

**"BOOK-ENTRY ONLY"**  
**NEW ISSUE**

*In the opinion of Porter, Wright, Morris & Arthur LLP, Bond Counsel, under existing law and assuming compliance with certain covenants, interest on the 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 commercial activity 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 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).*

**\$99,270,000**  
**STATE OF OHIO**  
**MAJOR NEW STATE INFRASTRUCTURE PROJECT REVENUE BONDS,**  
**SERIES 2005-1**

Dated: Date of Delivery

Due: Serially, as shown in the table below

The 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 U.S. Bank National Association, as successor trustee (the "Trustee"), and the Sixth Supplemental Trust Agreement, dated as of December 1, 2005 (the "Sixth Supplemental Trust Agreement"), between the State and the Trustee (collectively, the "Trust Agreement"). The Bonds are being issued for the purpose of defeasing and redeeming all of the outstanding Butler County (Ohio) Transportation Improvement District Highway Improvement Bonds, Series 1997A (the "1997 Bonds") issued by the Butler County Transportation Improvement District (the "T.I.D.") and to purchase the 1997 Project (as defined herein) designed, acquired and constructed with the proceeds of the 1997 Bonds. 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 December 1, 2005 (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 Bonds (the "Bond Service Charges") plus certain related costs primarily from Pledged Federal Highway Receipts (as defined herein).

Payment of the principal of and interest on the Insured Bonds (as defined herein) when due will be insured by a financial guaranty insurance policy (the "Policy") to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds. See "BOND INSURANCE."



Interest on the Bonds will be payable, from their date on June 15 and December 15, commencing June 15, 2006. The Bonds mature on June 15, 2006 and, thereafter, on December 15 of each year, as shown below:

**MATURITY SCHEDULE**

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
June 15, 2006*	\$ 7,330,000	4.250%	3.150%	677581 AA 8	December 15, 2011	\$ 9,215,000	4.000%	3.620%	677581 AF 7
December 15, 2006*	7,565,000	4.500	3.270	677581 AL 4	December 15, 2012	9,645,000	5.000	3.720	677581 AG 5
December 15, 2007	7,895,000	4.000	3.310	677581 AB 6	December 15, 2013	10,135,000	5.000	3.810	677581 AH 3
December 15, 2008	8,215,000	4.000	3.330	677581 AC 4	December 15, 2014	10,660,000	5.000	3.890	677581 AJ 9
December 15, 2009	8,540,000	3.750	3.420	677581 AD 2	December 15, 2015	11,205,000	5.000	3.960	677581 AK 6
December 15, 2010	8,865,000	3.750	3.520	677581 AE 0					

\* Payment of the principal of and interest on the Bonds maturing on June 15, 2006 and December 15, 2006 are not insured by the Policy.

**The Bonds are not subject to optional or mandatory sinking fund redemption prior to maturity.**

The Bonds will be issued only as fully registered bonds in the denominations of \$5,000 or any integral multiple thereof. The Bonds will be issued in a book-entry form, registered in the name of The Depository Trust Company, New York, New York ("DTC") or its nominee. There will be no distribution of the Bonds to the ultimate purchasers ("Book-Entry Interest Owners"). See **APPENDIX C – BOOK-ENTRY FORM** herein. Principal of the 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 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 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 dependent 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 Bonds. The 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 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 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, Vorys, Sater, Seymour and Pease LLP. Certain legal matters will be passed upon for the Department by its counsel, the Attorney General of Ohio, Jim Petro. Certain legal matters will be passed upon for the Treasurer by its counsel, the Attorney General of Ohio, Jim Petro. Public Financial Management, Inc., Cleveland, Ohio has acted as financial advisor to the Treasurer in connection with the offering of the Bonds. It is expected that delivery of the Bonds will be made to or upon the order of DTC in New York, New York on or about January 5, 2006, against payment therefor.

**SEASONGOOD & MAYER, LLC**  
**Siebert Brandford Shank & Co.**

**FIRST ALBANY CAPITAL**  
**JPMorgan**

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## 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 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 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 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 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 such 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 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## INTRODUCTION

This Official Statement has been prepared to provide certain information in connection with the original issuance and sale of \$99,270,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 2005-1 (the “Bonds”). Proceeds from the sale of the Bonds, together with moneys available in the 1997 Reserve Fund and the 1997 Debt Service Account (each as defined herein), will be used to (i) defease and redeem all of the outstanding Butler County Transportation Improvement District Highway Improvement Bonds, Series 1997A (the “1997 Bonds”), and (ii) pay the costs incident to the issuance of the Bonds. The 1997 Bonds were issued by the Butler County Transportation Improvement District (the “T.I.D.”) for the purpose of designing, acquiring and constructing the 1997 Project (as defined herein). Following the defeasance of the 1997 Bonds, the 1997 Project will be conveyed by the T.I.D. to the Department. For further discussion of the purpose of the Bonds and the purposes of the 1997 Bonds, see “**PURPOSE OF THE 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 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**. See “**GLOSSARY.**”

### Authorization

The Bonds are being issued by the State of Ohio (the “State”) acting by and through 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 and Series Bond Order No. 2005-1 of the Treasurer and the Trust Agreement, dated as of May 1, 1998, as amended (the “Original Trust Agreement”), between the State and U.S. Bank National Association, as successor trustee (the “Trustee”), and the Sixth Supplemental Trust Agreement, dated as of December 1, 2005 (the “Sixth Supplemental Trust Agreement” and, collectively with the Original Trust Agreement, the “Trust Agreement”), between the State and the Trustee.

The Bonds are the sixth series of bonds issued under the Original Trust Agreement for the purpose of paying the costs of various highway and bridge projects within the State, including the 1997 Project. See “**PURPOSE OF THE BONDS.**” In 1998, the State 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, as successor trustee, and the State. In 1999, the State 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, as successor trustee, and the State. In 2001, the State issued \$100,000,000 State of Ohio Major New State

Infrastructure Project Revenue Bonds, Series 2001-1 (the “Series 2001-1 Bonds”) which were issued pursuant to the Original Trust Agreement and the Third Supplemental Trust Agreement, dated as of September 1, 2001, between the Trustee, as successor trustee, and the State. In 2002, the State issued \$135,000,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 2002-1 (the “Series 2002-1 Bonds”) which were issued pursuant to the Original Trust Agreement and the Fourth Supplemental Trust Agreement, dated as of September 1, 2002, between the Trustee, as successor trustee, and the State. In 2003, the State issued \$113,765,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 2003-1 (the “Series 2003-1 Bonds”), which were issued pursuant to the Original Trust Agreement and the Fifth Supplemental Trust Agreement, dated as of December 1, 2003, between the Trustee, as successor trustee, and the State.

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

The Bonds are special obligations of the State issued under and pursuant to the Act and the Trust Agreement. The Bonds are payable primarily from and, together with the Additional Bonds, are equally and ratably secured by a pledge of the Pledged Receipts. **Federal Title 23 Highway Funds received and to be received by the State (“Pledged Federal Highway Receipts”) will be the primary source of 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 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 under the Certificate and Agreement to the Trustee to secure the payment of the Bonds. See “**THE TRUST AGREEMENT –Security.**”

**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 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 Bonds are special obligations of the State payable primarily from and secured solely by the Pledged Receipts under the Trust Agreement.**

**The 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 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 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 1997 Project is not pledged or mortgaged as security for the Bonds, and the Trustee will not have the right to take possession or operate the 1997 Project upon a default or termination of the Certificate and Agreement.**

Payment of the principal of and interest on the Bonds, other than the Bonds maturing on June 15, 2006 and December 15, 2006 (excluding such Bonds, collectively, the “Insured Bonds”), will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation. See “**BOND INSURANCE.**”

### **Registration**

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

### **Payment**

The principal of and premium, if any, on the Bonds will be payable to the Holder (initially DTC or its nominee) upon presentation and surrender at the designated corporate trust office of the Trustee. The Bonds will bear interest on their unpaid principal amounts and such interest will be 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 first day of the calendar month in which such Interest Payment Date occurs. Interest on the 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 June 15, 2006. See “**DESCRIPTION OF THE BONDS –Payment of Principal and Interest.**”

### **Additional Bonds**

One or more series of Additional Bonds are issuable under the Original Trust Agreement, as amended, for the purpose of paying costs of Major New State Infrastructure Projects or for the purpose of refunding Obligations previously issued under the Act and refunding District Obligations. The Series 1998-1 Bonds, Series 1999-1 Bonds, Series 2001-1 Bonds, Series 2002-1 Bonds and Series 2003-1 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 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, other than the Bonds and Additional Bonds, of any person which is either payable from or is secured by Pledged Federal Highway Receipts and which is not expressly subordinated to the Bonds. The 1997 Bonds are the only Parity Obligations that have been issued as of the date of this Official Statement, all of which will be defeased and redeemed with the proceeds from the sale of the Bonds. See **“THE TRUST AGREEMENT – Parity Obligations”** and **“PLAN OF DEFEASING AND PURCHASE.”**

### **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 Bonds and any Additional Bonds in any State Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that State 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 State 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 State Fiscal Years. See **“SOURCES OF FUNDS FOR PAYMENT OF 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 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 Bonds are exempt from the Ohio personal income tax, the Ohio corporation franchise tax (to the extent computed on the net income basis), the Ohio commercial activity tax 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 Bonds, including the Original Trust Agreement, the Sixth Supplemental Trust Agreement, and the Certificate and Agreement are available from the Treasurer.

## DESCRIPTION OF THE BONDS

### General

The Bonds shall be dated the date of their initial issuance and delivery and shall bear interest from such date at the rates set forth below, payable on June 15 and December 15 of each year, commencing June 15, 2006, until maturity. The Bonds are being issued as fully registered bonds, without coupons, in the denomination of \$5,000 or any integral multiple thereof.

The Bonds mature on June 15, 2006 and, thereafter, on December 15 of each year as follows:

<u>YEAR</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST RATE</u>	<u>YEAR</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST RATE</u>
June 15, 2006*	\$ 7,330,000	4.250%	December 15, 2011	\$ 9,215,000	4.000%
December 15, 2006*	7,565,000	4.500	December 15, 2012	9,645,000	5.000
December 15, 2007	7,895,000	4.000	December 15, 2013	10,135,000	5.000
December 15, 2008	8,215,000	4.000	December 15, 2014	10,660,000	5.000
December 15, 2009	8,540,000	3.750	December 15, 2015	11,205,000	5.000
December 15, 2010	8,865,000	3.750			

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\* Payment of the principal of and interest on the Bonds maturing on June 15, 2006 and December 15, 2006 are not insured by the Policy.

### No Prior Redemption

The Bonds are not subject to optional or mandatory sinking fund redemption prior to maturity.

### Payment of Principal and Interest

The principal of and any premium on any Bond shall be payable when due upon presentation and surrender of that 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 Bond due on each Interest Payment Date shall be paid by check or draft mailed to the person in whose name the 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 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 (the "Special Record Date") for the payment of overdue interest to the Holders of Bonds as of that Special Record Date. Notice of the Special Record Date will be mailed to Holders of Bonds not more than 15 days and not less than 10 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 Bond in the custody of DTC, providing for the making of payments to DTC of principal of and interest and any premium on such Bond or any portion thereof (other than any payment of the entire unpaid principal amount of such Bond) at a place and in a manner (including the wire transfer of funds) that differs from that described in the prior paragraph, upon any conditions which shall be satisfactory to the Trustee and the Treasurer.

#### **ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the estimated sources and uses for defeasing and redeeming the 1997 Bonds, including the proceeds of the Bonds:

Sources:

Par Amount of Bonds	\$ 99,270,000.00
1997 Bond Reserve Fund	13,915,205.65
1997 Debt Service Account	3,993.35
Original Issue Premium	<u>4,160,861.40</u>
<b>TOTAL SOURCES</b>	<b><u>\$ 117,350,060.40</u></b>

Uses:

Deposit to the Escrow Fund	\$ 116,240,992.30
Costs of Issuance <sup>(1)</sup>	<u>1,109,068.10</u>
<b>TOTAL USES</b>	<b><u>\$ 117,350,060.40</u></b>

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(1) Includes Underwriters' compensation and expenses, bond insurance premium, printing costs, additional proceeds, legal fees and other costs of issuance.

## DEBT SERVICE REQUIREMENTS

The following table sets forth the annual debt service requirements for the Bonds, along with Additional Bonds outstanding as of the date of this Official Statement:

<b>State Fiscal Year</b>	<u>Series 2005-1 Bonds</u>			<u>Additional Bonds <sup>(1)</sup></u>			<b>Total Debt Service</b>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2006	\$ 7,330,000	\$ 1,955,506	\$9,285,506	\$53,510,000	\$11,672,323	\$65,182,323	\$74,467,829
2007	7,565,000	3,918,150	11,483,150	54,005,000	9,186,873	63,191,873	74,675,023
2008	7,895,000	3,590,038	11,485,038	54,525,000	6,635,925	61,160,925	72,645,963
2009	8,215,000	3,267,838	11,482,838	46,185,000	4,268,500	50,453,500	61,936,338
2010	8,540,000	2,943,413	11,483,413	31,095,000	2,143,750	33,238,750	44,722,163
2011	8,865,000	2,617,069	11,482,069	14,220,000	639,900	14,859,900	26,341,969
2012	9,215,000	2,266,550	11,481,550	0	0	0	11,481,550
2013	9,645,000	1,841,125	11,486,125	0	0	0	11,486,125
2014	10,135,000	1,346,625	11,481,625	0	0	0	11,481,625
2015	10,660,000	826,750	11,486,750	0	0	0	11,486,750
2016	<u>11,205,000</u>	<u>280,125</u>	<u>11,485,125</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,485,125</u>
<b>Total</b>	<b><u>\$99,270,000</u></b>	<b><u>\$24,853,189</u></b>	<b><u>\$124,123,189</u></b>	<b><u>\$253,540,000</u></b>	<b><u>\$34,547,271</u></b>	<b><u>\$288,087,271</u></b>	<b><u>\$412,210,460</u></b>

(1) Does not include the 1997 Bonds which are being refunded with the proceeds of the Bonds and funds on deposit in the 1997 Reserve Fund and the 1997 Debt Service Account. The Bonds and the Additional Bonds are payable primarily from, and secured solely by, a pledge of the Pledged Federal Highway Receipts as well as certain other Pledged Receipts.

## PURPOSE OF THE BONDS

The Bonds are being issued for the purpose of (i) defeasing and redeeming all of the outstanding Butler County Transportation Improvement District Highway Improvement Bonds, Series 1997A (the “1997 Bonds”), and (ii) paying the costs incident to the issuance of the Bonds. The 1997 Bonds were issued (i) to finance the cost of the following improvements to the highway system in southeastern Butler County, Ohio: (a) the engineering, management, design and construction costs and the acquisition and relocation of the rights-of-way of the Butler Regional Highway (State Route 129) (the “Regional Highway”) between State Route 4 and Interstate 75 (“I-75”), including the interchange at I-75 and the Regional Highway, and (b) the engineering, design and construction of any necessary capacity improvements to I-75 required by the Federal Highway Administration resulting from the construction of the Union Centre Interchange and the interchange at the Regional Highway and I-75 (the “I-75 Lane Additions”), (ii) to reimburse the T.I.D. for certain capital expenditures, (iii) to fund a reserve (the “1997 Reserve Fund”) and (iv) to pay costs of issuance of the 1997 Bonds (collectively, the “1997 Project”). Moneys in the 1997 Reserve Fund, along with moneys held by the trustee for the 1997 Bonds in a debt service account pledged for the payment of bond service charges on the 1997

Bonds (the “1997 Debt Service Account”), will also be used to defease and redeem the 1997 Bonds.

The Federal Highway Administration (“FHWA”) has determined that the 1997 Project 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 Bonds, when due. The 1997 Project was completed on or about December 13, 1999.

The 1997 Bonds were issued as Parity Obligations. Following the defeasance of the 1997 Bonds, the 1997 Project will be conveyed by the T.I.D. to the Department. The 1997 Project is not pledged or mortgaged as security for the Bonds nor will the Trustee have the right to take possession of or operate the 1997 Project 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.”**

### **PLAN OF DEFEASING AND PURCHASE**

On the date of delivery and payment for the Bonds, U.S. Bank National Association, as escrow trustee (the “Escrow Trustee”) under the Escrow Agreement, dated as of December 1, 2005 (the “Escrow Agreement”), by and among the Treasurer, the T.I.D. and the Escrow Trustee, will receive a portion of the proceeds of the Bonds together with a portion of the funds held in the 1997 Reserve Fund and all of the funds held in the 1997 Debt Service Account. Such proceeds and other moneys so deposited in the Escrow Fund, together with the earnings and investments thereon, will be sufficient to pay all the principal of and premium, if any, on and interest on the 1997 Bonds at their stated maturity or earliest call date.

Upon purchasing the government securities in accordance with the terms of the Escrow Agreement and upon receipt of the verification described under the caption **“VERIFICATION OF COMPUTATIONS”** the 1997 Bonds will be deemed to have been paid in full and discharged.

The Department will proceed to acquire the 1997 Project from the T.I.D. upon the defeasance of the 1997 Bonds. The 1997 Project is not pledged or mortgaged as security for the Bonds, and the Trustee will not have the right to take possession of or operate the 1997 Project upon a default under or termination of the Certificate and Agreement.

### **SECURITY FOR THE BONDS**

#### **General**

The Bonds are special obligations of the State issued under and pursuant to the Act and the Trust Agreement. The Bonds are payable primarily from and, together with the Additional Bonds, are equally and ratably secured by a pledge of the Pledged Receipts. **Federal Title 23 Highway Funds received and to be received by the State (Pledged Federal Highway Receipts) will be the primary source of Pledged Receipts.**

Pledged Receipts means (a) accrued interest received from the sale of Obligations; (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 or Parity Obligations and other than any moneys 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; (d) any amounts on deposit in the State Infrastructure Bank created pursuant to Section 5531.09 of the Ohio Revised Code and available for the payment of Bond Service Charges; and (e) 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. If the amounts standing to the credit of the State Infrastructure Bank Revenue Bond Service Fund and available monies in the state infrastructure bank are insufficient for the payment of Bond Service Charges, Pledged Receipts also means all Pledged Federal Highway Receipts, excepting the portions thereof to be deposited in the Administrative Expense 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.

**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 provisions of the Ohio Constitution, make appropriations for a period longer than two years.**

Pursuant to Amended Substitute H.B. No. 66 and Amended Substitute H.B. No. 68 (the Department's current budget bills) the Director of Budget and Management 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 Budget and Management. 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 Bonds are special obligations of the State**

**payable primarily from and secured solely by the Pledged Receipts under the Trust Agreement.**

**The 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 Bonds will not have the right to have excises or taxes levied by the General Assembly for the payment of the Bond Service Charges on the Bonds, and those Holders and Book-Entry Interest Owners will not have the right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges. The 1997 Project is not pledged or mortgaged as security for the Bonds and the Trustee will not have the right to take possession of or operate the 1997 Project 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 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.

#### **Deposits under the Certificate and Agreement and Related Budget Requirements**

The 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 from such moneys to the State Infrastructure Bank Revenue Bond Service Fund, for credit to the appropriate account thereof, an amount equal to all Bond Service Charges payable on the Bonds and Additional Bonds, and all debt service due on 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 15 days after the first day Pledged Federal Highway Receipts are available for such 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 therefor, upon invoice from 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 respective 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 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 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 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 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 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 1997 Project is not pledged or mortgaged as security for the Bonds and the Trustee will not have the right to take possession of or operate the 1997 Project upon a default under or termination of the Certificate and Agreement.

