OBM

Date: September 28, 2010

To: Digital Assurance Certification
(Electronic Municipal Market Access and Ohio SID)

Subject: Fiscal Year 2010 Annual Information Pursuant to Continuing Disclosure Agreement Under SEC Rule 15c2-12 Relating to the following Bonds of the State of Ohio which are payable from Bureau of Workers' Compensation Lease Payments:

$142,500,000 State of Ohio (Ohio Building Authority) State Facilities Refunding Bonds (BWC Bldg. Fund Projects), 2003 Series A dated April 22, 2003 - Issuer CUSIP No. 67755C

The State of Ohio, by its Office of Budget and Management (OBM), provides the attached information consisting of financial information and data of appropriate types, pursuant to the continuing disclosure agreement under SEC Rule 15c2-12 entered into and relating to the Bonds of the State identified above.

Unless otherwise indicated, the attached information speaks as of June 30, 2010. OBM will subsequently provide when available audited general purpose State financial statements for the Fiscal Year ended June 30, 2010, audited financial statements of the Ohio Building Authority for the Fiscal Year ended June 30, 2010 and audited financial statements of the Bureau of Workers' Compensation for Fiscal Year ended June 30, 2010.

There were in FY 2010 material events filings to the Municipal Securities Rulemaking Board (MSRB), through the MSRB's Electronic Municipal Market Access System (EMMA) and Ohio SID relating only to bond insurer downgrades for the obligations of the State identified above. There has been no change in the applicable fiscal year or in the accounting principles applied in the preparation of pertinent annual financial statements, and there has been no amendment or waiver of any portion of any of the applicable continuing disclosure agreement.

Respectfully submitted,

/s/ J. Pari Sabety
J. Pari Sabety
Director of Budget and Management

Copy w/attachments:
Executive Director, Ohio Building Authority
Squire, Sanders & Dempsey LLP

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 (e.g., the current fiscal biennium began July 1, 2009 and ends June 30, 2011). 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 2010-11 biennial appropriations.

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.

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.

Under State law, the Governor is generally required to submit the Executive Budget to the General Assembly in February of each odd-numbered year. Appropriations legislation reflecting that Executive Budget is then introduced for committee hearings and review in first the House and then the Senate, with that appropriations legislation as approved by the General Assembly then presented to the Governor for his approval (with possible line item vetoes). The biennial appropriations Act for the current 2010-2011 biennium created a six member (three from each of the House and Senate) Budget Planning and Management Commission (BPMC) to "study and make recommendations that are designed to provide relief to the state during the current difficult fiscal and economic period". That Commission commenced meeting in June 2010 with its written report to be submitted not later than November 30. In a June 29, 2010 presentation to the BPMC, the non-partisan Ohio Legislative Service Commission (LSC) included information prepared by OBM in August 2009 identifying approximately $4.887 billion of "non-recurring" revenues reflected in the 2010-11 GRF budget as initially enacted by the General Assembly. That presentation to the BPMC also included an LSC estimate of approximately $8.339 billion of "non-recurring" revenues for 2010-11 for all GRF and non-GRF Funds, including the effect of the postponement, approved on December 22, 2009, of the final installment of the personal income tax reduction (see **Recent and Current Finances – Current Biennium).** The Commission has also solicited and is receiving suggestions for reducing expenditures in the next biennium.

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, 2010 with a GRF fund balance of $139.1 million. The State has a "rainy day" fund – the Budget Stabilization Fund (BSF) – which under current law and until used may carry a balance of up to 5% of the GRF revenue for the preceding Fiscal Year. The current BSF balance is $-0-. See **Recent and Current Finances – 2008-2009** for discussion of the use of the entire BSF balance in Fiscal Year 2009.

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 in the 2008-09 biennium as had been done several times in prior fiscal years.

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." See **Tax Levels and Tax Bases** for a discussion of the phase-out of local tangible personal property taxes in 2006 through 2009.

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.

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, appointed by the Governor, certifies the availability of unencumbered appropriations as a condition of contract validity. OBM fiscal functions include the development and oversight of operating and capital budgets as well as the review, processing, and reporting of financial transactions for most state departments and agencies (excluding, among others, higher education institutions). The OBM Director's certification is required for all expenditure vouchers before 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 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 2009 to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system and to the Ohio State Information Depository. The most recent CAFRs are accessible via OBM's home page on the Internet at http://obm.ohio.gov/Archives/FinancialReporting.aspx, and copies may be obtained by contacting OBM, 30 E. Broad Street, 34th Floor, Columbus, Ohio 43215, phone (614) 466-4034. The 2006 and 2007 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.

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 2010-11 biennial appropriations.

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Recent Receipts and Disbursements

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

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, and enterprise fund types, all as defined and included in each BFS.

SUMMARY STATEMENT
GOVERNMENTAL AND PROPRIETARY APPROPRIATED FUNDS
($ in Millions)

Cash Receipts

SOURCE OF RECEIPTS	Fiscal Year 2006	2007	2008	2009	2010
Taxes:					
Personal Income(a)	$9,623.2	$9,722.9	$9,848.2	$8,322.2	$7,886.8
Sales and Use(b)	7,689.0	7,747.4	7,866.3	7,325.8	7,254.3
Corporate Franchise(c)	1,105.9	1,125.7	754.6	521.4	142.3
Commercial Activity Tax(d)	273.4	594.9	961.4	1,179.1	1,342.1
Gasoline	1,792.5	1,719.8	1,848.4	1,726.7	1,727.2
Public Utilities and Kilowatt Hour	813.5	800.3	801.1	799.9	721.5
Cigarette(e)	1,084.1	986.3	950.9	924.8	886.9
Foreign Insurance	269.0	278.0	284.6	265.0	266.4
Highway Use	54.9	47.6	41.3	30.5	29.4
Estate	54.1	72.1	61.4	64.4	55.0
Alcoholic Beverages	58.4	57.2	57.7	58.0	57.1
Liquor Gallonage	33.4	34.3	35.0	35.8	36.5
Domestic Insurance Franchise	170.4	169.6	159.3	160.1	166.5
Other	61.6	60.8	80.6	84.0	83.9
Total Taxes	23,083.4	23,416.9	23,750.8	21,497.7	20,655.9
Licenses, Permits and Fees	2,252.7	2,403.8	2,524.7	2,592.4	3,076.2
Sales, Services and Charges	2,025.7	1,697.5	1,771.7	1,921.2	1,758.2
Federal Government (including ARRA)	15,405.8	15,432.7	15,951.9	18,040.4	21,104.5
Other(f)	3,879.8	4,080.3	3,962.4	3,604.1	3,328.4
Proceeds from Sale of Bonds and Notes(g)	1,461.0	1,496.7	5,782.4	966.1	1,015.2
Total Cash Receipts	$48,108.4	$48,527.9	$53,743.9	$48,621.8	$50,938.6

(a) Beginning in calendar year 2005 the personal income tax rate was being reduced by 21% (4.2% per year over five years, with the last reduction delayed from tax year 2009 to tax year 2011 as described in FISCAL MATTERS – Recent and Current Finances – Current Biennium).
(b) Reflects a sales and use tax rate of 5.5%.
(c) Beginning in calendar year 2006, except for financial institutions, the State corporate franchise tax rate was phased out at a rate of 20% per year over five years.
(d) See TAX LEVELS AND TAX BASES for a discussion of the commercial activity tax on gross receipts from doing business in Ohio – commenced in Fiscal Year 2006 at the initial rate of 0.06% and increased each year until reaching a rate of 0.26% in Fiscal Year 2010.
(e) Reflects a per-pack tax of $1.25 in Fiscal Years 2006 and thereafter.
(f) Includes investment income and tobacco settlement receipts.
(g) In Fiscal Year 2008, includes $5.05 billion in proceeds resulting from the securitization of tobacco settlement receipts.

Cash Disbursements

FUND TYPE	2006	2007	2008	2009	2010
General Fund:					
General Revenue Fund	$24,866.3	$25,147.5	$25,725.0	$26,783.4	$24,141.4
General Services Fund(h)	1,720.2	1,288.8	1,316.8	1,442.9	1,331.2
Special Revenue Fund(i)	17,755.4	19,114.2	19,559.8	21,144.2	24,597.1
Capital Projects Fund(j)	361.2	346.4	510.0	514.6	472.9
Debt Service Fund(k)	704.2	819.5	867.6	819.3	578.2
Enterprise Fund	1,708.0	1,257.8	1,238.1	1,459.4	1,208.1
Total Cash Disbursements	$47,115.3	$47,974.2	$49,218.0	$52,163.8	$52,328.9

(h) Includes the Internal Service Fund.
(i) Includes local government support disbursements.
(j) Includes amounts disbursed from proceeds of general obligation bonds and 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 Millions)

