INFORMATION CONCERNING THE STATE OF OHIO

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

FISCAL MATTERS

General

Consistent with the constitutional provision that no appropriation may be made for a period longer than two years, the State operates on the basis of a fiscal biennium for its appropriations and expenditures. Under current law that biennium for operating purposes runs from July 1 in an odd-numbered year to June 30 in the next odd-numbered year (e.g., the current fiscal biennium began July 1, 2011 and ends June 30, 2013). 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. Consistent with the fiscal biennium for operating purposes, 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 first in the House and then in 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). See **FISCAL MATTERS – Recent and Current Finances – Current Biennium** for discussion of the 2012-13 biennial appropriations and submission of the 2014-15 Executive Budget.

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.

Most State operations are financed through the General Revenue Fund (GRF). Personal income and sales and use taxes are the major sources of GRF tax revenue. The last complete fiscal year ended June 30, 2012 with a GRF fund balance (after year-end transfers) of $135.9 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 $482.0 million, about 1.8% of Fiscal Year 2012 GRF revenue.

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, the Governor 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 biennia.

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 most recent CAFRs are accessible via OBM's home page on the Internet at http://obm.ohio.gov/SectionPages/FinancialReporting/, and copies may be obtained by contacting OBM, 30 E. Broad Street, 34th Floor, Columbus, Ohio 43215, phone (614) 466-4034. The Fiscal Year 2011 CAFR 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 **FISCAL MATTERS – Recent and Current Finances – Current Biennium** regarding the 2012-13 biennial appropriations and the Governor's Executive Budget for the 2014-15 biennium.

Recent Receipts and Disbursements

The following summary statements, prepared by OBM based on its accounting 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				
	2008	**2009**	**2010**	**2011**	**2012**
Taxes:					
Personal Income(a)	$9,848.2	$8,322.2	$7,886.8	$8,820.1	$9,029.7
Sales and Use(b)	7,866.3	7,325.8	7,254.3	7,769.0	8,293.6
Corporate Franchise(c)	754.6	521.4	142.3	237.2	117.4
Commercial Activity Tax(d)	961.4	1,179.1	1,342.1	1,451.6	1,655.9
Gasoline	1,848.4	1,726.7	1,727.2	1,757.2	1,684.2
Public Utilities and Kilowatt Hour	801.1	799.9	721.5	728.0	712.0
Cigarette	950.9	924.8	886.9	855.6	843.2
Foreign Insurance	284.6	265.0	266.4	273.0	283.9
Highway Use	41.3	30.5	29.4	30.1	32.2
Estate(e)	61.4	64.4	55.0	72.1	66.5
Alcoholic Beverages	57.7	58.0	57.1	56.4	58.7
Liquor Gallonage	35.0	35.8	36.5	37.6	39.4
Domestic Insurance Franchise	159.3	160.1	166.5	194.3	194.1
Other	80.6	84.0	83.9	84.1	63.9
Total Taxes	23,750.8	21,497.7	20,655.9	22,366.3	23,074.8
Licenses, Permits and Fees	2,524.7	2,592.4	3,076.2	3,102.0	3,186.9
Sales, Services and Charges	1,771.7	1,921.2	1,758.2	1,958.9	1,968.0
Federal Government (including ARRA)	15,951.9	18,040.4	21,105.3	22,373.7	19,975.7
Other(f)	3,962.4	3,604.1	3,327.6	3,783.1	3,692.0
Proceeds from Sale of Bonds and Notes(g)	5,782.4	966.1	1,015.2	1,345.1	1,406.6
Total Cash Receipts	$53,743.9	$48,621.8	$50,938.6	$54,929.1	$53,304.1

(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 - Recent Biennia - 2010-11).
(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 the current rate of 0.26% in Fiscal Year 2010.
(e) Eliminated effective January 1, 2013.
(f) Largest components consist of various reimbursements, loan repayments, unclaimed funds, and investment income.
(g) In Fiscal Year 2008, includes $5.05 billion in proceeds resulting from the securitization of tobacco settlement receipts.

Cash Disbursements

FUND TYPE	Fiscal Year				
General Fund:	**2008**	**2009**	**2010**	**2011(h)**	**2012(h)**
General Revenue Fund	$25,725.0	$26,783.4	$24,141.4	$26,247.6	$26,394.8
General Services Fund(i)	1,316.8	1,442.9	1,331.2	6,106.4	5,092.5
Special Revenue Fund(j)	19,559.8	21,144.2	24,597.1	20,225.5	18,702.6
Capital Projects Fund(k)	510.0	514.6	472.9	440.0	346.9
Debt Service Fund(l)	867.6	819.3	578.2	633.3	557.0
Enterprise Fund	1,238.1	1,459.4	1,208.1	1,395.8	1,344.8
Total Cash Disbursements	$49,218.0	$52,163.8	$52,328.9	55,048.6	52,438.6