The General Assembly has appropriated \$185,311,800 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, the Series 2002-1 Bonds, the Series 2003-1 Bonds, the Series 2005-1 Bonds and any future Additional Bonds through the State Fiscal Year 2007.

## **BOND INSURANCE**

### **The MBIA Insurance Corporation Insurance Policy**

The following information has been furnished by MBIA Insurance Corporation (“MBIA”) for use in this Official Statement. Reference is made to Appendix D for a specimen of MBIA’s financial guaranty insurance policy (the “Policy”).

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than

with respect to the accuracy of the information regarding the Policy and MBIA set forth under the caption “**BOND INSURANCE.**” Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds. **The Policy does not guaranty the payment of the principal of or interest on the Bonds maturing on June 15, 2006 or December 15, 2006.** The Trust Agreement provides MBIA with certain rights so long as MBIA is not in default under the Policy and the Insured Bonds have not been paid and discharged. See “**TRUST AGREEMENT – Rights of MBIA.**”

The Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the State to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Holder of the Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Holder within the meaning of any applicable bankruptcy law (a “Preference”).

MBIA’s Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any of the Insured Bonds. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of the Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Policy also does not insure against nonpayment of principal of or interest on the Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Trustee or any Holder of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York (the “Insurance Paying Agent/Trustee”), sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Insured Bonds or presentment of such other proof of ownership of the Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Insured Bonds in any legal proceeding related to payment of insured amounts on the Insured Bonds, such instruments being in a form satisfactory to the Insurance Paying Agent/Trustee, the Insurance Paying Agent/Trustee shall disburse to such

owners or the Trustee payment of the insured amounts due on such Insured Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

### **MBIA Insurance Corporation**

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

### **Regulation**

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

### **Financial Strength Ratings of MBIA**

Moody’s Investors Service, Inc. rates the financial strength of MBIA “Aaa.”

Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA “AAA.”

Fitch Ratings rates the financial strength of MBIA “AAA.”

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency’s current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward

revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

### **MBIA Financial Information**

As of December 31, 2004, MBIA had admitted assets of \$10.3 billion (unaudited and restated), total liabilities of \$7.0 billion (unaudited and restated), and total capital and surplus of \$3.2 billion (unaudited and restated) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2005 MBIA had admitted assets of \$10.8 billion (unaudited), total liabilities of \$7.1 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K/A of the Company for the year ended December 31, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2005 and for the nine month periods ended September 30, 2005 and September 30, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2005, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K/A for the year ended December 31, 2004; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K/A, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other

subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K/A for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 (included as restated in third quarter 10-Q) and September 30, 2005) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

### **SOURCES OF FUNDS FOR PAYMENT OF 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 Bonds. See **"SECURITY FOR THE 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 Bonds. See **"THE TRUST AGREEMENT – Security."**

The 1997 Project was 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 in 1997 a statewide transportation ranking assessment in which the 1997 Project ranked eighth among 182 projects. 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 1997 Project through Federal Fiscal Year 2007. These funds remain subject to appropriation by both Congress and the General Assembly and there is no guarantee that such funds will be available or appropriated.

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 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 (1) appropriation and (2) obligation authority during each of the Federal Fiscal Years 1987 through and including 2005:

Title 23 Moneys

<u>Federal Fiscal Year</u> <u>(September 30)</u>	<u>Appropriation</u>	<u>Obligation Authority</u>
1987	\$ 441,646,000	\$ 368,700,000
1988	\$ 460,873,000	\$ 321,800,000
1989	\$ 472,436,000	\$ 333,100,000
1990	\$ 505,953,000	\$ 398,300,000
1991	\$ 456,358,000	\$ 434,700,000
1992	\$ 599,016,000	\$ 493,600,000
1993	\$ 677,122,000	\$ 487,600,000
1994	\$ 690,176,000	\$ 576,600,000
1995	\$ 708,641,000	\$ 576,000,000
1996	\$ 605,926,000	\$ 607,300,000
1997	\$ 731,877,000	\$ 654,600,000
1998	\$ 783,000,000	\$ 699,000,000
1999	\$1,020,000,000	\$ 909,000,000
2000	\$1,004,000,000	\$ 827,000,000
2001	\$1,070,000,000	\$ 962,000,000
2002	\$1,076,000,000	\$ 1,029,000,000
2003	\$ 987,000,000	\$ 1,016,000,000
2004	\$1,219,000,000	\$ 1,109,000,000
2005	\$1,358,000,000	\$ 1,232,000,000

The amounts shown in the table above include approximately \$8 million on average annually from Federal Fiscal Years 1998-2004 and \$139 million in Federal Fiscal Year 2005 of Title 23 money appropriated for emergency funding. The increase in emergency funding for Federal Fiscal Year 2005 is due to four major flood events in East and Southeast Ohio. Emergency Funding is not available for debt service on the Bonds or the Additional Bonds.

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The following table sets forth the amount of Title 23 Moneys actually received by the Department during each of the State Fiscal Years 1987 through and including 2005:

Title 23 Moneys

<u>State Fiscal Year (June 30)</u>	<u>Received</u>
1987	\$ 380,700,000
1988	\$ 405,200,000
1989	\$ 456,600,000
1990	\$ 404,800,000
1991	\$ 513,400,000
1992	\$ 517,900,000
1993	\$ 502,400,000
1994	\$ 621,300,000
1995	\$ 748,900,000
1996	\$ 664,500,000
1997	\$ 747,500,000
1998	\$ 661,900,000
1999	\$ 678,400,000
2000	\$ 651,561,000
2001	\$ 862,257,000
2002	\$ 934,328,000
2003	\$ 918,426,000
2004	\$ 899,710,000
2005	\$ 1,050,601,000

Amounts shown in the table above include approximately \$8 million on average annually in State Fiscal Years 1998-2004 and \$42 million in 2005 of Title 23 money received for emergency funding.

For information relating to projected amounts of Title 23 Moneys expected to be received by the Department for Federal Fiscal Years 2006 through 2009, see “**SUMMARY OF FEDERAL HIGHWAY FUNDING – Future Federal Highway Assistance to the State.**”

**SUMMARY OF FEDERAL HIGHWAY FUNDING**

**The Federal Highway Administration and the Federal 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’ costs 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 and by discretionary allocations for special projects.

Current federal law requires that the cash balance of the Highway Account of the HTF, plus projected revenues for the next four 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, 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 Highway 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 (the “Highway Account”), and the mass transit account, which funds mass transit programs (the “Mass Transit Account”). Currently, the Highway Account receives approximately 83 percent of gasoline tax revenues and about 88 percent of diesel fuel tax revenues, with the remainder of such revenues deposited in the Mass Transit Account.

In Federal Fiscal Year 2005, tax revenues brought in \$39.3 billion to the HTF, with \$34.2 billion directed to the Highway Account and \$5.1 billion directed to the Mass Transit Account. The primary source of funding into the HTF is 15.45 cents out of the current 18.4 cents per gallon Federal tax on gasoline. It is estimated that 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 Highway 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 2005 was \$10.8 billion. Of that \$10.8 billion, \$8.9 billion was credited to the Highway Account and \$1.9 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.



## **Reauthorization of HTF Collections**

Collection of HTF taxes (“HTF Collections”), like the Highway Program itself, must periodically be reauthorized by Congress. Historically, the HTF and its constituent taxes have been authorized to operate for limited periods of time. Originally, the HTF was authorized through June 1972; it has been reauthorized several times. Most recently, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Uses (“SAFETEA-LU”) further extended the Highway Program through September 30, 2009 and the transfer of taxes to the HTF through September 30, 2011.

## **History**

The Federal-Aid Highway Act of 1956 was one of a long series of authorizing statutes for the Highway Program. Extensions of the Federal-Aid Highway 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. STAA also guaranteed each state a minimum 85 percent return on the money paid in by users purchasing fuel in the state. 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 procedures (“Advance Construction”).

In 1998, the Transportation Equity Act for the 21st Century (“TEA-21”) extended the authorization of the Highway Program through September 30, 2003. Under TEA-21, average annual authorizations to the states for Federal Fiscal Year 1998 through Federal Fiscal Year 2003 were approximately \$27 billion, TEA-21 increased equity protections by assuring each state at least a 90.5 percent return on its collections for the HTF. Under TEA-21, HTF revenues were to be spent on transportation-related improvements rather than allowed to accumulate into surpluses. 12 short-term extensions of TEA-21 were signed into law after September 30, 2003, ensuring continuation of the Highway Program until the enactment of SAFETEA-LU.

On July 29, 2005, Congress passed, and on August 10, 2005, the President signed, SAFETEA-LU, an approximately \$286 billion reauthorization of the Highway Program and federal mass transit programs. SAFETEA-LU extended the authorization of the Highway Program through September 30, 2009. Under SAFETEA-LU, average annual apportionments (contract authority) to the states for Federal Fiscal Year 2005 through Federal Fiscal Year 2009

are expected to be approximately \$37 billion, an increase of approximately 31 percent over TEA-21 levels. SAFETEA-LU increases equity protections by assuring each state at least a 92 percent return on its collections for the HTF by Federal Fiscal Year 2008 and provides that states will receive at least 18 percent initially, and increasing each year, more over the new authorization period than over the original six years of TEA-21. SAFETEA-LU continues the TEA-21 requirement that HTF revenues, including revenues in excess of budget predictions, remain within the HTF and be spent on transportation-related improvements.

### **Current Operations**

The present Highway Program continues to reimburse a large percentage of state expenditures for approved transportation projects. The financial assurance provided by the Highway Program is unusual, among federal programs, in that:

- the Highway Program is based on dedicated revenues, from a user-tax source, deposited in a dedicated trust fund (the HTF);
- the budget and contract authority, as described in Step 2 below, of the FHWA is established by a multi-year authorization act rather than annually through appropriation acts; and
- 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: Step 1, Authorization; Step 2, Obligation; and Step 3, Program Implementation.

Step 1, Authorization, is the most critical step in establishing overall spending authority for federal highway funding. Authorizing legislation extends the life of the Highway Program and HTF collections, sets Highway 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 a predictable and uninterrupted flow of reimbursements to the states. The risk of contract authority lapsing between authorizing acts is minimal since sufficient unobligated balances generally exist that cover gaps in coverage between multi-year reauthorization acts.

Step 2, Obligation, is the process through which states make use of, or “obligate,” the contract authority that has been apportioned or allocated to them in Step 1. Congress typically limits the amount of obligation authority (“OA”) that states may use annually. To whatever extent that a state’s OA is set below its authorization, the unobligated balance for that state is increased. These unobligated balances provide available funds, from which the FHWA allows states to draw, when there is a lapse between authorization acts. Under current law the unobligated balances do not otherwise entitle the states to additional funds.

Step 3, Program Implementation, leads to actual receipt of federal funds by states. Program implementation methods vary state-by-state. States are permitted to make use of Advance Construction (“A/C”) and partial conversion of A/C 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 OA is available from the Highway Program and is desired for such use by the state.

#### Step 1: Authorization

The first step is the multi-year authorizing legislation. Such highway authorization acts:

- establish the taxes that fund the HTF and extend their life (reauthorization);
- establish the specific programs and procedures through which states receive federal financial assistance for their highway programs; and
- set upper limits on funding for specific programs and for the overall Highway Program.

Multi-Year Authorization Acts. As noted above, the modern Highway Program periodically has been reauthorized on a multi-year basis by authorization acts, through which Congress influences the level of federal involvement in state highway program activities. Annual appropriations acts then establish any limits on the amount of federal funds that the FHWA may obligate to states in a given year.

Budget and Contract Authority. All federal programs require budget and contract authority before revenues may be committed and spent. Normally this authority is provided through a two-step process, with authorizing legislation describing the purpose for a specific program and setting a proposed level of spending, and appropriations acts providing the budget authority or legal ability to spend federal revenues. Appropriations are often for a lower amount than that set by authorizations. The Highway Program combines these two steps, with authorizing legislation providing to the United States Secretary of Transportation contract authority or the legal ability to enter into binding contracts with the state transportation departments (“DOTs”) and other bodies specified in the Highway Program.

Contract authority provides state DOTs with assurance about the level of future federal revenues that will be available. This, in turn, makes it easier to plan and execute multi-year construction projects. As a result of contract authority and the collection of user taxes into the dedicated HTF, the formal appropriations by Congress of revenues on an annual basis generally has been noncontroversial. Constraints arising from the annual appropriations process are described in Step 2 below.

Lapsing of Authorization. All federal programs must be authorized through enacted legislation that defines the programs and establishes maximum funding levels, and for most programs annual appropriations acts are necessary to create budget authority. For most federal domestic discretionary programs, a lapsed authorization may have little or no effect on a program, so long as revenues are appropriated. For the Highway Program, the consequences of

lapsed authorization, caused when Congress fails to enact reauthorization legislation, are somewhat different. While Congress may pass interim legislation, the existence of contract authority and a dedicated revenue stream means that the FHWA usually can continue to provide OA by administrative action.

Though recent federal surface transportation legislation has authorized the Federal-Aid Highway Act for four to six years at a time, there occasionally have been periods in which the previous authorizing legislation had expired and the future legislation had yet to be enacted. In such circumstances, Congress and/or the FHWA have found ways to avoid disruptions to state highway programs and have been able to maintain the flow of federal revenues to states. Two mechanisms in particular have kept revenues flowing:

- Access to Unobligated Balances: The 1987 Surface Transportation and Uniform Relocation Assistance Act (“STURAA”) expired on September 30, 1991, and ISTEA was not enacted until December 18, 1991. The FHWA was able to act administratively to keep federal-aid funding flowing because states could use their unobligated balances (unused contract authority) to provide OA. From September 30, 1991, the expiration of ISTEA, to November 13, 1997, the effective date of the Surface Transportation Extension Act of 1997 (“STEA”), the FHWA was able to manage through use of the large unobligated balances in the Highway Program. Since most states have unobligated balances of at least half their normal annual OA levels and an authorization act need not be in place for the FHWA to give states new OA, states were able to spend down prior unfunded federal apportionments (contract authority) with newly allocated OA. The lack of an enacted authorization act during this period did not pose a threat to the continued flow of revenues, because dedicated highway user fees continued to flow into the HTF. (See Step 2, below, for further explanation of OA and unobligated balances.)
- Short-Term Authorization: ISTEA expired on September 30, 1997, and until passage of TEA-21 in May 1998, no new long-term authorization legislation was in effect. Despite the lack of long-term authorizing legislation, states were provided an upper limit on OA through passage of an appropriations act plus access to their unobligated balances. On November 13, 1997, Congress passed STEA, which provided a six-month authorization for highway funding and established a limit on the amount of new OA states could use at funding levels equal to about a quarter of Federal Fiscal Year 1997 authorization levels. After TEA-21 expired on September 30, 2003, 12 short-term extensions of TEA-21 were enacted ensuring continuation of the Highway Program until enactment of SAFETEA-LU was signed into law on August 10, 2005. Among other things, those extensions provided that in Federal Fiscal Year 2004 and Federal Fiscal Year 2005 the amount of funding made available to each state for distribution among its apportioned programs (except for Metropolitan Planning) was to be determined by multiplying a state’s share of the total obligational authority for the immediately preceding Federal Fiscal Year (Federal Fiscal Year 2003 or Federal Fiscal Year 2004, respectively) by the total amount of available contract authority.

Annual Distributions. For most components of the Highway Program, the authorization acts set the distribution of spending authority among states. The primary methods used to distribute authorized federal highway revenues are “apportionment” and “allocation.”

- Apportionments. The contract authority created by authorization acts such as TEA-21 or SAFETEA-LU is distributed annually among the 50 states, the District of Columbia, and Puerto Rico using a process called apportionment of revenues. Apportionments indicate the maximum amount of contract authority that each state can expend for eligible projects in specific programs. For each Federal Fiscal Year, the FHWA has responsibility for apportioning authorized funding for the various programs among the states according to formulas established in the authorizing statute. Annual apportionments are generally made on the first day of the Federal Fiscal Year, which is October 1.
- Allocations. While most highway revenues are distributed to states through apportionments, some funding categories do not contain legislatively-mandated apportionment formulas. Distribution of revenues where there are no statutory formulas is called “allocation” or “discretionary allocation.” In most cases, allocated federal funding is divided among states using criteria determined administratively by US DOT or as provided in a statute, often through competitive grant procedures.

Apportionment formulas historically have been designed to ensure distribution of federal revenues among states according to program needs, but also increasingly are intended to provide states a share of total HTF expenditures relatively close to their payments into the HTF. In addition to the apportionment formulas described above, ISTEA, TEA-21 and SAFETEA-LU included equity provisions designed to help states achieve a better ratio of payments from the HTF to payments into the HTF and a hold harmless rule to assure that no state would suffer a dramatic decline from one year to the next in its federal-aid appointment.

Since Federal Fiscal Year 1991, the annual aggregate apportionment has increased from \$15 billion to approximately \$33 billion in Federal Fiscal Year 2004. (Source: The FHWA, Highway Statistics, Table FA-4.)

Availability of Federal Highway Revenues. Federal-aid highway revenues are available to states for use for more than one year. Their availability does not terminate at the end of the Federal Fiscal Year, as is the case with many other federal programs. Consequently, when new apportionments or allocations are made, the amounts are added to a state’s unused apportionments and allocations from the previous Federal Fiscal Year. Should a state fail to obligate (commit to spend) a year’s apportionments and allocations within the period of availability specified for a given program (often 4 years), however, the authority to obligate any remaining amount lapses — that is, it is no longer available to the particular state.

Matching Requirements. With a few exceptions, the federal government does not pay for the entire cost of construction or improvement of federal-aid highways. Federal reimbursements are typically matched with state and/or local government revenues to account for the necessary dollars to complete the project. The maximum federal share is specified in the legislation

authorizing the program. Most projects have an 80% federal share while Interstate Construction and Maintenance projects typically have a 90% federal share.

## Step 2: Obligation

The second step of the federal-aid funding process occurs when revenues that have been authorized by legislation, and either apportioned or allocated to individual states, are obligated for a specific purpose. As noted in the previous section, Congress uses annual appropriations acts to control actual, annual obligation of funds in the HTF. Appropriations acts limit the amount of federal money that actually will be obligated and thus ultimately spent, and these annual amounts may be less than the authorized amount. This ceiling on the amount of contract authority that states may use is called the “annual obligation limit.”

Obligation is the commitment of the federal government to pay, through reimbursement to a state, the federal government’s share of an approved project’s eligible costs. This process is important to the states because it allows states to award contracts with assurance that the federal government will reimburse its share of incurred costs. From the federal perspective, obligations made are the outlays the federal government has committed to make from the HTF in the future. Because of the close relationship between obligations and outlays, Congress and the FHWA play a strong role in determining how much federal funding can be obligated by individual states through two primary processes:

- Appropriations Acts; and
- Distribution of OA.

Appropriations Acts. Congressional appropriations committees use the amount of federal-aid highway revenues that states can obligate in a given year, OA, as a means of balancing the annual level of highway spending with other federal budgetary priorities. This is accomplished through the establishment of an annual obligation limitation in the annual federal Department of Transportation and Related Agency Appropriations Act. The annual obligation limitation can be less than the level of funding authorized for the same year.

Distribution of OA. The obligation limitation is the amount of authorized funding that Congress allows states collectively to obligate in an individual year. The process of determining the annual obligation limitation begins when Congress establishes annual domestic discretionary spending caps — the amount of federal dollars that can be spent on all domestic, non-entitlement programs in a given year. Once such budget caps are determined, Congress distributes spending levels across different program areas, and a targeted level of outlays for highway spending is determined. Congress then establishes the amount of highway funding that can be obligated in the given year. This level often is below the authorized annual level, and serves as a limit on the total obligations in that particular year.

