

NEW ISSUE  
(Book-Entry Only)

Ratings (see "RATINGS")  
Moody's: Aa1  
Standard & Poor's: AAA  
Fitch: AA+

*In the opinion of Carlile Patchen & Murphy LLP, Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes and is not 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 (ii) interest on the Bonds, and any profit made on their sale, exchange or other disposition are exempt from Ohio personal income tax, the net income base of the Ohio corporate franchise tax and municipal and school district income taxes in Ohio. The 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 MATTERS.)*

**\$135,000,000**  
**STATE OF OHIO**  
**General Obligation Highway Capital Improvements Bonds**  
**Series G**  
**(Full Faith and Credit/Highway User Receipts)**

**Dated: Date of Issuance**

**Due: On May 1, in the years shown below**

**Purpose:** The \$135,000,000 General Obligation Highway Capital Improvements Bonds, Series G (the "Series G Highway Bonds") are general obligations of the State of Ohio (the "State" or the "Issuer"), issued to pay (i) costs of highway capital improvements and (ii) certain costs incident to the issuance of the Series G Highway Bonds.

**Security and Sources of Payment:** The full faith and credit, revenue and taxing power of the State of Ohio, including (but not limited to) fees, excises and license taxes relating to the registration, operation or use of vehicles on the public highways or to fuels used for propelling such vehicles, are pledged to the payment of the principal of and interest and any premium on the Series G Highway Bonds. See **THE SERIES G HIGHWAY BONDS - Security for the Series G Highway Bonds**.

**Payment:** Principal and interest on the Series G Highway Bonds is payable to the registered owner (initially, DTC or its nominee). The principal is payable on presentation and surrender of a Series G Highway Bond to the Treasurer of State (the "Treasurer") of the State, Columbus, Ohio (the "Bond Registrar"). Interest will be transmitted on each interest payment date (May 1 and November 1, beginning May 1, 2003).

**Prior Redemption:** The Series G Highway Bonds are not subject to redemption prior to maturity.

**Book-Entry:** The Series G Highway Bonds are issued as fully registered bonds under a book-entry only method. The Depository Trust Company (DTC), New York, New York is securities depository. See **BOOK-ENTRY METHOD**.

**PRINCIPAL MATURITY SCHEDULE**

<b>Maturity</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Maturity</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>
5/1/2004	\$3,295,000	1.600%	1.600%	5/1/2009	\$695,000	3.125%	3.150%
5/1/2004	10,205,000	5.000%	1.600%	5/1/2009	12,805,000	5.000%	3.150%
5/1/2005	2,530,000	1.950%	1.950%	5/1/2010	1,555,000	3.350%	3.375%
5/1/2005	10,970,000	5.000%	1.950%	5/1/2010	11,945,000	5.000%	3.375%
5/1/2006	7,870,000	2.300%	2.310%	5/1/2011	950,000	3.550%	3.550%
5/1/2006	5,630,000	5.000%	2.310%	5/1/2011	12,550,000	5.000%	3.550%
5/1/2007	4,000,000	2.625%	2.630%	5/1/2012	595,000	3.650%	3.650%
5/1/2007	9,500,000	5.000%	2.630%	5/1/2012	12,905,000	5.250%	3.650%
5/1/2008	2,685,000	2.900%	2.930%	5/1/2013	600,000	3.750%	3.790%
5/1/2008	10,815,000	5.000%	2.930%	5/1/2013	12,900,000	5.250%	3.790%

This cover page includes certain information for reference only. It is not a summary of the Series G Highway Bond issue. Investors should read the entire Official Statement to obtain information as a basis for making informed investment judgments.

*The Series G Highway Bonds are offered when, as and if issued by the State of Ohio, acting by and through the Treasurer, and accepted by the Underwriters, subject to the approval of legality by Carlile Patchen & Murphy LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Thompson Hine LLP. Public Financial Management, Cleveland, Ohio, is serving as Financial Advisor to the Treasurer. The Series G Highway Bonds are expected to be available for delivery through DTC on or about December 4, 2002.*

**Goldman, Sachs & Co.**  
**Butler Wick & Co., Inc.**  
**Mesirow Financial, Inc.**

**Fifth Third Securities, Inc.**  
**McDonald Investments, Inc.**  
**Morgan Keegan & Co., Inc.**

*The date of this Official Statement is November 22, 2002*

## REGARDING THE USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security, other than the original offering of the Series G Highway Bonds of the State of Ohio identified on the cover. No dealer, broker, salesman or other person has been authorized by the Issuer or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series G Highway Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Information set forth herein has been furnished by the Issuer and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Underwriters. References in this Official Statement to statutes, laws, rules, regulations, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive, and all such references are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. A copy of the Order of the Treasurer (the "Bond Order") authorizing the issuance and sale of the Series G Highway Bonds and related matters may be inspected at the offices of the Treasurer during normal business hours.

This Official Statement is submitted in connection with the sale of the Series G Highway Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement has been approved by the State, acting by and through the Treasurer, and its use and distribution for the purposes set forth above have been authorized by the State and the Treasurer.

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

**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. Reliance for the purpose should not be placed on any other information publicly provided, in any format including electronic, by any State agency for other purposes, including general information provided to the public or to portions of the public.**

Upon issuance, the Series G Highway 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, municipal or other governmental entity or agency, except the Treasurer, will have passed upon the accuracy or adequacy of this Official Statement or approved the Series G Highway Bonds for sale.

**In connection with the offering of the Series G Highway Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series G Highway Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.**

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**\$135,000,000**  
**STATE OF OHIO**  
**General Obligation Highway Capital Improvements Bonds**  
**Series G**  
**(Full Faith and Credit/Highway User Receipts)**

**SELECTED SUMMARY STATEMENT**

The following summary supplements certain of the information on the cover page and summarizes selected other information in this Official Statement relating to the General Obligation Highway Capital Improvements Bonds, Series G (the "Series G Highway Bonds") of the State of Ohio (the "State"). It is not intended as a substitute for the more detailed discussions in this Official Statement, to which reference should be made.

**ISSUER.** The State, by the Treasurer of State.

**AUTHORIZATION.** The Series G Highway Bonds are authorized and issued on behalf of the State by the Treasurer pursuant to constitutional and statutory authorizations. The Series G Highway Bonds are the seventh series of bonds issued pursuant to Section 2m of Article VIII, Ohio Constitution (adopted by the electors of Ohio on November 7, 1995), Chapter 151, Ohio Revised Code, and acts of the Ohio General Assembly (the "General Assembly") (collectively the "Act").

**SECURITY AND SOURCES OF PAYMENT.** The Series G Highway Bonds are general obligations of the State. The full faith and credit, revenue and taxing power (excluding net State lottery proceeds) of the State, including (but not limited to) fees, excises and license taxes levied by the State relating to registration, operation or use of vehicles on public highways, or to fuels used for propelling such vehicles, are pledged to the payment of the principal of and interest on the Series G Highway Bonds. So long as the Series G Highway Bonds are outstanding those pledged excises and taxes are to be levied and collected in amounts sufficient to pay the principal of and the interest on the Series G Highway Bonds and certain other bonds as described herein.

**PURPOSE.** The Series G Highway Bonds are issued to pay costs of highway capital improvements. The improvements are identified in or pursuant to General Assembly capital appropriation acts.

**PRIOR REDEMPTION.** The Series G Highway Bonds are not subject to redemption prior to maturity.

**FORM AND MANNER OF MAKING PAYMENTS.** The Series G Highway Bonds will be issued as fully registered bonds, one for each maturity and interest rate, issuable under a book entry only method and registered initially in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York. There will be no distribution of Series G Highway Bonds to beneficial owners. Series G Highway Bonds in certificated form as such will not be transferable or exchangeable, except for transfer to another nominee of DTC or as otherwise described in this Official Statement.

Principal and interest will be payable to the registered owner (initially, Cede & Co. as nominee of DTC). The principal will be payable on presentation and surrender at the office of the Bond Registrar. Interest will be transmitted by the Bond Registrar on each interest payment date (May 1 and November 1, beginning May 1, 2003), to the registered holder (the "Holder") as of the 15th day preceding the interest payment date.

**TAX MATTERS.** In the opinion of Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series G Highway Bonds is excluded from gross income for federal income tax purposes and is not 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 (the "Code"), and (ii) interest, and any profit made on the sale, exchange or other disposition of the Series G Highway Bonds, are exempt from the Ohio personal income tax and the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio. Interest on the Bonds may be subject to certain federal taxes imposed on certain corporations, including the corporate alternative minimum tax on a portion of it. Certain of the Series G Highway Bonds may be offered and sold to the public at an original issue discount or premium.

**BOND REGISTRAR.** Treasurer of State of the State of Ohio, Columbus, Ohio.

**BOND COUNSEL.** Carlile Patchen & Murphy LLP, Columbus, Ohio.

**UNDERWRITER.** Goldman, Sachs & Co., as Representative of the Underwriters shown on the cover (collectively, the "Underwriters"). The Series G Highway Bonds have been purchased by the Underwriters at a price of \$145,137,158.35.

**FINANCIAL ADVISOR.** Public Financial Management, Cleveland, Ohio.

Questions regarding this Official Statement or the Series G Highway Bonds should be directed to Paul J. Steiner, Office of the Treasurer, 30 East Broad Street, Columbus, Ohio 43266-0421, telephone (614) 466-3930.

## INTRODUCTION

This Official Statement has been prepared by the State of Ohio acting by and through the Treasurer of State to provide certain information in connection with the original issuance and sale of the State of Ohio General Obligation Highway Capital Improvements Bonds, Series G, to be issued for the purpose of (i) paying the cost of highway capital improvements, and (ii) paying certain costs incident to the issuance of the Series G Highway Bonds.

Pursuant to Amended Substitute House Bill No. 640 adopted by the 123rd General Assembly of the State, the Treasurer has succeeded the Commissioners of the Sinking Fund of the State in all matters, including issuance authority, relating to the State's general obligation financing of capital facilities or projects for highways.

All financial and other information presented in this Official Statement has been provided by the State from its official records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, 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 that financial and other information, will necessarily continue in the future.

Reference to provisions of Ohio law, whether codified in the Ohio Revised Code ("Revised Code") or uncodified, or of the Ohio Constitution, are to those provisions as now in effect. Those provisions may from time to time be amended, repealed or supplemented.

As used in this Official Statement, "Fiscal Year" means the State's Fiscal Year, currently the twelve-month period from July 1 through June 30.

## THE SERIES G HIGHWAY BONDS

### General

The Series G Highway Bonds will be issued pursuant to the constitutional and statutory authorization described herein, the Bond Order and the Order of Award executed by the Treasurer providing for the award of the Series G Highway Bonds pursuant to the Bond Order (the "Order of Award").

The Series G Highway Bonds are issuable as fully registered Series G Highway Bonds, in book-entry form as described more fully herein under **BOOK-ENTRY METHOD**, and are dated, bear interest at the rates per annum, and mature, as set forth on the cover page of this Official Statement. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Treasurer will initially serve as the authenticating agent, bond registrar and paying agent for the Series G Highway Bonds, and the Bond Order provides that the Treasurer may designate a successor authenticating agent, bond registrar and paying agent. The Treasurer, while serving in that capacity, or such successor designated by the Treasurer, are collectively referred to as the "Bond Registrar".

The principal of the Series G Highway Bonds is payable to the Holder (initially Cede & Co., as nominee of DTC) upon presentation and surrender at the principal office of the Bond Registrar.

Interest on the Series G Highway Bonds is payable by the Bond Registrar by check or draft, mailed on each May 1 and November 1 (the "Interest Payment Dates"), beginning May 1, 2003, to the Holder of record on the Register as of the 15th day of the month next preceding the Interest Payment Date. So long as the Series G Highway Bonds are immobilized in the custody of a depository pursuant to a book-entry system, interest on the Series G Highway Bonds will be payable by wire transfer to the Holder (initially Cede & Co.) on each Interest Payment Date.

## **Prior Redemption**

The Series G Highway Bonds are not subject to redemption prior to maturity.

## **Paying Agent, Bond Registrar and Authenticating Agent**

The Bond Order appoints the Treasurer to act as the initial Paying Agent (the "Paying Agent"), Bond Registrar and Authenticating Agent for the Series G Highway Bonds. As Paying Agent for the Series G Highway Bonds, the Treasurer will be responsible for paying principal and interest required to be paid on the Series G Highway Bonds (the "Bond Service Charges"). So long as the Series G Highway Bonds are held in DTC's book-entry system (or any successor securities depository's book-entry system), the Treasurer will make all payments of Bond Service Charges to DTC (or any successor securities depository), or its nominee, and not to the Beneficial Owners of the Series G Highway Bonds. See **BOOK-ENTRY METHOD**. The Bond Order also provides that the Treasurer may appoint one or more Paying Agents other than himself to act as Paying Agent with respect to the Series G Highway Bonds.

As Bond Registrar, the Treasurer will maintain and keep at his principal office all books and records necessary for the registration, exchange and transfer of the Series G Highway Bonds, and, as Authenticating Agent, upon exchange or transfer of Series G Highway Bonds (unless the Series G Highway Bonds to be exchanged or transferred are held in a book-entry system), will authenticate and deliver new Series G Highway Bonds.

## **Security for the Series G Highway Bonds.**

The Series G Highway Bonds are general obligations of the State. The full faith and credit, revenue, and taxing power of the State and the Highway User Receipts, all as described below, are pledged to the timely payment of Bond Service Charges. Payment of Bond Service Charges on the Series G Highway Bonds is not dependent on, or subject or related in any manner to, progress on or the completion or operation of projects constituting highway capital improvement projects.