(h) Fiscal Years 2011 and 2012 reflect the reclassification of 161 individual funds from special revenue funds into the general services fund to be consistent with financial reporting changes made in GASB Statement No. 54 and effective for the Fiscal Year 2011 CAFR.
(i) Includes the Internal Service Fund.
(j) Includes local government support disbursements.
(k) Includes amounts disbursed from proceeds of general obligation bonds and certain other State obligations.
(l) 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				
	2008	**2009**	**2010**	**2011**	**2012**
Beginning Cash Balance	$1,432.9	$1,682.0	$734.5	$510.3	$844.5
Cash Receipts:					
Taxes:					
Personal Income(a)	9,114.7	7,628.0	7,247.2	8,120.3	8,432.9
Sales and Use(b)	7,614.1	7,112.8	7,077.4	7,578.2	8,087.0
Corporate Franchise(c)	753.5	520.8	141.8	236.6	117.1
Commercial Activity Tax(d)	0.0	0.0	0.0	0.0	417.1
Public Utilities and Kilowatt Hour	388.9	320.5	293.0	278.7	408.7
Cigarette	950.9	924.8	886.9	855.6	843.2
Foreign Insurance	267.3	249.2	250.8	256.3	266.5
Other	330.1	337.6	336.6	380.5	432.7
Total Taxes	19,419.5	17,093.7	16,233.6	17,706.1	19,005.2
Federal Government (including ARRA)	5,644.0	6,850.7	6,898.8	8,429.0	7,363.0
Licenses, Permits and Fees	67.7	65.8	66.2	59.0	65.3
Investment Income	169.6	137.1	28.7	7.1	5.4
Other(e)	123.4	104.4	300.8	169.8	164.2
Total Cash Receipts	25,424.2	24,251.7	23,528.1	26,371.1	26,603.1
Cash Disbursements:					
Primary, Secondary and Other Education(f)	6,876.9	7,005.0	6,743.4	6,740.0	6,457.8
Higher Education	2,543.6	2,632.6	2,424.1	2,411.0	2,102.7
Public Assistance and Medicaid	10,274.8	11,108.5	9,421.9(k)	11,425.8	12,465.7
Health and Human Services	1,283.6	1,194.6	1,017.0	1,099.1	964.8
Justice and Public Protection	2,084.5	2,088.1	1,933.6	1,940.2	1,863.0
Environmental Protection and Natural Resources	101.6	89.6	80.3	72.4	70.1
Transportation	22.6	21.4	17.5	13.4	10.3
General Government	357.7	354.4	283.2	275.5	273.0
Community and Economic Development	133.8	146.3	108.3	103.2	90.2
Tax Relief(g) and Other	1,386.0	1,526.2	1,711.4	1,691.0	1,728.5
Capital Outlay	0.1	0.3	0.4	0.2	0.1
Debt Service(h)	656.5	616.3	400.5	475.9	368.5
Total Cash Disbursements	25,721.8	26,783.4	24,141.4	26,247.5	26,394.8
Cash Transfers:					
Transfers-in(i)	1,235.0	2,432.8	1,422.2	1,392.1	582.3
Transfers-out(j)	(688.4)	(848.6)	(1,033.0)	(1,181.5)	(661.8)
Total Cash Transfers (net)	546.6	1,584.2	389.2	210.6	(79.5)
Ending Cash Balance	$1,682.0	$734.5	$510.3	$844.5	$973.4

(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 - Recent Biennia – 2010-11).

(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 the current rate of 0.26% in Fiscal Year 2010. CAT receipts have been directed 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 2010, though the acceleration of the phase out of those reimbursements included in the Fiscal Year 2012-13 budget results in a portion of the CAT receipts being deposited into the GRF beginning in Fiscal Year 2012.

(e) Includes fines and penalties, rental receipts, refunds and certain intrastate transfers, including transfers 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) 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, $416.8 million in Fiscal Year 2010, $336.9 in Fiscal Year 2011, and $449.3 million in Fiscal Year 2012 (see FISCAL MATTERS – Recent and Current Finances - Current Biennium).

(i) Includes in all fiscal years transfers from the School District Property Tax Replacement Fund, from liquor profits, interest earnings on tobacco bond proceeds, and in Fiscal Year 2009 $1.01 billion from the BSF.

(j) Fiscal Year 2011 transfers out include $246.9 million to the BSF.

(k) Reflects shift of Medicaid funding to non-GRF sources due to ARRA.

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 cash and fund balance for Fiscal Year 2012 were approximately $973.4 million and $371.0 million, respectively, with $235.1 million of that ending fund balance transferred to the BSF leaving a balance of $135.9 million. Recent biennium-ending GRF balances were:

Biennium	Cash Balance	Fund Balance(a)	Fund Balance less Designated Transfers(b)
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
2010-11	844,467,000	430,707,000	138,816,000

(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 appropriations acts for the 2012-13 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

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. The 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, producing in aggregate approximately $102 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 $54 million annually. The Ohio Supreme Court on December 27, 2010, affirmed the court of appeals decision in favor of the State, and on June 25, 2012 the United States Supreme Court declined to hear this case.
- Moving local telephone companies from the public utility tax base to the corporate franchise and sales tax, projected at the time to produce approximately $29 million annually.

- Elimination of the sales tax exemption for wide area telephone service (WATS) and 800 telecom services coupled with the enactment of a more limited exemption for call centers, projected at the time 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 at the time to produce in aggregate 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 – Recent Biennia – 2010-11** and **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. 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 LEVELS AND TAX BASES** 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 produces about $1.45 billion annually with $139 million of that amount attributable to its application to motor fuels. In September 2009, the Ohio Supreme Court ruled that food sales for off-premise consumption may be included in the CAT base. On December 7, 2012, the Ohio Supreme Court upheld the application of the CAT to gross receipts from the sales of motor fuels but ordered that the proceeds of the CAT derived from those gross receipts – currently estimated by OBM at approximately $140 million annually -- could not in the future be applied to nonhighway purposes.
- 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 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. All GRF appropriations since have complied with this limitation.

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, 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 specified percentage of all tax revenues deposited into the GRF, with local governments to receive 3.7% of total GRF tax revenues annually and local libraries to receive 2.22% of total GRF tax revenues annually (see **FISCAL MATTERS – Recent and Current Finances -- Current Biennium** below for discussion of changes to these allocations).
- 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 of tobacco settlement asset-backed bonds 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 partially funded the expansion of the homestead exemption property tax relief program in the Act. The Act reprogrammed 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, with the largest allocations to elementary and secondary school capital expenditures, and 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 then expected to total $120 million in 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.

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 remainder of the projected shortfall was offset by a 4.75% 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.

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 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 among 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 (ARRA), 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.

2010-11

Rigorous consideration was given by the General Assembly to the Governor's Executive Budget proposed for the 2010-11 biennium in light of the difficult economic and fiscal conditions resulting from the national recession. The final GRF appropriations Act for the 2010-11 biennium, which was preceded by three seven-day interim appropriations acts, 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 appropriations period and under that final Act. Reflecting the final implementation of the restructuring of State taxes commenced in 2006-07 and a conservative underlying economic forecast, that Act provided for total GRF biennial appropriations of approximately $50.5 billion (a 3.8% decrease from 2008-09 biennial expenditures) and total GRF biennial revenue of approximately $51.1 billion (a 4.2% decrease from 2008-09 biennial revenues). GRF appropriations for major program categories compared to 2008-09 actual GRF spending reflected increases of 3.4% for Medicaid (excluding ARRA funding referred to below) 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. Among other expenditure controls, the act included a number of Medicaid reform and cost containment initiatives and also included the restructuring of $736 million of Fiscal Years 2010 and 2011 general revenue fund debt service into Fiscal Years 2012 through 2025.