Once Congress establishes an overall obligation limitation, the FHWA distributes OA to states proportionately to each state’s share of apportioned and allocated revenues. The actual ratio of OA to apportionments and allocations may vary from state to state because some federal-

aid programs are exempt from the obligation limitation. Once each state's OA is set, states then submit requests to the FHWA to obligate revenues representing the federal share of specific projects throughout the years. A further description of this process is included in Step 3, below. As a state obligates revenues, its balance of OA is commensurately reduced, although additional Authority may be received (for instance, through re-allocation from other states).

A state's OA (unlike its apportionments and allocations of authorized funding) must be used before the end of the Federal Fiscal Year for which it is made available; if not, it will be distributed to other states. The FHWA closely monitors each state's plans for use of OA. In mid-summer, the FHWA collects any OA from states that do not plan to obligate all of their available OA before the end of the Federal Fiscal Year, and redistributes it to other states that can obligate the revenues. This reallocation of OA is known as the "August Redistribution."

Unobligated Balances. Because congressional authorization of federal-aid highway revenues represents a commitment to make all authorized revenues available to states for highway purposes, any shortfall between the limit on OA created through the annual appropriations process and the amount of contract authority apportioned and allocated to states does not disappear. Instead, the difference between obligation limitations and authorization levels creates what are known as "unobligated balances."

Although most federal-aid apportionments lapse after four years, this rarely happens with apportioned highway revenues because old apportionments are always spent before new apportionments. That is, when a state receives new apportionments and OA at the beginning of a Federal Fiscal Year, obligations are first made against remaining prior year's apportionments plus allocation until these are depleted. The net effect of this process, in conjunction with the year-to-year establishment of obligation limitations, has been that states have amassed considerable unobligated balances.

As explained in Step 1, above, unobligated balances permit the Highway Program to continue to fund state transportation projects during periods in which Congress fails to enact a reauthorization law before the expiration of the previous authorization period. In such periods, the unobligated balances allow states to fund their programs for several months, or even longer, after an authorization act has expired.

### Step 3: Program Implementation

The third and final step in the overall federal-aid highway funding process — program implementation — occurs after authorized revenues have been distributed to states, and after states have had the opportunity to obligate those revenues. Once federal-aid highway revenues have been authorized and obligated, states must have developed highway programs that describe, at a project-by-project level, exactly how federal reimbursements will be earned. The process of developing and implementing state highway programs has three broad elements:

- budgeting;
- planning and programming; and

- fiscal management and reimbursement.

Budgeting. Budgetary information about availability of funding is crucial to the development of state highway programs. Projected state and federal funding levels are used to budget transportation needs. Consequently, state transportation budget officials track the availability of funding and develop forecasts of future state and federal revenues. States must estimate the availability of short and long-term state and federal funding in order to plan their highway programs. They use this information as a guide during long-range planning, and as a strict constraint on short-term programming.

Planning and Programming. The budget process — particularly the identification of available funding - provides the context for transportation planning and programming. The long-range planning process provides a big-picture perspective of anticipated project needs regionally across the State. Transportation Improvement Programs (“TIPs”) follow on from long-range plans and provide a detailed outline of projects that are proposed for implementation in a time-frame of two to six years. At the federal level, state and local highway plans are reviewed by the U.S. Environmental Protection Agency (“EPA”) and the FHWA.

As a condition for receiving federal reimbursements for transportation programs, states must develop comprehensive transportation plans based on anticipated long-term state and federal funding levels for Program categories. States and urban areas must satisfy these federal requirements to remain eligible for federal reimbursements, and specific projects are not eligible unless they are either directly identified in a long-range plan or consistent with policies and objectives identified in long-range plans. ISTEA required states to develop long-range transportation plans (“LRPs”) that identify long-range state policies, objectives, and goals, while using realistic projections of available future state and federal funding.

ISTEA also required that short-term planning and programming be conducted at least every two years through the development of a TIP for each metropolitan area. Among other requirements, each TIP must include, for each project, the estimated project cost and amount of federal revenues proposed to be obligated during each year. Each draft TIP is submitted to the regional Transportation Advisory Group, a citizen panel established to coordinate public review of the TIP. Once formally approved in a public meeting, the TIPs are approved by the Metropolitan Planning Organization. The TIPs are then combined into the State Transportation Improvement Plan (“STIP”), which also includes projects from regions outside a state’s metropolitan areas. The STIP lists all projects proposed for funding with federal revenues for a period of at least three years. The STIP is then submitted to the FHWA and the Federal Transit Administration (the “FTA”).

States must follow federal fiscal management procedures as they implement projects that have passed through the approval and programming processes. These fiscal management procedures ensure that the FHWA and states are able to manage the process efficiently, from project authorization to actual payment of Federal Highway Reimbursements to the state.



In the traditional approach, a state simply obligates the full federal share of available funding at the beginning of the project, concurrent with project authorization. The first step in the fiscal management process begins when a state requests authorization to use federal funding on a project. The project sponsor submits plans, specifications and estimates (“PS&Es”) for a project to the FHWA division office, and requests that the FHWA approve the use of federal funding for the appropriate federal share of the project. The project must be in the STIP and the PS&Es must identify the category of federal funding that will be used.

The FHWA evaluates the PS&Es to ensure that the project is eligible for federal funding and meets a variety of federal requirements (such as design standards). Provided that all requirements are satisfied, the FHWA authorizes federal participation in the project, and obligates the federal share of project costs. By obligating the revenues, the FHWA makes a commitment to reimburse the state for the federal share of eligible project costs. It sets aside the appropriate amount of that state’s OA, and also sets aside an equivalent amount of apportioned revenues by program (or programs). Accordingly, the state must have sufficient OA to cover the level of federal participation it is requesting.

Once authorization for a project has been obtained, the state advertises the project and receives bids. Based on actual costs identified in bids, the state awards the contract to the lowest qualified bidder and submits a request to the FHWA asking for any necessary adjustments to federal obligations for the project. If approved, the amounts agreed to are included in a project agreement which identifies the revenues that will be encumbered by the state (formally applied against the state’s resources), and the amount that will be reimbursed by the federal government.

Construction begins, and contractors submit bills to the state as work is completed. A state pays its contractor’s bills with cash from the state treasury; the state bills the FHWA electronically for the federal share of completed work for which payment has been made; and the FHWA makes payment to the state via electronic transfer. This FHWA reimbursement to the state liquidates its obligation for the federal share of the costs incurred to that point. As project work continues and state expenditures are reported to the FHWA, federal reimbursements are made, generally on a weekly basis.

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

In the Certificate and Agreement, the Department has covenanted and agreed that, in each Year that any Bonds are outstanding, (i) it shall use the Title 23 Moneys received by it first for the payment of the current Federal Fiscal Year’s Bond Service Charges on the 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 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 Bonds and any Additional Bonds in any State Fiscal Year plus the total amount due as debt service on all Parity Obligations in that State 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 State 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 State Fiscal Years. The Department has reserved from the Title 23 Moneys available to it in the Federal Fiscal Year ended September 30, 2005, sufficient moneys to enable it to pay the Bond Service Charges with respect to the Bonds and the Additional Bonds through the Federal Fiscal Year ended September 30, 2006.

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 Bonds and Additional Bonds, then, in such event, the Department is required by the Certificate and Agreement to notify the Governor of such fact. During the period that any Series 1998-1 Bonds or Series 1999-1 Bonds are outstanding, 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 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, if any. Currently there are no reserve funds pledged to the Bonds;
- (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 for the full replenishment of the reserves, if any. Currently there are no reserve funds pledged to the Bonds .

The Series 1998-1 Bonds and Series 1999-1 Bonds are currently outstanding in the amounts of \$16,520,000 and \$7,410,000, respectively.

**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 Bonds are special obligations of the State payable primarily from and secured solely by the Pledged Receipts under the Trust Agreement. The 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 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of Bond Service Charges on the 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 1997 Project is not pledged or mortgaged as security for the Bonds and the Trustee will not have the right to take possession of or operate the 1997 Project upon a default under or termination of the Certificate and Agreement.**

### **Air Quality Requirements**

The State receives federal reimbursements under the Highway Program for proposed projects contained in its approved Statewide and Metropolitan Planning Organization (“MPO”) area long range regional Transportation Plan and its approved STIP/TIP. The STIP is a compilation of approved TIP projects for each metropolitan area in the State and certain additional projects for rural areas. For projects described in a TIP to obtain the required funding, and qualify for federal funding, each such Transportation Plan and the STIP/TIP must comply with certain federal and state requirements, including “transportation conformity.”

“Transportation conformity” refers to requirements under both Title 23 and the Federal Clean Air Act designed to ensure that the undertaking of federally-approved transportation projects is consistent with federal and state plans to achieve the national ambient air quality standards (“NAAQS”). Specifically, in states with areas designated under the Clean Air Act as “nonattainment” areas (i.e., areas that have failed to comply with one or more national ambient air quality standards) and “maintenance” areas (i.e., areas that once were designated as nonattainment areas but are now meeting air quality standards), Transportation Plans and TIPs relating to those areas must not conflict with the state’s efforts to attain or maintain compliance with the federal air quality standards. The Federal Clean Air Act requires every state to have a federally-approved air quality plan (known as a “State Implementation Plan” or “SIP”). The SIP records the strategies, programs, and procedures the State will implement to achieve and maintain the NAAQS. A state’s SIP is typically developed by the state’s environmental agency (e.g. in Ohio, the Ohio Environmental Protection Agency develops the SIP) and must be approved by the US EPA. For a nonattainment area, the SIP must include certain requirements designed to bring the area into compliance with national ambient air quality standards by a certain date. Such requirements may include Motor Vehicle Emissions Budgets, which limit the total amount of given pollutants that can be emitted from certain transportation sources in the nonattainment or maintenance area. The Motor Vehicle Emissions Budgets are established by the state and approved by US EPA. To ensure that the transportation plans and the STIP will not conflict with the SIP, the MPO for a nonattainment or maintenance area must demonstrate that mobile source emissions from vehicles traversing the transportation networks identified in the

Transportation Plans and STIP will not exceed the SIP mobile source budgets. This process is referred to as a conformity demonstration. Affirmative US DOT transportation conformity determinations are a requirement for states and local governments to receive federal reimbursements for transportation projects that add lanes or system capacity within nonattainment and maintenance areas.

During any period of “nonconformity” no new projects (or subsequent phases of existing projects that require additional state or federal approval to be eligible for federal reimbursement) which add lanes or capacity in an affected nonattainment or maintenance area will be approved for federal reimbursement under the Highway Program until a conforming Transportation Plan and TIP can be developed and approved. With respect to existing approved projects in the nonattainment area or maintenance area, the state may continue to expend state funds and receive federal reimbursements, but only to the extent that such projects (or portions thereof) have already received all required state and federal approvals and funding commitments or are exempt from the transportation conformity requirements. If an existing approved project requires state or federal approval of subsequent phases to be eligible for continued federal reimbursements, any costs incurred by the state to advance such project into the subsequent phase during nonconformity will not be eligible for future reimbursement under the Highway Program. Furthermore, the construction of state-funded projects during the nonconformity (i.e. projects funded only by state expenditures for which the state is not seeking federal reimbursement) that are “regionally significant” can also be suspended, unless all necessary state and local approvals for such projects were obtained prior to the conformity lapse.

The Department has current US DOT conformity determinations for each Ohio nonattainment and/or maintenance area MPO Transportation Plan and TIP.

The Clean Air Act requires EPA to impose sanctions on a state that fails to make SIP submissions required by the Clean Air Act, or to implement the programs of the SIP that EPA has approved. Before imposing sanctions under this provision, EPA must give a state formal notice of the deficiency, and 18 months to correct it.

Possible sanctions include withholding certain Federal-aid Highway Receipts (those receipts applicable to unapproved capacity-related projects in nonattainment areas) from the State and limiting allowable pollutant levels in clean air permits. Safety related projects are exempt from sanctions. The Department’s current projects and planned projects are within attainment areas or are safety related. Moreover, if a project is sanctioned, related federal funds may be redirected to other approved projects. Therefore, the Federal Highway Receipts appropriated to the State for the 1997 Project financed with the proceeds of the Bonds or Additional Bonds are not expected to change even if sanctions were imposed. The State is current with all US EPA SIP requirements.

### **Future Federal Highway Assistance to the State**

Under SAFETEA-LU, average annual highway apportionments to the State, the maximum amount of contract authority available to the State under the Highway Program for Federal Fiscal Year 2005 through Federal Fiscal Year 2009 are to increase by approximately 36

percent over average annual TEA-21 levels. The equity provisions of SAFETEA-LU provide that the rate of return to the State of its payments into the HTF is to increase from 90.5 percent in Federal Fiscal Year 2005, to 91.5 percent in Federal Fiscal Year 2007 and 92 percent in Federal Fiscal Years 2008 and 2009.

## **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 three 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, bridges, 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. Approximately 83 percent of the Department's employees are located in the 12 district, 88 county and 130 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 and divisions 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 ninth largest highway network in the country, with over 116,000 miles of roadway, of which approximately 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's annual budget for all programs is approximately \$2.9 billion. Major funding sources for the Department's highway program include state motor fuel taxes and fees and Title

23 Moneys received from the United States Department of Transportation. See “**SOURCES OF FUNDS FOR PAYMENT OF BONDS.**” Major funding sources for the Department’s modal programs include State General Revenue Fund moneys and Title 23 Moneys.

**The 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 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of Bond Service Charges on the 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 is now capitalized with a \$50 million authorization from the General Assembly and \$87 million 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 fund consists of the proceeds of 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 of such assistance are made to the Department, making the SIB a revolving loan program.

## **THE CERTIFICATE AND AGREEMENT**

### **General**

The Act provides that Obligations may be issued by the Treasurer upon the certification of the Director of the amount of moneys needed for State Infrastructure Projects or to refund Obligations or District Obligations issued for such purpose. The 1997 Bonds are District Obligations. 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 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, 2007, 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 Bonds outstanding under the Trust Agreement.

### **Payments and Pledges**

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 Bonds and Additional Bonds, and all debt service due on Parity Obligations for such Federal Fiscal Year, prior to any other payment to be made from such moneys during that Federal Fiscal Year. 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 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 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 or defeasance of the 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 the 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 State 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 State 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, under provisions of the Ohio Constitution, make appropriations for a period longer than two years. While the Treasurer expects that for the 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 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 Federal Fiscal Year that 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 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 Bonds and Additional Bonds and for debt service on Parity Obligations in that Federal Fiscal 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 Bonds and Additional Bonds in any State Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that State 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 State 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 State 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 Bonds and Additional Bonds and for payment of debt service on Parity Obligations due in the next succeeding Federal Fiscal Year.

(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 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, including the 1997 Project, are not pledged or mortgaged as security for the 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, except for available Pledged Receipts.

### **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 Bonds would terminate. The Certificate and Agreement also terminates upon payment in full of all 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, including the 1997 Project, 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 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, 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 BONDS**” and “**SECURITY FOR THE BONDS,**” summarizes certain provisions of the Trust Agreement to which reference is made for the detailed provisions thereof. The Bond Orders authorizing the 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 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 Bonds, and the Book-Entry Interest Owners of Bonds will not be considered Holders and have no rights as Holders under the Trust Agreement. See “APPENDIX C – 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 and Additional Bonds. See “**SECURITY FOR THE BONDS.**” In addition the payment of the principal of and interest on the Insured Bonds is insured by the Policy. The Policy does not insure the payment of the principal of and interest on the Bonds maturing on June 15, 2006 and December 15, 2006.

### **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 and Certificates and Agreements entered into in connection with Additional Bonds (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 and Additional 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, verification 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 and Additional 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 Certificates and Agreements entered into in connection with Additional Bonds 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 2005-1 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 the Bonds and each series of Additional Bonds. The Sixth Supplemental Trust Agreement establishes the Series 2005-1 Rebate Account for the Series 2005-1 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 or Additional Bonds as security for the payment of Bond Service Charges on the Bonds or Additional 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 payments 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 Bonds will be deposited and credited by the Trustee to the Debt Service Account of the State Infrastructure Bank Revenue Bond Service Fund and used to pay Debt Service on the Bonds.

**Infrastructure Bank Obligations Fund.** There will be deposited in the Infrastructure Bank Obligations Fund of the Treasurer (a) the proceeds of the Bonds and Additional 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.** Pursuant to any Series Bond Order, the Treasurer may (i) create accounts and subaccounts in the State Infrastructure Bank Revenue Bond Service Fund, Administrative Expense Fund, Infrastructure Bank Obligations Fund or the Rebate Fund, and (ii) make special provisions, among others, for any proceeds of those Additional Bonds allocated by such 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 Certificates and Agreements entered into in connection with such Additional Bonds, and income from the investment of funds and any other Pledged Receipts pledged to all Bonds and Additional 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 and Additional Bonds in determining the sufficiency of the Debt Service Account or any bond service reserve account applicable to the other Bonds and Additional 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 Infrastructure Bank 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 Infrastructure Bank 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 Infrastructure Bank 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 and District Obligations. The Series 1998-1 Bonds, the Series 1999-1 Bonds, the Series 2001-1 Bonds, the Series 2002-1 Bonds and the Series 2003-1 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 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 or Additional 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 Bonds and Additional Bonds in any State Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that State 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 State 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 State 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 or in the outstanding Additional 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 and Additional Bonds then issued or outstanding (other than such Bonds or Additional Bonds then being funded or refunded) and of Parity Obligations outstanding, will not exceed in the aggregate the principal amount of Bonds, Additional 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 state 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 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 Bonds. The 1997 Bonds are the only Parity Obligations that have been issued as of the date of this Official Statement, and all of the 1997 Bonds will be defeased and redeemed with proceeds from the Bonds.

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 Bonds and Additional Bonds in any State Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that State 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 State 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 State Fiscal Years. See “**THE CERTIFICATE AND AGREEMENT – Further Covenants**” and “**SOURCES OF FUNDS FOR PAYMENT OF 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 Certificates and Agreements for deposits thereunder in sufficient and appropriate amounts to pay when due (i) all Bond Service Charges on the Bonds and Additional Bonds of the related series 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, the Additional Bonds, any applicable Certificate and



Agreement, and all other agreements included in the proceedings relating to the Bonds and Additional 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 Certificates and Agreements during the current state fiscal year and the ensuing two state 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 45<sup>th</sup> 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 Certificates and Agreements.

### **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 or Additional Bond when due and payable;
- (ii) Default by the Treasurer in the payment of the principal of or any redemption premium on any Bond or Additional 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 or Additional Bonds and continuance of such default for 60 days after written notice thereof, from the Trustee or the Holders of not less than 25 percent in aggregate principal amount of the affected Bonds or Additional 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 and Additional Bonds, which includes the right to declare the principal of all Bonds and Additional 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 shall be rescinded and annulled by the Trustee if all sums payable under the Trust Agreement (except the principal and interest on Bonds and Additional 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 and Additional Bonds, enforce the rights of the Holders of the Bonds and Additional Bonds by mandamus or other suit, action or proceeding at law or in equity, bring suit upon the Bonds and Additional 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 and Additional Bonds then outstanding shall, subject to certain conditions including indemnification of the Trustee, 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 and Additional Bonds then outstanding, and in the absence of such notice so delivered, the Trustee may conclusively assume that 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 and Additional 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 and Additional Bonds has become or been declared due and payable, (a) first, to the payment of all installments of interest then due on the Bonds and Additional 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 Additional Bonds; and (b) next, to the payment of unpaid principal of any of the Bonds and Additional Bonds which have become due (other than Bonds and Additional 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 and Additional 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 and Additional Bonds has become or been declared due and payable, to the payment of principal and interest then due and unpaid upon the Bonds or Additional 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 or Additional Bond over any other Bond or Additional 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 and Additional Bonds; or (iii) if the principal of all Bonds and Additional 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 and Additional 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 or Additional Bond until that Bond or Additional Bond is presented to the Trustee for appropriate notation of partial payment or for cancellation if fully paid.