	Fiscal Year				
	2006	2007	2008	2009	2010
Beginning Cash Balance	$1,209.2	$1,528.8	$1,432.9	$1,682.0	$734.5
Cash Receipts:					
Taxes:					
Personal Income(a)	8,786.4	8,885.3	9,114.7	7,628.0	7,247.2
Sales and Use(b)	7,368.2	7,424.5	7,614.1	7,112.8	7,077.4
Corporate Franchise(c)	1,054.9	1,076.5	753.5	520.8	141.8
Commercial Activity Tax(d)	185.1	0.0	0.0	0.0	0.0
Public Utilities and Kilowatt Hour	501.5	487.2	388.9	320.5	293.0
Cigarette	1,084.1	986.3	950.9	924.8	886.9
Foreign Insurance	248.8	256.2	267.3	249.2	250.8
Other	334.4	353.0	330.1	337.6	336.6
Total Taxes	19,563.4	19,469.0	19,419.5	17,093.7	16,233.6
Federal Government (including ARRA)	5,595.2	5,352.5	5,644.0	6,850.7	6,898.8
Licenses, Permits and Fees	3.9	77.7	67.7	65.8	66.2
Investment Income	107.3	176.2	169.6	137.1	28.7
Other(e)	190.7	143.5	123.4	104.4	300.8
Total Cash Receipts	25,530.8	25,218.9	25,424.2	24,251.7	23,528.1
Cash Disbursements:					
Primary, Secondary and Other Education(f)	6,696.7	6,816.9	6,876.9	7,005.0	6,743.4
Higher Education	2,144.0	2,205.7	2,543.6	2,632.6	2,424.1
Public Assistance and Medicaid	10,166.4	10,174.0	10,274.8	11,108.5	9,421.9
Health and Human Services	1,186.9	1,214.9	1,283.6	1,194.6	1,017.0
Justice and Public Protection	1,806.9	1,876.8	2,084.5	2,088.1	1,933.6
Environmental Protection and Natural Resources	83.2	83.4	101.6	89.6	80.3
Transportation	25.7	22.0	22.6	21.4	17.5
General Government	246.9	247.1	357.7	354.4	283.2
Community and Economic Development	112.4	104.3	133.8	146.3	108.3
Tax Relief(g) and Other	1,334.0	1,230.0	1,386.0	1,526.2	1,711.4
Capital Outlay	0.2	0.1	0.1	0.3	0.4
Debt Service(h)	1,063.0	1,172.3	656.5	616.3	400.5
Total Cash Disbursements	24,866.3	25,147.5	25,721.8	26,783.4	24,141.4
Cash Transfers:					
Transfers-in(i)	315.2	559.5	1,235.0	2,432.8	1,422.2
Transfers-out(j)	(660.1)	(726.8)	(688.4)	(848.6)	(1,033.0)
Total Cash Transfers (net)	(344.9)	(167.3)	546.6	1,584.2	389.2
Ending Cash Balance	$1,528.8	$1,432.9	$1,682.0	$734.5	$510.4

(a) Beginning in calendar year 2005 the personal income tax rate was reduced by 21% (4.2% per year over five years, with the last reduction delayed from tax year 2009 to tax year 2011 as described in FISCAL MATTERS – Recent and Current Finances – Current Biennium).

(b) Reflects a sales and use tax rate of 5.5%.

(c) Beginning in calendar year 2006, except for financial institutions, the corporate franchise tax rate was phased out 20% per year over five years.

(d) See TAX LEVELS AND TAX BASES for a discussion of the commercial activity tax (CAT) on gross receipts from doing business in Ohio – commenced in Fiscal Year 2006 at the initial rate of 0.06% and increased each year until reaching a rate of 0.26% in Fiscal Year 2010. CAT receipts were only deposited in the GRF in Fiscal Year 2006 and are directed first and primarily to make compensating payments to school districts and other local taxing units in connection with the phase-out of the tangible personal property tax in 2006 through 2009.

(e) Includes fines and penalties, rental receipts, refunds and certain intrastate transfers including in Fiscal Year 2010 $250.0 million from the Unclaimed Property Trust Fund.

(f) Mainly subsidies to local school districts for primary and secondary education and to colleges and universities for higher education.

(g) State reimbursements to taxing subdivisions for the 12.5% property tax rollback granted to homeowners of real property (10% for commercial and industrial property until 2006), for partial real property homestead tax exemptions for the elderly and handicapped (expanded commencing in July 2007), and for revenue reductions resulting from phase-out of local taxes on tangible personal property.

(h) In Fiscal Years 2006 and 2007, includes debt service on general obligations, lease-rental obligations and certain other State obligations paid from the GRF. Beginning in Fiscal Year 2008, includes only debt service on general obligations with debt service on other obligations reflected in the applicable program area. Reflects the restructuring of certain GRF debt service payments into later biennia resulting in net savings of $52.8 million in Fiscal Year 2009 and $416.8 million in Fiscal Year 2010 (see FISCAL MATTERS – Recent and Current Finances – Current Biennium).

(i) Includes transfers in all fiscal years from the School District Property Tax Replacement Fund and from liquor profits; in Fiscal Years 2008 through 2010 interest earnings on tobacco securitization proceeds totaling $95.8 million, $176.2 million and $61.7 million, respectively; and in Fiscal Year 2009 $1.01 billion from the BSF.

(j) Fiscal Year 2006 transfers include $60 million to the Public Assistance Reconciliation Fund (i.e., TANF), $50 million to the Public School Building Fund, $40 million to the Disaster Services Fund; and to the BSF, $435.9 million in Fiscal Year 2006 and $395.6 million in Fiscal Year 2007.

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 tends to be reduced during less favorable national economic periods and then increases during more favorable economic periods. The GRF ending fund balance for Fiscal Year 2010 was $139.1 million. Recent biennium-ending GRF balances were:

Biennium	Cash Balance	Fund Balance(a)	Fund Balance less Designated Transfers(b)
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
2006-07	1,432,925,000	215,534,000	215,534,000
2008-09	734,526,000	389,103,000	389,103,000

(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 any 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 interim and final appropriations acts for the 2010-11 biennium included 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.

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

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 billion and a fund balance of $855.8 million. A transfer of $49.2 million from that balance increased the BSF to $1.002 billion (or 5% of GRF revenue for the preceding Fiscal Year). An additional $610.4 million was transferred to the ITRF.

In the middle of the second year of the biennium, the State enacted supplemental appropriations of $645.3 million to address shortfalls in its Medicaid and disability assistance programs. The State's share of this additional funding was $247.6 million, with $125 million coming from Fiscal Year 2001 GRF spending reductions and the remainder from available GRF moneys. The reductions were implemented by OBM prior to March 1, 2001 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 million. 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 $188.2 million. The State ended Fiscal Year 2001 with a GRF fund balance of $219.4 million, 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, with budgetary pressures during this period primarily due to lower than 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 transfers to the GRF of $160 million from the BSF and $100 million from the Family Services Stabilization Fund aimed at achieving Fiscal Year and biennium ending positive GRF fund balances, based on then current estimates and projections.

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 and projected GRF revenue shortfalls of $709 million for Fiscal Year 2002 and $763 million 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 the additional transfer of up to $248 million from the BSF to the GRF during the current biennium thereby reducing the estimated BSF balance to $607 million; reallocating to the GRF a $260 million portion of tobacco settlement receipts in Fiscal Years 2002 and 2003; and authorizing Ohio's participation in a multi-state lottery game estimated to generate approximately $40 million annually beginning in Fiscal Year 2003.

Continuing weak economic conditions and lower than anticipated personal income and corporate franchise tax receipts then led OBM in the spring of 2002 to project higher estimated GRF revenue shortfalls of approximately $763 million in Fiscal Year 2002 and $1.15 billion in Fiscal Year 2003. Further executive and legislative actions were taken to ensure positive GRF fund balances 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: additional transfers to the GRF of the then remaining BSF balance ($607 million) as needed in Fiscal Years 2002 and 2003, and of $50.8 million of unclaimed funds; a $50 million reduction in the Fiscal Year 2002 ending GRF balance to $100 million; increasing the cigarette tax by 31¢ per pack (to a total of 55¢ per pack) estimated by OBM to produce approximately $283 million in Fiscal Year 2003; additional transfers to the GRF of $345 million from tobacco settlement moneys received in Fiscal Years 2002 and 2003 previously earmarked for construction of elementary and secondary school facilities and replacing the moneys for that purpose with authorized general obligation bonds; and extension of the State income tax to Ohio-based trusts and "decoupling" certain Ohio business taxes from federal tax law economic stimulus changes affecting business equipment depreciation schedules to produce approximately $283 million in Fiscal Year 2003.

Fiscal Year 2002 ended with positive GRF balances of $108.3 million (fund) and $619.2 million (cash) based on the remedial steps described above, including transfers of $289.6 million from tobacco settlement

moneys and $534.3 million from the BSF (leaving a Fiscal Year 2002 ending BSF balance of $427.9 million, 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 million in GRF spending cutbacks for Fiscal Year 2003 reflecting prior budget balancing discussions with the General Assembly. Excluded from those department and agency cutbacks ranging up to 15% 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) and projected additional Medicaid spending, OBM in late January 2003 announced an additional Fiscal Year 2003 GRF shortfall of $720 million. The Governor ordered immediate additional reductions in spending intended to generate an estimated $121.6 million of GRF savings through the end of the Fiscal Year (expressly exempted were appropriations for or relating to debt service on State obligations).

The Governor also proposed and the General Assembly enacted 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: An additional 2.5% reduction in local government fund distributions to most subdivisions and local libraries, producing an estimated $30 million savings; transfers of $56.4 million to the GRF from unclaimed funds and various rotary funds; and a one-month acceleration in sales tax collections by vendors filing electronically to produce $286 million.

To offset the General Assembly's enactment of legislation that did not include 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 million 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 million 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 cash and fund balances of $396.5 million and $52.3 million, respectively, and a balance in the BSF of $180.7 million.

