

*In the opinion of Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants, interest on the Series J Highway Bonds is excludable 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 Series J Highway Bonds, and any profit made on their sale, exchange, transfer or other disposition are exempt from Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax and income taxes imposed by municipalities and other political subdivisions in Ohio. The interest on the Series J Highway 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**.)*

\$180,000,000
STATE OF OHIO
General Obligation Highway Capital Improvements Bonds
Series J
(Full Faith and Credit/Highway User Receipts)

Dated: Date of Issuance

Due: On May 1, in the years shown on the inside cover

Purpose: The \$180,000,000 General Obligation Highway Capital Improvements Bonds, Series J (the "Series J 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 J Highway Bonds.

Security and Sources of Payment: The full faith and credit, revenue and taxing power (excluding net State lottery proceeds) 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 J Highway Bonds. See **THE SERIES J HIGHWAY BONDS - Security for the Series J Highway Bonds**.

Payment: Principal and interest on the Series J Highway Bonds is payable to the registered owner (initially, DTC or its nominee). The principal is payable on presentation and surrender of a Series J 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 November 1, 2006).

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

Book-Entry: The Series J 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**.

(For maturity schedules, prices and initial offering yields, see inside cover).

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

The Series J 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 Tucker Ellis & West LLP and Haynes & Haynes, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Calfee, Halter & Griswold LLP and Peck, Shaffer & Williams LLP. Public Financial Management, Cleveland, Ohio, is serving as Financial Advisor to the Treasurer. The Series J Highway Bonds are expected to be available for delivery through DTC on or about March 8, 2006.

Fifth Third Securities, Inc.

Huntington Capital Corp.

Merrill Lynch & Co.

SBK Brooks Investment Corp.

JPMorgan

Morgan Stanley

Seasongood & Mayer, LLC

NatCity Investments, Inc.

KeyBanc Capital Markets

PNC Capital Markets LLC

UBS Investment Bank

\$180,000,000
STATE OF OHIO
General Obligation Highway Capital Improvements Bonds
Series J
(Full Faith and Credit/Highway User Receipts)

PRINCIPAL MATURITY SCHEDULE

<u>Maturity</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>CUSIP No.</u>	<u>Maturity</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>CUSIP No.</u>
5/1/2007	\$10,000,000	3.300	3.290	677520JD1	5/1/2012	600,000	4.000	3.650	677520JQ2
5/1/2007	10,000,000	4.000	3.290	677520JE9	5/1/2012	15,985,000	5.000	3.650	677520JX7
5/1/2008	10,000,000	3.375	3.370	677520JF6	5/1/2013	2,045,000	3.650	3.710	677520JR0
5/1/2008	10,000,000	4.000	3.370	677520JG4	5/1/2013	2,800,000	4.000	3.710	677520JY5
5/1/2009	10,000,000	3.350	3.380	677520JH2	5/1/2013	15,155,000	5.000	3.710	677520JS8
5/1/2009	10,000,000	4.000	3.380	677520JJ8	5/1/2014	1,570,000	3.700	3.760	677520JT6
5/1/2010	10,000,000	3.400	3.420	677520JK5	5/1/2014	950,000	4.000	3.760	677520JZ2
5/1/2010	10,000,000	3.750	3.420	677520JL3	5/1/2014	17,480,000	5.000	3.760	677520JU3
5/1/2011	10,000,000	3.500	3.490	677520JM1	5/1/2015	4,235,000	3.750	3.810	677520JV1
5/1/2011	10,000,000	3.750	3.490	677520JN9	5/1/2015	400,000	4.000	3.810	677520KA5
5/1/2012	3,415,000	3.550	3.650	677520JP4	5/1/2015	15,365,000	5.000	3.810	677520JW9

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

Upon issuance, the Series J 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 J Highway Bonds for sale.

In connection with the offering of the Series J Highway Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series J 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.

CONTENTS

	<u>Page</u>		<u>Page</u>
Selected Summary Statement	3	APPENDIX A – Information Concerning the State of Ohio	
Introduction	1	Fiscal Matters	A-1
The Series J Highway Bonds	1	General	A-1
General	1	Accounts and Controls; Financial Reports	A-2
Prior Redemption	1	Recent Receipts and Disbursements	A-4
Paying Agent, Bond Registrar and Authenticating Agent	2	Governmental and Proprietary Appropriated Funds	
Security for the Series J Highway Bonds	2	Summary Statement of Cash Receipts and	
Pledged Excises and Taxes; Covenant	2	Disbursements	A-4
Substitution of Fees, Excises and Taxes	2	General Revenue Fund -Summary Statement of Cash	
No Diversion of Highway User Receipts	2	Basis Activity	A-5
History of Highway User Receipts	3	Recent and Current Finances	A-6
Highway Capital Improvement Bond Service Fund –		Introductory Information	A-6
Pledge	3	Recent Bienniums	A-6
Constitutional Authorization	4	Current Biennium	A-10
Statutory Authorization	4	Litigation	A-11
The Highway Capital Improvements Program	5	Cash Flow	A-12
Purpose and Application of Proceeds	5	State Debt	A-13
Sources and Uses of Funds	6	Variable Rate Debt and Interest Rate Swaps	A-14
Bond Debt Service	6	Limitation on Annual Debt Service	A-14
Book-Entry Method	6	Obligations Payable from the GRF	A-15
General	6	Obligations Payable from Non-GRF Sources	A-15
Revision of Book Entry System; Replacement Series J		Annual Debt Service Requirements on State Obligations	
Highway Bonds	8	Paid From GRF	A-16
Tax Matters	9	Annual Debt Service Requirements on State Obligations	
General	9	Paid From Non-GRF Revenues	A-17
Original Issue Premium	9	Additional Authorizations	A-18
Litigation	10	Special Obligations	A-19
Legal Opinions	11	Economy and Employment	A-20
Ratings	11	Population	A-22
Financial Advisor	11	Agricultural and Resources Bases	A-22
Underwriting	11	State Employees and Retirement Systems	A-23
Transcript and Closing Certificates	12	Tax Levels and Tax Bases	A-24
Continuing Disclosure Agreement	12	Personal Income	A-24
Eligibility For Investment and as Public Funds Security	14	Sales and Use	A-25
Available State Financial Information	14	Retail Sales	A-25
Concluding Statement	15	Property	A-25
		Schools and Municipalities	A-26
		Schools	A-26
		Municipalities	A-28
		Comparative Government Statistics	A-28
		Exhibit A – Text of Legal Opinion	
		Series J Highway Bonds	A-A-1

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT

\$180,000,000
STATE OF OHIO
General Obligation Highway Capital Improvements Bonds
Series J
(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 J (the "Series J 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 J Highway Bonds are authorized and issued on behalf of the State by the Treasurer pursuant to constitutional and statutory authorizations. The Series J Highway Bonds are the tenth Series of bonds (such bonds are collectively referred to herein as the "Highway Obligations") issued pursuant to Section 2m of Article VIII, Ohio Constitution (adopted by the electors of Ohio on November 7, 1995), Chapter 151 or Chapter 5528, Ohio Revised Code, and acts of the Ohio General Assembly (the "General Assembly") (collectively the "Act").

SECURITY AND SOURCES OF PAYMENT. The Series J 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 J Highway Bonds. So long as the Series J 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 J Highway Bonds and certain other bonds as described herein.

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

FORM AND MANNER OF MAKING PAYMENTS. The Series J 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 J Highway Bonds to Beneficial Owners. Series J 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 at maturity 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 November 1, 2006), to the registered Holder (the "Holder") as of the 15th day of the month 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 J 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 J Highway Bonds, are exempt from the Ohio personal income tax, the Ohio commercial activity tax and the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio. Interest on the Series J Highway Bonds may be subject to certain federal taxes imposed on certain corporations, including the corporate alternative minimum tax on a portion of the interest. Certain of the Series J 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. Tucker Ellis & West LLP and Haynes & Haynes.

UNDERWRITERS. Fifth Third Securities, Inc., as Representative of the Underwriters shown on the cover (collectively, the "Underwriters"). The Series J Highway Bonds have been purchased by the Underwriters at a price of \$185,085,882.25.

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

Questions regarding this Official Statement or the Series J Highway Bonds should be directed to Jake Wozniak, Office of the Treasurer, 30 East Broad Street, Columbus, Ohio 43215-3461, 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 J (the “Series J Highway Bonds”), 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 J 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 J HIGHWAY BONDS

General

The Series J 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 J Highway Bonds pursuant to the Bond Order (the “Order of Award”).

The Series J Highway Bonds are issuable as fully registered Series J 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 J 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 J 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 J 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 November 1, 2006, 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 J Highway Bonds are immobilized in the custody of a depository pursuant to a book-entry system, interest on the Series J Highway Bonds will be payable by wire transfer to the Holder (initially Cede & Co.) on each Interest Payment Date.

Prior Redemption

The Series J Highway Bonds are not subject to redemption by the Issuer 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 J Highway Bonds. As Paying Agent for the Series J Highway Bonds, the Treasurer will be responsible for paying principal and interest required to be paid on the Series J Highway Bonds (the “Bond Service Charges”). So long as the Series J 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 J Highway Bonds. See **BOOK-ENTRY METHOD**. The Bond Order also provides that the Treasurer may appoint one or more Paying Agents other than herself to act as Paying Agent with respect to the Series J Highway Bonds.

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

Security for the Series J Highway Bonds

The Series J 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 J 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 J 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 J 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 J 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 J Highway Bonds.

