

*In the opinion of Thompson Hine LLP, Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2007 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended, and (ii) that interest on, and any profit made on the sale, exchange or other disposition of, the Series 2007 Bonds, are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio. Interest on the Series 2007 Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.*

**\$36,410,000**  
**STATE OF OHIO**  
**(OHIO BUILDING AUTHORITY)**  
**STATE FACILITIES BONDS AND**  
**STATE FACILITIES REFUNDING BONDS**  
consisting of

**\$20,000,000**  
**STATE OF OHIO**  
**(Ohio Building Authority)**  
**State Facilities Bonds**  
**(Juvenile Correctional Building Fund Projects)**  
**2007 Series A**

**\$16,410,000**  
**STATE OF OHIO**  
**(Ohio Building Authority)**  
**State Facilities Refunding Bonds**  
**(Juvenile Correctional Building Fund Projects)**  
**2007 Series B**

**Dated: Date of Issuance**

**Due: As shown on inside front cover**

**Purposes:** The \$20,000,000 State of Ohio (Ohio Building Authority) State Facilities Bonds (Juvenile Correctional Building Fund Projects), 2007 Series A (the "Series 2007 A Bonds") will be issued for the purpose of (i) paying costs of capital facilities to be leased to the Department of Youth Services of the State of Ohio (the "Department"), and (ii) paying costs incidental to the issuance and sale of the Series 2007 A Bonds. The \$16,410,000 State of Ohio (Ohio Building Authority) State Facilities Refunding Bonds (Juvenile Correctional Building Fund Projects), 2007 Series B (the "Series 2007 B Bonds") will be issued for the purpose of (i) advance refunding the currently outstanding State of Ohio (Ohio Building Authority) State Facilities Bonds (Juvenile Correctional Building Fund Projects), 2001 Series A, scheduled to mature on October 1 in the years 2012 through 2016, inclusive, and (ii) paying costs incidental to the issuance and sale of the Series 2007 B Bonds. The Series 2007 A Bonds and the Series 2007 B Bonds are collectively referred to herein as the "Series 2007 Bonds". See "INTRODUCTORY STATEMENT" and "SOURCES AND USES OF BOND PROCEEDS AND PLAN OF REFUNDING" herein.

**Security and Sources of Payment:** The Series 2007 Bonds are special obligations of the State, issued by the Ohio Building Authority, and are payable solely from Pledged Receipts, principally rental payments under the Lease. The obligations of the Department to make the rental payments are subject to and dependent upon biennial appropriations being made for such purpose by the General Assembly. The failure of the General Assembly so to appropriate moneys to the Department will result in termination of the Lease. The Series 2007 Bonds do not represent or constitute a debt of the Authority, the Department, or the State or any political subdivision thereof, or a pledge of the faith and credit of the State, any political subdivision thereof or the Authority. *The Holders and Book Entry Interest Owners of the Series 2007 Bonds shall have no right to have excises or taxes levied by the General Assembly for the payment of Bond Service Charges on the Series 2007 Bonds.* See "SECURITY FOR THE SERIES 2007 BONDS" herein.

**Payment:** Interest on the Series 2007 Bonds will be payable on each April 1 and October 1, beginning October 1, 2007. The Series 2007 Bonds will mature on the dates and in the amounts set forth on the inside cover page hereof. See "THE SERIES 2007 BONDS" herein.

**Bond Insurance:** The scheduled payment of principal and interest on the Series 2007 Bonds when due will be guaranteed under municipal bond insurance policies to be issued concurrently with the delivery of the Series 2007 Bonds by Financial Security Assurance Inc. See "BOND INSURANCE".



**Redemption of Bonds:** The Series 2007 Bonds are not subject to redemption prior to maturity. See "THE SERIES 2007 BONDS - Redemption of Series 2007 Bonds" herein.

**Book-Entry:** The Series 2007 Bonds are being issued as fully registered bonds in book-entry form only and book-entry interests therein will be available for purchase in principal amounts of \$5,000 or integral multiples thereof. The Depository Trust Company (DTC), New York, New York, is securities depository. See "BOOK-ENTRY FORM" herein.

*This cover page includes certain information for quick reference only. It is not a summary of the Series 2007 Bonds or the matters set forth herein. Investors should read the entire Official Statement to obtain information as a basis for making informed investment judgments. Capitalized terms not otherwise defined on this cover page shall have the meanings given to them in the GLOSSARY herein.*

The Series 2007 Bonds are offered when, as and if issued by the Authority and accepted by the Underwriter, subject to the approval of certain legal matters relating to their issuance by Thompson Hine LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by their counsel, Peck, Shaffer & Williams LLP. Certain legal matters will be passed upon for the Authority by its counsel, the Attorney General of Ohio, Marc Dann, and Calfee, Halter & Griswold LLP. It is expected that the Series 2007 Bonds will be available in definitive form for delivery to DTC in New York, New York or to its agent on or about May 2, 2007.



MEMBER NYSE/SIPC.  
PRODUCTS AND SERVICES OFFERED  
BY RBC DAIN RAUSCHER INC.

**The Date of this Official Statement is April 20, 2007.**

**MATURITY SCHEDULES**

**\$20,000,000**  
**STATE OF OHIO**  
**(Ohio Building Authority)**  
**State Facilities Bonds**  
**(Juvenile Correctional Building Fund Projects)**  
**2007 Series A**

<b><u>Due Date</u></b>	<b><u>Principal Amount</u></b>	<b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP*</u></b>
April 1, 2008	\$1,710,000	4.000%	3.610%	67755CSY6
April 1, 2009	1,700,000	4.000	3.650	67755CSZ3
April 1, 2010	1,765,000	4.000	3.670	67755CTA7
April 1, 2011	1,835,000	4.000	3.660	67755CTB5
April 1, 2012	1,910,000	5.000	3.710	67755CTC3
April 1, 2013	2,005,000	5.000	3.770	67755CTD1
April 1, 2014	2,105,000	5.000	3.830	67755CTE9
April 1, 2015	2,210,000	5.000	3.880	67755CTF6
April 1, 2016	2,320,000	5.000	3.930	67755CTG4
April 1, 2017	2,440,000	5.000	3.970	67755CTH2

**\$16,410,000**  
**STATE OF OHIO**  
**(Ohio Building Authority)**  
**State Facilities Refunding Bonds**  
**(Juvenile Correctional Building Fund Projects)**  
**2007 Series B**

<b><u>Due Date</u></b>	<b><u>Principal Amount</u></b>	<b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP*</u></b>
April 1, 2012	\$2,970,000	5.000%	3.710%	67755CTJ8
April 1, 2013	3,120,000	5.000	3.770	67755CTK5
April 1, 2014	3,275,000	5.000	3.830	67755CTL3
April 1, 2015	3,435,000	5.000	3.880	67755CTM1
April 1, 2016	3,610,000	5.500	3.930	67755CTN9

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\* Copyright Standard & Poors. CUSIP data herein are assigned by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., an independent company not affiliated with the State or the Authority. Neither the State nor the Authority are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness. These CUSIP numbers may also be subject to change after the issuance of the Series 2007 Bonds.

## REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Series 2007 Bonds identified on the cover page of this Official Statement. No person has been authorized by the Authority, the Department or the State to give any information or to make any representation, other than those contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been given or authorized by the Authority, the Department or the State. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2007 Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

Upon issuance, the Series 2007 Bonds will not be registered by the Authority, the Department or the State under the Securities Act of 1933, as amended, or the securities laws of any jurisdiction and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency, except the Authority, will have passed upon the accuracy or adequacy of this Official Statement or approved the Series 2007 Bonds for sale. This Official Statement includes the cover page and the inside cover page.

The information and expressions of opinion set forth herein are subject to change without notice, and 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 Authority, the Department or the State since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2007 BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2007 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this official statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

Other than with respect to information concerning Financial Security Assurance Inc. (the "Bond Insurer") contained under the caption "BOND INSURANCE" and in APPENDIX C, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2007 Bonds; or (iii) the tax exempt status of the interest on the Series 2007 Bonds.

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APPENDIX A - INFORMATION CONCERNING THE STATE OF OHIO

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APPENDIX C – SPECIMEN OF BOND INSURANCE POLICIES

## 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 Series 2007 Bonds. 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 of Ohio, by the Ohio Building Authority.

**SECURITY AND SOURCES OF PAYMENT:** The Series 2007 Bonds are special obligations of the State, issued by the Authority, payable solely from Pledged Receipts. Holders and Book Entry Interest Owners have no right to have excises or taxes levied by the General Assembly for payment.

The Series 2007 Bonds (and Additional Bonds that have been and may be issued and outstanding) are secured by the Trust Agreement. Principal and interest on the Bonds are payable from and secured by a pledge of:

1. Payments received in the Bond Service Fund from rentals and other revenues and receipts of the Authority under the Lease.
2. Receipts of the Authority with respect to the Projects constituting Pledged Receipts as provided in and subject to the provisions of the Trust Agreement.

The obligation of the Department to make rental payments under the Lease are subject to and dependent upon biennial appropriations being made by the General Assembly for such purpose. Those appropriations may not be made for more than a two year period. The failure of the General Assembly so to appropriate moneys to the Department will result in termination of the Lease. The Series 2007 Bonds do not represent or constitute a debt of the Authority, the Department or the State or of any political subdivision thereof, or a pledge of the faith and credit of the State, any political subdivision thereof or the Authority.

**Certain financial and other information concerning the State is contained in APPENDIX A – INFORMATION CONCERNING THE STATE OF OHIO hereto and should be reviewed carefully because rental payments under the Lease are paid with moneys appropriated from the State General Revenue Fund.**

**BOND INSURANCE:** The scheduled payment of the principal and interest on the Series 2007 Bonds when due will be guaranteed by municipal bond insurance policies to be issued concurrently with the delivery of the Series 2007 Bonds by Financial Security Assurance Inc.

**AUTHORIZATION:** The Series 2007 Bonds are being issued under Section 2i of Article VIII of the Ohio Constitution under powers granted to the Authority by Chapter 152 of the Ohio Revised Code. The Authority is a body both corporate and politic of the State. Its five members are appointed by the Governor for six-year terms with the advice and consent of the Senate.

**PURPOSE OF BONDS:** The Series 2007 A Bonds are being issued for the purpose of (i) paying costs of acquiring, constructing, reconstructing, rehabilitating, remodeling, renovating, enlarging, improving, altering, equipping and furnishing the Projects, and (ii) paying costs incidental to the issuance and sale of the Series 2007 A Bonds. The Series 2007 B Bonds will be issued for the purpose of (i) advance refunding the currently outstanding State of Ohio (Ohio Building Authority) State Facilities Bonds (Juvenile Correctional Building Fund Projects), 2001 Series A, scheduled to mature on April 1 in the years 2012 through 2016, inclusive, which were originally issued to pay costs of acquiring, constructing, reconstructing, rehabilitating, remodeling, renovating, enlarging, improving, altering, equipping and furnishing the Projects, and (ii) paying costs incidental to the issuance and sale of the Series 2007 B Bonds.

**PRIOR REDEMPTION:** The Series 2007 Bonds are not subject to redemption prior to maturity.

**FORM AND MANNER OF MAKING PAYMENTS:** The Series 2007 Bonds will be originally issued only as fully registered bonds, one for each maturity of each series, under a Book Entry System, and registered

initially in the name of The Depository Trust Company or its nominee (“DTC”). There will be no distribution of Series 2007 Bonds to the ultimate purchasers. The Series 2007 Bonds in book entry form 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 Holder (initially, DTC). Principal will be payable on presentation and surrender to the Trustee. Interest will be transmitted by the Trustee on each Interest Payment Date (April 1 and October 1, beginning October 1, 2007) to the Holder as of the 15th day of the month preceding the Interest Payment Date. Interest on the Series 2007 Bonds will be calculated on a year consisting of twelve 30-day months.

**TAX ISSUES:** 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 2007 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended, and (ii) that interest on, and any profit made on the sale, exchange or other disposition of, the Series 2007 Bonds, are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio. Interest on the Series 2007 Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see “TAX MATTERS” herein.

**TRUSTEE AND BOND REGISTRAR:** The Bank of New York Trust Company, N.A. is the Trustee and Bond Registrar for the Series 2007 Bonds.

**BOND COUNSEL:** Thompson Hine LLP.

**UNDERWRITER:** RBC Dain Rauscher Inc., which does business under the name RBC Capital Markets (“RBC Capital Markets”).

Questions regarding this Official Statement or the Bonds should be directed to Kevin Fenlon, Ohio Building Authority, 30 East Broad Street, Columbus, Ohio 43215-3414, telephone (614) 466-5959.



**\$36,410,000**  
**STATE OF OHIO**  
**(OHIO BUILDING AUTHORITY)**  
**STATE FACILITIES BONDS AND**  
**STATE FACILITIES REFUNDING BONDS**  
consisting of

<b>\$20,000,000</b> <b>STATE OF OHIO</b> <b>(Ohio Building Authority)</b> <b>State Facilities Bonds</b> <b>(Juvenile Correctional Building Fund Projects)</b> <b>2007 Series A</b>	<b>\$16,410,000</b> <b>STATE OF OHIO</b> <b>(Ohio Building Authority)</b> <b>State Facilities Refunding Bonds</b> <b>(Juvenile Correctional Building Fund Projects)</b> <b>2007 Series B</b>
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**INTRODUCTORY STATEMENT**

The purpose of this Official Statement of the Ohio Building Authority (the "Authority") is to furnish information with respect to the original issuance and sale of \$20,000,000 aggregate principal amount of State of Ohio (Ohio Building Authority) State Facilities Bonds (Juvenile Correctional Building Fund Projects), 2007 Series A (the "Series 2007 A Bonds"), and \$16,410,000 aggregate principal amount of State of Ohio (Ohio Building Authority) State Facilities Refunding Bonds (Juvenile Correctional Building Fund Projects), 2007 Series B (the "Series 2007 B Bonds"). The Series 2007 A Bonds and the Series 2007 B Bonds are collectively referred to herein as the "Series 2007 Bonds". The Series 2007 Bonds are being issued pursuant to Section 2i of Article VIII of the Ohio Constitution under powers granted to the Authority by the Act. Capitalized terms not otherwise defined in the text of this Official Statement shall have the meanings given to them in the **GLOSSARY** herein.

**The Series 2007 Bonds**

The Series 2007 Bonds will be issued under the Trust Agreement dated as of June 1, 1990 (the "Original Trust Agreement") between the Authority and The Bank of New York Trust Company, N.A., as successor trustee (the "Trustee"), and the Tenth Supplemental Trust Agreement dated as of April 15, 2007 (the "Tenth Supplemental Trust Agreement") between the Authority and the Trustee. (The Original Trust Agreement, as amended and supplemented to date and by the Tenth Supplemental Trust Agreement, is hereinafter referred to as the "Trust Agreement".) The Series 2007 Bonds are authorized by Resolution No. 1990-3 adopted by the Authority on February 15, 1990 (the "General Bond Resolution") and Series Resolution No. 2007-1 adopted by the Authority on April 20, 2007 (the "Series 2007 Resolution" and, collectively with the General Bond Resolution, as amended and supplemented to date, the "Resolutions").

Proceeds from the sale of the Series 2007 A Bonds will be used for the purpose of (i) paying costs of acquiring, constructing, reconstructing, rehabilitating, remodeling, renovating, enlarging, improving, altering, equipping and furnishing the Projects, including the sites thereof, to be leased to the Department of Youth Services of the State of Ohio (the "Department"), and (ii) paying costs incidental to the issuance and sale of the Series 2007 A Bonds. See "**SOURCES AND USES OF BOND PROCEEDS AND PLAN OF REFUNDING**".

Proceeds from the sale of the Series 2007 B Bonds will be used for the purpose of (i) advance refunding the currently outstanding State of Ohio (Ohio Building Authority) State Facilities Bonds (Juvenile Correctional Building Fund Projects), 2001 Series A, scheduled to mature on April 1 in the years 2012 through 2016, inclusive (the "Refunded Bonds"), and (ii) paying costs incidental to the issuance and sale of the Series 2007 B Bonds. The Refunded Bonds were issued by the Authority to pay costs of acquiring, constructing, reconstructing, rehabilitating, remodeling, renovating, enlarging, improving, altering, equipping and furnishing the Projects, including the sites thereof, to be leased to the Department. See "**SOURCES AND USES OF BOND PROCEEDS AND PLAN OF REFUNDING**".

The Authority has leased the Projects to the Department pursuant to the terms of a Lease Agreement dated as of June 1, 1990 (the "Original Lease"), between the Authority and the Department, and a Tenth Supplemental Lease dated as of April 15, 2007 (the "Tenth Supplemental Lease") between the Authority and the Department. (The Original Lease, as amended and supplemented to date, and by the Tenth Supplemental Lease, is hereinafter referred as the "Lease".) The current term of the Lease expires June 30, 2007 and is renewable for successive terms not to exceed two years upon appropriation by the General Assembly to the Department of the amounts required for rental payments for each successive term.

The Lease requires rental payments from the Department sufficient to pay the Bond Service Charges on the Series 2007 Bonds and any other obligations issued under the Trust Agreement (collectively, the "Bonds"), certain administrative costs of the Authority and any additional amounts required to be paid into the Rebate Fund. The rental payments constituting Basic Rent (see "**THE LEASE – Rental Payments and Pledges**") from the Department are pledged by the Authority pursuant to the Trust Agreement for the payment of Bond Service Charges on the Bonds and are required to be deposited as described herein under "**THE TRUST AGREEMENT – Funds and Accounts**".

**The obligations of the Department to make rental payments and to perform other obligations involving expenditures under the Lease are subject to and dependent upon biennial appropriations for the Department being made by the General Assembly for such purpose. If the General Assembly were to fail to appropriate moneys to renew the Lease, the Lease would terminate. Under the Lease, the Authority has waived all rights it may have to recover possession of the Projects in the event of the termination of the Lease; further, the Trust Agreement and the Act prohibit the Trustee from taking possession of or operating the Projects.**

#### **Rental Payments and Bond Service Charges**

Based upon the projected Bond Service Charges on the Series 2007 Bonds and the Authority's estimated administrative expenses for the Projects for the biennium ending June 30, 2007, the respective amounts appropriated by the General Assembly for the rental payments to the Authority by the Department under the Lease will be sufficient to pay, with respect to the Projects, such Bond Service Charges and certain administrative expenses of the Authority for such biennium, including any amounts due as Additional Rent under the Lease.

This Official Statement contains brief descriptions of the Series 2007 Bonds, the plan of refunding for the Refunded Bonds, the security for the Series 2007 Bonds, the Authority, the Department, the Projects, the Lease and the Trust Agreement. **Certain financial and other information concerning the State is contained in APPENDIX A – INFORMATION CONCERNING THE STATE OF OHIO hereto and should be reviewed carefully, because rental payments under the Lease are paid with moneys appropriated from the State's General Revenue Fund.**

The scheduled payment of principal and interest on the Series 2007 Bonds when due will be guaranteed under municipal bond insurance policies to be issued concurrently with the delivery of the Series 2007 Bonds by Financial Security Assurance Inc. See "BOND INSURANCE" and "APPENDIX C".

All financial and other data included herein have been provided by the Authority, the Department or the State, except that which is attributed to other sources. The summaries of the documents described herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents. Copies of the Lease and the Trust Agreement may be obtained from the Authority and, during the initial offering period, from the Underwriter.

### **THE SERIES 2007 BONDS**

#### **General**

The Series 2007 Bonds will be dated the date of their initial issuance. The Series 2007 Bonds will bear interest at the rates, payable semiannually on the Interest Payment Dates, and will mature in the years and in the

principal amounts set forth on the inside front cover page. Interest on the Series 2007 Bonds will be calculated on the basis of a year consisting of twelve 30-day months.

### **Registration, Payment and Transfer**

The Series 2007 Bonds of each series will be issued and issuable only as one fully registered bond for each respective maturity of each such series in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), New York, New York, as Holder of all the Series 2007 Bonds. The fully registered Series 2007 Bonds of each series will be retained and immobilized in the custody of DTC. See “**BOOK-ENTRY FORM**”. As used in this Official Statement, “Holder” means the registered owner of a Series 2007 Bond and “Book Entry Interest Owner” means the owner of a book-entry interest in a Series 2007 Bond held by a Depository in Book-Entry Form. DTC (or any successor securities depository), or its nominee, for all purposes under the Trust Agreement will be and will be considered to be the sole Holder of the Series 2007 Bonds.