**Pledged Excises and Taxes; Covenant.** Bond Service Charges on the Series G Highway Bonds are payable from and secured by (i) the pledge by the General Assembly of the full faith and credit, revenue and taxing power of the State (except for net State lottery proceeds) in accordance with the Act, (ii) a pledge of all fees, excises, or license taxes relating to the registration, operation, or use of vehicles on the public highways or to fuels used for propelling those vehicles, but excluding statutory refunds and adjustments ("Highway User Receipts") and (iii) moneys deposited in the State Highway Capital Improvement Bond Service Fund (the "Bond Service Fund") and in any other Special Funds, including all accounts in those funds and all moneys deposited therein and the investment earnings thereon (the "Special Funds") (collectively, and subject to the stated exceptions, the "Pledged Excises and Taxes"). The State pursuant to Section 151.01(M), Revised Code, covenants that so long as any of the Series G Highway Bonds are outstanding the State and applicable officers and governmental agencies of the State, including the General Assembly, shall maintain statutory authority for and cause to be levied, collected and applied sufficient pledged excises, taxes, and revenues of the State in amounts sufficient to pay in a timely fashion Bond Service Charges on the Series G Highway Bonds.

As to certain of the Pledged Excises and Taxes, pursuant to Section 9 of Article XII of the Ohio Constitution, 50% of the State income, estate and inheritance tax receipts must be returned to the county, school district, city, village or township in which such taxes originate. Additionally, Section 2 of Article XII of the Ohio Constitution limits the amount of the aggregate levy for all State and local purposes of ad valorem property taxes, without a vote of the electors or municipal charter provision, to 1% of the property's true value in money, and Section 5705.02, Revised Code further limits the amount of such aggregate levy to 1% of the property's tax valuation (presently 35% of its true or "market" value). The State itself currently does not levy any ad valorem taxes on real or tangible personal property.

Except as noted above, the Pledged Excises and Taxes are as a whole unlimited as to amount to the extent required to pay Bond Service Charges on the Series G Highway Bonds.

**Substitution of Fees, Excises and Taxes.** With respect to the Series G Highway Bonds, the Revised Code provides that the General Assembly may from time to time repeal or reduce any excise, tax, or other source of revenue pledged to the payment of Bond Service Charges, and may levy any new or increased excise, tax, or revenue source to meet the pledge to the payment of debt service on outstanding obligations of the State's full faith and credit, revenue, and taxing power. However, this does not authorize any impairment of the State's obligation to levy, charge, and collect sufficient pledged excises, taxes, and revenues to pay debt service on such obligations outstanding in accordance with their terms.

**No Diversion of Highway User Receipts.** The anti-diversion provisions of Section 5a of Article XII, Ohio Constitution, prohibit the use of Highway User Receipts for other than the cost of administration of the laws levying such taxes; statutory refunds and adjustments; payments of Highway Obligations (as defined in **Highway Capital Improvement Bond Service Fund – Pledge**); construction, reconstruction, maintenance and repair of public highways and bridges and other statutory highway purposes; and traffic enforcement and hospitalization of indigent persons injured in motor vehicle accidents on the public highways. As described above, Highway User Receipts are not and cannot be pledged to the payment of bonds or any other obligations issued for purposes other than highway purposes referred to in that section, or used for any non-highway related purposes.

**History of Highway User Receipts.** The following table sets forth revenues from the Highway User Receipts pledged for the Series G Highway Bonds and the Highway Obligations previously issued, and shows by recent Fiscal Years the amounts available to service those obligations issued for highway purposes.

Fiscal Year	Highway User Receipts Available for Debt Service Requirements*
1991	\$1,543,246,042.00
1992	1,666,307,602.00
1993	1,661,597,112.00
1994	1,794,312,554.00
1995	1,823,505,307.00
1996	1,798,828,084.00
1997	2,008,000,009.00
1998	1,943,292,766.00
1999	2,018,460,794.00
2000	2,061,926,988.03
2001	1,985,599,455.71
2002	2,043,996,032.40

\* The amounts shown as Highway User Receipts Available for Debt Service Requirements are shown after statutory deductions.

The records of the Treasurer are maintained on a cash rather than an accrual basis and accordingly the amounts of the Highway User Receipts set forth above reflect amounts collected during the respective periods without regard to the period for which they were due and payable.

The Ohio Building Authority, acting pursuant to Section 2i of Article VIII, Ohio Constitution and acts of the General Assembly has issued special obligations for State highway transportation facilities the owners or holders of which are not given the right to have excises or taxes levied by the General Assembly to pay such obligations (see **STATE DEBT in Appendix A**). Amounts due on these obligations are paid from biennial appropriations of Highway User Receipts remaining after the payment of principal, interest and premium, if any ("Debt Charges") on the Highway Obligations and the Series G Highway Bonds.

**Highway Capital Improvement Bond Service Fund – Pledge.** The Bond Service Fund has been established pursuant to Section 151.06, Revised Code, as a trust fund in the State Treasury pledged to the payment of principal, including any mandatory sinking fund or redemption requirements, interest and premium, if any, required to be paid on obligations issued pursuant to the Act including Highway Obligations issued by the Treasurer or the Commissioners of the Sinking Fund of the State pursuant to Chapter 5528 of the Revised Code (collectively the “Highway Obligations”), including the Series G Highway Bonds. The Act provides that moneys in the Bond Service Fund are immediately subject to the lien of that pledge without further action.

The Act provides that moneys in the Bond Service Fund shall be disbursed on the order of the Treasurer; provided that no order is required for the payment when due of principal of or interest on the Highway Obligations, including the Series G Highway Bonds.

The Act further provides that a sufficient amount of moneys of the State is committed and shall be paid into the Bond Service Fund in each year for the purpose of paying the Debt Charges on the Highway Obligations, including the Series G Highway Bonds, becoming due in that year. In addition, in the event the balance in the Bond Service Fund is insufficient to pay when due the Debt Charges on the Highway Obligations, Section 151.06, Revised Code, requires the transfer to the Bond Service Fund of undistributed receipts derived from the Pledged Excises and Taxes sufficient for the payment of those Debt Charges.

### **Constitutional Authorization**

Section 2m of Article VIII, Ohio Constitution, adopted by the electors on November 7, 1995, is the constitutional amendment under which the Series G Highway Bonds are authorized to be issued. It provides in pertinent part that the General Assembly may provide by law for the issuance of tax supported Highway Obligations the holders or owners of which are given the right to have excises and taxes levied by the General Assembly for the payment of the Debt Charges thereon. Section 2m further provides that such Highway Obligations shall be incurred for the purpose of financing or assisting in the financing of the cost of highway capital improvements of the State. Outstanding series of Highway Obligations, the Series G Highway Bonds and any subsequently issued Highway Obligations have been, are and will be issued pursuant to this constitutional authorization and implementing legislation. Section 2m further provides that not more than \$220,000,000 principal amount of Highway Obligations, plus the principal amount of Highway Obligations that in any prior Fiscal Years could have been but were not issued within the \$220,000,000 fiscal year limit, may be issued in any Fiscal Year pursuant to Section 2m and that the total principal amount of Highway Obligations outstanding under Section 2m may not exceed \$1,200,000,000; provided, however, that the principal amount of Highway Obligations issued to retire or refund Highway Obligations previously issued shall not be counted against the fiscal year or total issuance limitations to the extent that such principal amount does not exceed the principal amount of Highway Obligations to be refunded.

Section 2m further provides that each series of Highway Obligations issued under Section 2m must mature in not more than 30 years from the date of issuance, or, if issued to retire or refund Highway Obligations previously issued under Section 2m, within 30 years from the date the debt to be retired or refunded was originally contracted.

### **Statutory Authorization**

Section 2m of Article VIII, Ohio Constitution, is implemented by the General Assembly through Chapter 151 of the Revised Code, with the adoption from time to time of laws authorizing the issuance of Highway Obligations pursuant to Section 2m and appropriating the proceeds for purposes for which those Highway Obligations may be issued. Authority to issue installments of Highway Obligations or other obligations in amounts authorized by the General Assembly is conferred upon the Treasurer by Section 151.06, Revised Code.

The Act provides that the proceeds of Highway Obligations, such as the Series G Highway Bonds, are to be deposited in the Highway Capital Improvement Fund, created by Section 151.06,

Revised Code, to pay amounts charged to that Fund when due as estimated by the Director of the Office of Budget and Management of the State (the "Office of Budget and Management" or "OBM").

The General Assembly has authorized the issuance of Highway Obligations pursuant to Section 2m of Article VIII in an aggregate principal amount not to exceed \$220,000,000 in Fiscal Year 2003, plus any carry-over from an unissued prior Fiscal Year authorization, the net proceeds of which are to be deposited in the Highway Capital Improvement Fund. In total, the General Assembly has authorized \$1,350,000,000 of Highway Obligations, of which \$1,000,000,000 has heretofore been issued and \$702,500,000 is outstanding, leaving a remaining statutory authorization of \$350,000,000. The Treasurer has determined, based on a certification of the Director of Transportation of the State, that Series G Highway Bonds must be issued in an aggregate principal amount of approximately \$135,000,000 in order to assure sufficient moneys to the credit of the Highway Capital Improvement Fund to pay costs expected to be charged to that Fund. Finally, the Treasurer has by the Bond Order authorized the issuance of the Series G Highway Bonds in the aggregate principal amount of \$135,000,000 for the purpose of making a deposit in the Highway Capital Improvement Fund.

### **The Highway Capital Improvements Program**

The proceeds of the Series G Highway Bonds, with other moneys from time to time in the Highway Capital Improvement Fund, including proceeds of other Highway Obligations, will be applied to the costs of highway capital improvements as provided in the applicable appropriation acts of the General Assembly.

Specifically, Highway Obligations are issued for the purpose of paying costs of construction, reconstruction, or other improvements of highways, including those on the state highway system and urban extensions thereof, those within or leading to public parks or recreation areas and those within or leading to municipal corporations and shall include, without limitation, the cost of acquisition, construction, reconstruction, expansion, improvement, planning and equipping thereof.

The Series G Highway Bonds are the seventh series of Highway Obligations pursuant to Section 2m of Article VIII, Ohio Constitution, and its implementing provisions for the purpose of financing or assisting in the financing of highway capital improvement projects. After the issuance of the Series G Highway Bonds, there will have been issued \$1,135,000,000 aggregate original principal amount of Highway Obligations pursuant to Section 2m of Article VIII, Ohio Constitution. No notes have been issued or authorized to be issued by the Treasurer in anticipation of the issuance of the Series G Highway Bonds. Additional Highway Obligations are expected to be issued from time to time pursuant to Section 2m of Article VIII, Ohio Constitution, its implementing provisions and General Assembly authorizations.

### **Purpose and Application of Proceeds**

The Series G Highway Bonds are to be issued for the purpose of (i) paying the cost of highway capital improvement projects, and (ii) paying certain other allowable costs related or incidental to the issuance of the Series G Highway Bonds.

The Bond Order provides that the proceeds from the sale of the Series G Highway Bonds shall be allocated as follows:

- (a) A portion of the proceeds to the Highway Capital Improvement Bond Service Fund.
- (b) A portion of the proceeds to the State of Ohio Highway Capital Improvements Bonds, Series G Cost of Issuance Fund.
- (c) The balance of the proceeds to the Highway Capital Improvement Fund created pursuant to Section 5528.53, Revised Code (the "Highway Capital Improvement Fund").



## SOURCES AND USES OF FUNDS

The proceeds of the Series G Highway Bonds will be applied for the following uses and in the respective estimated amounts:

<b>Sources of Funds</b>	
Par Amount of Series G Highway Bonds	\$135,000,000.00
Plus: Premium	10,978,434.25
Less: Original issue discount	<u>(13,260.60)</u>
<b>Total Sources of Funds</b>	<b><u>\$145,965,173.65</u></b>
 <b>Uses of Funds:</b>	
Deposit to Highway Capital Improvement Fund	\$135,000,000.00
Deposit to Bond Service Fund	9,815,658.35
Costs of Issuance (including Underwriters' Discount)	<u>1,149,515.30</u>
<b>Total Uses of Funds</b>	<b><u>\$145,965,173.65</u></b>

The proceeds of the Series G Highway Bonds deposited in the Highway Capital Improvement Fund, together with other moneys from time to time in the Highway Capital Improvement Fund, including the proceeds of other Highway Obligations, will be applied to highway capital improvement projects in accordance with the provisions of the Act, and the applicable Bond Order and any subsequent orders of the Treasurer, as applicable. The Highway Capital Improvement Fund is not pledged to the payment of Bond Service Charges on the Series G Highway Bonds.

## BOND DEBT SERVICE

The following table sets forth for each Fiscal Year (July 1 through June 30) the amount scheduled to be paid for principal and interest on the Series G Highway Bonds.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 0	\$ 2,528,990.55	\$ 2,528,990.55
2004	13,500,000	6,193,446.26	19,693,446.26
2005	13,500,000	5,630,476.26	19,130,476.26
2006	13,500,000	5,032,641.26	18,532,641.26
2007	13,500,000	4,570,131.26	18,070,131.26
2008	13,500,000	3,990,131.26	17,490,131.26
2009	13,500,000	3,371,516.26	16,871,516.26
2010	13,500,000	2,709,547.50	16,209,547.50
2011	13,500,000	2,060,205.00	15,560,205.00
2012	13,500,000	1,398,980.00	14,898,980.00
2013	13,500,000	699,750.00	14,199,750.00

## BOOK-ENTRY METHOD

### General

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State and the Treasurer believe to be reliable, but neither the State nor the Treasurer takes any responsibility for the accuracy or completeness thereof.