Additional appropriations actions during the 2002-03 biennium, affecting most subdivisions and local libraries in the State, related 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 the 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 million annually. On February 12, 2009, an Ohio appeals court overruled a 2007 trial court decision and upheld the inclusion of satellite television in the sales tax base, which produces approximately $36 million annually. The Ohio Supreme Court has accepted jurisdiction over an appeal.
- Moving local telephone companies from the public utility tax base to the corporate franchise and sales tax, projected to produce approximately $29 million 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 million 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 million annually.

The Act also authorized and OBM on June 30, 2004 transferred $234.7 million 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 $211.6 million and $316.8 million 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 $247.1 million (1.02%) for Fiscal Year 2004 and by $372.7 million (1.48%) for Fiscal Year 2005, the Governor ordered Fiscal Year 2004 expenditure reductions of approximately $100 million. On July 1, 2004 the Governor ordered additional Fiscal Year 2005 expenditure cuts of approximately $118 million and a reduction of $50 million 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 million 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 $157.5 million. 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 $470.7 million. Final Fiscal Year 2005 GRF revenue came in $67.4 million 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 million to address a prior-year liability in the Temporary Assistance to Needy Families (TANF) program; $40 million to a disaster services contingency fund; $50 million to the State's share of the school facilities construction program; and $394.2 million to the BSF. After these and certain smaller transfers, the State ended Fiscal Year 2005 and the biennium with a GRF fund balance of $127.8 million and a BSF balance of $574.2 million.

2006-07

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 then Governor on June 30, 2005. That Act provided for total GRF biennial revenue of approximately $51.5 billion (a 3.8% increase over 2004-05 biennial revenue) and total GRF biennial appropriations of approximately $51.3 billion (a 5.0% increase over 2004-05 biennial expenditures). Spending increases for major program categories over the 2004-05 actual expenditures were: 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 reflected and were 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. See **FISCAL MATTERS – Recent and Current Finances – Current Biennium** for discussion of postponement of the final installment of this personal income tax reduction until the end of tax year 2010.
- 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 phased in over the 2006 through 2010 fiscal years. In fiscal year 2010, the CAT is being levied at its fully phased-in rate of 0.26% on gross receipts in excess of $1,000,000. (See **Tax Bases and Tax Levels** for a discussion of the use of a portion of the CAT to make compensating payments to school districts and other taxing units in connection with the phase-out of the local tangible personal property tax.) The fully implemented CAT is projected to produce $1.68 billion annually with $139 million of that amount attributable to its application to motor fuels. Litigation filed in March 2008 is currently pending before a trial court challenging the application of the CAT to motor fuels and requesting an order enjoining the collection of that tax and such other relief as the court deems appropriate. On September 17, 2009, the Ohio Supreme Court ruled in litigation initiated in 2006 that food sales for off-premise consumption may be included in the CAT base.
- 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.

The then 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 (excluding appropriations for debt service, tax relief and refunds, and certain appropriations reflecting moneys received from the federal government) and then applies an annual growth factor equal to 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. 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 $1.529 billion and a GRF fund balance of $1.026 billion. Of that ending GRF fund balance, the State carried forward $631.9 million 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 the required 0.5% of Fiscal Year 2007 GRF revenue as an ending fund balance. The remaining approximately $394 million was deposited into the BSF increasing its balance to $1.012 billion (which includes $40 million in receipts collected from a broad tax amnesty initiative and deposited in June 2006). The State ended Fiscal 2007 with a GRF cash balance of $1.433 billion and a GRF fund balance of $215.5 million.

2008-09

Ongoing and rigorous consideration was given by the Governor and the General Assembly to revenues and expenditures throughout Fiscal Years 2008-09, primarily as a result of the Ohio economy being negatively affected by the national economic downturn. Budgetary pressures during this period were primarily due to continuing lower than previously estimated levels of receipts from certain major revenue sources.

Consideration came in three general time frames – winter 2007, fall/winter 2008, and spring 2009. Significant measures were taken including use of the entire Budget Stabilization Fund (BSF) balance and expenditure reductions and spending controls on State agencies and departments.

Consistent with State law, the Governor's Executive Budget for the 2008-09 biennium was released in March 2007 and introduced in the General Assembly. After extended hearings and review, the GRF appropriations Act for the biennium was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2007. Reflecting the continued implementation of the restructuring of State taxes commenced in 2006-07, that Act was based upon then estimated total GRF biennial revenues of approximately $53.5 billion (a 3.9% increase over the 2006-07 biennial revenue) and total GRF biennial appropriations of approximately $52.4 billion (a 2.1% increase over the 2006-07 biennial expenditures). Spending increases for major program categories over the 2006-07 actual expenditures were: 2.2% for Medicaid (the Act also included a number of Medicaid reform and cost containment initiatives); 13.2% for higher education; 5.2% for elementary and secondary education; 4.9% for corrections and youth services; and 4.7% for mental health and mental retardation. The Executive Budget and the GRF appropriations Act complied with the law discussed above under **2006-07** limiting appropriations for the 2008-09 biennium. 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 original GRF expenditure authorizations for the 2008-09 biennium reflected and were supported by tax law changes contained in the Act, including:

- Restructuring nonresident tax exemption for Ohio motor vehicle purchases projected to produce approximately $54.0 million for the biennium.
- Restoring local government fund support by committing a set percent of all tax revenues deposited into the GRF. Local governments will receive 3.7% of total GRF tax revenues annually and local libraries will receive 2.22% of total GRF tax revenues annually.
- Eliminating the $300 per month cigarette and tobacco product importation exemption projected to produce approximately $25.0 million annually.

The GRF appropriations Act also created the Buckeye Tobacco Settlement Financing Authority to securitize tobacco settlement receipts payable to the State under the November 1998 national tobacco settlement. On October 29, 2007, the Authority issued $5.53 billion in Tobacco Settlement Asset-Backed Bonds, Series 2007 to fund capital expenditures for higher education ($938 million) and common school ($4.112 billion) purposes over three years in lieu of the State issuing GRF-backed general obligation bonds to fund those capital expenditures. The resulting debt service savings to the GRF is funding the expansion of the homestead exemption property tax relief program in the Act. The Act reprograms all prior General Assembly allocations of anticipated tobacco settlement receipts to enable the pledge of 100% of those receipts to the payment of debt service on the Authority's obligations. The State had previously enacted legislation allocating its anticipated share of those receipts through Fiscal Year 2012 and making a partial allocation thereafter through Fiscal Year 2025. Except for Fiscal Years 2002 through 2004, none of the receipts were applied to existing operating programs of the State. Under those previously enacted allocations, the largest amount was to be applied to elementary and secondary school capital expenditures, with other amounts allocated for smoking cessation and health-related purposes, biomedical research and technology transfer, and assistance to the tobacco growing areas in the State.

Winter 2007. With the Ohio economy expected to be negatively affected by the national economic downturn, in January 2008 OBM reduced its original GRF revenue projections by $172.6 million for Fiscal Year 2008 and $385.1 million for Fiscal Year 2009. Based on those lower GRF revenue estimates and increased costs associated with rising Medicaid caseloads, OBM projected a budgetary shortfall for the 2008-09 biennium of $733 million.

Executive and legislative actions taken in response to those OBM estimates, included:

- The Governor, on January 31, 2008, issued an executive order directing expenditure reductions and spending controls totaling approximately $509 million (of which about $402 million was realized) for the 2008-09 biennium, as well as limitations on major purchases, hiring and travel, based primarily on the transfers of unspent agency appropriations and the June 2008 action described below. Allocation of those reductions has been determined by the OBM Director in consultation with the affected agencies and departments, with annual expenditure reductions ranging up to 10%. An employee reduction plan was also announced aimed at reducing the State's workforce by up to 2,700 through selective elimination of positions, attrition, unfilled vacancies and an early retirement incentive program. Expressly excluded from the cutbacks are appropriations for or relating to debt service on State obligations, State higher education instructional support, foundation formula support for primary and secondary education, Medicaid entitlement programs, and ad valorem property tax relief payments.
- Transfer of unspent agency appropriations totaling $120 million Fiscal Year 2008 and $78 million in Fiscal Year 2009.
- Authorizing expansion of the State-run lottery system to include "keno" games then projected to generate $65 million in Fiscal Year 2009 of which approximately $25 million was realized.

In June 2008, the General Assembly also passed legislation that provided for, among other things, transfers to the GRF (after a selective line-item veto) of up to $63.3 million from the BSF for the State's share of increased Medicaid costs, $55 million from rotary funds and $25 million in uncommitted interest earnings from proceeds of the State's Tobacco Settlement Asset-Backed Bonds.

In March 2008, in response to the national economic downturn, the Governor proposed a $1.7 billion economic stimulus plan to stimulate the Ohio economy through investments in logistics and distribution, bio-products and bio-medical research, advanced and renewable energy, local government infrastructure, conservation projects and brownfield revitalization projects. These investments were to be funded primarily through new GRF bond-backed capital appropriations. After extensive hearings and review, the General Assembly in June passed a $1.57 billion economic stimulus package that mirrored the purposes proposed by the Governor and added funding for higher education workforce programs and expanded the State's historic preservation tax credits. The sources of funding for the stimulus plan include, in addition to GRF-backed bonds, $230 million of cash from the Ohio Tobacco Prevention Foundation (this transfer is subject to a pending legal challenge described below under **Current Biennium**), $370 million in GRF operating appropriations to have been made over the next five fiscal years, $184 million in bonds backed by net profit from the State's liquor enterprise, and $200 million in bonds backed by highway user receipts.

