

**“BOOK-ENTRY ONLY”  
NEW ISSUE**

RATINGS: Moody's:Aa3  
Standard & Poor's: AA  
Fitch: AA-  
(See "RATINGS" herein)

*In the opinion of Porter, Wright, Morris & Arthur LLP, Bond Counsel, under existing law and assuming compliance with certain covenants, interest on the Series 2001-1 Bonds is excluded from gross income for federal income tax purposes, is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended, and is exempt from the Ohio personal income tax, the Ohio corporation franchise tax (to the extent computed on the net income basis) and income taxes imposed by municipalities and other political subdivisions in Ohio. Interest on the Series 2001-1 Bonds may be subject to certain federal taxes imposed on certain corporations, including imposition of the corporate alternative minimum tax on a portion of that interest. (For a more complete discussion of tax aspects, see "TAX EXEMPTION" herein).*

**\$100,000,000  
STATE OF OHIO  
MAJOR NEW STATE INFRASTRUCTURE PROJECT REVENUE BONDS  
SERIES 2001-1**

Dated: September 1, 2001

Due: Serially on June 15, as shown below

The Series 2001-1 Bonds are special obligations of the State of Ohio (the "State"), issued pursuant to the Trust Agreement dated as of May 1, 1998, as amended (the "Original Trust Agreement") between the State and National City Bank, as trustee (the "Trustee"), and the Third Supplemental Trust Agreement dated as of September 1, 2001 (the "Third Supplemental Trust Agreement") between the State and the Trustee (together, the "Trust Agreement"). The Series 2001-1 Bonds are being issued for the purpose of paying certain costs of Major New State Infrastructure Projects described herein (the "Projects"). The Ohio Director of Transportation (the "Director") has entered into a Certificate and Agreement with the Treasurer of State of the State of Ohio (the "Treasurer") dated as of September 1, 2001 (the "Certificate and Agreement") pursuant to which the Director has agreed that the Ohio Department of Transportation (the "Department") will make deposits with the Treasurer equal to the Bond Service Charges on the Series 2001-1 Bonds (the "Bond Service Charges") plus certain related costs primarily from Pledged Federal Highway Receipts (as defined herein).

Interest on the Series 2001-1 Bonds will be payable, from the date of issuance, on June 15 and December 15, commencing December 15, 2001. The Series 2001-1 Bonds mature on June 15 of each year, as shown below:

<b>Maturity Schedule</b>							
<u>Due</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Due</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2002	\$ 12,500,000.00	3.5%	2.100%	2006	\$12,500,000.00	5.00%	3.360%
2003	\$12,500,000.00	4.5%	2.550%	2007	\$12,500,000.00	5.00%	3.600%
2004	\$12,500,000.00	5.0%	2.890%	2008	\$12,500,000.00	5.00%	3.800%
2005	\$10,420,000.00	5.0%	3.140%	2009	\$12,500,000.00	5.00%	3.940%
2005	\$ 2,080,000.00	3.5%	3.140%				

The Series 2001-1 Bonds will be issued only as fully registered bonds in the denominations of \$5,000 or any integral multiple thereof. The Series 2001-1 Bonds will be issued in a book-entry form, registered in the name of The Depository Trust Company ("DTC") or its nominee. There will be no distribution of the Series 2001-1 Bonds to the ultimate purchasers ("Book-Entry Interest Owners"). See "BOOK-ENTRY FORM" herein. Principal of the Series 2001-1 Bonds will be payable to the registered owner thereof (DTC or its nominee) at the designated corporate trust office of the Trustee. Interest on the Series 2001-1 Bonds will be payable by check or draft mailed by the Trustee or under certain conditions by wire transfer, to the registered owner as shown on the registration records maintained by the Trustee as bond registrar.

The Series 2001-1 Bonds are special obligations of the State, secured under the Trust Agreement solely by a pledge of the Pledged Receipts (as defined herein), and payable primarily from the deposits to be made by the Department under the Certificate and Agreement and certain funds held by the Trustee pursuant to the Trust Agreement. The obligation of the Department to make the deposits required under the Certificate and Agreement is subject to and dependant upon biennial appropriations being made to the Department for such purpose by the General Assembly of Ohio (the "General Assembly"). The failure of the General Assembly to so appropriate moneys to the Department will result in the termination of the Department's obligations involving expenditures under the Certificate and Agreement, including the obligation to cause moneys to be deposited with the Treasurer sufficient for the payment of Bond Service Charges with respect to the Series 2001-1 Bonds. The Series 2001-1 Bonds do not represent or constitute a debt of the Treasurer, the Department or the State, or a pledge of the faith and credit of the State, or a pledge of the taxing power of the State, and the Holders and Book-Entry Interest Owners of the Series 2001-1 Bonds shall have no right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges.

*THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.*

The Series 2001-1 Bonds are offered, subject to prior sale, when, as and if issued by the State and accepted by the Underwriters subject to approval of legality by Porter, Wright, Morris & Arthur LLP, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel Carlile Patchen & Murphy LLP. Certain legal matters will be passed upon for the Treasurer and the Department by their counsel, the Attorney General of Ohio, Betty D. Montgomery. Public Financial Management, Cleveland, Ohio has acted as financial advisor to the Treasurer in connection with the offering of Series 2001-1 Bonds. It is expected that delivery of the Series 2001-1 Bonds will be made to or upon the order of DTC in New York, New York on or about September 27, 2001, against payment therefor.

**FIRST ALBANY CORPORATION**

**RED CAPITAL MARKETS, INC.**

The Date of this Official Statement is September 24, 2001.

## REGARDING THE USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Series 2001-1 Bonds identified on the cover page of this Official Statement. No person has been authorized by the Treasurer, the Department, or the State to give any information or to make any representation, other than that contained in this Official Statement, and if given or made, such other information or representation not so authorized must not be relied upon as having been given or authorized by the Treasurer, the Department or the State. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2001-1 Bonds by any person, in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

The Series 2001-1 Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy or adequacy of this Official Statement or approved the Series 2001-1 Bonds for sale.

All financial and other information presented herein has been provided by the State from its records, except for information expressly attributed to other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the State. No representation is made that past experience, as might be shown by such financial and other information, will necessarily continue or be repeated in the future.

References herein to provisions of Ohio law, whether codified in the Ohio Revised Code or uncodified, or of the Ohio Constitution, are references to such provisions as they presently exist. Any of those provisions may from time to time be amended, repealed or supplemented.

The information approved and provided by the State in this Official Statement is the information relating to the particular subjects provided by the State or State agencies for the purpose of this official statement. Reliance for the purpose should not be placed on any other information publicly provided, in any format including electronic, by any State agency for other purposes, including general information provided to the public or to portions of the public.

**IN CONNECTION WITH THE OFFERING OF THE SERIES 2001-1 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2001-1 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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## **INTRODUCTION**

The purpose of this Official Statement, which includes the cover page and exhibits hereto, is to provide certain information with respect to the original issuance and sale of \$100,000,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 2001-1 (the "Series 2001-1 Bonds").

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained elsewhere in this Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Series 2001-1 Bonds to potential investors is made only by means of the entire Official Statement. CAPITALIZED TERMS NOT OTHERWISE DEFINED IN THE TEXT OF THIS OFFICIAL STATEMENT ARE DEFINED IN THE GLOSSARY.

### **Authorization**

The Series 2001-1 Bonds are being issued by the Treasurer of State of the State of Ohio (the "Treasurer") pursuant to the provisions of the Constitution of Ohio, particularly Section 13 of Article VIII thereof, Section 5531.10 of the Ohio Revised Code (the "Act"), the General Bond Order of the Treasurer, Series Bond Order No. 2001-1 of the Treasurer, and the Trust Agreement dated as of May 1, 1998, as amended and the Third Supplemental Trust Agreement, dated as of September 1, 2001, each between the Treasurer and the Trustee (together, the "Trust Agreement").

The Series 2001-1 Bonds are the third series of Bonds issued under the Original Trust Agreement for the purpose of paying the cost of the Projects. In 1998, the Treasurer issued the first series of Bonds, \$70,000,000 State of Ohio Major New State Infrastructure Project Revenue Bonds Series 1998-1 (the "Series 1998-1 Bonds"), which were issued pursuant to the Original Trust Agreement and the First Supplemental Trust Agreement dated as of May 1, 1998, between the Trustee and the Treasurer. In 1999, the Treasurer issued \$20,000,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 1999-1 (the "Series 1999-1 Bonds"), which were issued pursuant to the Original Trust Agreement and the Second Supplemental Trust Agreement dated as of August 1, 1999, between the Trustee and the Treasurer.

### **Sources of and Security for Payment**

The Series 2001-1 Bonds are special obligations of the State issued under and pursuant to the Act and the Trust Agreement. The Series 2001-1 Bonds are payable primarily from and, together with the Additional Bonds, are equally and ratably secured by a pledge of the Pledged Receipts.

The Certificate and Agreement requires the Department to make annual deposits with the Treasurer sufficient in amount to pay the Bond Service Charges with respect to the Series 2001-1 Bonds for credit to the appropriate fund or account under the Trust Agreement. See "THE CERTIFICATE AND AGREEMENT -- Payments and Pledges". In the Trust

Agreement, the Treasurer has assigned its rights to the moneys deposited by the Department of Transportation under the Certificate and Agreement to the Trustee to secure the payment of the Series 2001-1 Bonds. See "THE TRUST AGREEMENT -- Security".

"Pledged Receipts" consist of (a) all moneys apportioned as a grant to the State of Ohio by the United States Secretary of Transportation under Title 23 of the United States Code, or any successor legislation, or any other federal law relating to federal aid for highways, which are lawfully available to pay Bond Service Charges (the "Pledged Federal Highway Receipts") (excepting the portions thereof designated for payment of administrative expenses, project costs, rebate, or limited to a certain series of Bonds); (b) all amounts standing to the credit of the State Infrastructure Bank Revenue Bond Service Fund created by the Act, other than amounts which are limited to a certain series of Bonds or Parity Obligations and other than any moneys therein raised by taxation by the State of Ohio; (c) any gifts, grants, donations and pledges, and receipts therefrom, received by the State available for the payment of Bond Service Charges, to the extent not previously pledged and to the extent not prohibited by the terms of such gifts, grants, donations or pledges; and (d) any other moneys accruing to the State from the sources described in the Act, which are subsequently pledged to the payment of Bond Service Charges. Pledged Receipts specifically do not include any money or investment in the Administrative Expense Fund, the Infrastructure Bank Obligations Fund and the Rebate Fund. See "SOURCES OF FUNDS FOR PAYMENT OF SERIES 2001-1 BONDS", "THE TRUST AGREEMENT -- Security", and "THE CERTIFICATE AND AGREEMENT -- Payments and Pledges".

**The obligations of the Department to cause moneys to be deposited with the Treasurer for the payment of Bond Service Charges and to perform other obligations involving expenditures under the Certificate and Agreement are subject to and dependent upon biennial appropriations being made to the Department by the General Assembly for such purposes. If the General Assembly fails to appropriate moneys to enable the Department to perform its obligations involving expenditures under the Certificate and Agreement, those obligations of the Department under the Certificate and Agreement will terminate. The General Assembly may not, under the provisions of the Ohio Constitution, make appropriations for a period longer than two years. While the Treasurer and the Department expect that the General Assembly will, for each State fiscal biennium, continue to appropriate amounts to the Department sufficient to meet its obligations involving expenditures under the Certificate and Agreement to the Treasurer, the General Assembly is under no legal obligation to make such appropriations. The Series 2001-1 Bonds are special obligations of the State payable primarily from and secured solely by the Pledged Receipts under the Trust Agreement.**

**The Series 2001-1 Bonds do not represent or constitute a debt of the Treasurer, the Department, the State, or of any political subdivision thereof, nor a pledge of the faith and credit of the State, or any political subdivision thereof. The Holders and Book-Entry Interest Owners of the Series 2001-1 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of the Bond Service Charges on the Series 2001-1 Bonds, and those Holders and Book-Entry Interest Owners will have no right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges. The Series 2001-1 Projects are not pledged or mortgaged as**

**security for the Series 2001-1 Bonds and the Trustee will not have the right to take possession or operate the Series 2001-1 Projects upon a default or termination of the Certificate and Agreement.**

### **Purpose of the Series 2001-1 Bonds**

The Act authorizes the Treasurer, upon the certification by the Director of the Department of the amount of moneys needed, to issue Bonds for the purpose of paying the costs of certain State Infrastructure Projects. The Series 2001-1 Bonds are being issued to pay the costs of the Series 2001-1 Projects, as defined in Section 5531.10(A)(8) of the Ohio Revised Code. See "PURPOSE OF THE SERIES 2001-1 BONDS".

### **Optional Prior Redemption**

The Series 2001-1 Bonds are not subject to optional redemption prior to maturity.

### **Registration**

The Series 2001-1 Bonds will be issued only as fully registered bonds, one for each respective maturity, in the name of CEDE & Co. as nominee for The Depository Trust Company ("DTC"), as Holder of all the Series 2001-1 Bonds. The fully registered Series 2001-1 Bonds will be retained and immobilized in the custody of DTC. See "BOOK-ENTRY FORM". As used in this Official Statement, "Holder" means the registered holder of a Series 2001-1 Bond and "Book-Entry Interest Owner" means the owner of a book-entry interest in Series 2001-1 Bonds held by a depository in book entry form. DTC (or any successor securities depository), for all purposes under the Trust Agreement will be and will be considered to be the sole Holder of the Series 2001-1 Bonds.

### **Payment**

The principal of and premium, if any, on the Series 2001-1 Bonds will be payable to the Holder (initially DTC or its nominee) upon presentation and surrender at the principal corporate trust office of the Trustee. The Series 2001-1 Bonds will bear interest on their unpaid principal amounts payable on each Interest Payment Date to the Holder (initially DTC or its nominee) at the address shown on the Register as of the close of business on the 1st day of the calendar month in which such Interest Payment Date occurs. Interest on the Series 2001-1 Bonds will be payable by check or draft mailed by the Trustee or under certain conditions by wire transfer, to the Holder as shown on the registration records maintained by the Trustee as Bond Registrar. Interest is payable June 15 and December 15, commencing December 15, 2001. See "DESCRIPTION OF THE SERIES 2001-1 BONDS -- Payment of Principal and Interest".

### **Additional Bonds**

One or more series of Additional Bonds are issuable under the Original Trust Agreement for the purpose of paying additional costs of Major New State Infrastructure Projects or for the purpose of refunding Obligations previously issued under the Act. The Series 1998-1 Bonds and the Series 1999-1 Bonds are the only Additional Bonds that have been issued as of

the date of this Official Statement. Additional Bonds are on a parity with the Series 2001-1 Bonds, payable primarily from and secured by the Pledged Receipts except for bond service reserve accounts or Credit Support Instruments, if any, applicable only to a certain series of outstanding Bonds. See "THE TRUST AGREEMENT -- Additional Bonds".

### **Parity Obligations**

The Trust Agreement contemplates the issuance of Parity Obligations. As defined in the Trust Agreement, "Parity Obligations" means any obligation of any person, other than the Series 2001-1 Bonds and Additional Bonds, which is either payable from or is secured by Pledged Federal Highway Receipts and which is not expressly subordinated to the Bonds, including without limitation any such obligation issued or to be issued by the Butler County Ohio Transportation Improvement District ("Butler County TID"). In 1997, the Butler County TID issued \$158,485,000 Butler County Transportation Improvement District Highway Improvement Bonds, Series 1997A (the "Butler County TID Bonds"). The Butler County TID Bonds are the only Parity Obligations that have been issued as of the date of this Official Statement. See "THE TRUST AGREEMENT -- Parity Obligations".

### **Limitations on Additional Bonds and Parity Obligations**

The Department has agreed in the Certificate and Agreement that it will not permit any future Additional Bonds or Parity Obligations to be issued if, upon such issuance, the total amount of Bond Service Charges payable with respect to the Series 2001-1 Bonds and any Additional Bonds in any Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that Fiscal Year would exceed (a) so long as the Series 1998-1 Bonds and Series 1999-1 Bonds have not been defeased, the lesser of (i) 25% of the lowest amount of Pledged Federal Highway receipts received by the Department in any of the three immediately previous Fiscal Years, or (ii) One Hundred Million Dollars (\$100,000,000); or (b) subsequent to the defeasance of the Series 1998-1 Bonds and Series 1999-1 Bonds, one-fifth of the average amount of Federal Highway Receipts received by the Department in the three immediately previous Fiscal Years. See "SOURCES OF FUNDS FOR PAYMENT OF SERIES 2001-1 BONDS", "THE CERTIFICATE AND AGREEMENT -- Further Covenants" and "DEBT SERVICE REQUIREMENTS".

### **Tax Exemption**

In the opinion of Porter, Wright, Morris & Arthur LLP, Bond Counsel, under existing law and assuming compliance with certain covenants, interest on the Series 2001-1 Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. The Series 2001-1 Bonds are exempt from the Ohio personal income tax, the Ohio corporation franchise tax (to the extent computed on the net income basis), and income taxes imposed by municipalities and other political subdivisions in Ohio. See "TAX EXEMPTION".



## Disclosure Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and the continuing disclosure documents of the Treasurer are intended to be made available through one or more repositories (see "CONTINUING DISCLOSURE"). Copies of the basic documentation relating to the Series 2001-1 Bonds, including the Original Trust Agreement and Third Supplemental Trust Agreement, are available from the Treasurer.

## DESCRIPTION OF THE SERIES 2001-1 BONDS

### General

The Series 2001-1 Bonds shall be dated as of September 1, 2001 and shall bear interest from such date at the rates set forth below, payable on June 15 and December 15 of each year, commencing December 15, 2001, until maturity. The Series 2001-1 Bonds are being issued as fully registered bonds, without coupons, in the denomination of \$5,000 or any integral multiple thereof.

The Series 2001-1 Bonds mature on June 15 of each year as follows:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
2002	\$12,500,000.00	3.500%	2006	\$12,500,000.00	5.000%
2003	\$12,500,000.00	4.500%	2007	\$12,500,000.00	5.000%
2004	\$12,500,000.00	5.000%	2008	\$12,500,000.00	5.000%
2005	\$10,420,000.00	5.000%	2009	\$12,500,000.00	5.000%
2005	\$2,080,000.00	3.500%			

### Optional Redemption Provisions

The Series 2001-1 Bonds are not subject to optional redemption prior to maturity.

### Payment of Principal and Interest

The principal of and any premium on any Series 2001-1 Bond shall be payable when due upon presentation and surrender of that Series 2001-1 Bond at the designated corporate trust office of the Trustee or at the office of any paying agent designated for that purpose pursuant to the Trust Agreement.

The interest on any Series 2001-1 Bond due on each Interest Payment Date shall be paid by check or draft mailed to the person in whose name the Series 2001-1 Bond is registered at the close of business on the first day of the calendar month in which an Interest Payment Date applicable to the Series 2001-1 Bonds occurs (the "Regular Record Date"), at the address shown on the registration records kept by the Trustee as bond registrar. If any interest is not timely paid or duly provided for, the Trustee is required to establish a Special Record Date for the payment of overdue interest to the Holders of Series 2001-1 Bonds as of that Special

Record Date. Notice of the Special Record Date will be mailed to Holders of Series 2001-1 Bonds not less than ten days prior to the Special Record Date.

With the approval of the Treasurer, the Trustee may enter into an agreement with DTC, or the nominee of DTC, that is the Holder of a Series 2001-1 Bond in the custody of DTC providing for the making of all payments to DTC of principal of and interest and any premium on that Series 2001-1 Bond or any portion thereof (other than any payment of its entire unpaid principal amount) at a place and in a manner (including wire transfer of funds) without prior presentation or surrender of the Series 2001-1 Bond, upon any conditions which shall be satisfactory to the Trustee and the Treasurer. That payment in any event shall be made to the person who is the Holder of that Series 2001-1 Bond on the date that principal and premium is due, or, with respect to the payment of interest, as of the applicable Regular Record Date or Special Record Date or other date agreed upon, as the case may be.

## **BOOK-ENTRY FORM**

### **General**

Book-Entry Interest Owners of the Series 2001 Bonds will not receive or have the right to receive physical delivery of the Series 2001-1 Bonds and will not be or be considered to be, and will not have any rights as, Holders, of the Series 2001-1 Bonds under the Trust Agreement.

The following information on Book-Entry Form applicable to the Series 2001-1 Bonds has been supplied by DTC. The Treasurer, the Department, the State, the Underwriters and the Trustee do not make any representations, warranties or guarantees with respect to the accuracy or completeness of this information and have no responsibility for the accuracy thereof.

DTC will act as Depository for the Series 2001-1 Bonds. The Series 2001-1 Bonds will be issued as securities registered in the name of CEDE & Co. (DTC's partnership nominee). One fully registered bond certificate will be issued for each maturity of Series 2001-1 Bonds in the aggregate principal amount of the respective maturity and will be deposited with DTC.

DTC is a limited-purpose trust company organized under New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposit securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities

Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchasers of the Series 2001-1 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2001-1 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2001-1 Bond (“Book-Entry Interest Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Book-Entry Interest Owners will not receive written confirmation from DTC of their purchase, but Book-Entry Interest Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Book-Entry Interest Owner entered into the transaction. Transfers of ownership interests in the Series 2001-1 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Book-Entry Interest Owners. Book-Entry Interest Owners will not receive certificates representing their ownership interest in the Series 2001-1 Bonds except in the event that use of the Book-Entry Form of the Series 2001-1 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2001-1 Bonds deposited with DTC are registered in the name of DTC’s partnership nominee, CEDE & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2001-1 Bonds with DTC and their registration in the name of CEDE & Co. or such other name effect no change in beneficial ownership. DTC has no knowledge of the actual Book-Entry Interest Owners of the Series 2001-1 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2001-1 Bonds are credited, which may or may not be the Book-Entry Interest Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Book-Entry Interest Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to CEDE & Co. (or such other DTC nominee) If less than all of the Series 2001-1 Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of interest of each Direct Participant in such issue to be redeemed.

Neither DTC or CEDE & Co. (or such other DTC nominee) will consent or vote with respect to the Series 2001-1 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Treasurer as soon as possible after the record date. The Omnibus Proxy assigns CEDE & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Series 2001-1 Bonds are credited on the Regular Record Date (identified in a listing attached to the Omnibus Proxy).

Bond Service Charge payments on the Series 2001-1 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Treasurer or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Book-Entry Interest Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearing form or registered in "street name", and will be the responsibility of such Direct and Indirect Participant and not of DTC, the Trustee or the Treasurer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of Bond Service Charges to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Treasurer or the Trustee, as applicable; disbursement of such payments to the Book-Entry Interest Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as Depository with respect to the Series 2001-1 Bonds at any time by giving reasonable notice to the Treasurer or the Trustee. Under such circumstances, in the event that a successor Depository is not obtained, certificates are required to be printed and delivered. The Treasurer may decide to discontinue use of the Book-Entry Form for the Series 2001-1 Bonds through DTC (or a successor Depository). In that event, bond certificates will be printed and delivered. See "Revision of Book-Entry System; Series 2001-1 Replacement Bonds" below.

The information in this section concerning DTC and the use of the Book-Entry Form through DTC has been obtained from sources that the Treasurer believes to be reliable, but the Treasurer has no responsibility for the accuracy thereof.

### **Revision of Book-Entry System; Series 2001-1 Replacement Bonds**

The Trust Agreement provides for the physical delivery of fully registered Series 2001-1 Bonds ("Series 2001-1 Replacement Bonds") directly to Holders, other than DTC, of Series 2001-1 Bonds only in the event that DTC determines not to continue to act as securities depository for the Series 2001-1 Bonds. Upon the occurrence of such an event with respect to the Series 2001-1 Bonds, the Treasurer may, in its discretion, attempt to have established a securities depository/book-entry relationship with another qualified securities depository for the Series 2001-1 Bonds. If the Treasurer does not, or is unable to, establish such a relationship and after the Trustee has made provisions for notification of the Book-Entry Interest Owners of the affected Series 2001-1 Bonds by appropriate notice to DTC, the Trustee will authenticate and deliver the Series 2001-1 Replacement Bonds in the denomination of \$5,000 or any integral multiple thereof to or at the direction of, and, if the event is not the result of the Treasurer's action or inaction, at the expense (including printing costs) of, DTC's assigns.

Bond Service Charges on the Series 2001-1 Replacement Bonds will be payable when due without deduction for the services of the applicable paying agent. Principal of and premium on any Series 2001-1 Replacement Bonds will be payable to the Holder thereof upon presentation and surrender thereof at the principal corporate trust office of the Trustee. Interest thereon will be payable by the Trustee by check or draft, mailed to the Holder of record on the

Bond Register maintained by the Trustee as of the 1st day of the calendar month in which the Interest Payment Date occurs.

Series 2001-1 Replacement Bonds will be exchangeable for Series 2001-1 Replacement Bonds of authorized denominations, and transferable, at the office of the Trustee without charge (except taxes or other governmental fees).

**Transfer of Book-Entry Interest in Series 2001-1 Bonds**

The rights of Book-Entry Interests Owners in the Series 2001-1 Bonds and the manner of transferring or pledging those interests is subject to applicable state law. Book-Entry Interests Owners in the Series 2001-1 Bonds may wish to discuss the manner of transferring or pledging their book-entry interests in such Series 2001-1 Bonds with their legal advisors.

**ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the estimated sources and uses of the proceeds of the Series 2001-1 Bonds:

Sources:

Par Amount of Series 2001-1 Bonds	\$ 100,000,000.00
Net Original Issue Premium	5,451,507.40
Accrued Interest <sup>(1)</sup>	<u>340,802.22</u>
<b>TOTAL SOURCES</b>	<b><u>\$ 105,792,309.62</u></b>

Uses:

Deposit to Major New Project Debt Service Account of the State Infrastructure Bank Revenue Bond Service Fund	\$ 340,802.22
Costs of Issuance <sup>(2)</sup>	813,172.02
Deposit to the Infrastructure Bank Obligations Fund <sup>(3)</sup>	<u>104,638,335.38</u>
<b>TOTAL USES</b>	<b><u>\$ 105,792,309.62</u></b>

- 
- (1) Represents Accrued Interest received on the sale of the Series 2001-1 Bonds.
  - (2) Includes Underwriters' compensation and expenses, printing costs, legal fees and other costs issuance
  - (3) See "THE TRUST AGREEMENT – Funds and Accounts – Infrastructure Bank Obligations Fund" for a description of this fund.

