State agencies, and major new Medicaid reform and cost containment measures. Reflecting the tax law changes described below and a conservative underlying economic forecast, that Act provides for total GRF biennial appropriations of approximately \$55.78 billion (an 11% increase from the 2010-11 GRF biennial expenditures) and total GRF biennial revenue of approximately \$56.07 billion (a 6% increase from 2010-11 GRF biennial revenues). GRF appropriations for major program categories compared to 2010-11 actual GRF spending reflect increases of 30% for Medicaid (increase due in part to absence of ARRA funding in the current biennium) and 3% for elementary and secondary education; decreases of 9% for higher education and 8% for mental health and developmental disabilities; and flat funding for corrections and youth services. That Act also reflects the restructuring of \$440 million of Fiscal Year 2012 general revenue fund debt service into Fiscal Years 2013 through 2025, approximately three-quarters of which was accomplished by the July 28 issuance by the Ohio Public Facilities Commission of \$488.8 million in refunding bonds, with the remainder of that restructuring to occur by the issuance of the Ohio Building Authority’s \$149.3 million in refunding bonds scheduled to close September 15.

The Executive Budget, the GRF appropriations Act and the separate appropriations acts for the biennium included all necessary debt service and lease rental payments related to State obligations (after the restructuring of Fiscal Year 2012 GRF debt service payments).

Major new sources of revenues or expenditure savings reflected in the 2012-13 appropriations Act include:

- Transfer of the State’s spirituous liquor system to JobsOhio, a nonprofit corporation created to promote economic development, job creation and retention, job training and the recruitment of business to the State. In consideration of this transfer, the Act reflects that the State is to receive from JobsOhio in Fiscal Year 2012 a \$500 million one-time payment. With that transfer, the State will forgo annual deposits to the GRF from net liquor profits (those deposits totaled \$153.0 million in Fiscal Year 2011). Any transfer must include provisions for payment of the outstanding bonds referred to under **STATE DEBT – General - Economic Development and Revitalization**. Litigation filed on April 18, 2011 in the Ohio Supreme Court challenged under various provisions of the Ohio Constitution certain aspects of both JobsOhio and the law enacted in February 2011 authorizing its creation. Specifically, plaintiffs in that case were challenging the provisions in that law providing for exclusive original jurisdiction in the Ohio Supreme Court for any challenge to that law or the creation of JobsOhio, and also requiring those challenges be filed within sixty days after that law took effect. Plaintiffs were also claiming that law is an improper special act conferring corporate powers, that the Governor may not serve on the JobsOhio board of directors, that the provisions for dissolution of JobsOhio violate limitations in the Ohio Constitution on State appropriations and assumption of corporate debt, and that the law created a joint venture under which the State is lending its aid and credit. On August 19, the Court dismissed that

case solely for lack of subject matter jurisdiction.. The 2012-13 appropriations Act also amended the law enacted in February 2011 authorizing the creation of JobsOhio to remove the Governor from the JobsOhio board of directors, require JobsOhio to comply with Ohio's nonprofit corporation law unless specifically exempted from a provision, and eliminate the exclusive original jurisdiction in the Ohio Supreme Court and relax the deadlines for filing claims. On August 29, those same plaintiffs filed a case in the Court of Common Pleas of Franklin County, Ohio, again claiming the law authorizing the creation of JobsOhio, as amended by the 2012-13 appropriations Act, is an improper special act conferring corporate powers, and that the State may not lend its aid and credit to JobsOhio. The case requests the court grant an injunction prohibiting the formation and continued operation of JobsOhio, prohibiting the Directors of Development and Budget and Management from contracting with or funding JobsOhio.

- Sale of six State-owned prison facilities to private operators expected to result in a net payment to the GRF of \$75 million. A case filed on August 25, 2011 in the Court of Common Pleas of Franklin County, Ohio, challenges the authorization in the 2012-13 appropriations Act to sell these prison facilities. Specifically, this litigation alleges that the provisions in that Act authorizing the sale of these prisons, as well as that entire Act, were enacted in violation of the “one subject rule” of the Ohio Constitution, that the sale of the prisons would create a joinder of private and public property interests violating the constitutional prohibition against the State entering into a joint venture, and that they violate the constitutional right to referendum on certain laws. The plaintiffs requested that the court declare the entire appropriations Act unconstitutional under the one subject rule and issue an order enjoining the implementation of all provisions in that Act or, in the alternative, that the court declare the provisions authorizing the sale of the prisons unconstitutional under the one subject rule and as an unconstitutional joinder of private and public property and violation of the right to referendum. The plaintiffs also requested the court order continuing the public employee status of workers at those prison facilities and issue a temporary restraining order preventing the State from proceeding with the sale of prisons. On August 31 the Court rendered a decision denying the temporary restraining order and scheduling a hearing on the plaintiffs’ motion for preliminary injunction for September 13. In that August 31 decision, the Court found that the provisions of the appropriations Act authorizing the sale of the prisons were not in violation of the one subject rule, indicated it did not intend to revisit that matter at the September 13 hearing on the preliminary injunction, and further indicated that it would refrain from making a declaration as to sections of the Act other than those authorizing the sale of the prison facilities. The Court also found on August 31 that the prison sale authorization in the appropriations Act does not violate the prohibition against the State entering into a joint venture and that those provisions do not fit within the exceptions to the right to referendum. These rulings by the Court may be subject to appeal in the future. The State also announced on September 1 that, based on the proposals it received for five prisons, it is opting to sell only one of those facilities and that this will accomplish the desired savings for the 2012-13 biennium.
- Reducing local government fund allocations by \$111 million in Fiscal Year 2012 and \$340 million in Fiscal Year 2013. Beginning in Fiscal Year 2014, allocations are to be made by committing a set percent of annual tax revenues deposited into the GRF (beginning with Fiscal Year 2013 GRF tax revenues).
- Reducing public library fund allocations to 95% of Fiscal Year 2011 levels resulting in expenditure reductions of \$52.3 million in Fiscal Year 2012 and \$102.8 million in Fiscal Year 2013. Beginning in Fiscal Year 2014, allocations to public libraries are to be made by committing a set percent of annual tax revenues deposited into the GRF (beginning with Fiscal Year 2013 GRF tax revenues).
- Accelerated phase-out of reimbursement payments to local governments and school districts in connection with the elimination of the tangible personal property tax resulting in an increased share (estimated at \$293.5 million in Fiscal Year 2012 and \$597.7 million in Fiscal Year 2013) of the Commercial Activity Tax being deposited into the GRF (see **TAX LEVELS AND TAX BASES – Property Tax**).
- Accelerated phase-out of reimbursement payments to local governments and school districts for electric power generation deregulation and natural gas deregulation resulting in a larger share (estimated at \$141.6 million in Fiscal Year 2012 and \$147.4 million in Fiscal Year 2013) of the kilowatt-hour tax and

the entire (approximately \$66.0 million in Fiscal Year 2012 and \$66.0 million in Fiscal Year 2013) natural gas consumption tax being reallocated to the GRF.

- \$235 million from transfers to the GRF of unclaimed funds and from other non-GRF funds and \$12 million from a tax amnesty program.

The 2012-13 appropriations Act also reflects the following tax law changes:

- Implementation of the previously postponed final 4.2% annual decrease in State personal income tax rates (see **FISCAL MATTERS – Recent and Current Finances – Recent Biennia – 2010-11**).
- Eliminated the estate tax beginning January 1, 2013, currently levied at a rate of 6% on estates over \$338,333 and 7% on estates over \$500,000. In Fiscal Year 2010, estate tax collections totaled \$285.8 million of which \$230.8 million was distributed to the local government jurisdictions from which it was collected and with \$55.0 million retained by the State and deposited into the GRF.
- Established the InvestOhio income tax credit program under which investors in small businesses based in Ohio who hold their investments for at least two years may receive 10% income tax credits limited to a maximum of \$10 million per investor per biennium with no more than \$100 million of those credits to be issued over two years.

The 2012-13 appropriations Act also creates a \$104 million Unemployment Compensation Contingency Fund to pay interest that may be owed in September 2011 on federal advances to the State unemployment compensation fund and appropriated a \$130 million Medicaid reserve fund. The Act also makes changes to State construction bidding procedures and includes additional authorizations for joint purchasing by and cooperation among local governments, all designed to create opportunities for cost savings.

Separate legislation passed by the General Assembly and signed by the Governor on June 29, 2011, is expected to reduce the State prison population by, among other changes, directing some low-level offenders to community-based programs.

As discussed above, the State is effectively precluded by its Constitution from ending a Fiscal Year or a biennium in a “deficit” position. OBM continually monitors and analyzes revenues and expenditures developments (including pending litigation) and prepares a financial report summarizing its analyses at the end of each month. The most recent Monthly Financial Reports are accessible via OBM’s home page at <http://obm.ohio.gov/MiscPages/MonthlyFinancialReports/>, and copies are available upon request to OBM.