Fall/Winter 2008. With the Ohio economy continuing to be negatively affected by the national economic downturn, OBM on September 10, 2008 announced a $540 million further reduction in its GRF revenue projections for Fiscal Year 2009 and a projected Fiscal Year budgetary shortfall of the same amount. Executive actions announced to offset the projected shortfall included:

- Use of additional planned Fiscal Year-end lapses and GRF carry forward totaling $126.4 million.
- Use of balances in various non-GRF "rotary funds" totaling $112 million.
- Transfer to the GRF an additional $40 million of interest earnings on the proceeds of the tobacco securitization referred to above.
- As authorized by June 2008 legislation referred to above, a transfer to the GRF of $63.3 million to pay for previously authorized Medicaid cost expenditures.

The $198.3 million balance was offset by a 4.75% reduction in most agency appropriations, which does not apply to appropriations for debt service or tax relief, Medicaid and disability financial assistance, Department of Education aid to local school districts, the Departments of Rehabilitation and Corrections and Youth Services and selected others.

On December 1, 2008, OBM announced a further $640.4 million reduction in GRF revenue projections for Fiscal Year 2009 expected to result in a projected Fiscal Year budgetary shortfall of the same amount. Executive actions announced to offset much of that projected shortfall included:

- Reducing total GRF Medicaid spending by $311.1 million by using cash from non-GRF Medicaid accounts and the corresponding federal share previously planned for use in Fiscal Year 2010.

- Reducing total Medicaid program spending by $21.3 million by enhanced focus on use of other third party liability sources and other program savings exceeding original estimates.
- Reducing other GRF expenditures by $180.5 million through a further 5.75% reduction in most agency appropriations, which did not apply to appropriations for debt service or tax relief, Medicaid and disability financial assistance, Department of Education aid to local school districts, the Departments of Rehabilitation and Corrections and Youth Services and selected others. These reductions were in addition to the approximately $1.27 billion of 2008-09 biennium budget adjustments previously undertaken.

The $131.9 million remainder of the shortfall was offset by additional Federal Medical Assistance Payments (FMAP) received under the American Recovery and Reinvestment Act of 2009, which increased federal Medicaid match to the GRF by that amount (after taking into account loss of federal match from the two Medicaid related actions outlined above). Based on these expenditure reductions, spending controls and other measures – and before the revised revenue estimates referred to below – OBM was projecting a positive GRF fund balance at June 30, 2009.

Spring 2009. Based on the Administration's continuing monitoring of revenues, and as an anticipated step in the then ongoing 2010-11 biennial budget and appropriations process, OBM reported revised revenue estimates to the General Assembly on June 11, 2009. Those estimates revised Fiscal Year 2009 revenues downward by an additional $912 million over OBM's December 2008 adjusted baseline, based primarily on updated income and sales tax receipts through May 31. To address this additional Fiscal Year 2009 revenue shortfall, the Governor received General Assembly approval for and used the entire remaining BSF balance of $949 million for Fiscal Year 2009. Additional measures taken to address this shortfall included the restructuring of $52.8 million of Fiscal Year 2009 general revenue fund debt service into Fiscal Years 2012 through 2021 and expenditure reductions of $98 million in addition to the expenditure controls ordered by the Governor on April 22.

The State ended Fiscal Year 2009 with GRF cash and fund balances of $734.5 million and $389.1 million respectively, and a $-0- balance in the BSF. Of the ending GRF fund balance, $133.4 million represents the one-half of one percent of Fiscal Year 2009 GRF revenues the State is required to maintain as an ending fund balance.

Current Biennium

Consistent with State law, the Governor's Executive Budget for the 2010-11 biennium was released in February 2009 and introduced in the General Assembly. After extended hearings and review, and after passage by the General Assembly and signing by the Governor of three seven-day interim budgets, the 2010-11 biennial appropriations Act was passed by the General Assembly and signed (with selective vetoes) by the Governor on July 17, 2009. All necessary debt service and lease-rental payments related to State obligations for the entire 2010-11 biennium were fully appropriated for the three week interim period and under the final Act. Reflecting the final implementation of the restructuring of State taxes commenced in 2006-07 and a conservative underlying economic forecast, that Act makes total GRF biennial appropriations of approximately $50.5 billion (a 3.8% decrease from the 2008-09 biennial expenditures) based on GRF biennial estimated revenues of approximately $51.1 billion (a 4.2% decrease from the 2008-09 biennial revenues). Appropriations for major program categories compared to 2008-09 actual spending reflect increases of 3.4% for Medicaid (that Act also included a number of Medicaid reform and cost containment initiatives) and 0.7% for corrections and youth services; and decreases of 13.8% for mental health and developmental disabilities, 8.3% for higher education, and 5.15% for elementary and secondary education. That Act also includes the restructuring of $736 million of Fiscal Years 2010 and 2011 general revenue fund debt service into Fiscal Years 2012 through 2025. Both the Executive Budget and the GRF appropriations Act complied with the law discussed above under **2006-07** limiting most GRF appropriations.

Major new sources of revenues reflected in the 2010-11 appropriations Act include:

- $2.4 billion of "Federal Stimulus" funding received under the American Recovery and Reinvestment Act of 2009, including $1.464 billion for elementary and secondary education, $628 million for Federal Medical Assistance Payments, and $326 million for other purposes.
- $933 million in gaming and license revenues ($296 million in Fiscal Year 2010 and $637 million in Fiscal Year 2011) from the Ohio Lottery Commission's implementation of video lottery terminals

(VLTs) at the seven horse racing tracks in the State. OBM estimated the VLTs would result in an approximately $851 million net increase in revenues for the biennium ($285 million in Fiscal Year 2010 and $566 million in Fiscal Year 2011) after taking into account offsetting effects of the VLTs on other lottery revenues. On September 21, 2009, the Ohio Supreme Court ruled that the statutory provisions enacted in the biennial appropriations Act in support of implementation of those VLTs are subject to voter referendum and granted petitioners in that case until December 20, 2009 to submit referendum petitions. Under the referendum provisions of the Ohio Constitution, if referendum petitions are submitted containing at least 241,366 valid signatures (six per cent of the electors of the State) with at least half of those signatures from 44 of the State's 88 counties, those statutory provisions for VLTs will not take effect "unless and until approved by a majority of those [electors] voting upon the same" at an election held on November 2, 2010. After review of the signatures on the timely submitted petitions and supplemental petitions, the Ohio Secretary of State, on March 26, notified the committee for the petitioners those petitions contained a sufficient number of valid signatures and the referendum will be placed on the November 2, 2010 ballot. On June 28, 2010, the committee for the petitioners notified the Ohio Secretary of State that it was withdrawing the ballot issue.

- $259 million from the Ohio Tobacco Use Prevention and Control Foundation Endowment Fund (TUPAC) to be deposited into a special State fund (non-GRF) to be used for various health care initiatives. On August 11, 2009, a trial court ruled in favor of the plaintiffs and ordered these monies must remain in that endowment fund and be used for the purpose of reducing tobacco use. The State immediately appealed this trial court ruling and on December 31, 2009, the Court of Appeals ruled in favor of the State and reversed the trial court's order. Plaintiffs appealed the Court of Appeals decision to the Ohio Supreme Court which was accepted on March 10, 2010. After the case was fully briefed the Supreme Court heard oral arguments on July 6 and the case now awaits its decision.
- $1.036 billion of "one-time" revenues or savings ($640 million in Fiscal Year 2010 and $396 million in Fiscal Year 2011), including $364 million from the spend-down of carry-forward balances (that required temporary suspension of the one-half of one percent ending fund balance requirement for the 2010-11 biennium), $250 million transferred from a cash account at the Ohio School Facilities Commission funds (anticipated to be replaced with bond funding of school facilities in future biennia), $272 million savings from subjecting State employees to a two week unpaid "furlough" during each year of the biennium, $84.3 million from a reduction in State funding to public libraries funding, and $65 million from the transfer to the GRF of interest on the proceeds of the State's 2007 tobacco securitization.
- $530 million from transfers to the GRF of unclaimed funds and from other non-GRF funds.

To the extent these items reflect non-recurring revenues, the budget and general appropriations for the 2012-13 biennium will need to reflect alternative revenue sources or off-setting expenditure reductions **(see Fiscal Matters – General)**.

In response to the above-referenced September 21 decision of the Ohio Supreme Court declaring the VLT provisions in the biennial appropriations Act subject to referendum, the Governor proposed for General Assembly consideration postponing for two years the final installment of the personal income tax reduction currently scheduled to take effect for tax year 2009 (for returns filed in 2010). See **TAX LEVELS AND TAX BASES – Personal Income Tax.** After extended hearings and review, the General Assembly approved, and the Governor signed into law on December 22, 2009, legislation keeping personal income tax rates at 2008 levels through tax year 2010. The Ohio Department of Taxation estimates the postponement will result in $844 million of additional State GRF tax revenues in the current biennium ($418 million in Fiscal Year 2010 and $426 million in Fiscal Year 2011).

The State ended Fiscal Year 2010 with GRF cash and fund balances of $510.4 million and $139.1 million respectively. OBM is currently projecting a positive GRF fund balance at the end of Fiscal Year 2011. As discussed above, the State is effectively precluded by its Constitution from ending a Fiscal Year or a biennium in a "deficit" position. OBM continually monitors and analyzes revenues and expenditures developments (including pending litigation) 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 at http://obm.ohio.gov/MiscPages/MonthlyFinancialReports/, and copies are available upon request to OBM.