Substitution of Fees, Excises and Taxes. With respect to the Series J 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 costs 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; traffic enforcement by the State; 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 J 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.

<u>Fiscal Year</u>	<u>Highway User Receipts Available for Debt Service Requirements*</u>
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	2,046,550,861.54
2003	2,123,591,241.33
2004	2,326,188,095.00
2005	2,483,833,507.00

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

Based on the most recent annual data (FY2005), approximately 70% of Highway User Receipts are generated by Motor Fuel and Use Taxes while the remaining 30% is primarily from Registration and License fees. 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, including, but not limited to the Series J 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 Section 2m of Article VIII of the Ohio Constitution (collectively, the “Highway Obligations”), adopted by the electors on November 7, 1995, including the Series J 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 J Highway Bonds.

The Act further provides that a sufficient amount of moneys of the State is committed and, without necessity for further appropriation, shall be paid into the Bond Service Fund for the purpose of paying when due the Debt Charges on the Highway Obligations, including the Series J Highway Bonds. The Act requires the Treasurer, by July 15 of each Fiscal Year, to certify or cause to be certified to the Office of Budget and Management of the State (“OBM”) the total amount of moneys required during that Fiscal Year to meet in full all Debt Charges on outstanding Highway Obligations and any related financing costs payable from the Bond Service Fund and not from the proceeds of refunding or renewal obligations. The Treasurer also is to make supplemental certifications to OBM for each Debt Charges payment date and at such other times during each Fiscal Year as may be provided in the bond proceedings or requested by OBM. Moneys from Highway User Receipts are required to be deposited in the Bond Service Fund in September through February in monthly amounts equal to one-sixth of the certified annual amount of Debt

Charges on Highway Obligations. If on the 10th calendar day prior to their due date, moneys to the credit of the Bond Service Funds are insufficient to meet in full all payments of Debt Charges on that due date, no fewer than eight (8) days before that Debt Service payment date OBM is to transfer to that Bond Service Fund from the Pledged Excises and Taxes sufficient revenues to pay those Debt Charges when due.

Moneys to the credit of the Bond Service Fund may be invested in notes, bonds or other direct obligations of the United States or of any agency or instrumentality of the United States, or in no-front-end-load money market mutual funds consisting exclusively of those obligations, or in repurchase agreements (including those issued by any fiduciary) secured by those obligations, or in collective investment funds consisting exclusively of those obligations; obligations of the State or any political subdivision of the State; certificates of deposit of any national bank located in Ohio and any State bank subject to inspection by the State superintendent of financial institutions; or the Treasurer's pooled investment program. The income from those investments is to be credited to the Bond Service Fund.

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 J 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 J 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 and other Sections 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 J 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 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 \$360,000,000 in biennium 2006 and 2007, 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 \$2,130,000,000 of Highway Obligations, of which, excluding the Series J Highway Bonds, \$1,435,000,000 has heretofore been issued and \$794,500,000 is outstanding, leaving a remaining statutory authorization of \$695,000,000. The Treasurer has determined, based on a certification of the Director of Transportation of the State, that Series J Highway Bonds must be issued in an aggregate principal amount of approximately \$180,000,000 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 J Highway Bonds in the aggregate principal amount of \$180,000,000 for the purpose of making a deposit in the Highway Capital Improvement Fund.

The Highway Capital Improvements Program

The proceeds of the Series J 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 J Highway Bonds are the tenth 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 J Highway Bonds, there will have been issued \$1,615,000,000 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 J 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 J 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 J Highway Bonds.

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

- (a) A portion of the proceeds to the State of Ohio Highway Capital Improvements Bonds, Series J Cost of Issuance Fund.
- (b) A portion of the proceeds to the Highway Capital Improvement Bond Service 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").

[Balance of page left intentionally blank]

SOURCES AND USES OF FUNDS

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

Sources of Funds:	
Par Amount of Series J Highway Bonds	\$180,000,000.00
Plus: Premium	<u>5,960,782.25</u>
Total Sources of Funds	<u>\$185,960,782.25</u>
Uses of Funds:	
Deposit to Highway Capital Improvement Fund	\$180,000,000.00
Deposit to Bond Service Fund	4,648,382.25
Costs of Issuance (including Underwriters' Discount)	<u>1,312,400</u>
Total Uses of Funds	<u>\$185,960,782.25</u>

The proceeds of the Series J 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 J 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 J Highway Bonds.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$20,000,000	\$8,540,527.38	\$28,540,527.38
2008	20,000,000	6,714,527.50	26,714,527.50
2009	20,000,000	5,977,027.50	25,977,027.50
2010	20,000,000	5,242,027.50	25,242,027.50
2011	20,000,000	4,527,027.50	24,527,027.50
2012	20,000,000	3,802,027.50	23,802,027.50
2013	20,000,000	2,857,545.00	22,857,545.00
2014	20,000,000	1,913,152.50	21,913,152.50
2015	20,000,000	943,062.50	20,943,062.50

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.
- Cannot 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 J 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 J 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 J Highway Bonds. Those fully registered Series J 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 J Highway Bonds.

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”).

DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Series J 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 Series J Highway Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series J Highway Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series J 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 will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Series J Highway Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series J Highway Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series J Highway Bonds may wish to ascertain that the nominee holding the Series J 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 registrar and request that copies of the notices be provided directly to them.

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

Payments on the Series J 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 Issuer or Trustee 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, Trustee, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Trustee, disbursement or 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 securities depository with respect to the Series J Highway Bonds at any time by giving reasonable notice to Issuer or Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. See **Revision of Book Entry System; Replacement Series J Highway Bonds**.

Revision of Book Entry System; Replacement Series J Highway Bonds

The Bond Order provides for the issuance of fully registered Series J Highway Bond certificates ("Replacement Series J Highway Bonds") directly to Holders of Series J Highway Bonds other than DTC in the event that DTC determines not to continue to act as securities depository for the Series J Highway Bonds or the Treasurer determines to exit the Series J Highway Bonds from a depository. Upon occurrence of either of these events, the Treasurer may in her 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 J Highway Bonds by appropriate notice to DTC, the Treasurer and the Bond Registrar (if other than the Treasurer) shall authenticate and deliver Replacement Series J 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 J 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 J Highway Bonds will be exchangeable for Replacement Series J 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 J Highway Bonds is excludable 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 J Highway Bonds, and any profit made on their sale, exchange, transfer or other disposition, are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax and income taxes imposed by municipalities or other political subdivisions in Ohio. Bond Counsel will express no opinion as to any other tax consequences arising from the Series J Highway Bonds.

The opinions 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 J 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 J 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 all actions required for the interest on the Series J 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 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 J 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 J 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 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 J Highway Bonds or of book-entry interests. Bond Counsel will express no opinion regarding such consequences.

From time to time there are federal or state legislative proposals which, if enacted, could alter or amend the federal or state tax matters referred to or adversely affect the market value of the Series J 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 J Highway Bonds (and book-entry interests in those Series J Highway Bonds), issued prior to enactment.

The discussion of tax matters in this Official Statement applies only in the case of purchasers of Series J 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 J Highway Bonds.

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

Original Issue Premium

Certain Series J Highway Bonds, as shown on the Principal Maturity Schedule set forth on the inside cover page of this

Official Statement (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.

PROSPECTIVE PURCHASERS 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.

Original Issue Discount

Certain Series J Highway Bonds, as shown on the Principal Maturity Schedule set forth on the inside cover page of this Official Statement (the “Discount Bonds”), are being sold to the public at a price of less than 100% of their face amount.

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 J 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 J 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 J 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 J Highway Bonds or the security for the Series J Highway Bonds (see **APPENDIX A - Litigation**). 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 J Highway Bonds or the security for the Series J Highway Bonds.

LEGAL OPINIONS

Legal matters incident to the issuance of the Series J Highway Bonds and with regard to their tax-exempt status (see **"TAX MATTERS"**) are subject to the legal opinions of Tucker Ellis & West LLP and Haynes & Haynes, Co-Bond Counsel. Signed legal opinions 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 J 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. Each opinion will speak only as of its date, and subsequent distribution of such opinions 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 its opinion subsequent to the date of such opinion.

Bond Counsel has reviewed those portions of this Official Statement under the captions **"THE SERIES J 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 co-counsel, Calfee, Halter & Griswold LLP and Peck, Shaffer & Williams LLP.

RATINGS

As noted on the cover page of this Official Statement, Standard & Poor's Rating Services, a Division of The McGraw-Hill Corporation, Inc. ("Standard & Poor's"), Fitch Ratings ("Fitch") and Moody's Investors Service, Inc. ("Moody's") have assigned their ratings of "AAA," "AA+" and "Aa1," respectively, to the Series J 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 J 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 J Highway Bonds.

FINANCIAL ADVISOR

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

UNDERWRITING

Fifth Third Securities, Inc., as representative of the Underwriters, has agreed in the Bond Purchase Agreement, subject to certain conditions, to purchase the Series J Highway Bonds from the Issuer at a price of \$185,085,882.25 (consisting of the par amount thereof, plus net premium of \$5,960,782.25, less underwriting discount of \$874,900.00), plus accrued interest to the date of delivery of the Series J Highway Bonds. The Underwriters are obligated to purchase all the Series J Highway Bonds if any are purchased. The Series J 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 J 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 Securities and Exchange Commission (“SEC”) Rule 15c2-12 (the “Rule”).