## DEBT SERVICE REQUIREMENTS

The following table sets forth the annual debt service requirements for the Series 2001-1 Bonds, along with Additional Bonds and Parity Obligations outstanding as of the date of this Official Statement:

<u>Fiscal Year</u>	<u>Series 2001-1 Bonds</u>			<u>Additional Bonds and Parity Obligations</u> <sup>(1)</sup>			<u>Total Debt Service*</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2002	\$12,500	\$3,723	\$16,223	\$13,720	\$10,223	\$23,943	\$40,166
2003	12,500	4,281	16,781	14,400	9,537	23,937	40,718
2004	12,500	3,719	16,219	15,105	8,817	23,922	40,141
2005	12,500	3,094	15,594	15,855	8,058	23,913	39,507
2006	12,500	2,500	15,000	16,640	7,256	23,896	38,896
2007	12,500	1,875	14,375	17,470	6,412	23,882	38,257
2008	12,500	1,250	13,750	18,345	5,526	23,871	37,621
2009	12,500	625	13,125	10,410	4,780	15,190	28,315
2010	0	0	0	8,250	4,285	12,535	12,535
2011	0	0	0	8,745	3,790	12,535	12,535
2012	0	0	0	9,270	3,265	12,535	12,535
2013	0	0	0	9,830	2,790	12,620	12,620
2014	0	0	0	10,330	2,286	12,616	12,616
2015	0	0	0	10,860	1,757	12,617	12,617
2016	0	0	0	11,415	1,200	12,615	12,615
2017	0	0	0	12,005	615	12,620	12,620

(1) Includes Butler County TID Bonds. The Series 1998-1 Bonds, the Series 1999-1 Bonds and the Series 2001-1 Bonds are payable primarily from, and secured solely by, a pledge of the Pledged Federal Highway Receipts as well as certain other Pledged Receipts. The Butler County TID Bonds are Parity Obligations under the Original Trust Agreement and are secured primarily by a pledge of lease payments under a master lease agreement. The Pledged Federal Highway Receipts are expected to be the ultimate source for the lease payments to be made by the Department as the lessee under such master lease agreement but are not pledged thereunder and do not constitute security for the Butler County TID Bonds.

\*Difference due to rounding.

### PURPOSE OF THE SERIES 2001-1 BONDS

The Series 2001-1 Bonds are being issued to finance various highway and bridge projects within the State (the "Projects"). The Projects include new construction/new alignment of US Route 33 in Athens County, new construction/new alignment of State Route 124 in Meigs County, replacement of the Craig Memorial Bridge across the Maumee River on Interstate 280 in the Toledo area and completion of Spring-Sandusky interchange at Interstate 670 and State

Route 315 in Columbus. The Federal Highway Administration (“FHWA”) has authorized each of the Projects as advance construction projects under Title 23 and has determined that each of the Projects is eligible for federal funding under Title 23. The FHWA has agreed to make payments to the Department in amounts equal to the Debt Service on the Series 2001-1 Bonds, when due.

Additional Bonds may be issued in the future to finance other highway construction projects that will be part of and necessary to complete the Projects. See “INTRODUCTION -- Additional Bonds”. Included within the cost to complete the Projects are the cost of highway construction, including the cost of paving, grading, and drainage, the cost of replacing bridges, and the cost of landscaping and removing materials from the construction zone. **The Projects are not pledged or mortgaged as security for the Series 2001-1 Bonds nor will the Trustee have the right to take possession of or operate the Projects upon a default under or termination of the Department’s obligations involving expenditures under the Certificate and Agreement.** See “THE CERTIFICATE AND AGREEMENT – Term of the Certificate and Agreement”.

## SECURITY FOR THE SERIES 2001-1 BONDS

### General

The Series 2001-1 Bonds are special obligations of the State issued under and pursuant to the Act and the Trust Agreement. The Series 2001-1 Bonds are payable primarily from and, together with the Additional Bonds, are equally and ratably secured by a pledge of the Pledged Receipts.

“Pledged Receipts” consist of (a) all moneys apportioned as a grant to the State by the United States Secretary of Transportation under Title 23 of the United States Code, or any successor legislation, or any other federal law relating to federal aid for highways, which are lawfully available to pay Bond Service Charges (the “Pledged Federal Highway Receipts”) (excepting the portions thereof designated for payment of administrative expenses, project costs or rebates limited to certain series of Bonds); (b) all amounts standing to the credit of the State Infrastructure Bank Revenue Bond Service Fund created by the Act, other than amounts which are limited to certain series of Bonds and other than any moneys therein raised by taxation by the State of Ohio; (c) any gifts, grants, donations and pledges, and receipts therefrom, received by the State available for the payment of Bond Service Charges, to the extent not previously pledged and to the extent not prohibited by the terms of such gifts, grants, donations or pledges; and (d) any other moneys accruing to the State from the sources described in the Act, which are subsequently pledged to the payment of Bond Service Charges. Pledged Receipts specifically do not include any money or investments in the Administrative Expense Fund, the Infrastructure Bank Obligations Fund and the Rebate Fund.

**The obligations of the Department to cause moneys to be deposited with the Treasurer for the payment of Bond Service Charges and to perform other obligations involving expenditures under the Certificate and Agreement are subject to and dependent upon biennial appropriations being made to the Department by the General Assembly for**

such purposes. If the General Assembly fails to appropriate moneys to enable the Department to perform its obligations involving expenditures under the Certificate and Agreement, those obligations of the Department under the Certificate and Agreement will terminate. The General Assembly may not, under the provisions of the Ohio Constitution make appropriations for a period longer than two years.

Pursuant to Amended Substitute H.B. 73 (the Department's current budget bill) the Director of the Office of Budget and Management ("OBM") may approve requests of the Department for transfer of various appropriations within a budget period. Transfers of appropriations may be made upon the written request of the Director of Transportation and with the approval of the Director of OBM. This transfer authority is intended to provide for emergency situations and flexibility to meet unforeseen conditions that could arise during the budget period. It is also intended to allow the Department to optimize the use of variable resources and adjust to circumstances affecting the obligation and expenditure of federal funds.

While the Treasurer and the Department expect that the General Assembly will, for each State fiscal biennium, continue to appropriate amounts to the Department sufficient to meet its obligations involving expenditures under the Certificate and Agreement to the Treasurer, consistent with the State budget, the General Assembly is under no legal obligation to make such appropriations. The Series 2001-1 Bonds are special obligations of the State payable primarily from and secured solely by the Pledged Receipts under the Trust Agreement.

The Series 2001-1 Bonds do not represent or constitute a debt of the Treasurer, the Department, the State, or of any political subdivision thereof, nor a pledge of the faith and credit of the State, or any political subdivision thereof. The Holders and Book-Entry Interest Owners of the Series 2001-1 Bonds will have not right to have excises or taxes levied by the General Assembly for the payment of the Bond Service Charges on the Series 2001-1 Bonds, and those Holders and Book-Entry Interest Owners will have not right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges. The Series 2001-1 Projects are not pledged or mortgaged as security for the Series 2001-1 Bonds and the Trustee will not have the right to take possession of or operate the Series 2001-1 Projects upon default under or termination of the Certificate and Agreement.

The Trust Agreement provides for the appointment of a receiver to recover and administer the Pledged Receipts upon the occurrence of certain Events of Default, but the right to a receiver under Ohio law is discretionary with the court as equitable principles may dictate. The appointment of a receiver may not, accordingly, be available as remedy for the Trustee or the Holders of the Bonds. Moreover, the Act withholds from any receiver the power to pledge additional revenues or income of the Treasurer to the payment of the Bond Service Charges and excludes the power to take possession of, mortgage, or cause the sale or other disposition of any State Infrastructure Project.

**Deposits Under the Certificate and Agreement and Related Budget Requirements**



The Series 2001-1 Bonds are special obligations of the State payable primarily from annual deposits to be made by the Department with the Treasurer under the Certificate and Agreement. The Certificate and Agreement requires that with respect to any Federal Fiscal Year for which moneys constituting Pledged Federal Highway Receipts are available, the Department will cause to be deposited in the State Infrastructure Bank Revenue Bond Service Fund, for credit to the appropriate account thereof, from such moneys, an amount equal to all Bond Service Charges payable on the Series 2001-1 Bonds and Additional Bonds, and all debt service due on the Series 1998-1 Bonds, the Series 1999-1 Bonds, and Parity Obligations for such Federal Fiscal Year, prior to any other payment to be made from such moneys during that Federal Fiscal Year; and, in all events not later than fifteen (15) days after the first day Pledged Federal Highway Receipts are available for that Federal Fiscal Year. In the event the Bond Service Charges due on any Interest Payment Date are not so deposited at least 45 days prior to such Interest Payment Date, the Director has covenanted and agreed in the Certificate and Agreement to cause to be paid to the Treasurer from any moneys lawfully available therefore, upon invoice by the Treasurer, on or before the fifth Business Day immediately preceding such Interest Payment Date an amount equal to the Bond Service Charges due on the Series 2001-1 Bonds on the applicable Interest Payment Date plus (a) such sum or sums as shall be necessary to maintain any required reserve in a bond service reserve account, and (b) such sum or sums, if any, as shall be necessary to purchase any Series 2001-1 Bonds which the Treasurer is obligated to purchase.

**The obligations of the Department to cause moneys to be deposited with the Treasurer for the payment of Bond Service Charges and to perform other obligations involving expenditures under the Certificate and Agreement are subject to and dependent upon biennial appropriations being made by the General Assembly to the Department for such purposes. If the General Assembly fails to appropriate moneys to enable the Department to perform its obligations involving expenditures under the Certificate and Agreement, those obligations of the Department under the Certificate and Agreement will terminate. The General Assembly may not, under the provisions of the Ohio Constitution, make appropriations for a period longer than two years. While the Treasurer and the Department expect that the General Assembly will, for each State fiscal biennium, continue to appropriate amounts to the Department sufficient to enable the Department to meet its obligations involving expenditures under the Certificate and Agreement to the Treasurer, the General Assembly is under no obligation to make such appropriations.**

**The obligations of the Department involving expenditures under the Certificate and Agreement expire no later than the end of each State fiscal biennium (currently June 30 of each odd-numbered year) unless the General Assembly has appropriated moneys for the purpose of enabling the Department to meet those obligations for the next succeeding State fiscal biennium.**

**The Series 2001-1 Bonds are special obligations of the State issued by the Treasurer payable primarily from and secured solely by the Pledged Receipts under the Trust Agreement. The Series 2001-1 Bonds do not represent or constitute a debt of the Treasurer, the State, the Department, or of any political subdivision thereof, nor a pledge of the faith and credit of the State or any political subdivision thereof. The Holders and**

**Book-Entry Interest Owners of the Series 2001-1 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of the Bond Service Charges on the Series 2001-1 Bonds, and those Holders and Book-Entry Interest Owners shall have no right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges. The Projects are not pledged or mortgaged as security for the Series 2001-1 Bonds and the Trustee will not have the right to take possession of or operate the Projects upon a default under or termination of the Certificate and Agreement.**

The General Assembly has appropriated \$74,520,000 to the Department for the purpose of enabling the Department to meet its obligations with respect to the Series 1998-1 Bonds, the Series 1999-1 Bonds, the Series 2001-1 Bonds and any future Additional Bonds through the State Fiscal Years 2002 and 2003.

### **SOURCES OF FUNDS FOR PAYMENT OF SERIES 2001-1 BONDS**

The Certificate and Agreement requires the Department to make annual deposits to the Treasurer sufficient in amount to pay the Bond Service Charges with respect to the Series 2001-1 Bonds. See "SECURITY FOR THE SERIES 2001-1 BONDS -- Deposits under the Certificate and Agreement and Related Budget Requirements", and "THE CERTIFICATE AND AGREEMENT -- Payments and Pledges". In the Trust Agreement, the Treasurer has assigned its rights to the moneys paid by the Department under the Certificate and Agreement to the Trustee to secure the payment of the Series 2001-1 Bonds. See "THE TRUST AGREEMENT -- Security".

The Projects were included by the Department in its Statewide Transportation Improvement Plan (the "STIP") which was submitted to the United States Department of Transportation. The Department through the Transportation Review Advisory Council, also conducted a statewide transportation ranking assessment in which the Projects are all included as Tier I--"Projects for Construction in State Fiscal Years 2002 through 2005. As a result of the STIP, the ranking assessment and other actions required by the United States Department of Transportation and the State of Ohio, the United States Department of Transportation, pursuant to the provisions of Title 23 of the United States Code, has apportioned federal moneys to be available to the Department to pay for costs related to the Projects through Federal Fiscal Year 2001.

The federal government has in place various programs which provide for annual grants to the states for aid in the construction of highways (the "Title 23 Moneys"). The Title 23 Moneys received by the State are the sole source of the Pledged Federal Highway Receipts. See "SECURITY FOR THE SERIES 2001-1 BONDS". The Department intends to use future Title 23 Moneys received by it as the primary source of moneys to meet its obligation to pay Bond Service Charges.

The following table sets forth the amount of Title 23 Moneys made available to the Department by apportionment and received by the Department during each of the Federal Fiscal Years 1987 through and including 2001;

<u>Federal Fiscal Year</u>	<u>Title 23 Moneys</u>	
	<u>Apportioned</u>	<u>Received</u> <sup>(2)</sup>
1987	\$368,700,000	\$380,700,000
1988	\$321,800,000	\$405,200,000
1989	\$333,100,000	\$456,600,000
1990	\$398,300,000	\$404,800,000
1991	\$434,700,000	\$513,400,000
1992	\$493,600,000	\$517,900,000
1993	\$487,600,000	\$502,400,000
1994	\$576,600,000	\$621,300,000
1995	\$576,000,000	\$748,900,000
1996	\$607,300,000	\$664,500,000
1997	\$654,600,000	\$747,500,000
1998	\$703,800,000	\$661,900,000
1999	\$878,500,000	\$678,400,000
2000	\$892,000,000	\$651,561,000
2001	\$943,000,000	\$862,257,000

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(2) Includes Title 23 Moneys apportioned for prior Federal Fiscal Years received during the specified Federal Fiscal Year – See “SUMMARY OF FEDERAL HIGHWAY FUNDING AND TEA -21 – Operations”.

## **SUMMARY OF FEDERAL HIGHWAY FUNDING AND TEA-21**

### **The Federal Highway Administration and the Federal-Aid Highway Program**

The Federal Highway Administration (the “FHWA”) is a unit of the United States Department of Transportation (“US DOT”). The FHWA administers the Federal-Aid Highway Program (the “Highway Program”), through which the federal government reimburses states for a portion of approved highway projects.

The FHWA administers payments to states under the Highway Program through the Highway Trust Fund (the “HTF”). Funded by the collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the HTF is a dedicated fund with dedicated revenues that are held in trust for reimbursement of the states’ cost of transportation projects, including highway projects. Using revenues in the Highway Account of the HTF, the FHWA reimburses states for expenditures related to approved highway projects. The FHWA distributes these revenues to states based on apportionment and allocation rules prescribed by federal law.

Current law requires that the cash balance of the Highway Account of the HTF, plus projected revenues for the next two years, be sufficient to repay all unpaid obligations before any additional apportionments of revenues can be made from the HTF. This provision is commonly referred to as the “Byrd amendment”, or “Byrd test”. As a result, and unlike most federal programs, because funding is provided through trust-funded contract authority rather than appropriated budget authority the flow of federal funding to states for highway projects does not depend on timely appropriation of revenues by Congress.

**The terms and conditions of participation in the Highway Program as described herein are subject to change at the discretion of Congress. There can be no assurance that the laws and regulations now governing the Program will not be changed in the future in a manner that may adversely affect the ability of the State to receive adequate funds to repay the Bonds.**

### **Source of Funding for Federal-Aid Highway Program**

The primary source of federal government funding of highways is the HTF. Federal motor fuel taxes are the major source of income into the HTF. The HTF is composed of the Highway Account, which funds highway and intermodal programs, and the Mass Transit Account, which funds mass transit programs. Currently, the Highway Account receives about 83.9 percent of gasoline tax revenues and about 87.9 percent of diesel fuel tax revenues, with the remainder of such revenues deposited in the Mass Transit Account.

The HTF was established by the Highway Revenue Act of 1956 as a mechanism to finance an accelerated highway program, including construction of the Interstate Highway System. Collection of HTF taxes, like the Highway Program itself, must be periodically reauthorized by Congress. Historically, the HTF and its constituent taxes have been authorized to operate for limited periods of time. The taxes dedicated to the HTF are extended periodically by Congress, most recently by the Transportation Equity Act for the 21st Century (“TEA-21”). These taxes expire two years after the expiration of the authorizing legislation in TEA-21. These taxes are currently scheduled to expire on September 30, 2005.

In Federal Fiscal Year 1999, tax revenues brought in \$40.7 billion to the HTF, with \$35.1 billion directed to the Highway Account and \$5.6 billion directed to the Mass Transit Account. The primary source of funding into the HTF is an 18.4 cent per gallon Federal tax on gasoline. It is estimated that for each cent per gallon of the Federal motor fuel tax rate produces about \$1.5 billion in revenues annually.

### **The HTF Surplus**

Since 1956, the Highway Account of the HTF has accumulated a surplus of revenues because more revenues have been generated for the account through collections and interest income than have been distributed to states under the Highway Program. The balance of the HTF at the end of Federal Fiscal Year 1999 was \$29.0 billion. Of that \$29.0 billion, \$19.2 billion was credited to the Highway Account and \$9.8 billion was credited to the Mass Transit Account. The HTF is required under current federal law to maintain a positive balance to ensure

that prior commitments for federal revenues can be met. This requirement allows states the flexibility to earn and receive reimbursement revenues for up to four years after federal funds first were obligated.

## **History**

The Federal-Aid Highway Act of 1956 was one of a long series of authorizing statutes for the Highway Program. Extensions of the act were passed in 1958, 1959, 1960, 1961, 1962, 1964, 1966, 1968, 1970, 1973, 1974, and 1976. The 1982 Surface Transportation Assistance Act (“STAA”) made notable changes to the Highway Program, and began the multi-year (i.e., four or more years) authorizing process. In 1991, the Intermodal Surface Transportation Efficiency Act of 1991 (“ISTEA”) broadened the focus of the Highway Program, changed its structure significantly and created several new funding categories. ISTEA also gave state and local governments far greater flexibility in determining their transportation infrastructure priorities, whether transit or highways, and for the first time allowed significant flexibility to redirect federal revenues among programs. In each case, the statute was known as the Federal-Aid Highway Act.

The National Highway System Designation Act of 1995 (the “NHS Act”) fulfilled an ISTEA mandate by designating the National Highway System to include the Interstate System as well as other roads important to the nation’s economy, defense, and mobility. The NHS Act made several changes affecting the financing of federal-aid highway projects, including Advance Construction (“A/C”) procedures.

## **Title 23**

Title 23 of the United States Code (“Title 23”) is titled “Highways” and includes most of the laws that govern the Highway Program. As new highway acts are passed, Title 23 is amended. Under Title 23, a state highway department wishing to avail itself of benefits under the Highway Program may apply to the Secretary of Transportation for approval of a program or programs of proposed projects. The application must be made for each federal fiscal year as soon as practicable after apportionments for the Highway Program have been made. Once a particular project has been approved, the US DOT enters into an agreement with the relevant state highway department concerning the construction and maintenance of the project. The Federal Fiscal Year runs from October 1 to September 30. For example, Federal Fiscal Year 2001 began on October 1, 2000 and ends on September 30, 2001. Funds authorized under the Highway Program that are authorized for a particular year are apportioned to the states on the first day of that Federal Fiscal Year, at which time they are available for obligations by the states as they choose and the Secretary of US DOT approves. In general, funds appropriated under Title 23 for a project (other than Interstate Highway construction) remain available for obligation in the relevant state for three years after the end of the fiscal year for which the funds are authorized. Funds are available to states under Title 23 to pay principal of, interest on and costs of issuance related to the bonds issued to finance eligible projects.

## **TEA-21**

The current authorizing legislation, or highway act, is TEA-21. TEA-21 was signed into law on June 9, 1998 and is effective through the end of Federal Fiscal Year 2003. TEA-21 replaces ISTEA, which expired at the end of Federal Fiscal Year 1997. TEA-21 authorizes the federal funding of a portion of the costs for highway, highway safety, mass transit, and other surface transportation programs.

TEA-21 authorizes approximately \$217.889 billion in funding for the Highway Program and mass transit programs from Federal Fiscal Year 1998 through Federal Fiscal Year 2003, an average of \$36.315 billion per year. TEA-21 contains total guaranteed authorizations of \$200.5 billion, 40% more than ISTEA. TEA-21 provides average annual authorizations to the states for highway construction of approximately \$28.5 billion for Federal Fiscal Year 1998 through Federal Fiscal Year 2003.

In a major change to Federal budget rules, highway and transit programs are now guaranteed a minimum level of spending under TEA-21. Prior to enactment of TEA-21, funding for surface transportation projects was one item among many on a list of priorities for Federal program spending in the budget. Under the new budget rules, highway guaranteed amounts are keyed to the actual HTF Highway Account receipts and can only be used to support projects eligible under Federal Highway programs. Mass transit funding is guaranteed at a selected fixed amount over the TEA-21 period and can be used only to support projects eligible under transit programs. In addition, TEA-21 increases equity protections by assuring each state at least a 90.5% return on its collections for the HTF.

Of the total available for highway construction under TEA-21, \$23.8 billion is allocated to the Interstate Highway Maintenance Program, \$28.6 billion for National Highway System programs, \$20.4 billion for the Bridge Program, \$33.3 billion for the Surface Transportation Program, and \$35.1 billion for minimum guarantees.

Below is a chart detailing the estimated apportionments and money received for highway programs under TEA-21 to the State of Ohio:

### Federal Apportionments to State of Ohio (1)

<u>Federal Fiscal Year</u>	<u>Estimated Apportionment</u>
2000	\$892,000,000 <sup>(2)</sup>
2001	\$943,000,000
2002	\$960,000,000
2003	\$980,000,000

Source: Federal Highway Administration

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- (1) Pursuant to TEA-21 as Amended by the TEA-21 Restoration Act (after redistribution of minimum guarantee funds/exclusive of 2% for statewide planning and research).
- (2) Actual apportionment.

### Operations

The present Highway Program continues to reimburse a large percentage of state expenditures for approved projects. The financial assurance provided by the Highway Program is unusual, among federal programs, in that: (a) the Highway Program is based on dedicated revenues, from a user-tax source, deposited in a special trust fund (the HTF); (b) the budget and contract authority of the FHWA is established by a multi-year authorization act rather than annually through appropriation acts; and (c) contract authority is not at risk during the annual appropriations process (as budget authority is in most other federal programs).

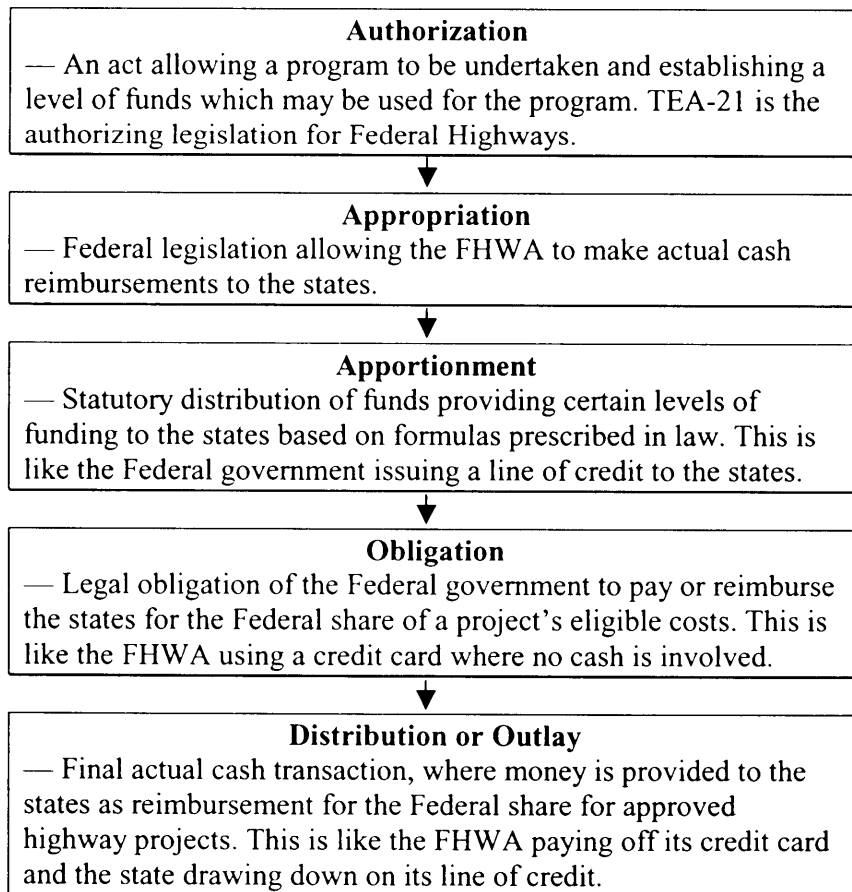
The process for reimbursing state expenditures may be summarized in three steps: authorization, obligation, and program implementation. The authorization step is the most critical step in establishing overall spending authority for federal highway funding. Authorizing legislation extends the life of the Highway Program and the collections that fund the HTF, sets program objectives, and provides formulas for determining the distribution or apportionment of available resources among the states. The existence of the dedicated revenues in the Highway Account of the HTF and the existence of multi-year contract authorizations are designed to help make available to the states a predictable, uninterrupted flow of reimbursements. The risk of contract authority lapsing between authorizing acts is minimal since sufficient unobligated balances generally exist that can be used by the states, with the approval of Congress, to cover gaps in coverage between multi-year reauthorization acts.

The second step, obligation, is the process through which states make use of, or “obligate”, the contract authority that has been apportioned or allocated to them in the authorization process. Congress typically limits the amount of obligation authority that states may use annually. To whatever extent that a state’s obligation authority is set below its authorization, the unobligated balance for that state is increased. These unobligated balances

provide available funds, from which the Congress may allow states to draw, when there is a lapse period between authorization acts. But under current law, the unobligated balances do not otherwise entitle the states to additional funds.

The third step, program implementation, leads to actual receipts of federal funds by states. Program implementation methods vary state-by-state. States are permitted to make use of advance construction and partial conversion of advance construction in order to obligate varying amounts of federal funds to an eligible project from Federal Fiscal Year to Federal Fiscal Year, depending on how much of the state's obligation authority is available from the Highway Program and is desired for such use by the state.