*Direct Participants and Indirect Participants (each as defined below) may impose service charges on book-entry interest owners in certain cases. Purchasers of book-entry interests should discuss that possibility with their brokers.*

The State and the Treasurer:

- Have no role in the purchase, transfer or sale of book entry interests. The rights of book entry interest owners to transfer or pledge their interests, and the manner of transferring or pledging those interests, may be subject to applicable state law. Book-entry interest owners may want to discuss with their legal advisers the manner of transferring or pledging their book-entry interests.
- Have no responsibility or liability for any aspects of the records or notices relating to, or payments made on account of, book entry interest ownership, or for maintaining, supervising or reviewing any records relating to that ownership.
- Can not and do not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments to book entry interest owners of Bond Service Charges on the Series G Highway Bonds paid to Cede & Co. as the registered owner, or will give any redemption or other notices, to the book entry interest owners, or that they will do so on a timely basis, or that DTC will serve and act in a manner described in this Official Statement.

The Series G Highway Bonds will be issued and issuable only as fully registered Bonds, one for each respective maturity and interest rate per maturity, in the name of CEDE & Co. as nominee for The Depository Trust Company, New York, New York (DTC), as registered owner of all the Series G Highway Bonds. Those fully registered Series G Highway Bonds will be retained and immobilized in the custody of DTC or its agent. For ease of reference in this discussion, reference to "DTC" includes when applicable any successor securities depository and the nominee of the depository.

For all purposes under the bond proceedings, DTC, or its nominee, will be and will be considered by the Treasurer to be the owner or holder of the Series G Highway Bonds.

Owners of book-entry interests in the Series G Highway Bonds will neither receive nor have the right to receive physical delivery of bond certificates for the Series G Highway Bonds and will not be or be considered to be, and will not have any rights as, registered owners ("Holders") of Series G Highway Bonds under the bond proceedings.

DTC 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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 ("*NSCC*"), Government Securities Clearing Corporation ("*GSCC*"), MBS Clearing Corporation ("*MBSCC*") and Emerging Markets Clearing Corporation ("*EMCC*") (NSCC, GSCC, MBSCC, 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 Series G Highway Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series G Highway Bonds on DTC's records. The ownership interest of each actual purchaser of each Series G Highway 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 purchases. 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 Series G Highway 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 Series G Highway Bonds, except in the event that use of the book-entry system for the Series G Highway Bonds is discontinued. See **Revision of Book Entry System; Replacement Series G Highway Bonds**.

To facilitate subsequent transfers, all Series G Highway 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 the Series G Highway 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 Series G Highway Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series G Highway 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 shall 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 Series G Highway Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series G Highway Bonds, such as tenders, defaults, and proposed amendments to the documents relating to the Series G Highway Bonds. For example, Beneficial Owners of Series G Highway Bonds may wish to ascertain that the nominee holding the Series G Highway 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 Trustee as registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series G Highway Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series G Highway Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Distributions and interest payments on the Series G Highway 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 Issuer or the Treasurer, on 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 Treasurer or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of distributions, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, 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.

DTC may discontinue providing its services as depository with respect to the Series G Highway Bonds at any time by giving reasonable notice to the Treasurer. Under such circumstances, in the event that a successor depository is not obtained, Series G Highway Bond certificates are required to be printed and delivered.

The Treasurer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series G Highway Bond certificates will be printed and delivered. See **Revision of Book Entry System; Replacement Series G Highway Bonds**.

### **Revision of Book Entry System; Replacement Series G Highway Bonds**

The Bond Order provides for the issuance of fully registered Series G Highway Bond certificates ("Replacement Series G Highway Bonds") directly to Holders of Series G Highway Bonds other than DTC in the event that DTC determines not to continue to act as securities depository for the Series G Highway Bonds or the Treasurer determines to exit the Series G Highway Bonds from a depository. Upon occurrence of either of these events, the Treasurer may in his discretion attempt to have established a securities depository book-entry relationship with another securities depository. If the Treasurer does not do so, or is unable to do so, and after the Treasurer has made provisions for notification of the owners of book-entry interests in Series G Highway Bonds by appropriate notice to DTC, the Treasurer and the Bond Registrar (if other than the Treasurer) shall authenticate and deliver Replacement Series G Highway Bonds of any one maturity and interest rate in the denomination of \$5,000 principal amount or any integral multiple thereof with respect to Series G Highway Bonds to or at the direction, and at the expense (including printing costs), if the event is not the result of Issuer action or inaction, of those persons requesting authentication and delivery.

The Replacement Series G Highway Bonds will be exchangeable for Replacement Series G Highway Bonds of authorized denominations, and transferable, at the principal office of the Bond Registrar, as authenticating agent, without charge (except taxes or governmental fees).

## **TAX MATTERS**

### **General**

In the opinion of Bond Counsel, under existing law (i) interest on the Series G Highway Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended, and is not an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Series G Highway Bonds, and any profit made on their sale, exchange or other disposition, are exempt from the Ohio personal income tax, the net income base of the Ohio corporate franchise tax and municipal and school district income taxes in Ohio. Bond Counsel will express no opinion as to any other tax consequences regarding the Series G Highway Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing 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, including that the Series G Highway Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the representations and certifications 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 to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the Issuer to the federal government, require future or continued compliance after issuance in order for the interest to be and to remain so

excluded from the date of issuance. Noncompliance with these requirements could cause the interest on the Series G Highway Bonds to be included in gross income for federal income tax purposes and to be subject to federal income tax retroactively to the date of their issuance. The Treasurer has covenanted to take actions required for the interest on the Series G Highway Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

Under Code provisions applicable only to certain corporations (as defined for federal income tax purposes), a portion of the excess of adjusted current earnings (which includes interest on all tax-exempt bonds, including the Series G Highway Bonds) over other alternative minimum taxable income, is included in alternative minimum taxable income which may be subject to a corporate alternative minimum tax. In addition, interest on the Series G Highway Bonds may also be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes can have certain adverse federal income tax consequences on items of income, deductions or credits for certain taxpayers, including among them financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations and individuals otherwise eligible for the earned income credit. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series G Highway Bonds or of book-entry interests. Bond Counsel will express no opinion regarding such consequences.

From time to time there are legislative proposals in Congress which, if enacted, could alter or amend the federal tax matters referred to or adversely affect the market value of the Series G Highway Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations, such as the Series G Highway Bonds (and book-entry interests in those Series G Highway Bonds), issued prior to enactment.

The discussion of tax matters in this Official Statement applies only in the case of purchasers of Series G Highway Bonds at their original issuance. It does not address any other tax consequences, such as, among others, the consequence of the existence of any market discount to subsequent purchasers of the Series G Highway Bonds.

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

### **Original Issue Premium**

Certain Series G Highway Bonds maturing in the years 2004 through 2013 (the "Premium Bonds") are being sold to the public at a price greater than the principal amount payable at maturity or earlier call date. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). A taxpayer who acquires a book-entry interest in a Premium Bond in the initial public offering will be required to adjust his or her basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth in Section 171(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code. The amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds.

**HOLDERS OR OWNERS OF A BOOK-ENTRY INTEREST IN THE PREMIUM BONDS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE PRECISE**

## **DETERMINATION FOR FEDERAL INCOME TAX PURPOSES OF THE TREATMENT OF BOND PREMIUM UPON SALE OR DISPOSITION OF SUCH PREMIUM BONDS AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING AND DISPOSING OF THE PREMIUM BONDS.**

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities, are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning the treatment of Bond Premium.

### **Original Issue Discount**

Certain Series G Highway Bonds maturing in 2006 through 2010 and 2013 (the "Discount Bonds") are being sold to the public at a price of less than 100% of their face amount. The following information, which has not been included in the opinion of Bond Counsel, may be helpful to prospective purchasers of the Discount Bonds.

Under present federal income tax law, original issue discount (i.e., the difference between the issue price, as hereinafter defined, of a Discount Bond and the stated redemption price at maturity of such Discount Bond) is treated as accruing ("accreted") over the term of such Discount Bond for purposes of determining the adjusted basis, for federal income tax purposes, of the owner of a book-entry interest in a Discount Bond but is not included in such owner's gross income for federal income tax purposes. Consequently, a purchaser of a book-entry interest in a Discount Bond in the initial offering at the offering price at which a substantial amount of the Discount Bonds were sold to the public (the "issue price") who holds such Discount Bond to its maturity would not realize any gain or loss for federal income tax purposes upon payment of the stated redemption price of that Discount Bond at maturity.

In general, the amount of original issue discount which is to be accreted in each "accretion period" will equal (i) the issue price of that Discount Bond, increased by the amount of original issue discount which has been accreted in all prior accretion periods, multiplied by (ii) the initial offering yield of that Discount Bond reflected on the cover page of this Official Statement (determined on the basis of compounding at the close of each accretion period and properly adjusted for the length of the accretion period) minus interest actually paid during such accretion period. For these purposes, "accretion period" means a six-month period (or shorter period from the date the Discount Bond was issued) which ends on a day in the calendar year corresponding to the maturity date of that Discount Bond or the date six months before such maturity date. The amount of original issue discount so accreted in a particular accretion period will be considered to accrete ratably on each day of the accretion period.

**PROSPECTIVE PURCHASERS OF A BOOK-ENTRY INTEREST IN THE DISCOUNT BONDS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THE PURCHASE, SALE, TRANSFER, REDEMPTION, PAYMENT, OR OTHER DISPOSITION OF THE DISCOUNT BONDS, INCLUDING, WITHOUT LIMITATION, MODIFICATIONS TO THE METHOD FOR ACCRETING ORIGINAL ISSUE DISCOUNT FOR CERTAIN SUBSEQUENT PURCHASERS, AND INCLUDING THE EFFECT OF ANY APPLICABLE STATE OR LOCAL INCOME TAX LAWS.**

### **LITIGATION**

There is no litigation pending contesting the validity of the Series G Highway Bonds or the proceedings for their authorization, issuance, sale, execution and delivery. An opinion of the Attorney General of the State to the effect that to the best of her knowledge no litigation is pending contesting the validity of the Series G Highway Bonds or the proceedings for the authorization, issuance, sale, execution and delivery thereof will be delivered to the Underwriters at the time of original delivery of the Series G Highway Bonds.

The State is a party to various legal proceedings seeking damages or injunctive or other relief and generally incidental to its operations, but unrelated to the Series G Highway Bonds or the security for the

Series G Highway Bonds. The ultimate disposition of these proceedings is not now determinable, but in the opinion of the Attorney General will not have a material adverse effect on the Series G Highway Bonds or the security for the Series G Highway Bonds.

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

## LEGAL OPINIONS

Legal matters incident to the issuance of the Series G Highway Bonds and with regard to their tax-exempt status (see "**TAX MATTERS**") are subject to the legal opinion of Carlile Patchen & Murphy LLP, Columbus, Ohio, Bond Counsel. A signed legal opinion dated as of, and premised on the transcript of proceedings examined and the law in effect on, the date of original delivery of the Series G Highway Bonds will be delivered to the Underwriters at the time of that original delivery.

The proposed text of the legal opinions is included as **Exhibit A** hereto. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of this Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referred to in that opinion subsequent to its date.

Bond Counsel has reviewed those portions of this Official Statement under the captions "**THE SERIES G HIGHWAY BONDS**", "**TAX MATTERS**", "**ELIGIBILITY FOR INVESTMENT AND AS PUBLIC FUNDS SECURITY**" and "**CONTINUING DISCLOSURE AGREEMENT**", and will deliver to the Underwriters an opinion as to the fairness and accuracy of those portions.

Certain legal matters will be passed upon for the Underwriters by their counsel, Thompson Hine LLP.

## RATINGS

As noted on the cover page of this Official Statement, Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Rating Services, a Division of The McGraw-Hill Corporation, Inc. ("Standard & Poor's"), and Fitch, Inc. ("Fitch"), have assigned their ratings of "Aa1", "AAA" and "AA+", respectively, to the Series G Highway Bonds. The ratings when assigned and in effect from time to time reflect only the views of the rating organizations. The explanation of its views and the meaning and significance of the rating may be obtained from the rating agency assigning it. The State furnished to each rating agency certain information and materials relating to the Series G Highway Bonds, the State and the Treasurer, some of which may not have been included in this Official Statement. Generally, rating agencies base their ratings on that information and materials, and on their own investigations, studies, and assumptions.

There can be no assurance that a rating when assigned will continue for any given time, or that a rating will not be lowered or withdrawn entirely by a rating agency if in its judgment circumstances so warrant. Any downward change in or withdrawal of a rating may have an adverse effect on the marketability or market price of the Series G Highway Bonds.

On December 19, 2001, Moody's announced that it had changed its "credit outlook" from "stable" to "negative" on eleven states including Ohio. A change in "outlook" is not a rating change, but does, according to Moody's, convey that agency's assessment that there are developing trends or events that could result in a more intensive examination or rating review.

On June 5, 2002, S&P also revised its "outlook" on the State to "negative" from "stable". According to S&P, this change in "outlook" is not a rating change, but does assess the potential direction of a long term credit rating over the intermediate to longer term and, while not necessarily a precursor to

a rating change or future "CreditWatch" action, a rating outlook of "negative" means that a rating may be lowered.

### FINANCIAL ADVISOR

Public Financial Management, Cleveland, Ohio, is serving as financial advisor to the Treasurer in connection with the issuance and sale of the Series G Highway Bonds.