### **Payments of Bond Service Charges on the Series 2007 Bonds**

The principal of the Series 2007 Bonds will be payable to the Holder (initially DTC, or its nominee) upon presentation and surrender of the Series 2007 Bonds at the principal corporate trust office of the Trustee. The Series 2007 Bonds will bear interest on their unpaid principal amounts payable on each Interest Payment Date to the Holder (initially DTC, or its nominee) at the address shown on the Bond Register as of the close of business on the 15<sup>th</sup> day of the calendar month next preceding such Interest Payment Date; provided that, so long as a series of the Series 2007 Bonds remains in Book-Entry Form, the Trustee will make any payment of Bond Service Charges on that series by wire transfer of funds on each Interest Payment Date.

### **Redemption of Series 2007 Bonds**

The Series 2007 Bonds are not subject to redemption prior to maturity.

### **Additional Bonds**

Pursuant to the Trust Agreement, the Authority has previously issued Additional Bonds for the purpose of paying the Project Costs or for the purpose of refunding one or more series or one or more maturities within a series of Bonds. The Authority may issue further Additional Bonds under the Trust Agreement for the purpose of paying Project Costs in an amount not exceeding the amount authorized by the General Assembly or for the purpose of refunding one or more series or one or more maturities within a series of Bonds (including but not limited to the Series 2007 Bonds). The General Assembly can, by legislation, increase or decrease the amount authorized for any of the Projects. Such Additional Bonds will be payable from the Pledged Receipts under the Trust Agreement on a parity with the bonds and other obligations outstanding under the Trust Agreement, including the Series 2007 Bonds.

## **BOOK-ENTRY FORM**

### **General**

**Book Entry Interest Owners of any series of the Series 2007 Bonds will not receive or have the right to receive physical delivery of Series 2007 Bonds of such series and will not be or be considered to be, and will not have any rights as, Holders, of Series 2007 Bonds of such series under the Trust Agreement.**

The following information on the Book-Entry System applicable to the Series 2007 Bonds has been supplied by DTC. The Authority, the Department, the Underwriter and the Trustee do not make any representations, warranties or guarantees with respect to the accuracy or completeness of this information and have no responsibility for the accuracy thereof.

DTC will act as securities depository for each series of the Series 2007 Bonds. The Series 2007 Bonds will be issued as securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other

name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each series of the Series 2007 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and by members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 Bond ("Book Entry Interest Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Book Entry Interest Owners will not receive written confirmation from DTC of their purchase. Book Entry Interest 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 Book Entry Interest Owner entered into the transaction. Transfers of ownership interests in the Series 2007 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Book Entry Interest Owners. Book Entry Interest Owners will not receive certificates representing their ownership interests in Series 2007 Bonds, except in the event that use of the book-entry system for the Series 2007 Bonds purchased by such Book Entry Interest Owner is discontinued.

To facilitate subsequent transfers, all Series 2007 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 2007 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 Book Entry Interest Owners of the Series 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007 Bonds are credited, which may or may not be the Book Entry Interest Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Book Entry Interest Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Book Entry Interest Owners of Series 2007 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2007 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Book Entry Interest Owners of Series 2007 Bonds may wish to ascertain that the nominee holding the Series 2007 Bonds for their benefit has agreed to obtain and transmit notices to Book Entry Interest Owners, in the

alternative, Book Entry Interest Owners may wish to provide their names and addresses to the Trustee 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 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Bond Service Charges on the Series 2007 Bonds will be paid to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Book Entry Interest Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or its nominee, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of Bond Service Charges to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, and disbursements of such payments to the Book Entry Interest Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2007 Bonds, or any series thereof, at any time by giving reasonable notice to the Authority or the Trustee. Also, the Authority may determine that continuation of a securities depository/book-entry relationship is not in the best interest of the Holders of any series of the Series 2007 Bonds. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2007 Bond certificates are required to be printed and delivered. See "**BOOK-ENTRY FORM – Revision of Book-Entry System; Series 2007 Replacement Bonds**" below.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

#### **Revision of Book-Entry System; Series 2007 Replacement Bonds**

The Trust Agreement provides for the physical delivery of fully registered Series 2007 Bonds ("Series 2007 Replacement Bonds"), of the respective series thereof issued, directly or indirectly, to Holders, other than DTC or its nominee, of such Series 2007 Bonds if the Authority determines that continuation of a securities depository/book-entry relationship is not in the best interests of the Holders of any series of Series 2007 Bonds or in the event that DTC determines not to continue to act as securities depository for such series of Series 2007 Bonds. Upon the occurrence of any such event with respect to any series of Series 2007 Bonds, the Authority may in its discretion attempt to have established a securities depository/book-entry relationship with another qualified securities depository for such series of Series 2007 Bonds. If the Authority does not, or is unable to, establish such a relationship and after the Trustee has made provisions for notification of the Book Entry Interest Owners of the affected Series 2007 Bonds by appropriate notice to DTC or its nominee, such Trustee will authenticate and deliver the Series 2007 Replacement Bonds of the applicable series in the denomination of \$5,000 or any integral multiple thereof, to or at the direction of, and, if the event is not the result of Authority action or inaction, at the expense (including printing costs) of DTC's assigns.

Bond Service Charges on Series 2007 Replacement Bonds will be payable when due without deduction for the services of the paying agent. Principal of and any premium on any Series 2007 Replacement Bonds will be payable to the Holder thereof upon presentation and surrender thereof at the principal corporate trust office of the Trustee. Interest thereon will be payable by the Trustee by check or draft, mailed to the Holder of record on the Bond Register maintained by the Trustee as of the 15<sup>th</sup> day of the calendar month preceding the Interest Payment Date.

Series 2007 Replacement Bonds will be exchangeable for Series 2007 Replacement Bonds of the same series in authorized denominations, and transferable, at the office of the Trustee without charge (except taxes and

other governmental fees). Exchange or transfer of then redeemable Series 2007 Replacement Bonds is not required to be made (i) between the 15<sup>th</sup> day preceding the mailing of notice of Series 2007 Replacement Bonds of such series to be redeemed and the date of that mailing, or (ii) in the case of a particular Series 2007 Replacement Bond selected for redemption (in whole or in part).

**Transfer of Book-Entry Interests in Series 2007 Bonds**

The rights of Book Entry Interest Owners in the Series 2007 Bonds and the manner of transferring or pledging those interests is subject to applicable state law. Book Entry Interest Owners in the Series 2007 Bonds may wish to discuss the manner of transferring or pledging their book-entry interests in such Series 2007 Bonds with their legal advisors.

**SOURCES AND USES OF BOND PROCEEDS AND PLAN OF REFUNDING**

The proceeds of each series of Series 2007 Bonds, together with certain other available moneys, will be applied for the following uses and purposes:

	Series 2007 A <u>Bonds</u>	Series 2007 B <u>Bonds</u>
<u>Sources of Funds:</u>		
Par Amount of the Series 2007 Bonds	\$20,000,000.00	\$16,410,000.00
Premium	<u>999,142.65</u>	<u>1,285,321.50</u>
Total Sources	<u>\$20,999,142.65</u>	<u>\$17,695,321.50</u>
<u>Uses of Funds:</u>		
Deposit to Juvenile Correctional Building Fund	\$20,856,068.61	N/A
Deposit to an Escrow Account	N/A	\$17,565,395.30
Deposit to Bond Service Account	N/A	3,622.79
Financing Costs <sup>1</sup>	<u>143,074.04</u>	<u>126,303.41</u>
Total Uses	<u>\$20,999,142.65</u>	<u>\$17,695,321.50</u>

<sup>1</sup> Includes Underwriter’s discount, certain legal fees, premium for bond insurance, printing costs and other costs of issuance.

**Series 2007 A Bonds**

The proceeds received by the Authority from the sale of the Series 2007 A Bonds will be deposited in the Juvenile Correctional Building Fund to pay costs of acquiring, constructing, reconstructing, rehabilitating, remodeling, renovating, enlarging, improving, altering, equipping and furnishing Projects, including the sites thereof, for lease by the Authority to the Department for housing personnel, equipment or functions or any combination thereof that the Department is responsible for housing, all as and to the extent provided in the Act and the Resolutions. Issuance costs (excluding underwriting discount) incurred by the Authority in connection with the issuance of the Series 2007 A Bonds will be paid from rental payments made by the Department pursuant to the Lease.

### **Series 2007 B Bonds**

A portion of the premium received by the Authority from the sale of the Series 2007 B Bonds will be used to pay capitalized interest and will be deposited in the Bond Service Account. All the remaining proceeds will, on the date of the delivery of the Series 2007 B Bonds, be used to purchase direct obligations of, or obligations the payment of the principal of and premium, if any, and interest on which are unconditionally guaranteed by, the United States of America (the "Defeasance Obligations"). The Authority will cause Defeasance Obligations sufficient to refund the Refunded Bonds to be deposited in the refunding escrow account (the "Escrow Account") established under the Escrow Agreement dated as of April 15, 2007, between the Authority and The Bank of New York Trust Company, N.A., in its capacities as Trustee and Escrow Agent for the Refunded Bonds (the "Escrow Agreement"). The amounts derived from the Defeasance Obligations will be applied to pay principal and interest on the Refunded Bonds through the redemption date designated for the Refunded Bonds. Issuance costs (excluding underwriting discount) incurred by the Authority in connection with the issuance of the Series 2007 B Bonds will be paid from rental payments made by Department pursuant to the Lease.

### **Mathematical Verification**

The mathematical accuracy of the computations supporting the adequacy of maturing principal of and premium, if any, and interest on the Defeasance Obligations to pay the principal of and redemption premium, if any, and interest on the Refunded Bonds will be verified by Grant Thornton, LLP, independent certified public accountants, prior to the delivery of the Series 2007 Bonds.

### **Defeasance of Refunded Bonds**

Upon the purchase and deposit of the Defeasance Obligations in accordance with the Escrow Agreement and receipt of the verification described above, the Refunded Bonds will be deemed to have been paid and discharged within the meaning of the Trust Agreement.

## **SECURITY FOR THE SERIES 2007 BONDS**

### **General**

The Series 2007 Bonds are special obligations of the State issued by the Authority under and pursuant to the Trust Agreement. The Series 2007 Bonds of each series are payable solely from, and together with any Additional Bonds, are equally and ratably secured by a pledge of the Pledged Revenues. See "**SECURITY FOR THE SERIES 2007 BONDS - Rental Payments and Related Budget Requirements**".

The Series 2007 Bonds will be entitled only to the security afforded by the Pledged Receipts on a parity with the Additional Bonds. None of the Projects, nor any interest therein, is pledged or mortgaged as security for the Series 2007 Bonds, nor will the Trustee or the Authority have the right to take possession of or operate the Projects upon a default under or termination of the Lease. See "**THE LEASE - Termination**".

The proceeds of the Series 2007 A Bonds deposited in the Juvenile Correctional Building Fund maintained in the custody of the Treasurer are not held by the Trustee under the Trust Agreement. Funds in the Juvenile Correctional Building Fund are not pledged as security for the Series 2007 Bonds or any other bonds issued by the Authority. See "**JUVENILE CORRECTIONAL BUILDING FUND**". The proceeds of the Series 2007 B Bonds deposited in the Escrow Account created under the Escrow Agreement are not pledged as security for the Series 2007 Bonds or any other bonds issued by the Authority. See "**SOURCES AND USES OF BOND PROCEEDS AND PLAN OF REFUNDING**".

### **Rental Payments and Related Budget Requirements**

The Lease requires rental payments of Basic Rent at least equal to: (i) Bond Service Charges on all outstanding Bonds (whether due as scheduled, as a result of a call for redemption or as a result of an acceleration of principal and interest on such Bonds); (ii) such sums, if any, as shall be necessary to maintain any related reserve in

a bond service reserve account (none is provided for or required with respect to the Series 2007 Bonds ); (iii) such sums, if any, as shall be necessary to purchase any Bonds that the Authority is obligated to purchase from any Financial Institution; and (iv) such sums, if any, as shall be necessary to make any payments that the Authority is obligated to make pursuant to any related agreement between the Authority and any Financial Institution issuing a Credit Support Instrument for one or more series of Bonds. The Lease also requires payment of Additional Rent in an amount equal to certain administrative fees, expenses and obligations other than Bond Service Charges incurred by the Authority and amounts sufficient to pay the Rebate Amount, to the extent not available from other sources.

The Lease requires the Authority to prepare periodically and submit to the Department and to the Director of Budget and Management reports estimating the rental payments to be due thereunder. The obligation of the Department to make rental payments pursuant to the Lease is expressly made subject to the appropriation of moneys by the General Assembly for such purpose. See **“THE AUTHORITY - Budgetary Process”**. Under the Ohio Constitution, an appropriation may not be made for more than a two-year period. The term of the Lease expires no later than the end of each State fiscal biennium (currently June 30 of each odd-numbered year, *e.g.*, June 30, 2007) unless the General Assembly has appropriated funds for the purpose of paying the rents and other sums payable thereunder for the next succeeding State fiscal biennium. The term of the Lease will be renewed for an additional term not exceeding two years (commencing on the first day of the new State fiscal biennium) upon such appropriations becoming effective on or prior to the beginning of each State fiscal biennium (currently July 1 of each odd-numbered year, *e.g.*, July 1, 2007). The obligation of the Department to make rental payments under the Lease will continue, so long as that Lease is renewed until all Bonds have been paid. So long as the Lease remains in effect, the obligation of the Department to make rental payments thereunder in amounts sufficient to pay the respective Bond Service Charges and for other purposes set forth above are absolute and unconditional, subject only to the availability of moneys appropriated for such purposes.

Payment of the principal and interest on the Series 2007 Bonds when due will be insured by the Bond Insurance to be issued by the Bond Insurer simultaneously with the delivery of the Series 2007 Bonds. See **“BOND INSURANCE.”**

**The obligation of the Department to make rental payments under the Lease is subject to and dependent upon biennial appropriations for the Department being made by the General Assembly for such purpose. As noted above, the General Assembly may not, under the provisions of the Ohio Constitution, make appropriations for a period longer than two years. While the Authority expects that the General Assembly will, for each State fiscal biennium, continue to appropriate amounts to the Department sufficient to meet the its rental payment obligations under the Lease to the Authority consistent with the State budget, the General Assembly is not under a legal obligation to make appropriations in accordance with such State budgets for future State fiscal biennia. The Series 2007 Bonds are special obligations of the State issued by the Authority payable solely from the Pledged Receipts under the Trust Agreement. The Series 2007 Bonds do not represent or constitute a debt of the State, the Authority, the Department or any political subdivision of the State, nor a pledge of the faith and credit of the State, any political subdivision thereof, or the Authority. The Holders and Book Entry Interest Owners of the Series 2007 Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of the Bond Service Charges on the Series 2007 Bonds.**

## **BOND INSURANCE**

The following information has been furnished by Financial Security Assurance Inc. (the “Bond Insurer”) for use in this Official Statement. See APPENDIX C for a specimen of the Municipal Bond Insurance Policies (the “Bond Insurance”) to be issued by the Bond Insurer.

### **Bond Insurance Policies**

Concurrently with the issuance of the Series 2007 Bonds, Financial Security Assurance Inc. (“Financial Security”) will issue its Municipal Bond Insurance Policy for each series of the Bonds (the “Policy”). Each Policy guarantees the scheduled payment of principal of and interest on the related series of Series 2007 Bonds when due as set forth in the form of the Policy included as an Exhibit C to this Official Statement.



The Policies are not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Financial Security Assurance Inc.**

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2006, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,554,147,000 and its total net unearned premium reserve was approximately \$2,070,751,000 in accordance with statutory accounting principles. At December 31, 2006, Financial Security's consolidated shareholder's equity was approximately \$2,722,312,000 and its total net unearned premium reserve was approximately \$1,648,334,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policies do not protect investors against changes in market value of the Series 2007 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2007 Bonds or the advisability of investing in the Series 2007 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Authority the information presented under this caption for inclusion in the Official Statement.

## **THE AUTHORITY**

### **General**

The Authority was created in 1963 as a body both corporate and politic of the State upon enactment of the Act by the General Assembly. The Authority is empowered by the Act, among other things, to acquire, purchase, construct, reconstruct, rehabilitate, remodel, renovate, enlarge, improve, alter, maintain, equip, furnish, repair, paint, decorate, manage and operate capital facilities for the use of State agencies (including branches, offices, boards, commissions, authorities, departments, divisions, courts, the General Assembly and other units or agencies of the State). Under the Act, capital facilities include capital facilities for housing branches and agencies of State government, including capital facilities for the purpose of housing personnel, equipment or functions, or any combination thereof, which State agencies are responsible for housing, other than facilities for mental hygiene and retardation, parks and recreation and state-supported or state-assisted institutions of higher education. The Authority is empowered to construct and operate capital facilities for the housing of branches and agencies of State government, including, under certain circumstances, participation in such capital facilities with municipal corporations, counties or other political subdivisions.

Pursuant to the Act and Section 2i of Article VIII of the Ohio Constitution, the Authority is empowered to issue revenue obligations to finance the cost of Capital Facilities, but the holders of such obligations are not given the right to have excises or taxes levied by the General Assembly for the payment of debt service on such

obligations. The Series 2007 Bonds are such “revenue obligations” by virtue of the fact that only lease rental payments and other Pledged Receipts are pledged to the repayment of such Series 2007 Bonds.

The Authority consists of five members appointed by the Governor for six-year terms with the advice and consent of the State Senate. The present members of the Authority are:

<u>Name of Member</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Sandra A. Drabik, Chairman	Attorney at Law	December 31, 2011
John D. Kidd, Vice Chairman	Chairman, Oak Hill Financial	December 31, 2007
G. Duane Welsh, Secretary-Treasurer	Vice President and General Counsel, American Share Insurance Company	December 31, 2007
Thomas L. Fries, Sr.	Public Sector Consultant	December 31, 2009
Michael S. Kappas	CEO, Consumer Credit Counseling Services of Midwest, Inc.	December 31, 2009

The Executive Director of the Authority is responsible for the management, budgeting and operations of all the Authority's projects. The Executive Director of the Authority is appointed by, and serves at the pleasure of, the members of the Authority as the chief administrative officer responsible for the Authority's daily operations. Mark A. Gibson is the Executive Director of the Authority. Mark A. Haberman and Kevin T. Fenlon are Assistant Executive Directors of the Authority for facilities management and financial affairs, respectively.

The Attorney General of Ohio, Marc Dann, serves as general counsel to the Authority. The law firm of Calfee, Halter & Griswold LLP serves as issuer's counsel to the Authority.

### Current and Pending Projects

The Authority has financed or is financing the costs associated with the acquisition, construction, rehabilitation, remodeling, renovating, enlarging, improvement, equipping and furnishing of various facilities to house branches and agencies of State government, including facilities for the Department (see “**THE PROJECTS – Projects**”); facilities for the Department of Transportation (“DOT”); facilities for the Department of Administrative Services (“DAS”); prison and local correctional facilities and minimum security misdemeanor jails for the Department of Rehabilitation and Correction (“DRC”); an office building for the Bureau of Workers Compensation (“BWC”); facilities for the Department of Natural Resources (“DNR”); and facilities for the Department of Public Safety (“DPS”).

The Authority's financings for projects other than the Projects are and will be under proceedings separate from the proceedings for the Series 2007 Bonds. Highway user receipts are appropriated for rental payments relating to the DOT and the DPS facilities. Assessments paid into the administrative cost fund of the BWC are appropriated for rental payments related to BWC facilities. General fund revenues are appropriated for all other rental payments relating to such facilities. See **APPENDIX A - “INFORMATION CONCERNING THE STATE OF OHIO - STATE DEBT”**.