Major new sources of revenues or savings reflected in the 2010-11 appropriations act included:

- $2.4 billion of "Federal Stimulus" funding received under the ARRA, including $1.464 billion for elementary and secondary education, $628 million for Federal Medical Assistance Payments (FMAP), and $326 million for other purposes.
- $933 million in gaming and license revenues 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 approximate $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 in the biennial appropriations Act for the implementation of VLTs were subject to voter referendum and granted petitioners in that case until December 20, 2009 to submit referendum petitions with the required number of signatures. The Ohio Secretary of State on March 26, 2010 confirmed those petitions contained a sufficient number of valid signatures to place the referendum on the November 2, 2010 ballot, but on July 1, 2010 the committee for the petitioners withdrew the referendum from the ballot.
- $259 million from the Ohio Tobacco Use Prevention and Control Foundation Endowment Fund (TUPAC) to be deposited into a special State fund (non-GRF) and then intended to be used for various health care initiatives. On August 11, 2009, a trial court 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. The Ohio Supreme Court on December 22, 2010, affirmed the court of appeals decision in favor of the State.
- $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, $272 million savings from subjecting State employees to a two-week unpaid "furlough" during each year of the biennium, $84 million from a reduction in State funding to public libraries, 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.

In September 2010 the State also received from the federal government an award of $518.6 million of enhanced Federal Medical Assistance Payments funding ("eFMAP"), and $361.2 million of funding was also received by Ohio school districts for teacher salaries and personnel costs for primary and secondary education ("Ed Jobs").

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 then scheduled to take effect in tax year 2009 (for returns filed in 2010). 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 (see **FISCAL MATTERS - Recent and**

Current Finances – Current Biennium for discussion of implementation of the final phase of that personal income tax reduction).

The appropriations act for the 2010-2011 biennium created a six-member legislative 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". The BPMC commenced meeting in June 2010, heard testimony, received suggestions and released two reports – one from its three Republican members dated November 30, 2010 and one from its three Democratic members dated December 8, 2010. Both reports contained estimates of "non-recurring" revenues reflected in the 2010-11 budget as enacted ranging from $4.887 billion in the GRF to $8.339 billion for all GRF and non-GRF funds. These estimates included the effect of the postponement of the final installment of the personal income tax reduction**.**

The State ended Fiscal Year 2011 with GRF cash and fund balances of $844.5 million and $430.7 million, respectively. Of that ending GRF fund balance, the State reserved $138.8 million in the GRF reflecting the one-half of one percent of Fiscal Year 2011 GRF revenues the State is required to maintain as an ending fund balance and transferred $45.0 million into disaster services/emergency funds. The remaining $246.9 million was deposited into the BSF. These ending balances reflect the use of approximately $680 million in Fiscal Year 2011 GRF revenue to make payments for Medicaid managed care, the State's share of instruction for higher education, payroll and other commitments that were previously scheduled to be deferred into Fiscal Year 2012.

Current Biennium

Consistent with State law, the Governor's Executive Budget for the 2012-13 biennium was released in March 2011 and introduced in the General Assembly. After extended hearings and review, the 2012-13 biennial appropriations Act was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2011. To address the use of non-recurring funding sources in the prior 2010-11 biennium including amounts received under ARRA, the Act includes targeted spending cuts across most State agencies and major new Medicaid reform and cost containment measures. Reflecting the tax law changes described below and a conservative underlying economic forecast, that Act provides for total GRF biennial appropriations of approximately $55.78 billion (an 11% increase from the 2010-11 GRF biennial expenditures) and total GRF biennial revenue of approximately $56.07 billion (a 6% increase from 2010-11 GRF biennial revenues). GRF appropriations for major program categories compared to 2010-11 actual GRF spending reflect increases of 30% for Medicaid (increase due in part to absence of ARRA funding in the current biennium) and 3% for elementary and secondary education; decreases of 9% for higher education and 8% for mental health and developmental disabilities; and flat funding for corrections and youth services. That Act also reflects the restructuring of $440 million of Fiscal Year 2012 general revenue fund debt service into Fiscal Years 2013 through 2025, approximately three-quarters of which was accomplished by the July 2011 issuance by Ohio Public Facilities Commission of $488.8 million in refunding bonds, with the remainder accomplished by the September 2011 issuance by the Ohio Building Authority of $149.3 million in refunding bonds.

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 (after the restructuring of Fiscal Year 2012 GRF debt service payments).

Major new sources of revenues or expenditure savings reflected in the 2012-13 appropriations Act include:

- Transfer of the State's spirituous liquor system to JobsOhio. On February 1, 2013, the State granted a 25-year franchise on its spirituous liquor system to JobsOhio Beverage System, a nonprofit corporation the sole member of which is JobsOhio which is itself a nonprofit corporation created to promote economic development, job creation and retention, job training and the recruitment of business to the State. In exchange for the franchise, the State received a payment of $1.464 billion, $500 million of which was deposited in the GRF, $863.5 million was used to make provision for payment of all debt service on the outstanding State bonds referred to under **STATE DEBT – General –** *Prior Economic Development and Revitalization Obligations,* and $100 million will be used to fund certain of those revitalization projects. With that transfer, the State will forgo deposits to the GRF from net liquor profits (those deposits totaled $153.0 million in Fiscal Year 2011, $92.5 million in Fiscal Year 2012 and $88.0 million in Fiscal Year 2013 through January 31, 2013). Litigation filed on April 18, 2011, in the Ohio Supreme Court challenged, under various provisions of the Ohio Constitution, certain aspects of both JobsOhio and the General Assembly's February 2011 law that authorized its creation. Specifically, plaintiffs contested provisions in that law requiring that any challenges to it or to the creation of JobsOhio be filed in the Ohio Supreme Court within sixty days after that law took effect. Plaintiffs also claimed that law is an improper special act conferring corporate powers, that the Governor may not serve on the JobsOhio board of directors, that the provisions for dissolution of JobsOhio violate limitations in the Ohio Constitution on State appropriations and assumption of corporate debt, and that the law creates a joint venture under which the State is lending its aid and credit. On August 19, 2011, the Court dismissed the case for lack of subject matter jurisdiction. The 2012-13 Appropriations Act also amended the February 2011 law to remove the Governor from the JobsOhio board of directors, require JobsOhio to comply with Ohio's nonprofit corporation law unless specifically exempted from a provision, eliminate the exclusive original jurisdiction in the Ohio Supreme Court and relax the deadlines for filing claims. On August 30, 2011, the plaintiffs filed a complaint in the Court of Common Pleas of Franklin County, Ohio, raising those same claims. In December 2011, the trial court dismissed the suit for lack of standing, and in June 2012, the Tenth District Court of Appeals affirmed the lower court's decision. In July 2012, the plaintiffs requested that the Ohio Supreme Court review the Court of Appeals decision, and on January 23, 2013, the Ohio Supreme Court announced that it will hear the plaintiffs' appeal solely on the question of standing. Additionally, in August 2012, JobsOhio filed a separate action directly in the Ohio Supreme Court, asking the Court to issue a writ of mandamus approving the transfer of the liquor enterprise, but the Supreme Court dismissed the action for lack of jurisdiction. Thus, the only JobsOhio litigation matter currently pending is the plaintiffs' appeal to the Ohio Supreme Court of the Tenth District Court of Appeals June 14, 2012, decision on standing.