### UNDERWRITING

Goldman, Sachs & Co., as representative of the Underwriters, has agreed in the Bond Purchase Agreement, subject to certain conditions, to purchase the Series G Highway Bonds from the Issuer at a price of \$145,137,158.35 (consisting of the par amount thereof, plus net premium of \$10,978,434.25, less original issue discount of \$13,260.60, less underwriting discount of \$828,015.30). The Underwriters are obligated to purchase all the Series G Highway Bonds if any are purchased. The Series G Highway 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.

### TRANSCRIPT AND CLOSING CERTIFICATES

A complete transcript of proceedings and no-litigation certificate (as described above) will be delivered by the Treasurer when Series G Highway Bonds are delivered to the original purchaser. At that time the Treasurer will furnish to the original purchaser a certificate relating to the accuracy and completeness of this Official Statement, (including matters set forth in or contemplated by it), and to its being a "final official statement" in the Treasurer's judgment for purposes of SEC Rule 15c2-12 (the "Rule").

### CONTINUING DISCLOSURE AGREEMENT

The Treasurer has agreed, for the benefit of the holders and beneficial owners of Series G Highway Bonds, in accordance with the Rule, 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 the Rule ("Continuing Disclosure Agreement"), including specifically the following:

The Treasurer will provide, or cause to be provided, to each SEC-designated nationally recognized municipal securities information repository ("NRMSIR") and to the State Information Depository ("SID"):

- Annual Information for each Fiscal Year (beginning with Fiscal Year 2002) not later than the 90th day following the end of the Fiscal Year (or, if that is not a State business day, the next State business day), consisting of annual financial information and operating data of the type included in the table in the Official Statement under the heading **History of Highway User Receipts** and in **APPENDIX A** of this Official Statement under the captions **Fiscal Matters, State Debts and Tax Levels and Tax Bases**. The Treasurer expects that Annual Information will be provided directly by the State (specifically, by OBM) and may be provided in part by cross-reference to other documents, such as the State's Comprehensive Annual Financial Report ("CAFR"), and subsequent applicable final official statements.
- When and if available, audited general purpose financial statements of the State for each Fiscal Year. The Treasurer expects that those financial statements will be prepared, that they will be available separately from the Annual Information, and that the accounting principles to be applied in their preparation will, except as may otherwise then be stated, be as



described under and by reference in **Appendix A - Accounts and Controls; Financial Reports.**

The Treasurer will provide to each NRMSIR (or to the Municipal Securities Rulemaking Board), and to the SID, in a timely manner, notice of:

- The occurrence of any of the following events, within the meaning of the Rule, with respect to Series G Highway Bonds, if material:
  - principal and interest payment delinquencies;
  - non-payment related defaults;
  - unscheduled draws on any debt service reserves reflecting financial difficulties;
  - unscheduled draws on 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 Series G Highway Bonds;
  - modifications to rights of holders or beneficial owners;
  - defeasances;
  - release, substitution, or sale of property securing repayment of Series G Highway Bonds; and
  - rating changes.
- The failure to provide the Annual Information within the specified time.
- Any change in the accounting principles applied in the preparation of the annual financial statements or in the Fiscal Year, any failure of the General Assembly to appropriate funds for the purpose of paying costs to be incurred by the State in performing the Continuing Disclosure Agreement for the applicable fiscal period (biennium), and termination of the Continuing Disclosure Agreement.

There are no debt service reserves, or credit enhancements or credit or liquidity providers, for Series G Highway Bonds, or any property (except the Special Funds) securing their repayment.

The Treasurer reserves the right to amend the Continuing Disclosure Agreement and to obtain a waiver of noncompliance with respect to any provision of the Agreement, as may be necessary or appropriate:

- To achieve its compliance with any applicable federal securities law or rules.
- To cure any ambiguity, inconsistency or formal defect or omission.
- 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 the waiver) would have complied with the requirements of the Rule at the time of the primary offering of Series G Highway 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:

- 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 beneficial owners of Series G Highway Bonds, or
- The written consent to the amendment, or waiver, by the holders of at least a majority of the aggregate outstanding principal amount of the Series G Highway Bonds.

The Continuing Disclosure Agreement, by provision in the Bond Order, will be solely for the benefit of the holders and beneficial owners of Series G Highway Bonds including holders of book-entry interests in them. The right to enforce the provisions of that Continuing Disclosure Agreement may be

limited to a right of the holders or beneficial owners to enforce to the extent permitted by law (by mandamus, or other suit, action or proceedings at law or in equity) the obligations and duties under it.

Any non-compliance with the Continuing Disclosure Agreement will not constitute an event of default with respect to, or in any way impair the obligation of or security for, the Series G Highway Bonds. The Obligations of the Treasurer under the Continuing Disclosure Agreement are determined and acknowledged to be an act specifically enjoined by the law as a duty resulting from an office, trust or station within the meaning of Section 2731.01 of the Revised Code.

The performance by the State, as the only obligated person with respect to Series G Highway Bonds, of the Continuing Disclosure Agreement will be subject to the biennial appropriation by the General Assembly of funds for those purposes.

The Continuing Disclosure Agreement will remain in effect only for such period that Series G Highway Bonds are outstanding in accordance with their terms and the State remains an obligated person with respect to those Series G Highway Bonds within the meaning of the Rule.

There has not been, and will not be as of the closing date, any instance in which the Treasurer has failed to comply in all material respects with any previous continuing disclosure agreement for purposes of the Rule.

#### **ELIGIBILITY FOR INVESTMENT AND AS PUBLIC FUNDS SECURITY**

Provided that the matter as to a particular investor is governed by Ohio law, and subject to any applicable limitations under other provisions of Ohio law, the Series G Highway Bonds are lawful investments for banks, savings and loan associations, credit union share guaranty corporations, 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 the State and its political subdivisions and taxing districts, the Commissioners of the Sinking Fund, the administrator of workers' compensation subject to the approval of the workers' compensation board, and State retirement systems (Teachers, Public Employees, Public School Employees, and Police and Fire).

The Act also provides that the Series G Highway Bonds are acceptable under Ohio law as security for repayment of the deposit of public moneys.

Owners of book-entry interest in the Bonds should make their own determination as to such matters as the legality of investment in or the ability to pledge book-entry interests.

#### **AVAILABLE STATE FINANCIAL INFORMATION**

State financial reporting practices have been and are in accordance with generally accepted accounting principles (GAAP basis). The State's Comprehensive Annual Financial Report (CAFR) is published on an annual basis. Each CAFR includes the State's General Purpose Financial Statements (GPFS) for that fiscal year as examined by the Auditor of State. The State has delivered the CAFR for Fiscal Year 2001 to each nationally recognized municipal securities information repository and to the Ohio State Information Depository. The most recent CAFRs are accessible via OBM's home page on the Internet at <http://www.state.oh.us/obm> under "Business Community – Financial Reports", and copies may be obtained by contacting the State Debt Coordinator at OBM (30 E. Broad Street, 34th Floor, Columbus, Ohio 43266, phone (614) 466-4034). The 1990 through 2001 CAFRs received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.

## CONCLUDING STATEMENT

All quotations in this Official Statement from, and summaries and explanations of, the Ohio Constitution, the Revised Code, the Bond Order, the Order of Award and any other documents or laws, do not purport to be complete. Reference is made to the pertinent provisions of the Constitution, Revised Code, Bond Order, the Order of Award and any other documents or laws for complete statements of their provisions. Copies of the Bond Order and the Order of Award are available upon request from the Office of the Treasurer of State, 9th Floor, 30 East Broad Street, Columbus, Ohio 43266-0421 (telephone (614) 466-3930).

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

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

### STATE OF OHIO

Dated: November 22, 2002

By: /s/ Joseph T. Deters  
Treasurer of State

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### INFORMATION CONCERNING THE STATE OF OHIO

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

#### FISCAL MATTERS

##### General

Consistent with the constitutional provision that no appropriation may be made for a period longer than two years, the State operates on the basis of a fiscal biennium for its appropriations and expenditures. Under current law that biennium for operating purposes runs from July 1 in an odd-numbered year to June 30 in the next odd-numbered year; for example, the current fiscal biennium began July 1, 2001 and ends June 30, 2003. Within a fiscal biennium, the State operates on the basis of a July 1 to June 30 Fiscal Year. (The biennium for general capital appropriations purposes runs from July 1 in an even-numbered year to June 30 in the next even-numbered year.)

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

Most State operations are financed through the general revenue fund (GRF). Personal income and sales-use taxes are the major GRF sources. The last complete fiscal biennium ended June 30, 2001 with a GRF fund balance of \$219,413,500. The State also maintains a “rainy day” fund, the Budget Stabilization Fund (BSF), which under current law and until used is intended to carry a balance of approximately 5% of the GRF revenues for the preceding Fiscal Year. The BSF is generally funded by transfer from the Fiscal Year GRF surplus, if any. The BSF has a current balance of \$427,904,000. See the discussion below under **Recent and Current Finances – Current Biennium** of appropriations made of the entire July 1, 2001 BSF balance of \$1,015,595,000.

The Revised Code provides that if the Governor ascertains that the available revenue receipts and balances for the GRF or other funds for the then current Fiscal Year will in all probability be less than the appropriations for that Fiscal Year, he shall issue such orders to State agencies as will prevent their expenditures and incurred obligations from exceeding those revenue receipts and balances. As discussed under **Recent and Current Finances**, the Governor did implement this directive in some prior Fiscal Years, and has implemented it in both years of the current fiscal biennium.

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

Listed in the tables below under **Recent Receipts and Disbursements** are the major categories of State revenue sources, including taxes and excises, and the amounts received from those categories. There is no present constitutional limit on the rates of those State levied taxes and excises, except for taxes on intangible property.

At present the State itself does not levy ad valorem taxes on real or tangible personal property. Those taxes are levied by political subdivisions and local taxing districts. The Constitution has since 1934 limited the amount of the aggregate levy of ad valorem property taxes 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, as provided for in the constitutional amendment discussed below under **State Debt**, application to debt service on obligations issued to finance capital facilities for a system of common schools.

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

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

The State has enacted legislation allocating its anticipated share of the proceeds of the national tobacco settlement. A comprehensive allocation has been made through Fiscal Year 2012 and a partial allocation has been made 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 and 2003, none of the moneys is to be applied to existing operating programs of the State. (As discussed below under **Recent and Current Finances – Current Biennium**, there has been and is to be a use of a portion of settlement moneys to assist in addressing the State's recent and current GRF revenue shortfall situation.) Under current allocations, the main portion of the moneys in future bienniums is to go to assist in the financing of elementary and secondary school capital facilities. Other amounts are targeted for new programs for smoking cessation and other health-related purposes, biomedical research and technology transfer, and assistance to the tobacco growing areas in the State.

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

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

OBM maintains records of the appropriations made by the General Assembly, and its Director certifies the availability of unencumbered appropriations as a condition of contract validity. OBM fiscal functions include the development and oversight of operating and capital budgets as well as the review, processing, and reporting of financial transactions for most state agencies and departments (excluding, among others, higher education institutions). The OBM Director's certification is required for all expenditure vouchers before the Auditor of State may issue State warrants. Upon certification, OBM updates its accounting records to reflect the level of vouchered expenditures.

The Treasurer of State maintains the cash and investments that comprise the State treasury, and invests State funds. The Treasurer redeems the warrants issued by the Auditor of State when presented for payment by financial institutions and monitors the amounts and the timing of payments to determine the State's cash flow position for investment purposes.

State financial reporting practices have been and are in accordance with generally accepted accounting principles (GAAP basis). Each Comprehensive Annual Financial Report (CAFR) includes the State's General Purpose Financial Statements (GPFS) for that Fiscal Year as examined by the Auditor of State. The State has delivered the CAFR for Fiscal Year 2001 to each nationally-recognized municipal securities information repository and to the Ohio State Information Depository. The most recent CAFRs are accessible via OBM's home page on the Internet at <http://www.state.oh.us/obm> under "Media", and copies may be obtained by contacting the State Debt Coordinator at OBM, 30 E. Broad Street, 34<sup>th</sup> Floor, Columbus, Ohio 43266, phone (614) 466-4034. The 1990 through 2001 CAFRs received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.

The GPFS are presented in accordance with a fund classification system prescribed by the Governmental Accounting Standards Board. The GAAP basis financial statement presentation is comprehensive in scope and

includes organizations and activities defined within Ohio's reporting entity that are not subject to the State's appropriation process. The "General Fund" as reported in the GPFS includes more than just the GRF; it also encompasses the Budget Stabilization Fund and those reimbursement-supported funds that account for activities administered by State agencies and departments and for which special revenue or proprietary fund classifications are considered inappropriate.

OBM also has published *The Ohio Budgetary Financial Report* for Fiscal Year 2002. The most recent Budgetary Financial Reports are accessible via OBM's home page on the Internet at <http://www.state.oh.us/obm> under "Media", and copies are available upon request to OBM.

In accordance with State law, financial statements and analyses (with supporting schedules) of State agencies' transactions, based on official records maintained by OBM, are incorporated into the Governor's executive budget. That budget, along with other information, is the subject of extended hearings and reviews in the General Assembly during the biennial appropriation process.