### Budgetary Process

Substantially all of the moneys for the Authority are provided by the General Assembly through biennial appropriations of rental payments to the Department, the DOT, the DAS, the DRC, the DNR, the DPS and the BWC. The Act requires that the Authority, prior to the preparation of the State's budget, prepare an estimate of the amount of moneys necessary to pay debt service on all obligations of the Authority and to pay all other expenses of the

Authority and its properties for the next succeeding State fiscal biennium. The Authority's estimates are submitted to the Department, the DOT, the DAS, the DRC, the DNR, the DPS and the BWC for review and inclusion in their respective budget requests, and each may question the reasonableness or the necessity for the expenses related to its capital facilities. These estimates are then submitted to the Director of Budget and Management as budget requests for the Department, the DOT, the DAS, the DRC, the DNR, the DPS and the BWC, respectively. The Director of Budget and Management has the authority to adjust these requests for rental payments as he prepares the State budget on behalf of the Governor, who submits it to the General Assembly for consideration and adoption.

The Authority's budget proposal includes projections of expenses to be incurred for capital facilities financed for the use of various State agencies, including the Department, for the next succeeding two Fiscal Years, but the actual expenses might exceed or be less than the amount estimated, budgeted and appropriated therefor. The leases between the Authority and the Department, the DOT, the DAS, the DRC, the DNR, the DPS and the BWC provide for adjustments in budgeted amounts of such expenses for each two-year term to reflect overpayments or underpayments during the preceding two-year term.

## **THE PROJECTS**

The Projects include a portion of the costs of various Capital Facilities for lease to the Department as provided for in the applicable General Assembly appropriation acts. These capital improvements consist of acquiring, constructing, reconstructing, rehabilitation, remodeling, renovating, enlarging, improving, altering, equipping and furnishing such facilities, including the sites thereof. Projects are juvenile correctional facilities, including single-county and joint-county facilities.

### **DEPARTMENT OF YOUTH SERVICES**

The Department was created in November 1983, and is generally responsible for, among other functions, the following: the confinement of felony offenders, ages 10 through 21, who have been adjudicated and committed by the county courts of the State; the promotion and operation of programs for the rehabilitation of juvenile offenders and their reintegration into the community; providing community supervision and case management for relapse offenders and assisting juvenile courts and local agencies in dealing with less serious adjudicated delinquents and delinquency prevention.

The Department is administered by the Director of Youth Services (the "Department Director"), who is appointed by the Governor with the advice and consent of the Senate and is subject to removal at the pleasure of the Governor. Thomas J. Stickrath currently serves as the Department Director. The Department is organized into six divisions – Corrections, Parole and Community Services, Legal Services, Finance and Planning, Human Resources, and Accreditation, Audit and Information Systems.

### **JUVENILE CORRECTIONAL BUILDING FUND**

The Juvenile Correctional Building Fund was created by the General Assembly as a separate deposit account in the custody of the Treasurer. Proceeds from the sale of the Series 2007 A Bonds will be deposited in the Juvenile Correctional Building Fund. (See **SOURCES AND USES OF BOND PROCEEDS AND PLAN OF REFUNDING – Series 2007 A Bonds**’.) Moneys in the Juvenile Correctional Building Fund are applied and disbursed for the payment or reimbursement of costs of capital facilities incurred for and in connection with the Projects and are invested and reinvested in accordance with law and in accordance with procedures therefor established by the Authority, the Department, the Director of Budget and Management and the Treasurer. Any investment income on moneys in the Juvenile Correctional Building Fund may be transferred to the Rebate Fund to be rebated or to be used as an amount in lieu of or in addition to any Rebate Amount to be paid to the United States of America to maintain the exclusion from gross income for federal income tax purposes of interest on the Series 2007 Bonds pursuant to Section 148(f) of the Code.

**Moneys on deposit in the Juvenile Correctional Building Fund are not pledged to the payment of Bond Service Charges on the Series 2007 Bonds or any other obligations issued by the Authority.**

## **THE LEASE**

### **General**

The Act provides that the capital facilities financed or constructed by the Authority for State agencies shall be leased to the State agency using those capital facilities or to the DAS for the use of such State agency or other governmental entities. Accordingly, the Authority has leased the Projects to the Department. Under the Act, the term of any lease between the Authority and such State agency or the DAS shall be for a period not exceeding the then current two-year period for which appropriations for rental payments to the Authority have been made by the General Assembly. Provision may be made for renewals at the end of each term for another term not exceeding two years. The Act also provides that all rentals and other charges by the Authority shall be set so that its revenues are sufficient to meet its requirements, including debt service on all outstanding obligations and all other expenses of the Authority. The following summarizes certain provisions of the Lease to which document reference is made for the detailed provisions thereof.

### **Term of the Lease**

The Lease has been automatically renewed for successive two-year terms and currently expires on June 30, 2007, the end of the current State fiscal biennium. The Department has the right to renew the Lease for successive Renewal Terms of two years each, commencing on the beginning of each State fiscal biennium (currently July 1 of each odd-numbered year), upon the same terms as are contained in the Lease, unless sooner terminated in accordance with the Lease and Trust Agreement. The right of the Department to renew the term of the Lease shall be deemed exercised upon the effectiveness, at or prior to the expiration of the then current term of the Lease, of legislation enacted by the General Assembly appropriating funds to the Department at least equal to the Basic Rent (as described below) and amounts the Authority deems necessary for Additional Rent (as described below) including sums payable pursuant to the Trust Agreement for items such as estimated administrative and overhead expenses of the Authority with respect to the Projects, and certain other sums payable under the Lease during the next Renewal Term. See “**THE LEASE - Rental Payments and Pledges**” below.

### **Rental Payments and Pledges**

The Lease requires the Department to make rental payments sufficient to pay the Bond Service Charges on outstanding Bonds and certain administrative costs of the Authority and any additional amounts required to be paid into the Rebate Fund. The Lease rental payments (other than those to be deposited in the Administrative Service Fund for the payment of various administrative and operating expenses of the Authority and for deposit into the Rebate Fund) are pledged by the Authority pursuant to the Trust Agreement for the payment of Bond Service Charges on the Bonds. All Lease rental payments are required to be deposited in the Bond Service Fund, the Administrative Service Fund or the Rebate Fund. See “**THE TRUST AGREEMENT - Funds and Accounts**”.

During each term of the Lease, the Department has agreed to pay the Authority, without notice or demand, on or before each Rental Payment Date, Basic Rent that includes (i) an amount equal to the Bond Service Charges on all outstanding Bonds, whether due as scheduled, as a result of a call for redemption or as a result of an acceleration of principal and interest on such Bonds; (ii) such sums, if any, as shall be necessary to maintain any applicable required reserve in a bond service reserve account (none is provided for or required with respect to the Series 2007 Bonds); (iii) such sums, if any, as shall be necessary to purchase any Bonds that the Authority is obligated to purchase from any Financial Institution; and (iv) such sums, if any, as shall be necessary to make any payments that the Authority is obligated to make pursuant to any related agreement between the Authority and any Financial Institution issuing a Credit Support Instrument for one or more series of Bonds. During each term of the Lease, the Department has the option to make prepayments of Basic Rent for the purchase, redemption or defeasance of any Bonds.

During each term of the Lease, the Department has also agreed to pay, as Additional Rent, an amount equal to certain administrative fees, expenses and obligations, other than Bond Service Charges, incurred by the Authority and amounts sufficient to pay the Rebate Amount to the extent not available from other sources.

Except as described below under “**THE LEASE - Legislative Appropriations**”, the obligation of the Department to pay Basic Rent and Additional Rent during each two-year term of the Lease is absolute and unconditional, and is payable without any rights of termination, set-off, recoupment, deduction, defense or counterclaim the Department might have against the Authority, the Trustee or any other person, and without abatement, suspension, deferment, diminution or reduction for any reason or as the result of any occurrence whatsoever, including, without limitation, whether or not the Projects are ever acquired, constructed, installed or made ready for occupancy or are ever used or occupied by the Department, or are available for use or occupancy by the Department, any actions of the Department involving the substitution of furnishings, equipment, and related property in connection with the Projects or the alteration of or addition to the Projects, any acts or circumstances constituting eviction or constructive eviction, failure of consideration, failure of title or frustration of purpose, or any damage to or destruction of any of the Projects or any taking of the title to or the right of temporary use of all or any part of the Projects by condemnation or eminent domain.

### **Project Substitutions and Alterations**

The Department has the privilege of (i) substituting or removing furnishings, equipment and related property in connection with the Projects, provided that such substitution or removal shall not impair the character or usefulness of the Projects; and (ii) making changes, alterations and additions, structural or otherwise, to the Projects, which changes, alterations and additions become a part of the Projects. The Department may grant at any time leases, easements, or rights of use to other persons or entities in the Projects as may be allowed by law.

### **Insurance**

The Authority has no obligation to provide insurance of any kind for, or with respect to activities connected with, the Projects or the repair of or reconstruction of all or any portion of the Projects following any damage to or destruction of the Projects or any portion thereof. If the Department or others at any time provide any such insurance, the Authority will have no right or interest therein or to any proceeds therefrom.

### **Legislative Appropriations**

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

The Lease requires that projected payments under the Lease be included in the estimated budget of the Department for the State budget estimates prepared by the Director of Budget and Management for each State fiscal biennium and submitted to the Governor for inclusion in the biennial State budget submitted by the Governor to the General Assembly. See “**THE AUTHORITY - Budgetary Process**”. The Lease provides that, on or before the commencement of each State Fiscal Year, currently July 1 of each year, the Authority shall submit to the Department and to the Director of Budget and Management a schedule which shall set forth the estimated amounts and dates of the rental payments due under the Lease during that Fiscal Year and on a timely basis shall supplement or correct such schedule to reflect any changes in such rental payments. The Department encumbers the appropriations made for the rental payments under the Lease during that Fiscal Year as set forth in the schedule. On a timely basis prior to the date required for each such rental payment, the Department is required to submit an order in the nature of an invoice or voucher for each rental payment to cause issuance of a warrant payable to the Authority and the Trustee and redeemable at the office of the Treasurer in accordance with law, for all such rental payments at the times therefor and for payment in accordance with the Trust Agreement. Such rental payments are required to be deposited for credit to the appropriate fund or account in accordance with the Trust Agreement.

Under the terms of the Lease, a failure by the General Assembly to appropriate moneys at least equal to Basic Rent, amounts the Authority estimates are necessary for Additional Rent and other sums payable under the Lease for the next State fiscal biennium would result in the termination of the Lease at the end of the two-year term

then in effect. The Lease will, however, be fully reinstated, as if it had never been terminated, provided the conditions set forth below under “**THE LEASE - Reinstatement**” are met.

**The General Assembly may not make appropriations for a period longer than two years. While the Authority expects that, for each State fiscal biennium, the General Assembly will appropriate amounts to the Department sufficient to make its rental payments to the Authority under the Lease consistent with the State budget, the General Assembly is not under a legal obligation to make appropriations in accordance with such State budgets for future State fiscal biennia. Section 2i of Article VIII of the Ohio Constitution and the Act provide that the Holders and Book Entry Interest Owners of the Bonds will have no right to have excises or taxes levied by the General Assembly for the payment of Bond Service Charges thereon.**

### **Remedies**

In the event of a default under or termination of the Lease, the Lease provides that the Authority waives, relinquishes and releases any and all rights it may have of re-entry or to take or retake possession of the Projects and agrees not to exercise any such rights. **Consequently, the Authority does not have the remedies generally available to lessors upon default or termination and the Authority may have no practical remedy to insure that moneys are available for the payment of Bond Service Charges on the Series 2007 Bonds.**

### **Termination**

If the Department fails to exercise its right to renew the term of the Lease for any Renewal Term, the Lease will terminate at the end of the Renewal Term then in effect. In the event of such a termination of the Lease, the obligation of Department to make rental payments to provide moneys to pay Bond Service Charges on Bonds would terminate. The Lease also terminates upon payment in full of all Bonds outstanding under the Trust Agreement and all obligations of the Authority to Financial Institutions. Under the Act and the Trust Agreement, the Trustee may not take possession of, or operate, or sell the Projects in the event of a failure to pay Basic Rent or Additional Rent under the Lease or upon any termination of the Lease.

### **Reinstatement**

Notwithstanding any termination of the Lease, if (a) all payments of Bond Service Charges on the Bonds (other than as a result of acceleration) and all other payments due under the Trust Agreement have been made, (b) any acceleration of the Bonds has been duly rescinded and annulled, (c) all defaults under the Lease have been cured or waived, and (d) the General Assembly has appropriated moneys to enable the Department to make rental payments to become due under the Lease for any Renewal Term of the Lease to be reinstated, then without further action by the Trustee or the Authority, the Lease shall be fully reinstated as if it had never been terminated.

## **THE TRUST AGREEMENT**

### **General**

The following, in addition to information contained above under the headings “**THE SERIES 2007 BONDS**” and “**SECURITY FOR THE SERIES 2007 BONDS**”, summarizes certain provisions of the Trust Agreement to which document reference is made for the detailed provisions thereof. The Resolutions authorizing the Series 2007 Bonds are incorporated in their entirety in, and constitute part of, the Trust Agreement and all references herein to the Trust Agreement shall, unless specific section references are made, include the Resolutions.

**So long as a series of the Series 2007 Bonds are immobilized in a Book-Entry System with a Depository, that Depository or its nominee is for all purposes of the Trust Agreement considered by the Authority and the Trustee to be the Holder of those Series 2007 Bonds and the Book Entry Interest Owners of that series of the Series 2007 Bonds will not be considered Holders of that series of the Series 2007 Bonds, and have no rights as Holders under the Trust Agreement. See “THE SERIES 2007 BONDS - Registration, Payment and Transfer” and “BOOK-ENTRY FORM”.**

## **Security**

The Trust Agreement provides for a pledge of the Pledged Receipts by the Authority to the Trustee, for the benefit of the Holders of the Bonds. See “**SECURITY FOR THE SERIES 2007 BONDS**”.

## **Funds and Accounts**

The Trust Agreement establishes the following funds and accounts to be held by the Trustee and used for specific purposes thereunder: the Bond Service Fund, which includes the Bond Service Account, and may include a bond service reserve account and a bond redemption and purchase account; the Administrative Service Fund; and the Rebate Fund (collectively referred to herein as the “Funds”). In addition, the General Assembly has created the Juvenile Correctional Building Fund to be held by the Treasurer, which may include a separate account for each Project and each series of Bonds. See “**JUVENILE CORRECTIONAL BUILDING FUND**”. The Juvenile Correctional Building Fund, the Administrative Service Fund and the Rebate Fund are not pledged to the payment of Bond Service Charges on Bonds.

**Bond Service Account.** The Bond Service Account has been established in the Bond Service Fund. There will be deposited in the Bond Service Account: (i) all rental payments and other revenues and receipts of the Authority derived under the Lease (except the portion of such moneys to be credited to other funds and accounts); (ii) any other available Pledged Receipts; (iii) excess moneys remaining in the Administrative Service Fund; and (iv) all other revenues or receipts derived by the Authority from the Projects unless previously pledged. The Bond Service Account, except moneys transferred to the Rebate Fund, any bond service reserve account (none is provided for or required with respect to the Series 2007 Bonds) or any bond redemption and purchase account will be used solely for the payment of Bond Service Charges on the Bonds as they become due or for payments due to a Financial Institution in reimbursement of payments made pursuant to a Credit Support Instrument provided in connection with the Bonds.

**Administrative Service Fund.** The Administrative Service Fund will be used to pay (i) the underwriting fees and expenses and the regular and special fees and reimbursement of reasonable expenses of the Trustee, bond registrars, paying agents, authenticating agents, tender agents, depositories, financial advisors, consultants, remarketing agents, indexing agents, attorneys, accountants and others providing services, including any Credit Support Instrument, with respect to the authorization, sale, issuance and delivery of Bonds, and (ii) the financing charges, costs of printing, engraving, advertising and other expenses in connection with the authorization, sale, issuance and delivery of Bonds.

Fees and expenses incurred by the Authority and payable from the Administrative Service Fund will also be funded from Additional Rent due under the Lease and paid into the Administrative Service Fund. Any excess in the Administrative Service Fund is required to be transferred to the Bond Service Account.

**Series 2007 Rebate Account.** Pursuant to the Trust Agreement, there has been created by the Authority and ordered to be maintained in the custody of the Trustee as a separate deposit account, a Rebate Fund in which the Authority may establish separate rebate accounts for each series of Bonds, including the Series 2007 Bonds. The Tenth Supplemental Trust Agreement establishes the Series 2007 Rebate Account for the Series 2007 Bonds in the Rebate Fund to comply with the provisions of Section 148(f) of the Code. The amounts on deposit in the Rebate Fund are not pledged to the Holders of Bonds or any Financial Institution as security for the payment of Bond Service Charges on the Bonds or obligations due to any Financial Institution, are not Pledged Receipts, and are not subject to the pledge and assignment created by the Trust Agreement.

At the times and in the manner required by the Code, (a) the Authority or a firm of independent certified public accountants or a firm of nationally recognized bond counsel engaged by the Authority or the Trustee, will calculate the Rebate Amount with respect to the Bonds; (b) the Treasurer, on behalf of the Authority, will transfer the Rebate Amount with respect to the Bonds from the Juvenile Correctional Building Fund, or, if necessary, the Authority will provide for the Rebate Amount from additional rentals pursuant to the Lease in accordance with law or from the Administrative Service Fund; and (c) the Trustee will pay the Rebate Amount to the United States of America.

**Special Subaccounts.** If and to the extent provided in any Series Resolution, the Authority may, pursuant to that Series Resolution, create special subaccounts in the Bond Service Fund or the Rebate Fund, with reference to the Additional Bonds authorized by that Series Resolution, and make special provisions, among others, for any proceeds of those Additional Bonds allocated by the Series Resolution to capitalized interest or to funding a bond service reserve account for such Additional Bonds, and for any Pledged Receipts (other than rental payments and other revenues and receipts of the Authority under the Lease, and income from the investment of special funds and any other Pledged Receipts pledged to all Bonds) pledged exclusively to those Additional Bonds by the applicable Supplemental Trust Agreement, to be deposited to the credit of such special subaccounts, and for the holding, investing and disposition of any moneys credited to those subaccounts in accordance with that Series Resolution and for the primary or exclusive benefit of the Additional Bonds authorized by or referred to in that Series Resolution. If moneys credited to such subaccounts and income from the investment of those moneys are so restricted, then the amounts credited to such subaccounts and to be derived from those investments, to the extent so restricted, shall not be deemed to be available for Bond Service Charges on other Bonds in determining the sufficiency of the Bond Service Account or any bond service reserve account applicable to the other Bonds under the provisions of the General Bond Resolution and the applicable Series Resolution.

### **Investment of Certain Funds**

Moneys in the Juvenile Correctional Building Fund will be invested in accordance with State law. Moneys held in the Bond Service Fund, the Administrative Service Fund and the Rebate Fund may be invested and reinvested by the Trustee in accordance with the instructions of the Authority in any Eligible Investments. Investments of moneys credited to those Funds will mature or be redeemable at the option of the holder thereof at the times and in the amounts necessary to provide moneys when needed for payments to be made from those Funds, and moneys held in the Bond Service Fund will be available to pay Bond Service Charges on the Bonds when they become due. Any investment of moneys in any Fund will be deemed at all times a part of that Fund and any income will be credited and any loss will be charged to that Fund. Investments will be valued at the lesser of face or market value on a quarterly basis, or more frequently as determined by the Authority, to evaluate the adequacy of amounts in the Bond Service Account or any bond service reserve account and excess amounts in any other accounts. The Authority will be entitled to rely on books of record and accounts maintained by the Director of Budget and Management with respect to all transactions relating to the Juvenile Correctional Building Fund.

### **Additional Bonds**

One or more series of Additional Bonds may be issued under the Trust Agreement for the purpose of paying additional costs of the Projects, for the purpose of acquiring, constructing, reconstructing, rehabilitating, remodeling, renovating, enlarging, improving, altering, equipping and furnishing the Projects, including the sites thereof, which are Capital Facilities, for the use of the Department and other governmental entities as authorized by the General Assembly (in an amount, for all such Projects, not in excess of the project costs as authorized by the General Assembly) and for the purpose of refunding certain obligations issued under the Act. Such Additional Bonds will be on a parity with the Bonds outstanding under the Trust Agreement, except as to bond service reserve accounts or Credit Support Instruments, if any, applicable only to certain series of such outstanding Bonds.