CONTINUING DISCLOSURE AGREEMENT

The Treasurer has agreed, for the benefit of the Holders and Beneficial Owners of Series J 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 2006) 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 Debt** 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 J 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 J Highway Bonds;
 - modifications to rights of Holders or Beneficial Owners;
 - defeasances;
 - release, substitution, or sale of property securing repayment of Series J 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 J 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 J 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 J 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 J 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 J 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 J 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.

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

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

The performance by the State, as the only obligated person with respect to Series J 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 J Highway Bonds are outstanding in accordance with their terms and the State remains an obligated person with respect to those Series J 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 J 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 J Highway Bonds are acceptable under Ohio law as security for repayment of the deposit of public moneys.

Owners of book-entry interests 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 CAFR is published on an annual basis. Each CAFR includes the State's Basic Financial Statements ("GBFS") for that fiscal year as examined by the Auditor of State. The State has delivered the CAFR for Fiscal Year 2004 to each nationally recognized municipal securities information repository and to the Ohio State Information Depository. The most recent CAFRs are accessible via OBM's home page on the Internet at <http://www.obm.ohio.gov/finrep/>, and copies may be obtained by contacting the State Debt Coordinator at OBM (30 E. Broad Street, 34th Floor, Columbus, Ohio 43215, phone (614) 466-4034). The 1991 through 2004 CAFRs received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.

[Balance of page left intentionally blank]

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 J Highway Bonds.

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

STATE OF OHIO

Dated: February 28, 2006

By: /s/ Jennette B. Bradley
Treasurer of State

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

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

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

The Revised Code provides that if the Governor ascertains that the available revenue receipts and balances for the GRF or other funds for the then current Fiscal Year will in all probability be less than the appropriations for that Fiscal Year, he shall issue such orders to State agencies as will prevent their expenditures and incurred obligations from exceeding those revenue receipts and balances. As discussed under **Recent and Current Finances**, the Governor implemented this directive several times in both the 2002-03 and 2004-05 biennia, and in some prior Fiscal Years.

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

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

At present the State itself does not levy ad valorem taxes on real or tangible personal property. Those taxes are levied by political subdivisions and local taxing districts. The Constitution has since 1934 limited the amount of the aggregate levy of ad valorem property taxes on particular property, without a vote of the electors or municipal charter provision, to 1% of true value in money, and statutes limit the amount of that aggregate levy

without a vote or charter provision to 10 mills per \$1 of assessed valuation -- commonly referred to in the context of Ohio local government finance as the “ten-mill limitation.”

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

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

Initiative petitions containing a sufficient number of signatures have been submitted to place the so-called “tax and expenditure limitation” (TEL) amendment to the Ohio Constitution on the November 2006 general election ballot. As proposed, that amendment would: (i) require prior voter approval for (a) State or local subdivision increases in expenditures beyond certain specified limits (generally the greater of 3.5% or the sum of the rates of inflation and population growth, with additional adjustments also to be made for local subdivision land annexations), and (b) increases in or the creation of new local subdivision taxes; (ii) require that at the end of each fiscal year the sum of all unencumbered moneys in the State general fund and ten percent of the unencumbered moneys in all State non-general revenue funds be appropriated (a) one-half for refunds to income taxpayers and (b) one-half to a State budget reserve fund created by the amendment, with provision for further tax refunds of any moneys in that fund that exceed 15% of State expenditures in the preceding fiscal year; (iii) require an amount not less than five percent of the State expenditures for the prior fiscal year be appropriated to a State local government fund created in the amendment for distribution to local governments ; and (iv) prohibit the State from requiring political subdivision compliance with unfunded mandates. The proposed amendment provides for limited “emergency” exceptions to the prior voter approval requirements and for enforcement of its provisions through taxpayer lawsuits. While all of the financial implications for the State and local subdivisions are not presently determinable, in the judgment of OBM the proposed amendment, if approved by the voters, would not have a material adverse effect on payment of debt charges on the Series J Highway Bonds.

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

The State has enacted legislation allocating its anticipated share of the proceeds of the national tobacco settlement. A comprehensive allocation has been made through Fiscal Year 2012 and a partial allocation has been made thereafter through Fiscal Year 2025. (In light of the constitutional two-year limitation on appropriations, those allocations are subject to the General Assembly making biennial appropriations to fund them, and those allocations themselves are subject to adjustment by the General Assembly.) As currently allocated and except for Fiscal Years 2002 through 2004, none of the moneys is applied to existing operating programs of the State. (See **Recent and Current Finances** for a discussion of a portion of those receipts being used to offset a portion of GRF revenue shortfalls in Fiscal Years 2002 through 2004). Under current allocations, the main portion of the moneys in future bienniums is to go to assist in the funding of elementary and secondary school capital facilities. Other amounts are targeted for new programs for smoking cessation and other health-related purposes, biomedical research and technology transfer, and assistance to the tobacco growing areas in the State.

Accounts and Controls; Financial Reports

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

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

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

State financial reporting practices have been and are in accordance with generally accepted accounting principles (GAAP basis). Each Comprehensive Annual Financial Report (CAFR) includes the State's Basic Financial Statements (BFS) for that Fiscal Year as examined by the Auditor of State. The State has delivered the CAFR for Fiscal Year 2004 to each nationally-recognized municipal securities information repository and to the Ohio State Information Depository. The most recent CAFRs are accessible via OBM's home page on the Internet at <http://www.obm.ohio.gov/finrep/cafr>, and copies may be obtained by contacting the State Debt Coordinator at OBM, 30 E. Broad Street, 34th Floor, Columbus, Ohio 43215, phone (614) 466-4034. The 1990 through 2004 CAFRs received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.

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

OBM also has published *The Ohio Budgetary Financial Report* for Fiscal Year 2005. The most recent Budgetary Financial Reports are accessible via OBM's home page on the Internet at <http://www.obm.ohio.gov/finrep>, and copies are available upon request to OBM.

In accordance with State law, financial statements and analyses (with supporting schedules) of State agencies' transactions, based on official records maintained by OBM, are incorporated into the Governor's Executive Budget. That budget, along with other information, is the subject of extended hearings and reviews in the General Assembly during the biennial appropriation process. See **Recent and Current Finances – Current Biennium** regarding the 2006-07 biennial appropriations.

(THIS SPACE INTENTIONALLY LEFT BLANK)

Recent Receipts and Disbursements

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

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

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

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

Cash Receipts

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

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

Cash Disbursements

FUND TYPE

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

- (d) Includes the Internal Service Fund, beginning in Fiscal Year 2002.
 (e) Includes local government support disbursements.
 (f) Includes amounts disbursed from proceeds of general obligation bonds and of certain other State obligations.
 (g) Includes the several bond retirement funds for bonds secured by a pledge of taxes and excises.

General Revenue Fund – Summary Statement of Cash Basis Activity

The following statement portrays all GRF cash activity.

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

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

- (a) Reflects a State sales and use tax rate of 5.0% in Fiscal Years 2001 through 2003 and 6.0% in Fiscal Years 2004 and 2005.
- (b) Includes the kilowatt-hour excise tax imposed beginning in May of Fiscal Year 2001. Beginning in Fiscal Year 2005, local telephone service companies were moved out of the public utility tax and under the corporate franchise and sales and use taxes.
- (c) Includes \$193.0 million in federal block grant fiscal relief monies in each of the Fiscal Years 2003 and 2004.
- (d) Includes fines and penalties, rental receipts, refunds and certain intrastate transfers, and in Fiscal Year 2002 \$534.3 million from the BSF and \$183.9 million from tobacco settlement receipts and in Fiscal Year 2003 \$131.8 million from the BSF and \$165.0 million from tobacco settlement receipts.
- (e) Mainly subsidies to local school districts.
- (f) Mainly subsidies to colleges and universities. Higher education institutions maintain their own discrete funds and accounts.
- (g) State reimbursements to taxing subdivisions for the 10% property tax rollback granted to owners of real property (12.5% to homeowners), for partial real property tax exemptions for the elderly and handicapped, and for a portion of revenue reductions resulting from exempted (or reduced tax value) tangible personal property. This program's cost to the State is determined by total property taxes levied on the local level.
- (h) Debt service on general obligations, lease-rental obligations, and certain other State obligations paid from the GRF. Excludes debt service paid from non-GRF sources.
- (i) Includes transfers from liquor profits in all fiscal years; in Fiscal Year 2001 a transfer from the Income Tax Reduction Fund; in Fiscal Year 2002 \$48.4 million from the BSF, \$100 million from the Family Services Stabilization Fund, and \$105.7 million from tobacco settlement receipts; in Fiscal Year 2003 \$115.4 million from the BSF and \$115.5 million from tobacco settlement receipts; in Fiscal Year 2004 \$234.7 million from tobacco settlement receipts and \$18.6 million from federal fiscal relief monies, and in Fiscal Year 2005 \$316.8 million from federal fiscal relief monies.
- (j) Includes a transfer to the Income Tax Reduction Fund in Fiscal Year 2001 and to the BSF in Fiscal Years 2001 and 2002.

Recent and Current Finances

Introductory Information

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

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

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

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

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

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

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

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

Recent Bienniums

1994-95

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

1996-97

From a higher than forecasted mid-biennium GRF fund balance, \$100,000,000 was transferred for elementary and secondary school computer network purposes and \$30,000,000 to a new State transportation infrastructure fund. Approximately \$400,800,000 served as a basis for temporary 1996 personal income tax reductions aggregating that amount. Of the GRF biennium-ending fund balance, \$250,000,000 was directed to school buildings, \$94,400,000 to the school computer network, \$44,200,000 to school textbooks and instructional materials and a distance learning program, \$34,400,000 to the BSF, and \$262,900,000 to the State Income Tax Reduction Fund (ITRF).