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## Recent Receipts and Disbursements

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

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

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

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

#### Cash Receipts

SOURCE OF RECEIPTS	Fiscal Year				
	1998	1999	2000	2001	2002
Taxes:					
Personal Income .....	\$6,946.1	\$7,173.8	\$8,084.6	\$8,119.3	\$8,157.1
Sales and Use .....	5,547.0	5,840.0	6,227.2	6,250.7	6,357.1
Corporate Franchise.....	1,268.7	1,150.3	1,029.9	973.0	774.4
Gasoline.....	1,328.4	1,370.7	1,404.9	1,307.3	1,383.3
Public Utilities (a).....	708.0	670.6	675.3	712.3	869.2
Cigarette .....	296.6	290.6	287.7	282.5	281.3
Foreign Insurance .....	287.5	278.8	260.2	232.3	230.2
Intangibles(a).....	17.0	16.5	22.3	24.9	18.5
Highway Use/Motor Fuel.....	64.9	64.3	66.9	75.3	69.4
Estate .....	114.8	141.4	140.0	166.0	116.3
Alcoholic Beverages.....	53.1	54.5	56.0	55.7	56.4
Liquor Gallonage.....	27.3	27.6	28.5	29.0	29.3
Domestic Insurance Franchise.....	63.4	77.6	88.7	109.4	132.5
Other .....	<u>29.1</u>	<u>30.2</u>	<u>29.9</u>	<u>30.4</u>	<u>31.5</u>
Total Taxes .....	16,751.9	17,186.9	18,402.1	18,368.1	18,506.5
Licenses, Permits and Fees .....	1,066.9	1,086.3	1,352.9	1,356.9	1,699.5
Sales, Services and Charges .....	1,551.8	1,533.6	1,544.9	1,436.4	1,502.0
Federal Government .....	8,186.2	8,516.2	9,207.5	10,794.0	11,633.7
Other(c).....	2,177.3	2,245.2	2,481.3	2,714.0	3,741.4
Proceeds from Sale of Bonds and Notes.....	<u>1,826.2</u>	<u>1,274.8</u>	<u>1,104.0</u>	<u>1,110.8</u>	<u>1,231.0</u>
Total Cash Receipts .....	\$31,560.3	\$31,843.0	\$34,092.7	\$35,780.2	\$38,314.1

(a) Includes the kilowatt-hour excise tax imposed beginning in Fiscal Year 2001.

(b) Proceeds primarily distributed to local governments.

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

#### Cash Disbursements

##### FUND TYPE

##### General Fund:

General Revenue Fund .....	\$17,087.0	\$18,016.9	\$19,243.6	\$21,144.2	\$21,627.4
General Services Fund(d).....	498.9	496.0	578.3	565.0	1,081.3
Education Improvement Fund .....	1.5	1.4	0.0	0.0	0.0
Special Revenue Fund(e).....	9,781.4	10,162.3	11,044.8	12,423.5	14,536.0
Capital Projects Fund(f).....	1,023.7	1,021.5	1,057.6	864.8	448.5
Debt Service Fund(g).....	231.2	248.0	281.2	383.3	434.3
Enterprise Fund.....	1,063.2	1,109.7	1,320.6	1,198.1	1,175.3
Internal Service Fund.....	<u>242.2</u>	<u>256.9</u>	<u>273.0</u>	<u>275.0</u>	<u>0.0</u>
Total Cash Disbursements .....	\$29,929.1	\$31,312.7	\$33,799.1	\$36,853.9	\$39,837.1

(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 obligations issued by the Ohio Public Facilities Commission, Ohio Building Authority and the State Treasurer.

(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				
	1998	1999	2000	2001	2002
Beginning Cash Balance .....	\$1,367.7	\$1,649.0	\$1,512.5	\$1,506.2	\$817.1
Cash Receipts:					
Taxes:					
Personal Income .....	6,212.5	6,416.8	7,232.0	7,263.4	7,304.1
Sales and Use .....	5,265.5	5,545.3	5,913.7	5,935.6	6,038.0
Public Utilities(a) .....	673.0	637.6	642.1	663.3	583.4
Corporate Franchise .....	1,196.6	1,084.1	969.4	915.3	712.3
Cigarette .....	296.6	290.6	287.7	282.5	281.3
Foreign Insurance .....	281.0	271.6	252.3	220.6	214.3
Intangibles .....	6.5	6.2	8.7	9.5	7.1
Other .....	<u>257.7</u>	<u>300.4</u>	<u>311.9</u>	<u>359.3</u>	<u>333.8</u>
Total Taxes .....	14,189.4	14,552.6	15,617.8	15,649.5	15,474.3
Licenses, Permits and Fees .....	36.3	36.1	33.7	32.9	31.1
Federal Government .....	3,292.4	3,428.6	3,729.5	4,527.9	4,387.2
Investment Income .....	129.0	148.4	122.6	153.4	79.0
Other(b) .....	<u>122.0</u>	<u>129.4</u>	<u>110.9</u>	<u>181.7</u>	<u>982.4</u>
Total Cash Receipts .....	17,769.1	18,295.2	19,614.5	20,545.4	20,954.0
Cash Disbursements:					
Current					
Primary, Secondary and Other Education(c) .....	4,319.3	4,715.9	5,068.4	5,512.9	6,044.7
Higher Education(d) .....	1,863.3	1,938.9	2,076.3	2,194.2	2,113.0
Public Assistance and Medicaid .....	6,276.5	6,476.8	6,898.2	8,033.1	8,102.9
Health and Human Services .....	993.6	1,021.6	1,071.3	1,059.0	1,056.3
Justice and Public Protection .....	1,383.3	1,472.0	1,618.4	1,673.1	1,668.0
Environmental Protection and Natural Resources .....	106.0	105.0	119.6	116.7	102.5
Transportation .....	34.2	33.5	39.2	37.5	43.3
General Government .....	246.5	256.8	263.9	273.5	264.0
Community and Economic Development .....	113.0	117.9	134.6	153.0	140.2
Tax Relief(e) and Other .....	985.0	1,028.7	1,082.0	1,145.9	1,190.2
Capital Outlay .....	4.2	9.8	17.4	50.8	0.0
Debt Service(f) .....	<u>762.1</u>	<u>840.0</u>	<u>854.3</u>	<u>894.5</u>	<u>902.3</u>
Total Cash Disbursements .....	17,087.0	18,016.9	19,243.6	21,144.2	21,627.4
Cash Transfers:					
Transfers-in(g) .....	368.8	770.1	436.2	763.9	508.5
Transfers-out(h) .....	<u>(769.6)</u>	<u>(1,184.9)</u>	<u>(813.4)</u>	<u>(854.2)</u>	<u>(33.0)</u>
Total Cash Transfers (Net) .....	(400.8)	(414.8)	(377.2)	(90.3)	475.5
Ending Cash Balance .....	\$1,649.0	\$1,512.5	\$1,506.2	\$817.1	\$619.2

- (a) Includes the kilowatt-hour excise tax imposed beginning in May of Fiscal Year 2001.
- (b) 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.
- (c) Mainly subsidies to local school districts.
- (d) Mainly subsidies to colleges and universities. Higher education institutions maintain their own discrete funds and accounts.
- (e) The State currently reimburses taxing subdivisions for the 10% property tax rollback granted to owners of real property (12.5% to homeowners), for partial real property tax exemptions for the elderly and handicapped, and for a portion of revenue reductions resulting from exempted (or reduced tax value) tangible personal property. This program's cost to the State is determined by total property taxes levied on the local level.
- (f) Debt service on general obligations, lease-rental obligations, and certain other State debt paid from the GRF. Excludes highway-related debt, and OBA-issued obligations for Department of Transportation and Department of Public Safety facilities and a Bureau of Workers Compensation facility, debt service on which is paid from non-GRF sources.
- (g) Includes transfers from liquor profits, from the Income Tax Reduction Fund in Fiscal Years 1998-2001, and 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.
- (h) Includes transfers to the BSF in Fiscal Years 1998 to 2001, and to the Income Tax Reduction Fund in Fiscal Years 1998 to 2000.

## Recent and Current Finances

### Introductory Information

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

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

Biennium	Fund Balance	Cash Balance
1992-93	\$111,013,000	\$393,634,000
1994-95	928,019,000	1,312,234,000
1996-97	834,933,000	1,367,750,000
1998-99	976,778,000	1,512,528,000
2000-01	219,414,000	817,069,000

Actions have been and may be taken by the State during less favorable economic periods (such as currently) to ensure resource/expenditure balances (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 2002-03 biennium include all necessary appropriations for debt service on State obligations and for lease payments relating to lease obligations issued by the Ohio Building Authority and the Treasurer of State, and previously by the Ohio Public Facilities Commission.

The following is a 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 provide a balance of GRF resources and expenditures.

### Recent Bienniums

#### 1992-93

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

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

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

### **1994-95**

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

### **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 building construction and renovation, \$94,400,000 to the school computer network, \$44,200,000 to school textbooks and instructional materials and a distance learning program, and \$34,400,000 to the BSF, with the remaining \$262,900,000 transferred to the State Income Tax Reduction Fund.

### **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 into the State Income Tax Reduction Fund, \$200,000,000 into public school assistance programs, and \$44,184,200 into the BSF. Portions of that GRF biennium-ending fund balance were transferred as follows: \$325,700,000 to school building assistance; \$293,185,000 to the State Income Tax Reduction Fund; \$85,400,000 to SchoolNet (a program to supply computers for classrooms); \$4,600,000 to interactive video distance learning; and \$46,374,000 to the BSF.

### **2000-01**

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

The first Fiscal Year (2000) 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 the balance increased the BSF to \$1,002,491,000 (or 5% of GRF revenue for the preceding Fiscal Year). An additional \$610,400,000 was transferred to the State Income Tax Reduction Fund.

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

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

## Current Biennium

Ongoing and rigorous consideration has been given by the Governor and the General Assembly to revenues and expenditures for Fiscal Years 2002-03, primarily as a result of continuing economic conditions. Budgetary pressures have been primarily due to continuing lower than previously anticipated levels of receipts from certain major revenue sources.

Prior consideration was in three general time frames – the initial June 2001 biennial appropriation act, then late fall and early winter 2001, and then May 2002. Significant remedial steps have 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. Some of the major program funding increases over the original appropriations for the preceding 2000-01 biennium were: Medicaid, 29%; primary and secondary education, 17%; adult and juvenile corrections, 6.2%; mental health and mental retardation, 2.8%; and higher education, 2.4%.

That original appropriations act provided for the following uses of certain reserves, aimed at achieving Fiscal Year and biennium ending positive GRF fund balances, based on estimates and projections at the time of passage:

- Authorized transfer up to \$150,000,000 from the BSF to the GRF for purposes of increasing moneys available to pay Medicaid expenses.
- Appropriated an additional \$10,000,000 from the BSF to an emergency purposes fund.
- Authorized transfer to the GRF in Fiscal Year 2002 of the entire (\$100,000,000) balance in the Family Services Stabilization Fund.

Necessary GRF debt service and lease rental appropriations for the entire biennium were requested in the Governor's proposed budget, incorporated in the related appropriations bills as introduced, and included in the versions as passed by the House and the Senate and in the act as passed and signed. The same was true for the separate appropriations acts including lease-rental appropriations for certain OBA-financed projects for the departments of Transportation and Public Safety, and Bureau of Workers' Compensation.

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 in certain categories (particularly personal income taxes and, at that time, sales taxes), OBM then projected GRF revenue shortfalls for Fiscal Year 2002 of \$709,000,000 and of \$763,000,000 for current Fiscal Year 2003.

Executive and legislative actions were taken based on the then new OBM estimates, including:

- The Governor promptly ordered reduced appropriations spending by most State agencies (expressly excepted were appropriations for or relating to debt service on State obligations), and limits on hiring and major purchases. Reductions were at the annual rate of 6% for most State agencies (including higher education institutions), with lesser reductions for correctional and other institutional agencies, and with exemptions for primary and secondary education and the adjutant general.
- Then in December, the General Assembly passed legislation, 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 \$600,000,000).
  - 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 and 2014.
  - Reducing appropriation spending authorizations for the legislative and judicial branches.
  - Making certain tax-related changes (including accelerating the time for certain payments).
  - Authorizing Ohio's participation in a multi-state lottery game, estimated to generate \$41,000,000 in Fiscal Year 2003. This participation has begun, although litigation has sought, to date unsuccessfully, to enjoin the authorization on State constitutional grounds, including a claim that the act's provisions violate the "one subject" requirement for legislation.

Continuing 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 taxes and from corporate franchise taxes.

These updated estimates of GRF revenue 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 and will be taken as necessary to ensure a positive GRF fund balance for the biennium. In addition to further administrative and management steps, such as additional restraints on spending, those prior actions included legislation that provides for among other things:

- Authorization of additional transfers to the GRF from the BSF of its entire previously unappropriated balance (over \$604,000,000) as needed in Fiscal Years 2002 and 2003, and of an additional \$50,800,000 of unclaimed funds to the GRF.
- Reduction of the Fiscal Year 2002 ending GRF balance by \$50,000,000 (to \$100,000,000, from its previously budgeted level of \$150,000,000.)
- Increased cigarette tax by 31¢ per pack (to a total 55¢ a pack). The increase was and is estimated by OBM to produce approximately \$283,000,000 in Fiscal Year 2003.
- Transfers to the GRF of \$345,000,000 from tobacco settlement money received in Fiscal Years 2002 and 2003. That amount had previously been earmarked and appropriated for elementary and secondary school facilities construction; moneys for that purpose will instead be provided by way of additionally authorized \$345,000,000 in general obligation bonds.
- Extension of the State income tax to Ohio-based trusts (a "sunset" provision ends this tax December 31, 2004), and exemption of certain Ohio business taxes from recent federal tax law "economic stimulus changes" by modifying existing State law tie-ins to the federal tax base. The combination was and is estimated by OBM to produce approximately \$283,000,000 in Fiscal Year 2003.
- Selective additional appropriation cuts for certain departments.