The issuance of Additional Bonds under the Trust Agreement is also subject to the following conditions, among others: (i) the Authority is not in default of any covenants or obligations of the Authority contained in the Trust Agreement or in the Bonds and the authentication and delivery of the Additional Bonds will not result in any such default; (ii) the principal amount of the Additional Bonds and of other Bonds then issued or outstanding and of any notes or other obligations then issued or outstanding (other than such notes or other obligations to be, and only to the extent to be, funded or refunded by such Additional Bonds then being issued), will not exceed in the aggregate the principal amount of obligations which may be issued or outstanding under then existing authorizations of the General Assembly and the provisions of the Act; (iii) upon the issuance and delivery of such Additional Bonds, the amount in any bond service reserve account for such Additional Bonds shall not be less than the applicable required reserve, if any; (iv) any necessary Supplemental Lease will have been executed and delivered providing for rental payments sufficient to pay the Bond Service Charges and other expenses with respect to such Additional Bonds and appropriations have been made by the General Assembly for the then current fiscal biennium in an amount estimated to be sufficient to pay the Bond Service Charges and other costs related to such Additional Bonds during such biennium; (v) the certificate of the Director of Budget and Management confirming that amounts sufficient to pay



currently estimated rental payments under the Lease have been appropriated and that amounts in subsequent biennia have been requested, when appropriate; and (vi) the Trustee has received (a) a copy, certified by the Secretary-Treasurer or other authorized officer of the Authority, of the Series Resolution authorizing the issuance and delivery of the Additional Bonds to be authenticated and delivered, adopted in conformity with the General Bond Resolution and containing the findings required by the General Bond Resolution to be set forth in that Series Resolution; (b) an original executed counterpart of the Supplemental Trust Agreement entered into in connection with the issuance of those Additional Bonds; (c) an original executed counterpart of any Supplemental Lease entered into in connection with the issuance of those Additional Bonds; (d) a request and authorization to the Trustee on behalf of the Authority, signed by an authorized officer of the Authority, to authenticate and deliver the Additional Bonds to, or on the order of, the original purchaser thereof who is therein identified, upon payment of a sum specified in that request and authorization; (e) the certificate of an authorized officer of the Authority as to items (i), (ii), (iii), (iv) and (v) above; (f) the written opinion of legal counsel retained or designated by the Authority, or other legal counsel satisfactory to the Trustee, to the effect that documents submitted to the Trustee in connection with the application then being made comply with the requirements of the Trust Agreement, and that in that counsel's opinion all conditions precedent to the issuance of those Additional Bonds as provided in the Trust Agreement have been complied with, and a written opinion of bond counsel retained or designated by the Authority who may also be the legal counsel referred to above, that the Additional Bonds the authentication of which is applied for, when duly executed, authenticated and delivered by or on behalf of the Trustee, will be valid and legal obligations of the State, issued by the Authority, in accordance with their terms and will be secured by the Trust Agreement with all Bonds then outstanding; and (g) a certificate of an authorized officer or the Department Director confirming that amounts sufficient to support all rentals estimated to be due under the Lease for the then current fiscal biennium have been appropriated to the Department for the payment of such rentals and that, to the extent that budget requests have been made for then next succeeding fiscal biennium amounts sufficient to support all rentals estimated to be due under the Lease for such biennium have been requested.

### **Further Covenants**

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

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

The Authority covenants in the Trust Agreement to provide for rental payments in sufficient and appropriate amounts to pay when due (i) all Bond Service Charges on the Bonds from the Bond Service Account or for the payment of any amounts due as reimbursement of draws on a letter of credit to a Financial Institution providing a letter of credit with respect to a series of Bonds, (ii) all operating expenses from the Administrative Service Fund, (iii) all amounts necessary to maintain a required reserve, if any, in any applicable Bond service reserve account, and (iv) all Rebate Amounts to be paid to the United States of America which are not otherwise available in one of the funds or accounts created pursuant to or described in the Trust Agreement. The Authority covenants not to amend, modify, alter, change or waive any term or provision of the Lease if such action would have the effect of (a) reducing the rental payments payable thereunder to amounts less than described in the preceding sentence or changing the times and manner of payment thereof so that such rental payments would not be available when needed for payments to be made from the Funds established by the Trust Agreement, (b) surrendering or limiting any remedies of the Authority under the Trust Agreement (including the rights of the Authority to terminate the Lease) or (c) being adverse to the interest of the Holders of the Bonds or any applicable Financial Institutions.

**Creation of Liens.** The Authority covenants in the Trust Agreement not to make any pledge or assignment of or create or suffer any lien or encumbrance upon the Bond Service Fund or the Pledged Receipts prior to or on a parity with the pledge thereof under the Trust Agreement, except as otherwise authorized or permitted under the Trust Agreement, and, in the case of a bond service reserve account, under the applicable Series Resolution. The Projects are not and may not be pledged by the Authority.

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

Certain Reports. The Authority will annually file with the Trustee and the Director of Budget and Management: (i) a report, certified by a firm of certified public accountants, setting forth financial statements which present fairly the financial position of the Authority as of the end of the preceding Fiscal Year and the results of the operations and the cash flows of its internal service fund for the Fiscal Year then ended, all in conformity with generally accepted accounting principles (except as noted in such certificate); and (ii) a certificate of such accountants stating that such accountants have examined such report in accordance with generally accepted auditing procedures as such accountants considered necessary in the circumstances, that their examination of such report has included a review of the terms of the Trust Agreement as they relate to matters susceptible of accounting determinations and that such review is sufficient to enable them to give such certificate and stating whether or not such examination has disclosed the existence, at the end of the Fiscal Year covered by such report (and existing at the date of such certificate), of any Event of Default under the Trust Agreement or any other event which, after notice or lapse of time or both, would become an Event of Default and, if such examination had disclosed such an Event of Default or such an event, specifying the same and the nature and status thereof. See “**THE TRUST AGREEMENT - Events of Default and Remedies**” below.

The Authority will annually submit to the Director of Budget and Management and the Department a written report confirmed by the Trustee setting forth the estimated amount of rent to become due under the Lease during the current Fiscal Year and the ensuing two Fiscal Years. Upon any determination by the Authority that a different amount than last reported will be required, the Authority will submit a revised written report superseding the next prior report.

On or before the forty-fifth day preceding each Interest Payment Date with respect to Bonds, the Trustee will submit to the Authority, the Director of Budget and Management and the Department a written certificate setting forth (i) the net interest earned and deposited into the Bond Service Account and not reflected on any previous similar certificate and any net interest to be earned and credited to the Bond Service Account prior to the next applicable Interest Payment Date; (ii) any moneys deposited into the Bond Service Account from any bond service reserve account as a result of excess moneys being in such bond service reserve account and not reflected on any previous certificate and any moneys to be so deposited in the Bond Service Account prior to such Interest Payment Date; (iii) any moneys deposited into the Bond Service Account from the Rebate Fund and not reflected on any previous certificate and any moneys to be so deposited in the Bond Service Account prior to such Interest Payment Date; and (iv) any moneys remaining in the Administrative Service Fund on the date of such certificate which moneys are to be deposited immediately into the Bond Service Account. Such amounts shown on such certificate shall be a credit against the next rental payment due under the Lease.

### **Events of Default and Remedies**

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

- (i) Default by the Authority in the payment of any interest on any Bond when due and payable; or
- (ii) Default by the Authority in the payment of the principal of or any redemption premium on any Bond when due and payable, whether at stated maturity, by mandatory redemption or by mandatory purchase; or
- (iii) Any other default by the Authority to perform or observe any other covenants, agreements or conditions on its part contained in the Trust Agreement or the Bonds and continuance of such

default for 60 days after written notice thereof from the Trustee or the Holders of not less than 25% in aggregate principal amount of the affected Bonds then outstanding.

If an Event of Default occurs, the Trustee will give notice to the Authority and any applicable Financial Institution within five days of receipt of actual knowledge and to the applicable original purchasers, Holders, tender agents, paying agents, bond registrars and authenticating agents within 90 days after having knowledge, unless the Event of Default is cured or, in the case of an Event of Default under clause (iii) above, the Trustee determines that withholding notice is in the best interest of the Holders of the Bonds.

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

If an Event of Default occurs under the Trust Agreement and is not remedied, the Trustee may, as an alternative or in addition to acceleration of the Bonds, enforce the rights of the Holders of the Bonds by mandamus or other suit, action or proceeding at law or in equity, bring suit upon the Bonds, enjoin unlawful activities or activities in violation of the rights of Holders or Financial Institutions under the Trust Agreement or, in the case of an Event of Default described in clause (i) or (ii) above, apply to a court to appoint a receiver of the Pledged Receipts. If an Event of Default described in clause (iii) above occurs and is not remedied, and if requested by the Holders of at least 25% in aggregate principal amount of the affected Bonds then outstanding or a Financial Institution providing a Credit Support Instrument with respect to the affected Bonds and indemnified as provided in the Trust Agreement, the Trustee will exercise such one or more rights and powers conferred by the Trust Agreement as the Trustee, being advised by counsel, shall consider most effective to protect and enforce those rights.

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

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

All moneys held or received by the Authority, the Trustee or the receiver after an Event of Default occurs, after the payment of the costs and expenses incurred in the collection thereof and the fees, expenses, liabilities and advances of the Trustee or the receiver, shall be applied as follows: (i) unless the principal of all the Bonds has become or been declared due and payable, (a) first, to the payment of all installments of interest then due on the Bonds (or the reimbursement of Financial Institutions for such interest payments made pursuant to Credit Support Instruments), in the order of the maturity of the installments of such interest and, if the amount available is not sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege except as to any difference in the respective rates of interest specified in the Bonds; (b) next, to the payment of unpaid principal of any of the Bonds

(or the reimbursement of Financial Institutions for such principal payments made pursuant to Credit Support Instruments) which have become due (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Trust Agreement), whether at stated maturity, by redemption or pursuant to any mandatory sinking fund requirements, in the order of their due dates, with interest, and if the amount is insufficient to pay in full all Bonds (and reimburse in full Financial Institutions for such principal payments made pursuant to Credit Support Instruments), then to the payment ratably according to the amount of principal due on that date to the persons entitled thereto, without discrimination or privilege; and (c) finally, to the payment of all other obligations of the Authority to Financial Institutions; or (ii) if the principal of all of the Bonds has become or been declared due and payable, to the payment of principal and interest then due and unpaid upon the Bonds (and reimbursement of Financial Institutions for such principal and interest payments made pursuant to Credit Support Instruments), without preference or priority of principal over interest or of interest over principal, or any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest to the persons entitled thereto without any discrimination or privilege (except as to any difference in the respective rates of interest specified in the Bonds) and then to the payment of all other obligations of the Authority to Financial Institutions; or (iii) if the principal of all the Bonds has been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled as provided in the Trust Agreement then, subject to clause (ii) of this paragraph in the event that the principal of all such Bonds shall later become due and payable, the moneys shall be deposited in the Bond Service Account and applied in accordance with the provisions of the Resolutions. Whenever moneys are to be applied as described above, those moneys are to be applied at the times the Trustee determines, having due regard to the amount of those moneys available for application and the likelihood of additional moneys becoming available for application in the future.

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

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

Notwithstanding the foregoing, the Holders of not less than a majority in aggregate principal amount of the outstanding Bonds have the right with the consent of each Financial Institution not then in default on its obligations with respect to the Bonds, at any time, by an executed instrument delivered to the Trustee, to direct all proceedings to be taken in connection with the enforcement of the Trust Agreement or for the appointment of a receiver, provided that such direction must be in accordance with the law and the Trust Agreement, and provided that such Holders have offered to the Trustee indemnity as provided in the Trust Agreement. No Financial Institution will have rights with respect to the enforcement of remedies against itself.

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

Except as may otherwise be provided in any Supplemental Trust Agreement, at any time the Trustee may in its discretion, with the prior written consent of any Financial Institution providing a Credit Support Instrument in connection with affected Bonds and not then in default on its obligations with respect to such Bonds, waive any Event of Default under the Trust Agreement and its consequences and rescind any declaration of maturity of principal, and the Trustee must waive any Event of Default or rescind any declaration of maturity of principal upon the written request of the Holders of at least a majority in aggregate principal amount of all of the outstanding Bonds and with the consent of each Financial Institution providing a Credit Support Instrument in connection with the affected Bonds. The Trustee will not however, waive or rescind any Event of Default resulting from a failure to pay Bond Service Charges on the Bonds when due or rescind any declaration of maturity in connection therewith unless at the time of the waiver or rescission payment of all overdue installments of interest and principal, not including principal and interest due solely by virtue of acceleration, has been made or provided.

### **Supplemental Trust Agreements**

Without the consent of or notice to the Holders of the Bonds, the Authority and the Trustee may enter into Supplemental Trust Agreements for any one or more of the following purposes: (i) to cure any ambiguity, inconsistency or formal defect or omission in the Trust Agreement; (ii) to grant or to confer upon the Trustee additional rights, remedies, powers or authority that lawfully may be granted to or conferred upon the Holders of the Bonds or any Financial Institution (to the extent not contrary to the interests of Holders of Bonds) or the Trustee; (iii) to subject additional revenues or receipts to the pledge of the Trust Agreement; (iv) to add to the covenants and agreements of the Authority contained in the Trust Agreement other covenants and agreements to be observed for the protection of the Holders of the Bonds or Financial Institutions (to the extent not contrary to the interests of Holders of Bonds) or to surrender or limit any right, power or authority reserved to or conferred upon the Authority in the Trust Agreement; (v) to evidence any succession to the Authority and the assumption by such successor of the covenants and agreements of the Authority in the Trust Agreement and the Bonds; (vi) in connection with the issuance of Additional Bonds in accordance with the Trust Agreement; (vii) to permit the exchange of Bonds at the option of the Holder for coupon Bonds in accordance with the Trust Agreement if, in the opinion of nationally recognized bond counsel selected by the Authority, that exchange would not result in the interest on any of the Bonds outstanding becoming subject to federal income taxation; (viii) to permit the use of a Book-Entry System to identify the owner of an interest in a Bond; (ix) to permit the Trustee to comply with any obligations imposed by law; (x) to specify further the duties and responsibilities of, and to define further the relationship among, the Trustee and any Bond registrar, authenticating agent or paying agent for the Bonds; (xi) to achieve compliance with any applicable federal securities or tax law; (xii) as permitted by the Trust Agreement in connection with providing for compliance with the rebate requirements of Section 148(f) of the Code; (xiii) to permit or provide for Interest Rate Hedge with respect to obligations issued under the Trust Agreement; and (xiv) to permit any other amendment that is, in the judgment of the Trustee, not prejudicial to the Trustee or the Holders of the Bonds.

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

Where the consent of the Holders of Bonds is required, procedures are established in the Trust Agreement for notice to the Holders and for the execution and filing of the requisite consents. Any consent is binding upon the Holders of the Bonds giving such consent and upon any subsequent Holders of such Bonds unless such consent is revoked in writing prior to the execution by the Trustee of the Supplemental Trust Agreement. If the Holders of the required percentage in aggregate principal amount of the Bonds then outstanding have consented to the execution of a Supplemental Trust Agreement as provided in the Trust Agreement, no Holder of any Bond has any right to object

to the execution of the Supplemental Trust Agreement or to the terms and provisions contained therein or the operation thereof, to question the propriety of the execution thereof or to enjoin or restrain the Authority or the Trustee from executing or taking action pursuant to the same.

### **Defeasance**

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

### **Non-Presentation of Bonds**

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

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

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

### **Trustee**

The Trustee, The Bank of New York Trust Company, N.A., is a national banking association organized and existing under the laws of the United States of America, and is authorized to exercise corporate trust powers in the State. The Trustee has undertaken to perform such duties are specifically set forth in the Trust Agreement. The Trustee will exercise such of the rights and powers vested in it by the Trust Agreement and use the same degree of care and skill in its exercise thereof as an ordinarily prudent corporate trustee under a trust agreement securing

securities for a public agency, and is not obligated to take any action until it has received a satisfactory indemnity bond for its expenses and to protect it against any liability other than liability resulting from its negligence or willful default. The permissive rights of the Trustee to do things under the Trust Agreement will not be construed as a duty and the Trustee will not be answerable for acts or events other than its negligence or willful default.

## **RIGHTS OF BOND INSURER**

While the Bond Insurance is in effect and the Bond Insurer is not in default of its obligations thereunder, the following provisions apply to the Series 2007 Bonds; provided, however, that such provisions shall not apply to any other bonds or other obligations of the Authority now or hereafter outstanding under the Trust Agreement.

### **Consent of the Bond Insurer**

Any provision of the Tenth Supplemental Trust Agreement expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer.

### **Consent of the Bond Insurer in Addition to Holder Consent**

Unless otherwise provided in the Tenth Supplemental Trust Agreement, the Bond Insurer's consent shall be required in addition to Holder consent, when required, for the following purposes: (i) execution and delivery of any supplemental trust agreement other than a supplemental trust agreement authorizing the issuance of Additional Bonds and not requiring the consent of the Holders of the Outstanding Bonds; (ii) removal of any Trustee and selection and appointment of any applicable successor Trustee; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Holder consent under the Trust Agreement.

### **Consent of the Bond Insurer Upon Default**

Anything in the Trust Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default under the Trust Agreement, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the applicable series of the Series 2007 Bonds or the Trustee for the benefit of the Holders of such Series 2007 Bonds including, without limitation: (i) the right to accelerate the principal of the applicable series of the Series 2007 Bonds as described in the Trust Agreement, and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default under the Trust Agreement.

### **Acceleration Rights**

Upon the occurrence of an Event of Default under the Trust Agreement, the Trustee may, with the consent of the Bond Insurer, and shall, at the direction of the Bond Insurer or twenty-five percent (25%) of the Holders of the applicable series of the Series 2007 Bonds with the consent of the Bond Insurer, by written notice to the Trustee and the Bond Insurer, declare the principal of the applicable series of Series 2007 Bonds to be immediately due and payable, whereupon that portion of the principal of the applicable series of the Series 2007 Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Trust Agreement or in the Series 2007 Bonds to the contrary notwithstanding.

### **Notices to be Given to the Bond Insurer**

The Tenth Supplemental Trust Agreement requires the Authority to furnish to the Bond Insurer:

(A) as soon as practical after the filing thereof, a copy of the annual financial statements of the Authority; and

(B) a copy of any notice to be given to the Holders of the Series 2007 Bonds including, without limitation, notice of any redemption of or defeasance of the Series 2007 Bonds and any certificate rendered pursuant to the Trust Agreement relating to the security for the Series 2007 Bonds.

### **Defeasance**

Notwithstanding any other provision of the Trust Agreement to the contrary, in the event that the Bond Service Charges on either series of the Series 2007 Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance, such series of the Series 2007 Bonds shall remain outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Authority, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Authority to the Holders of such series of the Series 2007 Bonds shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such Holders.

### **Payment Procedure Pursuant to the Bond Insurance Policies**

The Authority and the Trustee have agreed in the Tenth Supplemental Trust Agreement to comply with the following provisions:

At least one (1) Business Day prior to all Interest Payment Dates for the Series 2007 Bonds, the Trustee will determine whether there will be sufficient funds to pay the principal of or interest on the Series 2007 Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient funds, the Trustee shall so notify the Bond Insurer. Such notice shall specify the amount of the anticipated insufficiency, the Series 2007 Bonds to which such insufficiency is applicable and whether such Series 2007 Bonds will be insufficient as to principal or interest, or both. If the Trustee has not so notified the Bond Insurer at least one (1) day prior to an Interest Payment Date, the Bond Insurer will make payments of principal or interest due on such Series 2007 Bonds on or before the first (1<sup>st</sup>) day next following the date on which the Bond Insurer shall have received notice of nonpayment from the Trustee.

The Trustee is required, after giving notice to the Bond Insurer, to make available to the Bond Insurer and, at the Bond Insurer's direction, to an insurance trustee to be designated by the Bond Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Authority maintained by the Trustee, with respect to the Series 2007 Bonds and all records relating to the funds maintained under the Trust Agreement with respect to the Series 2007 Bonds.

The Trustee is also required to provide the Bond Insurer and the Insurance Trustee with a list of Holders of the Series 2007 Bonds entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policies, and to make arrangements with the Insurance Trustee (i) to mail checks or drafts to the Holders of the Series 2007 Bonds entitled to receive full or partial interest payments from the Bond Insurer and (ii) to pay principal upon Series 2007 Bonds surrendered to the Insurance Trustee by the Holders of Series 2007 Bonds entitled to receive full or partial principal payments from the Bond Insurer.