### **Cash Flow**

Because GRF cash receipts and disbursements do not precisely coincide, temporary GRF cash flow deficiencies often occur in some months, particularly the middle months, of a Fiscal Year. Statutory provisions provide for effective management by permitting the adjustment of payment schedules (as was done during some prior Fiscal Years) and the use of the Total Operating Fund (TOF). The State has not done and does not do external revenue anticipation borrowing.

The TOF includes the total consolidated cash balances, revenues, disbursements and transfers of the GRF and several other specified funds (including the BSF). The TOF cash balances are consolidated only for the purpose of meeting cash flow requirements, and, except for the GRF, a positive cash balance must be maintained for each discrete fund included in the TOF. The GRF is permitted to incur a temporary cash deficiency by drawing upon the available consolidated cash balance in the TOF. The amount of that permitted GRF cash deficiency at any time is limited by statute to 10% of GRF revenues for the then preceding Fiscal Year.

The State plans for and manages monthly GRF cash flow deficiencies within each Fiscal Year. GRF cash flow deficiencies have been within the TOF limitations discussed above.

## **STATE DEBT**

### **General**

The incurrence or assumption of debt by the State without a popular vote is, with limited exceptions, prohibited by the State Constitution. The State may incur debt to cover casual deficits or to address failures in revenues or to meet expenses not otherwise provided for, but limited in amount to \$750,000. The Constitution expressly precludes the State from assuming the debts of any county, city, town or township, or of any

corporation. (An exception in both cases is for debts incurred to repel invasion, suppress insurrection, or defend the State in war.) The Constitution provides that “Except the debts above specified . . . no debt whatever shall hereafter be created by, or on behalf of the state.”

By 19 constitutional amendments approved from 1921 to present, Ohio voters have authorized the incurrence of State general obligation (GO) debt and the pledge of taxes or excises to its payment, all related to the financing of capital facilities, except for four that funded bonuses for veterans, one that funded coal technology research and development, and one for research and development activities. Currently, tax supported general obligation debt of the State is authorized to be incurred for the following purposes: highways, local infrastructure, coal development, natural resources, higher education, common schools, conservation, research and development, site development and veterans compensation. Although supported by the general obligation pledge, highway debt is also backed by a pledge of and has always been paid from the State’s motor fuel taxes and other highway user receipts that are constitutionally restricted in use to highway related purposes.

State special obligation debt, the owners or holders of which are not given the right to have excises or taxes levied by the General Assembly to pay principal and interest, is authorized for specified purposes by Section 2i of Article VIII of the Constitution. Debt service payments are subject to biennial appropriations by the General Assembly pursuant to leases or agreements entered into by the State.

The Ohio Building Authority (OBA) currently issues special obligations for facilities to house branches and agencies of State government and their functions, including: State office buildings and facilities for the Department of Administrative Services (DAS) and others, the Department of Public Safety (DPS) and the Bureau of Workers’ Compensation (BWC); juvenile detention facilities for the Department of Youth Services (DYS); and Department of Rehabilitation and Correction (DRC) prisons and certain local and community-based correctional facilities. Effective January 1, 2012, the Treasurer of State is to replace the OBA as bond issuing authority for these purposes. The Treasurer currently issues special obligations for mental health, parks and recreation, and cultural facilities purposes, and to refund certain bonds previously issued for higher education purposes. Debt service on these obligations issued by OBA and the Treasurer under Section 2i of Article VIII is paid from GRF appropriations, with the exception of debt issued for DPS facilities (paid from highway user receipts) and for BWC facilities (paid from the BWC Administrative Cost Fund).

*Federal Highway Grant Anticipation Revenue (GARVEE) Bonds.* In addition to its issuance of highway bonds, the State has financed selected highway infrastructure projects by issuing bonds and entering into agreements that call for debt service payments to be made from federal transportation funds allocated to the State, subject to biennial appropriations by the General Assembly. The highest annual State payment under those agreements in the current or any future fiscal year is \$173.1 million in Fiscal Year 2012. In the event of any insufficiency in the anticipated federal allocations to make payments on State bonds, the payments are to be made from any lawfully available moneys appropriated to ODOT for the purpose.

*Economic Development and Revitalization.* A statewide economic development program assists the financing of facilities and equipment for industry, commerce, research and distribution, including technology innovation, by providing loans and loan guarantees. The law authorizes the issuance of State bonds and notes secured by a pledge of portions of the State profits from the sale of spirituous liquor. (See **FISCAL MATTERS - Recent and Current Finances – Current Biennium** for discussion of transfer of the State’s spirituous liquor system to JobsOhio.) The General Assembly has authorized the issuance of these obligations with a maximum of \$630 million to be outstanding at any one time, of which not more than \$84 million may be issued for eligible advanced energy projects and not more than \$100 million may be issued for eligible logistics and distribution projects. The aggregate amount of net liquor profit to be used in any Fiscal Year to pay debt service on these economic development bonds may not exceed \$63 million and the current maximum annual debt service is \$51.1 million in Fiscal Year 2016. Pursuant to constitutional authority discussed below under **Additional Authorizations**, the State has issued \$250 million of bonds or notes for revitalization purposes that are also payable from a separate, subordinate pledge of State net liquor profits. The maximum annual debt service on the outstanding revitalization bonds is \$23.5 million in Fiscal Year 2013.

*Certificates of Participation (COPs).* State agencies also have participated in buildings and equipment, information systems and non-highway transportation projects that have local as well as State use and benefit, in connection with which the State has entered into lease-purchase agreements with terms ranging from 7 to 20 years. Certificates of Participation (COPs) have been issued in connection with those agreements that represent fractionalized interests in and are payable from the State’s anticipated lease payments. The maximum annual

payment from GRF appropriations under those existing agreements is \$30.5 million in Fiscal Year 2013 and the total GRF-supported principal amount outstanding is \$186.7 million. Payments by the State are subject to biennial appropriations by the General Assembly with the lease terms subject to renewal if appropriations are made. The approval of the OBM Director and either the General Assembly or the state controlling board is required if COPs are to be publicly-offered in connection with those agreements.

*Revenue Bonds.* Certain State agencies issue revenue bonds that are payable from revenues from or relating to revenue producing facilities, such as those issued by the Ohio Turnpike Commission. By judicial interpretation, such revenue bonds do not constitute “debt” under the constitutional provisions described above. The Constitution authorizes State bonds for certain housing purposes (issued by the Ohio Housing Finance Agency) to which tax moneys may not be obligated or pledged. See the discussion of expanded housing finance authority, and permitted pledges to it, below under **Additional Authorizations**.

*Tax Credits in Support of Other Long Term Obligations.* The State has authorized the issuance of fully refundable tax credits in support of the \$157,940,000 Ohio Capital Fund (OCF) financing bonds issued in May 2010 by the Columbus-Franklin County Finance Authority. Those tax credits may be claimed by the bond trustee for the purpose of restoring the bond reserve fund for those bonds in the event it is drawn upon and not restored from other sources. Those credits may not be claimed before July 1, 2012 or after June 30, 2036, and the maximum amount of tax credits that may be claimed is \$20 million in any fiscal year and \$380 million total. Proceeds of the OCF bonds fund investments in venture capital funds to promote investment in seed and early-stage Ohio-based business enterprises.

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### Variable Rate Debt and Interest Rate Swaps

The State currently has \$650,715,000 in outstanding general obligation variable rate debt as follows with liquidity provided by the State for all of these issues:

<u>Dated Date</u>	<u>Outstanding</u>	<u>Purpose</u>	<u>Series</u>	<u>Rate Period</u>	<u>Final Maturity</u>
11/29/01	\$63,900,000	Infrastructure	2001B	Weekly	8/1/2021
2/26/03	99,145,000	Infrastructure	2003B	Weekly	8/1/2017
3/20/03	56,665,000	Infrastructure	2003D	Weekly	2/1/2019
12/15/03	67,000,000	Common Schools	2003D	Weekly	3/15/2024
3/3/04	55,295,000	Infrastructure	2004A	Weekly	2/1/2023
4/1/05	149,030,000	Common Schools	2005A/B	Weekly	3/15/2025
6/7/06	159,680,000	Common Schools	2006B/C	Weekly	6/15/2026

As part of its debt management, the State is also party to the following interest rate swap agreements with a total notional amount of \$494,905,000:

<u>Type</u>	<u>Outstanding Notional Amount</u>	<u>Related Bond Series</u>	<u>State Pays</u>	<u>State Receives</u>	<u>Effective Date</u>	<u>Termination Date</u>
Floating-to-Fixed	\$63,900,000	Infrastructure 2001B	4.630%	SIFMA <sup>1</sup>	11/29/2001	8/1/2021
Floating-to-Fixed	67,000,000	Common Schools 2003D	3.414%	LIBOR <sup>2</sup>	9/14/2007	3/15/2024
Floating-to-Fixed	55,295,000	Infrastructure 2004A	3.510%	LIBOR <sup>2</sup>	3/3/2004	2/1/2023
Floating-to-Fixed	149,030,000	Common Schools 2005A/B	3.750%	LIBOR <sup>2,3</sup>	3/15/2007	3/15/2025
Floating-to-Fixed	159,680,000	Common Schools 2006B/C	3.202%	LIBOR <sup>2</sup>	6/15/2006	6/15/2026

<sup>1</sup> Securities Industry and Financial Markets Association (SIFMA) weekly variable rate index.