No Holder of any Bond or Additional 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 percent in aggregate principal amount of the Bonds and Additional 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 Holders of any Bonds or Additional 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 and Additional 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 and Additional 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 and Additional 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 and Additional Bonds, the Treasurer and 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 and Additional Bonds; (vi) to provide for the issuance of fully registered bonds in accordance with the General Bond Order; (vii) to provide for the issuance of Additional Bonds in forms other than fully registered bonds if, in the opinion of nationally recognized counsel selected by the Treasurer, such amendments would not result in the interest on any of the Bonds or Additional Bonds outstanding becoming subject to federal income taxation; (viii) to permit the exchange of Bonds and Additional Bonds at the option of the Holder for coupon Bonds and Additional 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 or Additional Bonds outstanding becoming subject to federal income taxation; (ix) to permit the use of Book-Entry Form to identify the owner of an interest in a Bond or an Additional Bond; (x) to permit the Trustee to comply with any obligations imposed by law; (xi) to specify further 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 or Additional Bonds; (xii) to achieve compliance with any applicable federal securities or tax law; (xiii) 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; (xiv) 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 that 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 and Agreement 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 state fiscal biennium, amounts sufficient to pay all amounts estimated to be due under such Certificate and Agreement during such biennium; and (xv) to permit any other amendment not prejudicial to the Trustee or the Holders of the Bonds and Additional Bonds.

In addition, with the consent of the Holders of not less than a majority in aggregate principal amount of the affected Bonds and Additional Bonds then outstanding, (exclusive of Bonds and Additional 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 Additional Bond or a reduction in the principal amount of any Bond or Additional Bond or the rate of interest or redemption premium

on any Bond or Additional 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 and Additional Bonds, without the consent of the Holder of each Bond or Additional Bond so affected, or (ii) a reduction in the aggregate principal amount of the Bonds and Additional Bonds required for consent to such Supplemental Trust Agreement without the consent of the Holders of all of the Bonds and Additional Bonds then outstanding.

Where the consent of the Holders of the Bonds and Additional 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 and Additional Bonds giving such consent and upon any subsequent Holders of the Bonds and Additional 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 and Additional Bonds then outstanding have consented to the execution of a Supplemental Trust Agreement as provided in the Trust Agreement, no Holder of any Bond or Additional 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**

If the State shall pay or cause to be paid, or there shall otherwise be paid all Bond Service Charges due or to become due thereon, and provision is made for paying all other sums payable under the Trust Agreement by the State, 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 and Additional Bonds will be deemed to have been so paid and discharged if the Trustee holds in trust for and irrevocably committed thereto (i) sufficient moneys, or (ii) direct obligations of the United States of America which shall be certified by an independent firm of certified public accountants of national reputation to be of such maturities and interest payment dates and 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 and Additional Bonds; provided that, with respect to the Bonds and Additional 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 Paying Agent 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 Paying Agent 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 Paying Agent and 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 not a Business Day (the “applicable date” for purposes of this Section), then payment of the interest, principal and any redemption premium need not be made by the Trustee or any Paying Agent until the next succeeding Business Day with the same force and effect as if the such payment was made on the applicable date and no interest shall accrue for the period after that date.

### **Amendments to the General Bond Order and Trust Agreement**

In addition to authorizing the issuance of the Bonds, the Sixth Supplemental Trust Agreement amended certain provisions of the General Bond Order. The General Bond Order was amended such that, as permitted by amendments to the Act, Additional Bonds may be issued under the Trust Agreement for the purpose of refunding District Obligations.

In addition to authorizing the issuance of the Series 2001-1 Bonds, the Third Supplemental Trust Agreement amended certain provisions of the General Bond Order and the Original Trust Agreement, effective as to all Bonds and Additional Bonds outstanding upon the payment or deemed payment (defeasance) of all 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 related to each series 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 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, other Additional Bonds and the Bonds in any State Fiscal Year plus the total amount payable as debt service on all Parity Obligations in that State Fiscal Year would not exceed one-fifth of the average Federal Highway Receipts received by the Department in the three immediately previous State Fiscal Years. Such 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 Budget and Management seek additional appropriations from the General Assembly if Title 23 Moneys are unavailable for payment of the Bond Service Charges with respect to the Bonds and Additional Bonds.

## **Trustee**

The Trustee is U.S. Bank National Association, 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.

## **Rights of MBIA**

As long as MBIA has continuing obligations remaining under the Policy securing the Insured Bonds, MBIA shall be entitled under the Trust Agreement to the rights described below; provided, however, that such rights shall terminate if the Policy is in default or upon the payment and discharge of the Insured Bonds.

MBIA shall be entitled to receive notice of:

- (i) the resignation or removal of the Trustee and the appointment of a successor;
- (ii) all notices required to be delivered to the Holders of the Insured Bonds at the same time as to such Holders;
- (iii) all notices required to be delivered to the Treasurer at the same time as to the Treasurer;
- (iv) all notices required to be delivered to the Trustee at the same time and in the same manner as to the Trustee; and
- (v) the execution of any Supplemental Trust Agreement not requiring the consent of the Holders of the Insured Bonds pursuant to the Trust Agreement.

The prior written consent of MBIA shall be required in order to:

- (i) execute any Supplemental Trust Agreement requiring consent of the Holders of the Bonds pursuant to the Trust Agreement; or
- (ii) take any action requiring consent of the Holders of the Insured Bonds.

MBIA shall control and direct the enforcement of all rights and remedies granted to the Holders of the Insured Bonds (or to the Trustee for the benefit of the Holders of the Insured



Bonds ) under the Trust Agreement instead of, and in the same manner as, the Holders may control and direct remedies under this Trust Agreement. Any provision in the Trust Agreement expressly recognizing or granting rights in or to MBIA may not be amended in any manner that affects the rights of MBIA under the Trust Agreement without the prior written consent of MBIA.

In the event that, on the second business day, and again on the business day, prior to any Interest Payment Date, the Trustee has not received sufficient moneys to pay all principal of and interest on the Insured Bonds due on the second following or following, as the case may be, business day, the Trustee shall immediately notify MBIA or its designee on the same business day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency. If the deficiency is made up in whole or in part prior to or on the Interest Payment Date, the Trustee shall so notify MBIA or its designee.

In addition, if the Trustee has notice that any Holder of Insured Bonds has been required to disgorge payments of principal of or interest on the Insured Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Holder of Insured Bonds within the meaning of any applicable bankruptcy laws, then the Trustee shall notify MBIA or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

The Trustee is irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Holders of the Insured Bonds as follows:

- (i) If and to the extent there is a deficiency in amounts required to pay interest on the Insured Bonds, the Trustee shall (a) execute and deliver to the Insurance Paying Agent/Trustee, in form satisfactory to the Insurance Paying Agent/Trustee, an instrument appointing MBIA as agent for such Holders in any legal proceeding related to the payment of such interest and an assignment to MBIA of the claims for interest to which such deficiency relates and which are paid by MBIA, (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the Policy payment from the Insurance Paying Agent/Trustee with respect to the claims for interest so assigned, and (c) disburse the same to such respective Holders; and
- (ii) If and to the extent of a deficiency in amounts required to pay principal of the Insured Bonds, the Trustee shall (a) execute and deliver to the Insurance Paying Agent/Trustee in form satisfactory to the Insurance Paying Agent/Trustee an instrument appointing MBIA as agent for such Holder in any legal proceeding relating to the payment of such principal and an assignment to MBIA of any of the Insured Bonds surrendered to the Insurance Paying Agent/Trustee of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent/Trustee is

received), (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the Policy payment therefor from the Insurance Paying Agent/Trustee, and (c) disburse the same to such Holders.

Payments with respect to claims for interest on and principal of Insured Bonds disbursed by the Trustee from proceeds of the Policy shall not be considered to discharge the obligations of the Treasurer with respect to such Insured Bonds, and MBIA shall become the owner of such unpaid Insured Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the Trust Agreement or otherwise.

To the extent that MBIA makes payments directly or indirectly (as by paying through the Trustee) on account of principal of or interest on the Insured Bonds, MBIA will be subrogated to the rights of such Holders to receive the amount of such principal and interest from the Treasurer, with interest thereon as provided and solely from the sources stated in the Trust Agreement and the Insured Bonds. In addition, the Treasurer and Trustee will accordingly pay to MBIA the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Insured Bonds, but only from the sources and in the manner provided in the Trust Agreement for the payment of principal of and interest on the Insured Bonds to Holders, and will otherwise treat MBIA as the owner of such rights to the amount of such principal and interest.

## LITIGATION

There is no litigation pending contesting the validity of the 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 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 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 Bonds or the security for the Bonds.

## RATINGS

The Insured Bonds have been rated “Aaa” by Moody’s Investors Service, Inc., “AAA” by Standard & Poor’s Ratings Services and “AAA” by Fitch Ratings, each with the understanding that the Policy insuring the payment when due of the principal of and interest on the Insured Bonds will be issued by MBIA. See “**BOND INSURANCE.**” In addition, the Insured Bonds have been given an underlying rating, and the Bonds maturing on June 15, 2006 and December 15, 2006 have been given a rating, of “Aa2” by Moody’s Investors Service, Inc., “AA” by Standard & Poor’s Ratings Services and “AA-” by Fitch Ratings. 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 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 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 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, subject to the approval of the workers' compensation board, 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 Bonds are acceptable under Ohio law as security for the deposit of public moneys.

Each Book-Entry Interest Owner of the Bonds should make its own determination as to such matters of legality of investment in, or pledge of book-entry interests in, the 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 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 Bonds are exempt from the Ohio personal income tax, the Ohio corporation franchise tax (to the extent computed on the net income basis), the Ohio commercial activity tax 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 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. Non-compliance with these requirements could cause the interest on the 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 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 Bonds earned by corporations to that corporate alternative minimum tax. In addition, interest on the Bonds may be subject to the branch profits tax imposed 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 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 Bonds. Bond Counsel will express no opinion 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 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 Bonds.

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

## **ORIGINAL ISSUE PREMIUM**

Certain of the Bonds (collectively, “Premium Bonds”) may be offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. This excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity (for non-callable Premium Bonds), based on the yield to maturity of that Premium Bond (or, in the case of Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by an owner of a Premium Bond. For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner’s tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by that owner for the Premium Bond. A purchaser of a Premium Bond at its issue price in the initial public offering who holds that Bond to maturity (or, in the case of a callable Premium Bond, to its earliest call date that results in the lowest yield on that Bond) will realize no gain or loss upon the retirement of that Bond.

Owners of Premium Bonds (or book-entry interest in them) should consult their own tax advisers as to the determination for federal tax purposes of the amount of amortizable bond premium properly accruable in any period with respect to the Premium Bonds and as to other federal tax consequences and the treatment of amortizable bond premium for purposes of state or local taxes on (or based on) income.

## **CERTAIN LEGAL MATTERS**

Legal matters incident to the issuance of the 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, Bond Counsel. Signed copies of the Bond Counsel opinion, dated as of, and speaking only as of, the date of original delivery of the 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 this 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 have 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 Vorys, Sater, Seymour and Pease LLP, Underwriters’ Counsel. Certain legal matters will be passed upon for the Department by its Counsel, the Attorney General of Ohio, Jim Petro. Certain legal matters will be passed upon for the Treasurer by its counsel, the Attorney General of Ohio.

## 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.

**The Bonds are special obligations of the State, secured under the Trust Agreement solely by a pledge of the Pledged Receipts, 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 dependent upon biennial appropriations being made to the Department for such purpose by 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 Bonds. The 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 Bonds shall have no right to have moneys raised by taxation by the State obligated or pledged for the payment of Bond Service Charges.**

### UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Bonds from the Treasurer at a price of \$102,898,658.90 (consisting of the principal amount thereof plus original issue premium of \$4,160,861.40 and less Underwriter's compensation and expenses of \$532,202.50). The Underwriters are obligated to purchase all of the Bonds if any are purchased. The 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

The Treasurer has retained Public Financial Management, Inc. (the "Financial Advisor") with respect to the State's issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## VERIFICATION OF COMPUTATIONS

Prior to the delivery of the Bonds, Causey, Demgen & Moore, Inc., a firm of independent certified public accountants, will deliver to the Treasurer its report indicating that it has verified the mathematical accuracy of the mathematical computations provided by the Financial Advisor of the adequacy of the principal amounts of and the interest on the direct obligations or obligations guaranteed by the United States of America to provide for the payment, when due, of the principal of and premium, if any, and interest on the outstanding 1997 Bonds and the yield on the Bonds and the escrowed securities.

## CONTINUING DISCLOSURE

The Treasurer has agreed, for the benefit of the Holders and Book-Entry Interest Owners of the 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 State Fiscal Year (beginning with State Fiscal Year 2006) not later than the 90th day following the end of the State 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 this Official Statement under the caption “**DEBT SERVICE REQUIREMENTS**,” the table regarding Title 23 Moneys Received set forth in this Official Statement under the caption “**SOURCES OF FUNDS FOR PAYMENT OF BONDS**” and **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 State 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 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 Bonds; modifications to rights of Holders or Book-Entry Interest Owners; bond calls; defeasances; release, substitution, or sale of property securing repayment of the Bonds; and rating changes. There are initially no credit enhancements or credit or liquidity providers applicable to the 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 State 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 state 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 non-compliance 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 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 Bonds, or (ii) the written consent to the amendment, or waiver, by the Holders of at least a majority of the aggregate outstanding principal amount of the applicable Bonds.

The Continuing Disclosure Agreement will be solely for the benefit of the Holders and Book-Entry Interest Owners of the 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.

In order to provide certain continuing disclosure with respect to the Series 2005-1 Bonds in accordance with the Rule, the State has entered into a Disclosure Dissemination Agent Agreement (the “Disclosure Dissemination Agreement”) for the benefit of the holders of the Bonds with Digital Assurance Certification, L.L.C. (“DAC”), under which the State has designated DAC as Disclosure Dissemination Agent (the “Disclosure Dissemination Agent”).

The Disclosure Dissemination Agent has only the duties specified in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent’s obligation to deliver the information at the times and with the contents described in the Continuing Disclosure Agreement is limited to the extent the State has provided that information to the Disclosure Dissemination Agent as required by the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Continuing Disclosure Agreement or duty or obligation to review or verify any information in the Annual Report, Audited Financial Statements, notice of Notice Event or Voluntary Report (all as defined in the Disclosure Dissemination Agreement), or any other information, disclosure or notices provided to it by the State, and the Disclosure Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the State, the holders of the Bonds or any other party. The Disclosure Dissemination Agent has no responsibility for any failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof, as to determine or liability for failing to determine whether the State has complied with the Continuing Disclosure Agreement, and the Disclosure Dissemination Agent may conclusively rely upon certification of the State at all times.

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 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 Bonds only for such period that the Bonds are outstanding in accordance with their terms and the State remains an obligated person with respect to the 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, the General Bond Order, and the Series 2005-1 Bond Order, 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 Certificate and Agreement are available upon request from the Treasurer, 30 East Broad Street, Columbus, Ohio 43266-0421 (Telephone: (614) 466-2160).

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 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 her in her official capacity.

STATE OF OHIO

/s/ Jennette B. Bradley

Jennette B. Bradley  
Treasurer of State of Ohio

## 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 Sixth 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 or obligations issued pursuant to the Act except the 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 and Additional 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 and Additional 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” or “Series 2005-1 Bonds” means the \$99,270,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 2005-1.

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

“Book-Entry Interest Owner” means a person who is the owner of a beneficial interest in Bonds or Additional 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.

“Certificate and Agreement” means the Certificate and Agreement, dated as of December 1, 2005, 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 of 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 Additional Bonds or series or part of any series of Bonds or Additional Bonds or to provide, in whole or in part, a required reserve in a bond service reserve account.

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

“Depository” means any Securities Depository, and, as to the 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.

“District Obligations” means bonds, notes, or other evidence of obligation including interest coupons pertaining thereto, issued to finance a qualified project by a transportation improvement district created pursuant to section 5540.02 of the Ohio Revised Code, of which the principal, including mandatory sinking fund requirements for retirement of such obligations, and interest and redemption premium, if any, are payable by the Department.

“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's for refunding purposes generally, and that result in the particular refunded obligations being assigned the highest rating of Moody's and Standard & Poor's;
- (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's;
- (v) certificates of deposit, whether negotiable or non-negotiable, 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's, 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's 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’s 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.

“Escrow Agreement” means the Escrow Agreement, dated as of December 1, 2005, by and among the State, the T.I.D. and the Escrow Trustee.

“Escrow Fund” means the Escrow Fund created pursuant to the Escrow Agreement.

“Escrow Trustee” means U.S. Bank National Association and any successor escrow trustee appointed in accordance with the terms of the Escrow Agreement.

“Event of Default” means:

- (a) Default in the payment of any interest on any Bond or Additional Bond when due and payable;
- (b) Default in the payment of the principal of or any redemption premium on any Bond or Additional 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% in aggregate principal amount of affected Bonds and Additional 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.

“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.

“Fitch Ratings” means Fitch Ratings, a subsidiary of Fimalac, S.A., and 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 or Additional Bond is registered on the Register.

“Insurance Paying Agent/Trustee” means U.S. Bank Trust National Association or its successor.

“Insured Bonds” means the Bonds, except for Bonds maturing on June 15, 2006 and December 15, 2006.

“Interest Payment Date” means, as to the Bonds, the 15<sup>th</sup> day of June and the 15<sup>th</sup> day of December in each year, commencing June 15, 2006.

“Major New Project Debt Service Account” means the account created by the Treasurer in the custody of the Trustee pursuant to Section 7 of the General Bond Order.

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

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

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

“Obligations” means Bonds, Additional 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 and Additional 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 and Additional Bonds.

“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) accrued interest received from the sale of Obligations; (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 or Parity Obligations and other than any moneys 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; (d) any amounts on deposit in the state infrastructure bank created pursuant to Section 5531.09 of the Ohio Revised Code and available for the payment of Bond Service Charges; and (e) 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. If the amounts standing to the credit of the State Infrastructure Bank Revenue Bond Service Fund and available monies in the state infrastructure bank are insufficient for the payment of Bond Service Charges, “Pledged Receipts” also means all Pledged Federal Highway Receipts, excepting the portions thereof to be deposited in the Administrative Expense 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.

“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 or Additional Bond and unless otherwise provided in the Series Bond Order authorizing the particular series of Bonds or Additional Bonds, the first 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 and Additional Bonds pursuant to Section 2.04 of the Original Trust Agreement.

“Registrar” means the Bond Registrar appointed under the Trust Agreement, presently U.S. Bank National Association.



“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 2002-1 Bonds” means the \$135,000,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 2002-1.

“Series 2003-1 Bonds” means the \$113,765,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 2003-1.

“Series Bond Order” means an order of the Treasurer authorizing the issuance of a series of Bonds or Additional 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 or Additional Bonds authorized by a Series Bond Order.

“Sixth Supplemental Trust Agreement” means the Sixth Supplemental Trust Agreement, dated as of December 1, 2005, between the State and the Trustee, as amended from time to time.

“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, a division of The McGraw-Hill Companies, Inc., and its successors and assigns.

“State” means the State of Ohio.

“State 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 State Fiscal Year for general State fiscal purposes.

“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.

“T.I.D.” means the Butler County, Ohio Transportation Improvement District.

“Treasurer” means the Treasurer of State of the 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 Sixth Supplemental Trust Agreement, including the General Bond Order and Series Bond Order No. 2005-1.