The Trustee is further required, at the time the Trustee provides notice to the Bond Insurer, to notify Holders of the applicable Series 2007 Bonds entitled to receive the payment of principal or interest thereon from the Bond Insurer (i) as to the fact of such entitlement, (ii) that the Bond Insurer will remit to them all or a part of the interest payments next coming due upon proof of entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of such Holder's right to payment, (iii) that should they be entitled to receive full payment of principal from the Bond Insurer, they must surrender the Series 2007 Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Series 2007 Bonds to be registered in the name of the Bond Insurer) for payment to the Insurance Trustee, and not the trustee, and (iv) that should they be entitled to receive partial payment from the Bond Insurer, they must surrender their Series 2007 Bonds for payment thereon first to the Trustee who shall note on such Series 2007 Bonds the portion of the principal paid by that Trustee, and then along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.



In the event that the Trustee has notice that any payment of principal of or interest on an Insured Series 2007 Bond which has become Due for Payment (as defined in the Bond Insurance) and which is made to a Holder of such Insured Series 2007 Bond by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time the Bond Insurer is notified, notify all Holders of the Series 2007 Bonds that in the event that any such Holder's payment is so recovered, such Holder will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available, and that Trustee shall furnish to the Bond Insurer its records evidencing the payments of principal of and interest on such Series 2007 Bonds which have been made by that Trustee and subsequently recovered from Holders of Series 2007 Bonds and the dates on which such payments were made.

In addition to those rights granted the Bond Insurer under the Tenth Supplemental Trust Agreement, the Bond Insurer shall, to the extent it makes payment of principal of or interest on Series 2007 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Bond Insurer's rights as subrogee on the Register upon receipt from the Bond Insurer of proof of the payment of interest thereon to the Holders of the Series 2007 Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Bond Insurer's rights as subrogee on the Register upon surrender of the Series 2007 Bonds by the Holders thereof together with proof of the payment of principal thereof.

#### **Trustee Related Provisions**

The Trustee may be removed at any time, at the request of the Bond Insurer, for any breach of the Trustee's duties set forth in the Trust Agreement.

The Bond Insurer is entitled to receive prior written notice of the Trustee resignation.

The Tenth Supplemental Trust Agreement requires that every successor Trustee be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$100,000,000.

Notwithstanding any other provision of the Trust Agreement, in determining whether the rights of the Holders of the Series 2007 Bonds will be affected adversely by any action taken pursuant to the terms of the Trust Agreement, the Trustee is required to consider the effect on the Holders of the Series 2007 Bonds as if there were no Bond Insurance Policies.

Notwithstanding any other provision of the Trust Agreement, no removal, resignation or termination of the Trustee shall take effect until a successor Trustee, acceptable to the Bond Insurer, shall be appointed.

#### **Bond Insurer as Third-Party Beneficiary**

To the extent that the Tenth Supplemental Trust Agreement confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Trust Agreement, the Bond Insurer is explicitly recognized as being a third-party beneficiary under the Tenth Supplemental Trust Agreement and may enforce any such right, remedy or claim conferred, given or granted thereunder.

#### **Parties Interested**

Nothing in the Tenth Supplemental Trust Agreement expressed or implied, is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the Authority, the Trustee and the Holders of the Series 2007 Bonds any right, remedy or claim under or by reason of the Tenth Supplemental Trust Agreement or any covenant, condition or stipulation thereof, and all covenants, stipulations, promises and agreements in the Tenth

Supplemental Trust Agreement contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Trustee and the Holders of the Series 2007 Bonds.

## **LITIGATION**

The Authority, the Department and the State are parties to various legal proceedings, seeking damages or injunctive or other relief, generally related to their respective operations but unrelated to the Series 2007 Bonds or the security for the Series 2007 Bonds. Though the ultimate disposition of such proceedings is not currently determinable, the Attorney General of the State will deliver an opinion that none of such proceedings involve, or would materially adversely affect, the transactions contemplated (i) in connection with the issuance and sale of the Series 2007 Bonds; (ii) by the Lease; (iii) by the Authority's, the Department's performance of their obligations under the Lease; and (iv) by the Authority's performance of its obligations under the Trust Agreement or the Series 2007 Bonds.

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

To the extent that a particular investor is governed by Ohio law with respect to its investments, and subject to any applicable limitations under other provisions of Ohio law, under the Act the Series 2007 Bonds are lawful investments for banks, insurance companies, including domestic and foreign companies not for life, savings and loan associations, deposit guaranty companies, trust companies, fiduciaries, trustees, sinking funds or bond retirement funds of municipal corporations, school districts and counties, the commissioners of the sinking fund, the administrator of workers' compensation, the State Teachers' Retirement System, the Public Employees' Retirement System and the School Employees Retirement System, notwithstanding any other provisions of the Ohio Revised Code with respect to such investments.

The Act provides that the Series 2007 Bonds are acceptable under Ohio law as security for the deposit of public moneys.

Each Book Entry Interest Owner of the Series 2007 Bonds should make its own determination as to such matters of legality of investment in, or pledge of book-entry interests in the Series 2007 Bonds.

## **RATINGS**

Moody's Investors Services, Inc. has assigned a rating of "Aaa" to the Series 2007 Bonds, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. has assigned a rating of "AAA" to the Series 2007 Bonds and Fitch Ratings has assigned a rating of "AAA" to the Series 2007 Bonds, each with the understanding that upon delivery thereof the Policies insuring the payment when due of the principal of and interest on the Series 2007 Bonds will be issued by the Bond Insurer. See "BOND INSURANCE" and "APPENDIX C". Such ratings reflect only the respective views of such rating agencies. Any explanation of the significance of the ratings may only be obtained from the respective rating agency. The State and the Authority furnished each rating agency with certain information and materials, some of which may not have been included in this Official Statement, relating to the Series 2007 Bonds, the State, the Department and the Authority. Generally, rating agencies base their ratings on such information and other investigations, studies and assumptions they deem appropriate. There can be no assurance that the ratings will continue for any period of time or that they will not be revised or withdrawn entirely by the respective rating agency, if in its judgment circumstances so warrant. Any revision or withdrawal of a rating may have an effect on the marketability and market price of the Series 2007 Bonds.

## **TAX MATTERS**

### **General**

In the opinion of Thompson Hine LLP, Bond Counsel, under existing law (i) interest on the Series 2007 Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of

1986, as amended (the Code), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on, and any profit made on the sale, exchange or other disposition of, the Series 2007 Bonds are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio. Bond Counsel will express no opinion as to any other tax consequences regarding the Series 2007 Bonds.

The opinion on federal tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants of the Authority to be contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2007 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 those certifications and representations or that compliance.

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 require future or continued compliance after issuance of the obligations in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with these requirements may cause the interest on the Series 2007 Bonds to be included in gross income for federal income tax purposes and thus to be subject to federal income tax retroactively to the date of their issuance. The Authority has covenanted to take the actions required of it for the interest on the Series 2007 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.

A portion of the interest on the Series 2007 Bonds earned by certain corporations may be subject to the federal corporate alternative minimum tax because the interest is taken into account in determining adjusted current earnings. In addition, interest on the Series 2007 Bonds may be subject to the federal branch profits tax imposed on certain foreign corporations doing business in the United States and to the federal 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 may have certain adverse federal income tax consequences on items of income, deduction or credit 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 tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the holders of the Series 2007 Bonds or of book entry interests. Bond Counsel will express no opinion regarding those consequences.

Purchasers of the Series 2007 Bonds at other than their original issuance at the respective prices indicated on the cover of this Official Statement should consult their own tax advisers regarding other tax considerations such as the consequences of market discount.

### **Original Issue Premium**

The Series 2007 Bonds (“Premium Bonds”) are being sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner’s tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside cover of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that

results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

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

### **CERTAIN LEGAL MATTERS**

Legal matters incident to the issuance of the Series 2007 Bonds and with regard to the tax-exempt status of the interest thereon (see “**TAX MATTERS**”) are subject to the approving legal opinions of Thompson Hine LLP, as Bond Counsel. Signed copies of the Bond Counsel opinion, dated as of, and speaking only as of the date of original delivery of the Series 2007 Bonds, will be delivered to the Underwriter at the time of that original delivery. The proposed texts of the legal opinion of Bond Counsel are set forth as **APPENDIX B** hereto. The legal opinions to be delivered may vary from those texts if necessary to reflect facts and law on the date of delivery of the Series 2007 Bonds. The legal opinion will speak only as of their date, and subsequent distribution of the opinions by recirculation of the 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 the opinion subsequent to its date.

Certain legal matters will be passed upon for the Underwriter by Peck, Shaffer & Williams LLP. Certain legal matters will be passed upon for the Authority by its counsel, Marc Dann, Attorney General of Ohio, and Calfee, Halter & Griswold LLP. Certain legal matters also will be passed upon for the Department by the Attorney General of Ohio.

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

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

### **UNDERWRITING**

RBC Capital Markets has agreed, subject to certain conditions, to purchase the Series 2007 Bonds from the Authority at the following prices: (i) in the case of the Series 2007 A Bonds, \$20,889,340.13 (consisting of the par amount thereof, plus a premium of \$999,142.65, less Underwriter’s compensation of \$109,802.52) which purchase price includes a bond insurance premium of \$33,271.52 to be paid directly to the Bond Insurer by the Underwriter; and (ii) in the case of the Series 2007 B Bonds, \$17,598,038.63 (consisting of the par amount thereof, plus a premium of \$1,285,321.50, less Underwriter’s compensation of \$97,282.87) which purchase price includes a bond insurance premium of \$29,020.59 to be paid directly to the Bond Insurer by the Underwriter. The Underwriter is obligated to purchase all of the Series 2007 Bonds if any are purchased. The Series 2007 Bonds may be offered and sold by the Underwriter to certain dealers at prices lower than the public offering prices, and the public offering prices may be changed from time to time.

### **CONTINUING DISCLOSURE**

The Authority has agreed, for the benefit of the Holders and Book Entry Interest Owners of the Series 2007 Bonds, in accordance with SEC Rule 15c2-12 (the “Rule”) to provide or cause to be provided such financial information and operating data (the “Annual Information”), audited financial statements and notices, in such manner

as may be required for purposes of paragraph (b)(5)(i) of the Rule (the “Continuing Disclosure Agreement”), including specifically the following:

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

- (a) Annual Information for each Fiscal Year (beginning with Fiscal Year 2007) not later than the 90th day following the end of the Fiscal Year (or, if that is not a State business day, the next State business day), consisting of annual financial information and operating data of the type included in **APPENDIX A – INFORMATION CONCERNING THE STATE OF OHIO** of this Official Statement under the captions “**FISCAL MATTERS**”, “**STATE DEBT**” and “**TAX LEVELS AND TAX BASES**”. The Director of Budget and Management has agreed to provide that Annual Information. The Annual Information may be provided by reference to other documents, such as the State's Comprehensive Annual Financial Report, the Authority's annual financial statements, and subsequent final official statements relating to other bonds issued by the State.
- (b) When and if available, audited general purpose financial statements of the State for each Fiscal Year. The Authority expects such financial statements to be provided by the Director of Budget and Management, that they will be available separately from the Annual Information, and that the accounting principles to be applied in their preparation will be as described under and by reference in “**FISCAL MATTERS - Accounts and Controls; Financial Reports**” in **APPENDIX A – INFORMATION CONCERNING THE STATE OF OHIO**.

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

- (a) The occurrence of any of the following events, within the meaning of the Rule, with respect to the Series 2007 Bonds, if material: principal and interest payment delinquencies; non-payment related defaults; unscheduled draws on any debt service reserves or credit enhancements reflecting financial difficulties; substitution of credit or liquidity providers, or their failure to perform; adverse tax opinions or events affecting the tax-exempt status of the Series 2007 Bonds; modifications to rights of Holders or Book Entry Interest Owners; bond calls; defeasances; release, substitution, or sale of property securing repayment of the Series 2007 Bonds; and rating changes. There are initially no bond service reserves, liquidity providers or credit enhancements (except for Bond Insurance) applicable to the Series 2007 Bonds, or any property (except the Pledged Receipts) securing their repayment;
- (b) The failure to provide the Annual Information within the time specified above; and
- (c) Any change in the accounting principles applied in the preparation of the annual financial statements, any change in Fiscal Year, any failure of the General Assembly to appropriate moneys for the purpose of paying costs to be incurred by the State to perform its obligations pursuant to the Continuing Disclosure Agreement for the applicable fiscal period (biennium), and termination of the Continuing Disclosure Agreement.

The Authority will reserve the right to amend the Continuing Disclosure Agreement, and to obtain the waiver of noncompliance with any provision of the Continuing Disclosure Agreement, as may be necessary or appropriate to achieve its compliance with any applicable federal securities law or rules, to cure any ambiguity, inconsistency or formal defect or omission, and to address any change in circumstances arising from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority. Any such amendment or waiver will not be effective unless the Continuing Disclosure Agreement (as amended or taking into account such waiver) would have complied with the requirements of the Rule at the time of the primary offering of the Series 2007 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 Authority shall have received either (i) a written opinion of bond counsel or other qualified independent special counsel selected by the Authority that the amendment or waiver would not materially impair the interest of Holders or Book Entry Interest Owners of the applicable Series 2007 Bonds, or

(ii) the written consent to the amendment, or waiver, by the Holders of at least a majority of the aggregate outstanding principal amount of the applicable Series 2007 Bonds.

The Continuing Disclosure Agreement will be solely for the benefit of the Holders and Book Entry Interest Owners of the Series 2007 Bonds. The right to enforce the provisions of the Continuing Disclosure Agreement is limited to the extent permitted by law to an action for mandamus or specific performance to compel compliance with the obligations of the Authority and the State under it.

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

In order to provide certain continuing disclosure with respect to the Series 2007 Bonds in accordance with the Rule, the State has entered into a Disclosure Dissemination Agent Agreement (the "Disclosure Dissemination Agreement") for the benefit of the holders of the Series 2007 Bonds with Digital Assurance Certification, L.L.C. ("DAC"), under which the State has designated DAC as the Disclosure Dissemination Agent (the "Disclosure Dissemination Agent").

The Disclosure Dissemination Agent has only the duties specified in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Disclosure Dissemination Agreement is limited to the extent the State has provided that information to the Disclosure Dissemination Agent as required by the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Disclosure Dissemination 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 Disclosure Dissemination Agreement), or any other information, disclosure or notices provided to it by the State, and the Disclosure Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the State, the holders of the Series 2007 Bonds or any other party. The Disclosure Dissemination Agent has no responsibility for any failure to report to the State 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 Disclosure Dissemination Agreement, and the Disclosure Dissemination 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 the Series 2007 Bonds, of the Continuing Disclosure Agreement will be subject to the biennial appropriations by the General Assembly of moneys for the applicable purposes.

The Continuing Disclosure Agreement will remain in effect for the Series 2007 Bonds only for such period that the Series 2007 Bonds are outstanding in accordance with their terms and the State remains an obligated person with respect to the Series 2007 Bonds within the meaning of the Rule.

The Authority or the Office of Budget and Management, on behalf of the Authority, has in a timely manner made all filings and given all notices heretofore required under the Rule.

## **CONCLUDING STATEMENT**

Quotations in this Official Statement from, and summaries and explanations of, the Ohio Constitution, the Ohio Revised Code, the Trust Agreement, the Lease and the Resolutions do not purport to be complete. Reference is made to the pertinent provisions of the Ohio Constitution and Ohio Revised Code and those documents for all complete statements of their provisions. Copies of the Trust Agreement, the Lease and the Resolutions are available upon request from the Ohio Building Authority, 30 East Broad Street, 40th Floor, Columbus, Ohio 43215 (Telephone 614/466-5959).

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

had been derived by the State and the Authority from official and other sources and is believed by the State and the Authority to be reliable, but information other than that obtained from official records of the State has not been independently confirmed or verified by the State or Authority and its accuracy is not guaranteed. This Official Statement is not to be construed as a contract or agreement between the State or the Authority and the Underwriter or subsequent Holders of any of the Series 2007 Bonds or owners of any interest therein.

This Official Statement has been prepared, approved and delivered by the Authority, and executed for and on its behalf and in his official capacity by the official indicated below.

**OHIO BUILDING AUTHORITY**

By: /s/ Mark A. Gibson  
Executive Director

## GLOSSARY

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

“Act” means Chapter 152 of the Ohio Revised Code, as the same may be amended, modified, revised, or superseded from time to time, together with the provisions of any other act or resolution of the General Assembly authorizing or limiting the issuance of Bonds or the use of the proceeds of such obligations as applicable.

“Additional Bonds” means any Bonds other than the Series 2007 Bonds issued by the Authority pursuant to the Trust Agreement.

“Additional Rent” means “Additional Rent” as defined in the Lease, including, without limitation, an amount estimated by the Authority to be equal to the administrative fees and expenses and other fees, expenses and obligations, other than Bond Service Charges, incurred by the Authority in carrying out its duties and meeting its obligations under the Lease and the Trust Agreement, and any agreement between the Authority and the Department relating to the Projects, between the Authority and any Financial Institution providing a Credit Support Instrument, between the Authority and any person providing remarketing services, or any other agreement with respect to any series of Bonds, including, without limitation, accounting, administrative (including overhead reasonably allocated to such Bonds), financial advisory and legal expenses, and the fees and expenses of the Trustee, the Bond Registrar, the Paying Agents, the Authenticating Agents, any Tender Agent, or any other fiduciary or agent acting under the respective bond proceeding and which are payable from the Administrative Service Fund but for which monies are not available in the respective fund and when needed, an amount sufficient to fully fund any Rebate Amount.

“Administrative Service Fund” means the Administrative Service Fund established pursuant to the General Bond Resolution and the Original Trust Agreement.

“Authenticating Agent” means the Trustee and the Registrar for the Series 2007 Bonds, and any other bank, trust company or other person designated as an Authenticating Agent for the Series 2007 Bonds by or in accordance with the Original Trust Agreement, each of which shall be a transfer agent registered in accordance with Section 17A(c) of the Securities Exchange Act of 1934, as amended.

“Authority” means the Ohio Building Authority, a body both corporate and politic performing essential governmental functions of the State and created and operating under the Act.

“Authorized Officer” or “authorized officer” means, with respect to the Bonds, any officer, member, or employee of the Authority authorized by or pursuant to a resolution of the Authority or a certificate signed by the Chairman, Vice-Chairman, Secretary-Treasurer or Executive Director to perform any act or sign any documents in question, and, if there is no such resolution or certificate, means the Chairman of the Authority.

“Basic Rent” means the net basic rent in an amount equal to the estimated Bond Services Charges due on the Bonds payable on the next Interest Payment Date.

“Bond Insurance” means the municipal bond insurance policies issued by the Bond Insurer that guarantees the scheduled payment of principal and interest on the Insured Bonds when due.

“Bond Insurer” means Financial Security Assurance Inc., a New York domiciled insurance company.

“Bond Proceedings” or “bond proceedings” means the Resolutions, the Trust Agreement, the Lease and other resolutions, leases and agreements, and amendments and modifications of and supplements to the foregoing, or any combination thereof, authorizing or providing for the terms and conditions applicable to, or providing for the security for or sale of, the Series 2007 Bonds and the terms contained in the Series 2007 Bonds.



“Bond Register” means the books kept and maintained by the applicable Bond Registrar pursuant to the Trust Agreement.

“Bond Service Account” means the Bond Service Account in the Bond Service Fund established pursuant to the Resolutions for the payment of Bond Service Charges on the Bonds.

“Bond Service Charges” or “Bond service charges” means the principal, including any mandatory sinking fund requirements, and interest and any redemption premium required to be paid on the Bonds (whether or not held by any Financial Institution or its designee), and when used in reference to the Bond Service Charges on unissued Bonds, in anticipation of the issuance of which notes are or are to be issued, means the estimated Bond Service Charges on those Bonds set forth in the proceedings for those notes. When the context requires, Bond Service Charges includes note service charges.

“Bond Service Fund” means the Ohio Building Authority Bond Service Fund established pursuant to the General Bond Resolution and the Original Trust Agreement.

“Bonds” means the Series 2007 Bonds and all Outstanding Additional Bonds issued by the Authority pursuant to the Resolutions.