<sup>2</sup> Variable interest rate based on a percentage of one-month London Inter-Bank Offered Rate (LIBOR) plus a fixed increment.

<sup>3</sup> Variable interest rate based on 62% of 10-year LIBOR beginning September 15, 2014.

For all its swap agreements, the State has established minimum uncollateralized counterparty rating thresholds of AA-/Aa3. Under each of these agreements, the counterparty is required to progressively post collateral securing the State's position if the counterparty's credit ratings fall below these minimum thresholds.

### Constitutional Limitation on Annual Debt Service

A 1999 constitutional amendment provides an annual debt service "cap" applicable to most future issuances of State general obligations and other State direct obligations payable from the GRF or net State lottery proceeds. Generally, new obligations may not be issued if debt service for any future Fiscal Year on those new and the then outstanding bonds of those categories would exceed 5% of the total of estimated GRF revenues (excluding GRF receipts from the American Recovery and Reinvestment Act of 2009) plus net State lottery proceeds for the Fiscal Year of issuance. Those direct obligations of the State include general obligation and special obligation bonds that are paid from the State's GRF, but exclude (i) general obligation debt for third frontier research and development, development of sites and facilities, and veterans compensation, and (ii) general obligation debt payable from non-GRF funds (such as highway bonds that are paid from highway user receipts). Pursuant to the implementing legislation, the Governor has designated the OBM Director as the State official responsible for making the 5% determinations and certifications. Application of the 5% cap may be waived in a particular instance by a three-fifths vote of each house of the Ohio General Assembly and may be changed by future constitutional amendments.

The following table presents a current summary of State debt obligations as of September 28, 2011. The General Assembly has appropriated sufficient moneys to meet debt service requirements for the current biennium (ending June 30, 2013) on all of the obligations included in this and the accompanying tables.

<i>Obligations Payable from the GRF</i>	<b>Authorized by General Assembly(a)</b>	<b>Issued(b)</b>	<b>Outstanding(c)</b>
<b><u>General Obligations</u></b>			
Coal Development(d)	\$231,000,000	\$198,000,000	\$16,885,000
Infrastructure(e)	3,150,000,000	2,879,986,136	1,630,920,915(f)
Natural Resources(g)	350,000,000	325,000,000	131,880,000
Common School Facilities(h)	3,870,000,000	3,290,000,000	2,549,095,000(f)
Higher Education Facilities(h)	2,613,000,000	2,300,000,000	1,751,455,000
Conservation(i)	300,000,000	300,000,000	223,900,000
Research & Development(j)	850,000,000	380,700,000	315,810,000
Site Development(k)	150,000,000	115,000,000	99,075,000
Veterans Compensation(l)	200,000,000	65,910,000	<u>65,910,000</u>
		Total:	\$6,784,930,915
<b><u>Special Obligations</u></b>			
DRC Prison Facilities	\$1,943,000,000	\$1,839,500,000	\$655,930,000
DYS Facilities	304,000,000	297,000,000	163,015,000
DAS Facilities	1,646,000,000	1,613,300,000	702,810,000
Cultural & Sports Facilities	512,000,000	486,690,000	178,030,000
Higher Education Facilities	4,817,590,000	4,817,590,000	98,185,000
Mental Health Facilities	1,517,000,000	1,392,085,000	165,480,000
Parks & Recreation Facilities	420,000,000	408,000,000	<u>144,365,000</u>
		Total:	\$2,107,815,000

***Obligations Payable from Non-GRF Sources***

**Highway User Receipts**

G.O. Highway(m)	\$2,772,000,000	\$2,290,000,000	\$767,910,000
DPS Facilities	143,000,000	140,285,000	25,855,000

**Net Liquor Profits**

Economic Development(n)	n.a.	\$584,740,000	\$472,730,000
Revitalization Projects(o)	400,000,000	250,000,000	204,295,000

**Other**

ODOT Highway Infrastructure(p)	n.a.	\$1,648,765,000	\$968,810,000
BWC Facilities(q)	214,255,000	214,255,000	47,005,000

- (a) Authorized amounts do not include additional \$50,000,000 of GRF-supported authority to fund current biennium emergency capital needs.
- (b) Excludes refunding bonds; includes bonds refunded.
- (c) Excludes bonds refunded; includes refunding bonds.
- (d) Not more than \$100,000,000 may be outstanding at any time.
- (e) Not more than \$3,750,000,000 may be issued with the annual issuance limited to \$120,000,000 beginning with Fiscal Year 2008 and \$150,000,000 beginning in Fiscal Year 2013, plus any obligations unissued from previous fiscal years.
- (f) Includes adjustable rate bonds.
- (g) Not more than \$50,000,000 may be issued in any Fiscal Year and not more than \$200,000,000 may be outstanding at any time.
- (h) Amounts of general obligations authorized for common school and higher education facilities were reduced by \$800,000,000 and \$950,000,000, respectively, to reflect a portion of the amount of obligations issued for those purposes by the Buckeye Tobacco Settlement Financing Authority described under **FISCAL MATTERS –Recent and Current Finances – Recent Biennia - 2008-09**.
- (i) Not more than \$50,000,000 may be issued in any Fiscal Year and not more than \$400,000,000 may be outstanding at any time.
- (j) Not more than \$1,200,000,000 may be issued and the amount of obligations that may be issued is limited to no more than \$450,000,000 total for the period including Fiscal Years 2006 through 2011, no more than \$225,000,000 in Fiscal Year 2012 and no more than \$175,000,000 in any Fiscal Year thereafter, plus any obligations unissued from previous fiscal years.
- (k) Not more than \$30,000,000 may be issued in each of the first three Fiscal Years beginning with Fiscal Year 2006 and not more than \$15,000,000 in any other Fiscal Year.
- (l) Constitutional authorization is self-implementing and does not require further General Assembly authorization. Not more than \$200,000,000 may be issued and no obligations may be issued later than December 31, 2013.
- (m) Not more than \$220,000,000 may be issued in any year and not more than \$1.2 billion may be outstanding at any time.
- (n) Revenue obligations issued for economic development assistance programs established under Chapter 166 of the Ohio Revised Code, including the Innovation Ohio and research and development programs. Not more than \$630,000,000 may be outstanding at any time.
- (o) Net liquor profits are statutorily designated as the source of payment of debt service.
- (p) Debt service on these “GARVEE” bonds is paid from federal transportation grants apportioned to the State (Title 23 of the U.S. Code).
- (q) Debt service is paid from appropriations from the BWC Administrative Cost Fund.

The following table shows total Fiscal Year debt service on currently outstanding State obligations payable from the GRF as of September 28, 2011:

## Annual Debt Service Requirements on State Obligations Paid from the GRF

FY	General Obligations			Special Obligations		Total GRF Debt Service		
	Education(a)	Infra-structure(b)	All Other(c)	Treasurer(d)	OBA(e)	Principal	Interest	Total
2012	\$231,470,913	\$96,775,485	\$88,590,029	\$168,920,833	\$112,202,788	\$288,832,238	\$409,127,810	\$697,960,048
2013	460,453,512	205,816,269	123,819,515	137,160,832	208,655,549	718,217,649	417,688,027	1,135,905,677
2014	480,289,522	206,868,386	118,053,332	86,132,504	210,221,468	735,596,268	365,968,945	1,101,565,213
2015	483,963,446	196,008,326	117,627,799	76,728,054	208,112,753	755,918,397	326,521,981	1,082,440,378
2016	472,580,363	190,748,484	116,500,613	69,590,480	186,153,669	745,603,600	289,970,009	1,035,573,609
2017	464,680,883	179,527,993	108,924,714	55,621,230	168,712,288	721,935,000	255,532,108	977,467,108
2018	446,390,161	167,060,044	100,019,374	50,671,228	157,646,557	697,495,000	224,292,363	921,787,363
2019	461,445,895	150,195,800	83,742,211	38,586,878	136,438,655	676,700,000	193,709,439	870,409,439
2020	460,298,773	139,600,350	70,768,713	30,426,956	112,819,914	650,945,000	162,969,706	813,914,706
2021	453,396,618	130,093,034	46,679,302	15,127,925	112,741,722	624,870,000	133,168,601	758,038,601
2022	419,873,941	122,257,712	25,417,950	2,978,581	102,538,718	567,380,000	105,686,902	673,066,902
2023	356,157,076	114,008,551	24,902,274	2,982,031	92,755,833	510,325,000	80,480,765	590,805,765
2024	254,690,654	95,726,237	20,176,983	2,980,316	80,209,333	396,090,000	57,693,523	453,783,523
2025	187,786,537	86,090,732	12,411,167	2,980,575	69,730,933	320,370,000	38,629,944	358,999,944
2026	113,671,240	72,481,647	6,201,751	2,979,650	14,450,370	184,880,000	24,904,657	209,784,657
2027	54,315,566	55,455,165	1,428,553	0	14,450,053	108,950,000	16,699,337	125,649,337
2028	24,625,751	55,230,433	0	0	14,449,521	82,440,000	11,865,705	94,305,705
2029	24,635,524	45,511,106	0	0	14,460,800	76,920,000	7,687,430	84,607,430
2030	24,649,468	26,066,577	0	0	6,666,993	53,135,000	4,248,038	57,383,038
2031	24,664,152	25,783,216	0	0	3,299,588	<u>52,285,000</u>	<u>1,461,955</u>	<u>53,746,955</u>
						<b>\$8,968,888,153</b>	<b>\$3,128,307,245</b>	<b>\$12,097,195,398</b>