A summary of the funding process for Federal-aid highway projects is presented below:



### **Department Use of Title 23 Moneys**

In the Certificate and Agreement, the Department has covenanted and agreed that, in each year that any Series 2001-1 Bonds are outstanding, (i) it shall use the Title 23 Moneys received by it first for the payment of the current year's Bond Service Charges on the Series 2001-1 Bonds and Additional Bonds and for debt service on Parity Obligations prior to use of the



Title 23 Moneys for any other purpose, (ii) it shall reserve from Title 23 Moneys available in each Federal Fiscal Year an amount of money sufficient to enable it to pay all Bond Service Charges due on the Series 2001-1 Bonds and Additional Bonds and all debt service due on Parity Obligations in the immediately following Federal Fiscal Year, and (iii) it shall not permit any Additional Bonds or Parity Obligations to be issued if, upon such issuance, the total amount of Bond Service Charges payable with respect to the Series 2001-1 Bonds and any Additional Bonds in any Fiscal Year plus the total amount due as debt service on all Parity Obligations in that Fiscal Year would exceed (a) so long as the Series 1998-1 Bonds and Series 1999-1 Bonds have not been defeased, the lesser of (x) 25% of the lowest amount of Pledged Federal Highway Receipts received by the Department in any of the three immediately previous Fiscal Years, or (y) One Hundred Million Dollars (\$100,000,000); or (b) subsequent to the defeasance of the Series 1998-1 Bonds and Series 1999-1 Bonds, one-fifth of the average amount of Federal Highway Receipts received by the Department in the three immediately previous Fiscal Years. The Department has reserved from the Title 23 Moneys available to it in the Federal Fiscal Year ended September 30, 2001, sufficient moneys to enable it to pay the Bond Service Charges with respect to the Series 1998-1 Bonds, the Series 1999-1 Bonds and the Series 2001-1 Bonds due in December, 2001 and June, 2002.

In the event that Title 23 Moneys are ever unavailable prior to the defeasance of the Series 1998-1 Bonds and Series 1999-1 Bonds, for any reason, for payment of the Bond Service Charges with respect to the Series 2001-1 Bonds, then, in such event, the Department is required by the Certificate and Agreement to notify the Governor of such fact. In the event that six months prior to any Interest Payment Date the funds available to the Department are ever insufficient to pay the Bond Service Charges with respect to the Series 2001-1 Bonds due on such Interest Payment Date, then, in such event, the Department is required by the Certificate and Agreement to submit to the Governor and to the Director of Budget and Management a written request for one or both of the following:

(a) That the next biennial budget submitted by the Governor to the General Assembly include an amount to be appropriated from lawfully available moneys to the Department for the purpose of and sufficient for the payment in full of Bond Service Charges previously due and for the full replenishment of the reserves;

(b) That the General Assembly be requested to increase appropriations from lawfully available moneys for the Department in the current biennium sufficient for the purpose of and for the payment in full of Bond Service Charges previously due and to come due in the biennium and for the full replenishment of the reserves.

**The obligations of the Department to cause moneys to be deposited with the Treasurer for the payment of Bond Service Charges and to perform other obligations involving expenditures under the Certificate and Agreement are subject to and dependent upon biennial appropriations being made to the Department by the General Assembly for such purposes. If the General Assembly fails to appropriate moneys to enable the Department to perform its obligations involving expenditures under the Certificate and**

**Agreement, those obligations of the Department under the Certificate and Agreement will terminate. The General Assembly may not, under the provisions of the Ohio Constitution, make appropriations for a period longer than two years. While the Treasurer and the Department expect that the General Assembly will, for each State fiscal biennium, continue to appropriate amounts to the Department sufficient to meet its obligations involving expenditures under the Certificate and Agreement to the Treasurer, consistent with the State budget, the General Assembly is under no legal obligation to make such appropriations. The Series 2001-1 Bonds are special obligations of the State payable primarily from and secured solely by the Pledged Receipts under the Trust Agreement. The Series 2001-1 Bonds do not represent or constitute a debt of the Treasurer, the Department, the State, or of any political subdivision thereof, nor a pledge of the faith and credit of the State, or any political subdivision thereof. The Holders and Book-Entry Interest Owners of the Series 2001-1 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of Bond Service Charges on the Series 2001-1 Bonds, and those Holders and Book-Entry Interest Owners will have no right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges. The Projects are not pledged or mortgaged as security for the Series 2001-1 Bonds and the Trustee will not have the right to take possession of or operate the Projects upon a default under or termination of the Certificate and Agreement.**

## **OHIO DEPARTMENT OF TRANSPORTATION**

The Department was established on September 29, 1972 by the Ohio General Assembly through the expansion of the responsibilities of the former Ohio Department of Highways to include all modes of transportation. Over the past two decades, as its modal responsibilities have increased, the Department has added organizational units responsible for administering Federal and State programs relating to aviation, bicycle transportation, public transportation, rail transportation and water transportation. The Department is responsible for planning, designing, constructing, maintaining and rehabilitating the State's highway system, administering federal funds used by local jurisdictions in constructing and maintaining their local roads and bridges, and administering both Federal and State funds which provide grants for aviation, bridge, public transportation, railroad, and waterway facilities and programs throughout the State.

The Department is one of the largest agencies of State government, with approximately 6,000 employees. The Department consists of a central headquarters office, located in Columbus, Ohio and 12 District Offices located throughout the State. The Director is appointed by the Governor.

The Department is a highly decentralized organization, with most highway-related functions performed in 12 geographic districts. More than 84 percent of the Department's employees are located in 12 districts, 88 county and 123 outpost facilities throughout the State. The districts perform planning, design, construction, engineering, material testing, and maintenance functions for the Department. The 12 districts are each headed by a District Deputy Director, who reports to the Assistant Director of Transportation for Highways.

The Department's Central Office contains the offices, divisions and bureaus which provide technical and administrative support to the districts for both highway and modal programs. The organization of the Central Office consists of the highway program divisions, the modal program divisions, the administrative support division/offices and the Director's administrative support staff. The Central Office highway program divisions are headed by Division Deputy Directors who report to the Assistant Directors of Transportation. These divisions and their respective offices develop policies and procedures, provide technical support and monitor the Districts for compliance with established procedures. All construction contracts are advertised and awarded by the Central Office.

The State has the tenth largest highway network in the country, with over 116,000 miles of roadway, of which 19,250 miles are under the Department's jurisdiction. The Department is responsible for and/or is involved in a wide variety of programs and projects relating to aviation, bicycling, highways, public transportation, railroads and waterways. The Department has an annual budget that approaches \$2.3 billion. Major funding sources for the Department's highway program include state motor fuel taxes and fees and Title 23 Monies received from the United States Department of Transportation. See "SOURCES OF FUNDS FOR PAYMENT OF SERIES 2001-1 BONDS". Major funding sources for the Department's modal programs include State General Revenue Fund moneys and Title 23 Moneys. **The Series 2001-1 Bonds do not represent or constitute a debt of the Treasurer, the Department, the State, or of any political subdivision thereof, nor a pledge of the faith and credit of the State, or any political subdivision thereof. The Holders and Book-Entry Interest Owners of the Series 2001-1 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of Bond Service Charges on the Series 2001-1 Bonds, and those Holders and Book-Entry Interest Owners will have no right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges.**

### **State Infrastructure Bank**

In 1996, the Ohio State Infrastructure Bank ("SIB") was created and capitalized with a \$30 million authorization from the General Assembly and approximately \$60 million annually in Federal Title 23 Highway funds. Any highway or transit project eligible under Title 23, as well as aviation, rail and other intermodal transportation facilities, is eligible for direct loan funding under the SIB.

In 1997, the SIB was redefined to consist of the highway and transit bank fund, the aviation infrastructure bank fund, the rail infrastructure bank fund and the infrastructure obligations fund, each as funds in the state treasury administered by the Director of the Department. The infrastructure bank obligations funds consists of the proceeds of Bonds such as the Series 2001-1 Bonds, which are used to fund the costs of qualified projects. The other funds within the SIB provide assistance in the form of loans, loan guarantees, letters of credit, leases, lease-purchase agreements, interest rate subsidies, debt service reserves and such other forms as the Director determines to be appropriate to encourage public and private investment in transportation facilities that contribute to the multi-modal and intermodal transportation capabilities of the State. Repayments on such assistance are made to the Department, making the SIB a revolving loan program.

## **THE CERTIFICATE AND AGREEMENT**

### **General**

The Act provides that the Series 2001-1 Bonds shall be issued by the Treasurer upon the certification of the Director of the amount of moneys needed for State Infrastructure Projects. The Certificate and Agreement contains that certification and certain covenants and undertakings of the Director and the Treasurer as conditions for the issuance of the Series 2001-1 Bonds. Under the Ohio Constitution, the term of any obligations involving expenditures contained in any agreement between the Treasurer and the Director shall be for a period not exceeding the then current two-year period for which appropriations for payments to the Treasurer have been made by the General Assembly. Provision may be made for renewals at the end of each term for another term not exceeding two years.

The following summarizes certain provisions of the Certificate and Agreement, to which document reference is made for the detailed provisions thereof.

### **Term of the Certificate and Agreement**

The obligations involving expenditures under the Certificate and Agreement currently expire on June 30, 2003, the end of the current State fiscal biennium. The Director has the right to renew those obligations under the Certificate and Agreement for successive terms of two years each (each, a "Renewal Term"), commencing on the beginning of each State fiscal biennium (currently July 1 of each odd-numbered year), upon the same terms as are contained in the Certificate and Agreement, unless sooner terminated in accordance with the Certificate and Agreement and the Trust Agreement. The Director's right to renew the term of those obligations under the Certificate and Agreement shall be deemed exercised upon the effectiveness, at or prior to the expiration of the then current term of the Certificate and Agreement, of legislation enacted by the General Assembly appropriating funds to the Department at least equal to the Bond Service Charges and other sums payable under the Trust Agreement with respect to the State Infrastructure Projects, and certain other sums payable under the Certificate and Agreement during the next Renewal Term. See "THE CERTIFICATE AND AGREEMENT -- Payments and Pledges". The Certificate and Agreement shall terminate upon the payment in full of all Series 2001-1 Bonds outstanding under the Trust Agreement.

### **Payments and Pledges**

The Certificate and Agreement requires the Department to make deposits with the Treasurer sufficient to pay the Bond Service Charges on outstanding Series 2001-1 Bonds and certain administrative costs and any additional amounts required to fund any amounts to be paid to the United States of America. The payments (other than those to be deposited in the Administrative Expense Fund, the Rebate Fund and the Infrastructure Bank Obligations Fund and accounts or subaccounts limited to certain series of Bonds) are pledged by the Treasurer pursuant to the Trust Agreement for the payment of Bond Service Charges on the Bonds. All deposits are required to be credited to the State Infrastructure Bank Revenue Bond Service Fund,

the Administrative Expense Fund, the Infrastructure Bank Obligations Fund or the Rebate Fund. See “THE TRUST AGREEMENT -- Funds and Accounts”.

During each term of the obligations involving expenditures under the Certificate and Agreement, the Department has agreed to deposit with the Treasurer, without notice or demand, on or before each Interest Payment Date, an amount that includes (i) an amount equal to the Bond Service Charges on the Series 2001-1 Bonds payable on such Interest Payment Date; (ii) such sums, if any, as may be necessary to maintain any applicable required reserve in a bond service reserve account; and (iii) such sums, if any, as may be necessary to purchase the Series 2001-1 Bonds which the Treasurer is obligated to purchase. During each term of the obligations involving expenditures under the Certificate and Agreement, the Department has the option to make deposits in the nature of prepayments for the purchase, redemption or defeasance of the Series 2001-1 Bonds.

During each term of the obligations involving expenditures under the Certificate and Agreement, the Department has also agreed to deposit with the Treasurer, (i) when needed, an amount estimated by the Treasurer to be equal to the administrative fees, expenses and other obligations, other than Bond Service Charges, incurred in connection with the Certificate and Agreement, the Trust Agreement and related agreements and, (ii) when needed amounts to be paid to the United States of America which are not paid from other sources.

Except as set forth below under “THE CERTIFICATE AND AGREEMENT -- Legislative Appropriations”, the duty of the Department to make the deposits with the Treasurer during each two-year term of the obligations involving expenditures under the Certificate and Agreement is absolute and unconditional, and is payable without any rights of termination, set-off, recoupment, deduction, defense or counterclaim which the Department might have against the Treasurer, the Trustee or any other person, and without abatement, suspension, deferment, diminution or reduction for any reason or as the result of any occurrence whatsoever, including, without limitation, whether or not the Major New State Infrastructure Projects are ever acquired or constructed or are ever used by the Department, or are available for use by the Department, any actions of the Department, any acts or circumstances constituting eviction or constructive eviction, failure of consideration, failure of title or frustration of purpose, or any damage to or destruction of any of the Major New State Infrastructure Projects or any taking of the title to or the right of temporary use of all or any part of any of the Major New State Infrastructure Projects by condemnation or eminent domain.

### **Legislative Appropriations**

The agreement of the Department to make deposits with the Treasurer pursuant to the Certificate and Agreement, and to perform other obligations involving expenditures thereunder, at times and in the amounts provided for in the Certificate and Agreement, is effective and binding upon the Department only when and to the extent that funds have been appropriated by the General Assembly and are available for that purpose. Under the Ohio Constitution, an appropriation may not be made for more than a two-year period. In addition, the obligations involving expenditures under the Certificate and Agreement may be renewed only for two-year periods. Accordingly, the Department is obligated to make deposits under the

Certificate and Agreement only for two-year periods, to the extent funds have been appropriated and are available.

The Certificate and Agreement requires that projected deposits under the Certificate and Agreement be included in the estimated budget of the Department for the State budget estimates prepared by the Director of Budget and Management for inclusion in each State biennial budget submitted to the Governor. The Certificate and Agreement provides that, on or before the commencement of each State fiscal year, currently July 1 of each year, the Treasurer shall submit to the Department and to the Director of Budget and Management a schedule which shall set forth the estimated amounts and dates of the deposits due under the Certificate and Agreement during that fiscal year and on a timely basis shall supplement or correct such schedule to reflect any changes in such payments. The Department is required to encumber the appropriations made for deposits under the Certificate and Agreement during that fiscal year as set forth in the schedule. On a timely basis prior to the date required for each such deposit, the Department is required to submit an order in the nature of an invoice or voucher for each payment to cause issuance of a warrant payable to the Trustee and redeemable at the Office of the Treasurer in accordance with law, for all such deposits at the times therefore and for payment in accordance with the Trust Agreement. Such deposits are required to be credited to the appropriate fund or account in accordance with the Trust Agreement.

Under the terms of the Certificate and Agreement, a failure by the General Assembly to appropriate moneys sufficient to pay Bond Service Charges, amounts necessary for Administrative Expenses and other sums to be deposited with the Treasurer under the Certificate and Agreement for the next State fiscal biennium would result in the termination of the obligations involving expenditures under the Certificate and Agreement at the end of the two-year term then in effect. The obligations involving expenditures under the Certificate and Agreement will, however, be fully reinstated, as if they had never been terminated, provided the conditions set forth below under "THE CERTIFICATE AND AGREEMENT -- Reinstatement" are met.

**The General Assembly may not make appropriations for a period longer than two years. While the Treasurer expects that for each State fiscal biennium, the General Assembly will appropriate amounts to the Department sufficient to meet its obligation to make deposits with the Treasurer under the Certificate and Agreement consistent with the State budget, the General Assembly is not under a legal obligation to make appropriations in accordance with such State budgets for future State fiscal biennia. Holders and Book-Entry Interest Owners of the Series 2001-1 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of Bond Service Charges thereon, and moneys raised by taxation by the State shall not be obligated or pledged for the payment of such Bond Service Charges.**

#### **Further Covenants**

Certain other covenants of the Department contained in the Certificate and Agreement are as follows:

a. In each year that Series 2001-1 Bonds are outstanding, the Department will not expend and encumber Pledged Federal Highway Receipts for purposes other than payment of Bond Service Charges on the Series 2001-1 Bonds and Additional Bonds and payment of debt service on Parity Obligations in excess of the amount by which such Pledged Federal Highway Receipts available in that Federal Fiscal Year exceed the amount due and payable, directly or indirectly, for Bond Service Charges on the Series 2001-1 Bonds and Additional Bonds and for debt service on Parity Obligations in that year.

b. The Department will not permit any future Additional Bonds or Parity Obligations to be issued if, upon such issuance, the total amount of Bond Service Charges payable with respect to the Series 2001-1 Bonds and Additional Bonds in any Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that Fiscal Year would exceed (i) so long as the Series 1998-1 Bonds and Series 1999-1 Bonds have not been defeased, the lesser of (x) 25% of the lowest amount of Pledged Federal Highway receipts received by the Department in any of the three immediately previous Fiscal Years, or (y) One Hundred Million dollars (\$100,000,000); or (ii) subsequent to the defeasance of the Series 1998-1 Bonds and Series 1999-1 Bonds, one-fifth of the average amount of Federal Highway Receipts received by the Department in the three immediately previous Fiscal Years.

c. The Department will reserve Pledged Federal Highway Receipts during each Federal Fiscal Year sufficient for the payment of Bond Service Charges on the Series 2001-1 Bonds and Additional Bonds and for payment of debt service on Parity Obligations due in the next succeeding Federal Fiscal Years.

d. The Department will not enter into any agreement obligating or pledging moneys constituting Pledged Federal Highway Receipts to the payment, directly or indirectly, of debt service on other obligations, including Parity Obligations, without notice to the Treasurer.

e. The Department will include covenants substantially similar to the covenants set forth above in all agreements executed after the date of the Series 2001-1 Bonds which obligate or pledge moneys constituting Pledged Federal Highway Receipts to the payment, directly or indirectly, of debt service on other obligations.

### **Remedies**

The Major New State Infrastructure Projects are not pledged or mortgaged as security for the Series 2001-1 Bonds. Consequently, the Trustee does not have the remedies normally available to secured creditors and may have no practical remedy to insure that funds are available for the payment of Bond Service Charges on the Bonds in the event of termination of the Certificate and Agreement.

### **Termination**

If the Department fails to exercise its right to renew the term of the obligations involving expenditures under the Certificate and Agreement for any Renewal Term, the obligations involving expenditures under the Certificate and Agreement shall terminate at the end of the term then in effect. In the event of such a termination of the obligations involving

expenditures under the Certificate and Agreement, the Department's obligation to make payments to provide funds to pay Bond Service Charges on the Series 2001-1 Bonds would terminate. The Certificate and Agreement also terminates upon payment in full of all Series 2001-1 Bonds outstanding. Under the Act and the Trust Agreement, the Trustee may not take possession of, operate or sell the Major New State Infrastructure Projects in the event of a failure to make payments under the Certificate and Agreement or upon any termination of the obligations involving expenditures under the Certificate and Agreement.

### **Reinstatement**

Notwithstanding any termination of the obligations involving expenditures under the Certificate and Agreement, if (a) all payments of Bond Service Charges on the Bonds (other than as a result of acceleration) and all other payments due under the Trust Agreement have been made, (b) any acceleration of the Series 2001-1 Bonds has been duly rescinded and annulled, (c) all defaults under the Certificate and Agreement have been cured or waived, and (d) the General Assembly has appropriated any necessary funds to enable the Department to pay amounts to become due under the Certificate and Agreement for any Renewal Term of the obligations involving expenditures under the Certificate and Agreement to be reinstated, then without further action by the Trustee or the Treasurer, the obligations involving expenditures under the Certificate and Agreement shall be fully reinstated as if they had never been terminated.

## **THE TRUST AGREEMENT**

### **General**

The following, in addition to information contained above under the headings "DESCRIPTION OF THE SERIES 2001-1 BONDS" and "SECURITY FOR THE SERIES 2001-1 BONDS", summarizes certain provisions of the Trust Agreement to which reference is made for the detailed provisions thereof. The Bond Orders authorizing the Series 2001-1 Bonds are incorporated in their entirety in, and constitute part of, the Trust Agreement and all references herein to the Trust Agreement shall, unless specific section references are made, include the Bond Orders.

**So long as the Series 2001-1 Bonds are immobilized in a Book-Entry System with a Depository, that Depository or its nominee is for all purposes of the Trust Agreement considered by the Treasurer and the Trustee to be the Holder of the Series 2001-1 Bonds, and the Book-Entry Interest Owners of Series 2001-1 Bonds will not be considered Holders and have no rights as Holders under the Trust Agreement. See "BOOK-ENTRY FORM".**

### **Security**

The Trust Agreement provides for a pledge of the Pledged Receipts by the Treasurer to the Trustee for the benefit of the Holders of the Bonds. See "SECURITY FOR THE SERIES 2001-1 BONDS".



## **Funds and Accounts**

The Trust Agreement establishes the following funds and accounts to be used for specific purposes thereunder: the Debt Service Account in the State Infrastructure Bank Revenue Bond Service Fund created under Section 5531.10(R) of the Ohio Revised Code, the Administrative Expense Fund, the Infrastructure Bank Obligations Fund and the Rebate Fund (collectively referred to herein as the “Funds”). All Funds, other than the Infrastructure Bank Obligations Fund, which is a fund of the Treasurer, are funds and accounts held by the Trustee. The Administrative Expense Fund, the Infrastructure Bank Obligations Fund and the Rebate Fund are not pledged for the payment of Bond Service Charges.

**Debt Service Account.** The Debt Service Account has been established in the State Infrastructure Bank Revenue Bond Service Fund. There will be deposited in the Debt Service Account: (i) amounts from the proceeds of the sale of the Bonds representing accrued interest, if any, on the Bonds from their dated date to the date of delivery; (ii) all Pledged Federal Highway Receipts received by the Treasurer under the Certificate and Agreement (except the portion of such moneys to be credited to other Funds or accounts); (iii) any other available Pledged Receipts; (iv) excess Bond proceeds remaining in the Administrative Expense Fund; and (v) all other revenues or receipts derived by the Treasurer from the Major New State Infrastructure Projects unless previously pledged. The Debt Service Account, except moneys transferred to the Rebate Fund, any bond service reserve account or any bond redemption and purchase account will be used solely for the payment of Bond Service Charges on the Bonds as they become due.

**Administrative Expense Fund.** The Administrative Expense Fund will be used to pay the administrative fees and expenses and other fees, expenses and obligations incurred by the Treasurer and the Department including without limitation, regular and special fees and reasonable expenses of the Trustee, the bond registrar, paying agents, authenticating agents, Rating Agencies, tender agents, transfer agents, marketing agents, remarketing agents, indexing agents, administrative agents, depositories, financial advisors, accounting experts, attorneys, and other consultants and independent contractors, including printing services incurred in connection with the issuance, carrying, securing, paying, redeeming or retirement of Bonds, including costs and expenses relating to letters of credit, lines of credit, insurance, put agreements, stand-by purchase agreements, remarketing and administrative agreements, interest swap or hedging agreements and related costs, and any other credit enhancement, liquidity, remarketing, renewal or refunding arrangements.

Fees and expenses incurred by the Treasurer and payable from the Administrative Expense Fund will also be funded from deposits due under the Certificate and Agreement and paid into the Administrative Expense Fund. Any excess in the Administrative Expense Fund is required to be transferred to the Debt Service Account.

**Series 2001-1 Rebate Account.** Pursuant to the Trust Agreement, there has been created by the Treasurer and ordered to be maintained in the custody of the Trustee as a separate deposit account, a Rebate Fund, in which the Treasurer may establish separate rebate accounts for each series of the Bonds, including the Series 2001-1 Bonds. The Third Supplemental Trust Agreement establishes the Series 2001-1 Rebate Account for the Series 2001-1 Bonds in the

Rebate Fund to comply with the provisions of Section 148(f) of the Code. The amounts on deposit in the Rebate Fund are not pledged to the Holders of Bonds as security for the payment of Bond Service Charges on the Bonds, are not Pledged Receipts, and are not subject to the pledge created by the Trust Agreement.

At the times and in the manner required by the Code, (a) the Treasurer will retain a firm of independent certified public accountants or a firm of nationally recognized bond counsel to calculate the applicable rebate amount; (b) if necessary, the Treasurer will provide for any amount to be paid to the United States of America from payment pursuant to the Certificate and Agreement in accordance with the law; and (c) the Trustee will pay the applicable amount to the United States of America.

**Infrastructure Bank Revenue Bond Service Fund.** Any accrued interest received on the sale of the Series 2001-1 Bonds will be deposited and credited by the Trustee to the State Infrastructure Bank Revenue Bond Service Fund for credit to the Major New Project Debt Service Account.

**Infrastructure Bank Obligations Fund.** There will be deposited in the Infrastructure Bank Obligations Fund of the Treasurer (a) the proceeds of any Bonds, other than proceeds required to be deposited in other Funds and accounts and (b) any gift, grant, appropriation or donation delivered to the Trustee with specific instructions for deposit in the Infrastructure Bank Obligations Fund. Moneys in the Infrastructure Bank Obligations Fund shall be used for the payment or reimbursement of costs of Major New State Infrastructure Projects.

**Special Accounts and Subaccounts.** If and to the extent provided in any Series Bond Order, the Treasurer may, pursuant to that Series Bond Order, create accounts and subaccounts in the State Infrastructure Bank Revenue Bond Service Fund, Administrative Expense Fund, Infrastructure Bank Obligations Fund or the Rebate Fund including without limitation such accounts and subaccounts with reference to the Additional Bonds as authorized by the applicable Series Bond Order, and make special provisions, among others, for any proceeds of those Additional Bonds allocated by the Series Bond Order to capitalized interest or to fund a bond service reserve account for such Additional Bonds, and for any Pledged Receipts (other than payments of the Department under the Certificate and Agreement, and income from the investment of funds and any other Pledged Receipts pledged to all Bonds) pledged exclusively to those Additional Bonds by the applicable Supplemental Trust Agreement, to be credited to such special accounts or subaccounts, and for the holding, investing and disposition of any moneys credited to those accounts or subaccounts in accordance with that Series Bond Order and for the primary or exclusive benefit of the Additional Bonds authorized by or referred to in that Series Bond Order. If moneys credited to such accounts or subaccounts and income from the investment of those moneys are so restricted, then the amounts credited to such accounts or subaccounts and to be derived from those investments, to the extent so restricted, shall not be deemed to be available for Bond Service Charges on other Bonds in determining the sufficiency of the Debt Service Account or any bond service reserve account applicable to the other Bonds under the provisions of the General Bond Order and the applicable Series Bond Order.