“Book-Entry Form,” “book-entry form” or Book-Entry System” means a form or system under which (i) the beneficial, book-entry ownership of a series of Series 2007 Bonds, and the right to the Bond Service Charges thereon, may be transferred only through a book-entry, and (ii) physical bond certificates in fully registered form are issued by the Authority only to a Depository or its nominee as Holder, with those Series 2007 Bonds held by and “immobilized” in the custody of the Depository, or its nominee, and with the book-entry system maintained by persons other than the Authority or the Trustee being the record that identifies the owners of beneficial interests in those Series 2007 Bonds and rights to Bond Service Charges.

“Book Entry Interest Owner” means an owner of a beneficial book-entry interest in the Series 2007 Bonds.

“Business Day” or “business day” means any day other than a Saturday, a Sunday or a day on which banking institutions in the State of Ohio are authorized or required by law to close or a day on which a Paying Agent or the Trustee is unable to open or be opened for reasons not related to financial condition.

“Capital Facilities” or “capital facilities” means any capital facilities, as defined by the Act, for use by the Department or other governmental entities, and for the financing of which the Authority is authorized to issue bonds.

“Code” means the Internal Revenue Code of 1986, as amended from time to time. References to the Code and sections of the Code include relevant, applicable regulations (including temporary regulations) and proposed regulations thereunder and under the Internal Revenue Code of 1954, as amended, and any successor provisions to those sections, regulations or proposed regulations.

“Credit Support Instrument” means an insurance policy, letter of credit or other credit enhancement, support or liquidity device provided pursuant to an agreement with any Financial Institution to enhance the security or liquidity of any Bonds or series or part of any series of Bonds or to provide, in whole or part, a required reserve, as applicable.

“Department” means the Department of Youth Services of the State.

“Depository” means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a Book-Entry System to record beneficial ownership of Series 2007 Bonds and to effect transfers of the Series 2007 Bonds in Book-Entry Form, and includes and means initially DTC.

“Direct Participant” means securities brokers and dealers, banks and trust companies, clearing corporations, and certain other organizations for which DTC hold securities.

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

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, or its nominee, and the initial registered Holder of and Depository for the Series 2007 Bonds.

“Eligible Investments” means, unless varied by the terms of a Series Resolution as to a particular series of Bonds with respect to money held by the Trustee, any of the following securities:

- (i) direct obligations of the United States of America;
- (ii) obligations, whether representing principal and interest or either principal or interest, guaranteed as to payment by the United States of America, or to the payment of which the full faith and credit of the United States of America is pledged;
- (iii) obligations issued by any agency or instrumentality of the United States of America which are accepted by Moody's Investors Service, Inc. (“Moody's”) and Standard & Poor's Credit Market Services (“S&P”) (collectively, the “Rating Services”) for refunding purposes generally to result in the particular refunded obligations being assigned the highest rating of the particular Rating Service;
- (iv) general obligations of the State or any political subdivision of the State that are rated at one of the two highest ratings of the Rating Services;
- (v) certificates of deposit, whether negotiable or nonnegotiable, issued by a national bank located in the State or a bank (as defined in Section 1101.01 of the Ohio Revised Code) subject to inspection by the State Superintendent of Banks, which bank has a combined capital and surplus of at least One Hundred Million Dollars (\$100,000,000) in dollars of the United States of America and is rated at least “A” (or its equivalent) by the Rating Services, provided, that such certificates of deposit (a) do not exceed in the aggregate ten percent (10%) of the combined capital, surplus and undivided profits of the issuing bank and (b) shall be in the possession of the applicable Trustee, or its agents and shall be either (A) continuously and fully insured by the Federal Deposit Insurance Corporation, or its successors or (B) to the extent not so insured, continuously and fully secured by securities (“Pledged Securities”) as are described in clauses (i) through (iii), inclusive, above which shall have a market value (exclusive of any accrued interest) at all times at least equal to the principal amount of the certificates of deposit; and the bank issuing a certificate of deposit required to be secured as provided in clause (B) above shall furnish the applicable Trustee with an undertaking satisfactory to it that the aggregate market value of all such Pledged Securities securing each such certificate of deposit will at all times be an amount at least equal to the principal amount of each such certificate of deposit and the applicable Trustee shall be entitled to rely on each such undertaking;
- (vi) any repurchase agreement for a period not to exceed thirty (30) days with a national bank located in the State or a bank (as defined in Section 1101.01 of the Ohio Revised Code) subject to inspection by the State Superintendent of Banks having a combined capital and surplus of at least One Hundred Million Dollars (\$100,000,000) in dollars of the United States of America and is rated at least “A” (or its equivalent) by the Rating Services provided that such repurchase agreement is fully and continuously collateralized by interest bearing Pledged Securities having a market value at all times of not less than the amount invested in such repurchase agreement;
- (vii) any “no front-end load” money market fund that is rated at least “A” (or its equivalent) by the Rating Services, the assets of which funds are invested solely in obligations described in clauses (i), (ii), and (iii) above, including any such money market fund of the Trustee;

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

“Escrow Agent” means The Bank of New York Trust Company, N.A..

“Escrow Agreement” means the Escrow Agreement by and between the Authority and the Escrow Agent, dated as of April 15, 2007.

“Financial Institution” means any financial institution or institutions providing any Credit Support Instrument in connection with one or more series of Bonds.

“Fiscal Year” means a period of twelve consecutive months commencing on the first day of July of any year and ending on the last day of June of the following year, or such other period of twelve (12) consecutive months as may by law be designated as the fiscal year for general State fiscal purposes.

“Fully Registered Bonds” or “fully registered form” means the Bonds, without coupons, registered as to both principal and interest in the name of the Holder thereof.

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

“General Bond Resolution” means Resolution No. 1990-3 adopted by the Authority on June 5, 1990, as the same may be amended from time to time in accordance with its provisions or the provisions of the Original Trust Agreement.

“Holder” or “bondholder” or any similar term means any person in whose name Bonds are registered on the Bond Register.

“Indirect Participant” means entities that clear transactions through or maintain a custodial relationship with a Direct Participant.

“Interest Payment Date” means as to the Series 2007 Bonds, the first day of each April and October commencing on October 1, 2007 and as to Additional Bonds, the dates set forth as Interest Payment Dates in the Supplemental Trust Agreement.

“Juvenile Correctional Building Fund” means the Juvenile Correctional Building Fund created by the General Assembly in the custody of the Treasurer and as further identified in the General Bond Resolution.

“Lease” means the Original Lease, as amended and supplemented.

“Mail or “mailing” or “mailed” means sending by first class United States mail, postage prepaid.

“Original Lease” means the Lease Agreement, dated as of June 1, 1990, between the Authority and the Department relating to the Projects.

“Original Trust Agreement” means the Trust Agreement, dated as of June 1, 1990, between the Authority and the Trustee.

“Outstanding Bonds”, “Bonds outstanding” or “outstanding” means, as of the applicable date, all Bonds which have been authenticated and delivered, or are being delivered by the Trustee under the Trust Agreement, except:

- (i) Bonds canceled or retained in safekeeping on surrender, exchange or transfer or canceled because of payment of redemption at or prior to such date;

- (ii) Bonds for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited for the purpose on or prior to that date in the Bond Service Account (as defined in the Trust Agreement), or other special fund or account, or with the Trustee or Paying Agents (whether upon or prior to the maturity or redemption date of those Bonds); provided that if any such Bonds are to be redeemed prior to their maturity, notice of that redemption shall have been given or arrangements satisfactory to the Trustee shall have been made for giving notice of that redemption, or waiver by the affected bondholders of that notice satisfactory in form to the Trustee shall have been filed with the Trustee and provided further that if any of the Bonds are to be purchased for cancellation, a firm offer of sale stating the price has been received and accepted;
- (iii) Bonds which are deemed to have been paid pursuant to the provisions of the Original Trust Agreement or Bonds which are deemed to have been paid pursuant to the provisions of a Series Resolution pertaining thereto; and
- (iv) Bonds in lieu of which other bonds of the same series have been authenticated (or payment of which, when due, has been made without replacement) under the Original Trust Agreement.

“Paying Agents” means the Trustee and any other banks or trust companies or other financial institutions designated as additional paying agents or places for the payment of Bond Service Charges or specified Bond Service Charges on a series of Bonds pursuant to a Series Resolution and their successors designated pursuant to the Trust Agreement.

“Person” or “person” or words importing persons means firms, associations, partnerships (including, without limitation, general and limited partnerships), joint ventures, societies, estates, trusts, corporations, public or governmental bodies, other legal entities and natural persons.

“Pledged Receipts” means (a) all rentals and other revenues and receipts of the Authority under the Lease, excepting only the portions thereof to be deposited in the Administrative Service Fund as provided in the Trust Agreement and the Rebate Fund; (b) all amounts standing to the credit of the Bond Service Fund including any bond service reserve account (other than sub-accounts in such bond service reserve account which are limited to certain series of obligations) and all unencumbered amounts standing to the credit of the Construction Fund; (c) any gifts, grants, appropriations, donations and pledges, and receipts therefrom, received by the Authority for or relating to the Projects, to the extent not heretofore pledged and to the extent not prohibited by the terms of such gifts, grants, appropriations, donations or pledges; (d) all other rents, revenues and receipts, including fees and charges, derived or to be derived by the Authority from the Projects to the extent not heretofore pledged; and (e) any other available receipts, as defined in Section 152.09(A)(8) of the Ohio Revised Code, which are hereafter pledged to the payment of Bond Service Charges by any Series Resolution.

“Project Costs”, “project costs” or “costs of capital facilities” means the “costs of capital facilities” as defined in the Act, for which bonds may be issued by the Authority under the Act.

“Projects” means those capital facilities, or portions thereof, described in the Lease, as described herein under the heading “**THE PROJECTS**”.

“Rebate Amount” means, with respect to bonds any amount required to be paid to the United States of America under Section 148(f) of the Code.

“Rebate Fund” means the Ohio Building Authority Rebate Fund created by the Trust Agreement, including the accounts therein, to facilitate payments of amounts due to be paid to the United States.

“Refunded Bonds” means the presently outstanding State of Ohio (Ohio Building Authority) State Facilities Bonds (Juvenile Correctional Building Fund Projects), 2001 Series A, scheduled to mature on April 1 in the years 2012 through 2016, inclusive.

“Register” or “Bond Register” means the books kept and maintained by the Bond Registrar pursuant to the Trust Agreement.

“Renewal Term” means each term commencing contemporaneously with the State's fiscal biennium for which the Department have the right (or shall be deemed to have exercised the right) to renew the Lease.

“Rental Payment Date” means any date on which rentals for the Projects are to be paid pursuant to the Lease.

“Rental Period” means the period of time commencing on a Rental Payment Date and ending the day preceding the next Rental Payment Date or any period of time specified as a Rental Period in a Supplemental Lease.

“Required Reserve” or “required reserve” means the amount, if any, required to be on deposit in and credited to a bond service reserve account (or provided by a Credit Support Instrument) pursuant to the Trust Agreement applying to one or more series of the Bonds to which the bond service reserve account pertains.

“Resolutions” means the General Bond Resolution as amended and supplemented to date, including by the Series 2007 Resolution.

“Series 2007 A Bonds” means the State of Ohio (Ohio Building Authority) State Facilities Bonds (Juvenile Correctional Building Fund Projects), 2007 Series A, authorized by the Series 2007 Resolution to be issued in the aggregate principal amount stated on the cover page hereof.

“Series 2007 B Bonds” means the State of Ohio (Ohio Building Authority) State Facilities Refunding Bonds (Juvenile Correctional Building Fund Projects), 2007 Series B, authorized by the Series 2007 Resolution to be issued in the aggregate principal amount stated on the cover page.

“Series 2007 Bonds” means, collectively, the Series 2007 A Bonds and the Series 2007 B Bonds.

“Series 2007 Resolution” means Resolution No. 2007-1 adopted by the Authority on April 20, 2007, as the same may be amended from time to time, providing for the issuance of the Series 2007 Bonds.

“Series Resolution” means a resolution of the Authority authorizing the issuance of a series of Bonds in accordance with the General Bond Resolution, and includes any resolutions providing for the award, sale, terms or forms of the Bonds authorized by a Series Resolution.

“State” means the State of Ohio.

“Supplemental Lease” means any one or more Supplemental Leases, as the same may be amended, modified or supplemented, entered into pursuant to the Original Lease.

“Supplemental Trust Agreement” means any one or more Supplemental Trust Agreements, as the same may be amended, modified or supplemented, entered into pursuant to the Original Trust Agreement, and includes where set forth therein, the applicable Series Resolution.

“Tenth Supplemental Lease” means the Tenth Supplemental Lease dated as of April 15, 2007 between the Authority and the Department.

“Tenth Supplemental Trust Agreement” means the Tenth Supplemental Trust Agreement dated as of April 15, 2007 between the Authority and the Trustee.

“Treasurer” means the Treasurer of State of Ohio or the officer who by law performs the functions of that office.

“Trust Agreement” means the Original Trust Agreement, as amended and supplemented to date and by the Tenth Supplemental Trust Agreement, and unless the context indicates otherwise, includes all Supplemental Trust Agreements.

“Trustee” means The Bank of New York Trust Company, N.A. and any successor Trustee as determined or designated under or pursuant to the Trust Agreement.

“Underwriter” means RBC Dain Rauscher Inc., which does business under the trade name RBC Capital Markets.

**APPENDIX A**

**INFORMATION CONCERNING THE STATE OF OHIO**

### INFORMATION CONCERNING THE STATE OF OHIO

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

Owners of the Series 2007 Bonds have no right to have taxes or excises levied by the General Assembly to pay Bond Service Charges.

#### FISCAL MATTERS

##### General

Consistent with the constitutional provision that no appropriation may be made for a period longer than two years, the State operates on the basis of a fiscal biennium for its appropriations and expenditures. Under current law that biennium for operating purposes runs from July 1 in an odd-numbered year to June 30 in the next odd-numbered year; for example, the current fiscal biennium began July 1, 2005 and ends June 30, 2007. Within a fiscal biennium, the State operates on the basis of a July 1 to June 30 Fiscal Year. The biennium for general capital appropriations purposes runs from July 1 in an even-numbered year to June 30 in the next even-numbered year. See **Recent and Current Finances – Current Biennium** for discussion of the 2006-07 biennial appropriations.

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

Most State operations are financed through the general revenue fund (GRF). Personal income and sales and use taxes are the major GRF sources. The last complete fiscal year ended June 30, 2006 with a GRF fund balance of \$1,025,967,000. The State also maintains a “rainy day” fund – the Budget Stabilization Fund (BSF) – which under current law and until used is intended to carry a balance of up to 5% of the GRF revenue for the preceding Fiscal Year. The current BSF balance is \$1,012,289,000 which is 3.9% of Fiscal Year 2006 GRF revenue and which reflects a transfer of \$394,034,000 from the end of Fiscal Year 2006 GRF fund balance.

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

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

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

At present the State itself does not levy ad valorem taxes on real or tangible personal property. Those taxes are levied by political subdivisions and local taxing districts. The Constitution has since 1934 limited the amount of the aggregate levy of ad valorem property taxes on particular property, without a vote of the electors



or municipal charter provision, to 1% of true value in money, and statutes limit the amount of that aggregate levy without a vote or charter provision to 10 mills per \$1 of assessed valuation -- commonly referred to in the context of Ohio local government finance as the “ten-mill limitation.”

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

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

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

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

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

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

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

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

State financial reporting practices have been and are in accordance with generally accepted accounting principles (GAAP basis). Each Comprehensive Annual Financial Report (CAFR) includes the State’s Basic Financial Statements (BFS) for that Fiscal Year as examined by the Auditor of State. The State has delivered the CAFR for Fiscal Year 2005 to each nationally-recognized municipal securities information repository and to the Ohio State Information Depository. The most recent CAFRs are accessible via OBM’s home page on the Internet at <http://www.obm.ohio.gov/finrep/cafr>, and copies may be obtained by contacting the State Debt Coordinator at OBM, 30 E. Broad Street, 34<sup>th</sup> Floor, Columbus, Ohio 43215, phone (614) 466-4034. The 1990 through 2004 CAFRs received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.

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

OBM also has published *The Ohio Budgetary Financial Report* for Fiscal Year 2006. The most recent Budgetary Financial Reports are accessible via OBM's home page on the Internet at <http://www.obm.ohio.gov/finrep>, and copies are available upon request to OBM.

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

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## Recent Receipts and Disbursements

The following summary statements, prepared by OBM and based on its records, include:

- governmental and proprietary appropriated funds, cash receipts and cash disbursements, and
- GRF cash basis activity.

The governmental and proprietary appropriated funds encompass the General Fund (which includes the GRF and BSF), as well as special revenue, debt service, capital projects, 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				
	2002	2003	2004	2005	2006
Taxes:					
Personal Income(a).....	\$8,157.1	\$8,256.5	\$8,531.2	\$9,434.5	\$9,623.2
Sales and Use(b).....	6,357.1	6,715.6	7,849.5	8,146.4	7,689.0
Corporate Franchise(c) .....	774.4	808.3	870.6	1,111.6	1,105.9
Commercial Activity Tax(d) .....	0.0	0.0	0.0	0.0	273.4
Gasoline.....	1,383.3	1,456.2	1,541.2	1,671.9	1,792.5
Public Utilities(e) .....	869.2	878.6	877.7	753.9	813.5
Cigarette(f).....	281.3	599.9	557.5	577.7	1,084.1
Foreign Insurance .....	230.2	233.8	252.9	264.0	269.0
Highway Use .....	69.4	71.4	72.3	70.5	54.9
Estate .....	116.3	100.8	64.2	60.4	54.1
Alcoholic Beverages.....	56.4	57.3	57.2	57.6	58.4
Liquor Gallonage.....	29.3	29.7	30.9	32.2	33.4
Domestic Insurance Franchise .....	132.5	160.3	166.1	171.4	170.4
Other .....	<u>50.0</u>	<u>67.1</u>	<u>69.7</u>	<u>64.9</u>	<u>61.6</u>
Total Taxes .....	18,506.5	19,435.5	20,941.0	22,417.0	23,083.4
Licenses, Permits and Fees .....	1,699.5	1,757.5	1,976.7	2,075.4	2,252.7
Sales, Services and Charges .....	1,502.0	1,466.5	1,655.5	1,660.5	2,025.7
Federal Government.....	11,633.7	12,975.6	14,202.6	14,815.0	15,405.8
Other(g) ..	3,741.4	3,230.6	3,015.4	3,395.1	3,879.8
Proceeds from Sale of Bonds and Notes .....	<u>1,231.0</u>	<u>1,481.5</u>	<u>1,640.1</u>	<u>1,314.8</u>	<u>1,461.0</u>
Total Cash Receipts .....	\$38,314.1	\$40,347.2	\$43,431.3	\$45,677.8	\$48,108.4

- (a) Beginning in calendar year 2005, the personal income tax rate is being reduced by 21% (4.2% per year over five years).
- (b) Reflects a sales and use tax rate of 5.0% in Fiscal Years 2002 and 2003, 6.0% in Fiscal Years 2004 and 2005, and 5.5% in Fiscal Year 2006.
- (c) Beginning in calendar year 2006, the State corporate franchise tax rate is being phased out at a rate of 20% per year over five years.
- (d) The commercial activity tax – a tax on gross receipts from doing business in Ohio – commenced in Fiscal Year 2006. The initial rate of 0.06% will be increased by approximately equal amounts each year until reaching a full rate of 0.26% in Fiscal Year 2010.
- (e) Includes the kilowatt-hour excise tax imposed beginning in Fiscal Year 2002. 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.
- (f) Reflects a per-pack tax of \$0.24 in Fiscal Year 2002, \$0.55 in Fiscal Years 2003 through 2005, and \$1.25 in Fiscal Year 2006.
- (g) Includes investment income and tobacco settlement receipts and, in Fiscal Years 2002, 2003 and 2006 transfers from the BSF to the GRF.