- (a) Consists of common schools and higher education general obligation bonds and includes estimated debt service on adjustable rate bonds for common schools.
- (b) Includes estimated debt service on adjustable rate bonds.
- (c) Includes natural resources, coal development, conservation, research and development, site development and veteran's compensation general obligation bonds.
- (d) Includes lease-rental bonds issued by the Treasurer for mental health, parks and recreation, and cultural & sports facilities. Also includes lease-rental bonds previously issued for higher education facilities.
- (e) Includes lease-rental bonds issued by the Ohio Building Authority (OBA) for various state capital facilities. Effective January 1, 2012, the Treasurer of State is to replace the OBA as issuing authority for obligations currently issued by the OBA.

The following table shows total Fiscal Year debt service on certain currently outstanding State obligations payable from the indicated non-GRF revenues as of September 28, 2011:

## Annual Debt Service Requirements on State Obligations Paid from Non-GRF Revenues

FY	Highway User Receipts			Net Liquor Profits			Other	
	Highway G.O.	DPS Facilities(a)	Total	Economic Development(b)	Revitalization(c)	Total	BWC(d)	Federal Transportation Grants(e)
2012	\$140,859,293	\$9,948,241	\$150,807,533	\$48,346,613	\$18,573,947	\$66,920,559	\$18,216,365	\$173,049,178
2013	135,452,052	2,285,644	137,737,696	51,100,335	23,494,926	74,595,261	17,458,370	163,008,924
2014	117,474,985	2,442,269	119,917,254	51,073,278	23,476,523	74,549,801	15,951,100	157,600,721
2015	98,031,951	2,443,019	100,474,970	51,090,832	23,472,783	74,563,615	0	152,512,821
2016	77,025,103	2,444,219	79,469,321	51,127,194	23,464,484	74,591,678	0	137,610,246
2017	58,957,753	2,440,650	61,398,403	51,115,237	23,444,280	74,559,517	0	111,992,109
2018	44,984,530	2,442,125	47,426,655	51,122,211	23,443,390	74,565,601	0	86,412,472
2019	44,745,983	2,447,500	47,193,483	51,115,405	18,728,798	69,844,203	0	82,729,087
2020	44,272,262	1,565,700	45,837,962	51,111,153	18,702,824	69,813,977	0	78,965,971
2021	43,770,242	1,568,250	45,338,492	45,020,057	18,636,221	63,656,278	0	44,002,353
2022	43,238,602	0	43,238,602	39,625,248	13,889,545	53,514,793	0	0
2023	42,676,631	0	42,676,631	33,430,142	13,818,794	47,248,936	0	0
2024	42,080,852	0	42,080,852	33,252,381	9,450,685	42,703,067	0	0
2025	26,760,720	0	26,760,720	24,337,764	9,364,466	33,702,231	0	0
2026	0	0	0	16,121,407	9,284,020	25,405,427	0	0
2027	0	0	0	11,960,086	0	11,960,086	0	0
2028	0	0	0	11,855,803	0	11,855,803	0	0
2029	0	0	0	11,769,280	0	11,769,280	0	0
2030	0	0	0	7,833,520	0	7,833,520	0	0
2031	0	0	0	2,752,125	0	2,752,125	0	0

- (a) Lease rental payments are paid from highway user receipts for these Department of Public Safety facilities.
- (b) Consists of debt service on revenue obligations issued for economic development programs under Chapter 166 of the Ohio Revised Code, including \$34,030,000 of bond anticipation notes to be amortized in 19 consecutive annual installments beginning October 1, 2012 at an estimated interest rate of 5% per annum payable semi-annually.
- (c) Special obligation bonds for which net liquor profits have been statutorily designated as the source of payment of debt service, including \$50,000,000 of bond anticipation notes to be amortized over 14 consecutive annual installments beginning October 1, 2012 at an estimated interest rate of 5% per annum payable semi-annually.
- (d) Debt service paid from appropriations from the BWC Administrative Cost Fund.
- (e) Debt service paid from federal transportation grants apportioned to the State under Title 23 of the U.S. Code.

The following table shows the principal amount of those obligations that are currently scheduled to be outstanding as of July 1 of the indicated years as of September 28, 2011:

<u>Year</u>	<b>Obligations Payable from the GRF</b>			<b>Non-GRF Obligations</b>	
	<u>Education(a)</u>	<u>Other GO(b)</u>	<u>Special Obligations(c)</u>	<u>Highway User Receipts(d)</u>	<u>Net Liquor Profits(e)</u>
2011	\$4,300,550,000	\$2,506,988,153	\$2,161,350,000	\$793,765,000	\$677,025,000
2015	3,386,370,000	1,804,118,600	1,279,835,000	395,030,000	512,595,000
2020	1,694,090,000	802,225,000	481,330,000	176,760,000	260,715,000
2025	240,805,000	255,415,000	62,390,000	-0-	63,565,000

- (a) Includes obligations for common school and higher education capital facilities.
- (b) Includes natural resources, coal development, infrastructure improvement, conservation, research and development, site development and veterans compensation general obligation bonds.
- (c) Includes lease-rental obligations for various state capital facilities.
- (d) Includes general obligations for highways and lease-rental obligations for DPS facilities.
- (e) Includes revenue obligations for economic development purposes and special obligations for revitalization purposes.

The following tables show certain historical debt information and comparisons. These tables include only outstanding obligations of the State for which debt service is paid from the GRF.

<u>Fiscal Year</u>	<u>Principal Amount Outstanding</u>	<u>Outstanding Debt Per Capita</u>	<u>Outstanding Debt as % of Annual Personal Income</u>
1980	\$1,991,915,000	\$184	1.84%
1990	3,707,054,994	342	1.83
2000	6,308,680,025	556	1.93
2007	9,211,911,840	803	2.28
2008	8,631,565,254	749	2.08
2009	8,486,621,212	735	2.08
2010	8,586,655,636	744	2.05(b)
2011	8,996,752,848	780(a)	2.14(b)

<u>Fiscal Year</u>	<u>Debt Service Payable</u>	<u>Total GRF Revenue and Net State Lottery Proceeds</u>	<u>Debt Service as % of GRF Revenue and Lottery Proceeds</u>	<u>Debt Service as % of Annual Personal Income</u>
1980	\$187,478,382	\$4,835,670,223	3.88%	0.17%
1990	488,676,826	12,230,681,298	4.00	0.24
2000	871,313,814	20,711,678,217	4.21	0.27
2007	1,216,382,190	26,447,718,900	4.60	0.30
2008	1,231,640,023	27,331,442,000	4.51	0.30
2009	1,075,937,540*	26,809,692,000**	4.01	0.26
2010	710,284,236*	24,108,466,000**	2.95	0.17(b)
2011	755,023,015*	26,777,100,000**	2.84	0.18(b)

(a) Based on 2010 Census population count.

(b) Based on preliminary 2010 personal income data.

\* Reduction is due in large part to the restructuring of certain GRF debt service payments resulting in net savings of \$52.8 million in Fiscal Year 2009, \$416.8 million in Fiscal Year 2010 and \$336.9 million in Fiscal Year 2011.

\*\* Excludes federal funds from the American Recovery and Reinvestment Act of 2009.

### Additional Authorizations

Only a portion of State capital and other needs can be met by direct GRF appropriations, and so additional State borrowing for capital and other purposes has been and will continue to be required. The following State capital appropriations and related borrowing authorizations were passed by the General Assembly or authorized by Constitutional amendment for the 2011-12 capital biennium:

#### General Obligation

- \$525,000,000 for capital improvements for elementary and secondary public schools.
- \$270,000,000 for local infrastructure projects.
- \$400,000,000 for third frontier research and development
- \$30,000,000 for site development.
- \$200,000,000 for veteran's compensation (Article VIII, Section 2r Ohio Constitution).

### **Special Obligation**

- \$100,000,000 for revitalization purposes.

The following State capital appropriations and related borrowing authorizations were made for the 2009-10 capital biennium:

### **General Obligation**

- \$360,000,000 for local infrastructure projects.
- \$100,000,000 for third frontier research and development projects.
- \$28,000,000 for natural resources facilities.
- \$100,000,000 for conservation purposes.
- \$66,000,000 for coal development.
- \$30,000,000 for site development.