1998-99

GRF appropriations of approximately \$36 billion provided for significant increases in funding for primary and secondary education. Of the first Fiscal Year (ended on June 30, 1998) ending fund balance of over \$1.08 billion, approximately \$701,400,000 was transferred to the ITRF, \$200,000,000 into public school assistance programs, and \$44,184,200 into the BSF. Of the GRF biennium-ending fund balance, \$325,700,000 was transferred to school building assistance, \$293,185,000 to the ITRF, \$85,400,000 to SchoolNet (a program to supply computers for classrooms), \$4,600,000 to interactive video distance learning, and \$46,374,000 to the BSF.

2000-01

The State's financial situation varied substantially in the 2000-01 biennium. The first Fiscal Year of the biennium ended with a GRF cash balance of \$1,506,211,000 and a fund balance of \$855,845,000. A transfer of \$49,200,000 from that balance increased the BSF to \$1,002,491,000 (or 5% of GRF revenue for the preceding Fiscal Year). An additional \$610,400,000 was transferred to the ITRF.

In the middle of the second year of the biennium, the State enacted supplemental appropriations of \$645,300,000 to address shortfalls in its Medicaid and disability assistance programs. The State's share of this additional funding was \$247,600,000, with \$125,000,000 coming from Fiscal Year 2001 GRF spending reductions and the remainder from available GRF moneys. The reductions were implemented by OBM prior to March 1, 2001 applying a 1 to 2% cut to most State departments and agencies. Expressly excluded from the reductions were debt service and lease rental payments relating to State obligations, and elementary and secondary education.

In March 2001, new lowered revenue estimates for Fiscal Year 2001 and for Fiscal Years 2002 and 2003 were announced. Based on indications that the Ohio economy continued to be affected by the national economic downturn, GRF revenue estimates for Fiscal Year 2001 were reduced by \$288,000,000. In addition, OBM projected higher than previously anticipated Medicaid expenditures. Among the more significant steps taken to ensure the positive GRF ending fund balance at June 30, 2001 were further spending reductions (with the same exceptions noted above for debt service and education) and authorization to transfer from the BSF to the GRF amounts necessary to ensure an ending GRF fund balance of \$188,200,000. The State ended Fiscal Year 2001 with a GRF fund balance of \$219,414,000, making that transfer unnecessary.

2002-03

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

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

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

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

The Ohio economy continued to be negatively affected by the national economic downturn and by national and international events, and in October 2001 OBM lowered its GRF revenue estimates. Based on reduced revenue collections, particularly personal income and sales and use taxes, OBM then projected GRF revenue

shortfalls of \$709,000,000 for Fiscal Year 2002 and \$763,000,000 for Fiscal Year 2003. Executive and legislative actions taken to address those shortfalls included:

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

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

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

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

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

Based on continuing reduced revenue collections (particularly, personal income taxes and sales tax receipts for the holidays) and projected additional Medicaid spending, OBM in late January 2003 announced an additional GRF shortfall of \$720,000,000 for Fiscal Year 2003. The Governor ordered immediate additional reductions in

appropriations spending intended to generate an estimated \$121,600,000 of GRF savings through the end of the Fiscal Year (expressly excepted were appropriations for or relating to debt service on State obligations).

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

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

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

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

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

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

2004-05

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

Among other expenditure controls, the Act included Medicaid cost containment measures including pharmacy cost management initiatives, limited expenditure growth for institutional services and implementation of managed care for higher-cost populations; continued phase-out of certain tangible personal property tax relief payments to local governments; the closing by consolidation of three institutional facilities during the biennium; adjustments

in eligibility guidelines for subsidized child care from 185% to 150% of the federal poverty level and freezing certain reimbursement rates; no compensation increases for most State employees in Fiscal Year 2004 and limited one-time increases in Fiscal Year 2005; and continued limitation on local government assistance fund distributions to most subdivisions and local libraries to the lesser of the equivalent monthly payments in Fiscal Year 2003 or the amount that would have been distributed under the standard formula.

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

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

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

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

The State ended Fiscal Year 2004 with a GRF fund balance of \$157,509,000. Improving economic conditions had a positive effect on revenue in Fiscal Year 2005. With GRF revenue receipts modestly outperforming estimates for much of the Fiscal Year, OBM in June 2005 increased its GRF revenue estimates by \$470,700,000. Final Fiscal Year 2005 GRF revenue came in \$67,400,000 above that revised estimate. With Fiscal Year 2005 spending close to original estimates, the State made the following Fiscal Year-end allocations and transfers: \$60,000,000 to address a prior-year liability in the Temporary Assistance to Needy Families program; \$40,000,000 to a disaster services contingency fund; \$50,000,000 to the State's share of the school facilities construction program; and \$394,200,000 to the BSF. After these and certain smaller transfers, the State ended Fiscal Year 2005 and the biennium with a GRF fund balance of \$127,800,000 and a BSF balance of \$574,205,000.

Current Biennium

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

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

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

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

Litigation

Litigation pending in the Ohio Court of Claims contests the Ohio Department of Human Services (ODHS, now Ohio Department of Job and Family Services (ODJFS)) former Medicaid financial eligibility rules for married couples when one spouse is living in a nursing facility and the other resides in the community. ODHS promulgated new eligibility rules effective January 1, 1996. ODHS appealed an order of the federal court directing it to provide notice to persons potentially affected by the former rules from 1990 through 1995, the Court of Appeals ruled in favor of ODHS, and plaintiffs' petition for certiorari was not granted by the U.S. Supreme Court. As to the Court of Claims case, it is not possible to state the period (beyond the current Fiscal Year) during which necessary additional Medicaid expenditures would have to be made. Plaintiffs have estimated total additional Medicaid expenditures at \$600,000,000 for the retroactive period and, based on current law, it is estimated that the State's share of those additional expenditures would be approximately \$240,000,000. The Court of Appeals certified the class action and notice was sent to the members of the class. After trial for liability only was completed in the Court of Claims in January 2003, that Court in March 2004 issued a decision finding no ODJFS liability. The plaintiff class appealed that decision to the Franklin County Court of Appeals which in May 2005 held that the Court of Claims did not have jurisdiction over the case and remanded the case to the Court of Claims with instructions to vacate all prior proceedings and judgments. The plaintiff class has appealed the Court of Appeals decision to the Ohio Supreme Court and that appeal is currently pending.

Litigation is also currently pending in the Cuyahoga County Court of Appeals relating to the transfer to the GRF and use in Fiscal Year 2002 for general State purposes of \$60,000,000 in earned federal reimbursement on Title XX (Social Services Block Grant) expenditures. Plaintiff Cuyahoga County filed an action contesting this transfer and use of those monies for general State purposes, and the trial court ordered the State to return the monies to its Department of Job and Family Services. The State appealed the trial court's decision and order. In

June 2005, the Court of Appeals upheld the trial court's decision. The State has appealed the Court of Appeals decision to the Ohio Supreme Court and that appeal is currently pending.

Cash Flow

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

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

The State has planned for and has encountered some monthly GRF cash flow deficiencies in all recent Fiscal Years. For example, GRF cash flow deficiencies have ranged from occurring in 11 months in Fiscal Years 2003 and 2004 to four months in Fiscal Years 1995, 1997 and 2000. The highest GRF end-of-month cash flow deficiencies were \$1,623,028,000 in Fiscal Year 2003, \$1,413,295,000 in Fiscal Year 2004, and \$1,660,117,000 in Fiscal Year 2005. GRF cash flow deficiencies have been and are expected by OBM to remain within the TOF limitations discussed above.

STATE DEBT

The incurrence or assumption of debt by the State without a popular vote is, with limited exceptions, prohibited by the State Constitution. The State may incur debt to cover casual deficits or to address failures in revenues or to meet expenses not otherwise provided for, but limited in amount to \$750,000. The Constitution expressly precludes the State from assuming the debts of any county, city, town or township, or of any corporation. (An exception in both cases is for debts incurred to repel invasion, suppress insurrection, or defend the State in war.) The Constitution provides that "Except the debts above specified . . . no debt whatever shall hereafter be created by, or on behalf of the state."

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

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

The Ohio Building Authority (OBA) issues special obligations for facilities to house branches and agencies of State government and their functions, including: State office buildings and facilities for the Department of Administrative Services and others (DAS), the Department of Transportation (ODOT) and the Department of Public Safety (DPS); juvenile detention facilities for the Department of Youth Services (DYS); Department of Rehabilitation and Correction (DRC) prisons and correctional facilities including certain local and community-based facilities; office buildings for the Bureau of Workers' Compensation (BWC) and Department of Natural Resources (DNR); and school district technology and security facilities. Effective July 1, 2005, the Treasurer has succeeded to the OBA in matters relating to the issuance of obligations for Ohio Cultural Facilities Commission (formerly the Arts & Sports Facilities Commission) facilities. The Treasurer also issues obligations for mental

health and parks and recreation purposes and to refund certain bonds previously issued for higher education purposes, and has previously issued obligations for elementary and secondary school facilities. Debt service on obligations issued under Section 2i of Article VIII is paid from GRF appropriations, with the exception of debt issued for ODOT and DPS facilities that is paid from highway user receipts and for BWC facilities which is paid from the BWC Administrative Cost Fund.