#### Cash Disbursements

##### FUND TYPE

##### General Fund:

General Revenue Fund .....	\$21,627.4	\$22,653.3	\$23,838.9	\$24,830.9	\$24,866.3
General Services Fund(h).....	1,081.3	1,186.1	1,295.2	1,404.7	1,720.2
Budget Stabilization Fund .....	534.3	131.8	0.0	0.0	0.0
Special Revenue Fund(i) .....	14,536.0	15,088.0	15,180.5	16,438.9	17,755.4
Capital Projects Fund(j).....	448.5	491.4	443.5	428.8	361.2
Debt Service Fund(k) .....	434.3	486.0	557.5	661.4	704.2
Enterprise Fund.....	<u>1,175.3</u>	<u>1,148.6</u>	<u>1,270.1</u>	<u>1,209.8</u>	<u>1,708.0</u>
Total Cash Disbursements .....	\$39,837.1	\$41,185.2	\$42,585.7	\$44,974.5	\$47,115.3

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

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

	Fiscal Year				
	2002	2003	2004	2005	2006
Beginning Cash Balance .....	\$817.1	\$619.2	\$396.5	\$533.1	\$1,209.2
Cash Receipts:					
Taxes:					
Personal Income(a) .....	7,304.1	7,420.7	7,696.9	8,598.9	8,786.4
Sales and Use(b) .....	6,038.0	6,397.9	7,530.6	7,827.1	7,368.2
Corporate Franchise(c) .....	712.3	747.2	809.2	1,051.6	1,054.9
Commercial Activity Tax(d).....	0.0	0.0	0.0	0.0	185.1
Public Utilities(e).....	583.4	558.5	565.4	443.9	501.5
Cigarette .....	281.3	599.9	557.5	577.7	1,084.1
Foreign Insurance.....	214.3	216.4	230.5	242.9	248.8
Other .....	<u>340.9</u>	<u>377.3</u>	<u>347.4</u>	<u>345.9</u>	<u>334.4</u>
Total Taxes .....	15,474.3	16,317.8	17,737.5	19,088.0	19,563.4
Federal Government(f).....	4,387.2	5,061.4	5,527.4	5,646.6	5,595.5
Licenses, Permits and Fees.....	31.1	33.7	50.2	70.6	73.9
Investment Income .....	79.0	14.3	18.0	35.0	107.3
Other(g).....	<u>982.4</u>	<u>504.8</u>	<u>176.9</u>	<u>158.5</u>	<u>190.7</u>
Total Cash Receipts.....	20,954.0	21,932.0	23,510.0	24,998.7	25,530.8
Cash Disbursements:					
Primary, Secondary and Other Education(h) .....	6,044.7	6,236.1	6,446.9	6,619.4	6,696.7
Higher Education(i) .....	2,113.0	2,088.1	2,085.1	2,117.8	2,144.0
Public Assistance and Medicaid.....	8,102.9	8,848.9	9,733.2	10,269.9	10,166.4
Health and Human Services .....	1,056.3	1,065.4	1,096.2	1,137.1	1,186.9
Justice and Public Protection.....	1,668.0	1,673.9	1,714.1	1,753.1	1,806.9
Environmental Protection and Natural Resources .....	102.5	100.1	98.6	99.2	83.2
Transportation .....	43.3	31.7	26.6	30.6	25.7
General Government .....	264.0	247.5	240.6	241.1	246.9
Community and Economic Development.....	140.2	137.4	107.5	120.8	112.4
Tax Relief(j) and Other .....	1,190.2	1,315.6	1,341.9	1,408.8	1,334.0
Capital Outlay.....	0.0	0.0	0.0	0.0	0.2
Debt Service(k).....	<u>902.3</u>	<u>908.6</u>	<u>948.2</u>	<u>1,033.1</u>	<u>1,063.0</u>
Total Cash Disbursements.....	21,627.4	22,653.3	23,838.9	24,830.9	24,866.3
Cash Transfers:					
Transfers-in(l) .....	508.5	517.5	520.9	551.8	315.2
Transfers-out(m) .....	<u>(33.0)</u>	<u>(18.9)</u>	<u>(55.4)</u>	<u>(43.5)</u>	<u>(660.1)</u>
Total Cash Transfers (net).....	475.5	498.6	465.5	508.3	(344.9)
Ending Cash Balance .....	\$619.2	\$396.5	\$533.1	\$1,209.2	\$1,528.8

- (a) Beginning in calendar year 2005, the personal income tax rate is being reduced by 21% (4.2% per year over five years).
- (b) Reflects a sales and use tax rate of 5.0% in Fiscal Years 2002 and 2003, 6.0% in Fiscal Years 2004 and 2005, and 5.5% in Fiscal Year 2006.
- (c) Beginning in calendar year 2006, the State corporate franchise tax rate is being phased out at a rate of 20% per year over five years.
- (d) The commercial activity tax – a tax on gross receipts from doing business in Ohio – commenced in Fiscal Year 2006. The initial rate of 0.06% will be increased by approximately equal amounts each year until reaching a full rate of 0.26% in Fiscal Year 2010.
- (e) 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.
- (f) Includes \$193.0 million in federal block grant fiscal relief monies in each of the Fiscal Years 2003 and 2004.
- (g) 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.
- (h) Mainly subsidies to local school districts.
- (i) Mainly subsidies to colleges and universities. Higher education institutions maintain their own discrete funds and accounts.
- (j) 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.
- (k) Debt service on general obligations, lease-rental obligations, and certain other State obligations paid from the GRF.
- (l) In all fiscal years, includes transfers from the School District Property Tax Replacement Fund and from liquor profits; 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; in Fiscal Year 2005 \$316.8 million from federal fiscal relief monies, and in Fiscal Year 2006 \$5.0 million from tobacco settlement receipts.
- (m) Includes a transfer to the BSF of \$13.9 million in Fiscal Year 2002 and \$435.9 million in Fiscal Year 2006, \$60 million to the Public Assistance Reconciliation Fund (i.e., TANF), \$50 million to the Public School Building Fund, and \$40 million to the Disaster Services Fund.

## Recent and Current Finances

### Introductory Information

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

Economic activity in Ohio, as in other industrially-developed states, tends to be somewhat more cyclical than in some other states and in the nation as a whole. The GRF ending (June 30) fund balance is reduced during less favorable national economic periods and then increases during more favorable economic periods. The GRF ending fund balance for Fiscal Year 2006 was \$1,025,967,000. 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 Biennia

#### 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 is being phased in over the 2006 through 2010 fiscal 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. (The inclusion of wholesale and retail food sales for off-premise consumption, projected to produce approximately \$140,000,000 annually once the CAT is fully-phased in, is subject to a legal challenge).
- 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.

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

The State ended Fiscal Year 2006 with a GRF cash balance of \$1,528,812,000 and a GRF fund balance of \$1,025,967,000. Of that ending GRF fund balance, the State carried forward \$631,933,000 to cover the expected and planned for variance of Fiscal Year 2007 GRF appropriations over estimated revenue, to offset the one-time cost of accelerating the phase-in of reductions in State personal income tax withholding rates, and to maintain 0.5% of Fiscal Year 2007 GRF revenue as an ending fund balance. The remaining \$394,034,000 was deposited into the BSF increasing its balance to \$1,012,289,000 (which includes \$40,045,000 in receipts collected from a broad tax amnesty initiative and deposited in June 2006).

The Governor's Executive Budget for the 2008-2009 biennium was released on March 15, 2007. That Executive Budget proposal includes all necessary GRF debt service and lease-rental amounts for the biennium. That budget proposal is reflected in appropriations legislation introduced in the House and to be considered for enactment by both houses of the General Assembly.

## **Litigation**

Litigation was commenced before the Ohio Supreme Court 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 Cuyahoga County Court of Appeals upheld the trial court's decision. The State appealed the Court of Appeals decision to the Ohio Supreme Court. In January 2007, the Ohio Supreme Court overturned the Court of Appeals decision and ruled in favor of the State.

## **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. In recent fiscal years, the highest GRF end-of-month cash flow deficiencies were \$1,413,295,000 in Fiscal Year 2004, \$1,660,117,000 in Fiscal Year 2005, and \$1,677,488,600 in Fiscal Year 2006. GRF cash flow deficiencies have been and are expected by OBM to remain within the TOF limitations discussed above.

## **STATE DEBT**

### **General**

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

By 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 (paid from highway user receipts) and for BWC facilities (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. The highest annual State payment under those agreements in the current or any future fiscal year is \$99,396,150 in Fiscal Year 2007. 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. Pursuant to a 2000 constitutional amendment discussed below under **Additional Authorizations**, the State has issued \$100,000,000 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 \$39,573,516 in Fiscal Year 2008.

*Certificates of Participation (COPs).* State agencies also have participated in buildings and equipment, information systems and non-highway transportation projects that have local as well as State use and benefit, in connection with which the State has entered into lease-purchase agreements with terms ranging from 7 to 20 years. Certificates of Participation (COPs) have been issued in connection with those agreements that represent fractionalized interests in and are payable from the State's anticipated payments. The maximum annual payment under those agreements, made from GRF appropriations, is \$15,941,949 in Fiscal Year 2008. Payments by the State are subject to biennial appropriations by the General Assembly with the lease terms subject to renewal if appropriations are made. The OBM Director's approval of such agreements is required if COPs are to be publicly-offered in connection with those agreements.

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

### Variable Rate Debt and Interest Rate Swaps

The State currently has \$742,265,000 in outstanding general obligation variable rate debt as follows with liquidity provided by the State for all of these issues:

<u>Dated Date</u>	<u>Outstanding</u>	<u>Purpose</u>	<u>Series</u>	<u>Rate Period</u>	<u>Final Maturity</u>
11/29/01	\$63,900,000	Infrastructure	2001B	Weekly	8/1/2021
2/26/03	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	183,270,000	Common Schools	2005A/B	Weekly	3/15/2025
6/7/06	200,000,000	Common Schools	2006B/C	Weekly	6/15/2026

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

As part of its debt management, the State has also entered into the following interest rate swap agreements:

<u>Type</u>	<u>Outstanding Notional Amount</u>	<u>Related Bond Series</u>	<u>State Pays</u>	<u>State Receives</u>	<u>Effective Date</u>	<u>Termination Date</u>
Floating-to-Fixed	\$63,900,000	Infrastructure 2001B	4.630%	BMA <sup>1</sup>	11/29/2001	8/1/2021
Floating-to-Fixed	104,315,000	Infrastructure 2003B	2.960%	Matched Rate <sup>2</sup>	2/26/2003	8/1/2008
Floating-to-Fixed	58,085,000	Infrastructure 2003D	3.035%	Matched Rate <sup>2</sup>	3/20/2003	2/1/2010
Fixed-to-Floating	15,545,000	Infrastructure 2003F	BMA <sup>1</sup>	2.540%	12/14/2003	2/1/2010
Fixed-to-Floating	67,000,000	Common Schools 2003D <sup>3</sup>	BMA <sup>1</sup>	2.665%	12/15/2003	9/1/2007
Floating-to-Fixed	67,000,000	Common Schools 2003D	3.414%	LIBOR <sup>4</sup>	9/14/2007	3/15/2024
Floating-to-Fixed	56,665,000	Infrastructure 2004A	3.510%	LIBOR <sup>4</sup>	3/3/2004	2/1/2023
Floating-to-Fixed	183,270,000	Common Schools 2005A/B	3.750%	LIBOR <sup>5</sup>	3/15/2007	3/15/2025
Floating-to-Fixed	200,000,000	Common Schools 2006B/C	3.202%	LIBOR <sup>4</sup>	6/15/2006	6/15/2026

<sup>1</sup> Bond Market Association (BMA) weekly variable rate index.

<sup>2</sup> The State receives the exact rate paid on its associated variable rate bonds.

<sup>3</sup> The Common Schools Series 2003D Bonds were issued with a fixed term rate through September 14, 2007 at which time the State currently plans to remarket these Bonds in a weekly variable rate mode.

<sup>4</sup> Variable interest rate based on a percentage of London Inter-Bank Offered Rate (LIBOR) plus a fixed increment.

<sup>5</sup> Variable interest rate based on 62% of 10-year LIBOR.

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

### 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 and facilities, new obligations may not be issued if future Fiscal Year debt service on those new and the then outstanding obligations of those categories would exceed 5% of the total estimated GRF revenues plus net State lottery proceeds during the Fiscal Year of issuance. Those direct obligations of the State include, for example,

special obligation bonds that are paid from GRF appropriations, but exclude bonds such as highway bonds that are paid from highway user receipts. Pursuant to the amendment and implementing legislation, the Governor has designated the OBM Director as the State official to make the 5% determinations and certifications. Application of the cap may be waived in a particular instance by a three-fifths vote of each house of the General Assembly and may be changed by future constitutional amendments.

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

**Obligations Payable from the GRF**

	<b>Authorized by General Assembly</b>	<b>Issued(a)</b>	<b>Outstanding(b)</b>
<b><u>General Obligations</u></b>			
Coal Development(c)	\$165,000,000	\$150,000,000	\$30,255,000
Infrastructure(d)	2,520,000,000	2,279,986,136	1,333,936,840(e)
Natural Resources(f)	322,000,000	265,000,000	146,550,000
Common School Facilities	4,145,000,000	3,290,000,000	2,947,020,000(e)
Higher Education Facilities	2,957,000,000	2,000,000,000	1,701,455,000
Conservation(f)	200,000,000	150,000,000	125,065,000
Research & Development(g)	200,000,000	50,000,000	50,000,000
Site Development(h)	90,000,000	30,000,000	30,000,000
<b><u>Special Obligations</u></b>			
DRC Prison Facilities	\$1,881,000,000	\$1,734,500,000	\$722,720,000
DYS Facilities	285,000,000	267,000,000	171,050,000
DAS Facilities(i)	1,598,000,000	1,488,300,000	754,240,000
Cultural Facilities	470,000,000	398,690,000	181,285,000
DNR Facilities	12,160,000	12,160,000	2,055,000
Higher Education Facilities	4,817,590,000	4,817,590,000	663,900,000
Mental Health Facilities	1,389,000,000	1,322,085,000	251,250,000
Parks & Recreation Facilities	377,000,000	313,000,000	108,175,000
Elementary & Secondary Education	333,640,000	333,640,000	32,880,000

**Obligations Payable from Non-GRF Sources**

	<b>Authorized by General Assembly</b>	<b>Issued(a)</b>	<b>Outstanding(b)</b>
<b><u>Highway User Receipts</u></b>			
G.O. Highway(j)	\$2,130,000,000	\$1,805,000,000	\$1,021,000,000
ODOT Facilities	155,800,000	155,800,000	18,410,000
DPS Facilities	143,000,000	138,600,000	67,445,000
<b><u>Net Liquor Profits</u></b>			
Economic Development(k)	n.a.	\$368,740,000	\$308,125,000
Revitalization Projects(l)	200,000,000	100,000,000	87,500,000
<b><u>Other</u></b>			
ODOT Highway Infrastructure(m)	n.a.	\$777,250,000	\$453,995,000
BWC Facilities(n)	214,255,000	214,255,000	109,860,000

- (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 adjustable rate bonds.
- (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) 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.
- (k) 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.
- (l) Net liquor profits are statutorily designated as the source of payment of debt service.
- (m) Debt service on these "GARVEE" bonds is paid from federal transportation grants apportioned to the State (Title 23 of the U.S. Code).
- (n) 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, including the Series 2007 Bonds.

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

FY	General Obligations			Special Obligations		Total GRF Debt Service		
	Education(a)	Infra-structure(b)	All Other(c)	Treasurer(d)	OBA(e)	Principal	Interest	Total
2007	\$386,037,444	\$174,921,265	\$57,721,023	\$337,901,059	\$260,124,779	\$772,780,726	\$443,924,843	\$1,216,705,570
2008	425,954,823	174,868,799	54,133,100	327,378,417	241,254,487	785,801,587	437,788,039	1,223,589,625
2009	422,543,859	174,925,429	54,155,066	218,454,685	226,737,440	688,649,042	408,167,437	1,096,816,479
2010	420,905,075	175,045,040	54,043,811	199,398,175	218,202,008	694,755,576	372,838,532	1,067,594,108
2011	418,754,383	164,766,395	50,617,374	174,663,960	201,917,330	666,867,787	343,851,654	1,010,719,441
2012	417,436,547	164,956,006	50,598,438	144,541,330	193,705,489	654,271,933	316,965,878	971,237,811
2013	415,997,564	153,559,951	42,260,931	110,937,263	173,228,518	604,987,649	290,996,577	895,984,227
2014	414,624,406	144,407,223	32,569,329	55,107,711	157,012,536	559,841,268	243,879,937	803,721,205
2015	398,053,729	124,641,983	29,799,990	45,706,398	146,709,434	533,358,397	211,553,136	744,911,534
2016	371,219,203	114,421,886	27,240,694	38,570,811	124,643,456	492,308,600	183,787,449	676,096,050
2017	370,475,329	105,117,319	21,781,878	24,595,211	107,243,013	470,825,000	158,387,749	629,212,749
2018	369,938,999	95,118,606	17,228,280	19,646,459	95,800,613	461,755,000	135,977,955	597,732,955
2019	369,036,207	75,962,431	11,656,240	14,997,447	74,598,850	432,100,000	114,151,175	546,251,175
2020	368,685,072	65,591,600	7,166,250	10,565,175	51,194,913	409,535,000	93,668,010	503,203,010
2021	353,447,012	55,827,091	0	0	51,462,913	386,580,000	74,157,015	460,737,015
2022	340,611,556	55,759,681	0	0	41,340,475	381,970,000	55,741,712	437,711,712
2023	310,860,090	46,190,883	0	0	31,465,625	350,095,000	38,421,598	388,516,598
2024	208,353,136	28,097,375	0	0	23,270,163	236,505,000	23,215,673	259,720,673
2025	141,359,081	18,663,500	0	0	12,762,750	160,650,000	12,135,331	172,785,331
2026	89,070,117	16,801,875	0	0	0	101,250,000	4,621,992	105,871,992
2027	29,702,250	0	0	0	0	<u>29,085,000</u>	<u>617,250</u>	<u>29,702,250</u>
						<b>\$9,873,972,567</b>	<b>\$3,964,848,943</b>	<b>\$13,838,821,510</b>

- (a) Consists of common schools and higher education general obligation bonds and includes estimated debt service on adjustable rate bonds for common schools.
- (b) Includes estimated debt service on adjustable rate bonds.
- (c) Includes natural resources, coal development, conservation, research and development, 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.

## 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)
2007	\$198,718,747	\$24,245,760	\$222,964,507	\$30,105,833	\$9,149,247	\$39,255,080	\$20,050,895	\$99,396,150
2008	205,977,409	23,883,035	229,860,444	30,098,904	9,474,612	39,573,516	20,361,525	98,922,033
2009	177,981,595	16,903,266	194,884,861	30,089,925	9,469,135	39,559,060	20,611,445	87,469,393
2010	151,347,826	16,642,351	167,990,177	30,066,550	9,461,725	39,528,275	19,796,795	69,358,273
2011	122,934,128	13,019,775	135,953,903	30,057,113	9,451,450	39,508,563	18,974,395	49,831,364
2012	98,224,828	9,450,034	107,674,862	30,077,440	9,443,850	39,521,290	18,216,365	34,236,790
2013	94,236,070	2,442,503	96,678,573	30,075,541	9,439,650	39,515,191	17,458,370	33,431,053
2014	76,722,193	2,444,794	79,166,987	30,071,235	9,422,700	39,493,935	15,951,100	32,334,588
2015	57,377,713	2,443,281	59,820,994	30,081,620	9,416,525	39,498,145	0	31,803,838
2016	20,837,150	2,446,669	23,283,819	30,096,885	9,405,200	39,502,085	0	21,230,463
2017	19,908,350	2,444,713	22,353,063	30,099,377	9,384,325	39,483,702	0	0
2018	0	2,447,213	2,447,213	30,097,857	9,386,950	39,484,807	0	0
2019	0	2,448,650	2,448,650	30,095,440	4,675,325	34,770,765	0	0
2020	0	1,567,875	1,567,875	30,094,127	4,678,325	34,772,452	0	0
2021	0	1,568,250	1,568,250	30,090,677	4,676,775	34,767,452	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 2007 Bonds:

<u>Year</u>	<b>Obligations Payable from the GRF</b>			<b>Non-GRF Obligations</b>	
	<u>Education(a)</u>	<u>Other GO(b)</u>	<u>Special Obligations(c)</u>	<u>Highway User Receipts(d)</u>	<u>Net Liquor Profits(e)</u>
2007	\$4,568,920,000	\$1,702,806,840	\$2,829,465,000	\$948,355,000	\$395,625,000
2010	3,917,075,000	1,277,555,636	1,737,355,000	464,170,000	343,235,000
2015	2,661,540,000	637,158,600	613,960,000	49,300,000	233,715,000
2020	1,306,795,000	196,090,000	143,250,000	1,530,000	97,520,000
2025	114,115,000	16,220,000	-0-	-0-	3,970,000

- (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
2002	7,086,317,648	621	2.13
2003	7,559,386,132	661	2.20
2004	8,110,709,343	708	2.30
2005	8,476,432,135	739	2.32
2006	8,909,382,567	776(a)	2.44(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
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	0.29
2005	1,097,842,137	26,195,614,000	4.19	0.30
2006	1,128,591,711	26,492,277,500	4.26	0.31(b)

- (a) Based on July 2006 population estimate.
- (b) Based on 2005 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 2007-08 capital biennium provide for the following additional GRF-supported borrowings for various purposes, all of which are reflected in the preceding tables:

#### General Obligation

- \$1,110,000,000 for capital improvements for elementary and secondary public schools.
- \$630,000,000 for higher education capital facilities projects, including \$100,000,000 for research and technology development facilities.
- \$240,000,000 for local infrastructure projects.
- \$21,000,000 for natural resources facilities.
- \$50,000,000 for conservation purposes.
- \$200,000,000 for research and development.
- \$90,000,000 for site development.