### **Special Obligation**

- \$62,000,000 for prisons and local jails.
- \$19,000,000 for youth services facilities.
- \$48,000,000 for State administrative facilities.
- \$42,000,000 for cultural facilities (including both arts and sports facilities).
- \$128,000,000 for mental health facilities (including local projects).
- \$41,000,000 for parks and recreation facilities.
- \$100,000,000 for revitalization purposes.

All of the above additional GRF-supported borrowing authorizations are also reflected in the preceding tables. Not reflected above or in the preceding tables is \$50 million of additional GRF-supported borrowing authorization for funding emergency capital needs that arise in the current biennium.

Currently applicable constitutional authorizations are:

- 2010 - authorizes the issuance of \$700 million of State general obligation debt to renew and continue programs for research and development in support of Ohio industry, commerce, and business, with those obligations not subject to the 5% direct obligation debt service cap described above. The authorization is in addition to the below-referenced 2005 constitutional amendment for the same purpose. The amount of all State general obligations that may be issued for, and the amounts of proceeds from those State general obligations that may be committed to, those research and development purposes, are limited to no more than \$450 million total for the period including State fiscal years 2006 through 2011, no more than \$225 million in fiscal year 2012 and no more than \$175 million in any fiscal year thereafter, plus any amounts that in any prior fiscal year could have been but were not issued.
- 2009 – authorizes the issuance of State general obligation debt to provide compensation to persons who have served in active duty in the United States armed forces at any time during the Persian Gulf, Afghanistan, and Iraq conflicts, with those obligations not subject to the 5% direct obligation debt service cap described above. Not more than \$200 million may be issued and no obligations may be issued later than December 31, 2013.
- 2008 – authorizes the issuance of State bonds for land conservation and revitalization purposes (including statewide brownfields clean-up). For each of the two purposes, the authorization is for not more than \$50 million in principal amount to be issued in any Fiscal Year and not more than \$200 million to be outstanding at any time. The bonds for conservation purposes are general obligations, and those for revitalization purposes are special obligations payable from revenues and receipts designated by the General Assembly (currently a portion of the State’s net liquor profits). The authorization is in addition to the 2000 constitutional amendment for the same purposes.
- 2005 – authorizes the issuance over ten years of \$500 million of State general obligation debt in support of research and development, and \$150 million of State general obligation debt for the development of sites for industry, commerce, distribution and research and development, with those obligations not subject to the 5% direct obligation debt service cap described above. Also authorizes an additional \$1.35 billion of general obligation debt for government infrastructure as a ten-year extension of the existing local government infrastructure program, with an increase in the annual issuance amount

in the last five-years from \$120 million to \$150 million, which continues to be subject to that 5% debt service cap.

- 2000 – authorizes the issuance of State bonds for land conservation and revitalization purposes (including statewide brownfields clean-up). For each of the two purposes, the amendment authorizes not more than \$50 million in principal amount to be issued in any Fiscal Year and not more than \$200 million to be outstanding at any time. The bonds for conservation purposes are general obligations, and those for revitalization purposes are special obligations payable from revenues and receipts designated by the General Assembly (currently a portion of the State’s net liquor profits).
- 1999 – authorizes State general obligation debt to pay costs of facilities for a system of common schools throughout the state and for state-supported and state-assisted institutions of higher education. The amendment also provides for the 5% direct obligation debt service cap described above.
- 1995 – authorizes additional highway bonds and extended the local infrastructure bond program. For the latter, it authorized an additional \$1.2 billion of State full faith and credit obligations to be issued over 10 years, with not more than \$120 million to be issued in any Fiscal Year. The highway finance portion authorizes not more than \$1.2 billion to be outstanding at any time and not more than \$220 million to be issued in any Fiscal Year.
- 1994 – pledges the State's full faith and credit and taxing power to meet certain guarantees under the State's tuition credit program, a program that provides for the purchase of tuition credits which are guaranteed to cover a specified amount when applied to tuition and other eligible higher education costs. Under the amendment, to secure the tuition guarantees, the General Assembly shall appropriate money sufficient to offset any deficiency that occurs in the trust fund, at any time necessary to make payment of the full amount of any tuition payment or refund required by a tuition payment contract.
- 1990 – authorizes greater State and political subdivision participation in the provision of individual and family housing. This supplements the previous constitutionally authorized loans-for-lenders and other housing assistance programs, financed in part with State revenue bonds. The amendment authorizes the General Assembly to provide for State assistance for housing in a variety of ways, including State borrowing for the purpose by the issuance of obligations secured by a pledge of all or such portion of State revenues or receipts as it authorizes (but not by a pledge of the State’s full faith and credit).
- 1985 – authorizes the issuance of general obligation debt to finance grants or make or guarantee loans for research and development of coal technology that will encourage the use of Ohio coal. Those grants or loans are available to any individual, association, or corporation doing business in the State or to any educational or scientific institution located in the State. Not more than \$100 million may be outstanding at any time.

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## **STATE EMPLOYEES AND RETIREMENT SYSTEMS**

### **State Employees**

Since 1985, the number of regular State employees (excluding employees who are not paid by State warrant such as state university employees) has ranged from a high of 68,573 in 1994 to low of 57,426 at the end of Fiscal Year 2011. The State engages in collective bargaining with six employee unions representing 20 bargaining units, and generally operates under three-year agreements. The State's current collective bargaining agreements expire in April through June 2012.

On March 30, 2011, the Ohio General Assembly enacted Amended Substitute Senate Bill No. 5 (Senate Bill 5) which revises collective bargaining laws applicable to State employees by providing that health care benefits, employee pension contributions, privatization and workforce levels are not eligible for collective bargaining; capping the public employer contribution to employee health care premiums at 85%, and capping vacation and sick leave accrual; replacing salary schedules and longevity pay with merit-based pay and performance evaluations, and prohibiting length of service from being the sole factor in determining any order of layoff; and eliminating the right to strike. Under the Ohio Constitution, if petitions for a referendum on legislation, containing signatures of a least six per cent of the number of electors of the State voting for Governor in 2010 (approximately 231,000) from at least 44 of the State's 88 counties, are certified as valid, the provisions of that legislation do not take effect "unless and until approved by a majority of those [electors] voting on the same." On June 29 there were timely submitted to the Ohio Secretary of State petitions for a referendum on Senate Bill 5, and on July 21 the Secretary of State certified those petitions contained more than 900,000 valid signatures from at least 44 of the State's 88 counties, thereby meeting the requirements to place the referendum on Senate Bill 5 on the November 8, 2011 ballot.

### **Retirement Systems**

The State has established five public retirement systems to provide retirement, disability retirement and survivor benefits, and other post-employment benefits such as retiree health care benefits. None of these benefits are guaranteed by the State or subject to bargaining under the State's current public employee collective bargaining law.

The Public Employees Retirement System (PERS), the largest of the five, covers both State and local public employees. The State Teachers Retirement System (STRS) and School Employees Retirement System (SERS) primarily cover school district and public higher education employees. The Highway Patrol Retirement System (HPRS) covers State troopers, and the Ohio Police and Fire Pension Fund (OP&F) covers local safety forces. Comprehensive financial information for each retirement system can be found on its website in that system's Comprehensive Annual Financial Report (CAFR).

The retirement systems were created by and operate pursuant to State law. The General Assembly has the power to amend the structure and benefit levels, impose or revise contribution rates or amounts, and to make other changes. The systems have never been subject to the funding and vesting requirements of the federal Employee Retirement Income Security Act (ERISA). Federal law requires employees hired on or after April 1, 1986 to participate in the Medicare program, with matching employer and employee contributions, each now 1.45% of the wage base. Otherwise, State employees covered by a State retirement system are not currently covered under the federal Social Security Act. Congress has from time to time considered legislation relating to public sector retirement funds and to other aspects of public employee retirement.

Funding for the retirement systems is provided by a combination of public employer and employee contributions based on percentages of each employee's compensation, with the employees' contributions being deducted from their paychecks. Those contribution percentages are either established in State law or by the retirement system board subject to a maximum contribution amount established in State law. With the exception of PERS contributions for law enforcement and public safety personnel, the current contribution percentages for each system (set forth in the table on the next page) reflect the maximums permitted under current State law.

In 1968, the State created the Ohio Retirement Study Commission (ORSC) to advise and inform the General Assembly on all matters relating to the benefits, funding, investment, and administration of the five statewide retirement systems. The Council is composed of nine voting members: three members of the House appointed by the Speaker; three members of the Senate appointed by the President; and three members appointed by the Governor (one representing the State, one representing local governments, and the third

representing public education institutions). The five executive directors of the retirement systems also serve as nonvoting members of the ORSC.