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

“Underwriters” means the original purchasers of the Series 2005-1 Bonds as stated in the Bond Purchase Agreement (as defined in the Trust Agreement).

### 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 2005-1 Bonds have no right to have taxes or excises levied by the General Assembly to pay Bond Service Charges.

#### 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, 2005 and ends June 30, 2007. Within a fiscal biennium, the State operates on the basis of a July 1 to June 30 Fiscal Year. The biennium for general capital appropriations purposes runs from July 1 in an even-numbered year to June 30 in the next even-numbered year. See **Recent and Current Finances – Current Biennium** for discussion of the 2006-07 biennial appropriations.

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

Most State operations are financed through the general revenue fund (GRF). Personal income and sales and use taxes are the major GRF sources. The last complete fiscal year ended June 30, 2005 with a GRF fund balance (after year-end transfers) of \$127,800,000. The State also maintains a “rainy day” fund – the Budget Stabilization Fund (BSF) – generally funded by Fiscal Year-end transfers from the GRF surplus, if any, and which under current law and until used is intended to carry a balance of approximately 5% of the GRF revenue for the preceding Fiscal Year. The current BSF balance is \$576,610,000. See the discussion below under **Recent and Current Finances – 2004-05** of the ending Fiscal Year 2005 BSF balance of \$574,910,000 which reflects a 2005 Fiscal Year-end transfer of \$394,205,000 from the GRF.

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 implemented this directive several times in both the 2002-03 and 2004-05 biennia, and in some prior Fiscal Years.

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 which the State does not currently levy).

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

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

Constitutional amendments relating to taxation, revenues, expenditures, debt or other subjects may be proposed by action of three-fifths of the members elected to each house of the General Assembly or by initiative petition signed by electors numbering at least 10% of the total number of votes last cast for the office of governor. Adoption of a proposed amendment requires approval by a majority of electors voting on it at a statewide election.

The Ohio Constitution expressly provides that the General Assembly has no power to pass laws impairing the obligation of contracts.

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 thereafter 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 and except for Fiscal Years 2002 through 2004, none of the moneys is applied to existing operating programs of the State. (See **Recent and Current Finances** for a discussion of a portion of those receipts being used to offset a portion of GRF revenue shortfalls in Fiscal Years 2002 through 2004). Under current allocations, the main portion of the moneys in future bienniums is to go to assist in the funding 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 departments and agencies (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). Each Comprehensive Annual Financial Report (CAFR) includes the State's Basic Financial Statements (BFS) for that Fiscal Year as examined by the Auditor of State. The State has delivered the CAFR for Fiscal Year 2004 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.obm.ohio.gov/finrep/cafr>, and copies may be obtained by contacting the State Debt

Coordinator at OBM, 30 E. Broad Street, 34<sup>th</sup> Floor, Columbus, Ohio 43215, phone (614) 466-4034. The 1990 through 2004 CAFRs received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.

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

OBM also has published *The Ohio Budgetary Financial Report* for Fiscal Year 2005. The most recent Budgetary Financial Reports are accessible via OBM's home page on the Internet at <http://www.obm.ohio.gov/finrep>, 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. See **Recent and Current Finances – Current Biennium** regarding the 2006-07 biennial appropriations.

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## Recent Receipts and Disbursements

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

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

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

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

##### Cash Receipts

SOURCE OF RECEIPTS	Fiscal Year				
	2001	2002	2003	2004	2005
Taxes:					
Personal Income .....	\$8,119.3	\$8,157.1	\$8,256.5	\$8,531.2	\$9,434.5
Sales and Use(a).....	6,250.7	6,357.1	6,715.6	7,849.5	8,146.4
Corporate Franchise.....	973.0	774.4	808.3	870.6	1,111.6
Gasoline.....	1,307.3	1,383.3	1,456.2	1,541.2	1,671.9
Public Utilities(b).....	712.3	869.2	878.6	877.7	753.9
Cigarette .....	282.5	281.3	599.9	557.5	577.7
Foreign Insurance .....	232.3	230.2	233.8	252.9	264.0
Highway Use .....	75.3	69.4	71.4	72.3	70.5
Estate .....	166.0	116.3	100.8	64.2	60.4
Alcoholic Beverages.....	55.7	56.4	57.3	57.2	57.6
Liquor Gallonage.....	29.0	29.3	29.7	30.9	32.2
Domestic Insurance Franchise.....	109.4	132.5	160.3	166.1	171.4
Other .....	<u>55.3</u>	<u>50.0</u>	<u>67.1</u>	<u>69.7</u>	<u>64.9</u>
Total Taxes .....	18,368.1	18,506.5	19,435.5	20,941.0	22,417.0
Licenses, Permits and Fees .....	1,356.9	1,699.5	1,757.5	1,976.7	2,075.4
Sales, Services and Charges .....	1,436.4	1,502.0	1,466.5	1,655.5	1,660.5
Federal Government .....	10,794.0	11,633.7	12,975.6	14,202.6	14,815.0
Other(c) .....	2,714.0	3,741.4	3,230.6	3,015.4	3,395.1
Proceeds from Sale of Bonds and Notes .....	<u>1,110.8</u>	<u>1,231.0</u>	<u>1,481.5</u>	<u>1,640.1</u>	<u>1,314.8</u>
Total Cash Receipts .....	\$35,780.2	\$38,314.1	\$40,347.2	\$43,431.3	\$45,677.8

- (a) Reflects a State sales and use tax rate of 5.0% in Fiscal Years 2001 through 2003 and 6.0% in Fiscal Years 2004 and 2005.  
 (b) Includes the kilowatt-hour excise tax imposed beginning in May of Fiscal Year 2001. Beginning in Fiscal Year 2005, local telephone service companies were moved out of the public utility tax and under the corporate franchise and sales and use taxes.  
 (c) Includes investment income in all Fiscal Years, tobacco settlement receipts beginning in Fiscal Year 2000 and in Fiscal Years 2002 and 2003, transfers from the BSF to the GRF.

##### Cash Disbursements

FUND TYPE					
General Fund:					
General Revenue Fund .....	\$21,144.2	\$21,627.4	\$22,653.3	\$23,838.9	24,830.9
General Services Fund(d).....	565.0	1,081.3	1,186.1	1,295.2	1,404.7
Budget Stabilization Fund .....	0.0	534.3	131.8	0.0	0.0
Special Revenue Fund(e).....	12,423.5	14,536.0	15,088.0	15,180.5	16,438.9
Capital Projects Fund(f).....	864.8	448.5	491.4	443.5	428.8
Debt Service Fund(g).....	383.3	434.3	486.0	557.5	661.4
Enterprise Fund.....	1,198.1	1,175.3	1,148.6	1,270.1	1,209.8
Internal Service Fund.....	<u>275.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Cash Disbursements .....	\$36,853.9	\$39,837.1	\$41,185.2	\$42,585.7	44,974.5

- (d) Includes the Internal Service Fund, beginning in Fiscal Year 2002.  
 (e) Includes local government support disbursements.  
 (f) Includes amounts disbursed from proceeds of general obligation bonds and of certain other State obligations.  
 (g) 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				
	2001	2002	2003	2004	2005
Beginning Cash Balance.....	\$1,506.2	\$817.1	\$619.2	\$396.5	\$533.1
Cash Receipts:					
Taxes:					
Personal Income.....	7,263.4	7,304.1	7,420.7	7,696.9	8,598.9
Sales and Use(a).....	5,935.6	6,038.0	6,397.9	7,530.6	7,827.1
Corporate Franchise.....	915.3	712.3	747.2	809.2	1,051.6
Public Utilities(b).....	663.3	583.4	558.5	565.4	443.9
Cigarette.....	282.5	281.3	599.9	557.5	577.7
Foreign Insurance.....	220.6	214.3	216.4	230.5	242.9
Other.....	<u>368.8</u>	<u>340.9</u>	<u>377.3</u>	<u>347.4</u>	<u>345.9</u>
Total Taxes.....	15,649.5	15,474.3	16,317.8	17,737.5	19,088.0
Federal Government(c).....	4,527.9	4,387.2	5,061.4	5,527.4	5,646.6
Licenses, Permits and Fees.....	32.9	31.1	33.7	50.2	70.6
Investment Income.....	153.4	79.0	14.3	18.0	35.0
Other(d).....	<u>181.7</u>	<u>982.4</u>	<u>504.8</u>	<u>176.9</u>	<u>158.5</u>
Total Cash Receipts.....	20,545.4	20,954.0	21,932.0	23,510.0	24,998.7
Cash Disbursements:					
Primary, Secondary and Other Education(e).....	5,512.9	6,044.7	6,236.1	6,446.9	6,619.4
Higher Education(f).....	2,194.2	2,113.0	2,088.1	2,085.1	2,117.8
Public Assistance and Medicaid.....	8,033.1	8,102.9	8,848.9	9,733.2	10,269.9
Health and Human Services.....	1,059.0	1,056.3	1,065.4	1,096.2	1,137.1
Justice and Public Protection.....	1,673.1	1,668.0	1,673.9	1,714.1	1,753.1
Environmental Protection and Natural Resources.....	116.7	102.5	100.1	98.6	99.2
Transportation.....	37.5	43.3	31.7	26.6	30.6
General Government.....	273.5	264.0	247.5	240.6	241.1
Community and Economic Development.....	153.0	140.2	137.4	107.5	120.8
Tax Relief(g) and Other.....	1,145.9	1,190.2	1,315.6	1,341.9	1,408.8
Capital Outlay.....	50.8	0.0	0.0	0.0	0.0
Debt Service(h).....	<u>894.5</u>	<u>902.3</u>	<u>908.6</u>	<u>948.2</u>	<u>1,033.1</u>
Total Cash Disbursements.....	21,144.2	21,627.4	22,653.3	23,838.9	24,830.9
Cash Transfers:					
Transfers-in(i).....	763.9	508.5	517.5	520.9	551.8
Transfers-out(j).....	<u>(854.2)</u>	<u>(33.0)</u>	<u>(18.9)</u>	<u>(55.4)</u>	<u>(43.5)</u>
Total Cash Transfers (Net).....	(90.3)	475.5	498.6	465.5	508.3
Ending Cash Balance.....	\$817.1	\$619.2	\$396.5	\$533.1	1,209.2

- (a) Reflects a State sales and use tax rate of 5.0% in Fiscal Years 2001 through 2003 and 6.0% in Fiscal Years 2004 and 2005.
- (b) Includes the kilowatt-hour excise tax imposed beginning in May of Fiscal Year 2001. Beginning in Fiscal Year 2005, local telephone service companies were moved out of the public utility tax and under the corporate franchise and sales and use taxes.
- (c) Includes \$193.0 million in federal block grant fiscal relief monies in each of the Fiscal Years 2003 and 2004.
- (d) Includes fines and penalties, rental receipts, refunds and certain intrastate transfers, and in Fiscal Year 2002 \$534.3 million from the BSF and \$183.9 million from tobacco settlement receipts and in Fiscal Year 2003 \$131.8 million from the BSF and \$165.0 million from tobacco settlement receipts.
- (e) Mainly subsidies to local school districts.
- (f) Mainly subsidies to colleges and universities. Higher education institutions maintain their own discrete funds and accounts.
- (g) State reimbursements to 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.
- (h) Debt service on general obligations, lease-rental obligations, and certain other State obligations paid from the GRF. Excludes debt service paid from non-GRF sources.
- (i) Includes transfers from liquor profits in all fiscal years; in Fiscal Year 2001 a transfer from the Income Tax Reduction Fund; in Fiscal Year 2002 \$48.4 million from the BSF, \$100 million from the Family Services Stabilization Fund, and \$105.7 million from tobacco settlement receipts; in Fiscal Year 2003 \$115.4 million from the BSF and \$115.5 million from tobacco settlement receipts; in Fiscal Year 2004 \$234.7 million from tobacco settlement receipts and \$18.6 million from federal fiscal relief monies, and in Fiscal Year 2005 \$316.8 million from federal fiscal relief monies.
- (j) Includes a transfer to the Income Tax Reduction Fund in Fiscal Year 2001 and to the BSF in Fiscal Years 2001 and 2002.

## Recent and Current Finances

### Introductory Information

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

Economic activity in Ohio, as in other industrially-developed states, tends to be somewhat more cyclical than in some other states and in the nation as a whole. The GRF ending (June 30) biennial fund balance is reduced during less favorable national economic periods and then increases during more favorable economic periods. Recent biennium-ending GRF balances were:

Biennium	Cash Balance	Fund Balance(a)	Fund Balance less Designated Transfers(b)
1994-95	\$1,312,234,000	\$928,019,000	\$70,000,000
1996-97	1,367,750,000	834,933,000	149,033,000
1998-99	1,512,528,000	976,778,000	221,519,000
2000-01	817,069,000	219,414,000	206,310,000
2002-03	396,539,000	52,338,000	52,338,000
2004-05	1,209,200,000	682,632,000	127,800,000

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

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

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

The appropriations acts for the 2006-07 biennium include all necessary appropriations for debt service on State obligations and for lease payments relating to lease rental obligations issued by the Ohio Building Authority and the Treasurer of State, and previously by the Ohio Public Facilities Commission.

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

### Recent Bienniums

#### 1994-95

Expenditures were below those authorized, primarily as the result of lower than expected Medicaid spending, and tax receipts (primarily auto sales and use) were significantly above estimates. Transfers from the biennium-ending GRF fund balance included \$535,200,000 to the BSF and \$322,800,000 to other funds, including a family services stabilization fund in anticipation of possible federal program changes.

#### 1996-97

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. Of the GRF biennium-ending fund balance, \$250,000,000 was directed to school buildings, \$94,400,000 to the school computer network, \$44,200,000 to school textbooks and instructional materials and a distance learning program, \$34,400,000 to the BSF, and \$262,900,000 to the State Income Tax Reduction Fund (ITRF).



## 1998-99

GRF appropriations of approximately \$36 billion 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 to the ITRF, \$200,000,000 into public school assistance programs, and \$44,184,200 into the BSF. Of the GRF biennium-ending fund balance, \$325,700,000 was transferred to school building assistance, \$293,185,000 to the ITRF, \$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.

## 2000-01

The State's financial situation varied substantially in the 2000-01 biennium. The first Fiscal Year of the biennium ended with a GRF cash balance of \$1,506,211,000 and a fund balance of \$855,845,000. A transfer of \$49,200,000 from that 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 ITRF.

In the middle of the second year of the biennium, the State enacted supplemental appropriations of \$645,300,000 to address shortfalls in its Medicaid and disability assistance programs. The State's share of this additional funding was \$247,600,000, with \$125,000,000 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 applying a 1 to 2% cut to most State departments and agencies. Expressly excluded from the reductions were debt service and lease rental payments relating to State obligations, and elementary and secondary education.

In March 2001, new lowered revenue estimates for Fiscal Year 2001 and for Fiscal Years 2002 and 2003 were announced. Based on indications that the Ohio economy continued to be affected by the national economic downturn, 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 spending reductions (with the same exceptions noted above for debt service and education) and authorization to transfer 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 fund balance of \$219,414,000, making that transfer unnecessary.

## 2002-03

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

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

The biennial GRF appropriations act passed in June 2001 provided for biennial GRF expenditures of approximately \$45.1 billion without increases in any major State taxes. That Act and the separate appropriations acts for the biennium included all necessary debt service and lease rental payments related to State obligations. That original appropriations act also provided for the following uses of certain reserves, aimed at achieving Fiscal Year and biennium ending positive GRF fund balances, based on then current estimates and projections:

- Transfer of up to \$150,000,000 from the BSF to the GRF for increased Medicaid costs.
- An additional \$10,000,000 transfer from the BSF to an emergency purposes fund.
- Transfer to the GRF in Fiscal Year 2002 of the entire \$100,000,000 balance in the Family Services Stabilization Fund.

The Ohio economy continued to be negatively affected by the national economic downturn and by national and international events, and in October 2001 OBM lowered its GRF revenue estimates. Based on reduced

revenue collections, particularly personal income and sales and use taxes, OBM then projected GRF revenue shortfalls of \$709,000,000 for Fiscal Year 2002 and \$763,000,000 for Fiscal Year 2003. Executive and legislative actions taken to address those shortfalls included:

- Spending reductions and limits on hiring and major purchases. Governor ordered spending reductions were at the annual rate of 6% for most State agencies, with lesser reductions for correctional and other institutional agencies, and with exemptions for debt service related payments, primary and secondary education and the adjutant general.
- December 2001 legislation, the more significant aspects of which included:
  - Authorizing transfer of up to \$248,000,000 from the BSF to the GRF during the current biennium. This was in addition to the \$160,000,000 in transfers from the BSF provided for in the original appropriations act (and would reduce the BSF balance to approximately \$607,000,000).
  - Reallocating to the GRF a \$260,000,000 portion of tobacco settlement receipts in Fiscal Years 2002 and 2003, intended to be replenished from settlement receipts in Fiscal Years 2013-14.
  - Authorizing Ohio's participation in a multi-state lottery game, estimated to generate approximately \$40,000,000 annually beginning in Fiscal Year 2003.

Continuing weak economic conditions, among other factors, then led OBM in the spring of 2002 to project a higher than previously estimated GRF revenue shortfall. Among areas of continuing concern were lower than anticipated levels of receipts from personal income and corporate franchise taxes. These additional GRF estimated shortfalls were approximately \$763,000,000 in Fiscal Year 2002 and \$1.15 billion in Fiscal Year 2003. Further executive and legislative actions were taken for Fiscal Year 2002 to ensure a positive GRF fund balance for Fiscal Year 2002 and the biennium. In addition to further appropriation reductions for certain departments and other management steps, those actions included legislation providing for among other things:

- Authorization of additional transfers to the GRF of the then remaining BSF balance (\$607,000,000) as needed in Fiscal Years 2002 and 2003, and of \$50,800,000 of unclaimed funds.
- \$50,000,000 reduction in the Fiscal Year 2002 ending GRF balance (to \$100,000,000 from its previously budgeted level of \$150,000,000).
- Increased cigarette tax by 31¢ per pack (to a total of 55¢ per pack), estimated by OBM to produce approximately \$283,000,000 in Fiscal Year 2003.
- Transfers to the GRF of \$345,000,000 from tobacco settlement moneys received in Fiscal Years 2002 and 2003 previously earmarked for construction of elementary and secondary school facilities, with moneys for that purpose replaced by \$345,000,000 in additionally authorized general obligation bonds.
- Extension of the State income tax to Ohio-based trusts and exemption of certain Ohio business taxes from recent federal tax law economic stimulus changes by "decoupling" certain State statutes from federal tax law changes affecting business equipment depreciation schedules. The combination produced approximately \$283,000,000 in Fiscal Year 2003.

Fiscal Year 2002 ended with positive GRF balances of \$108,306,000 (fund) and \$619,217,000 (cash). This was accomplished by the remedial steps described above, including significant transfers from the BSF (\$534,300,000) and from tobacco settlement moneys (\$289,600,000). The Fiscal Year 2002 ending BSF balance was \$427,904,000, with that entire balance appropriated for GRF use if needed in Fiscal Year 2003.

On July 1, 2002, the Governor issued an executive order directing a total of approximately \$375,000,000 in GRF spending cutbacks for Fiscal Year 2003 (based on prior appropriations) by agencies and departments in his administration, as well as limitations on hiring, travel and major purchases. This cutback order reflected prior budget balancing discussions between the Governor and General Assembly and reflected annual cutbacks ranging generally from 7.5% to 15%. Excluded from those cutbacks were elementary and secondary education, higher education, alcohol and drug addiction services, and the adjutant general. Also expressly excluded were debt service and lease rental payments relating to State obligations, and ad valorem property tax relief payments (made to local taxing entities).