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, but that limitation has been suspended for 2010-11 biennium.

The State plans for and manages monthly GRF cash flow deficiencies within each Fiscal Year. GRF cash flow deficiencies have been 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 19 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 four 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, site development and veterans compensation. 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 (DAS) and others, 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. The Treasurer of State also issues obligations for mental health, parks and recreation, and cultural facilities 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 Highway Grant Anticipation Revenue (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 $153.9 million in Fiscal Year 2011. 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 maximum of $630 million to be outstanding at any one time, of which not more than $84 million may be issued for eligible advanced energy projects and not more than $100 million may be issued for eligible logistics and distribution projects. The aggregate amount of net liquor profit to be used in any Fiscal Year to pay debt service on these economic development bonds may not exceed $63 million and the current maximum annual debt service is $40.6 million in Fiscal Year 2016. Pursuant to constitutional authority discussed below under **Additional Authorizations**, the State has issued $200 million of bonds for revitalization purposes that are also payable from a separate, subordinate pledge of State net liquor profits. The maximum annual debt service on the revitalization bonds is $18.6 million in Fiscal Year 2012.

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 lease payments. The maximum annual payment from GRF appropriations under those existing agreements is $30.5 million in Fiscal Year 2013 and the total GRF-supported principal amount outstanding is $208.1 million. 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**.

Tax Credits in Support of Other Long Term Obligations. The State has authorized the issuance of fully refundable tax credits in support of the $157,940,000 Ohio Capital Fund (OCF) financing bonds issued in May 2010 by the Columbus-Franklin County Finance Authority. Those tax credits may be claimed by the bond trustee for the purpose of restoring the bond reserve fund for those bonds in the event it is drawn upon and not restored from other sources. Those credits may not be claimed before July 1, 2012 or after June 30, 2036, and the maximum amount of tax credits that may be claimed is $20 million in any fiscal year and $380 million total. Proceeds of the OCF bonds fund investments in venture capital funds to promote investment in seed and early-stage Ohio-based business enterprises.

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Variable Rate Debt and Interest Rate Swaps

The State currently has $669,215,000 in outstanding general obligation variable rate debt as follows with liquidity provided by the State for all of these issues:

Dated Date	Outstanding	Purpose	Series	Rate Period	Final Maturity
11/29/01	$63,900,000	Infrastructure	2001B	Weekly	8/1/2021
2/26/03	99,145,000	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	Weekly	3/15/2024
3/3/04	55,295,000	Infrastructure	2004A	Weekly	2/1/2023
4/1/05	157,750,000	Common Schools	2005A/B	Weekly	3/15/2025
6/7/06	168,040,000	Common Schools	2006B/C	Weekly	6/15/2026

As part of its debt management, the State is also party to the following interest rate swap agreements with a total notional amount of $511,985,000:

Type	Outstanding Notional Amount	Related Bond Series	State Pays	State Receives	Effective Date	Termination Date
Floating-to-Fixed	$63,900,000	Infrastructure 2001B	4.630%	SIFMA[1]	11/29/2001	8/1/2021
Floating-to-Fixed	67,000,000	Common Schools 2003D	3.414%	LIBOR[2]	9/14/2007	3/15/2024
Floating-to-Fixed	55,295,000	Infrastructure 2004A	3.510%	LIBOR[2]	3/3/2004	2/1/2023
Floating-to-Fixed	157,750,000	Common Schools 2005A/B	3.750%	LIBOR[3]	3/15/2007	3/15/2025
Floating-to-Fixed	168,040,000	Common Schools 2006B/C	3.202%	LIBOR[2]	6/15/2006	6/15/2026

[1] Securities Industry and Financial Markets Association (SIFMA) weekly variable rate index.
[2] Variable interest rate based on a percentage of one-month London Inter-Bank Offered Rate (LIBOR) plus a fixed increment.
[3] Variable interest rate based on 62% of 10-year LIBOR.

For all its swap agreements, the State 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.

Constitutional 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, new obligations may not be issued if debt service for any future Fiscal Year on those new and the then outstanding bonds of those categories would exceed 5% of the total of estimated GRF revenues (excluding GRF receipts from the American Recovery and Reinvestment Act of 2009) plus net State lottery proceeds for the Fiscal Year of issuance. Those direct obligations of the State include general obligation and special obligation bonds that are paid from the State's GRF, but exclude (i) general obligation debt for third frontier research and development, development of sites and facilities, and veterans compensation, and (ii) general obligation debt payable from non-GRF funds (such as highway bonds that are paid from highway user receipts). Pursuant to the implementing legislation, the Governor has designated the OBM Director as the State official responsible for making the 5% determinations and certifications. Application of the 5% cap may be waived in a particular instance by a three-fifths vote of each house of the Ohio General Assembly and may be changed by future constitutional amendments.

The following table presents a summary of current State debt obligations as of September 28, 2010. The General Assembly has appropriated sufficient moneys to meet debt service requirements for the current biennium (ending June 30, 2011) on all of the obligations included in this and the accompanying tables.

	Authorized by General Assembly	Issued(a)	Outstanding(b)
Obligations Payable from the GRF			
General Obligations			
Coal Development(c)	$231,000,000	$198,000,000	$24,010,000
Infrastructure(d)	3,000,000,000	2,759,986,136	1,522,724,722(e)
Natural Resources(f)	350,000,000	325,000,000	151,750,000
Common School Facilities(g)	3,870,000,000	3,290,000,000	2,626,980,000(e)
Higher Education Facilities(g)	2,613,000,000	2,000,000,000	1,478,370,000
Conservation(h)	300,000,000	250,000,000	186,730,000
Research & Development(i)	450,000,000	255,700,000	211,845,000
Site Development(j)	150,000,000	75,000,000	63,965,000
Veterans Compensation(k)	200,000,000	50,000,000	50,000,000
		Total	$6,316,374,722
Special Obligations			
DRC Prison Facilities	$1,943,000,000	$1,799,500,000	$628,105,000
DYS Facilities	304,000,000	282,000,000	150,940,000
DAS Facilities	1,646,000,000	1,613,300,000	708,645,000
Cultural & Sports Facilities	512,000,000	458,690,000	169,865,000
Higher Education Facilities	4,817,590,000	4,817,590,000	198,560,000
Mental Health Facilities	1,517,000,000	1,392,085,000	200,765,000
Parks & Recreation Facilities	418,000,000	378,000,000	128,225,000
		Total	$2,185,105,000
Obligations Payable from Non-GRF Sources			
Highway User Receipts			
G.O. Highway(l)	$2,772,000,000	$2,115,000,000	$709,500,000
ODOT Facilities	155,800,000	155,800,000	-0-
DPS Facilities	143,000,000	140,285,000	36,210,000
Net Liquor Profits			
Economic Development(m)	n.a.	$506,740,000	$410,675,000
Revitalization Projects(n)	400,000,000	200,000,000	163,060,000
Other			
ODOT Highway Infrastructure(o)	n.a.	$1,577,250,000	$852,645,000
BWC Facilities(p)	214,255,000	214,255,000	62,870,000

(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 in each of the first five fiscal years beginning with Fiscal Year 2008 and not more than $150,000,000 may be issued in each of the five fiscal years thereafter, plus any obligations unissued from previous fiscal years.
(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) Amounts of general obligations authorized for common school and higher education facilities have been reduced by $800,000,000 and $950,000,000, respectively, to reflect a portion of the amount of obligations issued for those purposes by the Buckeye Tobacco Settlement Financing Authority described under **FISCAL MATTERS –Recent and Current Finances – 2008-09.**
(h) Not more than $50,000,000 may be issued in any Fiscal Year and not more than $400,000,000 may be outstanding at any time.
(i) Not more than $1,200,000,000 may be issued and the amount of obligations that may be issued is limited to no more than $450 million total for the period including Fiscal Years 2006 through 2011, no more than $225 million in Fiscal Year 2012 and no more than $175 million in any Fiscal Year thereafter, plus any obligations unissued from previous fiscal years.
(j) 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.
(k) Constitutional authorization is self-implementing and does not require further General Assembly authorization. Not more than $200,000,000 may be issued and no obligations may be issued later than December 31, 2013.
(l) 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.
(m) 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 $630,000,000 may be outstanding at any time.
(n) Net liquor profits are statutorily designated as the source of payment of debt service.
(o) Debt service on these "GARVEE" bonds is paid from federal transportation grants apportioned to the State (Title 23 of the U.S. Code).
(p) Debt service is paid from appropriations from the BWC Administrative Cost Fund.