Under State law, each retirement system’s board is required to establish a period of not more than thirty years to amortize its unfunded actuarial accrued pension liability. If in any year the period required to amortize that unfunded liability exceeds thirty years, the board must prepare and submit to the ORSC and the applicable committees in the Ohio General Assembly, a plan to reduce that amortization period to not more than thirty years. For the reporting periods in the summary table below, the number of years to fully amortize actuarial accrued liability is twenty-nine years for PERS and SERS, and exceeds thirty years for STRS, OP&F and HPRS. The board of each of the five systems has approved and submitted to the ORSC and the applicable Ohio General Assembly committees a plan to reduce or maintain its amortization period at not more than thirty years. An ORSC-prepared summary of all retirement system funding plans submitted to it can be found on the ORSC website at [www.orsc.org/reports.cfm](http://www.orsc.org/reports.cfm). Legislation would need to be passed by the General Assembly to implement any funding plan that proposes modifications in retirement benefits or contribution levels.

The State makes its employer contributions based on a percent of salary for each State employee that is an active member of a state retirement system. Currently, about 96% of State employees are members of PERS, about 2.5% are in HPRS and about 1.5% are in STRS. The following table summarizes State employer and employee contributions to those retirement systems with State employee members (\$ in millions):

Fiscal Year	<u>PERS</u>		<u>STRS</u>		<u>HPRS</u>		Total Contributions
	Employer/Employee Amount	Pct. of Salary(a)	Employer/Employee Amount	Pct. of Salary	Employer/Employee Amount	Pct. of Salary	
2006	\$379.4/\$246.7	13.54%/9.0%	\$7.8/\$5.6	14.0%/10.0%	\$22.1/\$8.7	25.5%/10.0%	\$670.0
2007	399.3/269.6	13.77/9.5	8.1/5.8	14.0/10.0	23.0/9.0	25.5/10.0	714.7
2008	422.5/289.4	14.0/10.0	8.3/5.9	14.0/10.0	23.3/9.5	25.5/10.0	759.0
2009	430.0/300.4	14.0/10.0	8.2/5.8	14.0/10.0	24.6/9.7	25.5/10.0	778.8
2010(b)	406.5/283.0	14.0/10.0	7.4/5.3	14.0/10.0	24.4/9.3	26.5/10.0	735.8
2011(b)	414.4/289.0	14.0/10.0	7.2/5.1	14.0/10.0	25.2/9.5	26.5/10.0	750.3

(a) Reflects PERS state and local contribution rates. PERS law enforcement employer/employee contribution rate was 16.7%/10.1% in Fiscal Year 2006, increasing gradually to 17.87%/11.1% in Fiscal Year 2010, and public safety was 16.7%/9.0% in Fiscal Year 2006, increasing gradually to 17.87%/10.5% in Fiscal Year 2010.

(b) Decline in contributions for Fiscal Years 2010 and 2011 over Fiscal Year 2009 is attributed primarily to a two week unpaid “furlough” on State employees in each of those years (see **FISCAL MATTERS - Recent and Current Finances – Recent Biennia - 2010-11**). Fiscal Year 2011 contributions include 27 pay periods.

Source: State of Ohio.

The State also has funded and continues to fund a subsidy to the OP&F system to pay for survivor benefits provided in law and not otherwise funded. The aggregate subsidies were \$41.6 million in the 2008-09 biennium, \$41.3 million in the 2010-11 biennium and are appropriated at \$41.2 million for the 2012-13 biennium. All State employer contributions are subject to appropriation in each State budget and are included in the appropriations for each department or agency’s personnel costs.

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The following table summarizes State and local membership and financial data for each of the retirement systems for the most recent year reported by the particular system (\$ in millions):

	<u>PERS</u>	<u>STRS</u>	<u>SERS(a)</u>	<u>OP&amp;F</u>	<u>HPRS</u>
Valuation as of:	<b>12/31/10</b>	<b>06/30/10</b>	<b>06/30/10</b>	<b>01/01/10</b>	<b>12/31/10</b>
Active Members.....	341,174	175,842	126,015	28,479	1,537
State Employees as a Percent of Active Members .....	16	1	0	0	100
Retirants and Beneficiaries .....	181,483	133,103	66,127	25,712	1,424
Employer/Employee Contributions (% of Salary) (b)...	14.0/10.0(c)	14.0/10.0	14.0/10.0	(d)	26.5/10.0
Active Member Payroll .....	\$12,450.0	\$11,057.3	\$2,842.7	\$1,895.2	\$94.8
Market Value of Assets (MVA).....	\$63,649.1	\$54,140.4	\$9,071.9	\$9,056.8	\$647.1
Actuarial Value of Assets (AVA) (e).....	\$60,599.5	\$55,946.3	\$10,787.0	\$10,794.1	\$631.1
Actuarial Accrued Liability (AAL) (f).....	\$79,630.1	\$94,720.7	\$14,855.1	\$14,830.7	\$1,017.8
Funding Ratio (AVA to AAL %, (MVA to AAL %)) ..	76.1 (79.9)	59.1 (57.2)	72.6 (61.1)	72.8 (61.1)	62.0 (63.6)
Unfunded Actuarial Accrued Liability (UAAL) (g) .....	\$19,030.6	\$38,774.4	\$4,068.1	\$4,036.7	\$386.8
UAAL to Active Member Payroll % .....	152.9	350.7	143.1	213.0	408.0

(a) SERS information excludes Medicare Part B reimbursement which is considered a post-employment healthcare benefit reported in accordance with GASB Statement 43.

(b) For PERS, STRS, and SERS the maximum employer and employee contribution rates under law are 14% and 10%, respectively. Each system's board annually determines the portion of the employer contribution, if any, that is directed to fund post-employment health care benefits. The STRS, OP&F and HPRS boards voted to pursue legislation enabling member contribution rate increases.

(c) For 2010, PERS state employer/employee contribution rate is 14.0/10.0%, local is 14.0/10.0%, law enforcement is 17.87/11.1%, and public safety is 17.87/10.5%. PERS state and local employer and employee contribution rates increased to their current statutory maximum of 14% and 10%, respectively, in calendar year 2008.

(d) Police is 19.5/10% and fire 24/10%.

(e) Recognizes assumed long-term investment returns fully each year (8.25% for OP&F and 8.0% for all other systems). Differences between actual and assumed investment returns, subject to each system's market corridor limitation, are phased-in over a closed four-year period, except for OP&F which phases-in over five-year period.

(f) Reflects an individual entry age normal actuarial cost method.

(g) Amortized over a 30-year open period as a level percent of payroll, except for PERS which is amortized over 29-years and SERS for which UAAL is amortized over a 29-year closed period as a level percent of payroll.

Sources: Retirement systems' CAFRs and annual actuarial valuations.

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The following table summarizes financial and funding information for each of the retirement systems over the past five years as reported by the particular system (\$ in millions):

Retirement System Valuation Year-End	Actuarial Value of Assets (AVA)(a)	Actuarial Accrued Liability (AAL)(b)	Unfunded Actuarial Accrued Liability (UAAL)(c)	Funding Ratio (AVA to AAL)	Market Value of Assets (MVA)	Funding Ratio (MVA to AAL)	Active Member Payroll	UAAL Percent of Active Member Payroll
<b><u>PERS</u></b>								
12/31/09	\$57,629.4	\$76,555.0	\$18,925.6	75.3%	\$57,733.8	75.4%	\$12,548.3	150.8%
12/31/08	\$55,315.2	\$73,465.7	\$18,150.5	75.3%	\$49,388.6	67.2%	\$12,801.1	141.8%
12/31/07	\$67,151.3	\$69,733.6	\$2,582.2	96.3%	\$70,043.6	100.4%	\$12,583.4	20.5%
12/31/06	\$61,295.6	\$66,160.7	\$4,865.1	92.6%	\$65,357.9	98.8%	\$12,175.2	40.0%
12/31/05	\$54,473.4	\$62,498.0	\$8,025.0	87.2%	\$57,702.4	92.3%	\$11,806.8	68.0%
<b><u>STRS</u></b>								
06/30/09	\$54,902.9	\$91,441.0	\$36,538.1	60.0%	\$50,095.7	54.8%	\$10,800.8	338.3%
06/30/08	\$69,198.0	\$87,432.4	\$18,234.3	79.1%	\$66,837.4	76.4%	\$10,460.5	174.3%
06/30/07	\$66,671.5	\$81,126.6	\$14,445.1	82.2%	\$72,935.4	89.9%	\$10,199.5	141.6%
06/30/06	\$58,008.0	\$77,371.0	\$19,363.0	75.0%	\$62,126.1	80.3%	\$9,974.1	194.1%
06/30/05	\$53,765.6	\$73,817.1	\$20,051.5	72.8%	\$56,182.5	76.1%	\$9,775.2	205.1%
<b><u>SERS</u></b>								
06/30/09	\$9,723.0	\$14,221.0	\$4,498.0	68.4%	\$8,134.1	57.2%	\$2,787.4	161.4%
06/30/08	\$11,241.0	\$13,704.0	\$2,463.0	82.0%	\$10,793.5	78.8%	\$2,651.8	92.9%
06/30/07	\$10,513.0	\$13,004.0	\$2,562.0	80.8%	\$11,711.2	90.1%	\$2,603.3	98.4%
06/30/06	\$9,423.0	\$12,327.0	\$2,974.0	76.4%	\$9,980.2	81.0%	\$2,553.3	116.5%
06/30/05	\$8,780.0	\$11,659.0	\$2,948.0	75.3%	\$9,001.6	79.5%	\$2,452.5	120.2%
<b><u>OP&amp;F</u></b>								
01/01/09	\$9,309.2	\$14,307.1	\$4,998.0	65.1%	\$7,757.6	54.2%	\$1,900.9	262.9%
01/01/08	\$11,212.9	\$13,727.8	\$2,514.9	81.7%	\$11,895.5	86.7%	\$1,831.4	137.3%
01/01/07	\$10,158.0	\$12,987.5	\$2,829.5	78.2%	\$11,175.8	86.1%	\$1,782.9	158.7%
01/01/06	\$9,550.6	\$12,190.4	\$2,639.8	78.3%	\$9,994.4	82.0%	\$1,756.2	150.3%
01/01/05	\$9,337.5	\$11,545.1	\$2,207.6	80.9%	\$9,514.2	82.4%	\$1,683.6	131.1%
<b><u>HPRS</u></b>								
12/31/09	\$620.4	\$940.1	\$319.7	66.0%	\$595.0	63.3%	\$94.8	337.2%
12/31/08	\$603.3	\$904.5	\$301.3	66.7%	\$502.7	55.6%	\$94.3	319.5%
12/31/07	\$700.9	\$866.3	\$165.4	80.9%	\$719.6	83.1%	\$93.8	176.3%
12/31/06	\$653.5	\$807.8	\$154.3	80.9%	\$684.6	84.7%	\$85.9	179.6%
12/31/05	\$591.9	\$773.9	\$181.9	76.5%	\$612.5	79.1%	\$83.4	218.1%