Based on continuing reduced revenue collections (particularly, personal income taxes and sales tax receipts for the holidays) and projected additional Medicaid spending, OBM in late January 2003 announced

an additional GRF shortfall of \$720,000,000 for Fiscal Year 2003. The Governor ordered immediate additional reductions in appropriations spending intended to generate an estimated \$121,600,000 of GRF savings through the end of the Fiscal Year (expressly excepted were appropriations for or relating to debt service on State obligations).

The Governor also proposed for the General Assembly's enactment by March 1, 2003, the following additional revenue enhancements, transfers and expenditure reductions for Fiscal Year 2003 to achieve a positive GRF fund balance at June 30, 2003 as then estimated by OBM:

- A 2.5% reduction in local government fund distributions to most subdivisions and local libraries, producing an estimated \$30,000,000 savings. This reduction is in addition to the prior local government fund distribution adjustments noted below.
- Transfers to the GRF from unclaimed funds (\$35,000,000) and various rotary funds (\$21,400,000).
- A one-month acceleration in sales tax collections by vendors filing electronically, to produce \$286,000,000.
- An additional increase in the cigarette tax of 45 cents per pack (to a total of \$1.00 a pack), to produce approximately \$140,000,000.
- A doubling of the current taxes on spirituous liquor and beer and wine, to net an additional \$18,700,000.

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

Based on the Administration's continuing monitoring of revenues, and as an anticipated step in the then ongoing 2004-05 biennial budget and appropriations process, OBM reported revised revenue estimates to the General Assembly on June 11, 2003. Those estimates revised Fiscal Year 2003 revenues downward by an additional \$200,000,000 from OBM's January 2003 adjusted baseline, based primarily on updated income and sales tax receipts through May 31. The Governor and OBM addressed this additional Fiscal Year 2003 revenue shortfall through additional expenditure controls and by drawing upon \$193,030,000 of federal block grant aid made available to the State prior to June 30 under a federal law effective on May 28, 2003.

The State ended the 2002-03 biennium with a GRF fund and cash balances of \$52,338,000 and \$396,539,000, respectively, and a balance in the BSF of \$180,705,000.

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

#### **2004-05**

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

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

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

- A one-cent increase in the State sales tax (to six percent) for the biennium (expiring June 30, 2005), projected to generate approximately \$1.25 billion in each Fiscal Year.
- Expansion of the sales tax base to include dry-cleaning/laundry services, towing, personal care and other services, and satellite television, projected in the aggregate to produce approximately \$69,000,000 annually. (The inclusion of satellite television in the sales tax base, projected to produce approximately \$21,000,000 annually, is subject to an ongoing legal challenge.)
- Moving local telephone companies from the public utility tax base to the corporate franchise and sales tax, projected to produce approximately \$29,000,000 annually.
- Elimination of the sales tax exemption for WATS and 800 telecom services coupled with the enactment of a more limited exemption for call centers, projected to produce approximately \$64,000,000 annually.
- Adjustments in the corporate franchise tax through the adoption of the Uniform Division of Income for Tax Purposes Act (UDITPA) for apportionment of business income among states, and an increase in the corporate alternative minimum tax, projected in the aggregate to produce approximately \$35,000,000 annually.

The Act also authorized and OBM on June 30, 2004 transferred \$234,700,000 of proceeds received from the national tobacco settlement into the GRF. In addition, the Act authorized the draw down during the biennium of federal block grant and Medicaid assistance aid made available to the State under a federal law effective May 28, 2003. OBM drew down \$211,600,000 and \$316,800,000 of those federal monies in Fiscal Years 2004 and 2005, respectively.

Based on regular monitoring of revenues and expenditures, OBM in March 2004 announced revised GRF revenue projections for Fiscal Years 2004 and 2005 based primarily on reduced revenue collections from personal income taxes. In response to OBM reducing its GRF revenue projection by \$247,100,000 (1.02%) for Fiscal Year 2004 and by \$372,700,000 (1.48%) for Fiscal Year 2005, the Governor ordered Fiscal Year 2004 expenditure reductions of approximately \$100,000,000. On July 1, the Governor ordered additional Fiscal Year 2005 expenditure cuts of approximately \$118,000,000 and a reduction of \$50,000,000 in State spending on Medicaid reflecting an increased Federal share of certain Medicaid services. Expressly excluded from those reductions were debt service and lease rental payments relating to State obligations, State basic aid to elementary and secondary education, instructional subsidies and scholarships for public higher education, in-home care for seniors and certain job creation programs. The balance of those revenue reductions were offset by GRF expenditure lapses and, for Fiscal Year 2005, elimination of an anticipated \$100,000,000 year-end transfer to the BSF while maintaining a one-half percent year-end GRF fund balance.

The State ended Fiscal Year 2004 with a GRF fund balance of \$157,509,000. Improving economic conditions had a positive effect on revenue in Fiscal Year 2005. With GRF revenue receipts modestly outperforming estimates for much of the Fiscal Year, OBM in June 2005 increased its GRF revenue estimates by \$470,700,000. Final Fiscal Year 2005 GRF revenue came in \$67,400,000 above that revised estimate. With Fiscal Year 2005 spending close to original estimates, the State made the following Fiscal Year-end allocations and transfers: \$60,000,000 to address a prior-year liability in the Temporary Assistance to Needy Families program; \$40,000,000 to a disaster services contingency fund; \$50,000,000 to the State's share of the

school facilities construction program; and \$394,200,000 to the BSF. After these and certain smaller transfers, the State ended Fiscal Year 2005 and the biennium with a GRF fund balance of \$127,800,000 and a BSF balance of \$574,205,000.

### **Current Biennium**

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

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

- A 21% reduction in State personal income tax rates phased in at 4.2% per year over the 2005 through 2009 tax years.
- Phased elimination of the State corporate franchise tax at a rate of approximately 20% per year over the 2006 through 2010 tax years (except for its continuing application to financial institutions and certain affiliates of insurance companies and financial institutions).
- Implementation of a new commercial activity tax (CAT) on gross receipts from doing business in Ohio that will be phased in over the 2005 through 2009 tax years. When fully phased in, the CAT will be levied at a rate of 0.26% on gross receipts in excess of \$1,000,000.
- A 5.5% State sales and use tax (decreased from the 6.0% rate for the 2004-05 biennium).
- An increase in the cigarette tax from \$0.55 per pack (of 20 cigarettes) to \$1.25 per pack.

OBM continually monitors and analyzes revenues and expenditures and prepares a financial report summarizing its analyses at the end of each month. The most recent Monthly Financial Reports are accessible via OBM's home page on the Internet at <http://www.obm.ohio.gov/finrep>, and copies are available upon request to OBM.

### **Litigation**

Litigation pending in the Ohio Court of Claims contests the Ohio Department of Human Services (ODHS, now Ohio Department of Job and Family Services (ODJFS)) 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, the Court of Appeals ruled in favor of ODHS, and plaintiffs' 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 Appeals certified the class action and notice was sent to the members of the class. After trial for liability only was completed in the Court of Claims in January 2003, that Court in March 2004 issued a decision finding no ODJFS liability. The plaintiff class appealed that decision to the Franklin County Court of Appeals which in May 2005 held that the Court of Claims did not have jurisdiction over the case and remanded the case to the Court of Claims with instructions to vacate all prior proceedings and judgments. The plaintiff class has appealed the Court of Appeals decision to the Ohio Supreme Court and that appeal is currently pending.

Litigation is also currently pending in the Cuyahoga County Court of Appeals relating to the transfer to the GRF and use in Fiscal Year 2002 for general State purposes of \$60,000,000 in earned federal reimbursement

on Title XX (Social Services Block Grant) expenditures. Plaintiff Cuyahoga County filed an action contesting this transfer and use of those monies for general State purposes, and the trial court ordered the State to return the monies to its Department of Job and Family Services. The State appealed the trial court's decision and order. In June 2005, the Court of Appeals upheld the trial court's decision. The State has appealed the Court of Appeals decision to the Ohio Supreme Court and that appeal is currently pending.

### **Cash Flow**

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

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

The State 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 11 months in Fiscal Years 2003 and 2004 to four months in Fiscal Years 1995, 1997 and 2000. The highest GRF end-of-month cash flow deficiencies were \$1,623,028,000 in Fiscal Year 2003, \$1,413,295,000 in Fiscal Year 2004, and \$1,660,117,000 in Fiscal Year 2005. 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 for debts incurred to repel invasion, suppress insurrection, or defend the State in war.) The Constitution provides that "Except the debts above specified . . . no debt whatever shall hereafter be created by, or on behalf of the state."

By 18 constitutional amendments approved from 1921 to present, Ohio voters have authorized the incurrence of State general obligation (GO) debt and the pledge of taxes or excises to its payment. All related to the financing of capital facilities, except for three that funded bonuses for veterans, one that funded coal technology research and development, and one for research and commercialization activities. Currently, tax supported general obligation debt of the State is authorized to be incurred for the following purposes: highways, local infrastructure, coal development, natural resources, higher education, common schools, conservation, research and commercialization, and development of sites. Although supported by the general obligation pledge, highway debt is also backed by a pledge of and has always been paid from the State's motor fuel taxes and other highway user receipts that are constitutionally restricted in use to highway related purposes.

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

The Ohio Building Authority (OBA) issues special obligations for facilities to house branches and agencies of State government and their functions, including: State office buildings and facilities for the Department of Administrative Services and others (DAS), the Department of Transportation (ODOT) and the Department of Public Safety (DPS); juvenile detention facilities for the Department of Youth Services (DYS);

Department of Rehabilitation and Correction (DRC) prisons and correctional facilities including certain local and community-based facilities; office buildings for the Bureau of Workers' Compensation (BWC) and Department of Natural Resources (DNR); and school district technology and security facilities. Effective July 1, 2005, the Treasurer has succeeded to the OBA in matters relating to the issuance of obligations for Ohio Cultural Facilities Commission (formerly the Arts & Sports Facilities Commission) facilities. The Treasurer also issues obligations for mental health and parks and recreation purposes and to refund certain bonds previously issued for higher education purposes, and has previously issued obligations for elementary and secondary school facilities. Debt service on obligations issued under Section 2i of Article VIII is paid from GRF appropriations, with the exception of debt issued for ODOT and DPS facilities that is paid from highway user receipts and for BWC facilities which is paid from the BWC Administrative Cost Fund.

*Federal Grant Anticipation Revenue Vehicle (GARVEE) Bonds.* In addition to its issuance of highway bonds, the State has financed selected highway infrastructure projects by issuing bonds and entering into agreements that call for debt service payments to be made from federal transportation funds allocated to the State, subject to biennial appropriations by the General Assembly. Annual State payments under those agreements reach a maximum of \$77,414,391 in Fiscal Year 2006. In the event of any insufficiency in the anticipated federal allocations to make payments on State bonds, the payments are to be made from any lawfully available moneys appropriated to ODOT for the purpose.

*Economic Development and Revitalization.* A statewide economic development program assists the financing of facilities and equipment for industry, commerce, research and distribution, including technology innovation, by providing loans and loan guarantees. The law authorizes the issuance of State bonds and notes secured by a pledge of portions of the State profits from liquor sales. The General Assembly has authorized the issuance of these obligations with a general maximum of \$500,000,000 to be outstanding at any one time. The aggregate amount from the liquor profits to be used in any Fiscal Year in connection with these bonds may not exceed \$45,000,000. The total of unpaid guaranteed loan amounts and unpaid principal of direct loans may not exceed \$800,000,000. A 1996 issue of \$168,740,000 of taxable bonds refunded outstanding bonds and provided additional loan moneys for facilities and equipment (i.e., the State's direct loan program). \$101,980,000 of taxable forward purchase bonds were issued in 1998 to refund, as of 2006, term bonds of the 1996 issue stated to mature in 2016 and 2021. In 2003, the State issued \$50,000,000 in bonds for Innovation Ohio projects and \$50,000,000 for research and development projects, followed by a 2004 issuance of \$50,000,000 for its direct loan program and a 2005 issuance for research and development projects. Pursuant to a 2000 constitutional amendment referred to below under **Additional Authorizations**, the State has issued a first series of \$50,000,000 of bonds for revitalization purposes that are also payable from State liquor profits. The maximum annual debt service on all state bonds payable from State liquor profits is \$34,813,358 in Fiscal Year 2007.

*Certificates of Participation (COPs).* State agencies also have participated in office building and non-highway transportation projects that have local as well as State use and benefit, in connection with which the State has entered into lease-purchase agreements with terms ranging from 7 to 20 years. Certificates of Participation (COPs) have been issued in connection with those agreements that represent fractionalized interests in and are payable from the State's anticipated payments. The maximum annual payment under those agreements, primarily made from GRF appropriations, is \$11,718,700 in Fiscal Year 2017. Payments by the State are subject to biennial appropriations by the General Assembly with the lease terms subject to renewal if appropriations are made. Generally, the OBM Director's approval of such agreements is required, particularly if COPs are to be publicly-offered in connection with those agreements.

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

### Variable Rate Debt and Interest Rate Swaps

The State currently has \$551,240,000 in outstanding general obligation variable rate debt as shown in the following table. Liquidity is provided by the State of Ohio and it is not anticipated that a liquidity facility will be provided by any other party.

<u>Dated Date</u>	<u>Outstanding</u>	<u>Purpose</u>	<u>Series</u>	<u>Rate Period</u>	<u>Final Maturity</u>
11/29/01	\$63,900,000	Infrastructure	2001B	Weekly	8/1/2021
2/26/03	104,315,000	Infrastructure	2003B	Weekly	8/1/2017
3/20/03	58,085,000	Infrastructure	2003D	Weekly	2/1/2019
12/15/03	67,000,000	Common Schools	2003D	Term*	3/15/2024
3/3/04	57,940,000	Infrastructure	2004A	Weekly	2/1/2023
4/1/05	200,000,000	Common Schools	2005A/B	Weekly	3/15/2025

\* Term rate period through September 14, 2007 and a weekly rate period thereafter.

As part of its debt management, the State has entered into interest rate swap agreements in connection with each of these issues -- swapping to a synthetic fixed rate in connection with each of the above issues in a weekly rate period. The State has entered into two swaps in connection with the common schools Series 2003D Bonds, swapping to a synthetic variable rate through the expiration of the initial term rate period and entering into a forward starting synthetic fixed rate swap from that expiration date through the final maturity of those bonds. The State has also entered into: i) a synthetic variable rate swap in connection with \$30,115,000 principal amount of infrastructure Series 2003F fixed rate bonds with a final maturity of February 1, 2010; and ii) a \$200,000,000 forward starting synthetic fixed rate swap in connection with its anticipated issuance of a like amount of common schools adjustable rate bonds in June 2006.

### Limitation on Annual Debt Service

A 1999 constitutional amendment provides an annual debt service "cap" applicable to most future issuances of State general obligations and other State direct obligations payable from the GRF or net State lottery proceeds. Generally, and except for the additional \$650,000,000 of general obligation debt approved by the voters at the November 8, 2005 election for research and commercialization and the development of sites for industry, commerce, distribution and research and development, new bonds may not be issued if future Fiscal Year debt service on those new and the then outstanding bonds of those categories would exceed 5% of the total estimated GRF revenues plus net State lottery proceeds during the Fiscal Year of issuance. Those direct obligations of the State include, for example, special obligation bonds 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. 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.

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The following table presents a summary of State debt obligations including the Series 2005-1 Bonds. The General Assembly has appropriated sufficient moneys to meet debt service requirements for the current biennium (ending June 30, 2007) on all of the obligations included in this and accompanying tables.

**Obligations Payable from the GRF**

	<b>Authorized by General Assembly</b>	<b>Issued(a)</b>	<b>Outstanding(b)</b>
<b><u>General Obligations</u></b>			
Coal Development(c)	\$165,000,000	\$150,000,000	\$38,690,000
Infrastructure(d)	2,280,000,000	2,159,986,136	1,341,647,567(e)
Natural Resources(f)	301,000,000	265,000,000	173,180,000
Common School Facilities	3,035,000,000	2,390,000,000	2,175,340,000(e)
Higher Education Facilities	2,327,000,000	1,700,000,000	1,495,815,000
Conservation(f)	150,000,000	150,000,000	136,200,000
<b><u>Special Obligations</u></b>			
DRC Prison Facilities	\$1,840,000,000	\$1,734,500,000	\$826,170,000
DYS Facilities	265,000,000	247,000,000	169,005,000
DAS Facilities(g)	1,526,000,000	1,448,300,000	806,090,000
Cultural Facilities	420,000,000	373,690,000	189,770,000
DNR Facilities	12,160,000	12,160,000	3,030,000
Higher Education Facilities	4,817,590,000	4,817,590,000	825,840,000
Mental Health Facilities	1,335,000,000	1,292,085,000	260,725,000
Parks & Recreation Facilities	335,000,000	313,000,000	122,505,000
Elementary & Secondary Education	333,640,000	333,640,000	61,960,000

**Obligations Payable from Non-GRF Sources**

	<b>Authorized by General Assembly</b>	<b>Issued(a)</b>	<b>Outstanding(b)</b>
<b><u>Highway User Receipts</u></b>			
G.O. Highway(h)	\$1,745,000,000	\$1,745,000,000	\$0
G.O. Highway(i)	2,130,000,000	1,435,000,000	794,500,000
ODOT Facilities	155,800,000	155,800,000	28,285,000
DPS Facilities	143,000,000	138,600,000	78,985,000
<b><u>Net Liquor Profits</u></b>			
Economic Development(j)	n.a.	368,740,000	321,970,000
Revitalization Projects(k)	150,000,000	50,000,000	42,535,000
<b><u>Other</u></b>			
ODOT Highway Infrastructure(l)	n.a.	597,250,000	342,895,000
BWC Facilities(m)	214,255,000	214,255,000	137,200,000

- (a) Excludes refunding bonds; includes bonds refunded.
- (b) Excludes bonds refunded; includes refunding bonds.
- (c) Not more than \$100,000,000 may be outstanding at any time.
- (d) Not more than \$120,000,000 may be issued annually through Fiscal Year 2013, not more than \$150 million may be issued annually in Fiscal Years 2014 through 2018, and the total issued may not exceed \$3.75 billion.
- (e) Includes \$284,240,000 in adjustable rate bonds for infrastructure and \$267,000,000 in adjustable rate bonds for common schools.
- (f) Not more than \$50,000,000 may be issued in any Fiscal Year and not more than \$200,000,000 may be outstanding at any time.
- (g) 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.
- (h) Authority to issue expired in 1996.
- (i) 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.
- (j) Revenue obligations issued for economic development assistance programs established under Chapter 166 of the Ohio Revised Code, including the Innovation Ohio and research and development programs. Not more than \$500,000,000 may be outstanding at any time.
- (k) Net liquor profits are statutorily designated as the source of payment of debt service.
- (l) Debt service on these "GARVEE" bonds is paid from federal transportation grants apportioned to the State (Title 23 of the U.S. Code).
- (m) Debt service is paid from appropriations from the BWC Administrative Cost Fund.

The following table shows total Fiscal Year debt service on State obligations payable from the GRF.