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

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

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

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

(THIS SPACE INTENTIONALLY LEFT BLANK)

Variable Rate Debt and Interest Rate Swaps

The State currently has \$550,615,000 in outstanding general obligation variable rate debt as shown in the following table. Liquidity is provided by the State of Ohio and it is not anticipated that a liquidity facility will be provided by any other party.

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

* Term rate period through September 14, 2007 and anticipated to be in a weekly rate period thereafter.

As part of its debt management, the State has entered into interest rate swap agreements in connection with each of these issues -- swapping to a synthetic fixed rate in connection with each of the above issues in a weekly rate period. The State has entered into two swaps in connection with the common schools Series 2003D Bonds, swapping to a synthetic variable rate through the expiration of the initial term rate period and entering into a forward starting synthetic fixed rate swap from that expiration date through the final maturity of those bonds. The State has also entered into: i) a synthetic variable rate swap in connection with \$25,355,000 outstanding principal amount of infrastructure Series 2003F fixed rate bonds with a final maturity of February 1, 2010; and ii) a \$200,000,000 forward starting synthetic fixed rate swap in connection with its anticipated issuance of a like amount of common schools adjustable rate bonds in June 2006.

Limitation on Annual Debt Service

A 1999 constitutional amendment provides an annual debt service "cap" applicable to most future issuances of State general obligations and other State direct obligations payable from the GRF or net State lottery proceeds. Generally, and except for the additional \$650,000,000 of general obligation debt approved by the voters at the November 8, 2005 election for research and development and the development of sites for industry, commerce, distribution and research and development, new bonds may not be issued if future Fiscal Year debt service on those new and the then outstanding bonds of those categories would exceed 5% of the total estimated GRF revenues plus net State lottery proceeds during the Fiscal Year of issuance. Those direct obligations of the State include, for example, special obligation bonds that are paid from GRF appropriations, but exclude bonds such as highway bonds that are paid from highway user receipts. Pursuant to the amendment and implementing legislation, the Governor has designated the OBM Director as the State official to make the 5% determinations and certifications. Application of the cap may be waived in a particular instance by a three-fifths vote of each house of the General Assembly and may be changed by future constitutional amendments.

(THIS SPACE INTENTIONALLY LEFT BLANK)

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

Obligations Payable from the GRF

	Authorized by General Assembly	Issued(a)	Outstanding(b)
<u>General Obligations</u>			
Coal Development(c)	\$165,000,000	\$150,000,000	\$35,930,000
Infrastructure(d)	2,280,000,000	2,159,986,136	1,313,732,567(e)
Natural Resources(f)	301,000,000	265,000,000	173,180,000
Common School Facilities	3,035,000,000	2,590,000,000	2,375,340,000(e)
Higher Education Facilities	2,327,000,000	1,700,000,000	1,470,710,000
Conservation(f)	150,000,000	150,000,000	133,460,000
Research & Development(g)	200,000,000	-0-	-0-
Site Development(h)	30,000,000	-0-	-0-
<u>Special Obligations</u>			
DRC Prison Facilities	\$1,840,000,000	\$1,734,500,000	\$826,170,000
DYS Facilities	265,000,000	247,000,000	169,005,000
DAS Facilities(i)	1,526,000,000	1,448,300,000	806,090,000
Cultural Facilities	420,000,000	373,690,000	189,770,000
DNR Facilities	12,160,000	12,160,000	3,030,000
Higher Education Facilities	4,817,590,000	4,817,590,000	825,840,000
Mental Health Facilities	1,335,000,000	1,292,085,000	260,725,000
Parks & Recreation Facilities	335,000,000	313,000,000	121,220,000
Elementary & Secondary Education	333,640,000	333,640,000	61,960,000

Obligations Payable from Non-GRF Sources

	Authorized by General Assembly	Issued(a)	Outstanding(b)
<u>Highway User Receipts</u>			
G.O. Highway(j)	\$1,745,000,000	\$1,745,000,000	\$0
G.O. Highway(k)	2,130,000,000	1,615,000,000	974,500,000
ODOT Facilities	155,800,000	155,800,000	28,285,000
DPS Facilities	143,000,000	138,600,000	78,985,000
<u>Net Liquor Profits</u>			
Economic Development(l)	n.a.	368,740,000	321,970,000
Revitalization Projects(m)	150,000,000	50,000,000	42,535,000
<u>Other</u>			
ODOT Highway Infrastructure(n)	n.a.	597,250,000	342,895,000
BWC Facilities(o)	214,255,000	214,255,000	137,200,000

- (a) Excludes refunding bonds; includes bonds refunded.
- (b) Excludes bonds refunded; includes refunding bonds.
- (c) Not more than \$100,000,000 may be outstanding at any time.
- (d) Not more than \$120,000,000 may be issued annually through Fiscal Year 2013, not more than \$150 million may be issued annually in Fiscal Years 2014 through 2018, and the total issued may not exceed \$3.75 billion.
- (e) Includes \$283,615,000 in adjustable rate bonds for infrastructure and \$267,000,000 in adjustable rate bonds for common schools.
- (f) Not more than \$50,000,000 may be issued in any Fiscal Year and not more than \$200,000,000 may be outstanding at any time.
- (g) Not more than \$100,000,000 may be issued in each of the first three Fiscal Years and not more than \$50,000,000 in any other Fiscal Year.
- (h) Not more than \$30,000,000 may be issued in each of the first three Fiscal Years and not more than \$15,000,000 in any other Fiscal Year.
- (i) Includes 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 paid in part by local government agencies using portions of those facilities.
- (j) Authority to issue expired in 1996.
- (k) 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.
- (l) Revenue obligations issued for economic development assistance programs established under Chapter 166 of the Ohio Revised Code, including the Innovation Ohio and research and development programs. Not more than \$500,000,000 may be outstanding at any time.
- (m) Net liquor profits are statutorily designated as the source of payment of debt service.
- (n) Debt service on these "GARVEE" bonds is paid from federal transportation grants apportioned to the State (Title 23 of the U.S. Code).
- (o) Debt service is paid from appropriations from the BWC Administrative Cost Fund.

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

Annual Debt Service Requirements on State Obligations Paid from GRF

FY	General Obligations			Special Obligations		Total GRF Debt Service		
	Education(a)	Infra-structure(b)	All Other(c)	Treasurer(d)	OBA(e)	Principal	Interest	Total
2006	\$326,773,003	\$157,157,851	\$42,206,356	\$333,465,978	\$268,958,444	\$703,829,569	\$424,732,063	\$1,128,561,632
2007	346,391,697	166,551,047	42,831,675	336,178,768	253,285,788	730,355,726	414,883,247	1,145,238,974
2008	344,760,723	165,604,862	42,824,238	321,130,101	234,425,270	726,951,587	381,793,607	1,108,745,193
2009	343,540,724	165,661,891	42,848,736	212,207,863	219,831,140	629,584,042	354,506,311	984,090,353
2010	342,417,525	165,778,702	42,733,194	193,144,546	211,300,708	633,680,576	321,694,098	955,374,674
2011	340,643,731	155,501,557	39,278,781	168,420,425	195,018,830	603,537,787	295,325,537	898,863,324
2012	339,694,769	155,692,169	39,256,806	138,564,501	186,793,639	588,781,933	271,219,951	860,001,884
2013	338,555,973	144,294,313	30,904,904	104,966,001	166,375,168	536,932,649	248,163,708	785,096,358
2014	337,539,208	135,142,386	29,014,914	49,133,717	150,157,599	496,786,268	204,201,555	700,987,823
2015	321,117,612	115,375,745	26,227,575	39,731,773	139,854,321	467,688,397	174,618,629	642,307,026
2016	295,147,094	105,157,449	23,666,494	32,587,599	117,787,731	424,738,600	149,607,766	574,346,366
2017	294,360,750	95,852,682	21,781,878	22,282,386	105,016,913	412,285,000	127,009,608	539,294,608
2018	294,129,230	85,851,468	17,228,280	17,076,709	96,133,775	403,185,000	107,234,461	510,419,461
2019	293,513,146	66,697,294	11,656,240	12,428,697	74,933,213	371,040,000	88,188,589	459,228,589
2020	293,317,242	56,323,463	7,166,250	7,997,925	51,194,913	345,515,000	70,484,792	415,999,792
2021	278,288,093	46,561,954	0	0	51,462,913	322,335,000	53,977,959	376,312,959
2022	265,641,332	46,491,431	0	0	41,340,475	314,910,000	38,563,238	353,473,238
2023	236,037,022	36,924,383	0	0	31,465,625	280,080,000	24,347,030	304,427,030
2024	133,639,524	18,830,875	0	0	23,270,163	163,395,000	12,345,562	175,740,562
2025	66,722,265	9,396,250	0	0	12,762,750	84,285,000	4,596,265	88,881,265
2026	14,468,375	9,394,125	0	0	0	<u>23,315,000</u>	<u>547,500</u>	<u>23,862,500</u>
						9,263,212,136	3,768,041,477	13,031,253,613

- (a) Consists of common schools and higher education general obligation bonds and includes estimated debt service on \$267,000,000 of adjustable rate bonds for common schools.
- (b) Includes estimated debt service on \$283,615,000 of adjustable rate bonds.
- (c) Includes natural resources, coal development, conservation, research and development, and site development general obligation bonds.
- (d) Includes lease-rental bonds issued by the Treasurer for mental health, parks and recreation, and cultural facilities. Also includes lease-rental bonds previously issued for elementary and secondary education and for higher education facilities.
- (e) Includes lease-rental bonds issued by the Ohio Building Authority (OBA) for various state capital facilities.