Certain other provisions of the legislation are aimed at the future, rather than the current biennium, including the indexing of State income tax brackets to the Gross Domestic Product beginning in July 2005.

As shown in the summary statements above (under **Fiscal Matters**), several categories of Fiscal Year 2002 GRF tax receipts were below those receipts in the prior Fiscal Year. Overall, GRF tax receipts in Fiscal Year 2002 were 1.1% below those in Fiscal Year 2001.

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

On July 1, 2002, the first day of the new Fiscal Year, 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 and was consistent with prior budget balancing discussions between the Governor and General Assembly. Annual cutbacks ranged from generally 7.5% to 15%, with allocation of amounts and manners determined by the OBM Director in consultation with the affected agencies and departments. Excluded from the cutbacks as currently contemplated are elementary and secondary education, higher education, alcohol and drug addiction services, and the adjutant general. Expressly excluded from the cutback order are appropriations for debt service including lease rental contracts and all State office building rent, and ad valorem property tax relief payments (made to local taxing entities).

OBM is currently projecting a positive GRF fund balance at June 30, 2003. As discussed above in this Official Statement, the State is effectively precluded by law (including its Constitution) from ending a Fiscal Year or a biennium in a "deficit" position. The Governor and his administration, and the General Assembly, continue and will continue to monitor financial developments on both the revenue and expenditure sides to ensure this positive GRF ending fund balance.

Additional appropriations actions, 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.

Due to the continuing pendency of the school funding litigation, OBM expenditure estimates have not included additional expenditures that might be required pursuant to the latest Supreme Court order. As noted below (see **Schools and Municipalities – Schools**), the Court has granted the State's motion for reconsideration of the portion of the Court's order that would have required substantial and additional expenditures including in each Fiscal Year of the current biennium. (OBM estimates the additional annual cost to the State of this change to be as much as \$1.24 billion.)

Litigation pending in the Ohio Court of Claims contests the Ohio Department of Human Services (ODHS, now Ohio Department of Job and Family Services) former Medicaid financial eligibility rules for married couples when one spouse is living in a nursing facility and the other resides in the community. ODHS promulgated new eligibility rules effective January 1, 1996. ODHS appealed an order of the federal court directing it to provide notice to persons potentially affected by the former rules from 1990 through 1995, and the Court of Appeals ruled in favor of ODHS; plaintiff's petition for certiorari was not granted by the U.S. Supreme Court. As to the Court of Claims case, it is not possible to state the period (beyond the current Fiscal Year) during which necessary additional Medicaid expenditures would have to be made. Plaintiffs have estimated total additional Medicaid expenditures at \$600,000,000 for the retroactive period and, based on current law, it is estimated that the State's share of those additional expenditures would be approximately \$240,000,000. The Court of Appeals has certified the class action and notice has been sent to the members of the class. Discovery is ongoing. Trial for liability only, has been set for January 2003.

#### **Cash Flow**

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

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

The State has planned for and has encountered some monthly GRF cash flow deficiencies in all recent Fiscal Years. For example, GRF cash flow deficiencies have ranged from occurring in 10 months in Fiscal Year 1992 to four months in Fiscal Years 1995, 1997 and 2000. In recent Fiscal Years, the highest GRF end-of-month cash flow deficiencies were \$827,127,000 in 2000, \$1,152,152,000 in 2001 and \$1,449,546,000 in 2002. 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."

From 1921 to present, Ohio voters have approved 17 constitutional amendments authorizing the incurrence of State debt to which taxes or excises were pledged for payment. All related to capital facilities financing, except for three that funded bonuses for veterans and one that funded coal technology research and development. Currently, tax-supported debt is authorized to be incurred for the following purposes:

highways, local infrastructure, coal development, natural resources, higher education, common schools, and conservation, all as discussed below.

A 1999 constitutional amendment provides an annual debt service “cap” applicable to future issuances of State general obligation bonds and other State direct obligations payable from the GRF or net State lottery proceeds. Generally, those new bonds may not be issued if future Fiscal Year debt service on those new and the then outstanding bonds 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 issued by the Ohio Building Authority and the Treasurer of State, and previously by the Ohio Public Facilities Commission (OPFC), as described below and 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.

Section 2i of Article VIII of the Constitution authorizes the issuance, for certain purposes, of State obligations the owners or holders of which are not given the right to have excises or taxes levied by the General Assembly to pay principal and interest. Those special obligations include those bonds that have been issued by the OBA and certain obligations issued by the Treasurer of State (and previously by the OPFC). OBA issues obligations for facilities to house branches and agencies of State government and their functions, including: State office buildings and facilities for the Department of Administrative Services (DAS) and others; juvenile detention facilities for the Department of Youth Services (DYS) and other governmental entities; Ohio Department of Transportation (ODOT) buildings; Department of Rehabilitation and Correction (DRC) prisons and correctional facilities including certain local and community-based facilities; office facilities for the Bureau of Workers' Compensation (BWC) and Department of Natural Resources (DNR); Ohio Arts and Sports Facilities Commission (ASFC) and Department of Public Safety (DPS) facilities; and school district computer technology and security facilities. The Treasurer (replacing OPFC for the purpose) issues obligations for mental health and parks and recreation purposes, and has previously issued obligations for certain elementary and secondary school facilities under leases with the Ohio School Facilities Commission.

In recent years, State agencies also have participated in office building and non-highway transportation projects that have some 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) are issued that represent fractionalized interests in or are payable from the State's anticipated payments. OBM estimates the highest future Fiscal Year payments under those agreements, which are primarily made from GRF appropriations, to be \$4,603,524.

In addition, to assist in the financing of selected highway infrastructure projects, the State has used financing arrangements that call for State payments to be made from federal transportation funds allocated to the State. OBM estimates the highest future Fiscal Year payments under those current arrangements to be \$62,376,425. In the event of any insufficiency in those 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, and in the case of continued insufficiency the ODOT Director is to request a General Assembly appropriation for the purpose.

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

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

A current summary of State tax-supported obligations, as of December 1, 2002, including the Series G Bonds, is as follows:

	<b>Authorized by General Assembly</b>	<b>Issued(a)</b>	<b>Outstanding(b)</b>
<b>General Obligation Bonds</b>			
<b>Highway(c)</b>	\$1,745,000,000	\$1,745,000,000	\$87,000,000
<b>Highway(d)</b>	1,350,000,000	1,135,000,000	837,500,000
<b>Coal Development(e)</b>	150,000,000	137,000,000	45,810,000
<b>Infrastructure(f)</b>	2,040,000,000	1,799,986,136	1,215,939,970(g)
<b>Natural Resources(h)</b>	272,000,000	210,000,000	161,355,000
<b>Common School Facilities</b>	1,595,000,000	940,000,000	891,915,000
<b>Higher Education Facilities</b>	1,261,310,000	950,000,000	896,535,000
<b>Conservation(h)</b>	50,000,000	50,000,000	48,000,000
<b>Special Obligation Bonds</b>			
<b>Prison Facilities</b>	\$1,803,000,000	\$1,602,100,000	\$954,535,346
<b>DYS Facilities</b>	252,000,000	202,000,000	157,280,000
<b>DAS Facilities(i)</b>	1,393,000,000	1,188,300,000	750,905,231
<b>ASFC Facilities</b>	341,000,000	303,690,000	196,765,000
<b>DNR Facilities</b>	12,160,000	12,160,000	5,600,000
<b>ODOT Facilities(j)</b>	210,000,000	155,800,000	61,500,000
<b>DPS Facilities(j)</b>	142,000,000	123,200,000	87,645,000
<b>Higher Education Facilities</b>	4,817,590,000	4,817,590,000	1,372,170,000
<b>Mental Health Facilities</b>	1,281,000,000	1,207,085,000	290,280,000
<b>Parks &amp; Recreation Facilities</b>	291,000,000	264,900,000	109,755,000
<b>Elementary &amp; Secondary Education</b>	333,640,000	333,640,000	146,965,000
<b>BWC Facilities(k)</b>	214,255,000	214,255,000	170,255,000

- (a) Excludes refunding bonds; includes bonds refunded.
- (b) Excludes bonds refunded; includes refunding bonds.
- (c) Authority to issue expired in 1996.
- (d) Not more than \$220,000,000 may be issued in any year and not more than \$1.2 billion may be outstanding at any time.
- (e) Not more than \$100,000,000 may be outstanding at any time.
- (f) Not more than \$120,000,000 may be issued in any Fiscal Year, and the total issued may not exceed \$2.4 billion.
- (g) Includes \$63,900,000 in adjustable rate bonds.
- (h) For each category, 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.
- (i) Primarily for State office buildings in Columbus, Cleveland, Akron and Toledo, and a State computer center in Columbus. Debt service for the Akron and Toledo office buildings is supported in part by payments from local government agencies using portions of those facilities. Includes \$100,000,000 for school district computer technology and security systems.
- (j) Debt service paid from appropriations from highway user receipts.
- (k) Debt service paid from appropriations from BWC Administrative Cost Fund.

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



The following table shows total Fiscal Year debt service on State bonds secured by a pledge of taxes or excises and on those special obligation State bonds issued by the OBA and the Treasurer of State, and previously by the OPFC, listed in the table above under **State Debt**. This table includes the Series G Bonds.

### Annual Debt Service Requirements on Certain State Obligations

General Obligations			Special Obligations				Total Debt Service		
FY	Highway(a)	Education(b)	All		OBA		Principal	Interest	Total
			Other(c)	Treasurer(d)	ODOT/DPS Facilities(e)	Other Facilities(f)			
2003	\$184,453,546	\$129,370,145	\$171,891,925	\$369,323,839	\$25,837,759	\$289,151,627	\$761,342,101	\$408,686,740	\$1,170,028,841
2004	184,970,821	162,454,120	185,801,786	341,279,764	25,424,204	292,998,288	796,145,409	396,783,575	1,192,928,983
2005	154,563,126	161,963,780	170,560,703	303,250,904	25,012,004	293,065,583	737,960,172	370,455,927	1,108,416,099
2006	138,790,098	155,649,618	168,453,953	285,957,133	24,677,603	277,367,454	713,775,161	337,120,695	1,050,895,856
2007	128,406,900	155,220,374	165,824,821	285,945,554	22,527,900	255,218,888	720,030,470	293,113,967	1,013,144,437
2008	110,586,675	154,835,903	164,949,389	253,152,433	22,197,871	225,807,225	671,996,280	259,533,216	931,529,496
2009	85,839,960	154,365,238	164,616,684	189,891,525	15,261,753	206,800,335	585,178,969	231,596,525	816,775,494
2010	62,015,491	154,008,691	164,471,594	168,313,533	15,054,678	188,101,401	552,916,194	199,049,195	751,965,389
2011	36,585,005	153,459,761	150,319,631	138,530,855	12,481,641	171,884,154	493,145,913	170,115,133	663,261,047
2012	14,898,980	152,852,013	150,237,527	108,430,851	8,883,788	163,663,924	454,062,238	144,904,844	598,967,083
2013	14,199,750	152,490,298	132,593,265	80,581,905	1,564,209	139,733,936	397,146,475	124,016,888	521,163,363
2014	0	152,166,148	121,616,315	22,450,025	1,563,600	123,508,386	320,406,268	100,898,206	421,304,474
2015	0	138,300,282	99,217,313	15,078,963	1,564,588	109,590,475	284,493,397	79,258,222	363,751,619
2016	0	112,410,337	86,016,416	10,356,050	1,567,025	87,524,603	236,043,600	61,830,831	297,874,431
2017	0	112,206,291	74,468,109	5,194,475	1,565,888	71,414,750	216,795,000	48,054,513	264,849,513
2018	0	112,010,921	60,203,366	0	1,566,038	62,534,406	199,135,000	37,179,731	236,314,731
2019	0	111,789,193	38,594,621	0	1,567,200	44,072,806	168,610,000	27,413,820	196,023,820
2020	0	111,869,471	28,364,231	0	1,567,875	19,629,750	142,130,000	19,301,327	161,431,327
2021	0	96,007,546	18,659,846	0	1,568,250	19,633,500	123,790,000	12,079,142	135,869,142
2022	0	83,929,033	18,638,801	0	0	9,765,000	106,220,000	6,112,834	112,332,834
2023	0	54,804,393	9,124,125	0	0	0	62,185,000	1,743,518	63,928,518
							<b>\$8,743,507,648</b>	<b>\$3,329,248,849</b>	<b>\$12,072,756,497</b>

Note: Rows are rounded.

- (a) Debt service is paid entirely from highway user receipts which are constitutionally restricted in use to highway related purposes.
- (b) Includes common schools and higher education general obligation bonds.
- (c) Includes general obligation bonds for natural resources, coal development, and infrastructure improvement (which includes estimated debt service on \$63,900,000 of adjustable rate bonds).
- (d) Includes lease-rental bonds formerly issued by the OPFC.
- (e) Lease rentals paid to date from highway user receipts, and are anticipated to be paid from those receipts as appropriated for the purpose in future bienniums.
- (f) Excludes debt service on bonds for BWC facilities which is paid from BWC Administrative Cost Fund.