### **Investment of Certain Funds**

Moneys in the Debt Service Account, the Series 2001-1 Bond Service Revenue Account, the Administrative Expense Fund and the Rebate Fund may be invested and reinvested by the Trustee in accordance with instructions of the Treasurer, in any Eligible Investments. Investments of moneys credited to the Debt Service Account, the Series 2001-1 Bond Service Revenue Account, the Administrative Expense Fund, the Infrastructure Bank Obligations Fund and the Rebate Fund will mature or be redeemable at the option of the holder thereof at the times and in the amounts necessary to provide moneys when needed for payments to be made from those Funds, in particular, moneys held in the Debt Service Account will be available to pay Bond Service Charges as they become due. An investment of moneys in any fund, account or subaccount will be deemed at all times a part of that fund, account or subaccount and any profit will be credited and any loss will be charged to that fund, account or subaccount. Investments will be valued at the lesser of face or market value on a quarterly basis, or more frequently as determined by the Treasurer, to evaluate the adequacy of amounts in the Debt Service Account and the Series 2001-1 Bond Service Revenue Account and excess amounts in any other Funds or accounts.

### **Additional Bonds**

One or more series of Additional Bonds are issuable under the Trust Agreement for the purpose of paying additional costs of the Major New State Infrastructure Projects for the use of the Department as authorized by the General Assembly (in an amount, for all such Major New State Infrastructure Projects, not in excess of the project costs as authorized by the General Assembly) and for the purpose of refunding certain obligations issued under the Act. The Series 1998-1 Bonds and the Series 1999-1 Bonds are the only Additional Bonds that have been issued as of the date of this Official Statement. Additional Bonds are on a parity with the Series 2001-1 Bonds outstanding under the Trust Agreement, except as to bond service reserve accounts or Credit Support Instruments, if any, applicable only to certain series of such outstanding Bonds.

The Department has agreed in the Certificate and Agreement that it will not permit any future Additional Bonds or Parity Obligations to be issued if, upon such issuance, the total amount of Bond Service Charges payable with respect to the Series 2001-1 Bonds and Additional Bonds in any Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that Fiscal Year would exceed (i) so long as the Series 1998-1 Bonds and Series 1999-1 Bonds have not been defeased, the lesser of (x) 25% of the lowest amount of Pledged Federal Highway Receipts received by the department in any of the three immediately previous Fiscal Years, or (y) One Hundred Million Dollars (\$100,000,000); or (ii) subsequent to the defeasance of the Series 1998-1 Bonds and Series 1999-1 Bonds, one-fifth of the average amount of Federal Highway Receipts received by the Department in the three immediately previous Fiscal Years.

The issuance of future Additional Bonds under the Trust Agreement is also subject to the following conditions, among others: (i) the State, the Treasurer and State agencies are not in default of any applicable covenants or obligations contained in the Trust Agreement or in the Bonds and the authentication and delivery of the Additional Bonds will not result in any such default; (ii) the principal amount of the Additional Bonds, of the other Bonds then issued or

outstanding (other than such Bonds then being funded or refunded) and of Parity Obligations outstanding, will not exceed in the aggregate the principal amount of Bonds and Parity Obligations which may be issued or outstanding under then existing authorizations of the General Assembly, the provisions of the Act and the Certificate and Agreement; (iii) upon the issuance and delivery of the Additional Bonds, the amount in any bond service reserve account shall not be less than the applicable required reserve; (iv) any necessary Certificate and Agreement will have been executed and delivered providing for deposits with the Treasurer sufficient to pay Bond Service Charges and other expenses with respect to such Additional Bonds and appropriations will have been made by the General Assembly during the then current fiscal biennium in an amount estimated to be sufficient to pay the Bond Service Charges and other costs related to such Additional Bonds during such biennium; (v) the certificate of the Director of Budget and Management confirming that amounts sufficient to pay currently estimated deposits under the Certificate and Agreement and debt service on Parity Obligations have been appropriated and that amounts in subsequent biennia have been requested, when appropriate; and (vi) the Trustee has received (a) a copy, certified by the Treasurer or an authorized officer of the Treasurer, of the Series Bond Order authorizing the issuance and delivery of the Additional Bonds to be authenticated and delivered, adopted in conformity with the General Bond Order to be set forth in that Series Bond Order; (b) an original executed counterpart of the Supplemental Trust Agreement entered into in connection with the issuance of those Additional Bonds; (c) an original executed counterpart of any Certificate and Agreement entered into in connection with the issuance of those Additional Bonds; (d) a request and authorization to the Trustee on behalf of the State, signed by the Treasurer or an authorized officer of the Treasurer, to authenticate and deliver the Additional Bonds to, or on the order of, the purchaser thereof who is therein identified, upon payment of the sum specified in that request and authorization; (e) the certificate of the Treasurer or an authorized officer of the Treasurer as to items (i), (ii), (iii), (iv) and (v) above; and (f) the written opinion of legal counsel retained or designated by the Treasurer, or other legal counsel satisfactory to the Trustee, to the effect that documents submitted to the Trustee in connection with the application then being made comply with the requirements of the Trust Agreement, and that in that counsel's opinion all conditions precedent to the issuance of those Additional Bonds as provided in the Trust Agreement have been complied with, and a written opinion of bond counsel retained or designated by the Treasurer who may also be the legal counsel referred to above, that the Additional Bonds the authentication of which is applied for, when duly executed, authenticated and delivered by or on behalf of the Trustee, will be valid and legal special obligations of the State, issued by the Treasurer, in accordance with their terms and will be secured by the Trust Agreement with all Bonds then outstanding.

### **Parity Obligations**

The Trust Agreement contemplates the issuance of Parity Obligations. "Parity Obligations" means any obligation (other than the Series 2001-1 Bonds and Additional Bonds) of any person which, by its terms, is payable from or secured by Pledged Federal Highway Receipts and which obligation is not expressly subordinated to the Series 2001-1 Bonds, including without limitation any such obligation issued or to be issued by the Butler County TID. The Butler County TID Bonds are the only Parity Obligations that have been issued as of the date of this Official Statement.

The Department has agreed in the Certificate and Agreement that it shall not permit any future Additional Bonds or Parity Obligations to be issued if, upon such issuance, the total amount of Bond Service Charges payable with respect to the Series 2001-1 Bonds, and Additional Bonds in any Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that Fiscal Year would exceed (i) so long as the Series 1998-1 Bonds and Series 1999-1 Bonds have not been defeased, the lesser of (x) 25% of the lowest amount of Pledged Federal Highway Receipts received by the Department in any of the three immediately previous Fiscal Years, or (y) One Hundred Million Dollars (\$100,000,000); or (ii) subsequent to the defeasance of the Series 1998-1 Bonds and Series 1999-1 Bonds, one-fifth of the average amount of Federal Highway Receipts received by the Department in the three immediately previous Fiscal Years. See "THE CERTIFICATE AND AGREEMENT--Further Covenants" and "SOURCES OF FUNDS FOR PAYMENT OF SERIES 2001-1 BONDS".

### **Further Covenants**

Certain other covenants of the Treasurer contained in the Trust Agreement are as follows:

**Maintenance of Certificate and Agreement.** The Treasurer covenants in the Trust Agreement to take all necessary and lawful actions to comply with the Treasurer's agreements, obligations, duties and responsibilities under any applicable Certificate and Agreement or any agreement, the revenues or receipts from which constitute Pledged Receipts, and to take all actions within its authority to maintain any applicable Certificate and Agreement and those agreements in effect and to enforce the rights of the Treasurer thereunder in accordance with the terms thereof, including actions at law and in equity, as may be appropriate.

The Treasurer will provide in the Certificate and Agreement for deposits thereunder in sufficient and appropriate amounts to pay when due (i) all Bond Service Charges on the Bonds from the Debt Service Account, (ii) all administrative expenses from the Administrative Expense Fund, (iii) all amounts necessary to maintain a required reserve, if any, in any applicable bond service reserve account, and (iv) all amounts to be paid to the United States of America which are not otherwise available in one of the Funds or accounts created pursuant to or described in the Trust Agreement. The Treasurer covenants not to amend, modify, alter, change or waive any term or provision of any applicable Certificate and Agreement if such action would have the effect of (a) reducing the amounts to be deposited thereunder to amounts less than described in the preceding sentence or changing the times and manner of deposit thereof so that such amounts would not be available when needed for payments to be made from the funds and accounts established by the Trust Agreement, (b) surrendering or limiting any remedies of the Treasurer under the Trust Agreement, or (c) being adverse to the interest of the Holders.

**Creation of Liens.** The Treasurer covenants in the Trust Agreement not to make any pledge or assignment of or create or suffer any lien or encumbrance upon the Pledged Receipts, prior to the pledge thereof under the Trust Agreement. The Treasurer also covenants in the Trust Agreement not to make any pledge or assignment of or create or suffer any lien or encumbrance upon the Pledged Receipts on a parity with the pledge thereof under the Trust

Agreement, except Parity Obligations and as otherwise authorized or permitted under the Trust Agreement, and, in the case of the bond service reserve account, under the applicable Series Bond Order. The Major New State Infrastructure Projects may not be pledged by the Treasurer.

**Enforcement by Mandamus.** The Treasurer has acknowledged that each provision of the Trust Agreement, the Bonds, any applicable Certificate and Agreement, and all other agreements included in the proceedings relating to the Bonds, is binding upon the Treasurer, the Department and any other State agency or other person or body as may from time to time have authority under law to take such actions as may be necessary to perform all or any part of the duty required by such provision and each duty of the Treasurer, the Department or other State agency and their respective officers, members and employees undertaken or required pursuant thereto is established as a duty of the Treasurer and of each such member, officer, and employee having authority to perform such duty specifically enjoined by law resulting from an office, trust or station within the meaning of Section 2731.01 of the Ohio Revised Code providing for enforcement by writ of mandamus.

**Certain Reports.** The Treasurer will annually submit to the Director of Budget and Management a written report confirmed in part by the Trustee setting forth the estimated amount to become due under the Certificate and Agreement during the current fiscal year and the ensuing two fiscal years. Upon any determination by the Treasurer that a different amount than last reported will be required, the Treasurer will submit a revised written report superseding the next prior report.

On or before the forty-fifth day preceding each Interest Payment Date, the Trustee will submit to the Treasurer, the Director of Budget and Management and the Department a written certificate setting forth (i) the net interest earned and credited to the Debt Service Account and not reflected on any previous similar certificate and any net interest to be earned and credited to the Debt Service Account prior to the next Interest Payment Date and not reflected in any prior certificate; (ii) any moneys credited to the Debt Service Account from any bond service reserve account as a result of excess funds being in such bond service reserve account and not reflected on any prior certificate and any funds to be so credited to the Debt Service Account prior to the next Interest Payment Date; (iii) any moneys credited to the Debt Service Account from the Rebate Fund and not reflected on any previous certificate and any funds to be so credited to the Debt Service Account prior to the next Interest Payment Date; (iv) any moneys remaining in the Administrative Expense Fund on the date of such certificate which moneys are to be credited immediately to the Debt Service Account; and (v) any moneys remaining in the Infrastructure Bank Obligations Fund which are to be credited to the Debt Service Fund. Such amounts shown on such certificate shall be a credit against the next deposit due under the Certificate and Agreement.

## **Events of Default and Remedies**

**Events of Default.** The following events constitute Events of Default under the Trust Agreement:

(i) Default by the Treasurer in the payment of any interest on any Bond when due and payable;

(ii) Default by the Treasurer in the payment of the principal of or any redemption premium on any Bond when due and payable, whether at stated maturity or by mandatory redemption; or

(iii) Any other default by the Treasurer to perform or observe any other covenants, agreements or conditions on its part contained in the Trust Agreement or the Bonds and continuance of such default for 60 days after written notice thereof, from the Trustee or the Holders of not less than 25% in aggregate principal amount of the affected Bonds then outstanding.

If an Event of Default occurs, the Trustee will give notice to the Treasurer within five days of receipt of actual knowledge thereof and to the applicable underwriters and to all Holders, paying agents, bond registrars, authenticating agents and other agents within 90 days after having such knowledge, unless the Event of Default is cured or, in the case of an Event of Default under clause (iii) above, the Trustee determines that withholding notice is in the best interest of the Holders.

**Remedies.** If any Event of Default described in clauses (i) or (ii) above occurs and is not remedied, the Trustee shall proceed to protect and enforce its rights and the rights of the Holders of the Bonds, which includes the right to declare the principal of all Bonds and interest accrued thereon to be immediately due and payable. At any time after that declaration, and prior to the entry of judgment in the court for enforcement of the appointment of a receiver under the Trust Agreement, such declaration of acceleration is subject to rescission and annulment by the Trustee if all sums payable under the Trust Agreement (except the principal and interest on Bonds which have not matured by their terms and which are due and payable solely by reason of that declaration of acceleration), plus interest (to the extent permitted by law) on any overdue installments of interest have been paid or provided for, and all existing Events of Default shall have been cured.

If the Event of Default occurs under the Trust Agreement and is not remedied, the Trustee may, as an alternative or in addition to acceleration of the Bonds, enforce the rights of the Holders of the Bonds by mandamus or other suit, action or proceeding at law or in equity, bring suit upon the Bonds, enjoin unlawful activities or activities in violation of the rights of Holders under the Trust Agreement, or in the case of an Event of Default described in clause (i) and (ii) above apply to a court to appoint a receiver of the Pledged Receipts. If an Event of Default described in clause (iii) above occurs, the Trustee may and upon the written request of the Holders of not less than 25% in aggregate principal amount of the affected Bonds then outstanding shall, subject to certain conditions including indemnification, proceed in its own name to protect and enforce its rights and the rights of the Holders under the Trust Agreement by such remedies provided in the Trust Agreement as the Trustee, being advised by counsel, shall consider most effective to protect and enforce those rights.

The Trustee is not required to take notice or be deemed to have notice or knowledge of any default under the Trust Agreement, except Events of Default described in clauses (i) and (ii) above, unless the Trustee is specifically notified in writing of such default by the Treasurer or by the Holders of at least 10% of the aggregate principal amount of Bonds then outstanding, and in the absence of such notice so delivered, the Trustee may conclusively assume there is no Event of Default except as described above.

As discussed above, the Trust Agreement provides for the appointment of a receiver to recover and administer the Pledged Receipts upon the occurrence of certain Events of Default, but the right to a receiver under Ohio law is discretionary with the court as equitable principles may dictate. The appointment of a receiver may not, accordingly, be available as a remedy for the Trustee or the Holders of the Bonds. Moreover, the Act withholds from any receiver the power to pledge additional revenues or income of the Treasurer to the payment of the Bond Service Charges and excludes the power to take possession of, mortgage, or cause the sale or other disposition of any State Infrastructure Project.

All moneys held or received by the Treasurer, the Trustee or the receiver after an Event of Default occurs, after the payment of the costs and expenses incurred in the collection thereof and the fees, expenses, liabilities and advances of the Trustee or the receiver, shall be applied as follows: (i) unless the principal of all the Bonds has become or been declared due and payable, (a) first, to the payment of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available is not sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege except as to any difference in the respective rates of interest specified on the Bonds; and (b) next, to the payment of unpaid principal of any of the Bonds which have become due (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Trust Agreement) whether at stated maturity, by redemption or pursuant to any mandatory sinking fund requirements, in the order of their due dates, with interest, and if the amount is insufficient to pay in full all Bonds, then to the payment ratably according to the amount of principal due on that date to the persons entitled thereto without discrimination or privilege; or (ii) if the principal of all the Bonds has become or been declared due and payable, to the payment of principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest to the persons entitled thereto without discrimination or privilege except as to any difference in the respective rates of interest specified in the Bonds; or (iii) if the principal of all Bonds has been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled as provided in the Trust Agreement then, subject to clause (ii) of this paragraph in the event that the principal of all such Bonds shall later become due and payable, the moneys shall be deposited in the Debt Service Account and applied in accordance with the provisions of the Bond Orders. Whenever moneys are to be applied as described above, those moneys are to be applied at the times the Trustee determines, having due regard to the amount of those moneys available for application and the likelihood of additional moneys becoming available for application in the future.



Whenever the Trustee directs the application of those moneys, it is required to fix the date (which shall be an Interest Payment Date with respect to the Bonds unless the Trustee will deem another date more suitable) upon which the application is to be made and upon that date interest on the amounts of principal to be paid on that date, and for which moneys are available, will cease to accrue. The Trustee is required to give notice as it deems appropriate of the deposit of any such moneys and of the fixing of any such date, all consistent with the requirements of the Bond Orders for the establishment of, and for giving notice of, a special record date for the payment of overdue interest. The Trustee is not required to direct payment of principal or premium to the Holders of any Bond until that Bond is presented to the Trustee for appropriate notation of partial payment or for cancellation if fully paid.

No Holder of any Bond has any right to institute any suit, action or proceeding for the enforcement of any provision of the Trust Agreement or for the execution of any trust thereof or for the appointment of a receiver or any other remedy thereunder unless (i) an Event of Default under the Trust Agreement has occurred and is continuing; (ii) that Holder has previously given to the Trustee written notice of the Event of Default; (iii) the Holders of at least 25% in aggregate principal amount of the Bonds then outstanding have filed a written request with the Trustee and have afforded the Trustee reasonable opportunity either to proceed to exercise its powers or to institute such action, suit or proceeding in its own name; (iv) such Holders have offered the Trustee adequate indemnity as provided in the Trust Agreement; and (v) the Trustee has failed or refused to comply with such request after receipt by it of such notice, request and offer of indemnity. No one or more Holder of any Bonds have any right in any manner whatsoever to affect, disturb or prejudice the pledge created by the Trust Agreement or to enforce any right thereunder except in the manner therein provided, and all actions, suits and proceedings shall be instituted and maintained in the manner therein provided and for equal benefit of the Holders of all outstanding Bonds.

### **Waiver of Events of Default**

Except as may otherwise be provided in any Supplemental Trust Agreement, at any time the Trustee may, in its discretion, waive any Event of Default under the Trust Agreement and its consequences and rescind any declaration of maturity of principal, and the Trustee must waive any Event of Default or rescind any declaration of maturity of principal upon the written request of the Holders of at least a majority in aggregate principal amount of all the outstanding Bonds. The Trustee will not, however, waive or rescind any Event of Default resulting from a failure to pay Bond Service Charges on the Bonds when due or rescind any declaration of maturity in connection therewith unless at the time of the waiver or rescission payment of all overdue installments of interest and principal, not including principal and interest due solely by virtue of acceleration, have been made or provided for.

### **Supplemental Trust Agreements**

Without the consent of or notice to the Holders of the Bonds, the Treasurer and the Trustee may enter into Supplemental Trust Agreements for any one or more of the following purposes: (i) to cure any ambiguity, inconsistency or formal defect or omission in the Trust Agreement; (ii) to grant or to confer upon the Trustee for the benefit of the Holders additional

rights, remedies, powers or authority that lawfully may be granted to or conferred upon the Holders or the Trustee; (iii) to subject additional revenues or receipts to the pledge of the Trust Agreement; (iv) to add to the covenants and agreements of the State, state agencies or the Treasurer contained in the Trust Agreement other covenants and agreements to be observed for the protection of the Holders or to surrender or limit any right or power of the Treasurer reserved to or conferred upon the State, state agencies or the Treasurer in the Trust Agreement; (v) to evidence any succession to the Treasurer or to any state agency and the assumption by that successor of the covenants and agreements of the Treasurer or the state agency, respectively, in the Trust Agreement and the Bonds; (vi) in connection with the issuance of Additional Bonds in accordance with the Trust Agreement; (vii) to permit the exchange of Bonds at the option of the Holder for coupon Bonds in accordance with the Trust Agreement if, in the opinion of nationally recognized counsel selected by the Treasurer, that exchange would not result in the interest on any of the Bonds outstanding becoming subject to federal income taxation; (viii) to permit the use of Book-Entry Form to identify the owner of an interest in a Bond; (ix) to permit the Trustee to comply with any obligations imposed by law; (x) to specify further the duties and responsibilities of, and to define further the relationship among, the Trustee, and any bond registrar, authenticating agent, paying agent or other agent for the Bonds; (xi) to achieve compliance with any applicable federal securities or tax law; (xii) to permit the appropriate calculation, if any, of any amount due to the United States of America or in lieu or rebate as permitted under the Trust Agreement; (xiii) to permit or provide for Interest Rate Hedges, as defined in Section 9.98(L) of the Ohio Revised Code, as authorized by Section 9.982(B)(3) of the Ohio Revised Code, with respect to obligations issued under the Trust Agreement, provided, however, that prior to any such interest rate hedge becoming effective: (a) any necessary Certificate and Agreement will have been executed and delivered providing for money under the Certificate and Agreement estimated to be sufficient to pay the cost and expenses of providing such Interest Rate Hedge and any other fees, costs and expenses in connection therewith, and the amounts to be paid pursuant to the Certificate will have been appropriated in an amount estimated to be sufficient for the remainder of the then current State fiscal biennium, and (b) the Director of Budget and Management will have included, in any then existing budget request for the Department for the next succeeding fiscal biennium, amounts sufficient to pay all amounts estimated to be due under the Certificate and Agreement during such biennium; and (xiv) to permit any other amendment not prejudicial to the Trustee or the Holders of the Bonds.

In addition, with the consent of the Holders of not less than a majority in aggregate principal amount of the affected Bonds then outstanding prior to the defeasance of the Series 1998-1 Bonds and the Series 1999-1 Bonds, and a majority of the aggregate principal amount of the Bonds then outstanding subsequent to such defeasance, (exclusive of Bonds then held or owned by the Treasurer), the Trustee and the Treasurer may enter into other Supplemental Trust Agreements for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions thereof, provided that no Supplemental Trust Agreement may be entered into which provides for (i) an extension of the maturity of the principal of or the interest on any Bond or a reduction in the principal amount of any Bond or the rate of interest or redemption premium on any Bond or reduction in the amount or extension of the time of any payment required by any mandatory sinking fund requirements relating to the Bonds, without the consent of the Holder of each Bond so affected, or (ii) a reduction in the

aggregate principal amount of the Bonds required for consent to such Supplemental Trust Agreement without the consent of the Holders of the Bonds then outstanding.

Where the consent of the Holders of the Bonds is required procedures are established in the Trust Agreement for notice to the Holders and for the execution and filing of the requisite consents. Any consent is binding upon the Holders of the Bonds giving such consent and upon any subsequent Holders of the Bonds unless such consent is revoked in writing prior to the execution by the Trustee of the Supplemental Trust Agreement. If the Holders of the required percentage in aggregate principal amount of the Bonds then outstanding have consented to the execution of a Supplemental Trust Agreement as provided in the Trust Agreement, no Holder of any Bond has any right to object to the execution of the Supplemental Trust Agreement or to the terms and provisions contained therein or the operations thereof, to question the propriety of the execution thereof or to enjoin or restrain the Treasurer or the Trustee from executing or taking action pursuant to the same.

### **Defeasance**

When all the outstanding Bonds and all other sums payable under the Trust Agreement have been paid and discharged (or provisions therefor have been made within the meaning of the Trust Agreement), then the Trust Agreement will be null and void and the obligations, covenants and agreements of the Treasurer and the pledge created by the Trust Agreement will be fully discharged and satisfied. Any Bonds will be deemed to have been so paid and discharged if the Trustee holds sufficient moneys or direct obligations of the United States of America which bear such interest as will, without further investment, when added with any moneys also deposited, be sufficient in the aggregate to pay at maturity or upon redemption, the Bond Service Charges on the Bonds; provided that, with respect to the Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been duly given or provisions satisfactory to the Trustee have been made for the giving of such notice.

### **Non-presentment of Bonds**

In the event any Bond is not presented for payment when the principal thereof is due or a check or draft for interest is uncashed, and if moneys sufficient to pay the principal or that check or draft have been made available by the Trustee for the benefit of the Holder or payee thereof, all liability of the State or the Treasurer to the Holder or payee for payment thereof will cease and be completely discharged, and it will be the duty of the Trustee to hold such moneys in trust, without liability for interest thereon, for the benefit of the Holder of the Bond or the payee of that check or draft, who thereafter will be restricted exclusively to such moneys for any claim of whatever nature on its part under the Trust Agreement or on or with respect to said Bond or that check or draft. Moneys so held by the Trustee and which remain unclaimed for three years after the due date of the payment will be paid to the Treasurer and thereafter the Holder of that Bond or the payee of that check or draft may look only to the Treasurer for payment and then only in the amounts so received by the Treasurer without any interest thereon, and the Trustee will have no further responsibility with respect to such moneys.

### **Payments Due On Saturdays, Sundays and Holidays**

If any Interest Payment Date, date of maturity of the principal of any Bonds or date fixed for redemption of any Bonds is a Saturday, Sunday or a day on which: (i) the Trustee is required, or authorized or not prohibited, by law (including without limitation executive orders) to close and is closed, then payment of Bond Service Charges need not be made by the Trustee or any paying agent for the Bonds on the applicable date, and the applicable payment may be made on the next succeeding Business Day on which the Trustee and the paying agent are open for business with the same force and effect as if the applicable payment were made on the applicable date, and no interest shall accrue for the period after that date, or (ii) a paying agent for the Bonds is required, or authorized or not prohibited by law (including without limitation executive orders) to close and is closed, then the applicable payment need not be made by that paying agent on the applicable date, and the applicable payment may be made on the next succeeding Business Day on which that paying agent is open for business with the same force and effect as if the applicable payment were made on the applicable date, and no interest shall accrue for the period after that date. If, however, the Trustee is open for business on the applicable date, it shall make any applicable payment required under the Trust Agreement with respect to interest on outstanding Bonds and principal of and premium on Bonds presented to it for payment, regardless of whether any other paying agent for the Bonds shall be open for business or closed on the applicable date.