- Sale of five State-owned prison facilities to private operators expected to result in a net payment to the GRF of $75 million. A case filed on August 25, 2011 in the Court of Common Pleas of Franklin County, Ohio, challenged the authorization in the 2012-13 appropriations Act to sell these prison facilities. Specifically, this litigation alleged that the provisions in that Act authorizing the sale of these prisons, as well as that entire Act, were enacted in violation of the "one subject rule" of the Ohio Constitution, that the sale of the prisons would create a joinder of private and public property interests violating the constitutional prohibition against the State entering into a joint venture, and that they violate the constitutional right to referendum on certain laws. On August 31, 2011 the Court rendered a non-appealable decision denying a temporary restraining order requested by the plaintiffs. In that August 31, 2011 decision, the Court found that the provisions of the appropriations Act authorizing the sale of the prisons were not in violation of the one subject rule, did not violate the prohibition against the State entering into a joint venture, and do not fit within the exceptions to the right to referendum. The State announced on September 1, 2011 that, based on the proposals it received for five prisons, it opted to sell only one of those facilities and that this would accomplish most of the desired financial result for the 2012-13 biennium. On December 21, 2011, the plaintiffs voluntarily dismissed their case without prejudice, and on July 9, 2012, the original and additional plaintiffs filed a new case in the Court of Common Pleas of Franklin County again raising the one subject rule and joinder of private and public property claims contained in the original case, but adding a claim for reinstatement and back pay of Department of Corrections employees affected by the prison sales

- Reducing local government fund allocations by $111 million in Fiscal Year 2012 and $340 million in Fiscal Year 2013. Beginning in Fiscal Year 2014, allocations are to be made by committing a set percent of annual tax revenues deposited into the GRF (beginning with Fiscal Year 2013 GRF tax revenues).

- Reducing public library fund allocations to 95% of Fiscal Year 2011 levels resulting in expenditure reductions of $52.3 million in Fiscal Year 2012 and $102.8 million in Fiscal Year 2013. Beginning in Fiscal Year 2014, allocations to public libraries are to be made by committing a set percent of annual tax revenues deposited into the GRF (beginning with Fiscal Year 2013 GRF tax revenues).

- Accelerated phase-out of reimbursement payments to local governments and school districts in connection with the elimination of the tangible personal property tax resulting in an increased share (estimated at $293.5 million in Fiscal Year 2012 and $597.7 million in Fiscal Year 2013) of the Commercial Activity Tax being deposited into the GRF (see **TAX LEVELS AND TAX BASES – Property Tax**).

- Accelerated phase-out of reimbursement payments to local governments and school districts for electric power generation deregulation and natural gas deregulation resulting in a larger share (estimated at $141.6 million in Fiscal Year 2012 and $147.4 million in Fiscal Year 2013) of the kilowatt-hour tax and the entire (approximately $66.0 million in Fiscal Year 2012 and $66.0 million in Fiscal Year 2013) natural gas consumption tax being reallocated to the GRF.
- $235 million from transfers to the GRF of unclaimed funds and from other non-GRF funds and $12 million from a tax amnesty program.

The 2012-13 appropriations Act also reflects the following tax law changes:

- Implementation of the previously postponed final 4.2% annual decrease in State personal income tax rates (see **FISCAL MATTERS – Recent and Current Finances – Recent Biennia – 2010-11**).
- Eliminated the estate tax beginning January 1, 2013, currently levied at a rate of 6% on estates over $338,333 and 7% on estates over $500,000. In Fiscal Year 2010, estate tax collections totaled $285.8 million of which $230.8 million was distributed to the local government jurisdictions from which it was collected and with $55.0 million retained by the State and deposited into the GRF.
- Established the InvestOhio income tax credit program under which investors in small businesses based in Ohio who hold their investments for at least two years may receive 10% income tax credits limited to a maximum of $10 million per investor per biennium with no more than $100 million of those credits to be issued over two years.

The 2012-13 biennial appropriations Act creates a Medicaid reserve fund and authorizes the OBM Director to transfer up to $130 million from the GRF, if necessary, to provide for the payment of Medicaid costs above the enacted level of appropriations. That Act also creates a $104 million Unemployment Compensation Contingency Fund to pay interest on federal advances to the State Unemployment Compensation Fund, $70.7 million of which was used to make the interest payment due in September 2011, with the remaining amount applied to the September 2012 interest payment of $65.8 million. The September 2012 interest payment was also funded by a $25 million GRF supplemental appropriation and a contribution from the State's Unemployment Compensation administration fund. The Act also makes changes to State construction bidding procedures and includes additional authorizations for joint purchasing by and cooperation among local governments, all designed to create opportunities for cost savings.

Separate legislation passed by the General Assembly and signed by the Governor on June 29, 2011, is expected to reduce the State prison population by, among other changes, directing some low-level offenders to community-based programs.