The following table shows total Fiscal Year debt service on certain State obligations payable from the indicated non-GRF revenues, including the Series J Highway Bonds.

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

FY	Highway User Receipts			Net Liquor Profits			Other	
	Highway G.O.	ODOT/DPS Facilities(a)	Total	Economic Development(b)	Revitalization(c)	Total	BWC(d)	Federal Transportation Grants(e)
2006	\$181,073,874	\$26,382,732	\$207,456,606	\$27,156,502	\$4,707,425	\$31,863,927	\$19,661,595	\$77,414,391
2007	198,718,747	24,245,760	222,964,507	30,105,833	4,707,525	34,813,358	20,050,895	74,675,023
2008	177,944,823	23,883,035	201,827,858	30,098,904	4,711,138	34,810,041	20,361,525	72,645,963
2009	151,139,408	16,903,266	168,042,674	30,089,925	4,710,000	34,799,925	20,611,445	61,936,338
2010	125,220,639	16,642,351	141,862,990	30,066,550	4,709,750	34,776,300	19,796,795	44,722,163
2011	97,644,115	13,019,775	110,663,890	30,057,113	4,706,875	34,763,988	18,974,395	26,341,969
2012	73,783,703	9,450,034	83,233,737	30,077,440	4,710,875	34,788,315	18,216,365	11,481,550
2013	70,677,070	2,442,503	73,119,573	30,075,541	4,711,250	34,786,791	17,458,370	11,486,125
2014	54,059,543	2,444,794	56,504,337	30,071,235	4,707,750	34,778,985	15,951,100	11,481,625
2015	35,625,313	2,443,281	38,068,594	30,081,620	4,709,875	34,791,495	0	11,486,756
2016	0	2,446,669	2,446,669	30,096,885	4,707,125	34,804,010	0	11,485,125
2017	0	2,444,713	2,444,713	30,099,377	4,709,000	34,808,377	0	0
2018	0	2,447,213	2,447,213	30,097,857	4,709,875	34,807,732	0	0
2019	0	2,448,650	2,448,650	30,095,440	0	30,095,440	0	0
2020	0	1,567,875	1,567,875	30,094,127	0	30,094,127	0	0
2021	0	1,568,250	1,568,250	30,090,677	0	30,090,677	0	0
2022	0	0	0	24,695,316	0	24,695,316	0	0
2023	0	0	0	18,527,351	0	18,527,351	0	0
2024	0	0	0	18,421,838	0	18,421,838	0	0
2025	0	0	0	9,580,624	0	9,580,624	0	0
2026	0	0	0	4,079,969	0	4,079,969	0	0

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

The following table shows the principal amount of those obligations that are currently scheduled to be outstanding as of July 1 of the indicated years, including the Series J Highway Bonds:

<u>Year</u>	<u>Obligations Payable from the GRF</u>			<u>Non-GRF Obligations</u>	
	<u>Education(a)</u>	<u>Other GO(b)</u>	<u>Special Obligations(c)</u>	<u>Highway User Receipts(d)</u>	<u>Net Liquor Profits(e)</u>
2006	\$3,751,335,000	\$1,645,097,567	\$3,421,985,000	\$936,675,000	\$361,070,000
2010	3,042,930,000	1,136,920,636	1,658,960,000	331,170,000	303,730,000
2015	1,996,280,000	557,758,600	591,045,000	11,300,000	209,935,000
2020	894,635,000	150,435,000	143,250,000	1,530,000	93,065,000

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

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

<u>Year</u>	<u>Principal Amount Outstanding (as of July 1)</u>	<u>Outstanding Debt Per Capita</u>	<u>Outstanding Debt as % of Personal Income</u>
1980	\$1,991,915,000	\$184	1.83%
1990	3,707,054,994	341	1.82
2000	6,308,680,025	556	1.97
2001	6,570,863,174	578	2.02
2002	7,086,317,648	620	2.12
2003	7,559,386,132	661	2.19
2004	8,110,709,343	708	2.27(b)
2005	8,476,432,135	739(a)	2.38(b)

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

- (a) Based on July 2005 population estimate.
- (b) Based on 2004 personal income data.

Additional Authorizations

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

General Obligation

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

- \$30,000,000 for site development.
- \$200,000,000 authorized for research and development in the 2006-07 operating budget bill.

Special Obligation

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

Currently applicable constitutional authorizations are:

- 2005 – authorizes the issuance of over ten years of an additional \$500,000,000 of State general obligation debt in support of research and development, and an additional \$150,000,000 of State general obligation debt for the development of sites for industry, commerce, distribution and research and development, with those obligations not subject to the 5% direct obligation debt service cap described above. Also authorizes an additional \$1.35 billion of general obligation debt for government infrastructure as a ten-year extension of the existing local government infrastructure program, with an increase in the annual issuance amount in the last five-years from \$120,000,000 to \$150,000,000, which continues to be subject to that 5% debt service cap.
- 2000 – authorizes the issuance of State bonds for land conservation and revitalization purposes (including statewide brownfields clean-up). For each of the two purposes, the amendment authorizes not more than \$50,000,000 in principal amount to be issued in any Fiscal Year and not more than \$200,000,000 to be outstanding at any time. The bonds for conservation purposes are general obligations, and those for revitalization purposes are special obligations payable from revenues and receipts designated by the General Assembly (currently a portion of the State’s net liquor profits).
- 1999 – authorizes State general obligation debt to pay costs of facilities for a system of common schools throughout the state and for state-supported and state-assisted institutions of higher education. The amendment also provides for the 5% direct obligation debt service cap described above.
- 1995 – authorizes additional highway bonds and extended the local infrastructure bond program. For the latter, it authorized an additional \$1.2 billion of State full faith and credit obligations to be issued over 10 years, with not more than \$120,000,000 to be issued in any Fiscal Year. The highway finance portion authorizes not more than \$1.2 billion to be outstanding at any time and not more than \$220,000,000 to be issued in any Fiscal Year.
- 1994 – pledges the State's full faith and credit and taxing power to meet certain guarantees under the State's tuition credit program, a program that provides for the purchase of tuition credits which are guaranteed to cover a specified amount when applied to tuition and other eligible higher education costs. Under the amendment, to secure the tuition guarantees, the General Assembly shall appropriate money sufficient to offset any deficiency that occurs in the trust fund, at any time necessary to make payment of the full amount of any tuition payment or refund required by a tuition payment contract.
- 1990 – authorizes greater State and political subdivision participation in the provision of individual and family housing. This supplements the previous constitutionally authorized loans-for-lenders and other housing assistance programs, financed in part with State revenue bonds. The amendment authorizes the General Assembly to provide for State assistance for housing in a variety of ways, including State borrowing for the purpose by the issuance of obligations secured by a pledge of all or such portion of State revenues or receipts as it authorizes (but not by a pledge of the State’s full faith and credit).
- 1985 – authorizes the issuance of general obligation debt to finance grants or make or guarantee loans for research and development of coal technology that will encourage the use of Ohio coal. Those grants or loans are available to any individual, association, or corporation doing business in the State, or to any educational or scientific institution located in the State. Not more than \$100 million may be outstanding at any time.

ECONOMY AND EMPLOYMENT

Although manufacturing (including auto-related manufacturing) in Ohio remains an integral part of the State's economy, the greatest growth in Ohio's economy in recent years has been in the non-manufacturing sectors. In 2003, Ohio's economic output as measured by gross state product (GSP) totaled \$399 billion, 3.7% of the national GSP and seventh largest among the states. The State ranks third within the manufacturing sector as a whole (\$80 billion) and fourth in durable goods (\$53 billion). As a percent of Ohio's 2003 GSP, manufacturing was responsible for 20%, with 27.1% attributable to the goods-producing sectors and 31.7% to business services sectors, including finance, insurance and real estate. Ohio is the sixth largest exporting state with 2003 merchandise exports totaling \$29.7 billion. The State's leading export products are machinery (including electrical machinery) and motor vehicles, which together accounted for nearly 57% of that total.

Payroll employment in Ohio, in a diversifying employment base, showed a steady upward trend until 1979, then decreased until 1982. It increased through 1991, decreased slightly in early 1992 and late 1993, then increased steadily through 2000 before decreasing again in 2001 through 2004. Growth in recent years has been concentrated among non-manufacturing industries, with manufacturing employment tapering off since its 1969 peak. The "non-manufacturing" sector employs approximately 85% of all nonfarm payroll workers in Ohio. The growth in employment and changing mix of employment sectors nationally and in Ohio are shown in the following tables.