### **Amendment of General Bond Order and Trust Agreement**

In addition to authorizing the issuance of the Series 2001-1 Bonds, the Third Supplemental Trust Agreement amends certain provisions of the General Bond Order and the Original Trust Agreement, effective as to all Bonds outstanding upon the payment or deemed payment (defeasance) of all of the Series 1998-1 Bonds and Series 1999-1 Bonds. The General Bond Order was amended to permit the Treasurer to amend the Trust Agreement and the Certificate and Agreement in ways that do not materially adversely affect the bondholders and to permit the Treasurer to issue obligations which are subordinate to the Bonds. Additionally, the Treasurer has entered into a Certificate and Agreement in connection with the issuance of the Series 2001-1 Bonds which will permit, after defeasance of the Series 1998-1 Bonds and the Series 1999-1 Bonds, the Treasurer to issue Additional Bonds if the total amount of Bond Service Charges payable with respect to the Series 2001-1 Bonds and Additional Bonds in any Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that Fiscal Year would not exceed one-fifth of the average Federal Highway Receipts received by the Department in the three immediately previous Fiscal Years. The Certificate and Agreement also eliminates, after defeasance of the Series 1998-1 Bonds and the Series 1999-1 Bonds, the requirement that the Department submit a written request that the Governor and the Director of OBM seek additional appropriations from the General Assembly if Title 23 Moneys are unavailable for payment of the Bond Service Charges with respect to the Series 2001-Bonds.

### **Trustee**

The Trustee is National City Bank, a national bank authorized to exercise corporate trust powers in the State. The Trustee has undertaken to perform such duties as are specifically set forth in the Trust Agreement. The Trustee will exercise such of the rights and

powers vested in it by the Trust Agreement and use the same degree of care and skill in its exercise as an ordinarily prudent corporate trustee under a trust agreement securing securities of a public agency, and is not obligated to take any action until it has received a satisfactory indemnity bond for its expenses and to protect it against any liability other than liability resulting from its negligence or willful default. The permissive rights of the Trustee to do things under the Trust Agreement will not be construed as a duty and the Trustee will not be answerable for acts or events other than its negligence or willful default.

## **LITIGATION**

There is no litigation pending contesting the validity of the 2001-1 Bonds or the proceedings for their authorization, issuance, sale, execution and delivery. A no-litigation certificate to that effect will be delivered to the original purchaser at the time of original delivery of the 2001-1 Bonds.

The State is a party to various legal proceedings, seeking damages or injunctive relief and generally incidental to its operations, but unrelated to the security for the 2001-1 Bonds. The ultimate disposition of these proceedings is not presently determinable, but in the opinion of the Ohio Attorney General will not have a material adverse effect on the 2001-1 Bonds or the security for those Bonds.

The State is party to the pending school funding litigation discussed in **Appendix A under Schools and Municipalities**.

## **RATINGS**

Moody's Investors Service, Inc. has assigned a rating of "Aa3" to the Series 2001-1 Bonds, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. has assigned a rating of "AA" to the Series 2001-1 Bonds and Fitch has assigned a rating of "AA-" to the Series 2001-1 Bonds. Such ratings reflect only the respective views of such rating agencies. Any explanation of the significance of the ratings may only be obtained from the respective rating agency. The State furnished each rating agency with certain information and materials, some of which may not have been included in this Official Statement, relating to the Series 2001-1 Bonds, the State and the Department. Generally, rating agencies base their ratings on such information and other investigations, studies and assumptions they deem appropriate. There can be no assurance that the ratings will continue for any period of time or that they will not be revised or withdrawn entirely by the respective rating agency, if in its judgment circumstances so warrant. Any revision or withdrawal of a rating may have an effect on the marketability and market price of the Series 2001-1 Bonds.

## **ELIGIBILITY UNDER OHIO LAW FOR INVESTMENT AND AS SECURITY FOR THE DEPOSIT OF PUBLIC MONEY**

To the extent that a particular investor is governed by Ohio law with respect to its investments, and subject to any applicable limitations under other provisions of Ohio law, under the Act, the Series 2001-1 Bonds are lawful investments for banks, societies for savings, savings and loan associations, deposit guarantee associations, trust companies, trustees, fiduciaries,

insurance companies (including domestic for life and domestic not for life), trustees or other officers having charge of sinking and bond retirement or other special funds of political subdivisions and taxing districts of the State of Ohio, the commissioners of the sinking fund of the State of Ohio, the administrator of workers' compensation (in accordance with the investment policy established by the workers' compensation oversight commission pursuant to section 4121.12 of the Ohio Revised Code), the state teachers retirement system, the public employees retirement system, the school employees retirement system, and the Ohio police and fire pension fund, notwithstanding any other provisions of the Ohio Revised Code or rules adopted pursuant to the Ohio Revised Code by any agency of the State with respect to investments by them.

The Act provides that the Series 2001-1 Bonds are acceptable under Ohio law as security for the deposit of public moneys.

Each Book-Entry Interest Owner of the Series 2001-1 Bonds should make its own determination as to such matters of legality of investment in, or pledge of book-entry interests in, the Series 2001-1 Bonds.

#### **TAX EXEMPTION**

In the opinion of Porter, Wright, Morris & Arthur LLP, Bond Counsel, under existing law and assuming compliance with certain covenants, interest on the Series 2001-1 Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code, and is not treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. The Series 2001-1 Bonds are exempt from the Ohio personal income tax, the Ohio corporation franchise tax (to the extent computed on the net income basis), and income taxes imposed by municipalities and other political subdivisions in Ohio.

Opinions to those effects will be included in the approving legal opinion. Bond Counsel will express no opinion regarding other federal, state or local tax consequences resulting from the receipt or accrual of interest on the Series 2001-1 Bonds. The opinions on tax matters will be based on and will assume the accuracy of certain representations and certifications and compliance with certain covenants of the Treasurer to be contained in the transcript of proceedings and which are intended to evidence and assure the foregoing. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the Treasurer.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and remain excluded from gross income for federal income tax purposes, some of which, including provisions for the rebate by the issuer of certain investment earnings to the federal government, require further or continued compliance after issuance of the obligations in order for the interest to be and continue to be so excluded from the date of issuance. Noncompliance with these requirements could cause the interest on the Series 2001-1 Bonds to be included in gross income for federal income tax purposes, in some cases retroactive to their date of issuance. The Treasurer covenants in the Trust Agreement to take such

actions which may be required of it for the interest on the Series 2001-1 Bonds to be and remain excluded from gross income for federal income tax purposes, and not to take any actions which would adversely affect that exclusion.

Code provisions applicable to certain corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the Series 2001-1 Bonds earned by corporations to that corporate alternative minimum tax. In addition, interest on the Series 2001-1 Bonds may be subject to the branch profits tax imposed under Section 884 of the Code on certain foreign corporations doing business in the United States, and to the tax imposed on the excess net passive income of certain S corporations under Section 1375 of the Code.

Under the Code, the receipt of interest excluded from gross income for federal income tax purposes can have certain adverse federal income tax consequences on items of income or deductions for certain taxpayers, including among them financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, and those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other items of income and expense of the owner of the Series 2001-1 Bonds. Bond Counsel expresses no opinions regarding such consequences.

From time to time, legislative proposals are pending in Congress that would, if enacted, alter or amend one or more of the federal tax matters referred to above in certain respects or would adversely affect the market value of the Series 2001-1 Bonds. Neither the form nor enactment of any such proposals can be predicted, and there can be no assurance that such proposals will not apply to the Series 2001-1 Bonds.

The foregoing is not intended as a detailed or comprehensive description of all possible tax consequences of purchasing or holding the Series 2001-1 Bonds. Persons considering the purchase of the Series 2001-1 Bonds should consult with their tax advisors as to the consequences of buying or holding the Series 2001-1 Bonds in their particular circumstances.

### **ORIGINAL ISSUE PREMIUM**

The Series 2001-1 Bonds (the "Premium Bonds") are being initially offered and sold to the public with "Acquisition Premium," which is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. For federal income tax purposes, a rateable portion of the Acquisition Premium will reduce the amount of interest excludible from gross income ("tax-exempt interest") deemed received on such Premium Bonds and will also reduce the bondholder's basis in such bonds. The deemed reduction in tax-exempt interest will not increase the bondholder's taxable income. The amount of Acquisition Premium that is taken into account for any period is determined ratably, on a daily basis, using the "constant yield" method, compounded semi-annually using the bondholder's basis. No amount of the amortized

Acquisition Premium may be deducted in determining a bondholder's taxable income for federal income tax purposes.

Holders of any Premium Bonds, both original purchasers and any subsequent purchasers, should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of the Acquisition Premium for state tax purposes.

### **CERTAIN LEGAL MATTERS**

Legal matters incident to the issuance of the Series 2001-1 Bonds and with regard to the tax-exempt status of the interest thereon are subject to the legal opinion of Porter, Wright, Morris & Arthur LLP, as Bond Counsel. A signed copy of the Bond Counsel opinion, dated as of, and speaking only as of, the date of original delivery of the Series 2001-1 Bonds, will be delivered to the Underwriters at the time of that original delivery. The proposed text of the legal opinion of Bond Counsel is set forth as Appendix B hereto. The legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of the opinion by recirculation of the Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expressed any opinion concerning any of the matters referred to in the opinion subsequent to its date.

Certain legal matters will be passed upon for the Underwriters by Carlile Patchen & Murphy LLP, Underwriters' Counsel. Certain legal matters will be passed upon for the Treasurer and the Department by their Counsel, the Attorney General of Ohio, Betty D. Montgomery.

### **INFORMATION CONCERNING THE STATE OF OHIO**

Attached hereto as Appendix A is a discussion of certain matters relating to State finances, debt, population, employment, agriculture, resources, tax bases and related subjects. This Appendix has been provided by the State from its official records, except for information expressly attributed to other sources. The information is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial or other positions of the State. No representation is made that past experience, as might be shown by such financial and other information, will necessarily continue in the future.

### **UNDERWRITING**

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series 2001-1 Bonds from the Treasurer at a price of \$104,915,335.38 (consisting of the principal amount thereof plus net original issue premium of \$5,451,507.40 and less Underwriter's compensation and expenses of \$536,172.02) plus accrued interest. The Underwriters are obligated to purchase all of the Series 2001-1 Bonds if any are purchased. The Series 2001-1 Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the public offering prices, and the public offering prices may be changed from time to time.



## FINANCIAL ADVISOR

Public Financial Management, Inc. has served as financial advisor to the Treasurer in connection with the issuance and sale of the Series 2001-1 Bonds.

## CONTINUING DISCLOSURE

The Treasurer has agreed, for the benefit of the Holders and Book-Entry Interest Owners of the Series 2001-1 Bonds, in accordance with SEC Rule 15c2-12 to provide or cause to be provided such financial information and operating data (“Annual Information”), audited financial statements and notices, in such manner as may be required for purposes of paragraph (b)(5)(i) of SEC Rule 15c2-12 (the “Continuing Disclosure Agreement”), including specifically the following:

1. To each SEC-designated nationally recognized municipal securities information repository (“NRMSIR”) and to the Ohio state information depository (“SID”):

(a) Annual Information for each Fiscal Year (beginning with Fiscal Year 2002) not later than the 90th day following the end of the Fiscal Year (or, if that is not a State business day, the next State business day), consisting of annual financial information and operating data of the type included in Appendix A of this Official Statement under the captions “FISCAL MATTERS”, “STATE DEBT” and “TAX LEVELS AND TAX BASES”. The Director of Budget and Management has agreed to provide the Annual Information. The Annual Information may be provided by reference to other documents, such as the State’s Comprehensive Annual Financial Report and subsequent final official statements relating to other bonds issued by the State.

(b) When and if available, audited general purpose financial statements of the State for each Fiscal Year. The Treasurer expects such financial statements to be provided by the Director of Budget and Management, that they will be available separately from the Annual Information, and that the accounting principles to be applied in their preparation will be as described under and by reference in “Accounts and Reports; Controls” in Appendix A.

2. To each NRMSIR or to the Municipal Securities Rulemaking Board (“MSRB”), and to the SID, in a timely manner, notice of:

(a) The occurrence of any of the following events, within the meaning of the Rule, with respect to the Series 2001-1 Bonds, if material: principal and interest payment delinquencies; non-payment related defaults; unscheduled draws on any debt service reserves or credit enhancements reflecting financial difficulties; substitution of credit or liquidity providers, or their failure to perform; adverse tax opinions or events affecting the tax-exempt status of the Series 2001-1 Bonds; modifications to rights of Holders or Book-Entry Interest Owners; bond calls; defeasances; release, substitution, or sale of property securing repayment of the Series 2001-1 Bonds; and rating changes. There are initially no credit enhancements or credit or

liquidity providers applicable to the Series 2001-1 Bonds, or any property (except the Pledged Receipts) securing their repayment;

(b) The failure to provide the Annual Information within the time specified above; and

(c) Any change in the accounting principles applied in the preparation of the annual financial statements, any change in Fiscal Year, any failure of the General Assembly to appropriate moneys for the purpose of paying costs to be incurred by the State to perform the Continuing Disclosure Agreement for the applicable fiscal period (biennium), and termination of the Continuing Disclosure Agreement.

The Treasurer will reserve the right to amend the Continuing Disclosure Agreement, and to obtain the waiver of noncompliance with any provision of the Continuing Disclosure Agreement, as may be necessary or appropriate to achieve the Treasurer's or the State's compliance with any applicable federal securities law or rules, to cure any ambiguity, inconsistency or formal defect or omission, and to address any change in circumstances arising from a change in legal requirements, change in law, or change in the identity, nature, or status of the Treasurer. Any such amendment or waiver will not be effective unless the Continuing Disclosure Agreement (as amended or taking into account such waiver) would have complied with the requirements of the Rule at the time of the primary offering of the Series 2001-1 Bonds, after taking into account any applicable amendments to or official interpretations of the Rule, as well as any change in circumstances, and until the Treasurer shall have received either (i) a written opinion of bond or other qualified independent special counsel selected by the Treasurer that the amendment or waiver would not materially impair the interest of Holders or Book-Entry Interest Owners of the Series 2001-1 Bonds, or (ii) the written consent to the amendment, or waiver, by the Holders or at least a majority of the aggregate outstanding principal amount of the applicable Series 2001-1 Bonds.

The Continuing Disclosure Agreement will be solely for the benefit of the Holders and Book-Entry Interest Owners of the Series 2001-1 Bonds. The right to enforce the provisions of the Continuing Disclosure Agreement is limited to the extent permitted by law, to an action for mandamus or specific performance to compel compliance of the obligations of the Treasurer and the State under the Continuing Disclosure Agreement.

Any non-compliance with the Continuing Disclosure Agreement will not be a default or failure to comply for purposes of the default provisions of the Trust Agreement. The Trustee has no responsibility for monitoring compliance with the Continuing Disclosure Agreement.

The performance by the State, as the only obligated person with respect to the Series 2001-1 Bonds, of the Continuing Disclosure Agreement will be subject to the biennial appropriation by the General Assembly of moneys for that purpose.

The Continuing Disclosure Agreement will remain in effect for the Series 2001-1 Bonds only for such period that the Series 2001-1 Bonds are outstanding in accordance with their

terms and the State remains an obligated person with respect to the Series 2001-1 Bonds within the meaning of the Rule.

### CONCLUDING STATEMENT

Quotations in this Official Statement from, and summaries and explanations of, the Ohio Constitution, the Ohio Revised Code, the Trust Agreement, the Certificate and Agreement, and the General and Series 2001-1 Bond Orders, do not purport to be complete. Reference is made to the pertinent provisions of the Ohio Constitution and Ohio Revised Code and those documents for complete statements of their provisions. Copies of the Trust Agreement and the Certificate and Agreement are available upon request from the Treasurer, 30 East Broad Street, Columbus, Ohio 43266-0411 (Telephone 614/466-3930).

To the extent that any statements in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, those statements are made as such and not as representations of fact or certainty, and no representation is made that any of those statements will be realized. Information in this Official Statement has been derived by the State, the Treasurer and the Department from official and other sources and is believed by the State, the Treasurer and the Department to be reliable, but information other than that obtained from official records by the State has not been independently confirmed or verified by the State, the Treasurer or the Department and its accuracy is not guaranteed. This Official Statement is not to be construed as a contract or agreement between the State or the Treasurer or the Department and the Underwriters or subsequent Holders of any of the Series 2001-1 Bonds or owners of any interests therein.

This Official Statement has been prepared, approved and delivered by the Treasurer of State of the State of Ohio, and executed by him in his official capacity.

TREASURER OF STATE OF OHIO

/s/ Joseph T. Deters

Joseph T. Deters,  
Treasurer of State

## GLOSSARY

When used herein the following terms shall have the meanings set forth below. The definitions set forth below are qualified in their entirety by reference to the Trust Agreement, the Third Supplemental Trust Agreement, and the Certificate and Agreement, copies of which are available from the Authority. Use of the singular includes plural and use of the plural includes singular, where applicable.

“Act” means Section 5531.10 of the Ohio Revised Code, together with the provisions of any act or resolution of the General Assembly authorizing or limiting the issuance of the Bonds or the uses of the proceeds of the Bonds.

“Additional Bonds” means any Bonds except the Series 2001-1 Bonds.

“Administrative Expenses” means the administrative fees and expenses and other fees, expenses and obligations, other than Bond Service Charges, incurred by the Treasurer and the Department in connection with Bonds, including without limitation, regular and special fees and reasonable expenses of the Trustee, Bond Registrars, Paying Agents, Authenticating Agents, Rating Agencies, tender agents, depositories, financial advisors, accounting experts, attorneys, and other consultants and independent contractors, including printing services incurred in connection with the issuance, carrying, securing, paying, redeeming or retirement of Bonds, including costs and expenses relating to letters of credit, lines of credit, insurance, put agreements, stand-by purchase agreements, remarketing and administrative agreements, interest swap or hedging agreements and related costs, and any other credit enhancement, liquidity, remarketing, renewal or refunding arrangements.

“Administrative Expense Fund” means the Major New State Infrastructure Project Administrative Expense Fund established by the Treasurer in the custody of the Trustee.

“Bond” or “Bonds” means any Obligation, or all of the Obligations or an issue or series of Obligations, of the State, issued by the Treasurer pursuant to the General Bond Order and any Series Bond Order whether designated as bonds, notes or other type of obligation by the applicable Series Bond Order, including without limitation the Series 2001-1 Bonds and any Additional Bonds.

“Bond Service Charges” means the principal, including any mandatory sinking fund requirements for retirement of Bonds and interest, and any redemption premium, if any, required to be paid by the State on Bonds or, as provided in the applicable Bond Proceedings, estimated to be paid by the State on Bonds.

“Book-Entry Interest Owner” means a person who is the owner of a beneficial interest in Bonds, and the right to Bond Service Charges, which are maintained in Book Entry Form.

“Business Day” means any day of the year, other than: (a) a Saturday; (b) a Sunday; (c) a legal holiday; (d) a day on which banking institutions located in the State are

required or authorized by law to close; or (e) a day on which the Trustee or any applicable Paying Agent is unable to open or be open for reasons not related to its financial condition.

“Butler County TID” means the Butler County, Ohio Transportation Improvement District.

“Butler County TID Bonds” means the \$158,485,000 Butler County Transportation District Highway Improvement Bonds, Series 1997A.

“Certificate and Agreement” means the Certificate and Agreement, dated as of September 1, 2001, between the Director of the Department and the Treasurer, as amended from time to time.

“Code” means the Internal Revenue Code of 1986, as amended from time to time. References to the Code and Sections of the Code include relevant applicable regulations (including temporary regulations thereunder), and any successor provisions to those Sections or regulations.

“Credit Support Instrument” means an insurance policy, letter of credit, line or credit or other credit enhancement, support or liquidity device provided pursuant to an agreement by any financial institution, insurance company or governmental official or body to enhance the security or liquidity of any Bonds or series or part of any series of Bonds or to provide, in whole or in part, a required reserve in a bond service reserve account.

“Department” means the Department of Transportation of the State, created by Section 121.02 of the Ohio Revised Code.

“Depository” means any Securities Depository, and, as to the Series 2001-1 Bonds, initially means The Depository Trust Company, New York, New York, a limited purpose trust company, and its nominee, CEDE & Co.

“Director” means that officer of the State, appointed pursuant to Section 121.03 of the Ohio Revised Code, who administers and is the executive head of the Department of Transportation created by Section 121.02 of the Ohio Revised Code or the officer who performs the functions of that office.

“Director of Budget and Management” means that officer of the State, appointed pursuant to Section 121.03 of the Ohio Revised Code, who administers and is the executive head of the Office of Budget and Management created by Section 121.02 of the Ohio Revised Code or the officer who performs the functions of that office.

“Eligible Investments”, unless otherwise provided in the applicable Series Bond Order, with respect to moneys held by the Treasurer, means any investment in which the Treasurer is authorized to invest by State law, and with respect to moneys held by the Trustee, means any of the following securities:

- (i) direct obligations of the United States of America;

(ii) obligations, whether representing principal and interest or either principal or interest, guaranteed as to payment by the United States of America, or to the payment of which the faith of the United States of America is pledged;

(iii) obligations issued by any agency or instrumentality of the United States of America which are accepted by Moody's and Standard & Poor for refunding purposes generally, and that result in the particular refunded obligations being assigned the highest rating of Moody's and Standard & Poor;

(iv) general obligations of the State or any political subdivision of the State that are rated at one of the two highest ratings of Moody's and Standard & Poor;

(v) certificates of deposit, whether negotiable or nonnegotiable, issued by a national bank located in the State or a bank (as defined in Section 1101.01 of the Ohio Revised Code) subject to inspection by the State Superintendent of Banks, which bank has a combined capital and surplus of at least One Hundred Million Dollars (\$100,000,000) in dollars of the United States of America and is rated at least "A" (or its equivalent) by Moody's and Standard & Poor, provided, that such certificates of deposit (a) do not exceed in the aggregate ten percent (10%) of the combined capital, surplus and undivided profits of the issuing bank and (b) shall be in the possession of the Trustee or its agents and shall be either (A) continuously and fully insured by the Federal Deposit Insurance Corporation, or its successors and (B) to the extent not so insured, continuously and fully secured by securities ("Pledged Securities") as are described in clauses (i) through (iii), inclusive, above, which shall have a market value (exclusive of any accrued interest) at all times at least equal to the principal amount of the certificates of deposit; and the bank issuing a certificate of deposit required to be secured as provided in clause (B) above shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such Pledged Securities securing each certificate of deposit will at all times be an amount at least equal to the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;

(vi) any repurchase agreement for a period not to exceed thirty (30) days with any eligible institution described in clause (v) above having capital and surplus of at least One Hundred Million Dollars (\$100,000,000) in dollars of the United States of America and rated at least "A" (or its equivalent) by Moody's and Standard & Poor and described in Section 135.03 of the Ohio Revised Code that is fully and continuously collateralized at all times by interest bearing Pledged Securities based upon the market value of such Pledged Securities; and

(vii) any no front end load money market fund that is rated at least "A" (or its equivalent) by Moody's and Standard & Poor invested solely in obligations described in clauses (i), (ii) and (iii) above;

provided that for the purposes of clauses (v) and (vi) the respective Pledged Securities are to be in the possession of the Trustee or the Trustee's agent and are to be free and clear of all liens or rights of any third party, and in which obligations the Trustee is to have a first perfected security interest.

“Event of Default” means:

- (a) Default in the payment of any interest on any Bond when due and payable;
- (b) Default in the payment of the principal of or any redemption premium on any Bond when due and payable, whether at stated maturity or by mandatory redemption;
- (c) Any other default, and the continuance thereof for a period of 60 days after written notice of such default is given to the Treasurer by the Trustee or the Holders of not less than 25 percent in aggregate amount of affected Bonds then outstanding.

“Federal Fiscal Year” means a period of twelve consecutive months commencing on the first day of October of any year and ending on the last day of September of the following year, or such other period of twelve consecutive months as may by law be designated as the Federal Fiscal Year for general federal fiscal purposes.

“Fiscal Year” means a period of twelve consecutive months commencing on the first day of July of any year and ending on the last day of June of the following year, or such other period of twelve consecutive months as may by law be designated as the Fiscal Year for general State fiscal purposes.

“Fitch” means Fitch, a Delaware corporation, its successors and assigns.

“General Assembly” means the body in which the legislative power of the State is vested.

“General Bond Order” means the General Bond Order of the Treasurer, as the same may be amended from time to time in accordance with its provisions or the provisions of the Trust Agreement.

“Holder” or “Holder of Bonds”, or any similar term, means any person in whose name a Bond is registered on the Register.

“Interest Payment Date” means, as to the Series 2001-1 Bonds, the fifteenth day of June and the fifteenth day of December in each year, commencing December 15, 2001.

“Major New State Infrastructure Project” means a State Infrastructure Project described in a Certificate and Agreement.

“Moody’s” means Moody’s Investors Service, a Delaware corporation, its successors and assigns.

“Obligations” means Bonds, notes or other evidence of obligation, including coupons pertaining thereto, issued pursuant to the Act to pay costs of State Infrastructure Projects.

“Original Trust Agreement” means the Trust Agreement, dated as of May 1, 1998, by and between the Treasurer and the Trustee as amended from time to time.

“Parity Obligations” means any obligation, other than the Bonds, of any person which is payable from, or the security for which is, Pledged Federal Highway Receipts and which obligation is not expressly by its terms subordinated to the Bonds, including without limitation the Butler County TID Bonds and any future obligations issued by the Butler County TID.

“Paying Agent” means the Trustee, and any other bank, trust company or financial institution or the Treasurer, designated as additional paying agents or places of payment of Bond Service Charges or specified Bond Service Charges on Bonds of a series by or pursuant to the Series Bond Order authorizing that series of Bonds, and their successors designated pursuant to the Trust Agreement.

“Pledged Federal Highway Receipts” means all moneys apportioned by the Secretary of Transportation under the provisions of Title 23 of the United States Code, as amended, or any successor legislation, or any other federal law relating to federal aid for highways and to be received as a grant by the State, to the extent that the State is not prohibited by federal or State law from using such moneys to pay Bond Service Charges.

“Pledged Receipts” means (a) all Pledged Federal Highway Receipts, excepting the portions thereof to be deposited in the Administrative Fund, the Construction Fund, the Rebate Fund or an account or subaccount created pursuant to Section 9 of the General Bond Order, as provided in the General Bond Order or in any Series Bond Order; (b) all amounts standing to the credit of the State Infrastructure Bank Revenue Bond Service Fund including without limitation all amounts credited to the Major New Project Debt Service Account and any other accounts and subaccounts in the State Infrastructure Bank Revenue Bond Service Fund, other than amounts in an account or subaccount which are limited to certain series of Bonds and other than any amounts in the State Infrastructure Bank Revenue Bond Service Fund raised by taxation by the State; (c) any gifts, grants, donations and pledges, and receipts therefrom, received by the State available for the payment of Bond Service Charges, to the extent not previously pledged and to the extent not prohibited by the terms of such gifts, grants, donations or pledges; and (d) any other moneys accruing to the State from sources described in Section 5531.10(A)(6) of the Ohio Revised Code, which are hereafter pledged to the payment of Bond Service Charges by a Series Bond Order.