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

FY	General Obligations			Special Obligations		Total GRF Debt Service		
	Education(a)	Infra-structure(b)	All Other(c)	Treasurer(d)	OBA(e)	Principal	Interest	Total
2006	\$327,204,329	\$157,381,079	\$42,206,356	\$333,465,978	\$268,958,444	\$703,829,569	\$425,386,616	\$1,129,216,185
2007	329,864,738	166,551,047	42,831,675	336,178,768	253,285,788	724,205,726	404,506,289	1,128,712,015
2008	328,550,023	165,604,862	42,824,238	321,130,101	234,425,270	719,671,587	372,862,907	1,092,534,493
2009	327,390,924	165,661,891	42,848,736	212,207,863	219,831,140	622,069,042	345,871,511	967,940,553
2010	326,328,225	165,778,702	42,733,194	193,144,546	211,300,708	625,920,576	313,364,798	939,285,374
2011	324,655,006	155,501,557	39,278,781	168,420,425	195,018,830	595,522,787	287,351,812	882,874,599
2012	323,781,407	155,692,169	39,256,806	138,564,501	186,793,639	580,496,933	263,591,589	844,088,522
2013	322,716,848	144,294,313	30,904,904	104,966,001	166,375,168	528,362,649	240,894,583	769,257,233
2014	321,831,208	135,142,386	29,014,914	49,133,717	150,157,599	487,911,268	197,368,555	685,279,823
2015	305,541,362	115,375,745	26,227,575	39,731,773	139,854,321	458,493,397	168,237,379	626,730,776
2016	279,694,219	105,157,449	23,666,494	32,587,599	117,787,731	415,198,600	143,694,891	558,893,491
2017	279,033,875	95,852,682	21,781,878	22,282,386	105,016,913	402,385,000	121,582,733	523,967,733
2018	278,926,855	85,851,468	17,228,280	17,076,709	96,133,775	392,905,000	102,312,086	495,217,086
2019	278,429,896	66,697,294	11,656,240	12,428,697	74,933,213	360,355,000	83,790,339	444,145,339
2020	278,358,742	56,323,463	7,166,250	7,997,925	51,194,913	334,410,000	66,631,292	401,041,292
2021	263,450,968	46,561,954	0	0	51,462,913	310,785,000	50,690,834	361,475,834
2022	250,923,457	46,491,431	0	0	41,340,475	302,890,000	35,865,363	338,755,363
2023	221,406,235	36,924,383	0	0	31,465,625	267,565,000	22,231,243	289,796,243
2024	119,068,499	18,830,875	0	0	23,270,163	150,365,000	10,804,537	161,169,537
2025	52,199,965	9,396,250	0	0	12,762,750	70,705,000	3,653,965	74,358,965
2026	0	9,394,125	0	0	0	9,165,000	229,125	9,394,125
						<b>9,063,212,136</b>	<b>3,660,922,446</b>	<b>12,724,134,582</b>

(a) Consists of common schools and higher education general obligation bonds and includes estimated debt service on \$267,000,000 of adjustable rate bonds for common schools.

(b) Includes estimated debt service on \$284,240,000 of adjustable rate bonds.

(c) Includes natural resources, coal development and conservation general obligation bonds.

(d) Includes lease-rental bonds issued by the Treasurer for mental health, parks and recreation, and cultural facilities. Also includes lease-rental bonds previously issued for elementary and secondary education and for higher education facilities.

(e) Includes lease-rental bonds issued by the Ohio Building Authority (OBA) for various state capital facilities.

The following table shows total Fiscal Year debt service on certain State obligations payable from the indicated non-GRF revenues. This table includes the Series 2005-1 Bonds.

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

FY	Highway User Receipts			Net Liquor Profits			Other	
	Highway G.O.	ODOT/DPS Facilities(a)	Total	Economic Development(b)	Revitalization(c)	Total	BWC(d)	Federal Transportation Grants(e)
2006	\$181,073,874	\$26,382,732	\$207,456,607	\$27,156,502	\$4,707,425	\$31,863,927	\$19,661,595	\$77,414,391
2007	170,178,220	24,245,760	194,423,980	30,105,833	4,707,525	34,813,358	20,050,895	74,675,023
2008	151,230,295	23,883,035	175,113,330	30,098,904	4,711,138	34,810,041	20,361,525	72,645,963
2009	125,162,380	16,903,266	142,065,646	30,089,925	4,710,000	34,799,925	20,611,445	61,936,338
2010	99,978,611	16,642,351	116,620,962	30,066,550	4,709,750	34,776,300	19,796,795	44,722,163
2011	73,117,088	13,019,775	86,136,863	30,057,113	4,706,875	34,763,988	18,974,395	26,341,969
2012	49,981,675	9,450,034	59,431,709	30,077,440	4,710,875	34,788,315	18,216,365	11,481,550
2013	47,819,525	2,442,503	50,262,028	30,075,541	4,711,250	34,786,791	17,458,370	11,486,125
2014	32,146,390	2,444,794	34,591,184	30,071,235	4,707,750	34,778,985	15,951,100	11,481,625
2015	14,682,250	2,443,281	17,125,531	30,081,620	4,709,875	34,791,495	0	11,486,756
2016	0	2,446,669	2,446,669	30,096,885	4,707,125	34,804,010	0	11,485,125
2017	0	2,444,713	2,444,713	30,099,377	4,709,000	34,808,377	0	0
2018	0	2,447,213	2,447,213	30,097,857	4,709,875	34,807,732	0	0
2019	0	2,448,650	2,448,650	30,095,440	0	30,095,440	0	0
2020	0	1,567,875	1,567,875	30,094,127	0	30,094,127	0	0
2021	0	1,568,250	1,568,250	30,090,677	0	30,090,677	0	0
2022	0	0	0	24,695,316	0	24,695,316	0	0
2023	0	0	0	18,527,351	0	18,527,351	0	0
2024	0	0	0	18,421,838	0	18,421,838	0	0
2025	0	0	0	9,580,624	0	9,580,624	0	0
2026	0	0	0	4,079,969	0	4,079,969	0	0

- (a) Lease rental payments are paid from highway user receipts for these Ohio Department of Transportation and Department of Public Safety facilities.
- (b) Consists of debt service on revenue obligations issued for economic development programs under Chapter 166 of the Ohio Revised Code.
- (c) Special obligation bonds for which net liquor profits have been statutorily designated as the source of payment of debt service.
- (d) Debt service paid from appropriations from the BWC Administrative Cost Fund.
- (e) Debt service paid from federal transportation grants apportioned to the State under Title 23 of the U.S. Code.

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

<u>Year</u>	<u>Obligations Payable from the GRF</u>			<u>Non-GRF Obligations</u>	
	<u>Education(a)</u>	<u>Other GO(b)</u>	<u>Special Obligations(c)</u>	<u>Highway User Receipts(d)</u>	<u>Net Liquor Profits(e)</u>
2006	\$3,711,105,000	\$1,759,438,897	\$3,592,668,238	\$921,045,000	\$361,070,000
2010	2,871,635,000	1,136,920,636	1,658,960,000	231,170,000	303,730,000
2015	1,867,925,000	557,758,600	591,045,000	11,300,000	209,935,000
2020	817,790,000	150,435,000	143,250,000	1,530,000	93,065,000

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

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

<u>Year</u>	<u>Principal Amount Outstanding (as of July 1)</u>	<u>Outstanding Debt Per Capita</u>	<u>Outstanding Debt as % of Personal Income</u>
1980	\$1,991,915,000	\$184	1.83%
1990	3,707,054,994	341	1.82
2000	6,308,680,025	556	1.97
2001	6,570,863,174	578	2.02
2002	7,086,317,648	620	2.12
2003	7,559,386,132	661	2.19
2004	8,110,709,343	708(a)	2.27(b)
2005	8,476,432,135	740(a)	2.37(b)

<u>Fiscal Year</u>	<u>Debt Service Payable</u>	<u>Total GRF Revenue and Net State Lottery Proceeds</u>	<u>Debt Service as % of GRF Revenue and Lottery Proceeds</u>	<u>Debt Service as % of Annual Personal Income</u>
1980	\$187,478,382	\$4,835,670,223	3.88%	0.17%
1990	488,676,826	12,230,681,298	4.00	0.24
2000	871,313,814	20,711,678,217	4.21	0.27
2001	918,248,422	21,921,275,724	4.19	0.28
2002	926,142,216	22,072,703,100	4.20	0.28
2003	959,489,678	23,055,920,100	4.16	0.28
2004	1,013,222,412	24,678,909,000	4.11	0.28(b)
2005	1,097,842,137	26,195,614,000	4.19	0.31(b)

- (a) Based on July 2004 population estimate.
- (b) Based on 2004 personal income data.

#### **Additional Authorizations**

Only a portion of State capital needs can be met by direct GRF appropriations, and so additional State borrowing for capital purposes has been and will continue to be required. State capital appropriations for the 2005-06 capital biennium provide for the following additional GRF-supported borrowings for various purposes, all of which are reflected in the preceding tables:

#### **General Obligation**

- \$1,052,000,000 for capital improvements for elementary and secondary public schools.
- \$529,000,000 for higher education capital facilities projects, including \$100,000,000 for research and technology development facilities.
- \$240,000,000 for local infrastructure projects.
- \$14,000,000 for natural resources facilities.
- \$50,000,000 for conservation purposes.
- \$15,000,000 for coal research and development.

## Special Obligation

- \$12,000,000 for prisons and local jails.
- \$8,000,000 for youth services facilities.
- \$65,000,000 for State administrative facilities.
- \$36,000,000 for cultural facilities (including both arts and sports facilities).
- \$20,000,000 for mental health facilities (including local projects).
- \$22,000,000 for parks and recreation facilities.
- \$50,000,000 for revitalization purposes.

Currently applicable constitutional authorizations are:

- 2005 – authorizes the issuance of over ten years of an additional \$500,000,000 of State general obligation debt in support of research and commercialization, and an additional \$150,000,000 of State general obligation debt for the development of sites for industry, commerce, distribution and research and development, with those obligations not subject to the 5% direct obligation debt service cap described above. Also authorizes an additional \$1.35 billion of general obligation debt for government infrastructure as a ten-year extension of the existing local government infrastructure program, with an increase in the annual issuance amount in the last five-years from \$120,000,000 to \$150,000,000, which continues to be subject to that 5% debt service cap.
- 2000 – authorizes the issuance of State bonds for land conservation and revitalization purposes (including statewide brownfields clean-up). For each of the two purposes, the amendment authorizes not more than \$50,000,000 in principal amount to be issued in any Fiscal Year and not more than \$200,000,000 to be outstanding at any time. The bonds for conservation purposes are general obligations, and those for revitalization purposes are special obligations payable from revenues and receipts designated by the General Assembly (currently a portion of the State’s net liquor profits).
- 1999 – authorizes State general obligation debt to pay costs of facilities for a system of common schools throughout the state and for state-supported and state-assisted institutions of higher education. The amendment also provides for the 5% direct obligation debt service cap described above.
- 1995 – authorizes additional highway bonds and extended the local infrastructure bond program. For the latter, it authorized an additional \$1.2 billion of State full faith and credit obligations to be issued over 10 years, with not more than \$120,000,000 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.
- 1994 – pledges the State's full faith and credit and taxing power to meet certain guarantees under the State's tuition credit program, a program that provides for the purchase of tuition credits which are guaranteed to cover a specified amount when applied to tuition and other eligible higher education costs. Under the amendment, to secure the tuition guarantees, the General Assembly shall appropriate money sufficient to offset any deficiency that occurs in the trust fund, at any time necessary to make payment of the full amount of any tuition payment or refund required by a tuition payment contract.
- 1990 – authorizes greater State and political subdivision participation in the provision of individual and family housing. This supplements the previous constitutionally authorized loans-for-lenders and other housing assistance programs, financed in part with State revenue bonds. The amendment authorizes the General Assembly to provide for State assistance for housing in a variety of ways, including State borrowing for the purpose by the issuance of obligations secured by a pledge of all or such portion of State revenues or receipts as it authorizes (but not by a pledge of the State’s full faith and credit).
- 1985 – authorizes the issuance of general obligation debt to finance grants or make or guarantee loans for research and development of coal technology that will encourage the use of Ohio coal. Those grants or loans are available to any individual, association, or corporation doing business in the State, or to any educational or scientific institution located in the State. Not more than \$100 million may be outstanding at any time.

## ECONOMY AND EMPLOYMENT

Although manufacturing (including auto-related manufacturing) in Ohio remains an integral part of the State's economy, the greatest growth in Ohio's economy in recent years has been in the non-manufacturing sectors. In 2002, Ohio's economic output as measured by gross state product (GSP) totaled \$388 billion, 3.7% of the national GSP and seventh largest among the states. The State ranks third within the manufacturing sector as a whole (\$79 billion) and fourth in durable goods (\$53 billion). As a percent of Ohio's 2002 GSP, manufacturing was responsible for 20%, with 20% attributable to the services sector and 18% to the finance, insurance and real estate sector. Ohio is the sixth largest exporting state with 2002 merchandise exports totaling \$27.7 billion. The State's leading export products are machinery (including electrical machinery) and motor vehicles, which together accounted for nearly 59% of that total.

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 early 1992 and late 1993, then increased steadily through 2000 before decreasing again in 2001 through 2004. 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 85% of all nonfarm 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>	<u>2004*</u>
Natural Resources & Mining .....	21	31	18	13	12
Construction.....	164	167	195	246	235
Manufacturing.....	1,410	1,264	1,112	1,083	825
Trade, Transportation & Public Utilities*	998	1,180	1,390	1,599	1,038
Information* .....	n.a.	n.a.	n.a.	n.a.	93
Financial Activities .....	154	204	256	308	312
Services.....	568	831	1,189	1,592	1,596
Leisure & Hospitality*.....	n.a.	n.a.	n.a.	n.a.	495
Government .....	<u>566</u>	<u>690</u>	<u>722</u>	<u>785</u>	<u>802</u>
TOTAL .....	3,881	4,367	4,882	5,625	5,407

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

\* Reflects a change in the basis for industry classification from the 1987 Standard Industrial Classification System (SIC) to the 2002 North American Industry Classification System.

### Distribution of Nonfarm Payroll Jobs by Industry Type (%)

	<u>1970</u>		<u>1980</u>		<u>1990</u>		<u>2000</u>		<u>2004*</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>	<u>Ohio</u>	<u>U.S.</u>
Natural Resources & Mining .....	<b>0.5</b>	0.9	<b>0.7</b>	1.1	<b>0.4</b>	0.6	<b>0.2</b>	0.4	<b>0.2</b>	0.4
Construction.....	<b>4.2</b>	5.1	<b>3.8</b>	4.8	<b>4.0</b>	4.7	<b>4.4</b>	5.1	<b>4.3</b>	5.3
Manufacturing .....	<b>36.3</b>	27.3	<b>29.0</b>	22.4	<b>22.8</b>	17.4	<b>19.2</b>	14.0	<b>15.2</b>	10.9
Trade, Transportation & Public Utilities*	<b>25.7</b>	27.6	<b>27.0</b>	28.2	<b>28.5</b>	5.3	<b>28.4</b>	28.3	<b>19.2</b>	19.4
Information* .....	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	<b>1.7</b>	2.4
Financial Activities.....	<b>4.0</b>	5.1	<b>4.7</b>	5.7	<b>5.2</b>	6.1	<b>5.5</b>	5.8	<b>5.8</b>	6.1
Services.....	<b>14.6</b>	16.3	<b>19.0</b>	19.8	<b>24.4</b>	25.5	<b>28.3</b>	30.7	<b>29.5</b>	29.5
Leisure & Hospitality*.....	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	<b>9.2</b>	9.5
Government .....	<b>14.6</b>	17.7	<b>15.8</b>	18.0	<b>14.8</b>	16.7	<b>14.0</b>	15.7	<b>14.8</b>	16.4

Source: U.S. Department of Labor, Bureau of Labor Statistics, National and State Current Employment Statistics. The distribution percentages are as calculated by OBM.

\* Reflects change in the bases for industry classification from the 1987 Standard Industrial Classification System (SIC) to the 2002 North American Industry Classification System (NAICS).

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
1998.....	4.3	4.5
1999.....	4.3	4.2
2000.....	4.0	4.0
2001.....	4.2	4.7
2002.....	5.7	5.8
2003.....	6.1	6.0
2004.....	6.0	5.5
2005 January.....	5.9	5.2
February.....	6.4	5.4
March.....	6.3	5.2
April.....	6.1	5.2
May.....	6.1	5.1
June.....	6.2	5.2
July.....	5.7	5.0
August.....	5.9	4.9
September.....	5.8	5.1
October.....	5.9	5.0

Source: Ohio Department of Job and Family Services, Labor Market Information.

The following are the private sector employers that had the highest number of full-time equivalent employees (estimated and rounded) in Ohio in 2004:

**OHIO'S TOP 25 PRIVATE SECTOR EMPLOYERS – 2004**

<u>Company</u>	<u>Estimated Employment Headcount</u>	<u>Sector</u>
Wal-Mart Stores, Inc.*	42,800	Retail General Merchandiser
<b>Kroger Company*</b>	32,700	Retail Food Stores
<b>Cleveland Clinic Health System</b>	28,950	Health
<b>University Hospitals Health System</b>	25,000	Health
General Motors Corporation	21,900	Motor Vehicles
General Electric Company	20,000	Aerospace/Electrical Equipment
Meijer, Inc.*	20,000	Retail General Merchandiser
Honda Motor Company	16,000	Motor Vehicles
J.P. Morgan Chase & Co.	15,500	Financial Services
<b>Limited Brands, Inc.</b>	15,250	Retail Clothing
Ford Motor Company	15,000	Motor Vehicles
<b>Ohio Health*</b>	15,000	Health
<b>Procter &amp; Gamble Company</b>	14,500	Soaps and Cosmetics
<b>Bob Evans Farms, Inc.*</b>	13,500	Restaurants
<b>Nationwide Insurance</b>	12,520	Insurance
<b>National City Corp.</b>	12,460	Financial Services
United Parcel Service of America, Inc.*	12,200	Air, Freight and Package Delivery
<b>Fifth Third Bancorp</b>	12,080	Finance Bank
Delphi Automotive	11,800	Motor Vehicles Parts
<b>Health Alliance of Greater Cincinnati*</b>	11,300	Health
<b>ProMedica Health Systems*</b>	11,000	Health
Giant Eagle	10,600	Retail Food
Tops Markets, LLC*	9,900	Retail Foods
SBC	9,680	Telecommunications
Sears, Roebuck & Company*	9,580	Retail Department

\* Indicates inclusion of part-time employees.

Boldface indicates headquartered in Ohio.

Source: Ohio Department of Development, Office of Strategic Research, September 2004.

## POPULATION

Ohio's 2000 decennial census population of 11,353,100 indicated a 4.7% population growth over 1990 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	11,353,100*	7	4.7	3,216,000	6,629,400	1,507,800

\* Census population estimate July 2004 is 11,459,011.

Source: U.S. Census Bureau Web Site, Population Estimates.

### 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. Census Bureau Web Site, Metropolitan Area Population Estimates.

## AGRICULTURAL AND RESOURCES BASES

With 14.6 million acres (of a total land area of 26.4 million acres) in farmland and an estimated 77,600 individual farms, agriculture combined with related agricultural sectors is an important segment of Ohio's economy. Ohio's 2003 crop production value of \$3.22 billion represented 3.0% of the U.S. total value. Ohio ranks in the top five states in the production of chicken and layer inventory, eggs, swiss and cottage cheese, milk sherbet, fresh sweet corn, and tomatoes. In 2003, Ohio's agricultural sector output (consisting of crops, livestock, poultry and dairy, and services and forestry) totaled \$6.0 billion with agricultural exports (primarily soybeans, feed grains and wheat, and their related products) estimated at a value of \$1.1 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.



## STATE EMPLOYEES AND RETIREMENT SYSTEMS

Since 1980, the average number of regular State employees, computed on an average Fiscal Year basis and excluding employees who are not paid by State warrant such as state university employees, has ranged from a low of 55,326 in Fiscal Year 1985 to a high of 63,693 in Fiscal Year 2001. In Fiscal Year 2005, the number of regular state employees averaged 60,579 (for comparative national figures, see **Comparative Government Statistics**).