The following table shows total Fiscal Year debt service on currently outstanding State obligations payable from the GRF as of September 28, 2010:

Annual Debt Service Requirements on State Obligations Paid from the GRF

	General Obligations			Special Obligations		Total GRF Debt Service		
FY	Education(a)	Infra-structure(b)	All Other(c)	Treasurer(d)	OBA(e)	Principal	Interest	Total
2011	$252,738,146	$148,688,610	$91,038,741	$195,076,436	$77,578,834	$358,842,787	$406,277,979	$767,053,091
2012	429,941,965	204,725,748	101,195,940	166,507,183	222,083,852	723,261,933	401,192,754	1,124,454,687
2013	435,878,067	197,070,387	98,444,858	134,749,326	201,702,199	695,797,649	372,047,188	1,067,844,838
2014	448,745,093	193,718,330	89,135,252	78,919,098	200,489,681	690,386,268	320,621,185	1,011,007,453
2015	439,543,531	175,839,842	86,236,235	69,513,273	191,379,316	679,613,397	282,898,798	962,512,195
2016	434,098,539	170,273,296	85,190,556	62,376,474	169,409,844	672,588,600	248,760,108	921,348,709
2017	427,394,983	159,002,316	78,400,163	48,407,649	152,007,663	648,195,000	217,017,773	865,212,773
2018	409,077,986	145,888,008	69,619,657	43,458,271	140,990,607	621,105,000	187,929,529	809,034,529
2019	417,991,479	128,730,390	55,051,618	31,370,934	119,825,180	592,680,000	160,289,601	752,969,601
2020	416,817,263	118,362,602	42,169,662	23,212,388	96,238,614	563,725,000	133,075,529	696,800,529
2021	409,877,124	108,851,986	17,679,077	7,917,106	96,200,222	533,785,000	106,740,516	640,525,516
2022	376,335,719	100,608,237	17,565,234	0	86,014,893	498,135,000	82,389,082	580,524,082
2023	310,751,330	92,365,064	17,455,546	0	76,253,380	436,470,000	60,355,320	496,825,320
2024	208,296,449	74,079,924	12,729,919	0	63,678,708	317,685,000	41,100,000	358,785,000
2025	141,359,081	64,443,232	4,962,196	0	53,171,540	238,010,000	25,926,049	263,936,049
2026	89,070,117	62,360,397	0	0	11,173,663	147,440,000	15,164,178	162,604,178
2027	29,702,250	45,333,290	0	0	11,169,246	77,495,000	8,709,786	86,204,786
2028	0	45,113,058	0	0	11,171,714	50,785,000	5,499,773	56,284,773
2029	0	35,389,481	0	0	11,172,243	43,560,000	3,001,725	46,561,725
2030	0	15,948,077	0	0	3,374,937	17,990,000	1,333,014	19,323,014
2031	0	15,661,341	0	0	0	15,245,000	416,341	15,661,341
						$8,622,795,636	**$3,080,746,229**	**$11,703,541,864**

(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, site development and veteran's compensation general obligation bonds.

(d) Includes lease-rental bonds issued by the Treasurer for mental health, parks and recreation, and cultural & sports facilities. Also includes lease-rental bonds previously issued 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 outstanding State obligations payable from the indicated non-GRF revenue as of September 28, 2010:

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

	Highway User Receipts			Net Liquor Profits			Other	
FY	Highway G.O.	ODOT/DPS Facilities(a)	Total	Economic Development(b)	Revitalization(c)	Total	BWC(d)	Federal Transportation Grants(e)
2011	$149,392,002	$13,519,556	$162,911,558	$39,550,467	$16,265,025	$55,815,492	$18,974,395	$153,965,299
2012	124,117,783	9,948,241	134,066,024	42,255,193	18,573,947	60,829,140	18,216,365	134,974,171
2013	119,589,026	2,285,644	121,874,670	42,250,872	18,569,468	60,820,339	17,458,370	130,763,684
2014	101,614,873	2,442,269	104,057,142	42,235,375	18,553,148	60,788,523	15,951,100	126,252,106
2015	81,688,650	2,443,019	84,131,668	42,253,565	18,549,533	60,803,098	0	122,225,456
2016	44,540,912	2,444,219	46,985,131	42,281,402	18,538,359	60,819,761	0	108,407,506
2017	42,940,162	2,440,650	45,380,812	42,277,570	18,517,655	60,795,225	0	83,868,119
2018	29,087,687	2,442,125	31,529,812	42,282,103	18,518,890	60,800,993	0	59,424,732
2019	28,986,646	2,447,500	31,434,146	42,272,745	13,804,423	56,077,168	0	56,891,347
2020	28,667,607	1,565,700	30,233,307	42,275,692	13,777,074	56,052,766	0	54,260,291
2021	28,325,433	1,568,250	29,893,683	42,266,557	13,712,971	55,979,528	0	20,428,043
2022	27,965,523	0	27,965,523	36,875,248	8,963,170	45,838,418	0	0
2023	27,587,537	0	27,587,537	30,677,892	8,894,169	39,572,061	0	0
2024	27,185,573	0	27,185,573	30,502,381	4,523,185	35,025,567	0	0
2025	26,760,720	0	26,760,72	21,584,764	4,439,966	26,024,731	0	0
2026	0	0	0	13,370,407	4,358,895	17,729,302	0	0
2027	0	0	0	9,211,211	0	9,211,211	0	0
2028	0	0	0	9,104,553	0	9,104,553	0	0
2029	0	0	0	9,016,530	0	9,016,530	0	0
2030	0	0	0	5,080,395	0	5,080,395	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 as of September 28, 2010:

	Obligations Payable from the GRF			Non-GRF Obligations	
Year	Education(a)	Other GO(b)	Special Obligations(c)	Highway User Receipts(d)	Net Liquor Profits(e)
2011	$4,049,920,000	$2,155,207,848	$2,058,825,000	$618,855,000	$549,025,000
2015	2,970,300,000	1,414,638,600	1,089,955,000	261,485,000	414,305,000
2020	1,395,740,000	605,415,000	375,445,000	121,600,000	211,895,000
2025	114,115,000	195,545,000	42,855,000	-0-	44,495,000

(a) Includes obligations for common school and higher education capital facilities.
(b) Includes natural resources, coal development, infrastructure improvement, conservation, research and development, site development and veterans compensation 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.

Fiscal Year	Principal Amount Outstanding	Outstanding Debt Per Capita	Outstanding Debt as % of Personal Income
1980	$1,991,915,000	$184	1.84%
1990	3,707,054,994	341	1.83
2000	6,308,680,025	555	1.93
2006	8,909,382,567	778	2.28
2007	9,211,911,840	803	2.27
2008	8,631,565,254	749	2.09
2009	8,486,621,212	735	2.08(b)
2010	8,586,655,636	744(a)	2.29(b)

Fiscal Year	Debt Service Payable	Total GRF Revenue and Net State Lottery Proceeds	Debt Service as % of GRF Revenue and Lottery Proceeds	Debt Service as % of Annual Personal Income
1980	$187,478,382	$4,835,670,223	3.88%	0.17%
1990	488,676,826	12,230,681,298	4.00	0.24
2000	871,313,814	20,711,678,217	4.21	0.27
2006	1,128,591,711	26,492,277,500	4.26	0.29
2007	1,216,382,190	26,447,718,900	4.60	0.30
2008	1,231,640,023	27,331,442,000	4.51	0.30
2009	1,075,937,540*	26,809,692,000**	4.01	0.26(b)
2010	710,284,236*	24,108,466,000**	2.95	0.17(b)

(a) Based on July 2009 population estimate.
(b) Based on preliminary 2009 personal income data.

* Reduction is due in large part to the restructuring of certain GRF debt service payments resulting in net savings of $52.8 million in Fiscal Year 2009 and $416.8 million in Fiscal Year 2010.

** Excludes federal funds from the American Recovery and Reinvestment Act of 2009.

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. The following State capital appropriations and related borrowing authorizations were passed by the General Assembly or authorized by Constitutional amendment for the 2011-12 capital biennium:

General Obligation

- $525,000,000 for capital improvements for elementary and secondary public schools.
- $120,000,000 for local infrastructure projects.
- $30,000,000 for site development.
- $200,000,000 for veteran's compensation (Article VIII, Section 2r Ohio Constitution).

Special Obligation

- $100,000,000 for revitalization purposes.

The following State capital appropriations and related borrowing authorizations were made for the 2009-10 capital biennium:

General Obligation

- $360,000,000 for local infrastructure projects.
- $100,000,000 for third frontier research and development projects.
- $28,000,000 for natural resources facilities.
- $100,000,000 for conservation purposes.
- $66,000,000 for coal development.
- $30,000,000 for site development.

Special Obligation

- $62,000,000 for prisons and local jails.
- $19,000,000 for youth services facilities.
- $48,000,000 for State administrative facilities.
- $42,000,000 for cultural facilities (including both arts and sports facilities).
- $128,000,000 for mental health facilities (including local projects).
- $41,000,000 for parks and recreation facilities.
- $100,000,000 for revitalization purposes.

All of the above additional GRF-supported borrowing authorizations are also reflected in the preceding tables.

Currently applicable constitutional authorizations are:

- 2010 - authorizes the issuance of $700 million of State general obligation debt to renew and continue programs for research and development in support of Ohio industry, commerce, and business, with those obligations not subject to the 5% direct obligation debt service cap described above. The authorization is in addition to the below-referenced 2005 constitutional amendment for the same purpose. The amount of all State general obligations that may be issued for, and the amounts of proceeds from those State general obligations that may be committed to, those research development purposes, are limited to no more than $450 million total for the period including State fiscal years 2006 through 2011, no more than $225 million in fiscal year 2012 and no more than $175 million in any fiscal year thereafter, plus any amounts that in any prior fiscal year could have been but were not issued.

- 2009 – authorizes the issuance of State general obligation debt to provide compensation to persons who have served in active duty in the United States armed forces at any time during the Persian Gulf, Afghanistan, and Iraq conflicts, with those obligations not subject to the 5% direct obligation debt service cap described above. Not more than $200 million may be issued and no obligations may be issued later than December 31, 2013.

- 2008 – authorizes the issuance of State bonds for land conservation and revitalization purposes (including statewide brownfields clean-up). For each of the two purposes, the authorization is for not more than $50 million in principal amount to be issued in any Fiscal Year and not more than $200 million 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). The authorization is in addition to the 2000 constitutional amendment for the same purposes.

- 2005 – authorizes the issuance over ten years of $500 million of State general obligation debt in support of research and development, and $150 million 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 million to $150 million, 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 million in principal amount to be issued in any Fiscal Year and not more than $200 million 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 million 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 million 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.

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STATE EMPLOYEES AND RETIREMENT SYSTEMS

State Employees

Since 1985, the number of regular State employees (excluding employees who are not paid by State warrant such as state university employees) has ranged from a high of 68,573 in 1994 to low of 58,538 at the end of 2009. The number of regular State employees at the end of Fiscal Year 2010 was 59,593. The State engages in collective bargaining with six employee unions representing 20 bargaining units, and generally operates under three-year agreements. The State's current collective bargaining agreements expire in April through June 2012.

Retirement Systems

The State has established five public retirement systems to provide retirement, disability retirement and survivor benefits, and other post-employment benefits such as retiree health care benefits. None of these benefits are guaranteed by the State or subject to bargaining under the State's current public employee collective bargaining law.

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. Comprehensive financial information for each retirement system can be found on its website in that system's Comprehensive Annual Financial Report (CAFR).

The retirement systems were created by and operate pursuant to State law. The General Assembly has the power to amend the structure and benefit levels, impose or revise contribution rates or amounts, or to make other changes. The systems have never been subject to the funding and vesting requirements of the federal Employee Retirement Income Security Act (ERISA). Federal law requires employees hired on or after April 1, 1986 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.

Funding for the retirement systems is provided by a combination of public employer and employee contributions based on percentages of each employee's compensation, with the employees' contributions being deducted from their paychecks. Those contribution percentages are either established in State law or by the retirement system board subject to a maximum contribution amount established in State law. With the exception of PERS contributions for law enforcement personnel, the current contribution percentages for each system (set forth in the table below) reflect the maximums permitted under current State law.

In 1968, the State created the Ohio Retirement Study Commission (ORSC) to advise and inform the General Assembly on all matters relating to the benefits, funding, investment, and administration of the five statewide retirement systems. The Council is composed of nine voting members: three members of the House appointed by the Speaker; three members of the Senate appointed by the President; and three members appointed by the Governor (one representing the State, one representing local governments, and the third representing public education institutions). The five executive directors of the retirement systems also serve as nonvoting members of the ORSC.

Under State law, each retirement system's board is required to establish a period of not more than thirty years to amortize its unfunded actuarial accrued pension liability (UAAL). If in any year the period required to amortize that unfunded liability exceeds thirty years, the board must prepare and submit to the ORSC and the applicable committees in the Ohio General Assembly, a plan to reduce that amortization period to not more than thirty years. For the reporting periods in the summary table below, the number of years to fully amortize actuarial accrued liability is thirty years for PERS and SERS, and exceeds thirty years for STRS, OP&F and HPRS. The board of each of the five systems has approved and submitted to ORSC and the applicable Ohio General Assembly committees a plan to reduce or maintain its amortization period at not more than thirty years. An ORSC-prepared summary of all retirement system funding plans submitted to it can be found on the ORSC website at www.orsc.org/reports.cfm. Legislation would need to be passed by the General Assembly to implement any funding plan that proposes modifications in retirement benefits or contribution levels.

Under current law, the State makes its employer contributions 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 $839.6 million in the 2006-07 biennium, $917.0 million in the 2008-09 biennium and are estimated to be $888.0 million in the 2010-11 biennium. The State also has funded and continues to fund a subsidy to the OP&F system to pay for survivor benefits provided in law and not otherwise funded. The aggregate subsidies were $42.3 million in the 2006-07 biennium, $41.8 million in the 2008-09 biennium, and are appropriated at $41.6 million for the 2010-11 biennium. All State employer contributions are subject to appropriation in each State budget and are included in the appropriations for each department or agency's personnel costs.

The following table summarizes State and local membership and financial data for each of the retirement systems for the most recent year reported by the particular system ($ in millions):

	PERS	**STRS**	**SERS**	**OP&F**	**HPRS**
Valuation as of:	**12/31/09**	**06/30/09**	**06/30/09**	**01/01/09**	**12/31/09**
Active Members	348,112	174,807	125,465	28,927	1,547
State Employees as a Percent of Active Members	16	1	0	0	100
Retirants and Beneficiaries	174,659	129,659	65,757	25,317	1,385
Employer/Employee Contributions (% of Salary) (a)	14.0/10.0(b)	14.0/10.0	14.0/10.0	(c)	26.5/10.0
Active Member Payroll	$12,548.3	$10,800.8	$2,787.4	$1,900.9	$94.8
Market Value of Assets (MVA)	$57,733.8	$50,392.7	$8,134.1	$7,757.6	$595.0
Actuarial Value of Assets (AVA) (d)	$57,629.4	$54,902.9	$9,723.0	$9,309.2	$620.4
Actuarial Accrued Liability (AAL) (e)	$76,555.0	$91,441.0	$14,221.0	$14,307.1	$940.1
Funding Ratio (AVA to AAL %, (MVA to AAL %))	75.3 (75.4)	60.0 (55.1)	68.4 (57.2)	65.1 (54.2)	66.0 (63.3)
Unfunded Actuarial Accrued Liability (UAAL) (f)	$18,925.6	$36,538.1	$4,498.0	$4,998.0	$319.7
UAAL to Active Member Payroll %	150.8	338.3	161.4	262.9	337.2

(a) For PERS, STRS, and SERS the maximum employer and employee contribution rates under law are 14% and 10%, respectively. Each system's board annually determines the portion of the employer contribution, if any, that is directed to fund post-employment health care benefits. The boards of STRS, OP&F and HPRS have voted to pursue legislation enabling member contribution rate increases.

(b) PERS state is 14.0/10.0%, local is 14.0/10.0% and law enforcement is 17.9/11.1%. PERS state and local employer and employee contribution rates increased to their current statutory maximum of 14% and 10%, respectively, in calendar year 2008.

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

(d) Recognizes assumed investment returns fully each year (long term investment returns assumed at 8.25% for OP&F and 8.0% for all other systems). Differences between actual and assumed investment returns are phased-in over a closed four-year period, except for OP&F which phases-in over five-year period.

(e) Reflects an individual entry age actuarial cost method.

(f) Amortized over a 30-year open period as a level percent of payroll.

Sources: Retirement systems' CAFRs and annual actuarial valuations.

The following table summarizes financial and funding information for each of the retirement systems over the past five years as reported by the particular system ($ in millions):

Retirement System and Valuation Year-End	Actuarial Value of Assets (AVA)(a)	Actuarial Accrued Liability (AAL)(b)	Unfunded Actuarial Accrued Liability (UAAL)(c)	Funding Ratio (AVA to AAL)	Market Value of Assets (MVA)	Funding Ratio (MVA to AAL)	Active Member Payroll	UAAL Percent of Active Member Payroll
PERS								
12/31/08	$55,315.2	$73,465.7	$18,150.5	75.3%	$49,388.6	67.2%	$12.801.1	141.8%
12/31/07	$67,151.3	$69,733.6	$2,582.2	96.3%	$70,043.6	100.4%	$12,583.4	20.5%
12/31/06	$61,295.6	$66,160.7	$4,865.1	92.6%	$65,357.9	98.8%	$12,175.2	40.0%
12/31/05	$54,473.4	$62,498.0	$8,025.0	87.2%	$57,702.4	92.3%	$11,806.8	68.0%
12/31/04	$50,452.3	$57,604.0	$7,151.6	87.6%	$53,576.4	93.0%	$11,454.3	62.4%
STRS								
06/30/08	$69,198.0	$87,432.4	$18,234.3	79.1%	$67,144.6	76.8%	$10,460.5	174.3%
06/30/07	$66,671.5	$81,126.6	$14,445.1	82.2%	$72,232.3	89.0%	$10,199.5	141.6%
06/30/06	$58,008.0	$77,371.0	$19,363.0	75.0%	$62,350.1	80.6%	$9,974.1	194.1%
06/30/05	$53,765.6	$73,817.1	$20,051.5	72.8%	$56,340.7	76.3%	$9,775.2	205.1%
06/30/04	$52,253.8	$69,867.4	$17,613.6	74.8%	$51,516.5	73.7%	$9,566.0	184.1%
SERS								
06/30/08	$11,241.0	$13,704.0	$2,463.0	82.0%	$10,793.5	78.8%	2,873.0	85.7%
06/30/07	$10,513.0	$13,004.0	$2,562.0	80.8%	$11,711.2	90.1%	2,603.3	98.4%
06/30/06	$9,423.0	$12,327.0	$2,974.0	76.4%	$9,980.2	81.0%	2,553.3	116.5%
06/30/05	$8,780.0	$11,659.0	$2,948.0	75.3%	$9,269.1	79.5%	2,452.5	120.2%