“Rebate Fund” means the Major New State Infrastructure Project Rebate Fund established by the Treasurer in the custody of the Trustee pursuant to Section 11 of the General Bond Order.

“Regular Record Date” means, with respect to any Bond and unless otherwise provided in the Series Bond Order authorizing the particular series of Bonds, the 1st day of the calendar month in which an Interest Payment Date applicable to the Bond occurs.



“Register” means the books kept and maintained by the Bond Registrar for registration and transfer of Bonds pursuant to Section 2.04 of the Original Trust Agreement.

“Registrar” means the Bond Registrar appointed under the Trust Agreement, initially National City Bank.

“Rule” means Securities and Exchange Commission Rule 15c2-12, as amended from time to time, promulgated under the Securities Exchange Act of 1934, as amended from time to time.

“Securities Depository” means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a system to record the beneficial ownership of Bonds or right to Bond Service Charges and to effect transfers of Bonds in Book Entry Form.

“Series 1998-1 Bonds” means the \$70,000,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 1998-1.

“Series 1999-1 Bonds” means the \$20,000,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 1999-1.

“Series 2001-1 Bonds” means the \$100,000,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 2001-1.

“Series Bond Order” means an order of the Treasurer authorizing the issuance of a series of Bonds in accordance with the General Bond Order, and particularly Section 4 thereof, and includes any order providing for the award, sale, terms or forms of Bonds authorized by a Series Bond Order.

“Special Record Date” means, with respect to any Bond and unless otherwise provided in the applicable Series Bond Order, the date established by the Trustee in connection with the payment of overdue interest on that Bond pursuant to the General Bond Order.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and assigns.

“State” means the State of Ohio.

“State Infrastructure Bank Revenue Bond Service Fund” means such fund as defined in Section 5531.10(R) of the Ohio Revised Code.

“State Infrastructure Project” means such a project as defined in Section 5531.10(A)(8) of the Ohio Revised Code.

“Supplemental Trust Agreement” means any trust agreement supplementing the Original Trust Agreement and entered into pursuant to the terms of the Original Trust Agreement as amended from time to time, and includes the applicable Series Bond Order.

“Third Supplemental Trust Agreement” means the Third Supplemental Trust Agreement, dated as of September 1, 2001, between the Treasurer and the Trustee, as amended from time to time.

“Treasurer” means the Treasurer of State of Ohio, elected pursuant to Section 113.01 of the Ohio Revised Code, or the officer who by law performs the functions of that office.

“Trust Agreement” means the Original Trust Agreement, as amended, and the Third Supplemental Trust Agreement, as amended from time to time, and includes the General Bond Order and Series Bond Order No. 2001-1.

“Trustee” means the Trustee at the time serving under the Trust Agreement, initially National City Bank, and any successor Trustee as determined or appointed under or pursuant to Section 6.03 or Section 6.06 of the Original Trust Agreement.

**APPENDIX A**  
**INFORMATION CONCERNING THE STATE OF OHIO**

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## INFORMATION CONCERNING THE STATE OF OHIO

The following discusses certain matters relating to State finances, debt, population, employment, agriculture, resources, tax bases and related subjects. It has been provided by the State from its official records, except for information expressly attributed to other sources, to summarize and describe current and recent historical information. It is not intended to indicate future or continuing trends in the financial or other positions of the State. No representation is made that past experience, as might be shown by this financial and other information, will necessarily continue in the future.

Owners of the Series 2001-1 Bonds have a right to payment only from the Pledged Receipts described in the first part of this Official Statement, which pledge does not include taxes or excises levied by the General Assembly.

### 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; for example, the current fiscal biennium began July 1, 2001 and ends June 30, 2003. 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.)

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-use taxes are the major GRF sources. The last complete fiscal biennium ended June 30, 2001 with a GRF fund balance of \$219,413,500. The State also has maintained a “rainy day” fund, the Budget Stabilization Fund (BSF), which under current law and until used is intended to carry a balance of approximately 5% of the GRF revenues for the preceding Fiscal Year. The BSF is generally maintained by transfer from the surplus, if any, in each Fiscal Year. The BSF has a current balance of \$1,010,595,000 which is equal to 4.74% of Fiscal Year 2001 GRF revenues.

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, he 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 did implement this directive in some prior Fiscal Years, and in Fiscal Year 2001 the Governor and the General Assembly directed reductions and fund transfers needed to ensure the positive GRF ending fund balance.

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.

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.

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, without a vote of the electors or municipal charter provision, to 1% of true value in money, and statutes limit the amount of the 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."

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, as provided for in the recently passed constitutional amendment discussed below under **State Debt**, 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.

The State has enacted legislation allocating its anticipated share of the proceeds of the national tobacco settlement. A comprehensive allocation has been made through Fiscal Year 2012 and a partial allocation has been made through Fiscal Year 2025. (In light of the constitutional two-year limitation on appropriations, those allocations are subject to the General Assembly making biennial appropriations to fund them, and those allocations themselves are subject to adjustment by the General Assembly.) As currently allocated, none of the moneys is to be applied to existing operating programs of the State. Under current allocations, the main portion of the moneys is to go to assist in the financing of elementary and secondary school capital facilities. Other amounts are targeted for new programs for smoking cessation and other health-related purposes, biomedical research and technology transfer, and assistance to the tobacco-growing areas in the State.

#### **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 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 agencies and departments (excluding, among others, higher education institutions). The OBM Director's certification is required for all expenditure vouchers before the Auditor of State 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 the Auditor of State 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). The State's Comprehensive Annual Financial Report (CAFR) is published on an annual basis. Each CAFR includes the State's General Purpose Financial Statements (GPFS) for that Fiscal Year as examined by the Auditor of State. The State has delivered the CAFR for Fiscal Year 2000 to each nationally-recognized municipal securities information repository and to the Ohio State Information Depository. The most recent CAFRs are accessible via OBM's home page on the Internet at <http://www.state.oh.us/obm> under "Media", and copies may be obtained by contacting the State Debt Coordinator at OBM 30 E. Broad Street, 34<sup>th</sup> Floor, Columbus, Ohio 43266, phone (614) 466-0691. The 1990

through 2000 CAFRs received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.

The GPFS 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 GPFS 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.

OBM also has published *The Ohio Budgetary Financial Report* for Fiscal Year 2001. The most recent Budgetary Financial Reports are accessible via OBM's home page on the Internet at <http://www.state.oh.us/obm> under "Media", and copies are available upon request to OBM.

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.

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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.

#### Governmental and Proprietary Appropriated Funds Summary Statement of Cash Receipts and Disbursements

The following summary presents all Fiscal Year cash transactions for the governmental and proprietary funds. These encompass the General Fund (which includes the GRF), as well as special revenue, debt service, capital projects, and enterprise and internal service fund types, all as defined and included in each GPFS.

#### SUMMARY STATEMENT GOVERNMENTAL AND PROPRIETARY APPROPRIATED FUNDS (S in 000,000)

##### Cash Receipts

SOURCE OF RECEIPTS	Fiscal Year				
	1997	1998	1999	2000	2001
Taxes:					
Personal Income .....	\$6,018.5	\$6,946.1	\$7,173.8	\$8,084.6	\$8,119.3
Sales and Use.....	5,234.2	5,547.0	5,840.0	6,227.2	6,250.7
Corporate Franchise.....	1,220.3	1,268.7	1,150.3	1,029.9	973.0
Gasoline.....	1,368.2	1,328.4	1,370.7	1,404.9	1,307.3
Public Utilities Excise .....	672.9	708.0	670.6	675.3	674.3
Cigarette .....	298.4	296.6	290.6	287.7	282.5
Foreign Insurance.....	289.8	287.5	278.8	260.2	232.3
Intangibles(a).....	17.6	17.0	16.5	22.3	24.9
Highway Use/Motor Fuel.....	57.2	64.9	64.3	66.9	75.3
Inheritance.....	102.0	114.8	141.4	140.0	166.0
Alcoholic Beverages.....	52.6	53.1	54.5	56.0	55.7
Liquor Gallonage.....	27.1	27.3	27.6	28.5	29.0
Domestic Insurance Franchise.....	56.5	63.4	77.6	88.7	109.4
Kilowatt-Hour Excise(c).....	0.0	0.0	0.0	0.0	38.0
Other.....	<u>28.8</u>	<u>29.1</u>	<u>30.2</u>	<u>29.9</u>	<u>30.4</u>
Total Taxes .....	15,444.1	16,751.9	17,186.9	18,402.1	18,368.1
Licenses, Permits and Fees.....	1,034.9	1,066.9	1,086.3	1,352.9	1,356.9
Sales, Services and Charges .....	1,584.5	1,551.8	1,533.6	1,544.9	1,436.4
Federal Government .....	8,191.0	8,186.2	8,516.2	9,207.5	10,794.0
Other(b) .....	2,099.8	2,177.3	2,245.2	2,481.3	2,714.0
Proceeds from Sale of Bonds and Notes.....	<u>871.9</u>	<u>1,826.2</u>	<u>1,274.8</u>	<u>1,104.0</u>	<u>1,110.8</u>
Total Cash Receipts.....	\$29,226.2	\$31,560.3	\$31,843.0	\$34,092.7	\$35,780.2

(a) Proceeds primarily distributed to local subdivisions.

(b) Includes investment income in all Fiscal Years, and tobacco settlement receipts beginning in Fiscal Year 2000.

(c) Imposed beginning in Fiscal Year 2001.

##### Cash Disbursements

###### FUND TYPE

###### General Fund:

General Revenue Fund .....	\$16,404.0	\$17,087.0	\$18,016.9	\$19,243.6	\$21,144.2
General Services Fund.....	433.6	498.9	496.0	578.3	565.0
Education Improvement Fund .....	0.0	1.5	1.4	0.0	0.0
Special Revenue Fund(d).....	9,310.9	9,781.4	10,162.3	11,044.8	12,423.5
Capital Projects Fund(e) .....	899.2	1,023.7	1,021.5	1,057.6	864.8
Debt Service Fund(f) .....	224.7	231.2	248.0	281.2	383.3
Enterprise Fund.....	1,052.7	1,063.2	1,109.7	1,320.6	1,198.1
Internal Service Fund.....	<u>261.5</u>	<u>242.2</u>	<u>256.9</u>	<u>273.0</u>	<u>275.0</u>
Total Cash Disbursements .....	\$28,586.6	\$29,929.1	\$31,312.7	\$33,799.1	\$36,853.9

(d) Includes local government support disbursements.

(e) Includes amounts disbursed from proceeds of general obligation bonds, and of other obligations issued by the Ohio Public Facilities Commission and Ohio Building Authority and certain obligations issued by the State Treasurer.

(f) Includes the several bond retirement funds for bonds secured by a pledge of taxes and excises.



**General Revenue Fund -- Summary Statement of Cash Basis Activity**

The following statement portrays all GRF cash activity.

**SUMMARY STATEMENT  
GENERAL REVENUE FUND CASH BASIS ACTIVITY  
(\$ in 000,000)**

	Fiscal Year				
	1997	1998	1999	2000	2001
Beginning Cash Balance.....	\$1,138.5	\$1,367.7	\$1,649.0	\$1,512.5	\$1,506.2
Cash Receipts:					
Taxes:					
Personal Income.....	5,382.3	6,212.5	6,416.8	7,232.0	7,263.4
Sales and Use.....	4,969.0	5,265.5	5,545.3	5,913.7	5,935.6
Public Utilities.....	639.8	673.0	637.6	642.1	640.5
Corporate Franchise.....	1,150.8	1,196.6	1,084.1	969.4	915.3
Cigarette.....	298.4	296.6	290.6	287.7	282.5
Foreign Insurance.....	283.5	281.0	271.6	252.3	220.6
Intangibles.....	6.6	6.5	6.2	8.7	9.5
Other.....	<u>239.6</u>	<u>257.7</u>	<u>300.4</u>	<u>311.9</u>	<u>382.1</u>
Total Taxes.....	12,970.0	14,189.4	14,552.6	15,617.8	15,649.5
Licenses, Permits and Fees.....	66.2	36.3	36.1	33.7	32.9
Sales, Services and Charges.....	1.9	1.6	1.2	0.9	0.8
Federal Government.....	3,531.6	3,292.4	3,428.6	3,729.5	4,527.9
Investment Income.....	102.6	129.0	148.4	122.6	153.4
Other(a).....	<u>97.4</u>	<u>120.4</u>	<u>128.2</u>	<u>110.0</u>	<u>180.9</u>
Total Cash Receipts.....	16,769.7	17,769.1	18,295.2	19,614.5	20,545.4
Cash Disbursements:					
Current					
Primary, Secondary and Other Education(b).....	3,940.6	4,319.3	4,715.9	5,068.4	5,512.9
Higher Education(c).....	1,743.0	1,863.3	1,938.9	2,076.3	2,194.2
Public Assistance and Medicaid.....	6,289.4	6,276.5	6,476.8	6,898.2	8,033.1
Health and Human Services.....	957.7	993.6	1,021.6	1,071.3	1,059.0
Justice and Public Protection.....	1,290.7	1,383.3	1,472.0	1,618.4	1,673.1
Environmental Protection and Natural Resources.....	94.1	106.0	105.0	119.6	116.7
Transportation.....	34.5	34.2	33.5	39.2	37.5
General Government.....	266.1	246.5	256.8	263.9	273.5
Community and Economic Development.....	121.1	113.0	117.9	134.6	153.0
Tax Relief(d) and Other.....	942.7	985.0	1,028.7	1,082.0	1,145.9
Capital Outlay.....	7.6	4.2	9.8	17.4	50.8
Debt Service(e).....	<u>716.6</u>	<u>762.1</u>	<u>840.0</u>	<u>854.3</u>	<u>894.5</u>
Total Cash Disbursements.....	16,404.1	17,087.0	18,016.9	19,243.6	21,144.2
Cash Transfers:					
Transfers-in.....	484.2	368.8	770.1	436.2	763.9
Transfers-out(f).....	<u>(620.6)</u>	<u>(769.6)</u>	<u>(1,184.9)</u>	<u>(813.4)</u>	<u>(854.2)</u>
Total Cash Transfers (Net).....	(136.4)	(400.8)	(414.8)	(377.2)	(90.3)
Ending Cash Balance.....	\$1,367.7	\$1,649.0	\$1,512.5	\$1,506.2	\$817.1

- (a) Includes fines and penalties, rental receipts, refunds and certain intrastate transfers.
- (b) Mainly subsidies to local school districts.
- (c) Mainly subsidies to colleges and universities. Higher education institutions maintain their own discrete funds and accounting systems.
- (d) The State currently reimburses taxing subdivisions for the 10% property tax rollback granted to owners of real property (12.5% to homeowners), for partial real property tax exemptions for the elderly and handicapped, and for a portion of revenue reductions resulting from exempted (or reduced tax value) tangible personal property. This program's cost to the State is determined by total property taxes levied on the local level.
- (e) Debt service on general obligations, lease-rental obligations, and certain other state debt paid from the GRF. Excludes highway-related debt, and OBA-issued obligations for Department of Transportation and Department of Public Safety facilities and a Bureau of Workers Compensation facility, debt service on which is paid from non-GRF sources.
- (f) Includes, among other items, transfers to the Budget Stabilization Fund and the Income Tax Reduction Fund.

## 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 slightly more cyclical than in some other states and in the nation as a whole. The GRF ending (June 30) biennial fund balance is reduced during less favorable national economic periods and then increases during more favorable economic periods. For example, following the 1974-75 nationwide recession, the 1977 GRF ending fund balance was \$21,600,000. The balance (without assistance from any significant tax rate increases) rose to \$245,700,000 in 1979, and then, paralleling the nation's stagnant economic situation, declined to \$200,000 in 1981. Reflective of the strengthening economy, fund balances generally increased during the 1980's and the State ended the 1988-89 biennium with a GRF fund balance of \$475,100,000. Recent biennium GRF ending fund balances were \$834,933,000 in 1997, \$976,778,000 in 1999, and \$219,414,000 in 2001.

Actions have been and may be taken by the State during less favorable economic periods to ensure resource/expenditure balances (particularly in the GRF), some of which are described below. None of those actions were applied, and no actions that have been or might be taken to address the current lowered revenue projections will be applied, to appropriations or expenditures needed for debt service or lease payments relating to any State obligations.

The appropriations acts for the 2002-03 biennium include all necessary appropriations for debt service on State obligations (including the Series 2001-1 Bonds) and for lease payments including those relating to lease obligations issued by the Ohio Building Authority and the Treasurer of State, and previously by the Ohio Public Facilities Commission.

The following is a general discussion of State finances, particularly GRF receipts and expenditures, for recent and the current bienniums. References to ending fund or cash balances generally are to balances as of June 30 of the second year of the fiscal biennium.

As evidenced by actions discussed below, the State administrations and both houses of the General Assembly have been committed to and have taken actions that provide a balance of GRF resources and expenditures. All cutbacks, whether by Governor's order or General Assembly actions, have expressly excepted debt service and lease payments relating to State obligations.

### Recent Bienniums

In the **1992-93** biennium, State and national fiscal uncertainties necessitated several actions to achieve the ultimate GRF positive ending balances. To allow time to resolve differences, an interim appropriations act was enacted effective July 1, 1991; that act included appropriations for both years of the biennium for debt service and lease rental payments on obligations of the State payable from the GRF, even though most other GRF appropriations were made for one month. The general appropriations act for the entire biennium then was passed on July 11, 1991 and signed by the Governor on July 26. Included in the resources appropriated was \$200,000,000 transferred from the BSF to the GRF.

As an initial action to address a projected Fiscal Year 1992 imbalance, the Governor ordered most State agencies to reduce GRF appropriations spending in the final six months of that Fiscal Year by a total of approximately \$184,000,000. Then in June 1992, the entire \$100,400,000 BSF balance and additional amounts from certain other funds were transferred to the GRF. Other revenue and spending actions, legislative and administrative, resolved the remaining GRF imbalance for Fiscal Year 1992.

As a first step toward addressing a then estimated \$520,000,000 GRF shortfall for Fiscal Year 1993, the Governor ordered, effective July 1, 1992, selected GRF spending reductions totaling \$300,000,000. Subsequent executive and legislative actions -- including tax revisions that produced additional revenue of \$194,500,000 in Fiscal Year 1993, and an additional \$50,000,000 in spending reductions -- provided for positive biennium-ending GRF balances (fund balance of \$111,013,000, cash balance of \$393,634,000). As a first step toward BSF replenishment, \$21,000,000 was deposited in the BSF.

The GRF appropriations act for the **1994-95** biennium provided for total GRF biennial expenditures of approximately \$30.7 billion. Expenditures were below those authorized, primarily as the result of lower than expected Medicaid spending, and tax receipts (primarily auto sales/use) were significantly above estimates. The biennium-ending GRF fund balance was \$928,000,000. The balance, after retaining an undesignated balance of \$70,000,000, was transferred to a variety of funds, including \$535,200,000 to the BSF, and \$322,800,000 to other funds, including school assistance funds and, in anticipation of possible federal programs changes, a human services stabilization fund.

For the **1996-97** biennium, GRF appropriations approximated \$33.5 billion. From a higher than forecasted mid-biennium GRF fund balance, \$100,000,000 was transferred for elementary and secondary school computer network purposes and \$30,000,000 to a new State transportation infrastructure fund. Approximately \$400,800,000 served as a basis for temporary 1996 personal income tax reductions aggregating that amount. The GRF biennium-ending balances were \$1.4 billion (cash) and \$834,900,000 (fund). Of that fund balance, \$250,000,000 was directed to school building construction and renovation, \$94,400,000 to the school computer network, \$44,200,000 to school textbooks and instructional materials and a distance learning program, and \$34,400,000 to the BSF, with the remaining \$262,900,000 transferred to the State income tax reduction fund.

For the **1998-99** biennium, GRF appropriations approximated \$36 billion, which provided for significant increases in funding for primary and secondary education. Of the first Fiscal Year (ended on June 30, 1998) ending fund balance of over \$1.08 billion, approximately \$701,400,000 was transferred into the State income tax reduction fund, \$200,000,000 into public school assistance programs, and \$44,184,200 into the BSF. The Fiscal Year 1999 biennium-ending GRF balances were \$1.512 billion (cash) and \$976,778,000 (fund). Portions of that fund balance were transferred as follows: \$325,700,000 to school building assistance; \$293,185,000 to the State income tax reduction fund; \$85,400,000 to SchoolNet (a program to supply computers for classrooms); \$4,600,000 to interactive video distance learning; and \$46,374,000 to the BSF.

The State's financial situation varied substantially in the just ended **2000-01** biennium. The biennium began with the passage in June 1999 of appropriations acts for the current 2000-01 biennium (one for all education purposes and one for general GRF purposes), and their prompt signing (after selective vetoes) by the Governor. Those acts provided for total GRF biennial expenditures of over \$39.8 billion.

The State ended Fiscal Year 2000, the first Fiscal Year of the biennium, with a GRF cash balance of \$1,506,211,000 and fund balance of \$855,845,000. A transfer of \$49,200,000 from the balance increased the BSF to \$1,002,491,000 (or 5% of GRF revenue for the preceding Fiscal Year). An additional \$610,400,000 was transferred to the State Income Tax Reduction Fund.

In December 2000 (the second year of the biennium), the State enacted supplemental appropriations of \$645.3 million to address shortfalls in its Medicaid and disability assistance programs. The State's share of this additional funding was \$247.6 million, with \$125 million coming from Fiscal Year 2001 GRF spending reductions and the remainder from available GRF moneys. The reductions were implemented by OBM prior to March 1, 2001 by a 1-2% cut applying to most State departments and agencies. Expressly excluded from the reductions, in addition to debt service and rental payments relating to obligations, were elementary and secondary education.

The Governor announced in late March 2001 OBM's new preliminary lowered revenue estimates for Fiscal Year 2001 and for Fiscal Years 2002 and 2003 (for which appropriation bills were then pending). Based on indications that the Ohio economy continued to be affected by the economic downturn being experienced nationwide, GRF revenue estimates for Fiscal Year 2001 were reduced by \$288,000,000. In addition, OBM projected higher than previously anticipated Medicaid expenditures. Among the more significant steps taken to ensure the positive GRF ending fund balance at June 30, 2001 were further reductions in expenditures and appropriations spending, with the same exceptions as the earlier reductions mentioned above. In addition, with the aim of achieving a July 1, 2001 beginning GRF fund balance (and a June 30 ending balance) of at least \$188,200,000 (representing historical 0.5% year end cash flow allowance), OBM was authorized to transfer by June 30, 2001 from the BSF to the GRF amounts necessary to ensure an ending GRF fund balance of \$188,200,000. The State ended Fiscal Year 2001 with a GRF cash balance of \$817,069,000 and fund balance of \$219,414,000, making that transfer unnecessary.

## **Current Biennium**

Lengthy and rigorous consideration was given by the Governor and the General Assembly to revenues and expenditures for the new Fiscal Years 2002-03. Included in their consideration were the OBM projections for the biennium of continuing lower than anticipated levels of revenues and higher than anticipated Medicaid expenses. Another key consideration was compliance with the school funding court order discussed below under **Schools and Municipalities**.

The GRF appropriations act for the 2002-03 biennium, not providing for any increases in major State taxes, was passed in June 2001, and promptly signed (after selective vetoes) by the Governor. That act provided for total GRF biennial expenditures of approximately \$45.1 billion. The following are examples of GRF major program biennial funding increases over original appropriations for the prior biennium as reflected in that act: primary and secondary education, 17%; higher education, 2.4%; medicaid, 29%; adult and juvenile corrections, 6.2%; and mental health and mental retardation, 2.8%. Necessary GRF debt service and lease-rental appropriations for the entire biennium were requested in the Governor's proposed budget, incorporated in the related appropriations bills as introduced and included in the versions as passed by the House and the Senate, and in the act as passed and signed. The same is true for the separate appropriations acts for the Department of Transportation, Department of Public Safety and Bureau of Workers Compensation, which included appropriation for the Bonds and lease-rental appropriations for certain OBA-financed ODOT, DPS and BWC projects.

The appropriations act provided for the use of certain reserves, aimed at achieving Fiscal Year and biennium ending positive fund balances based on estimates and projections at the time of passage. OBM is currently authorized to transfer, if necessary, up to \$150,000,000 from the BSF (current balance of over \$1 billion) to the GRF for purposes of increasing moneys available to pay Medicaid expenses, with an additional \$10,000,000 appropriated from the BSF to a State emergency purposes fund. Assuming all those transfers are made from the BSF, its balance would be reduced to approximately \$855,000,000. Additionally, OBM may transfer in Fiscal Year 2002 the entire balance of \$100,000,000 from the Family Services Stabilization Fund (FSSF) to the GRF. Assuming this FSSF transfer will be made, OBM has been projecting a positive Fiscal Year 2002 GRF ending fund balance.

See the discussion below under **Schools and Municipalities – Schools** of the Supreme Court ruling in the school finance case and its order necessitating additional expenditures for elementary and secondary education.

An additional appropriations action, affecting most subdivisions and local libraries in the State, is capping the amount to be distributed from the various local government assistance funds in Fiscal Years 2002 and 2003 to the equivalent monthly payment amounts in Fiscal Years 2000 and 2001.

Litigation pending in the Ohio Court of Claims contests the Ohio Department of Human Services (ODHS, now Ohio Department of Job and Family Services) former Medicaid financial eligibility rules for married couples when one spouse is living in a nursing facility and the other resides in the community. ODHS promulgated new eligibility rules effective January 1, 1996. ODHS appealed an order of the federal court directing it to provide notice to persons potentially affected by the former rules from 1990 through 1995, and the Court of Appeals ruled in favor of ODHS; plaintiff's petition for certiorari was not granted by the U.S. Supreme Court. As to the Court of Claims case, it is not possible to state the period (beyond the current Fiscal Year) during which necessary additional Medicaid expenditures would have to be made. Plaintiffs have estimated total additional Medicaid expenditures at \$600,000,000 for the retroactive period and, based on current law, it is estimated that the State's share of those additional expenditures would be approximately \$240,000,000. The Court of Claims has granted a motion to decertify the Plaintiff's class action. The Plaintiff has appealed this decision.