On March 14, 2012, the Governor announced a series of policy proposals resulting from a "mid-biennium review" (MBR), with a stated focus on job creation as a priority. The Governor's MBR included proposals for General Assembly consideration in the areas of: *energy* (including shale oil and gas production opportunities in the Marcellus and Utica fields in the State, and modernizing the State's oil and gas severance tax; electric generation and transmission; coal; cogeneration, alternative fuels and renewables; energy efficiency; and regulatory reform); *personal income tax reduction* (proposing that any new revenue from shale oil and gas production and the MBR proposal to modernize the State's oil and gas severance tax system will be deposited into an income tax reduction fund and be used to reduce personal income tax rates by a commensurate amount); *bank and financial institutions tax reform* (to modernize Ohio's taxes on banks and financial institutions by replacing the corporate franchise and dealers in intangibles tax with a new financial institutions tax that more accurately reflects modern banking practices, closes loopholes and reduces the overall tax burden on most banks but is revenue neutral to the State); *education* (including proposals for strengthening Ohio's "third grade reading guarantee", career education, a new school performance measuring system, expansion of digital and online learning, flexibility for teacher evaluations, new standards for dropout recovery schools, assessments of all publicly funded early childhood programs, and supporting adoption of a school reform plan for the City of Cleveland schools); *workforce development* (creating job opportunities for the developmentally disabled; an improved workforce development program; allowing those undergoing training with an employer to continue collecting unemployment benefits; linking energy companies with trained workers; and matching skilled veterans to the most in demand jobs); and achieving more *management efficiency* with associated State and local government budgetary savings (including replacing the separate Offices of the State Architect and Engineer and the Office of Energy Services with an Ohio Facilities Construction Commission (OFCC) to administer the design and construction of state public facilities, with the Ohio School Facilities Commission retained as an independent agency within the OFCC and sharing employees and facilities). Those MBR proposals were considered by the General Assembly commencing in March in twelve separate pieces of legislation, and the General Assembly in May and June passed seven pieces of legislation addressing the subjects of energy (not including the MBR proposed changes to the State's oil and gas severance tax), tax reform (not including the MBR personal income tax reduction proposal), education, workforce development, and management efficiency for both state and local governments.

As further implementation of the MBR, the General Assembly enacted and the Governor signed into law on December 20, 2012, a new financial institutions tax that will first apply to tax year 2014. This new tax will apply to many companies that are currently subject to Ohio's corporate franchise tax (primarily banks and other corporations classified as financial institutions) and also generally subjects "dealers in intangibles" (e.g., mortgage brokers, stockbrokers, finance and loan companies that are not classified as financial institutions) to the commercial activity tax. This new financial institutions tax will replace the current corporate franchise tax on financial institutions and the current dealers in intangibles tax. The proceeds of those current taxes are, and the proceeds from the new financial institutions tax will be, deposited in the GRF. Based on revenue targets and mechanisms established in this legislation, OBM projects the effect of these tax changes to be revenue neutral to the GRF.

The State ended Fiscal Year 2012 with GRF cash and fund balances of $973.4 million and $371.0 million, respectively. Of that ending GRF fund balance, the State reserved $135.9 million in the GRF reflecting the one-half of one percent of Fiscal Year 2012 GRF revenues the State is required to maintain as an ending fund balance, with the remaining $235.1 million deposited into the BSF. OBM is currently projecting a positive GRF fund balance at the end of Fiscal Year 2013. As discussed above, the State is effectively precluded by its Constitution from ending a Fiscal Year or a biennium in a "deficit" position.

The Governor's Executive Budget for the 2014-15 biennium was released on February 4, 2013. That Executive Budget as proposed includes all amounts necessary to pay GRF debt service and lease-rental amounts for the biennium. Among other items, the Governor's Budget proposes State tax reform including reducing income tax rates and reducing the sales tax rate and broadening its base (see **TAX LEVELS AND TAX BASES – Sales and Use Tax** and **Personal Income Tax)**, and updating the State's oil and gas severance tax system as originally proposed in the MBR described above. The Governor's Budget also proposes a new funding formula for and increased State aid to elementary and secondary education (see **SCHOOLS AND MUNICIPALITIES – Schools**); allocation of a portion of State public higher education funding to institutions based on their graduation rates; and extension of eligibility for Medicaid coverage. The Executive Budget proposal was reflected in appropriations legislation introduced in the General Assembly in February, modified and then approved by the House in April, and currently under consideration by the Senate. Details of the Executive Budget can be found at http://obm.ohio.gov and details of the House-approved version and a comparison to the Executive Budget can be found at http://lsc.state.oh.us.

OBM continually monitors and analyzes revenues and expenditures and related developments (including pending litigation) and prepares at the end of each month a financial report, the most recent of which is accessible via OBM's home page at http://obm.ohio.gov/MiscPages/MonthlyFinancialReports/ with copies also 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.

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 purposes specified 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 Treasurer of State (Treasurer) currently issues the special obligations authorized under that Section 2i for parks and recreation and mental health facilities, and 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 Public Safety (DPS) and the Bureau of Workers' Compensation (BWC); correctional and juvenile detention facilities for the Departments or Rehabilitation and Correction (DRC) and Youth Services (DYS), and various cultural facilities. Debt service on all these special obligations is paid from GRF appropriations, with the exception of debt issued for 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 $160.0 million in Fiscal Year 2013. 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.

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 $35.6 million in Fiscal Year 2014 and the total GRF-supported principal amount outstanding is $220.2 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 approval of the OBM Director and either the General Assembly or the state controlling board 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 $157.9 million 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 in total. Proceeds of the OCF bonds fund investments in venture capital funds to promote investment in seed and early-stage Ohio-based business enterprises.

Prior Economic Development and Revitalization Obligations. Prior to the February 1, 2013 granting of a 25-year franchise on the State's spirituous liquor system to JobsOhio, there were outstanding $725.0 million of State bonds and notes secured by a pledge of the State's profits from the sale of spirituous liquor. In connection with the granting of that franchise, provision was made for the payment of all the debt service on those bonds and notes which are defeased and no longer outstanding obligations of the State under the terms of the trust indentures under which they were issued (see **FISCAL MATTERS - Recent and Current Finances – Current Biennium)**. Those bonds and notes were originally issued to fund a statewide economic development program that assisted in the financing of facilities and equipment for industry, commerce, research and distribution, including technology innovation, by providing loans and loan guarantees. Under its franchise agreement with JobsOhio, the State may not issue additional obligations secured by a pledge of profits from the sale of spirituous liquor during the 25-year term of that franchise.