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

	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2004*</u>
Natural Resources & Mining	21	31	18	13	12
Construction.....	164	167	195	246	235
Manufacturing.....	1,410	1,264	1,112	1,083	825
Trade, Transportation & Public Utilities*	998	1,180	1,390	1,599	1,038
Information*.....	n.a.	n.a.	n.a.	n.a.	93
Financial Activities	154	204	256	308	312
Services	568	831	1,189	1,592	1,596
Leisure & Hospitality*.....	n.a.	n.a.	n.a.	n.a.	495
Government.....	<u>566</u>	<u>690</u>	<u>722</u>	<u>785</u>	<u>802</u>
TOTAL.....	3,881	4,367	4,882	5,625	5,407

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

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

Distribution of Nonfarm Payroll Jobs by Industry Type (%)

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

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

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

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

Average Monthly Unemployment Rates (Seasonally Adjusted)

<u>Year</u>	<u>Ohio</u>	<u>U.S.</u>
1980.....	8.5%	7.1%
1985.....	8.9	7.2
1990.....	5.7	5.6
1995.....	4.9	5.6
1998.....	4.3	4.5
1999.....	4.3	4.2
2000.....	4.0	4.0
2001.....	4.4	4.7
2002.....	5.7	5.8
2003.....	6.2	6.0
2004.....	6.1	5.5
2005 ^(a)	6.0	5.1

^(a) Preliminary data.

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

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

OHIO'S TOP 25 PRIVATE SECTOR EMPLOYERS – 2004

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

* Indicates inclusion of part-time employees.

Boldface indicates headquartered in Ohio.

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

POPULATION

Ohio's 2000 decennial census population of 11,353,100 indicated a 4.7% population growth over 1990 and ranked Ohio seventh among the states in population. The following tables show selected census figures.

Ohio Population — Total and by Age Group

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

* Census population estimate July 2005 is 11,464,042.

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

Population of Ohio Metropolitan Areas(a)

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

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

(b) Lorain-Elyria included with Cleveland.

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

(d) Newark added.

(e) Springfield added.

(f) Includes three counties.

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

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

AGRICULTURAL AND RESOURCES BASES

With 14.5 million acres (of a total land area of 26.4 million acres) in farmland and an estimated 77,200 individual farms, agriculture combined with related agricultural sectors is an important segment of Ohio's economy. Ohio's 2004 crop production value of \$3.5 billion represented 2.8% of the U.S. total value. Ohio ranks in the top five states in the production of chicken and layer inventory, eggs, swiss and cottage cheese, milk sherbet, and tomatoes. In 2004, Ohio's agricultural sector output (consisting of crops, livestock, poultry and dairy, and services and forestry) totaled \$6.8 billion with agricultural exports (primarily soybeans, feed grains and wheat, and their related products) estimated at a value of \$1.6 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 thirteenth in coal production.

STATE EMPLOYEES AND RETIREMENT SYSTEMS

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

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

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

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

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

The following table presents summary State and local membership and financial data for each of the retirement systems for the most recent year reported by the particular system (not including assets or liabilities for post-employment healthcare benefits (\$ in millions)):

	<u>PERS</u>	<u>STRS</u>	<u>SERS</u>	<u>OP&F</u>	<u>HPRS</u>
as of:	12/31/04	6/30/05	6/30/05	12/31/04	12/31/04
Active Members.....	355,287	176,692	122,855	27,735	1,562
Retirants and Beneficiaries	149,296	115,395	61,433	24,340	1,282
Employer/Employee Contributions (% of Salary)(a).....	13.5/9.0(b)	14.0/10.0	14.0/10.0	(c)	25.5/10.0(e)
Active Member Payroll	\$11,454.0	\$9,775.2	\$2,452.5	\$1,683.6	\$81.8
Actuarial Accrued Liability (AAL)	\$57,604.0	\$73,817.1	\$11,961.0	\$11,545.1	\$734.5
Value of Assets (d)	\$50,452.0	\$53,765.6	\$8,892.6	\$9,337.5	\$569.9
Unfunded Actuarial Accrued Liability (UAAL)	\$7,152.0	\$20,051.5	\$3,136.9	\$2,207.6	\$164.6
Funding Ratio (Assets to AAL %)	87.6	72.8	74.3	80.9	77.6

- (a) For PERS, STRS, and SERS the maximum employer and employee contribution rates under law are 14% and 10%, respectively.
 (b) PERS state is 13.54/9.0%, local is 13.7/9.0% and law enforcement is 16.93/10.1%. PERS state and local employer and employee contribution rates will increase to their statutory maximum of 14% and 10%, respectively, over the next two years.
 (c) Police is 19.5/10% and fire 24/10%.
 (d) Recognizes the cost of assets adjusted for realized and unrealized gains and losses amortized over a four-year period, except for OP&F which values assets under a five-year expected market value technique.
 (e) Employer contribution rate increased from 24.5% to 25.5% effective July 1, 2005.

Sources: Retirement systems' comprehensive annual financial reports and annual actuarial valuations.

TAX LEVELS AND TAX BASES

The variety of taxes and excises levied by the State is indicated in several tables in this Official Statement. Census figures for 2004 showed that Ohio then ranked 27th in state taxes per capita. Three major tax bases in the State, personal income (taxed by the State and municipalities and, with voter approval, by certain school districts), retail sales and use (taxed by the State and counties and transit authorities), and real and tangible personal property (taxed by local governments), are described below. In addition, effective July 1, 2005, the State is commencing the phase-in over five years of a new commercial activity tax (CAT) on taxable gross receipts from doing business in Ohio, and is phasing out over the same general period its corporate franchise tax (except for its continuing application to financial institutions and certain affiliates of insurance companies and financial institutions). The initial rate for the CAT is 0.06% with the CAT ultimately to be levied at a rate of 0.26% when fully implemented in 2009. As described further below, a portion of the receipts from the CAT will be used to make compensating payments to schools and other taxing units in connection with the phase-out of the tangible personal property tax over the next three calendar years.

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

See **Fiscal Matters – General** for a summary of the so-called “tax and expenditure limitation” (TEL) amendment to the Ohio Constitution proposed by initiative petition for the November 2006 Ohio general election ballot, which, if approved, would require voter approval for local government tax increases and for State and local expenditure increases exceeding certain specified limits.

Personal Income

Under State legislation effective July 1, 2005, State personal income tax rates, applying generally to federal adjusted gross income, will be reduced 4.2% annually in each of the years 2005 through 2009, resulting in an aggregate 21% decrease from the 2004 rates which ranged from 0.743% on \$5,000 or less with increasing bracketed base rates and percentages up to a maximum on incomes over \$200,000 of \$11,506 plus 7.5% on the amount over \$200,000. The indexing of the State income tax brackets previously scheduled to begin July 1, 2005 is suspended until January 2010 when the rate reductions are fully phased.

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

Municipalities and school districts may also levy certain income taxes. Any municipal rate (applying generally to wages and salaries and net business income) over 1%, and any school district income tax (applying generally to the State income tax base for individuals and estates), requires voter approval. Most cities and villages levy a municipal income tax. The highest municipal rate in 2002 was 2.85%. A school district income tax is currently approved in 145 districts. Effective July 1, 2005, there may also be proposed for voter approval municipal income taxes to be shared with school districts, but those taxes may not be levied on the income of nonresidents.

Since 1960 the ratio of Ohio to U.S. aggregate personal income has declined, with Ohio’s ranking among the states moving from fifth in 1960 and 1970 to seventh in 1990, moving between seventh and eighth in 1994 through 2003, and eighth in 2004. This movement, portrayed below, in significant measure reflects “catching up” by several other states and a trend in Ohio toward more service sector employment.

Personal Income (\$ in Billions)

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

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

Sales and Use

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

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

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

Retail Sales (\$ in Billions)

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

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

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

Property

The following table lists, for informational purposes only, the non-exempt real and tangible personal property tax base in the State and taxes levied on that base (on a calendar year basis). Only local taxing subdivisions, and not the State, currently tax the real and tangible personal property included in this table. Reported figures for 2004 show that these property taxes represent 3.83% of Ohio personal income.

		<u>Assessed Value (a)</u>	<u>Percent of True Value (b)</u>	<u>Taxes Charged</u>
1980	Real(c).....	\$56,457,842,607	27.1%	\$2,343,384,488(e)
	Tangible(d)	15,649,200,844	39.2	765,047,826
	Public Utility(c).....	8,670,052,613	83.3	411,321,235
1990	Real	93,857,482,000	35.0	4,593,147,000(e)
	Tangible(d)	18,473,055,000(f)	28.0	1,149,643,000(f)
	Public Utility(c)(g).....	12,934,191,000	88.6	799,396,000
2000	Real	167,857,657,350	35.0	8,697,809,112(e)
	Tangible(d)	23,298,302,564(f)	25.0	1,720,740,378(f)
	Public Utility(c)(g).....	13,635,709,860	67.0	967,674,709
2003	Real	196,583,301,381	35.0	10,473,581,729(e)
	Tangible(d)	21,451,814,203(f)	25.0	1,637,418,361(f)
	Public Utility(c)(g).....	9,978,013,493(h)	48.6	751,787,109
2004	Real	202,484,378,000	35.0	11,238,502,000(e)
	Tangible(d)	21,264,429,184(f)	24.1	1,651,707,142(f)
	Public Utility(c)(g).....	10,142,271,000(h)	49.3	775,376,000

(a) Increases in assessed value of "Real" are in part products of reappraisals.

(b) Regular annual reductions for "Tangible" (except for most public utility tangible) were scheduled until 25% was reached in 1993. The Constitution permits separate classes of land and improvements (one class being residential and agricultural, the second being all other uses) for certain taxation purposes.

(c) Excludes public utility real property.

(d) Includes machinery, inventories, fixtures; excludes public utility.

(e) Includes the statutory 10% rollback (12.5% for owner-occupied residences) and elderly/handicapped partial exemption amounts, paid by the State to local taxing entities to compensate for statutory reductions in local tax collections. Effective for tax year 2005 and thereafter, the 10% rollback is eliminated for real property used in business, with exceptions for certain property used in farming or for housing.