## **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 to 10% of GRF revenues for the then preceding Fiscal Year.

The State has planned for and has encountered some monthly GRF cash flow deficiencies in all recent Fiscal Years. For example, GRF cash flow deficiencies have ranged from occurring in 10 months in Fiscal Year 1992 to four months in Fiscal Years 1995, 1997 and 2000. In recent Fiscal Years, the highest GRF end-of-month cash flow deficiencies were \$497,677,000 in 1999, \$827,127,000 in 2000, and \$1,152,152,000 in 2001. GRF cash flow deficiencies have been and are expected by OBM to remain within the TOF limitations discussed above.

## STATE DEBT

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 provided 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."

From 1921 to present, Ohio voters have approved 17 constitutional amendments authorizing the incurrence of State debt to which taxes or excises were pledged for payment. All were related to capital facilities financing, except for three that funded bonuses for veterans and one that funded coal technology research and development. The only such tax-supported debt still authorized to be incurred are highway, local infrastructure, coal development and natural resources general obligation bonds, and the recently authorized common school and higher education facilities bonds, all as discussed below.

A 1999 constitutional amendment provides a new annual debt service "cap" for future issues of State general obligation bonds and other State direct obligations payable from the GRF or net State lottery proceeds. Generally, those new bonds may not be issued if future Fiscal Year debt service on those new and the then outstanding bonds would exceed 5% of the total estimated GRF revenues plus net State lottery proceeds during the Fiscal Year of issuance. Application of the cap may be waived in a particular instance by a three-fifths vote of each house of the General Assembly and may be changed by future constitutional amendments. Those direct obligations of the State include, for example, special obligation bonds issued by the Ohio Building Authority and the Treasurer of State, and previously by the Ohio Public Facilities Commission (OPFC), that are paid from GRF appropriations, but exclude bonds such as highway bonds that are paid from highway user receipts. Pursuant to the amendment and implementing legislation, the Governor has designated the OBM Director as the State official to make the 5% determinations and certifications.

The State and State agencies have issued revenue bonds that are payable from net revenues of or relating to revenue-producing facilities or categories of facilities, such as those issued by the Ohio Turnpike Commission. Under interpretations by Ohio courts, those revenue bonds are not "debt" within 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**.

In addition, Section 2i of Article VIII of the Constitution authorizes the issuance, for certain purposes, of State obligations 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. Those special obligations include those that have been issued by the OBA and certain obligations issued by the Treasurer of State (and previously by the OPFC). OBA issues 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; juvenile detention facilities for the Department of Youth Services (DYS) and other governmental entities; Ohio Department of Transportation (ODOT) buildings; Department of Rehabilitation and Correction (DRC) prisons and correctional facilities including certain local and community-based facilities; office

facilities for the Bureau of Workers' Compensation (BWC) and Department of Natural Resources (DNR); Ohio Arts and Sports Facilities Commission (ASFC) and Department of Public Safety (DPS) facilities; and school district computer technology and security facilities. The Treasurer (replacing OPFC for the purpose) will issue obligations for mental health and parks and recreation purposes, and has issued obligations for certain elementary and secondary school facilities under leases with the Ohio School Facilities Commission.

In recent years, State agencies also have participated in office and non-highway transportation projects that have some local as well as State use and benefit, in connection with which the State enters into lease-purchase agreements with terms ranging from 7 to 20 years. Certificates of participation (COPs) are issued that represent fractionalized interests in or are payable from the State's anticipated payments. OBM estimates the highest future Fiscal Year payments under those agreements, which are primarily made from GRF appropriations, to be \$4,603,524.

In addition, to assist in the financing of selected highway infrastructure projects, the State has used financing arrangements (such as the Bonds) that call for State payments to be made from federal transportation funds allocated to the State. OBM estimates the highest future Fiscal Year payments under those current arrangements to be \$23,937,038 (excluding the Series 2001-1 Bonds). In the event of any insufficiency in those anticipated federal allocations to make State payments, the ODOT director is obligated to make such payments from any moneys lawfully available to the Department.

Payments by the State under all such agreements are subject to biennial appropriations by the General Assembly, with the lease or payment terms as to the State being two years, subject to renewal if appropriations are made. The number and amount of obligations under such agreements have varied and continue to vary. Generally, the OBM Director's approval of such agreements is required, particularly if there are to be publicly offered obligations representing fractionalized interests in or payable from the State's anticipated payments.

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A current summary of State tax-supported obligations (not including the Series 2001-1 Bonds, which are not tax supported) is as follows:

	<b>Authorized by General Assembly</b>	<b>Issued(a)</b>	<b>Outstanding(b)</b>
<b>General Obligation Bonds</b>			
Highway(c)	\$1,745,000,000	\$1,745,000,000	\$130,500,000
Highway(d)	1,350,000,000	1,000,000,000	802,500,000
Coal Development(e)	150,000,000	122,000,000	38,600,000
Infrastructure(f)	1,800,000,000	1,559,986,136	1,049,732,071
Natural Resources(g)	272,000,000	180,000,000	145,810,000
Common School Facilities	1,250,000,000	540,000,000	513,195,000
Higher Education Facilities	1,211,310,000	450,000,000	427,680,000
Conservation(g)	50,000,000	0	0
<b>Special Obligation Bonds</b>			
Prison Facilities	\$1,803,000,000	\$1,552,100,000	\$1,056,095,346
DYS Facilities	252,000,000	202,000,000	172,795,000
DAS Facilities(h)	1,393,000,000	1,118,300,000	788,750,231
ASFC Facilities	341,000,000	303,690,000	237,180,000
DNR Facilities	12,160,000	12,160,000	7,140,000
ODOT Facilities(i)	210,000,000	155,800,000	72,765,000
DPS Facilities(i)	142,000,000	123,200,000	100,980,000
Higher Education Facilities	4,817,590,000	4,817,590,000	1,732,395,000
Mental Health Facilities	1,281,000,000	1,177,085,000	310,400,000
Parks & Recreation Facilities	291,000,000	239,900,000	100,235,000
Elementary & Secondary Education	333,640,000	333,640,000	194,645,000
Revitalization(g)	50,000,000	0	0
BWC Facilities(j)	214,255,000	214,255,000	179,255,000

(a) Excludes refunding bonds; includes bonds refunded.

(b) Excludes bonds refunded; includes refunding bonds.

(c) Authority to issue expired in 1996.

(d) 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.

(e) Not more than \$100,000,000 may be outstanding at any time.

(f) Not more than \$120,000,000 may be issued in any year, and the total issued may not exceed \$2.4 billion.

(g) Not more than \$50,000,000 may be issued in any year and not more than \$200,000,000 may be outstanding at any time.

(h) Primarily for State office buildings in Columbus, Cleveland, Akron and Toledo, and a State computer center in Columbus.

Debt service for the Akron and Toledo office buildings is supported in part by payments from local government agencies using portions of those facilities. Includes \$100,000,000 for school district computer technology and security systems.

(i) Debt service paid from appropriations from highway user receipts.

(j) Debt service paid from appropriations from BWC Administrative Cost Fund.

The General Assembly appropriated sufficient moneys to meet debt service requirements for the current biennium (ending June 30, 2003) on all of the OPFC, OBA, and Treasurer special obligations included in the accompanying tables. Except for ODOT, DPS, and BWC facility obligations, all those appropriations have been from the GRF.

The following table shows total Fiscal Year debt service on State bonds secured by a pledge of taxes or excises and on those special obligation State bonds issued by the OBA and the Treasurer of State, and previously by the OPFC, listed in the table above under **State Debt**. This table does not include the Bonds.

### Annual Debt Service Requirements on Certain State Obligations

FY	General Obligations			Special Obligations				Total Debt Service		
	Highway(a)	Education(b)	All Other	Treasurer(c)	ODOT/DPS Buildings(d)	Other Facilities(e)	Principal	Interest	Total	
2002	\$190,872,288	\$80,044,234	\$157,158,492	\$401,141,316	\$26,522,686	\$281,997,829	\$749,825,526	\$387,911,319	\$1,137,736,845	
2003	181,924,555	91,424,815	159,148,256	367,452,138	26,061,549	282,070,749	747,057,101	361,024,961	1,108,082,062	
2004	165,277,375	89,390,028	155,021,418	341,827,354	25,647,214	283,877,468	733,495,409	327,545,447	1,061,040,856	
2005	135,432,650	89,383,725	142,668,221	298,078,375	25,233,051	283,941,713	671,455,172	303,282,563	974,737,736	
2006	120,257,456	83,262,015	140,586,534	280,770,060	24,897,088	268,242,884	645,490,161	272,525,875	918,016,036	
2007	110,336,769	83,213,198	136,947,575	280,782,841	22,750,395	246,096,006	649,000,470	231,126,313	880,126,783	
2008	93,096,544	83,153,288	137,325,754	247,984,863	22,419,504	216,682,840	600,171,280	200,491,512	800,662,791	
2009	68,968,444	83,057,160	137,009,596	184,710,453	15,484,158	197,667,529	511,128,969	175,768,370	686,897,339	
2010	45,805,944	83,058,476	136,878,679	163,127,810	15,274,391	178,975,308	476,321,194	146,799,413	623,120,608	
2011	21,024,800	83,117,975	122,743,299	133,339,665	12,481,641	162,757,637	413,745,913	121,719,103	535,465,016	
2012	0	83,055,825	122,553,451	103,245,000	8,883,788	154,537,136	372,387,238	99,887,961	472,275,199	
2013	0	83,074,410	105,921,613	75,392,768	1,564,209	130,612,809	313,996,475	82,569,333	396,565,808	
2014	0	83,076,591	95,594,988	17,257,800	1,563,600	114,099,999	248,081,268	63,511,709	311,592,978	
2015	0	69,484,879	73,206,598	9,879,975	1,564,588	100,182,168	208,863,397	45,454,809	254,318,206	
2016	0	43,196,516	60,040,089	5,160,513	1,567,025	78,118,381	156,623,600	31,458,923	188,082,523	
2017	0	43,277,005	48,542,855	0	1,565,888	62,003,603	133,710,000	21,679,350	155,389,350	
2018	0	43,360,794	38,823,290	0	1,566,038	52,775,081	121,610,000	14,915,203	136,525,203	
2019	0	43,432,575	19,950,700	0	1,567,200	34,312,056	90,135,000	9,127,531	99,262,531	
2020	0	43,508,231	9,702,563	0	1,567,875	9,870,500	59,610,000	5,039,169	64,649,169	
2021	0	27,813,000	0	0	1,568,250	9,870,750	37,265,000	1,987,000	39,252,000	
2022	0	15,744,000	0	0	0	0	15,360,000	384,000	15,744,000	
							<b>\$7,955,333,174</b>	<b>\$2,904,209,865</b>	<b>\$10,859,543,039</b>	

Note: Rows are rounded.

- (a) Debt service is paid entirely from highway user receipts which are constitutionally restricted in use to highway related purposes.
- (b) Includes common schools and higher education capital facilities general obligation bonds.
- (c) Includes lease-rental bonds formerly issued by the OPFC.
- (d) Lease rentals paid to date from highway user receipts, and are anticipated to be paid from those receipts as appropriated for the purpose in future bienniums.
- (e) Excludes debt service on bonds for BWC facilities which is paid from BWC Administrative Cost Fund.



The following table shows the principal amount of those obligations which were or are scheduled to be outstanding as of July 1 of the indicated years:

Year	General Obligations			Special Obligations	
	Highway	Education(a)	All Other	Treasurer(b)	OBA
2001	\$933,000,000	\$740,875,000	\$1,262,437,597	\$2,307,675,000	\$2,444,260,577
2005	402,500,000	764,595,000	941,268,772	1,283,625,000	1,661,511,194
2010	20,000,000	521,440,000	528,317,893	315,970,000	785,660,000
2015	-0-	221,685,000	157,108,600	4,950,000	230,570,000

(a) Includes common schools and higher education capital facilities.

(b) Includes lease-rental bonds formerly issued by the OPFC.

The following tables show certain historical debt information and comparisons. These tables include only outstanding bonds of the State secured by pledges of taxes and excises, and those special obligations issued by the OBA and the Treasurer (and, previously, by the OPFC) that are paid from the GRF. Highway obligations, the Bonds, and obligations issued by the OBA for ODOT, DPS and BWC purposes are not included since they are paid from non-GRF sources.

Year	Principal Amount Outstanding (as of July 1)	Outstanding Debt Per Capita	Outstanding Debt As % of Annual Personal Income
1980	\$1,991,915,000	\$184	1.83%
1990	3,690,154,994	340	1.81
1997	5,461,641,626	487	1.96
1998	5,682,827,565	506	1.93
1999	6,007,699,710	534	1.96
2000	6,308,680,025	556	1.96
2001	6,570,863,174	576(a)	2.04(b)

(a) Based on 2000 population estimate.

(b) Based on 2000 personal income data.

Fiscal Year	Debt Service Payable	Total GRF Revenue and Net State Lottery Proceeds	Debt Service as % of GRF Revenue and Lottery Proceeds	Debt Service as % of Annual Personal Income
1980	\$187,478,382	\$ 4,835,670,223	3.88%	0.17%
1990	488,676,826	12,230,681,298	4.00	0.24
1997	726,496,340	17,964,425,237	4.04	0.26
1998	771,014,893	18,833,027,486	4.09	0.26
1999	843,207,365	19,736,607,701	4.27	0.28
2000	871,313,814	20,711,678,217	4.21	0.27
2001	918,248,422	21,921,275,724	4.19	0.28(a)

(a) Based on 2000 personal income data.

A statewide economic development program assists the financing of facilities for industry, commerce, research and distribution by providing loans and loan guarantees. The law authorizes the issuance of State bonds and loan guarantees secured by a pledge of portions of the State profits from liquor sales. The General Assembly has authorized the issuance of these bonds by the Treasurer of State, with a general maximum of \$300,000,000 currently authorized to be outstanding at any one time (excluding bonds issued to meet guarantees, but less any amount by which 4% of the unpaid principal amount of guaranteed loan payments exceeds the funded amount applicable to the guarantees). The aggregate amount from the liquor profits to be used in any Fiscal Year in connection with these bonds (except for bonds issued to meet guarantees) may not exceed \$25,000,000 under present law. The total of unpaid guaranteed loan amounts and unpaid principal of direct loans may not exceed \$500,000,000. A 1996 issue of \$168,740,000 (\$149,820,000 outstanding) of taxable bonds refunded outstanding bonds and provided additional moneys for the program. A 1998 issue of \$101,980,000 of taxable forward purchase bonds were issued to refund, as of 2006, term bonds of the 1996 issue stated to mature in 2016 and 2021. The highest future Fiscal Year debt service on the outstanding bonds of those issues, which are payable through 2021, is \$16,166,827 in 2008.

### **Additional Authorizations**

Only a portion of State capital needs can be met by direct GRF appropriations; therefore, additional State borrowing for capital purposes has been and will continue to be required. Until recently, under constitutional limitations most of that borrowing has been by lease-rental supported obligations.

Capital appropriations and reappropriations provisions for the 2001-02 capital appropriations biennium authorized additional borrowings for the various categories, including over \$1,234,000,000 in general obligations for education purposes. They authorized the following borrowings, all of which are reflected in the preceding tables:

#### **OPFC:**

- \$544,000,000 for higher education capital facilities projects (a substantial number of which are renovations and equipment of and improvements to existing facilities).
- \$690,000,000 for capital improvements for elementary and secondary public schools.
- \$44,000,000 for natural resources facilities.
- \$50,000,000 for conservation purposes.

#### **OBA:**

- \$80,000,000 for prisons and local jails.
- \$33,000,000 for DYS facilities.
- \$13,000,000 for DPS facilities.
- \$230,800,000 for DAS facilities, including computer technology and security systems for school districts.
- \$62,600,000 for ASFC facilities (including both arts and sports facilities).

#### **Treasurer of State:**

- \$240,000,000 for local infrastructure projects.
- \$76,000,000 for mental health facilities (including local projects).
- \$41,000,000 for parks and recreation facilities.
- \$50,000,000 for revitalization purposes.

A constitutional amendment approved by the electors in November 2000 authorizes the issuance of State bonds for land conservation and revitalization purposes (including statewide brownfields clean-up). For each of the two purposes, not more than \$50,000,000 in principal amount may be issued in any Fiscal Year and not more than \$200,000,000 may be outstanding at any time. The bonds for conservation purposes will be State general obligations, and those for revitalization purposes will be special obligations of the State payable from revenues and receipts designated by the General Assembly. The General Assembly recently passed implementing legislation.

A 1999 constitutional amendment 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 that the additional general obligation debt and other direct obligations of the State will be subject to the 5% GRF/lottery proceeds debt service "cap" described above under **State Debt**.

1997 legislation provided for two new categories of revenue-type financing. OBA was authorized to issue lease revenue obligations to assist in the financing of up to 15% of the estimated cost of certain sports facilities in Ohio. In addition, a revolving fund was created to assist in financing local transportation projects, funded with deposits of \$40,000,000 of GRF moneys and supplemented by the issuance of bonds (to be paid from federal transportation funds), with two issuances to date totaling \$90,000,000 (excluding the Series 2001-1 Bonds).

A 1995 constitutional amendment authorized 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 \$120,000,000 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 \$220,000,000 to be issued in any Fiscal Year.

A 1994 constitutional amendment pledges the State's full faith and credit and taxing power to meet certain guarantees under the State's tuition credit program. That program provides for the purchase of tuition credits, for the benefit of State residents, which are guaranteed to cover a specified amount when applied to the cost of higher education tuition. Under the amendment, to secure the tuition guarantees the General Assembly shall appropriate moneys sufficient to offset any deficiency that may occur from time to time in the trust fund that provides for the guarantees and at any time necessary to make payment of the full amount of any tuition payment or refund required by a tuition payment contract. (A 1965 constitutional provision that authorized, but did not require, State student loan guarantees payable from available State moneys has never been implemented, apart from a "guarantee fund" approach funded essentially from program revenues.)

A 1990 constitutional amendment 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 authorizing 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 (although the obligations may not be supported by the State's full faith and credit).

### POPULATION

Ohio's 2000 decennial census population of 11,353,140 indicated a 4.7% population growth between 1990 and 2000 and ranked Ohio seventh among the states in population. The following tables show selected census figures.

#### Ohio Population — Total and by Age Group

Year	Total	Rank Among States	Decennial Growth Rate	1-19 Years	20-64 Years	65 and Over
1970	10,657,500	6	9.7%	4,124,400	5,539,600	993,500
1980	10,797,600	6	1.4	3,502,900	6,125,200	1,169,500
1990	10,847,100	7	0.5	3,141,000	6,299,100	1,407,000
2000	11,353,140	7	4.7	3,216,000	6,629,400	1,507,800

Source: U.S. Bureau of Census Web Site, State Population Estimates, Population and Reports, Demographic Profiles.

#### Population of Ohio Metropolitan Areas(a)

	1970	1980	1990	2000
Cleveland.....	2,063,729	1,898,825	2,202,069(b)	2,250,871
Cincinnati.....	1,106,821	1,100,983	1,526,092(c)	1,646,395
Columbus.....	1,017,847	1,093,316	1,345,450(d)	1,540,157
Dayton.....	852,531	830,070	951,270(e)	950,558
Akron.....	679,239	660,328	657,575	694,960
Toledo.....	643,443	656,940	614,128	618,203
Youngstown-Warren.....	537,124	531,350	600,895(f)	594,746
Canton.....	393,789	404,421	394,106	406,934
Lorain-Elyria.....	256,843	274,909	(b)	(b)
Hamilton-Middletown.....	226,207	258,787	291,479	332,807
Lima.....	210,074	218,244	154,340	155,084
Mansfield.....	129,997	131,205	174,007(f)	175,818
Steubenville.....	96,193	91,564	142,523(g)	132,008

(a) SMSAs in 1970 & 1980, MSAs in 1990 and 2000 (PMSA's for Cleveland, Cincinnati, Akron, and Hamilton-Middletown.)

(b) Lorain-Elyria included with Cleveland.

(c) Includes 12 counties (two in Indiana and six in Kentucky).

(d) Newark added.

(e) Springfield added.

(f) Includes three counties.

(g) Weirton added; includes two counties in West Virginia.

Source: U.S. Bureau of the Census Web Site, Metropolitan Area Population Estimates.

## ECONOMY AND EMPLOYMENT

Although manufacturing (including auto-related manufacturing) in Ohio remains an important part of the State's economy, the greatest growth in Ohio's economy in recent years has been in the non-manufacturing sectors. In 1999, Ohio's gross state product (GSP) totaled \$362 billion, ranking it seventh among all states. The State ranks third within the manufacturing sector (\$93 billion) and second in durable goods (\$63 billion). As a percent of Ohio's 1999 gross state product, manufacturing was responsible for 26%, with 18% attributable to the services sector and 16% to the finance, insurance and real estate sector. Ohio is the eighth largest exporting state, with 2000 merchandise exports totaling \$26 billion. The State's two leading export industries are transportation equipment and industrial machinery, which together accounted for approximately 51% of the value of Ohio's merchandise exports.

Payroll employment in Ohio, in a diversifying employment base, showed a steady upward trend until 1979, then decreased until 1982. It increased through 1991, decreased slightly in both early 1992 and late 1993, but otherwise has increased steadily through 2000. Growth in recent years has been concentrated among non-manufacturing industries, with manufacturing employment tapering off since its 1969 peak. The "non-manufacturing" sector employs approximately 81% of all non-agricultural payroll workers in Ohio. The growth in employment and changing mix of employment sectors nationally and in Ohio are shown in the following tables.

### Ohio Nonfarm Payroll Jobs by Industry Type Not Seasonally Adjusted (in 000)

	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
Services.....	568	831	1,189	1,591
Wholesale, Retail Trade.....	773	957	1,172	1,357
Manufacturing.....	1,410	1,264	1,112	1,085
Government.....	566	690	722	784
Finance, Insurance, Real Estate...	154	204	256	308
Transportation & Public Utilities.....	225	223	219	250
Construction.....	164	167	195	254
Other (including Mining).....	<u>21</u>	<u>31</u>	<u>18</u>	<u>13</u>
TOTAL.....	3,881	4,367	4,882	5,642

Source: U.S. Department of Labor, Bureau of Labor Statistics, National and State Current Employment Statistics.

### Distribution of Nonfarm Payroll Jobs by Industry Type

	<u>1970</u>		<u>1980</u>		<u>1990</u>		<u>2000</u>	
	<u>Ohio</u>	<u>U.S.</u>	<u>Ohio</u>	<u>U.S.</u>	<u>Ohio</u>	<u>U.S.</u>	<u>Ohio</u>	<u>U.S.</u>
Services.....	14.6%	16.3%	19.0%	19.8%	24.4%	25.5%	28.2%	30.7%
Wholesale, Retail Trade.....	19.9	21.2	21.9	22.5	24.0	23.6	24.0	23.0
Manufacturing.....	36.3	27.3	28.9	22.4	22.8	17.4	19.2	14.0
Government.....	14.6	17.7	15.8	18.0	14.8	16.7	13.9	15.7
Finance, Insurance, Real Estate.....	4.0	5.1	4.7	5.7	5.2	6.1	5.5	5.8
Transportation & Public Utilities.....	5.8	6.4	5.1	5.7	4.5	5.3	4.4	5.3
Construction.....	4.2	5.1	3.8	4.8	4.0	4.7	4.5	5.1
Other (including Mining).....	0.5	0.9	0.7	1.1	0.4	0.6	0.2	0.4

Source: The information on Ohio in this table is calculated by OBM based on information in the preceding table.

Ohio and U.S. unemployment rates have been as follows:

**Average Monthly Unemployment Rates (Seasonally Adjusted)**

<u>Year</u>	<u>Ohio</u>	<u>U.S.</u>
1980.....	8.4%	7.1%
1985.....	8.9	7.2
1990.....	5.7	5.5
1995.....	4.8	5.6
1996.....	4.9	5.4
1997.....	4.6	4.9
1998.....	4.3	4.5
1999.....	4.3	4.2
2000.....	4.1	4.0
2001(a) January.....	4.8	4.7
February.....	4.3(b)	4.6
March.....	3.8(b)	4.6
April.....	3.6(b)	4.2
May.....	3.6(b)	4.1
June.....	4.4	4.7
July.....	4.4	4.7
August.....	4.0	4.9

(a) Not seasonally adjusted

(b) The State believes these rates are understated due to anomalies in the underlying federal survey data.

The following are the private sector employers that had the highest number of full-time equivalent employees (estimated and rounded) in Ohio in 1999:

**OHIO'S TOP 25 PRIVATE SECTOR EMPLOYERS - 1999**

<u>Company</u>	<u>Estimated FTE Employees in Ohio</u>	<u>Sector</u>
General Motors Corporation	27,700	Motor Vehicles
Delphi Automotive	27,000	Motor Vehicles
<b>Kroger Company</b>	25,000	Food Stores
<b>Cleveland Clinic Health System</b>	20,000	Health
Ford Motor Company	18,900	Motor Vehicles
Wal-Mart Stores, Inc.	17,900	General Merchandiser
General Electric Company	17,400	Aerospace/Electrical Equipment
<b>Proctor &amp; Gamble Company</b>	15,500	Soaps and Cosmetics
<b>University Hospitals Health System</b>	15,200	Health
Banc One Corporation	14,900	Financial Services
Honda Motor Co., LTD.	13,800	Motor Vehicles
Meijer, Inc.	13,400	Food Stores
DaimlerChrysler Corporation	13,100	Motor Vehicles
<b>KeyCorp</b>	11,800	Financial Services
Kmart Corporation	11,400	General Merchandiser
Ameritech Corporation	10,600	Telecommunications
Sears, Roebuck and Co.	10,500	General Merchandiser
<b>National City Corp.</b>	10,200	Financial Services
<b>The Limited</b>	10,000	Specialist Retailer
<b>FirstEnergy Corporation</b>	10,000	Electric Utility
<b>Nationwide Insurance Enterprise</b>	9,300	Insurance
United Parcel Service of America, Inc.	9,200	Package and Freight Delivery
<b>Timken Company</b>	8,900	Industrial Equipment
<b>Federated Dept. Stores (Lazarus)</b>	8,400	General Merchandiser
<b>American Electric Power</b>	8,300	Electric Utility

Note: Boldface indicates headquartered in Ohio.

Source: Ohio Department of Development, Office of Strategic Research.