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

<u>Year</u>	<u>General Obligations</u>			<u>Special Obligations</u>	
	<u>Highway</u>	<u>Education(a)</u>	<u>All Other</u>	<u>Treasurer(b)</u>	<u>OBA</u>
2003	\$781,000,000	\$1,750,995,000	\$1,447,034,970	\$1,816,845,000	\$2,186,290,577
2005	510,500,000	1,594,515,000	1,243,723,772	1,329,140,000	1,770,181,194
2010	60,500,000	1,175,070,000	751,852,893	346,420,000	870,320,000
2015	-0-	664,205,000	289,763,600	14,560,000	286,380,000
2020	-0-	219,785,000	43,095,000	-0-	29,315,000

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

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

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

<u>Year</u>	<u>Principal Amount Outstanding (as of July 1)</u>	<u>Outstanding Debt Per Capita</u>	<u>Outstanding Debt As % of Annual Personal Income</u>
1980	\$1,991,915,000	\$184	1.83%
1990	3,690,154,994	340	1.81
1998	5,682,827,565	506	1.93
1999	6,007,699,710	534	1.96
2000	6,308,680,025	556	1.96
2001	6,570,863,174	578(a)	2.02(b)
2002	7,086,317,648	623(a)	2.18(b)

(a) Based on July 2001 population estimate.

(b) Based on 2001 personal income data.

<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
1998	771,014,893	18,833,027,486	4.09	0.26
1999	843,207,365	19,736,607,701	4.27	0.28
2000	871,313,814	20,711,678,217	4.21	0.27
2001	918,248,422	21,921,275,724	4.19	0.28(a)
2002	926,142,216	22,072,703,100	4.20	0.28(a)

(a) Based on 2001 personal income data.

A statewide economic development program assists the financing of facilities for industry, commerce, research and distribution by providing loans and loan guarantees. The law authorizes the issuance of State bonds and loan guarantees secured by a pledge of portions of the State profits from liquor sales. The General Assembly has authorized the issuance of these bonds by the Treasurer of State, with a general maximum of \$300,000,000 currently authorized to be outstanding at any one time (excluding bonds issued to meet guarantees, but less any amount by which 4% of the unpaid principal amount of guaranteed loan payments exceeds the funded amount applicable to the guarantees). The aggregate amount from the liquor profits to be used in any Fiscal Year in connection with these bonds (except for bonds issued to meet guarantees) may not exceed \$25,000,000 under present law. The total of unpaid guaranteed loan amounts and unpaid principal of direct loans may not exceed \$500,000,000. A 1996 issue of \$168,740,000 (\$142,140,000 outstanding) of taxable bonds refunded outstanding bonds and provided additional moneys for the program. A 1998 issue of \$101,980,000 of taxable forward purchase bonds were issued to refund, as of 2006, term bonds of the 1996 issue stated to mature in 2016 and 2021. The highest future Fiscal Year debt service on the outstanding bonds of those issues, which are payable through 2021, is \$16,166,827 in 2008.

## **Additional Authorizations**

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

Capital appropriations for the 2001-02 capital biennium and certain capital appropriations that have already been made for the 2003-04 capital biennium (including additional authorizations in the May 2002 legislation, discussed above under **Recent and Current Finances – Current Biennium**) provided for additional borrowings for the various categories, including over \$1,629,000,000 in general obligations for education purposes. (No full capital appropriations bill for the 2003-04 capital biennium has yet been introduced.) They authorized the following borrowings, all of which are reflected in the preceding tables:

### **OPFC:**

- \$594,000,000 for higher education capital facilities projects, and newly authorized research and technology development facilities.
- \$1,035,000,000 for capital improvements for elementary and secondary public schools.
- \$44,000,000 for natural resources facilities.
- \$50,000,000 for conservation purposes.

### **OBA:**

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

### **Treasurer of State:**

- \$480,000,000 for local infrastructure projects.
- \$76,000,000 for mental health facilities (including local projects).
- \$41,000,000 for parks and recreation facilities.
- \$50,000,000 for revitalization purposes.

A constitutional amendment approved by the electors in November 2000 authorizes the issuance of State bonds for land conservation and revitalization purposes (including statewide brownfields clean-up). For each of the two purposes, 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 State general obligations, and those for revitalization purposes are special obligations of the State payable from revenues and receipts designated by the General Assembly (currently a portion of the State's profit from liquor sales). In January 2002, the State issued its first series of bonds for conservation purposes and in October 2002 the State issued its first series of bonds for revitalization purposes.

A 1999 constitutional amendment authorizes State general obligation debt to pay costs of facilities for a system of common schools throughout the state and for state supported and state assisted institutions of higher education. The amendment also provides that the additional general obligation debt and other direct obligations of the State will be subject to the 5% GRF/lottery proceeds debt service "cap" described above.

1997 legislation provided for two new categories of revenue-type financing. OBA was authorized to issue lease revenue obligations to assist in the financing of up to 15% of the estimated cost of certain sports facilities in Ohio. In addition, a revolving fund was created to assist in financing local transportation projects, funded with deposits of \$40,000,000 of GRF moneys and supplemented by the issuance of bonds (to be paid from federal transportation funds), with four issuances to date totaling \$325,000,000.

A 1995 constitutional amendment authorized additional highway bonds and extended the local infrastructure bond program. For the latter, it authorized an additional \$1.2 billion of State full faith and credit obligations to be issued over 10 years, with not more than \$120,000,000 to be issued in any Fiscal Year. The

highway finance portion authorizes not more than \$1.2 billion to be outstanding at any time and not more than \$220,000,000 to be issued in any Fiscal Year.

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

A 1990 constitutional amendment authorizes greater State and political subdivision participation in the provision of individual and family housing. This supplements the previous constitutionally authorized loans-for-lenders and other housing assistance programs, financed in part with State revenue bonds. The amendment authorizes the General Assembly to provide for State assistance for housing in a variety of ways, including authorizing State borrowing for the purpose by the issuance of obligations secured by a pledge of all or such portion of State revenues or receipts as it authorizes (although the obligations may not be supported by the State's full faith and credit).

### POPULATION

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

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

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

\* Census population estimate July 2001 is 11,373,541.

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

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

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

- (a) SMSAs in 1970 & 1980, MSAs in 1990 and 2000 (PMSA's for Cleveland, Cincinnati, Akron, and Hamilton-Middleton).
- (b) Lorain-Elyria included with Cleveland.
- (c) Includes 12 counties (two in Indiana and six in Kentucky).
- (d) Newark added.
- (e) Springfield added.
- (f) Includes three counties.
- (g) Weirton added; includes two counties in West Virginia.

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

## ECONOMY AND EMPLOYMENT

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

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

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

	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2001</u>
Services.....	568	831	1,189	1,592	1,602
Wholesale, Retail Trade.....	773	957	1,172	1,348	1,331
Manufacturing.....	1,410	1,264	1,112	1,083	1,027
Government .....	566	690	722	785	794
Finance, Insurance, Real Estate.....	154	204	256	308	313
Transportation & Public Utilities.....	225	223	219	251	250
Construction.....	164	167	195	245	237
Other (including Mining).....	<u>21</u>	<u>31</u>	<u>18</u>	<u>13</u>	<u>13</u>
TOTAL .....	3,881	4,367	4,882	5,625	5,566

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

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

	1970		1980		1990		2000		2001	
	<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>
Services.....	14.6	16.3	19.0	19.8	24.4	25.5	28.3	30.7	28.8	31.1
Wholesale, Retail Trade.....	19.9	21.2	21.9	22.5	24.0	23.6	24.0	23.0	23.9	23.0
Manufacturing.....	36.3	27.3	28.9	22.4	22.8	17.4	19.3	14.0	18.5	13.4
Government .....	14.6	17.7	15.8	18.0	14.8	16.7	13.9	15.7	14.3	15.9
Finance, Insurance, Real Estate .....	4.0	5.1	4.7	5.7	5.2	6.1	5.5	5.8	5.6	5.9
Transportation & Public Utilities..	5.8	6.4	5.1	5.7	4.5	5.3	4.5	5.3	4.5	5.4
Construction.....	4.2	5.1	3.8	4.8	4.0	4.7	4.4	5.1	4.3	5.0
Mining .....	0.5	0.9	0.7	1.1	0.4	0.6	0.2	0.4	0.2	0.4

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

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

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

<u>Year</u>	<u>Ohio</u>	<u>U.S.</u>
1980.....	8.4%	7.1%
1985.....	8.9	7.2
1990.....	5.7	5.5
1995.....	4.8	5.6
1997.....	4.6	4.9
1998.....	4.3	4.5
1999.....	4.3	4.2
2000.....	4.1	4.0
2001.....	4.3	4.8
2002 January.....	5.1	5.6
February.....	5.4	5.5
March.....	5.8	5.7
April.....	5.8	6.0
May.....	5.9	5.8
June.....	5.7	5.9
July.....	5.7	5.9
August.....	5.6	5.7
September.....	5.6	5.6
October.....	5.6	5.7

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 2001:

**OHIO'S TOP 25 PRIVATE SECTOR EMPLOYERS – 2001**

<u>Company</u>	<u>Estimated FTE Employees in Ohio</u>	<u>Sector</u>
General Motors Corporation	26,210	Motor Vehicles
<b>Kroger Company</b>	25,000	Food Stores
Delphi Automotive	23,870	Motor Vehicles
<b>Cleveland Clinic Health System</b>	21,120	Health
Wal-Mart Stores, Inc.	20,960	General Merchandiser
General Electric Company	19,860	Aerospace/Electrical Equipment
<b>University Hospitals Health System</b>	17,280	Health
Meijer, Inc.	15,930	Food Stores
<b>Ohio Health</b>	15,000	Health
Ford Motor Company*	14,510	Motor Vehicles
Honda Motor Company	14,000	Motor Vehicles
<b>Proctor &amp; Gamble Company</b>	13,700	Soaps and Cosmetics
<b>Health Alliance of Greater Cincinnati</b>	13,420	Health
Banc One Corporation	13,000	Financial Services
DaimlerChrysler Corporation	12,950	Motor Vehicles
<b>ProMedica Health Systems</b>	12,000	Health
<b>KeyCorp</b>	10,700	Financial Services
Kmart Corporation	10,640	General Merchandiser
Ameritech Corporation	10,540	Telecommunications
<b>National City Corp.</b>	10,320	Financial Services
United Parcel Service of America, Inc.	10,110	Package and Freight Delivery
<b>Bob Evans Farms, Inc.</b>	10,000	Restaurants
Sears, Roebuck and Co.	10,000	Retail Department Stores
<b>FirstEnergy Corporation</b>	9,570	Electric Utilities
<b>Nationwide Insurance</b>	9,310	Insurance

\* Proposed employment cutbacks announced in January 2002.

Note: Boldface indicates headquartered in Ohio.

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

## AGRICULTURAL AND RESOURCES BASES

With 14.9 million acres (of a total land area of 26.4 million acres) in farmland and an estimated 80,000 individual farms, agriculture combined with related agricultural sectors is an important segment of Ohio's economy. Ohio's 2000 crop production value of \$2.6 billion represented 3.7% of the U.S. total value. Ohio ranks in the top five states in the production of soybeans, wheat, corn, tomatoes, eggs, swiss and cottage cheese, milk sherbet, and mushrooms. In 1999, Ohio's agricultural sector output (consisting of crops, animal and dairy, and services and forestry) totaled \$5.1 billion with agricultural exports (primarily soybeans, feed grains and wheat, and their related products) estimated at a value of \$1.2 billion.

The availability of natural resources, such as water and energy, is of vital nationwide concern. Ohio has large quantities of these important natural resources. With Lake Erie and the Ohio River on its borders, and many lakes and streams throughout the State, water is readily available for all uses. Additionally, Ohio has sizable coal resources, ranking seventh among the states in coal reserves and ninth in coal production.

[Source: Statistical Abstract of the United States, 2001, Section 18 Natural Resources.]

## STATE EMPLOYEES AND RETIREMENT SYSTEMS

The following table shows the number of regular State employees, computed on an average monthly/Fiscal Year basis from OBM records. The figures do not include employees who are not paid by State warrant, such as state university employees. For comparative national figures, see "Government Payrolls" in the table of "Comparative Government Statistics" below. Census data for 1999 shows Ohio as having the seventh lowest cost per capita for state personal services payroll among all states.

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

<u>Fiscal Year</u>		<u>Fiscal Year</u>	
1975.....	55,997	2000 .....	63,114
1980.....	60,167	2001 .....	63,693
1985.....	55,326	2002 .....	62,233
1990.....	59,995	2003 (October) .....	60,887
1995.....	63,431		

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

The State has established five public retirement systems to provide retirement, disability retirement, and survivor benefits. The Public Employees Retirement System (PERS), the largest of the five, covers both State and local public employees. The State Teachers Retirement System (STRS) and School Employees Retirement System (SERS) primarily cover school district and public higher education employees. The Highway Patrol Retirement System (HPRS) covers State troopers, and the Police and Fire Pension Fund (PFPF) covers local safety forces.

These retirement systems were created by and operate pursuant to State law. The General Assembly has the power to amend the format and benefit levels, impose or revise contribution rates or amounts, or to make other changes. The systems are not currently subject to the funding and vesting requirements of the federal Employee Retirement Income Security Act of 1974 (ERISA), as amended. Current federal law requires new hires to participate in the federal Medicare program, requiring matching employer and employee contributions, each now 1.45% of the wage base. Otherwise, State employees covered by a State retirement system are not currently covered under the federal Social Security Act. Congress has from time to time considered legislation relating to retirement funds of public bodies and to other aspects of public employee retirement.