(a) Recognizes assumed long-term investment returns fully each year (8.25% for OP&F and 8.0% for all other systems). Differences between actual and assumed investment returns, subject to each system's market corridor limitation, are phased-in over a closed four-year period, except for OP&F which phases-in over five-year period.

(b) Reflects an individual entry age actuarial cost method.

(c) Amortized over a 30-year open period as a level percent of payroll, except for SERS for which UAAL was amortized over a closed period of time of 30-years in Fiscal Years 2005, 2006 and 2009, 29-years in Fiscal Year 2007 and 28-years in Fiscal Year 2008.

Sources: Retirement systems' CAFR's and annual actuarial valuations.

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Each of the State's public retirement systems also offers post-employment health care benefits to its members. Benefits under these health care programs are not vested and are subject to future adjustments of both benefits and contributions by their respective boards. In this regard, PERS has adopted two health care preservation plans, the first in September 2004 and the second in June 2007, to adjust benefits and contributions by employers, employees, and retirees, with those changes phased in over six years. Financial reporting of their health care plans is in compliance with GASB Statement 43 -- Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans.

The following table presents a summary of assets and actuarial accrued liabilities for post-employment healthcare benefits for each of the State's public retirement systems (\$ in millions):

Valuation as of:	<u>PERS*</u> <b>12/31/10</b>	<u>STRS</u> <b>01/01/11</b>	<u>SERS</u> <b>06/30/10</b>	<u>OP&amp;F</u> <b>01/01/10</b>	<u>HPRS</u> <b>12/31/10</b>
Value of Assets (a).....	\$11,267.0	\$3,108.5	\$325.0	\$573.4	\$104.7
Actuarial Accrued Liability (AAL) (b).....	\$26,929.0	8,631.3	\$2,369.1	\$3,232.4	\$406.9
Unfunded Actuarial Accrued Liability (UAAL) (c).....	\$15,661.0	5,522.8	\$2,044.1	\$2,659.0	\$302.2
Funding Ratio (Assets to AAL %) .....	41.8%	36.0%	13.7%	17.7%	25.7%
Employer Contribution (% of Salary) (d) .....	5.0%	1.0%	0.5%(e)	6.75%	1.75%

- (a) Investment returns are recognized fully each year (assumed at 6.5% for PERS and 5% for HPRS) with the differences between actual and assumed investment returns, subject to each system's market corridor limitation, phased-in over a closed four-year period. For STRS, SERS and OP&F, reflects market value.
- (b) Reflects an individual entry age normal actuarial cost method.
- (c) Amortized over a 30-year open period as a level percent of payroll.
- (d) Each system's board annually determines the portion of the employer contribution, if any, that is directed to fund post-employment health care benefits. This amount has typically ranged from 1.0% to 7.0% of salary. For PERS, reflects the rate in effect for the last ten months of the year.
- (e) SERS also collects a health care surcharge from employers for employees who earn less than an actuarially determined minimum compensation amount. This amount is in addition to the amount allocated to health care from the employer contributions.

Sources: Retirement systems' annual actuarial valuations.

\* Preliminary data.

The following table presents a summary of assets and actuarial accrued liabilities for post-employment healthcare benefits over the past three years for each of the State's public retirement systems (\$ in millions):

Retirement System Valuation Year-End	Value of Assets(a)	Actuarial Accrued Liability (AAL)(b)	Unfunded Actuarial Accrued Liability(c)	Funding Ratio (Assets to AAL)	Employer Contribution (% of Salary)(d)(e)
<b><u>PERS</u></b>					
12/31/09	\$10,936.0	\$31,558.0	\$20,622.0	34.7%	5.9%
12/31/08	\$10,748.0	\$29,623.1	\$18,875.0	36.3%	7.0%
12/31/07	\$12,801.0	\$29,824.8	\$17,023.9	42.9%	5.5%
<b><u>STRS</u></b>					
01/01/10	\$2,967.5	\$11,355.0	\$8,387.5	26.1%	1.0%
01/01/09	\$2,693.7	\$13,413.7	\$10,720.0	20.1%	1.0%
01/01/08	\$4,037.8	\$12,171.0	\$8,133.1	33.2%	1.0%
<b><u>SERS</u></b>					
06/30/09	\$376.5	\$4,280.3	\$3,903.8	8.8%	4.2%
06/30/08	\$392.7	\$4,858.8	\$4,466.2	8.1%	4.2%
12/31/06	\$339.1	\$4,307.4	\$3,967.9	7.9%	3.3%
<b><u>OP&amp;F</u></b>					
01/01/09	\$438.7	\$3,163.6	\$2,725.0	13.9%	6.75%
01/01/08	\$527.0	\$3,623.5	\$3,096.5	14.5%	6.75%
01/01/07	\$436.6	\$3,273.7	\$2,837.1	13.3%	6.75%
<b><u>HPRS</u></b>					
12/31/09	\$100.8	\$287.6	\$186.8	35.0%	3.5%
12/31/08	\$95.8	\$324.2	\$228.4	29.5%	4.5%
12/31/07	\$111.2	\$335.2	\$224.0	33.2%	5.5%

(a) For PERS & HPRS, recognizes investment returns fully each year (assumed at 6.5%) with the differences between actual and assumed investment returns, subject to each system's market corridor limitation, are phased-in over a closed four-year period. For STRS, SERS and OP&F, reflects market value.

(b) Reflects an individual entry age normal actuarial cost method.

(c) Amortized over a 30-year open period as a level percent of payroll.

(d) Each system's board annually determines the portion of the employer contribution, if any, that is directed to fund post-employment health care benefits. This amount has typically ranged from 1.0% to 7.0% of salary. For PERS, reflects overall effective rate.

(e) SERS also collects a health care surcharge from employers for employees who earn less than an actuarially determined minimum compensation amount. This amount is in addition to the amount allocated to health care from the employer contributions.

Sources: Retirement systems' annual actuarial valuations.

## TAX LEVELS AND TAX BASES

The variety of taxes and excises levied by the State is indicated in several tables in this Appendix. According to the Federation of Tax Administrators, citing the U.S. Census Bureau as its source, the State ranked 34th in state taxes per capita in 2010. Three major tax bases in the State, personal income (taxed by the State and municipalities and, with voter approval, by certain school districts), retail sales and use (taxed by the State and counties and transit authorities), and real and tangible personal property (taxed by local governments), are described below. In addition, the State has completed the phase-in over fiscal years 2006 through 2010 of its commercial activity tax (CAT) on taxable gross receipts from doing business in Ohio, and the phase out over the same general period of its corporate franchise tax (except for its continuing application to financial institutions and certain affiliates of insurance companies and financial institutions). The initial rate for the CAT was 0.06% effective July 1, 2005, with that rate increased annually in approximately equal amounts (about 0.05%) until levied at the current rate of 0.26% when fully implemented in Fiscal Year 2010. As described further below, the receipts from the CAT are directed in part to make compensating payments to school districts and other local taxing units in connection with the phase-out of the tangible personal property tax in 2006 through 2009.

The State also imposes a tax on the use, distribution, or sale of motor vehicle fuel. This “gasoline” tax was raised two-cents per gallon effective July 1, 2005 to 28 cents per gallon (one cent of this tax is specifically directed to local highway-related infrastructure projects).