(f) A new exemption took effect in 1984. State reimbursement of resulting local revenue losses is not included in "Taxes Charged".

(g) Beginning in 1990, the true value of most public utility property is based on annual composite allowances that vary according to the type and age of property.

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

Source: Ohio Department of Taxation.

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

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

SCHOOLS AND MUNICIPALITIES

Schools

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

In its prior decisions, the Ohio Supreme Court stated as general base threshold requirements that every school district have enough funds to operate, an ample number of teachers, sound and safe buildings, and equipment sufficient for all students to be afforded an educational opportunity.

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

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

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

Under the current financial structure, Ohio’s 613 public school districts and 49 joint vocational school districts receive a major portion (but less than 50%) of their operating moneys from State subsidy appropriations (the primary portion of which is known as the Foundation Program) distributed in accordance with statutory formulae that take into account both local needs and local taxing capacity. The Foundation Program amounts have steadily increased in recent years, including small aggregate increases even in those Fiscal Years in which appropriations cutbacks were imposed.

School districts also rely upon receipts from locally voted taxes. In part because of provisions of some State laws, such as that partially limiting the increase (without further vote of the local electorate) in voted

property tax collections that would otherwise result from increased assessed valuations, some school districts have expressed varying degrees of difficulty in meeting mandated and discretionary increased costs. Local electorates have largely determined the total moneys available for their schools. Locally elected boards of education and their school administrators are responsible for managing school programs and budgets within statutory requirements.

The State's present school subsidy formulas are structured to encourage both program quality and local taxing effort. Until the late 1970's, although there were some temporary school closings, most local financial difficulties that arose were successfully resolved by the local districts themselves by some combination of voter approval of additional property tax levies, adjustments in program offerings, or other measures. For more than 20 years, requirements of law and levels of State funding have sufficed to prevent school closings for financial reasons, which in any case are prohibited by current law.

To broaden the potential local tax revenue base, local school districts also may submit for voter approval income taxes on the district income of individuals and estates (and effective July 1, 2005, municipal income taxes that may be shared with school districts). Many districts have submitted the question, and income taxes are currently approved in 145 districts.

Original State basic aid appropriations for the 1992-93 biennium of \$9.5 billion provided for 1.5% and 4.8% increases in the two Fiscal Years of the biennium over appropriations in the preceding biennium which were subject to State spending reductions for Fiscal Year 1992 of 2.5% of annual Foundation Program appropriations. There were no reductions for the 172 districts with the lowest per pupil tax valuations, and the reductions were in varying amounts with varying effects for the other districts. Foundation payments were excluded from the then Governor's spending reduction order for Fiscal Year 1993.

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

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

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

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

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

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

Legislation was enacted in 1996 to address school districts in financial straits. It is similar to that for municipal “fiscal emergencies” and “fiscal watch” discussed below under **Municipalities**, but is particularly tailored to certain school districts and their then existing or potential fiscal problems. There are currently ten school districts in fiscal emergency status and twelve in fiscal watch status. New legislation has created a third, more preliminary, category of “fiscal caution.” A current listing of school districts in each status is on the Internet at <http://www.auditor.state.oh.us>.

Federal courts have ruled that the State shared joint liability with the local school districts for segregation in Cincinnati, Cleveland, Columbus, Dayton and Lorain. Subsequent trial court orders directed that some remedial costs be shared by the State and the respective local districts. For that purpose, recent appropriations, decreasing in each biennium, were \$100,800,000 in 1998-99, \$23,700,000 in 2000-01, and \$1,000,000 in 2002-03. All cases were settled prior to the end of Fiscal Year 2003 and there is no further State liability.

Municipalities

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

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

As noted in the discussion above under **Fiscal Matters – 2002-03** and **2004-05**, the amount of distributions in those biennia to most local governments, including municipalities, from the several State local government revenue assistance funds were and are generally capped at the equivalent monthly amounts in Fiscal Years 2000 and 2001.

The fiscal emergency legislation has been amended to extend its potential application to counties (88 in the State) and townships. This extension is on an “if and as needed” basis and is not aimed at particularly identified existing fiscal problems of those subdivisions. There are currently sixteen local governments in fiscal emergency status and five in fiscal watch status. A current listing in each status is on the Internet at <http://www.auditor.state.oh.us>.

See **Fiscal Matters – General** for a summary of the so-called “tax and expenditure limitation” (TEL) amendment to the Ohio Constitution proposed by initiative petition for the November 2006 Ohio general election ballot, which, if approved, would require voter approval for local government tax increases and for State and local expenditure increases exceeding certain specified limits.

(THIS SPACE INTENTIONALLY LEFT BLANK)

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 2004.

Selected State Government Statistics - 2004 Comparative Ohio and U.S.

	<u>United States</u>	<u>Ohio</u>	<u>Ohio Rank Among States</u>
Government Revenues:			
General Revenues (millions)	\$1,197,346.8	\$45,732.4	8
per capita.....	4,085.0	3,994.0	30
Taxes (millions)	593,821.7	22,475.5	8
per capita.....	2,025.9	1,962.9	27
Per Capita:			
Sales taxes	676.2	688.3	24
Personal income taxes	675.1	760.3	17
Corporate income taxes	105.4	92.6	20
Government Expenditures:			
Total Expenditure (millions).....	\$1,406,039.8	\$58,874.5	5
per capita.....	4,797.1	5,141.9	20
Direct Expenditure (millions)	1,016,333.6	43,144.3	6
per capita.....	3,467.5	3,768.1	20
Payments to other Government Units (millions).....	389,706.0	15,730.2	6
per capita.....	1,329.6	1,373.8	10
Personal Service Payroll	185,827.1	6,775.5	7
per capita*	634.0	591.8	36
Debt:			
Outstanding Debt (Year End in millions)	\$750,409.9	\$22,183.4	10
per capita.....	2,560.2	1,937.4	34
State Government Assets:			
Cash and Securities, All Funds (millions).....	\$2,928,805.8	\$166,738.5	5
per capita.....	9,992.4	14,562.3	6

Source: U.S. Bureau of the Census, Federal, State, and Local Governments, State Government Finances 2004.

(THIS SPACE INTENTIONALLY LEFT BLANK)

[THIS PAGE INTENTIONALLY LEFT BLANK]

EXHIBIT A

To: Fifth Third Securities, Inc.
Columbus, Ohio

As Representative of the several Underwriters named in Annex A to the Bond Purchase Agreement, dated February 28, 2006, with the State of Ohio, acting by and through the Treasurer of State of the State of Ohio

We have examined the transcript of proceedings (the "Transcript") relating to the issuance and sale of \$180,000,000 General Obligation Highway Capital Improvements Bonds, Series J (the "Bonds"), issued by the State of Ohio (the "State"), acting by and through the Treasurer of State (the "Issuing Authority"), for the purpose of (i) financing 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 authority of and pursuant to Section 2m of Article VIII of the Ohio Constitution, Chapter 151 of the Ohio Revised Code, particularly Sections 151.01 and 151.06 thereof, other authorizations by the Ohio General Assembly, and an order of the Issuing Authority given on February 23, 2006 (the "Order").

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

1. 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 (except for the "net state lottery proceeds" described in the next succeeding opinion paragraph) are pledged to the payment of the principal of and interest and any premium (collectively, the "Debt Service") on the Bonds.

2. The Debt Service, together with principal of and interest and any premium on bonds or other obligations heretofore or hereafter issued pursuant to Section 2m of Article VIII of the Ohio Constitution and Chapter 151 of the Ohio Revised Code, as amended (collectively, the "Obligations"), are payable from and secured by the pledge of all excises, taxes and other sources of revenue of the State, except "net state lottery proceeds," as defined in Section 151.03 of the Ohio Revised Code, but including 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 (such excises, taxes and other sources of revenue of the State, excluding the stated exception, collectively, the "Pledged Excises and Taxes").

3. The State covenants in Section 151.01(M) of the Ohio Revised Code and in the Order that it and the applicable officers and agencies of the State, including the General Assembly of the State, will, so long as any Obligations are outstanding in accordance with their terms, maintain statutory authority for and cause to be levied, collected and applied sufficient Pledged Excises and Taxes so that the same will be sufficient in amounts to pay Debt Service on the Bonds when due. 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 of Pledged Excises and Taxes which may be levied to pay Debt Service on the Bonds. Provision has been made by law for the appropriation and setting aside each year in the Highway Capital 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 Debt Service on the Bonds.

4. Interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations under Section 55 of the Code. The interest on the Bonds and any profit made on the sale, exchange, transfer or other disposition of the Bonds are exempt from the Ohio personal income tax, the Ohio corporation franchise tax (to the extent computed on the net income basis), the Ohio commercial activity tax and income taxes imposed by municipalities or other political subdivisions in Ohio.

We express no opinion regarding other tax consequences arising from the Bonds.

In giving the foregoing opinion with respect to the treatment of the interest on the Bonds and the status of the Bonds under the federal tax laws, we have assumed and relied upon compliance with the covenants of the State and the Issuing Authority and the accuracy of the representations and certifications of the State and the Issuing Authority contained in the Transcript. The accuracy of those representations and certifications, which we have not independently verified, and the compliance of the State and the Issuing Authority 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 tax effects stated above. Failure to comply with certain requirements subsequent to the issuance of the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

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

Respectfully submitted,

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



Recycled Paper - Printed by
IMAGEMASTER 800.452.5152