## AGRICULTURAL AND RESOURCES BASES

With 14.9 million acres (of a total land area of 26.4 million acres) in farmland and an estimated 80,000 individual farms, agriculture and related agricultural sectors combined is an important segment of Ohio's economy. Ohio's 1999 crop production value of \$806.4 million represented 4.5% of total U.S. crop production value. Ohio ranks in the top five states in the production of soybeans, corn, tomatoes, chickens, eggs, swiss and cottage cheese, milk sherbet, maple syrup, and mushrooms. In 1998, Ohio's agricultural sector output totaled \$5.8 billion with agricultural export shares (primarily soybeans, feed grains and wheat, and their related products) estimated at a value of \$1.4 billion.

The availability of natural resources, such as water and energy, is of vital nationwide concern. Ohio has large quantities of these important natural resources. With Lake Erie and the Ohio River on its borders, and many lakes and streams throughout the State, water is readily available for all uses. Additionally, Ohio has sizable coal resources, ranking seventh among the states in coal reserves and ninth in coal production. [Source: Statistical Abstract of the United States, 1999, Section 24 Natural Resources.]

## STATE EMPLOYEES AND RETIREMENT SYSTEMS

The following table shows the number of regular State employees, computed on an average monthly/Fiscal Year basis from OBM records. The figures do not include employees who are not paid by State warrant, such as state university employees. For comparative national figures, see "Government Payrolls" in the table of "Comparative Government Statistics" below. Census data for 1998 shows Ohio as having the eighth lowest cost per capita for state personal services payroll among all states.

### Number of Regular State Employees (Average Monthly)

<u>Fiscal Year</u>		<u>Fiscal Year</u>	
1975.....	55,997	1995 .....	63,431
1980.....	60,167	2000 .....	63,114
1985.....	55,326	2001 .....	63,693
1990 .....	59,995	2002 (August).....	63,444

The State engages in employee collective bargaining and is operating under three-year agreements, expiring at the end of June 2003, with all of its 20 bargaining units.

The State has established five public retirement systems to provide retirement, disability retirement, and survivor benefits. 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 Police and Fire Pension Fund (PFPF) covers local safety forces.

These retirement systems were created by and operate pursuant to State law. The General Assembly has the power to amend the format and benefit levels, impose or revise contribution rates or amounts, or to make other changes. The systems are not currently subject to the funding and vesting requirements of the federal Employee Retirement Income Security Act of 1974 (ERISA), as amended. Current federal law requires new hires to participate in the federal Medicare program, requiring 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, as amended. Congress has from time to time considered legislation relating to retirement funds of public bodies and to other aspects of public employee retirement.

State appropriations include amounts to pay the employer contributions to the retirement systems for most State employees. Of those appropriation amounts, estimated employer contributions of \$727,300,000 were included for the 2000-01 biennium and \$802,800,000 is included for the 2002-03 biennium. The State has also appropriated subsidies (most allocated to specific groups of retirants) to the systems to pay for new or additional benefits mandated by law and not otherwise funded. The aggregate subsidies were \$52,519,877 in the 2000-01 biennium and are appropriated at \$53,073,000 in the 2002-03 biennium.

The following table presents summary State and local membership and financial data for each of the retirement systems for the most recent year reported by the particular system and does not include liabilities for post-employment healthcare benefits:

As Of:	<u>PERS</u> 12/31/00	<u>STRS</u> 6/30/00	<u>SERS</u> 6/30/00	<u>PPPF</u> 12/31/00	<u>HPRS</u> 12/31/00
Active Members.....	360,532(f)	174,072	113,811	27,642	1,445(f)
Retirants and Beneficiaries .....	131,428	99,011	65,311	22,389	1,123(f)
Employer/Employee Contribution Rates as % of Earnable Salary (a) .....	10.65/8.5(b)	14.0/9.3	14.0/9.0	(c)	23.5/9.5
Active Member Payroll.....	\$9,477.0(f)	\$7,845.0	\$1,866.3	\$1,338.5	\$66.0(f)
Actuarial Accrued Liability (AAL).....	\$43,070.0(f)	\$55,774.0	\$8,100.0	\$8,995.6	\$577.0(f)
Valuation Assets (e).....	\$43,060.0(f)	\$51,293.8	\$8,281.0	\$7,988.6	\$546.5(f)
Unfunded Actuarial Accrued Liability (UAAL).....	\$10.0(f)	\$4,480.2	(\$181.0)	\$1,007.0	\$30.5(f)
Ratio of Assets to AAL (%).....	100.0(f)	92.0	102.2	88.8	94.7(f)
UAAL Amortization Period (in years).....	3.0(d)(f)	23.1	--	26.8	20.0(f)

Note: \$ in millions.

- (a) For PERS, STRS, and SERS the maximum employee and employer contribution rates currently authorized by law, as percentages of earned compensation, are 10% and 14% respectively.
- (b) State employee rates. PERS local was 10.84/8.5% and law enforcement was 15.7/9.0%.
- (c) Police 19.5/10%, fire 24/10%.
- (d) For State employees. The period for local government employees was generally 5 years, and for local law enforcement employees was 10 years.
- (e) Recognizes the cost of assets adjusted for realized and unrealized gains and losses amortized over a four-year period.
- (f) Based on 1999 data.

Sources: Retirement systems' comprehensive annual financial reports and 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 Official Statement. Census figures for 1998 showed that Ohio then ranked 34th in state taxes per capita. As examples of rates of major taxes, the State sales tax is currently levied at the rate of 5%. The highest potential aggregate of State and permissive local sales taxes is currently 8%, and the highest currently levied in any county is 7%. The State gasoline tax is currently 22¢ per gallon, one cent of which is specifically directed to local highway-related infrastructure projects.

Two major tax bases in the State, personal income (taxed by the State and municipalities, and, with voter approval, by certain school districts) and real and tangible personal property (taxed by local governments), are described below.

#### Personal Income

Current State personal income tax rates, applying generally to federal adjusted gross income, range from 0.743% on \$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. Reflecting amounts transferred from Fiscal Year ending GRF balances to the Income Tax Reduction Fund, reductions in personal income tax rates for each of the 1996 through 2000 tax years were 6.61%, 3.99%, 9.34%, 3.63% and 6.93%, respectively. Based on Fiscal Year 2001 financial results, no transfer will be made to the Income Tax Reduction Fund in the current Fiscal Year.

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 and school 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 current municipal rate is 2.85%. A school district income tax is currently approved in 122 districts.

Since 1960 the ratio of Ohio to U.S. aggregate personal income has declined, with Ohio's ranking among the states moving from fifth in 1960 and 1970 to eighth in 1990, and increasing to seventh in 1994 and thereafter. 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 (Total \$ in Billions)**

	<u>U.S.</u>	<u>Ohio</u>	<u>Ohio Percent of U.S.</u>	<u>Ohio Rank Among States</u>
1970 Total.....	\$ 825.5	\$ 43.0	5.21%	5
per capita .....	4,051	4,033	99.56	16
1980 Total.....	2,234.1	105.0	4.66	6
per capita .....	9,919	9,723	98.02	25
1990 Total.....	4,662.7	190.7	4.09	8
per capita .....	18,691	17,564	93.97	22
1998 Total.....	7,383.5	294.3	3.98	7
per capita .....	27,203	26,073	95.85	22
1999 Total.....	7,783.1	305.9	3.93	7
per capita .....	28,542	27,152	95.13	24
2000 Total.....	8,351.5	322.4	3.86	7
per capita .....	29,676	28,400	95.70	19

Note: District of Columbia included in U.S. total, excluded in ranking.  
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

**Property**

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 2000 show that these property taxes represent 3.53% of Ohio personal income.

	<u>Assessed Value (a)</u>	<u>Percent of True Value (b)</u>	<u>Taxes Charged</u>
1970 Real(c).....	\$24,817,430,805	31.2%	\$1,175,288,092
Tangible(d).....	10,393,488,318	54.1	58,830,992
Public Utility(c).....	5,140,995,900	82.0	223,864,399
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(f)	28.0	1,149,643,000(f)
Public Utility(c)(g).....	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(f)	25.0	1,720,740,378(f)
Public Utility(c)(g).....	13,635,709,860	67.0	967,674,709

- (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) were scheduled until 25% was reached in 1993. The Constitution permits separate classes of land and improvements (one class being residential and agricultural, the second being all other uses) for certain taxation purposes.
- (c) Excludes public utility real property.
- (d) Includes machinery, inventories, fixtures, excludes public utility.
- (e) Includes the statutory 10% rollback (12.5% for owner-occupied residences since 1984) and elderly/handicapped partial exemption amounts, paid by the State to local taxing entities to compensate for statutory reductions in local tax collections.
- (f) A new exemption took effect in 1984. State reimbursement of resulting local revenue losses is not included in "Taxes Charged".
- (g) 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.

Source: Ohio Department of Taxation.

Recent State legislation schedules reductions in the assessed (tax) valuation of general categories of tangible personal property. Effective for collection year 2002 the assessed valuation of electric utility production equipment is to be reduced from 100% and natural gas utility property from 88% of true value, both to 25% of true value, with makeup payments in varying and declining amounts to be made through 2016 to taxing subdivisions by the State from State resources. Beginning in 2002 at the earliest and 2007 at the latest (depending on certain historic collection figures), the assessed valuation of personal property constituting "inventory" is to be reduced from 25% of true value to zero in annual 1% increments.

Property tax relief payments by the State to local subdivisions totaled \$2.17 billion in the 2000-01 biennium, and are projected by OBM to increase to \$2.44 billion in the 2002-03 biennium.



## SCHOOLS AND MUNICIPALITIES

### Schools

In a September 6, 2001 opinion the Ohio Supreme Court resolved the litigation that had long been pending in Ohio courts questioning the constitutionality of the State's system of school funding and compliance with the constitutional requirement that the State provide a "thorough and efficient system of common schools." The majority of the Court concluded that the system of school funding, as it had been modified and developed since 1991 and assuming full implementation of two modifications newly ordered by the Court, will meet constitutional requirements. (Two dissenters would find the system not yet in compliance; a third continued to conclude that compliance was a matter for the legislative branch, not the judiciary.) The two modifications directed by the Court, one of which will have an impact in the current fiscal biennium, are:

- Revisions of the formula and factors involved in calculating the per student costs of providing an adequate education; the Court stated no deadline, but does require that the revisions be applied retroactively to July 1, 2001 (the beginning of the current biennium). The State has filed with the Court a motion for reconsideration and clarification of this ordered modification. OBM has been developing estimates of the additional cost to the State of this change, particularly for the current and next Fiscal Years.
- The effective date of full implementation of a parity aid program (already adopted and being phased in) is moved up by two years -- full funding to be in Fiscal Year 2004 rather than 2006. That program is aimed at providing poorer districts with resources similar to those available to wealthier districts.

Both of these Court-ordered modifications require General Assembly action. It is not possible at this time to state what or when the General Assembly's responses will be, or what effect they or any related actions may have on the State's overall financial condition (particularly in the current fiscal biennium) or on specific State operations or functions.

As stated in the conclusion to the majority opinion:

"The state is hereby ordered to implement the changes described.... Because we have no reason to doubt [State] defendants' good faith, we have concluded there is no reason to retain jurisdiction of the matter before us. If the order receives less than full compliance, interested parties have remedies available to them."

The Court had previously set as general base threshold requirements that every school district have enough funds to operate, an ample number of teachers, sound and safe buildings, and equipment sufficient for all students to be afforded an educational opportunity.

In response to that prior litigation, the General Assembly has taken several steps, including significantly increasing State funding for public schools, as discussed below. In addition, at the November 1999 election electors approved a constitutional amendment submitted by the General Assembly authorizing the issuance of State general obligation debt for school buildings and for higher education facilities (see discussion under **State Debt**). December 2000 legislation addressed certain mandated programs and reserves, characterized by the plaintiffs and the Court as "unfunded mandates."

Under the current financial structure, Ohio's 612 public school districts and 49 joint vocational school districts receive a major portion (but less than 50%) of their operating moneys from State subsidy appropriations (the primary portion known as the Foundation Program) distributed in accordance with statutory formulas that take into account both local needs and local taxing capacity. The Foundation Program amounts have steadily increased in recent years, including small aggregate increases even in those Fiscal Years in which appropriations cutbacks were imposed.

School districts also rely heavily upon receipts from locally voted taxes. In part because of provisions of some State laws, such as that partially limiting the increase (without further vote of the local electorate) in voted property tax collections that would otherwise result from increased assessed valuations, some school districts have experienced varying degrees of difficulty in meeting mandated and discretionary increased costs. Local electorates have largely determined the total moneys available for their schools. Locally elected boards of education and their school administrators are responsible for managing school programs and budgets within statutory requirements. The State's present school subsidy formulas are structured to encourage both program quality and local taxing effort. Until the late 1970's, although there were some temporary school closings,

most local financial difficulties that arose were successfully resolved by the local districts themselves by some combination of voter approval of additional property tax levies, adjustments in program offerings, or other measures.

To broaden the potential local tax revenue base, local school districts also may submit for voter approval income taxes on the district income of individuals and estates. Many districts have submitted the question, and income taxes are currently approved in 122 districts.

Original State basic aid appropriations for the 1992-93 biennium of \$9.5 billion provided for 1.5% and 4.8% increases in the two Fiscal Years of the biennium over appropriations in the preceding biennium. The reduction in appropriations spending for Fiscal Year 1992 (discussed under **Fiscal Matters—Recent Bienniums**) included a 2.5% overall reduction in annual Foundation Program appropriations, and a 6% reduction in other primary and secondary education programs. The reductions were in varying amounts, and had varying effects, with respect to individual districts; there were no reductions for the 172 districts with the lowest per pupil tax valuations. Foundation payments were excluded from the Governor's Fiscal Year 1993 cutback order.

Appropriations for the 1994-95 biennium provided for an increase in State school funding over the preceding biennium. The \$8.9 billion appropriated for primary and secondary education (not including federal and other special revenue funds) provided for 2.4% and 4.6% increases in State aid in the biennium's two Fiscal Years.

State appropriations for primary and secondary education for the 1996-97 biennium, including GRF and lottery appropriations, were higher than those in the preceding biennium. The total of \$10.1 billion was 13.6% over the preceding biennium total, and represented increases of 9.2% in Fiscal Year 1996 over 1995 and 6.6% in Fiscal Year 1997 over 1996.

State appropriations for the purpose for the 1998-99 biennium were \$11.6 billion (18.3% over the previous biennium), and \$13.3 billion for the 2000-01 biennium (15% over the previous biennium), which represented an increase of 7.6% in Fiscal Year 2000 over 1999 and 6.7% in Fiscal Year 2001 over 2000.

State appropriations for the purpose made to date for the 2002-03 biennium are \$15.2 billion (17% over the previous biennium), and represent an increase of 8.1% in Fiscal Year 2002 over 2001 and 4.9% in Fiscal Year 2003 over 2002.

Those total State appropriations exclude non-GRF and federal appropriations, but include appropriations from the GRF and the lottery profits education fund (LPEF). The amount of lottery profits transferred to the LPEF totaled \$686,020,000 in Fiscal Year 2000 and \$655,036,000 in Fiscal Year 2001. Lottery profits for the 2002-03 biennium are projected to be \$633,722,000 in Fiscal Year 2002 and \$621,723,000 in Fiscal Year 2003. A constitutional provision requires that net lottery profits be paid into this State fund to be used solely for the support of elementary, secondary, vocational and special education purposes, including application to debt service on the recently authorized general obligation bonds to finance common school facilities. For over 20 years, requirements of law and levels of State funding have sufficed to prevent school closings for financial reasons, which are prohibited by current law.

In response to the 1997 Ohio Supreme Court decision holding certain provisions for local school district borrowing unconstitutional, the General Assembly created the school district solvency assistance program. Beginning in Fiscal Year 1999, local school districts in fiscal emergency status as certified by the Auditor of State could apply for an advancement of future year Foundation Program distributions. The amount advanced was then deducted, interest free, from the district's foundation payments over the following two-year period. Six school districts received a total of approximately \$12,100,000 in solvency assistance advancements during Fiscal Year 1999, with another six districts receiving a total of approximately \$8,657,000 in Fiscal Year 2000. This solvency assistance program was held to be not in compliance with the Constitution by the Supreme Court. Under a restructured solvency assistance program, in Fiscal Year 2001 four districts sought approximately \$3,800,000.

Legislation was enacted in 1996 to address school districts in financial straits. It is similar to that for municipal "fiscal emergencies" and "fiscal watch" discussed below under **Municipalities**, but is particularly tailored to certain school districts and their then existing or potential fiscal problems. There are currently eight school districts in fiscal emergency status and four school districts in fiscal watch status. New legislation has

created a third, more preliminary, category of "fiscal caution." A current listing of school districts in each of these statuses is accessible on the Internet at <http://www.auditor.state.oh.us>.

Federal courts have ruled that the State shared joint liability with the local school districts for segregation in Cincinnati, Cleveland, Columbus, Dayton and Lorain. Subsequent trial court orders directed that remedial costs be shared equally by the State and the respective local districts. For that purpose, recent appropriations, decreasing in each biennium, were \$100,800,000 in 1998-99 and \$23,700,000 in 2000-01, and are at the \$1,000,000 level in 2002-03.

### **Municipalities**

Ohio has a mixture of urban and rural population, with approximately three-quarters urban. There are 943 incorporated cities and villages (municipalities with populations under 5,000) in the State. Five cities have populations of more than 100,000 and 16 cities exceed 50,000 in population.

A 1979 act established procedures for identifying and assisting those few cities and villages experiencing defined "fiscal emergencies". A commission composed of State and local officials, and private sector members experienced in business and finance appointed by the Governor, is to monitor the fiscal affairs of a municipality facing substantial financial problems. That act requires the municipality to develop, subject to approval and monitoring by its commission, a financial plan to eliminate deficits and cure any defaults and otherwise remedy fiscal emergency conditions and to take other actions required under its financial plan. It also provides enhanced protection for the municipality's bonds and notes and, subject to the act's stated standards and controls, permits the State to purchase limited amounts of the municipality's short-term obligations (used only once, in 1980).

There are currently nine municipalities in fiscal emergency status and three in fiscal watch status. A current listing of municipalities in each status is accessible on the Internet at <http://www.auditor.state.oh.us>.

As noted in the discussion above under **Current Biennium**, the amount of distributions in that biennium to most local governments, including municipalities, from the several State local government revenue assistance funds are generally capped at the equivalent monthly amounts in Fiscal Years 2000 and 2001.

The fiscal emergency legislation has been amended to extend its potential application to counties (88 in the State) and townships. This extension is on an "if and as needed" basis and is not aimed at particularly identified existing fiscal problems of those subdivisions.

## COMPARATIVE GOVERNMENT STATISTICS

The following table, prepared by OBM, sets forth selected comparative Ohio and U.S. statistics (from federal government sources, not verified by the State) for 1998.

### Selected State Government Statistics Comparative Ohio and U.S.

	<u>United States</u>	<u>Ohio</u>	<u>Ohio Rank Among States</u>
<b>Government Revenues:</b>			
State General Revenues (millions) .....	\$864,863.4	\$32,299.9	8
per capita .....	3,205.9	2,881.5	36
State Taxes (millions) .....	474,392.3	17,642.8	8
per capita .....	1,758.5	1,573.9	34
Per Capita:			
Sales taxes .....	578.2	493.4	31
Personal income taxes .....	595.9	621.6	24
Corporate income taxes .....	115.3	68.3	38
<b>Government Expenditures:</b>			
State Total Expenditure (millions) .....	\$930,036.6	\$39,206.3	6
per capita .....	3,447.5	3,497.9	24
State Direct Expenditure (millions) .....	651,183.2	27,994.4	5
per capita .....	2,413.8	2,497.4	26
State Payments to other Government Units (millions) .....	278,853.4	11,214.4	6
per capita .....	1,033.7	1,000.4	16
State Personal Services Payroll (millions) .....	\$139,969.7	\$4,989.0	8
per capita .....	518.9	445.1	43
<b>Debt:</b>			
State Debt at Year End (millions) .....	\$483,117.1	\$14,182.9	11
per capita .....	1,790.8	1,265.3	34
<b>State Government Assets:</b>			
Cash and Securities, All Funds (millions) .....	\$2,061,507.9	\$123,271.8	4
per capita .....	7,641.6	10,997.1	6

Source: U.S. Bureau of the Census, Federal, State and Local Government, State Government Finances, 1998.

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**APPENDIX B**  
**FORM OF BOND COUNSEL OPINION**

September 27, 2001

State of Ohio  
Treasurer of State  
Columbus, Ohio

State of Ohio  
Director of Transportation  
Columbus, Ohio

First Albany Corporation  
For itself and the other Underwriter  
Chicago, Illinois

We have examined the certified transcript of proceedings (the "Transcript") relating to the issuance by the State of Ohio (the "Issuer"), acting by and through its Treasurer of State (the "Treasurer") of its \$100,000,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 2001-1 (the "Bonds"). The Bonds are being issued pursuant to the provisions of Section 5531.10 of the Ohio Revised Code (the "Act") for the purpose of paying the costs of certain Major New State Infrastructure Projects, as more particularly described in the Trust Agreement between the Issuer and National City Bank, Columbus, Ohio (the "Trustee"), dated as of May 1, 1998, as amended, and as supplemented by the Third Supplemental Trust Agreement between the Issuer and the Trustee, dated September 1, 2001 (collectively, the "Trust Agreement"). The Ohio Director of Transportation (the "Director") has entered into a Certificate and Agreement with the Treasurer (the "Certificate and Agreement") pursuant to which the Ohio Department of Transportation (the "Department") has agreed to make deposits with the Treasurer equal to the Bond Service Charges on the Bonds (the "Bond Service Charges") plus certain related costs primarily from Pledged Federal Highway Receipts (as herein defined). The documents in the Transcript examined include executed counterparts of the following: (i) the Certificate and Agreement and (ii) the Trust Agreement. We have also examined a copy of a fully registered, executed and authenticated bond, certified by the Trustee to be a true copy of the lowest-numbered Bond authenticated.

Based on this examination, we are of the opinion that, as of the date hereof, under existing federal and State of Ohio statutes, as now judicially construed, together with existing regulations, rulings and court decisions:

1. The Bonds, the Certificate and Agreement and the Trust Agreement have been duly and validly authorized, executed and delivered by the Treasurer, and are legal, valid, binding and enforceable against the Issuer in accordance with their respective terms. Pursuant to the Certificate and Agreement, the Department has agreed to make payments to the Treasurer sufficient to pay the Bond Service Charges on the Bonds; pursuant thereto, those payments are to be paid by the Department from funds appropriated to the Department for that purpose by the Ohio General Assembly; and the agreement of the Department to make those payments during

any two-year period for which appropriations may lawfully be made by the Ohio General Assembly is effective and binding upon the Department only when and to the extent that funds have been appropriated and are available for that purpose and for that period; the Ohio General Assembly is not at any time obligated to make appropriations to pay those amounts.

2. The Bonds constitute special obligations of the Issuer, and the Bond Service Charges, together with the principal of and interest on Additional Bonds heretofore and hereafter issued and outstanding, are payable from, and secured under the Trust Agreement solely by, the Pledged Receipts and other monies pledged and assigned by the Trust Agreement to secure that payment. Those Pledged Receipts include (a) all moneys apportioned as a grant to the State by the United States Secretary of Transportation under Title 23 of the United States Code, or any successor legislation, or any other federal law relating to federal aid for highways, which are lawfully available to pay Bond Service Charges (the "Pledged Federal Highway Receipts") (excepting portions thereof designated for payment of certain other expenses or limited to a certain series of Bonds); (b) all amounts standing to the credit of the State Infrastructure Bank Revenue Bond Service Fund, other than amounts which are limited to a certain series of Bonds and other than any monies therein raised by taxation by the State of Ohio; (c) any gifts, grants, donations and pledges, and receipts therefrom received by the State available for the payment of Bond Service Charges, to the extent not previously pledged and to the extent not prohibited; and (d) any other monies accruing to the State from the sources described in the Act. The Bonds and the payment of debt service are not secured by an obligation or pledge of any moneys raised by taxation and the Bonds do not represent or constitute a debt or pledge of the faith and credit of the Issuer, the Treasurer or the Department.

3. Under laws, regulations, rulings and judicial decisions in effect as of the date hereof, the interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as a specific item of tax preference under Section 57(a)(5) of the Code for purposes of computing the alternative minimum tax imposed on individuals and corporations.

4. Interest on, the transfer of, and any profit made on the sale, exchange, or other disposition of the Bonds are exempt from the Ohio personal income tax, the Ohio corporation franchise tax (to the extent calculated on the net income basis), and income taxes imposed by municipalities and other political subdivisions in Ohio.

In giving the foregoing opinion with respect to the treatment of the interest on the Bonds and the status of the Bonds under the federal tax laws, we have assumed and relied upon compliance with the Issuer's covenants and the accuracy of the Issuer's representations and certifications contained in the transcript. The accuracy of those representations and certifications, which we have not independently verified, and the Issuer's compliance with those covenants, may be necessary for the interest on the Bonds to be and remain excluded from gross income and for the other tax effects stated above. Failure to comply with certain requirements subsequent to issuance of the Bonds could cause interest thereon to be included in gross income for federal income tax purposes, in some cases retroactively to the date of issuance of the Bonds.

Portions of the interest on the Bonds earned by corporations (as defined for federal income tax purposes) may be subject to the corporate alternative minimum tax that is imposed under Section 56 of the Code on a portion of the excess of the corporation's adjusted current earnings over its other alternative minimum taxable income. In addition, interest on the Bonds may be subject to the branch profits tax imposed under Section 884 of the Code on certain foreign corporations doing business in the United States and to the tax imposed on the excess net passive income of certain S corporations under Section 1375 of the Code.

The opinions set forth herein are qualified in their entirety as follows: (i) the terms and provisions of any instrument or agreement are subject to the application of bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and, in addition, are subject generally to the application of equitable principles; (ii) the remedy of specific performance is generally discretionary with the court and may not be available with respect to the enforcement of the terms and provisions of any instrument or agreement; (iii) judicial decisions indicate that public policy may make unenforceable provisions in agreements respecting payment by a debtor of the costs of enforcement, including, without limitation, attorneys' fees; and (iv) certain of the notice, waiver and remedial provisions contained in the instruments and agreements referred to in this opinion may be unenforceable in whole or in part; it being our opinion, however, that the inclusion of any such provisions does not affect the overall validity thereof and will not materially interfere with the practical realization of the benefits of any liens or security interests provided for therein.

Very truly yours,

PORTER, WRIGHT, MORRIS & ARTHUR LLP