## Special Obligation

- \$41,000,000 for prisons and local jails.
- \$20,000,000 for youth services facilities.
- \$72,000,000 for State administrative facilities.
- \$50,000,000 for cultural facilities (including both arts and sports facilities).
- \$54,000,000 for mental health facilities (including local projects).
- \$42,000,000 for parks and recreation facilities.

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 2004, Ohio's economic output as measured by gross state product (GSP) totaled \$425 billion, 3.7% of the national GSP and seventh largest among the states. The State ranks third within the manufacturing sector as a whole (\$84 billion) and fourth in durable goods (\$57 billion). As a percent of Ohio's 2004 GSP, manufacturing was responsible for 19.7%, with 26.9% attributable to the goods-producing sectors and 31.9% to business services sectors, including finance, insurance and real estate. Ohio is the sixth largest exporting state with 2004 merchandise exports totaling \$31.2 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 1990, decreased in 1991, then increased steadily through 2001 before decreasing again in 2002 and 2003, and has increased in 2004 through 2006. 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>2006*</u>
Natural Resources & Mining .....	21	31	18	13	12
Construction.....	164	167	193	246	231
Manufacturing.....	1,410	1,264	1,064	1,021	797
Trade, Transportation & Public Utilities*	998	1,180	968	1,115	1,046
Information* .....	n.a.	n.a.	102	107	89
Financial Activities .....	154	204	253	305	307
Services.....	568	831	1,160	1,549	1,657
Leisure & Hospitality*.....	n.a.	n.a.	402	483	501
Government .....	<u>566</u>	<u>690</u>	<u>722</u>	<u>785</u>	<u>801</u>
TOTAL .....	3,881	4,367	4,882	5,625	5,441

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. Data for 1990 and 2000 has been adjusted to reflect this change.

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

	<u>1970</u>		<u>1980</u>		<u>1990*</u>		<u>2000*</u>		<u>2006*</u>	
	<u>Ohio</u>	<u>U.S.</u>	<u>Ohio</u>	<u>U.S.</u>	<u>Ohio</u>	<u>U.S.</u>	<u>Ohio</u>	<u>U.S.</u>	<u>Ohio</u>	<u>U.S.</u>
Natural Resources & Mining .....	<b>0.5</b>	0.9	<b>0.7</b>	1.1	<b>0.4</b>	0.7	<b>0.2</b>	0.5	<b>0.2</b>	0.5
Construction.....	<b>4.2</b>	5.1	<b>3.8</b>	4.8	<b>4.0</b>	4.8	<b>4.4</b>	5.1	<b>4.2</b>	5.6
Manufacturing .....	<b>36.3</b>	27.3	<b>29.0</b>	22.4	<b>21.8</b>	16.2	<b>18.2</b>	13.1	<b>14.6</b>	10.4
Trade, Transportation & Public Utilities*	<b>25.7</b>	27.6	<b>27.0</b>	28.2	<b>19.8</b>	20.7	<b>19.8</b>	19.9	<b>19.2</b>	19.3
Information* .....	n.a.	n.a.	n.a.	n.a.	<b>2.1</b>	2.5	<b>1.9</b>	2.8	<b>1.6</b>	2.2
Financial Activities .....	<b>4.0</b>	5.1	<b>4.7</b>	5.7	<b>5.2</b>	6.0	<b>5.4</b>	5.8	<b>5.6</b>	6.1
Services.....	<b>14.6</b>	16.3	<b>19.0</b>	19.8	<b>23.8</b>	23.8	<b>27.5</b>	28.0	<b>30.5</b>	30.0
Leisure & Hospitality*.....	n.a.	n.a.	n.a.	n.a.	<b>8.2</b>	8.5	<b>8.6</b>	9.0	<b>9.2</b>	9.7
Government .....	<b>14.6</b>	17.7	<b>15.8</b>	18.0	<b>14.8</b>	16.8	<b>14.0</b>	15.8	<b>14.7</b>	16.1

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). Data for 1990 and 2000 has been adjusted to reflect this change.

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
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.....	5.9	5.1
2006.....	5.5	4.6
2007 January.....	5.3	4.6
February.....	5.0	4.5

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 2006:

**OHIO'S TOP 25 PRIVATE SECTOR EMPLOYERS – 2006**

**Estimated Employment**

<u>Company</u>	<u>Headcount</u>	<u>Sector</u>
Wal-Mart Stores, Inc.*	50,000	Retail General Merchandiser
<b>Cleveland Clinic Health System*</b>	34,800	Health
<b>Kroger Company*</b>	34,130	Retail Food Stores
<b>University Hospitals Health System*</b>	25,000	Health
<b>Catholic Healthcare Partners</b>	23,000	Health
General Motors Corporation	19,300	Motor Vehicles
General Electric Company	17,000	Aerospace/Electrical Equipment
JPMorgan Chase & Co.	17,000	Financial Services
Meijer, Inc.*	16,500	Retail General Merchandiser
Honda Motor Company	16,000	Motor Vehicles
<b>Bob Evans Farms, Inc.*</b>	15,000	Restaurants
<b>Ohio Health*</b>	15,000	Health
Sears Holding Corp*	15,000	Retail Department
<b>Limited Brands, Inc.*</b>	14,600	Retail Clothing
<b>Nationwide Mutual Insurance Co.</b>	13,850	Finance, Insurance
Ford Motor Company	13,700	Motor Vehicles
<b>Procter &amp; Gamble Company</b>	13,500	Soaps and Cosmetics
United Parcel Service, Inc.*	13,300	Transportation Air Delivery
<b>National City Corp.</b>	13,100	Financial Services
Delphi Corp.	13,000	Motor Vehicles Parts
Federated Department Stores*	13,000	Retail Department Stores
<b>Premier Health Partners*</b>	12,300	Health
<b>Cedar Fair, LP*</b>	12,000	Hospitality Theme Parks
Home Depot, Inc.*	11,400	Retail Home Improvement
<b>Health Alliance*</b>	11,300	Health

\* Indicates inclusion of part-time employees.

Boldface indicates headquartered in Ohio.

Source: Ohio Department of Development, Office of Strategic Research, September 2006.

## 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 2006 is 11,478,006.

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 14.3 million acres (of a total land area of 26.4 million acres) in farmland and an estimated 76,500 individual farms, agriculture combined with related agricultural sectors is an important segment of Ohio's economy. Ohio's 2005 crop production value of \$3.1 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, and tomatoes. In 2005, Ohio's agricultural sector output (consisting of crops, livestock, poultry and dairy, and services and forestry) totaled \$6.5 billion with agricultural exports (primarily soybeans, feed grains and wheat, and their related products) estimated at a value of \$1.5 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 2006, the number of regular state employees averaged 60,142 (for comparative national figures, see **Comparative Government Statistics**).

The State engages in collective bargaining with five employee unions representing 20 bargaining units and is currently operating under recently-negotiated three-year agreements with the Ohio Civil Service Employees Association, the Service Employees International Union, and the Ohio Education Association/State Council of Professional Educators, which together represent approximately 40,000 or 66% of State employees. Those new agreements are set to expire in February through June 2009. The State is in the process of negotiating new agreements with the remaining two unions.

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

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

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

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

	<u>PERS</u>	<u>STRS</u>	<u>SERS</u>	<u>OP&amp;F</u>	<u>HPRS</u>
as of:	<u>12/31/05</u>	<u>6/30/06</u>	<u>6/30/06</u>	<u>12/31/05</u>	<u>12/31/05</u>
Active Members.....	358,804	175,065	123,266	27,884	1,573
Retirants and Beneficiaries .....	153,935	119,184	62,521	24,459	1,301
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 .....	\$11,806.0	\$9,974.1	\$2,553.3	\$1,756.2	\$83.4
Actuarial Accrued Liability (AAL) .....	\$61,146.0	\$77,371.0	\$12,626.7	\$12,190.4	\$773.9
Value of Assets (d) .....	\$54,473.0	\$58,008.1	\$9,541.8	\$9,550.6	\$591.9
Unfunded Actuarial Accrued Liability (UAAL) .....	\$6,673.0	\$19,363.0	\$3,154.9	\$2,639.8	\$181.9
Funding Ratio (Assets to AAL %) .....	89.1	75.0	75.6	78.3	76.5

- (a) For PERS, STRS, and SERS the maximum employer and employee contribution rates under law are 14% and 10%, respectively.
- (b) PERS state is 13.77/9.5%, local is 13.85/9.5% and law enforcement is 17.17/10.1%. PERS state and local employer and employee contribution rates will increase to their statutory maximum of 14% and 10%, respectively, over the next year.
- (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.

All of the State's public retirement systems are preparing for financial reporting of their health care plans in compliance with GASB Statement 43 -- Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans -- for their first full twelve-month period beginning after December 15, 2005. Unlike their retirement, disability retirement and survivor benefits, all these systems' health care programs are not vested and are subject to future adjustments of both benefits and contributions. In this regard, PERS adopted a health care preservation plan in September of 2004 to adjust benefits and contributions by employers, employees, and retirees, with those changes phased in over up to six years.

## 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 commenced the phase-in over five years of a new commercial activity tax (CAT) on taxable gross receipts from doing business in Ohio, and the phase out over the same general period of its corporate franchise tax (except for its continuing application to financial institutions and certain affiliates of insurance companies and financial institutions). The initial rate for the CAT 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.

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

### Personal Income Tax

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 1970 the ratio of Ohio to U.S. aggregate personal income has declined, with Ohio’s ranking among the states moving from fifth in 1970 to seventh in 1990, moving between seventh and eighth in 1994 through 1999, and eighth since 2000. This movement, portrayed below, in significant measure reflects “catching up” by several other states and a trend in Ohio toward more service sector employment.

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

		<u>U.S.</u>	<u>Ohio</u>	<u>Ohio Percent of U.S.</u>	<u>State Rank</u>
1970	Total.....	\$ 832.4	\$ 43.6	5.2%	5
	per capita.....	4,085	4,086	100.0	15
1980	Total.....	2,298.3	108.5	4.7	6
	per capita.....	10,114	10,046	99.3	21
1990	Total.....	4,861.9	203.6	4.2	7
	per capita.....	19,477	18,743	96.2	21
2000	Total.....	8,422.1	320.5	3.8	8
	per capita.....	29,843	28,205	94.5	24
2004	Total.....	9,716.4	352.6	3.6	8
	per capita.....	33,090	30,763	93.0	29
2005	Total.....	10,220.9	365.5	3.6	8
	per capita.....	34,471	31,860	92.4	29
2006 <sup>P</sup>	Total.....	10,860.9	382.7	3.5	8
	per capita.....	36,276	33,338	91.9	29

p: preliminary

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

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



## Sales and Use Tax

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 – Recent Biennia – 2004-05**). The sales and use tax is levied uniformly across counties on retail sales of tangible personal property that are not specifically exempt. Retail sales include the rental and storage of tangible personal property, the rental of hotel rooms, and certain specified services including, but not limited to, repair and installation services, data processing, computer, and electronic information services, telecommunication and personal care services.

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

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

### Retail Sales (\$ in Billions)

<u>Fiscal Year</u>	<u>Ohio Retail Sales(a)</u>	<u>U.S. Retail Sales(b)</u>	<u>Ohio Percent of U.S.</u>
1980	\$39.01	\$979.25	4.0%
1990	66.95	1,914.04	3.5
2000	117.72	3,213.82	3.7
2004	129.30	3,723.95	3.5
2005	135.92	3,972.32	3.4
2006	144.02	4,262.56	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 Tax

The following table lists, for informational purposes only, the non-exempt real and tangible personal property tax base in the State and taxes levied on that base (on a calendar year basis). Only local taxing subdivisions, and not the State, currently tax the real and tangible personal property included in this table. Reported figures for 2005 show that these property taxes represent 3.97% 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
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
2005	Real.....	222,488,359,822	35.0	12,276,786,818(e)
	Tangible(d).....	21,330,431,000(f)	24.2	1,695,986,799(f)
	Public Utility(c)(g).....	9,868,955,370(h)	49.4	755,171,101

(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 estimated at \$2.49 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 \$671,352,000 in Fiscal Year 2003, and \$648,106,000 in Fiscal Year 2004, \$645,137,000 in Fiscal Year 2005, and \$646,276,000 in Fiscal Year 2006 (which excludes \$5,820,000 transferred to the Deferred Prize Trust Fund). 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 nine school districts in fiscal emergency status and 14 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 17 local governments in fiscal emergency status and five in fiscal watch status. A current listing of governments in each status is on the Internet at <http://www.auditor.state.oh.us>.

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**COMPARATIVE GOVERNMENT STATISTICS**

The following table, prepared by OBM, sets forth selected comparative Ohio and U.S. statistics (from federal government sources, not verified by the State) for 2004.

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

	<b><u>United States</u></b>	<b><u>Ohio</u></b>	<b><u>Ohio Rank Among States</u></b>
<b>Government Revenues:</b>			
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
<b>Government Expenditures:</b>			
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
<b>Debt:</b>			
Outstanding Debt (Year End in millions) .....	\$750,409.9	\$22,183.4	10
per capita.....	2,560.2	1,937.4	34
<b>State Government Assets:</b>			
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.

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## APPENDIX B

### PROPOSED TEXT OF BOND COUNSEL LEGAL OPINION

[Dated Date of Issuance]

We have examined the transcript of proceedings relating to the issuance by the Ohio Building Authority (the "Authority"), on behalf of the State of Ohio (the "State"), of (i) the \$20,000,000 State of Ohio (Ohio Building Authority) State Facilities Bonds (Juvenile Correctional Building Fund Projects), 2007 Series A (the "Series 2007 A Bonds"), for the purpose of paying costs of acquiring, constructing, reconstructing, rehabilitating, remodeling, renovating, enlarging, improving, altering, equipping and furnishing capital facilities, including the sites thereof, for lease to the Ohio Department of Youth Services (the "Department") for housing personnel, equipment or functions of the Department, and (ii) the \$16,410,000 State of Ohio (Ohio Building Authority) State Facilities Refunding Bonds (Juvenile Correctional Building Fund Projects), 2007 Series B (the "Series 2007 B Bonds", and collectively with the Series 2007 A Bonds, the "Series 2007 Bonds"), for the purpose of advance refunding a portion of the currently outstanding State of Ohio (Ohio Building Authority) State Facilities Bonds (Juvenile Correctional Building Fund Projects), 2001 Series A.

The transcript includes executed copies or counterparts of the Trust Agreement dated as of June 1, 1990 and the Tenth Supplemental Trust Agreement dated as of April 15, 2007, each between the Authority and The Bank of New York Trust Company, N.A., as successor trustee (the "Trustee") (collectively, as amended and supplemented to date, the "Trust Agreement"); Resolution No. 1990-3 of the Authority adopted on June 30, 1990; Series Resolution No. 2007-1 adopted April 20, 2007; and the Lease Agreement dated as of June 1, 1990 and the Tenth Supplemental Lease dated as of April 15, 2007, each between the Authority and the Department (collectively, as amended and supplemented to date, the "Lease"). We have also examined the executed and authenticated fully registered Series 2007 A Bond and Series 2007 B Bond of the earliest maturity.

The Series 2007 Bonds are issued under and pursuant to Section 2i of Article VIII of the Ohio Constitution, Chapter 152 of the Ohio Revised Code and other authorizations by the Ohio General Assembly (the "General Assembly") and the Trust Agreement.

Based upon this examination we are of the opinion that, under existing law:

1. The Series 2007 Bonds are valid and legally binding special obligations of the State in accordance with their terms and provisions; the principal of, premium, if any, and interest on the Series 2007 Bonds, together with the principal of, premium, if any, and interest on State Facilities Bonds (Juvenile Correctional Building Fund Projects) heretofore or hereafter issued and outstanding pursuant to the Trust Agreement (collectively with the Series 2007 Bonds, the "Bonds"), are payable from and secured by a first pledge of the "Pledged Receipts" as defined in the Trust Agreement. The Series 2007 Bonds are not otherwise secured and the owners of the Bonds are given no right to have any excises or taxes levied by the General Assembly for the payment of principal thereof, premium, if any, or interest thereon.

2. The Trust Agreement and the Lease have been duly made and entered into by the Authority, the Lease has been duly made and entered into by the Department and the Trust Agreement and the Lease are legal and valid contractual obligations of the parties in accordance with their terms. Pursuant to the Lease, the Department has agreed to pay rentals to the Authority at least adequate to meet, among other requirements, the principal and interest and any redemption premium and mandatory sinking fund requirements on all Bonds outstanding pursuant to the Trust Agreement; pursuant thereto, those rentals are to be paid by the Department from funds appropriated to the Department for that purpose by the General Assembly, and the agreement of the Department to pay those rentals during any two year period for which appropriations may lawfully be made by the General Assembly is effective and binding upon the Department only when and to the extent that funds have been appropriated and are available for that purpose and for that period; and the General Assembly is not at any time obligated to make appropriations to pay those rentals.

3. The interest on the Series 2007 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 an item of tax preference under Section 57 of the Code for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings.

4. The Series 2007 Bonds, the interest on the Series 2007 Bonds and the transfer, and any profit made on the sale or other disposition, of the Series 2007 Bonds are exempt from taxes levied by the State of Ohio and its political subdivisions. For purposes of this paragraph, "taxes" means any direct or indirect taxes, including income, ad valorem, transfer, Ohio commercial activity tax and excise taxes and the corporate franchise tax measured by net income of a corporation, but "taxes" does not mean or include: (i) the corporate franchise tax measured by net worth of a corporation; (ii) the estate tax; (iii) the taxes levied on insurance companies and dealers in intangibles pursuant to Chapter 5725 of the Ohio Revised Code; and (iv) the tax on shares of and capital employed by dealers in intangibles pursuant to Section 5707.03 of the Ohio Revised Code.

We express no opinion and make no representation as to any other tax consequences regarding the Series 2007 Bonds, except as set forth above. In rendering the opinions contained herein, we have assumed compliance with and the accuracy of, and have relied upon, the covenants, representations and certifications in the Transcript. We have not independently verified the accuracy of those representations and certifications. The accuracy of those representations and certifications, and the compliance with those covenants by the Authority, the Department and the State, may be necessary for the interest on the Series 2007 Bonds to be and remain excluded from gross income for federal income tax purposes and for other tax effects stated above. Failure to comply with certain requirements subsequent to issuance of the Series 2007 Bonds could cause the interest on the Series 2007 Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2007 Bonds.

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

Under the Code, interest on the Series 2007 Bonds may be subject to the branch profits tax imposed on certain foreign corporations doing business in the United States and to the tax imposed on excess net passive income of certain S corporations.

Please be advised that the rights of the holders of the Series 2007 Bonds and the enforceability thereof are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the extent constitutionally applicable, and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

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

We express no opinion as to the Municipal Bond Insurance Policies issued by Financial Security Assurance Inc. with respect to the Series 2007 Bonds or the Statement of Insurance on the Series 2007 Bonds.

**APPENDIX C**

**SPECIMEN OF BOND INSURANCE POLICIES**





**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)