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

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

As Of:	<u>PERS</u> 12/31/01	<u>STRS</u> 6/30/01	<u>SERS</u> 6/30/01	<u>PFPF</u> 12/31/01	<u>HPRS</u> 12/31/01
Active Members.....	360,313	177,013	115,684	27,936	1,520
Retirants and Beneficiaries .....	136,456	102,132	66,752	23,013	1,205
<b>Employer/Employee Contribution Rates</b>					
as % of Earnable Salary (a) .....	13.31/8.5(b)	14.0/9.3	14.0/9.0	(c)	24.5/10.0
Active Member Payroll .....	\$10,782.0	\$8,256.7	\$1,974.1	\$1,407.6	\$76.3
Actuarial Accrued Liability (AAL) .....	\$47,492.0	\$59,425.3	\$8,852.0	\$9,506.3	\$636.7
Value of Assets (d) .....	\$48,748.0	\$54,194.7	\$8,791.0	\$8,498.0	\$551.3
Unfunded Actuarial Accrued Liability (UAAL) .....	(\$1,256.0)	\$5,230.6	\$61.0	\$1,008.3	\$85.4
Funding Ratio (Assets to AAL (%)) .....	103.0	91.2	99.3	89.4	86.6

Note: \$ in millions.

(a) For PERS, STRS, and SERS the maximum employer and employee contribution rates currently authorized by law, as percentages of earned compensation, are 14% and 10% respectively.

(b) State employee rates. PERS local is 13.55/8.5% and law enforcement is 16.7/10.1%.

(c) Police 19.5/10%, fire 24/10%.

(d) Recognizes the cost of assets adjusted for realized and unrealized gains and losses amortized over a four-year period.

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 2000 showed that Ohio then ranked 33rd in state taxes per capita. As examples of rates of major taxes, the State sales tax is currently levied at the rate of 5%. The highest potential aggregate of State and permissive local sales taxes is currently 8%, and the highest currently levied in any county is 7%. The State gasoline tax is currently 22¢ per gallon, one cent of which is specifically directed to local highway-related infrastructure projects.

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

### Personal Income

Current State personal income tax rates, applying generally to federal adjusted gross income, range from 0.743% on \$5,000 or less with increasing bracketed base rates and percentages up to a maximum on incomes over \$200,000 of \$11,506 plus 7.5% on the amount over \$200,000. Reflecting amounts transferred from Fiscal Year ending GRF balances to the Income Tax Reduction Fund, reductions in personal income tax rates for each of the 1996 through 2000 tax years were 6.61%, 3.99%, 9.34%, 3.63% and 6.93%, respectively. Based on Fiscal Years 2001 and 2002 financial results no transfer was made to the Income Tax Reduction Fund in Fiscal Year 2002, and none will be made in Fiscal Year 2003.

Under current law, beginning in July 2005 the State income tax brackets will be indexed to the Gross Domestic Product figures.

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 127 districts.

Since 1960 the ratio of Ohio to U.S. aggregate personal income has declined, with Ohio's ranking among the states moving from fifth in 1960 and 1970 to eighth in 1990, and increasing to seventh in 1994 and thereafter. This movement, portrayed below, in significant measure reflects "catching up" by several other states and a trend in Ohio toward more service sector employment.



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

	<u>U.S.</u>	<u>Ohio</u>	<u>Ohio Percent of U.S.</u>	<u>Ohio Rank Among States</u>
1970 Total .....	\$ 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 .....	8,314.0	317.8	3.8	7
per capita.....	29,469	27,977	94.9	20
2001 Total .....	8,621.0	325.5	3.8	7
per capita.....	30,271	28,619	94.5	21

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

**Property**

The following table lists, for informational purposes only, the non-exempt real and tangible personal property tax base in the State and taxes levied on that base (on a calendar year basis). Only local taxing subdivisions, and not the State, currently tax the real and tangible personal property included in this table. Reported figures for 2000 show that these property taxes represent 3.53% of Ohio personal income.

	<u>Assessed Value (a)</u>	<u>Percent of True Value (b)</u>	<u>Taxes Charged</u>
1970 Real(c) .....	\$24,817,430,805	31.2%	\$1,175,288,092
Tangible(d).....	10,393,488,318	54.1	58,830,992
Public Utility(c).....	5,140,995,900	82.0	223,864,399
1980 Real(c) .....	56,457,842,607	27.1	2,343,384,488(e)
Tangible(d).....	15,649,200,844	39.2	765,047,826
Public Utility(c).....	8,670,052,613	83.3	411,321,235
1990 Real .....	93,857,482,000	35.0	4,593,147,000(e)
Tangible(d).....	18,473,055,000(f)	28.0	1,149,643,000(f)
Public Utility(c)(g) .....	12,934,191,000	88.6	799,396,000
2000 Real .....	167,857,657,350	35.0	8,697,809,112(e)
Tangible(d).....	23,298,302,564(f)	25.0	1,720,740,378(f)
Public Utility(c)(g) .....	13,635,709,860	67.0	967,674,709
2001 Real .....	173,975,282,762	35.0	9,183,387,507(e)
Tangible(d).....	24,046,239,068(f)	25.0	1,802,487,771(f)
Public Utility(c)(g)(h).....	971,739,920	49.8	715,307,242

- (a) Increases in assessed value of "Real" are in part products of reappraisals.
- (b) Regular annual reductions for "Tangible" (except for most public utility tangible) were scheduled until 25% was reached in 1993. The Constitution permits separate classes of land and improvements (one class being residential and agricultural, the second being all other uses) for certain taxation purposes.
- (c) Excludes public utility real property.
- (d) Includes machinery, inventories, fixtures; excludes public utility.
- (e) Includes the statutory 10% rollback (12.5% for owner-occupied residences since 1984) and elderly/handicapped partial exemption amounts, paid by the State to local taxing entities to compensate for statutory reductions in local tax collections.
- (f) A new exemption took effect in 1984. State reimbursement of resulting local revenue losses is not included in "Taxes Charged".
- (g) Beginning in 1990, the true value of most public utility property is based on annual composite allowances that vary according to the type and age of property.
- (h) Beginning in 2001, the assessment rate for electric and gas utilities went down from 88% to 25%.

Source: Ohio Department of Taxation.

Recent State legislation schedules reductions in the assessed (tax) valuation of general categories of tangible personal property. Effective for collection year 2002 the assessed valuation of electric utility production equipment is reduced from 100% and natural gas utility property from 88% of true value, both to 25% of true value, with makeup payments in varying and declining amounts to be made through 2016 to taxing subdivisions by the State from State resources. Effective in 2002, the assessed valuation of personal property constituting "inventory" is being reduced over time from the rate of 24% of true value to zero; annual adjustments are to be made through 2007 based on certain historic collection figures and beginning in 2008 the rate is to be reduced in annual 1% increments.

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

## SCHOOLS AND MUNICIPALITIES

### Schools

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

- Revisions of the formula and factors involved in calculating the per student costs of providing an adequate education; the Court stated no deadline, but required that the revisions be applied retroactively to July 1, 2001 (the beginning of the current biennium). OBM estimates the additional annual cost of this change to the State to be as much as \$1.24 billion.
- The effective date of full implementation of a parity aid program (already adopted and being phased in) is moved up by two years -- full funding to be in Fiscal Year 2004 rather than 2006. That program is aimed at providing poorer districts with resources similar to those available to wealthier districts.

The Court granted the State's motion for reconsideration and clarification of the modification first listed above and of its retroactive application.

The Court's referral to a master commissioner of the issues raised in that motion (and any other issues the parties and the mediator considered appropriate issues for mediation) did not produce a resolution. Upon that commissioner's final report in March 2002, the matter returned to the Court's active docket for resolution.

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

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

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

School districts also rely 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 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. Many districts have submitted the question, and income taxes are currently approved in 127 districts.

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

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

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

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

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

Those total State appropriations exclude non-GRF and federal appropriations, but include appropriations from the GRF and the lottery profits education fund (LPEF). The amount of lottery profits transferred to the LPEF totaled \$686,020,000 in Fiscal Year 2000, \$655,036,000 in Fiscal Year 2001 and \$635,150,000 in Fiscal Year 2002. Lottery profits (from the existing State lottery and from new participation by the State in a multi-state lottery) are projected by OBM to be \$662,722,600 in Fiscal Year 2003. Ohio participation in the multi-state lottery commenced on May 1, 2002; it cannot be predicted with any degree of certainty what receipts (currently projected to produce \$41,000,000 in Fiscal Year 2003) actually will be, or what effect, if any, the multi-state lottery participation will have on the State-level lottery. 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.

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 three school districts in fiscal emergency status and five 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 and \$23,700,000 in 2000-01, and are at the \$1,000,000 level in 2002-03.

### **Municipalities**

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

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

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

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

There are currently nine municipalities and one township in fiscal emergency status and four municipalities 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 2000.

### Selected State Government Statistics - 2000 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) .....	\$983,784.6	\$36,165.9	7
per capita .....	3,502.9	3,185.6	34
Taxes (millions).....	539,157.2	19,676.4	8
per capita .....	1,919.7	1,733.1	33
<b>Per Capita:</b>			
Sales taxes .....	621.2	551.7	31
Personal income taxes .....	691.0	725.9	20
Corporate income taxes .....	115.8	55.6	43
<b>Government Expenditures:</b>			
Total Expenditure (millions).....	\$1,084,548.3	\$44,630.6	6
per capita .....	3,861.7	3,931.2	23
Direct Expenditure (millions).....	757,028.0	31,698.5	5
per capita .....	2,695.5	2,792.1	26
Payments to other Government Units (millions) .....	327,520.3	12,932.1	6
per capita .....	1,166.2	1,139.1	14
Personal Services Payroll (millions).....	\$154,551.2	\$5,186.8	8
per capita .....	550.3	456.9	44
<b>Debt:</b>			
Outstanding Debt (Year End in millions) .....	\$547,875.8	\$18,087.4	11
per capita .....	1,950.8	1,593.2	33
<b>State Government Assets:</b>			
Cash and Securities, All Funds (millions) .....	\$2,518,935.8	\$147,209.4	4
per capita .....	8,969.0	12,966.6	6

Source: U.S. Bureau of the Census, Federal, State, and Local Governments, State Government Finances 2000.

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## EXHIBIT A

### (Text of Legal Opinion)

Dear Sirs:

We have examined the transcript of proceedings relating to the authorization and issuance of \$135,000,000 General Obligation Highway Capital Improvements Bonds. Series G (the "Bonds"), issued by the State of Ohio (the "State"), acting by and through the Treasurer of State (the "Treasurer"), for the purpose of (i) financing or assisting in the financing of the cost of highway capital improvements, and (ii) paying the costs of issuance of the Bonds. We have also examined a conformed copy of a signed and authenticated Bond of the first maturity.

The Bonds are issued under and pursuant to Section 2m of Article VII of the Ohio Constitution, Chapter 151 of the Revised Code, other authorizations by the Ohio General Assembly, and orders of the Treasurer adopted November 20, 2002 (collectively, the "Order").

Based on this examination, we are of the opinion that under the law in effect on the date of this opinion:

The Bonds are valid and legally binding general obligations of the State, and the full faith and credit, revenue and taxing power of the State (including fees, excises and taxes described in the next succeeding opinion paragraph) are pledged to the payment of the principal of and interest ("Bond Service Charges") on the Bonds, except that the binding effect and enforceability thereof are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally and except to the extent the enforceability thereof may be limited by the application of general principles of equity.

The Bond Service Charges on the Bonds, together with the principal of and interest, and any premium, on bonds or other obligations heretofore or hereinafter issued pursuant to Section 2m of Article VIII of the Ohio Constitution, Chapter 5528 and Chapter 151 of the Ohio Revised Code, as amended (collectively, the "Highway Obligations"), are payable from and secured by (i) the pledge of all excises, taxes and other sources of revenue of the State, including (but not limited to) the fees, excises or license taxes relating to the registration, operation or use of vehicles on the public highways or to fuels used for propelling such vehicles, all referred to in Section 5a of Article XII of the Ohio Constitution (collectively, the "Pledged Excises and Taxes"); and (ii) the Highway Capital Improvement Bond Service Fund created under Section 151.06 of the Ohio Revised Code.

The State is required to levy and collect Pledged Excises and Taxes in an amount sufficient to pay when due Bond Service Charges on the Bonds and has covenanted to maintain statutory authority for and to cause to be levied and collected taxes, excises and other receipts of the State so that the Pledged Excises and Taxes are sufficient in amount to pay when due the Bond Service Charges on the Bonds. Except as provided in Section 2 of Article XII of the Ohio Constitution with respect to ad valorem taxes on real and tangible personal property, the Ohio Constitution does not at present impose any limitation upon the amount or rate or Pledged Excises and Taxes which may be levied to pay Bond Service Charges on the Bonds. Provision has been made by law for the appropriation and setting aside each year in the Highway Improvement Bond Service Fund (as defined in Section 151.06 of the Ohio Revised Code) of a sufficient amount of the Pledged Excises and Taxes, without other or further appropriation, to pay when due Bond Service Charges on the Bonds.

Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. Interest on the Bonds, and any profit made on the sale, exchange or

other disposition of the Bonds, is exempt from the Ohio personal income tax, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio.

We express no opinion as to any other tax consequences regarding the Bonds.

In giving the foregoing opinions 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 continuing compliance with, and the accuracy of, certain covenants, representations and certifications of the Treasurer and the State, and the accuracy, which we have not independently verified, of the Treasurer's representations and certifications, all as contained in the transcript. The accuracy of those representations and certifications, and compliance with those covenants, may be necessary for the interest on the Bonds to be and remain excluded from gross income for federal income tax purposes and for the other federal tax effects stated above. Failure to comply with certain requirements subsequent to issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to their date of issuance.

Interest on the Bonds earned by certain 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 a breach profits tax imposed on certain foreign corporations doing business in the United States, and to a tax imposed on excess net passive income of certain S Corporations.

Respectfully submitted,