06/30/04	$8,550.0	$10,953.0	$2,403.0	78.1%	$8,565.4	78.2%	2,394.1	100.4%
OP&F								
01/01/08	$11,212.9	$13,727.8	$2,514.9	81.7%	$11,895.5	86.7%	$1,831.4	137.3%
01/01/07	$10,158.0	$12,987.5	$2,829.5	78.2%	$11,175.8	86.1%	$1,782.9	158.7%
01/01/06	$9,550.6	$12,190.4	$2,639.8	78.3%	$9,994.4	82.0%	$1,756.2	150.3%
01/01/05	$9,337.5	$11,545.1	$2,207.6	80.9%	$9,514.2	82.4%	$1,683.6	131.1%
01/01/04	$9,337.1	$10,798.4	$1,461.3	86.5%	$8,691.6	80.5%	$1,644.4	88.9%
HPRS								
12/31/08	$603.3	$904.5	$301.3	66.7%	$502.7	55.6%	$94.3	319.5%
12/31/07	$700.9	$866.3	$165.4	80.9%	$719.6	83.1%	$93.8	176.3%
12/31/06	$653.5	$807.8	$154.3	80.9%	$684.6	84.7%	$85.9	179.6%
12/31/05	$591.9	$773.9	$181.9	76.5%	$612.5	79.1%	$83.4	218.1%
12/31/04	$569.9	$734.5	$164.6	77.6%	$587.9	80.0%	$81.8	201.2%

(a) Recognizes assumed investment returns fully each year (long term investment returns assumed at 8.25% for OP&F and 8.00% for all other systems). Differences between actual and assumed investment returns are phased-in over a closed four-year period, except for OP&F which phases-in over five-year period.
(b) Reflects an individual entry age actuarial cost method.
(c) Amortized over a 30-year open period as a level percent of payroll.
Sources: Retirement systems' CAFRs and annual actuarial valuations.

Each of the State's public retirement systems also offers post-employment health care benefits to its members. Benefits under these health care programs are not vested and are subject to future adjustments of both benefits and contributions by their respective boards. In this regard, PERS has adopted two health care preservation plans, the first in September of 2004 and the second in June 2007, to adjust benefits and contributions by employers, employees, and retirees, with those changes phased in over six years. Financial reporting of their health care plans is in compliance with GASB Statement 43 -- Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans.

The following table presents a summary of assets and actuarial accrued liabilities for post-employment healthcare benefits for each of the State's public retirement systems ($ in millions):

	PERS	**STRS**	**SERS**	**OP&F**	**HPRS**
Valuation as of:	**12/31/09**	**01/01/09**	**06/30/09**	**01/01/09**	**12/31/09**
Value of Assets (a)	$10,936.0	$2,693.7	$376.5	$438.7	$100.8
Actuarial Accrued Liability (AAL) (b)	$31,558.0	13,413.7	$4,280.3	$3,163.6	$287.6
Unfunded Actuarial Accrued Liability (UAAL) (c)	$20,622.0	10,720.0	$3,903.8	$2,725.0	$186.8
Funding Ratio (Assets to AAL %)	34.7	20.1	8.8	13.9	35.0
Employer Contribution (% of Salary) (d)	5.5%	1.0%	1.0%	6.75%	3.5%

(a) For PERS & HPRS, recognizes long term investment returns (assumed at 6.5%) fully each year with the differences between actual and assumed investment returns phased-in over a closed four-year period. For STRS, SERS and OP&F, reflects market value.
(b) Reflects an individual entry age actuarial cost method.
(c) Amortized over a 30-year open period as a level percent of payroll.
(d) Each system's board annually determines the portion of the employer contribution, if any, that is directed to fund post-employment health care benefits. This amount has typically ranged from 1.0% to 7.0% of salary.
Sources: Retirement systems' annual actuarial valuations.

TAX LEVELS AND TAX BASES

The variety of taxes and excises levied by the State is indicated in several tables in this Appendix. According to the Federation of Tax Administrators, citing the U.S. Census Bureau as its source, the State ranked 35th in state taxes per capita in 2009. 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, the State has completed the phase-in over fiscal years 2006 through 2010 of its 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 was 0.06% effective July 1, 2005, with that rate increased annually in approximately equal amounts (about 0.05%) until levied at the current rate of 0.26% when fully implemented in Fiscal Year 2010. As described further below, the receipts from the CAT are directed first and primarily to make compensating payments to school districts and other local taxing units in connection with the phase-out of the tangible personal property tax in 2006 through 2009.

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 cents per gallon (one cent of this tax is specifically directed to local highway-related infrastructure projects).

Sales and Use Tax

The State sales and use tax rate has been 5.5% since July 1, 2005. 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.

Personal Income Tax

Under State legislation effective July 1, 2005, State personal income tax rates, applying generally to federal adjusted gross income, were reduced 4.2% annually in each of the years 2005 through 2009, resulting in an aggregate 21% decrease from the 2004 rates. The 2004 rates ranged from 0.743% on incomes of $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. See **FISCAL MATTERS – Recent and Current Finances – Current Biennium** for discussion of postponement of the final installment of this personal income tax reduction until tax year 2011. Under that postponement the indexing of the State income tax brackets previously scheduled to begin July 1, 2005 remains suspended until tax year 2010.

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, school districts and joint economic development 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. Each joint economic development district (there were approximately 35 of them in 2009) may also levy an income tax (which like municipal income taxes applies generally to wages and salaries and net business income) with the rate of that tax limited to the highest income tax rate of a municipal member of the district). 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 2003, and eighth since 2004. This movement, portrayed below, in significant measure reflects "catching up" by several other states and a trend in Ohio toward more service sector employment.

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Personal Income ($ in Billions)

		U.S.	Ohio	Ohio Percent of U.S.	State Rank
1970	Total	$832.2	$43.6	5.2%	5
	per capita	4,084	4,088	100.1	15
1980	Total	2,292.9	108.2	4.7	6
	per capita	10,091	10,022	99.3	21
1990	Total	4,831.3	202.5	4.2	7
	per capita	19,354	18,638	96.3	21
2000	Total	8,554.9	326.1	3.8	7
	per capita	30,318	28,694	94.6	25
2007	Total	11,879.8	405.2	3.4	8
	per capita	39,392	35,174	89.3	31
2008	Total	12,225.6	413.7	3.4	8
	per capita	40,166	35,889	89.4	34
2009*	Total	12,015.5	408.4	3.4	8
	per capita	39,138	35,381	90.4	33

* Preliminary, subject to change.

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

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

Retail Sales ($ in Billions)

Fiscal Year	Ohio Retail Sales(a)	U.S. Retail Sales(b)	Ohio Percent of U.S.
1980	$39.01	$979.25	4.0%
1990	66.95	1,914.04	3.5
2000	117.72	3,213.82	3.6
2005	133.31	3,956.49	3.4
2006	138.07	4,206.21	3.3
2007	140.90	4,354.32	3.2
2008	143.44	4,490.91	3.2
2009	133.60	4,196.74	3.2

(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 2008 show that these property taxes represent 3.68% of Ohio personal income.

		Assessed Value (a)	Percent of True Value (b)	Taxes Charged
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	28.0	1,149,643,000
	Public Utility(c)(f)	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	25.0	1,720,740,378
	Public Utility(c)(f)	13,635,709,860	67.0	967,674,709
2008	Real	240,673,472,605	35.0	13,807,996,674(e)
	Tangible(d)	6,592,078,011	6.8(b)	539,847,674
	Public Utility(c)(f)	8,596,715,120(g)	47.3	646,437,973
2009	Real	238,138,880,215	35.0	14,119,235,738 (e)
	Tangible(d)	628,787,160	10.0(b)	55,498,628
	Public Utility(c)(f)	8,906,002,394 (g)	51.7	687,462,082

(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) reached 0% in 2009, only telecommunication and telephone personal property is taxable in 2009.

(c) Includes machinery, inventories, fixtures; effective tax year 2007 and thereafter includes telephone company property. Excludes public utility tangible property. Effective tax year 2009 includes only telephone company property.
(d) Includes machinery, inventories, fixtures; effective tax year 2007 and thereafter includes telephone company property. Excludes public utility tangible property.
(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) 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.
(g) 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 (including inventories) has been phased out over tax years 2006 through 2009, with that tax generally eliminated beginning in tax year 2009. That legislation provides for the State to make distributions to school districts and other local taxing units from revenue generated by the recently enacted State commercial activity tax (CAT). Distributions are generally based on the taxable value of tangible personal property as reported in 2004 and property tax levies in effect for 2005. The State payments essentially hold school districts harmless through Fiscal Year 2013 and other local governments harmless through Fiscal Year 2011 to the calculated base values, with gradual reductions thereafter until the final distribution in May 2018. Prior State legislation enacted reductions in the assessed (tax) valuation of certain categories of tangible personal property. Beginning in tax year 2007, telecommunications and telephone company tangible personal property were combined into one category with applicable tax rates phased down through 2010 and eliminated beginning in tax year 2011.

Beginning July 2007, the State's homestead exemption program, which takes the form of a credit on local residential real property tax bills, was expanded to allow all senior citizens and disabled Ohioans, regardless of income, to exempt from tax the first $25,000 of the market value of their home. Previously eligibility was restricted and benefits were tiered based on income. The total cost of the homestead exemption program in Fiscal Year 2009 was $347.9 million and in Fiscal Year 2010 was $371.6 million.

Property tax relief payments by the State to local subdivisions totaled $2.52 billion in the 2006-07 biennium, $2.89 billion in the 2008-09 biennium and are estimated at $3.29 billion for the 2010-11 biennium.