### Sales and Use Tax

The State sales and use tax rate has been 5.5% since July 1, 2005. That rate was temporarily increased from 5.0% to 6.0% for the period July 1, 2003 through June 30, 2005 (see **FISCAL MATTERS - Recent and Current Finances – Recent Biennia – 2004-05**). The sales and use tax is levied uniformly across counties on retail sales of tangible personal property that are not specifically exempt. Retail sales include the rental and storage of tangible personal property, the rental of hotel rooms, and certain specified services including, but not limited to, repair and installation services, data processing, computer, and electronic information services, telecommunication and personal care services.

Counties and transit authorities each are authorized to levy permissive sales and use taxes at rates of 0.25% to 1.5% in quarter-percent increments. The highest potential aggregate of State and permissive local sales taxes is currently 9% and the highest currently levied by any county is 8%. The State collects the combined state and local tax and returns the local share directly to the counties and transit authorities.

### Personal Income Tax

Under State legislation effective July 1, 2005, State personal income tax rates, applying generally to federal adjusted gross income, were reduced 4.2% annually in each of the years 2005 through 2008 and, after the postponement discussed under **FISCAL MATTERS – Recent and Current Finances – Recent Biennia - 2010-11**, again in 2011, resulting in an aggregate 21% decrease from the 2004 rates. The 2004 rates ranged from 0.743% on incomes of \$5,000 or less with increasing bracketed base rates and percentages up to a maximum on incomes over \$200,000 of \$11,506 plus 7.5% on the amount over \$200,000, while the 2011 rates for the equivalent income brackets are 0.587% and 5.925%, respectively.

The Constitution requires 50% of State income tax receipts to be returned to the political subdivisions or school districts in which those receipts originate. There is no present constitutional limit on income tax rates.

Municipalities, school districts and joint economic development districts may also levy certain income taxes. Any municipal rate (applying generally to wages and salaries and net business income) over 1%, and any school district income tax (applying generally to the State income tax base for individuals and estates), requires voter approval. Most cities and villages levy a municipal income tax. The highest municipal rate in 2010 was 3%. A school district income tax is currently approved in 181 districts. Each joint economic development district (there were approximately 35 of them in 2009) may also levy an income tax (which like municipal income taxes applies generally to wages and salaries and net business income) with the rate of that tax limited to the highest income tax rate of a municipal member of the district). Effective July 1, 2005, there may also be proposed for voter approval municipal income taxes to be shared with school districts, but those taxes may not be levied on the income of nonresidents.

Since 1970 the ratio of Ohio to U.S. aggregate personal income has declined, with Ohio's ranking among the states moving from fifth in 1970 to seventh in 1990, moving between seventh and eighth in 1994 through 2003, and eighth since 2004. This movement, portrayed below, in significant measure reflects "catching up" by several other states and a trend in Ohio toward more service sector employment.

**Personal Income (\$ in Billions)**

		<u>U.S.</u>	<u>Ohio</u>	<u>Ohio Percent of U.S.</u>	<u>State Rank*</u>
1970	Total.....	\$832.2	\$43.6	5.2%	5
	per capita.....	4,084	4,088	100.1	15
1980	Total.....	2,292.9	108.2	4.7	6
	per capita.....	10,091	10,022	99.3	21
1990	Total.....	4,831.3	202.5	4.2	7
	per capita.....	19,354	18,638	96.3	21
2000	Total.....	8,554.9	326.1	3.8	7
	per capita.....	30,318	28,694	94.6	24
2007	Total.....	11,900.6	404.6	3.4	8
	per capita.....	39,458	35,180	89.2	33
2008	Total.....	12,380.2	414.5	3.4	8
	per capita.....	40,673	36,113	88.8	34
2009	Total.....	12,168.2	408.7	3.4	8
	per capita.....	39,626	35,590	89.8	34
2010p	Total.....	12,530.1	419.9	3.4	8
	per capita.....	40,584	36,395	89.7	34

p: preliminary data.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

\*Excludes District of Columbia.

In addition to personal income, the retail sales base is an important indicator of sales and use tax receipts.

**Retail Sales (\$ in Billions)**

<u>Fiscal Year</u>	<u>Ohio Retail Sales(a)</u>	<u>U.S. Retail Sales(b)</u>	<u>Ohio Percent of U.S.</u>
1980	\$39.01	\$979.25	4.0%
1990	66.95	1,914.04	3.5
2000	117.72	3,213.82	3.6
2006	136.22	4,223.34	3.2
2007	138.08	4,373.45	3.2
2008	138.68	4,502.96	3.1
2009	128.66	4,191.05	3.1
2010	131.03	4,260.48	3.1

(a) Calculated by Global Insight based on data from the U.S. Department of Commerce, Bureau of the Census.

(b) U.S. Census Bureau Web Site.

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## Property Tax

The following table lists, for informational purposes only, the non-exempt real and tangible personal property tax base in the State and taxes levied on that base (on a calendar year basis). Only local taxing subdivisions, and not the State, currently tax the real and tangible personal property included in this table. Reported figures for 2010 show that these property taxes represent 3.63% of Ohio personal income.

		<u>Assessed Value (a)</u>	<u>Percent of True Value (b)</u>	<u>Taxes Charged</u>
1980	Real(c).....	\$56,457,842,607	27.1%	\$2,343,384,488(e)
	Tangible(d).....	15,649,200,844	39.2	765,047,826
	Public Utility(c).....	8,670,052,613	83.3	411,321,235
1990	Real .....	93,857,482,000	35.0	4,593,147,000(e)
	Tangible(d).....	18,473,055,000	28.0	1,149,643,000
	Public Utility(c)(f).....	12,934,191,000	88.6	799,396,000
2000	Real .....	167,857,657,350	35.0	8,697,809,112(e)
	Tangible(d).....	23,298,302,564	25.0	1,720,740,378
	Public Utility(c)(f).....	13,635,709,860	67.0	967,674,709
2008	Real .....	240,673,472,605	35.0	13,807,996,674(e)
	Tangible(d).....	6,592,078,011	6.8(b)	539,847,674
	Public Utility(c)(f).....	8,596,715,120(g)	47.3	646,437,973
2009	Real .....	238,138,880,215	35.0	14,119,235,738 (e)
	Tangible(d).....	628,787,160	10.0(b)	55,498,628
	Public Utility(c)(f).....	8,906,002,394(g)	51.7	687,462,082
2010	Real .....	238,264,394,249	35.0	14,486,087,962(e)
	Tangible(d).....	320,961,400	5.0(b)	18,432,832
	Public Utility(c)(f).....	10,096,712,600(g)	52.9	747,237,219

- (a) Increases in assessed value of "Real" are in part products of reappraisals.
  - (b) Regular annual reductions for "Tangible" (except for most public utility tangible) reached 0% in 2009; only telecommunication and telephone personal property is taxable in 2009 and 2010.
  - (c) Includes public utility personal property owned and located within Ohio and railroad real property; excludes public utility real property.
  - (d) Includes machinery, inventories, fixtures; effective tax year 2007 includes telephone company property. Excludes public utility tangible property. Effective tax year 2009 includes only telephone company property.
  - (e) Includes the statutory 10% rollback (12.5% for owner-occupied residences) and elderly/handicapped partial exemption amounts, paid by the State to local taxing entities to compensate for statutory reductions in local tax collections. Effective for tax year 2005 and thereafter, the 10% rollback is eliminated for real property used in business, with exceptions for certain property used in farming or for housing.
  - (f) Beginning in 1990, the true value of most public utility property is based on annual composite allowances that vary according to the type and age of property.
  - (g) Beginning in 2001, the statutory assessment rate for electric and gas utilities decreased from 88% to 25%.
- Source: Ohio Department of Taxation.

Under State legislation effective July 1, 2005, the tangible personal property tax (including inventories) has been phased out over tax years 2006 through 2009, with that tax generally eliminated beginning in tax year 2009. That legislation provided for the State to make distributions to school districts and other local taxing units from revenue generated by the State commercial activity tax (CAT). Distributions are generally based on the taxable value of tangible personal property as reported in 2004 and property tax levies in effect for 2005. In Fiscal Year 2012, the State begins phasing-out tangible personal property tax replacement payments to schools and local governments with replacement payments to schools reduced by two percent of each district's total resources in Fiscal Year 2012 and Fiscal Year 2013 for a total reduction of four percent; and replacement payments to local governments reduced by two percent of total resources for tax years 2011, 2012, and 2013 for a total reduction of six percent. Under current law, replacement payments will then continue at the 2013 amounts through tax year 2030.

Beginning July 2007, the State's homestead exemption program, which takes the form of a credit on local residential real property tax bills, was expanded to allow all senior citizens and disabled Ohioans, regardless of income, to exempt from tax the first \$25,000 of the market value of their home. Previously eligibility was restricted and benefits were tiered based on income. The total cost of the homestead exemption program in Fiscal Year 2010 was \$371.6 million and in Fiscal Year 2011 was \$388.9 million.

Property tax relief payments by the State to local subdivisions totaled \$2.89 billion in the 2008-09 biennium, \$3.36 billion for the 2010-11 biennium and are estimated at \$3.41 billion for the 2012-13 biennium.