The State engages in collective bargaining with six employee unions representing 21 bargaining units and generally operates under three-year agreements most of which were renegotiated and ratified, and expire in March through June 2006.

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 Ohio Police and Fire Pension Fund (OP&F) 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 (ERISA). Federal law requires new hires to participate in the Medicare program, with matching employer and employee contributions, each now 1.45% of the wage base. Otherwise, State employees covered by a State retirement system are not currently covered under the federal Social Security Act. Congress has from time to time considered legislation relating to retirement funds of public bodies and to other aspects of public employee retirement.

The State is required to make an employer contribution based on a percent of salary for each State employee that is an active member of a state retirement system. Currently, about 96% of State employees are members of PERS, about 2.5% are in HPRS and about 1.5% are in STRS. The State's employer contributions to those systems totaled \$777,750,000 in the 2002-03 biennium, \$784,589,000 in the 2004-05 biennium, and are estimated to be \$834,700,000 in the 2006-07 biennium. The State also has funded and continues to fund subsidies to the systems (most for specific groups of retirants) to pay for new or additional benefits mandated by law and not otherwise funded. The aggregate subsidies were \$52,639,584 in the 2002-03 biennium, \$54,137,000 in the 2004-05 biennium, and are appropriated at \$42,475,000 for the 2006-07 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 (not including assets or liabilities for post-employment healthcare benefits (\$ in millions)):

	<u>PERS</u>	<u>STRS</u>	<u>SERS</u>	<u>OP&amp;F(e)</u>	<u>HPRS</u>
as of:	<b>12/31/04</b>	<b>6/30/04</b>	<b>6/30/04</b>	<b>12/31/03</b>	<b>12/31/04</b>
Active Members.....	355,287	179,063	123,139	28,441	1,562
Retirants and Beneficiaries.....	149,296	111,853	60,569	24,347	1,282
Employer/Employee Contributions (% of Salary)(a)....	13.3/8.5(b)	14.0/10.0	14.0/10.0	(c)	25.5/10.0(f)
Active Member Payroll .....	\$11,454.0	\$9,565.9	\$2,394.0	\$1,644.4	\$81.8
Actuarial Accrued Liability (AAL) .....	\$57,604.0	\$69,867.4	\$11,250.8	\$10,798.4	\$734.5
Value of Assets (d) .....	\$50,452.0	\$52,253.8	\$8,667.0	\$9,337.1	\$569.9
Unfunded Actuarial Accrued Liability (UAAL) .....	\$7,152.0	\$17,613.6	\$2,584.0	\$1,461.3	\$164.6
Funding Ratio (Assets to AAL (%)) .....	87.6	74.8	77.0	86.5	77.6

(a) For PERS, STRS, and SERS the maximum employer and employee contribution rates under law are 14% and 10%, respectively.

(b) PERS state is 13.31/8.5%, local is 13.55/8.5% and law enforcement is 16.7/10.1%. PERS employer and employee contribution rates will increase to their statutory maximum of 14% and 10%, respectively, over three years beginning in calendar year 2006.

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

(d) Recognizes the cost of assets adjusted for realized and unrealized gains and losses amortized over a four-year period, except for OP&F which values assets under a five-year expected market value technique.

(e) Membership data as of December 31, 2004. Remaining information is expected to be available by the end of December 2005.

(f) Employer contribution rate increased from 24.5% to 25.5% effective July 1, 2005.

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 2003 showed that Ohio then ranked 28th in state taxes per capita. Three major tax bases in the State, personal income (taxed by the State and municipalities and, with voter approval, by certain school districts), retail sales and use (taxed by the State and counties and transit authorities), and real and tangible personal property (taxed by local governments), are described below. In addition, effective July 1, 2005, the State is commencing the phase-in over five years of a new commercial activities tax (CAT) on taxable gross receipts from doing business in Ohio, and is phasing out over the same general period its corporate franchise tax (except for its continuing application to financial institutions and certain affiliates of insurance companies and financial institutions). The initial rate for the CAT is 0.06% with the CAT ultimately to be levied at a rate of 0.26% when fully implemented in 2009. As described further below, a portion of the receipts from the CAT will be used to make compensating payments to schools and other taxing units in connection with the phase-out of the tangible personal property tax over the next three calendar years.

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

### Personal Income

Under State legislation effective July 1, 2005, State personal income tax rates, applying generally to federal adjusted gross income, will be reduced 4.2% annually in each of the years 2005 through 2009, resulting in an aggregate 21% decrease from the 2004 rates which ranged 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. The indexing of the State income tax brackets previously scheduled to begin July 1, 2005 is suspended until January 2010 when the rate reductions are fully phased.

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 municipal rate in 2002 was 2.85%. A school district income tax is currently approved in 145 districts. Effective July 1, 2005, there may also be proposed for voter approval municipal income taxes to be shared with school districts, but those taxes may not be levied on the income of nonresidents.

Since 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 seventh in 1990, moving between seventh and eighth in 1994 through 2003, and eighth in 2004. This movement, portrayed below, in significant measure reflects “catching up” by several other states and a trend in Ohio toward more service sector employment.

### Personal Income (\$ in Billions)

		<u>U.S.</u>	<u>Ohio</u>	<u>Ohio Percent</u> <u>of U.S.</u>	<u>Ohio Rank</u> <u>Among States</u>
1970	Total.....	\$ 834.5	\$ 43.7	5.2%	5
	per capita.....	4,095	4,101	100.1	16
1980	Total.....	2,313.9	109.1	4.7	6
	per capita.....	10,183	10,103	99.2	21
1990	Total.....	4,885.5	204.1	4.2	7
	per capita.....	19,572	18,788	96.0	21
2000	Total.....	8,422.0	320.5	3.8	8
	per capita.....	29,845	28,207	94.5	24
2003	Total.....	9,151.6	344.6	3.7	7
	per capita.....	31,472	30,129	95.7	24
2004	Total.....	9,702.5	356.7	3.7	8
	per capita.....	33,041	31,135	94.2	25

Notes: District of Columbia included in U.S. total, excluded in ranking.

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

## Sales and Use

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

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

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

### Retail Sales (\$ in Billions)

<u>Fiscal Year</u>	<u>Ohio Retail Sales(a)</u>	<u>U.S. Retail Sales(b)</u>	<u>Ohio Percent of U.S.</u>
1980	\$42.84	\$979.25	4.4%
1990	67.06	1,914.04	3.5
2000	117.67	3,205.04	3.7
2003	124.10	3,531.52	3.5
2004	129.95	3,752.13	3.5
2005	138.05	4,037.92	3.4

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

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

## 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 2003 show that these property taxes represent 3.73% of Ohio personal income.

		<u>Assessed Value (a)</u>	<u>Percent of True Value (b)</u>	<u>Taxes Charged</u>
1980	Real(c).....	\$56,457,842,607	27.1%	\$2,343,384,488(e)
	Tangible(d).....	15,649,200,844	39.2	765,047,826
	Public Utility(c).....	8,670,052,613	83.3	411,321,235
1990	Real.....	93,857,482,000	35.0	4,593,147,000(e)
	Tangible(d).....	18,473,055,000(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
2002	Real.....	186,756,854,520	35.0	9,807,854,076(e)
	Tangible(d).....	23,296,013,406(f)	24.0	1,768,343,517(f)
	Public Utility(c)(g).....	10,069,184,268(h)	50.0	746,058,859
2003	Real.....	196,583,301,381	35.0	10,473,581,729(e)
	Tangible(d).....	21,451,814,203(f)	25.0	1,637,418,361(f)
	Public Utility(c)(g).....	9,978,013,493(h)	48.6	751,787,109

(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) and elderly/handicapped partial exemption amounts, paid by the State to local taxing entities to compensate for statutory reductions in local tax collections. Effective for tax year 2005 and thereafter, the 10% rollback is eliminated for real property used in business, with exceptions for certain property used in farming or for housing.

(f) 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.

(h) Beginning in 2001, the statutory assessment rate for electric and gas utilities decreased from 88% to 25%.

Source: Ohio Department of Taxation.

Under State legislation effective July 1, 2005, the tangible personal property tax will be phased out in the years 2006 through 2009, with that tax generally eliminated effective January 1, 2009. That legislation provides for the State to make compensating distributions to school districts and other local taxing units from a portion of the revenue generated by the newly enacted State commercial activity tax (CAT), with those compensating payments generally based on the value of taxable tangible personal property reported for 2004 and property tax levies in effect for 2005. The State payments are to effect full reimbursement at those base levels through 2010, with gradual reductions or adjustments thereafter. Prior State legislation enacted reductions in the assessed (tax) valuation of certain categories of tangible personal property. Effective for collection year 2002, the assessed valuation of electric utility production equipment decreased from 100% and natural gas utility property from 88% of true value, both to 25%; makeup payments in varying and declining amounts are to be made through 2016 to taxing subdivisions by the State from State resources. In 2002, the assessment rate applied to personal property constituting “inventory” equaled 24%; in 2003-2005, the assessment rate on inventory property is 23% of true value. For 2006, the rate on inventory is to be reduced by 2% if a tax collection growth requirement is met, and beginning in 2007 the rate is to be automatically reduced in 2% annual increments.

Property tax relief payments by the State to local subdivisions totaled \$2.44 billion in the 2002-03 biennium, \$2.69 billion in the 2004-05 biennium, and are appropriated at \$2.44 billion for the 2006-07 biennium.

## SCHOOLS AND MUNICIPALITIES

### Schools

Litigation was commenced in the Ohio courts in 1991 questioning the constitutionality of Ohio’s system of school funding and compliance with the constitutional requirement that the State provide a “thorough and efficient system of common schools”. On December 11, 2002, the Ohio Supreme Court, in a 4-3 decision on a motion to reconsider its own decision rendered in September 2001, concluded (as it had in its 1997 and 2000 opinions in that litigation) that the State did not comply with that requirement, even after again noting and crediting significant State steps in recent years.

In its prior decisions, the Ohio Supreme Court stated 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.

With particular respect to funding sources, the Court concluded in 1997 and 2000 decisions that property taxes no longer may be the primary means of school funding in Ohio.

On March 4, 2003, the plaintiffs’ filed with the original trial court a motion to schedule and conduct a conference to address compliance with the orders of the court in that case, the State petitioned the Ohio Supreme Court to issue a writ prohibiting that conference on compliance, and the trial court subsequently petitioned the Ohio Supreme Court for guidance as to the proper course to follow. On May 16, 2003, the Ohio Supreme Court granted that writ and ordered the dismissal of the motion before the trial court. On October 20, 2003 the United States Supreme Court declined to accept the plaintiffs’ subsequent petition requesting further review of the case.

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 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 613 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 of which is known as the Foundation Program) distributed in accordance with statutory formulae 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 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 expressed 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. For more than 20 years, requirements of law and levels of State funding have sufficed to prevent school closings for financial reasons, which in any case are prohibited by current law.

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 (and effective July 1, 2005, municipal income taxes that may be shared with school districts). Many districts have submitted the question, and income taxes are currently approved in 145 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 which were subject to State spending reductions for Fiscal Year 1992 of 2.5% of annual Foundation Program appropriations. There were no reductions for the 172 districts with the lowest per pupil tax valuations, and the reductions were in varying amounts with varying effects for the other districts. Foundation payments were excluded from the then Governor's spending reduction order for Fiscal Year 1993.

Biennial school funding State appropriations from the GRF and Lottery Profits Education Fund (but excluding federal and other special revenue funds) for recent biennia were:

- 1994-95 – \$8.9 billion provided for 2.4% and 4.6% increases, respectively, in State aid in the biennium's two Fiscal Years.
- 1996-97 – \$10.1 billion representing a 13.6% increase over the preceding biennium total.
- 1998-99 – \$11.6 billion (18.3% over the previous biennium).
- 2000-01 – \$13.3 billion (15% over the previous biennium).
- 2002-03 - \$15.2 billion (17% over the previous biennium before the expenditure reductions discussed under **Fiscal Matters – Recent and Current Finances - 2002-03**).
- 2004-05 - \$15.7 billion (3.3% over the previous biennium before the expenditure reductions discussed under **Fiscal Matters – Recent and Current Finances - 2004-05**).

State appropriations for the purpose made for the 2006-07 biennium are \$16.3 billion (3.8% over the previous biennium), representing an increase of 2.0% in Fiscal Year 2006 over 2005 and 1.4% in Fiscal Year 2007 over 2006.

Those total State 2006-07 biennial 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 \$635,150,000 in Fiscal Year 2002, \$671,352,000 in Fiscal Year 2003, and \$648,106,000 in Fiscal Year 2004 and \$645,137,000 in Fiscal Year 2005. Ohio participation in the multi-state lottery commenced in May 2002. A constitutional provision requires that net lottery profits be paid into LPEF to be used solely for the support of elementary, secondary, vocational and special education purposes, including application to debt service on general obligation bonds to finance common school facilities.

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. In Fiscal Year 2001 four districts received approximately \$3,800,000 under a restructured solvency assistance program. The program was further modified in December 2000 to allow districts that experience an

unforeseen catastrophic event to apply for a grant. In Fiscal Year 2002, three districts received catastrophic grants totaling \$2,569,970 and one district received a solvency advance in the amount of \$421,000. In Fiscal Year 2003, three districts received solvency advances in the amount of \$8,742,000 and no districts received catastrophic grants.

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 ten school districts in fiscal emergency status and twelve in fiscal watch status. New legislation has created a third, more preliminary, category of “fiscal caution.” A current listing of school districts in each status is 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 some remedial costs be shared by the State and the respective local districts. For that purpose, recent appropriations, decreasing in each biennium, were \$100,800,000 in 1998-99, \$23,700,000 in 2000-01, and \$1,000,000 in 2002-03. All cases were settled prior to the end of Fiscal Year 2003 and there is no further State liability.

### **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).

As noted in the discussion above under **Fiscal Matters – 2002-03** and **2004-05**, the amount of distributions in those biennia to most local governments, including municipalities, from the several State local government revenue assistance funds were and 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. There are currently seventeen local governments in fiscal emergency status and five in fiscal watch status. A current listing in each status is on the Internet at <http://www.auditor.state.oh.us>.

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## 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 2003.

### Selected State Government Statistics - 2003 Comparative Ohio and U.S.

	<u>United States</u>	<u>Ohio</u>	<u>Ohio Rank Among States</u>
<b>Government Revenues:</b>			
General Revenues (millions) .....	\$1,112,349.0	\$42,422.1	7
per capita .....	3,832.6	3,708.8	32
Taxes (millions) .....	548,990.8	20,651.5	8
per capita .....	1,891.5	1,805.5	28
Per Capita:			
Sales taxes .....	636.0	591.1	28
Personal income taxes .....	626.8	692.1	17
Corporate income taxes .....	97.8	69.4	24
<b>Government Expenditures:</b>			
Total Expenditure (millions) .....	\$1,359,048.3	\$56,392.2	5
per capita .....	4,682.6	4,930.2	21
Direct Expenditure (millions) .....	976,851.8	41,142.8	6
per capita .....	3,365.7	3,597.0	21
Payments to other Government Units (millions) .....	382,196.5	15,249.3	5
per capita .....	1,316.8	1,333.2	9
Personal Service Payroll* .....	\$183,385.6	\$6,480.5	7
per capita* .....	631.8	566.5	40
<b>Debt:</b>			
Outstanding Debt (Year End in millions) .....	\$697,929.0	\$21,054.2	10
per capita .....	2,404.7	1,840.7	34
<b>State Government Assets:</b>			
Cash and Securities, All Funds (millions) .....	\$2,594,215.9	\$143,620.1	4
per capita .....	8,938.4	12,556.4	6

\* Personal services payroll statistics are for calendar year 2002.

Source: U.S. Bureau of the Census, Federal, State, and Local Governments, State Government Finances 2003.

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## APPENDIX B - FORM OF BOND COUNSEL OPINION

January \_\_, 2006

State of Ohio  
Treasurer of State  
Columbus, Ohio

State of Ohio  
Director of Transportation  
Columbus, Ohio

U.S. Bank National Association, Trustee  
Columbus, Ohio

Seasongood and Mayer, LLC  
For itself and the other Underwriters  
Cincinnati, Ohio

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 \$99,270,000 State of Ohio Major New State Infrastructure Project Revenue Bonds, Series 2005-1 (the "Bonds"). The Bonds are being issued pursuant to the provisions of Section 5531.10 of the Ohio Revised Code (the "Act") for the purposes described in the Trust Agreement between the Issuer and U.S. Bank National Association, as Trustee (the "Trustee"), dated as of May 1, 1998, as amended, and as supplemented by the Sixth Supplemental Trust Agreement between the Issuer and the Trustee, dated as of December 1, 2005 (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, (ii) the Trust Agreement and (iii) the Escrow Agreement, dated as of December 1, 2005, by and between the Treasurer, the Butler County Transportation Improvement District and U.S. Bank National Association, as escrow trustee. 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. Unless otherwise defined herein, each of the capitalized terms used herein as a defined term shall have the meaning ascribed to such term in the Trust Agreement.

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) accrued interest received from the sale of Bonds and Additional 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 or Additional 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; (d) any amounts on deposit in the State Infrastructure Bank created pursuant to Section 5531.09 of the Ohio Revised Code and available for the payment of Bond Service Charges; and (e) any other monies accruing to the State from the sources described in the Act. If the amounts standing to the credit of the State Infrastructure Bank Revenue Bond Service Fund and available monies in the State Infrastructure Bank are insufficient for the payment of Bond Service Charges, "Pledged Receipts" also means 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 or Additional Bonds). 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 on 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), the Ohio commercial activity tax 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 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.

We have assumed for purposes of this opinion the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the documents to which it is a party.

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 and enforceability thereof and will not materially interfere with the practical realization of the benefits of any liens or security interests provided for therein.

This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. We bring to your attention the fact that our legal opinions are an expression of our professional judgment and are not a guarantee of a result.

Very truly yours,

## APPENDIX C - BOOK-ENTRY FORM

### General

*The information in this section concerning The Depository Trust Company (“DTC”) and DTC’s book-entry only system has been obtained from DTC, and the Treasurer, the State, the Department, the Underwriters and the Trustee take no responsibility for the completeness or accuracy thereof. The Treasurer, the State, the Underwriters and the Trustee cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Bonds, (b) certificates representing ownership interests in or other confirmation or ownership interests in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its partnership nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current “Rules” applicable to DTC are on file with the SEC and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity and interest rate of the Bonds, each in the aggregate principal amount of such maturity and interest rate, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the 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. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as 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 both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct

Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial 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 Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bonds. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State or the Bond Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Registrar, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividends 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 Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

#### **Revision of Book-Entry System; Replacement Bonds**

The Supplemental Trust Agreement provides for the physical delivery of fully registered Bonds ("Replacement Bonds") directly to Holders, other than DTC, of Bonds in the event that DTC determines not to continue to act as securities depository for the Bonds. Upon the occurrence of such an event with respect to the Bonds, the Treasurer may, in its discretion, attempt to have established a securities depository/book-entry relationship with another qualified securities depository for the 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 Bonds by appropriate notice to DTC, the Trustee will authenticate and deliver the 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 Replacement Bonds will be payable when due without deduction for the services of the applicable paying agent. Principal of and premium, if any, on any Replacement Bonds will be payable to the Holder thereof upon presentation and surrender thereof at the designated 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 first day of the calendar month in which the Interest Payment Date occurs.

Replacement Bonds will be exchangeable for 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 Bonds**

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



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**FINANCIAL GUARANTY INSURANCE POLICY**

**MBIA Insurance Corporation  
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the “Insurer”), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the “Paying Agent”) of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the “Insured Amounts.” “Obligations” shall mean:

**[PAR]  
[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term “owner” shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary