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Variable Rate Debt and Interest Rate Swaps

The State currently has $622,060,000 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	55,200,000	Infrastructure	2003D	Weekly	2/1/2019
12/15/03	67,000,000	Common Schools	2003D	Weekly	3/15/2024
3/3/04	54,555,000	Infrastructure	2004A	Weekly	2/1/2023
4/1/05	131,100,000	Common Schools	2005A/B	Weekly	3/15/2025
6/7/06	151,160,000	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 $467,715,000:

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	54,555,000	Infrastructure 2004A	3.510%	LIBOR[2]	3/3/2004	2/1/2023
Floating-to-Fixed	131,100,000	Common Schools 2005A/B	3.750%	LIBOR[2,3]	3/15/2007	3/15/2025
Floating-to-Fixed	151,160,000	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 beginning September 15, 2014.

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 current summary of State debt obligations. The General Assembly has appropriated sufficient moneys to meet debt service requirements for the current biennium (ending June 30, 2013) on all of the obligations included in this and the accompanying tables.

	Authorized by General Assembly(a)	Issued(b)	Outstanding(c)
Obligations Payable from the GRF			
General Obligations			
Coal Development(d)	$246,000,000	$210,000,000	$22,195,000
Infrastructure(e)	3,450,000,000	3,149,986,136	1,778,108,266(f)
Natural Resources(g)	403,000,000	348,000,000	135,170,000
Common School Facilities(h)	4,270,000,000	3,870,000,000	2,901,260,000(f)
Higher Education Facilities(h)	3,028,000,000	2,610,000,000	1,914,590,000
Conservation(i)	348,000,000	300,000,000	199,095,000
Research & Development(j)	850,000,000	561,000,000	424,750,000
Site Development(k)	150,000,000	115,000,000	81,615,000
Veterans Compensation(l)	200,000,000	65,910,000	60,475,000
		Total:	$7,517,258,266
Special Obligations			
DRC Prison Facilities	$1,993,000,000	$1,839,500,000	$566,710,000
DYS Facilities	317,000,000	312,000,000	146,705,000
DAS Facilities	1,711,000,000	1,646,000,000	659,745,000
Cultural & Sports Facilities	518,000,000	504,690,000	152,945,000
Higher Education Facilities	4,817,590,000	4,817,590,000	5,630,000
Mental Health Facilities	1,541,000,000	1,417,085,000	156,000,000
Parks & Recreation Facilities	433,000,000	408,000,000	116,445,000
		Total:	$1,804,180,000
Obligations Payable from Non-GRF Sources			
Highway User Receipts			
G.O. Highway(m)	$3,115,000,000	$2,444,405,000	$710,430,000
DPS Facilities	143,000,000	140,285,000	15,215,000
Net Liquor Profits			
Economic Development(n)	n.a.	$629,740,000	$-0-
Revitalization Projects(n)	400,000,000	315,000,000	-0-
Other			
ODOT Highway Infrastructure(o)	n.a.	$1,832,295,000	$990,765,000
BWC Facilities(p)	214,255,000	214,255,000	15,200,000

(a) Authorized amounts do not include additional $50 million of GRF-supported authority to fund current biennium emergency capital needs.
(b) Excludes refunding bonds; includes bonds refunded.
(c) Excludes bonds refunded; includes refunding bonds.
(d) Not more than $100,000,000 may be outstanding at any time.
(e) Not more than $3,750,000,000 may be issued with the annual issuance limited to $120,000,000 beginning with Fiscal Year 2008 and $150,000,000 beginning in Fiscal Year 2013, plus any obligations unissued from previous fiscal years.
(f) Includes adjustable rate bonds.
(g) 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.
(h) Amounts of general obligations authorized for common school and higher education facilities were 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 (see **FISCAL MATTERS** –**Recent and Current Finances – Recent Biennia - 2008-09**).
(i) 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.
(j) 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 $450,000,000 total for the period including Fiscal Years 2006 through 2011, no more than $225,000,000 in Fiscal Year 2012 and no more than $175,000,000 in any Fiscal Year thereafter, plus any obligations unissued from previous fiscal years.
(k) Not more than $30,000,000 may be issued in each of the first three Fiscal Years beginning with Fiscal Year 2006 and not more than $15,000,000 in any other Fiscal Year.
(l) 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.
(m) 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.
(n) These revenue obligations issued to fund economic development and revitalization projects under Chapters 166 and 151 of the Ohio Revised Code have been defeased and are no longer outstanding obligations of the State since provision for payment of all debt service was made in connection with the granting of the franchise on the State's spirituous liquor system (see **FISCAL MATTERS** –**Recent and Current Finances – Current Biennium**).
(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:

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)**	**DAS Facilities**	**DRC Facilities**	**All Other(d)**	**Principal**	**Interest**	**Total**
2013	$516,548,336	$207,542,278	$ 136,472,306	$83,014,467	$99,946,758	$161,648,080	$765,277,649	$439,894,576	$1,205,172,225
2014	546,642,036	225,933,277	142,794,274	84,529,117	102,992,246	116,911,837	800,116,268	419,686,519	1,219,802,787
2015	550,655,221	215,097,359	142,262,264	87,874,323	96,061,794	108,900,470	822,198,397	378,653,034	1,200,851,431
2016	538,887,513	209,863,916	141,140,353	87,516,517	77,685,138	97,754,384	813,143,600	339,704,220	1,152,847,820
2017	522,711,783	197,371,001	133,576,754	82,822,830	70,532,994	78,202,771	783,305,000	301,913,132	1,085,218,132
2018	501,521,961	184,858,514	124,575,089	83,244,386	61,612,763	70,677,540	759,165,000	267,325,252	1,026,490,252
2019	516,282,332	167,913,937	108,271,971	72,516,273	53,288,719	55,844,270	739,915,000	234,202,503	974,117,503
2020	514,975,828	157,188,412	95,635,013	65,117,392	40,844,969	43,988,422	716,725,000	201,025,036	917,750,036
2021	507,732,428	147,690,246	71,757,377	64,882,419	40,986,856	29,153,059	694,245,000	167,957,386	862,202,386
2022	471,621,881	139,460,012	50,514,525	54,948,306	40,728,044	16,988,537	637,585,000	136,676,305	774,261,305
2023	407,941,734	130,785,551	39,021,324	49,225,182	36,663,019	16,998,151	572,115,000	108,519,961	680,634,961
2024	308,717,375	113,025,262	22,289,583	39,036,948	34,666,519	11,712,770	445,515,000	83,933,457	529,448,457
2025	248,818,352	104,691,682	14,505,017	33,507,307	30,099,800	11,733,151	379,640,000	63,715,309	443,355,309
2026	177,556,540	91,079,347	8,278,351	10,500,738	6,378,831	4,402,150	249,880,000	48,315,957	298,195,957
2027	121,263,016	75,014,965	3,503,353	10,499,771	6,379,431	1,424,750	181,020,000	37,065,287	218,085,287
2028	91,548,501	74,790,633	0	10,498,827	6,381,056	0	154,210,000	29,009,018	183,219,018
2029	91,610,736	65,067,506	0	10,504,231	6,389,181	0	151,975,000	21,596,655	173,571,655
2030	91,669,968	45,699,177	0	5,805,624	3,292,056	0	131,665,000	14,801,825	146,466,825
2031	91,795,252	45,492,816	0	2,429,438	3,299,588	0	134,490,000	8,527,093	143,017,093
2032	67,344,000	19,791,200	0	2,432,938	0	0	86,050,000	3,518,138	89,568,138
2033	0	10,816,000	0	0	0	0	10,400,000	416,000	10,816,000
							$10,028,635,915	**$3,306,456,658**	**$13,335,092,574**

(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 for mental health, parks and recreation, cultural & sports facilities and Department of Youth Services. Also includes lease-rental bonds previously issued for higher education facilities.

The following table shows total Fiscal Year debt service on certain currently outstanding State obligations payable from the indicated non-GRF revenues:

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

	Highway User Receipts				GARVEE
FY	**Highway G.O.**	**DPS Facilities(a)**	**Total**	**BWC Facilities**	**Federal Transportation Grants**
2013	$ 135,452,052	$2,285,644	$137,737,696	$17,458,370	$167,515,517
2014	132,542,874	2,442,269	134,985,142	15,951,100	177,397,396
2015	113,101,776	2,443,019	115,544,795	0	172,314,021
2016	92,092,803	2,444,219	94,537,021	0	157,408,471
2017	74,027,203	2,440,650	76,467,853	0	131,790,134
2018	60,054,980	2,442,125	62,497,105	0	106,211,472
2019	59,816,933	2,447,500	62,264,433	0	102,528,412
2020	59,341,462	1,565,700	60,907,162	0	98,766,846
2021	59,219,342	1,568,250	60,787,592	0	63,802,253
2022	58,310,202	0	58,310,202	0	19,797,200
2023	57,746,031	0	57,746,031	0	19,799,663
2024	57,147,852	0	57,147,852	0	19,801,750
2025	41,832,470	0	41,832,470	0	19,801,125
2026	15,066,750	0	15,066,750	0	0
2027	15,071,000	0	15,071,000	0	0
2028	15,067,500	0	15,067,500	0	0

(a) Lease rental payments are paid from highway user receipts for these Department of Public Safety facilities.
(b) Debt service paid from appropriations from the BWC Administrative Cost Fund.
(c) Debt service paid from federal transportation grants apportioned to the State under Title 23 of the U.S. Code.

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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:

	Obligations Payable from the GRF			Non-GRF Obligations
			Special	Highway User
Year	Education(a)	Other GO(b)	Obligations(c)	Receipts(d)
2013	$4,768,840,000	$2,701,408,266	$1,793,110,000	$725,645,000
2015	4,092,615,000	2,203,693,600	1,344,735,000	537,635,000
2020	2,257,820,000	1,050,725,000	520,245,000	274,765,000
2025	636,110,000	384,045,000	79,535,000	41,035,000

(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 DPS facilities.

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 Annual Personal Income
1980	$1,991,915,000	$184	1.84%
1990	3,707,054,994	342	1.83
2000	6,308,680,025	556	1.93
2008	8,631,565,254	749	2.06
2009	8,486,621,212	735	2.10
2010	8,586,655,636	744	2.07
2011	8,996,752,848	780	2.06
2012	9,760,505,915	845(a)	2.15(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
2008	1,231,640,023	27,331,442,000	4.51	0.29
2009	1,075,937,540*	26,809,692,000**	4.01	0.27
2010	710,284,236*	24,108,466,000**	2.95	0.17
2011	755,023,015*	26,777,133,000**	2.82	0.17
2012	692,776,090*	27,956,513,000	2.48	0.15(b)

(a) Based on July 2012 population estimate.
(b) Based on preliminary 2012 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, $416.8 million in Fiscal Year 2010, $336.9 million in Fiscal Year 2011, and $449.3 million in Fiscal Year 2012.
** Excludes federal funds from the American Recovery and Reinvestment Act of 2009.

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Recent Debt Authorizations

Only a portion of State capital needs can be met by direct GRF appropriations, so additional State borrowing for capital and other purposes has been and will continue to be required. In March and June 2012, the General Assembly enacted $1.78 billion in new capital appropriations for the 2013-14 capital biennium, with $1.40 billion of those new capital appropriations to be funded by GRF-supported debt authorizations. An additional GRF-supported debt authorization totaling $30 million was enacted in March 2013. Total GRF-debt supported capital appropriations for the 2013-14 capital biennium are summarized below:

General Obligation

- $400,000,000 for capital improvements for elementary and secondary public schools.
- $300,000,000 for local infrastructure projects.
- $415,000,000 for higher education facilities.
- $53,000,000 for natural resources facilities.
- $6,000,000 for conservation purposes.
- $15,000,000 for coal development purposes.

Special Obligation

- $50,000,000 for prisons and local jails.
- $13,000,000 for youth services facilities.
- $65,000,000 for State administrative facilities.
- $6,000,000 for cultural facilities (including both arts and sports facilities).
- $24,000,000 for mental health facilities (including local projects).
- $13,000,000 for parks and recreation facilities.

All of the above additional GRF-supported debt authorizations are also reflected in the preceding tables. Not reflected above or in the preceding tables is $50 million of additional GRF-supported debt authorization for funding emergency capital needs that arise in the current biennium of which $12.7 million has been applied to those emergency capital needs in the current biennium.

In addition to the above $400 million additional general obligation debt authorization for elementary and secondary public school improvements, the General Assembly also appropriated $250 million for those elementary and secondary public school capital improvements from State lottery profits fees and revenues expected from the implementation of video lottery terminals (VLTs) at Ohio's seven horse racing tracks as authorized by legislation enacted by the General Assembly in 2009. (See **FISCAL MATTERS – Recent and Current Finances – Recent Biennia – 2010-11**.) On October 21, 2011, a complaint was filed in the Court of Common Pleas of Franklin County, Ohio, challenging the 2009 law authorizing those VLTs on a number of bases, including that its authorization of those VLTs as part of the State Lottery exceeds the authorization for a state lottery under the Ohio Constitution. The trial court on May 30 granted defendants' motions to dismiss the case after finding that the plaintiffs did not have standing to bring this action, and on June 28 the plaintiffs appealed this trial court ruling to the Tenth District Court of Appeals of Franklin County, Ohio. Since the court dismissed the case based on plaintiffs' lack of standing, it did not decide the plaintiffs' challenges to the 2009 law.

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 and 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 (previously a portion of the State's net liquor profits; see **FISCAL MATTERS - Recent and Current Finances – Current Biennium**). 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 (previously a portion of the State's net liquor profits; see **FISCAL MATTERS - Recent and Current Finances – Current Biennium**).

- 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.

ECONOMY AND EMPLOYMENT

Although manufacturing (including auto-related manufacturing) in Ohio remains an integral part of the State's economy, the greatest growth in Ohio's economy in recent years has been in the non-manufacturing sectors. In 2010, Ohio's economic output as measured by gross state product (GSP) totaled $466.9 billion, 3.24% of the national GSP and eighth largest among the states. The State ranks fifth within the manufacturing sector as a whole ($73.9 billion) and fifth in durable goods ($40.0 billion). As a percent of Ohio's 2010 GSP, manufacturing was responsible for 15.8%, with 20.0% attributable to the goods-producing sectors and 34.1% to the business services sectors, including finance, insurance and real estate. Ohio is the eight largest exporting state with 2010 merchandise exports totaling $41.5 billion. The State's leading export products are machinery (including electrical machinery), motor vehicles and aircraft/spacecraft, which together accounted for 52.4% of that total.

Payroll employment in Ohio, in a diversifying employment base, decreased in 2001 through 2003, increased in 2004 through 2006, decreased in 2007 through 2010, and increased in 2011 and 2012. In recent years, there has been a shift toward the services industry, with manufacturing employment decreasing since its 1969 peak. The "non-manufacturing" sector employs approximately 87% of all non-farm payroll workers in Ohio. The changing mix of employment sectors nationally and in Ohio are shown in the following tables.

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

	1980	1990*	2000*	2010*	2012*
Mining & Logging*....................................	31	18	13	11	12
Construction..	167	192	246	169	180
Manufacturing..	1,264	1,060	1,021	621	656
Trade, Transportation & Public Utilities*...	1,180	963	1,115	948	971
Financial Activities.....................................	n.a.	101	107	78	74
Information*...	204	255	305	277	279
Services...	831	1,172	1,549	1,671	1,742
Leisure & Hospitality*...............................	n.a.	400	483	475	499
Government..	690	722	785	780	757
TOTAL...	4,367	4,882	5,624	5,029	5,171

Source: U.S. Department of Labor, Bureau of Labor Statistics, National and State Current Employment Statistics.
* Reflects change in the bases for industry classification from the 1987 Standard Industrial Classification System (SIC) to the 2002 North American Industry Classification System (NAICS). Data for 1990 and 2000 has been adjusted to reflect this change.

Distribution of Nonfarm Payroll Jobs by Industry Type (%)

	1980		1990*		2000*		2010*		2012*	
	Ohio	U.S	Ohio	U.S.	Ohio	U.S.	Ohio	U.S.	Ohio	U.S.
Mining & Logging*...........................	**0.7**	1.1	**0.4**	0.7	**0.2**	0.5	**0.2**	0.5	**0.2**	0.6
Construction.......................................	**3.8**	4.8	**3.9**	4.8	**4.4**	5.2	**3.4**	4.2	**3.5**	4.2
Manufacturing	**29.0**	22.4	**21.7**	16.2	**18.2**	13.1	**12.3**	8.9	**12.7**	8.9
Trade, Transportation & Public Utilities*	**27.0**	28.2	**19.7**	20.7	**19.8**	19.9	**18.8**	19.0	**18.8**	19.1
Information*......................................	n.a.	n.a.	**2.1**	2.5	**1.9**	2.8	**1.5**	2.1	**1.4**	2.0
Financial Activities............................	**4.7**	5.7	**5.2**	6.0	**5.4**	5.8	**5.5**	5.9	**5.4**	5.8
Services..	**19.0**	19.8	**24.0**	23.8	**27.5**	28.0	**33.2**	32.0	**33.7**	32.7
Leisure & Hospitality*.......................	n.a.	n.a.	**8.2**	8.5	**8.6**	9.0	**9.5**	10.0	**9.6**	10.3
Government	**15.8**	18.0	**14.8**	16.8	**14.0**	15.8	**15.5**	17.3	**14.6**	16.4

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

* Reflects change in the bases for industry classification from the 1987 Standard Industrial Classification System (SIC) to the 2002 North American Industry Classification System (NAICS). Data for 1990 and 2000 has been adjusted to reflect this change.

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

Average Monthly Unemployment Rates (Seasonally Adjusted)

Year	Ohio	U.S.
1980	8.5%	7.1%
1990	5.7	5.6
2000	4.0	4.0
2003	6.2	6.0
2004	6.1	5.5
2005	5.9	5.1
2006	5.4	4.6
2007	5.6	4.6
2008	6.5	5.8
2009	10.1	9.3
2010	10.0	9.6
2011	8.6	8.9
2012	7.2	8.1
2013 January	7.0	7.9
February	7.1	7.7
March	7.1	7.6

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

The following are the private sector employers that had the highest number of full-time equivalent employees (estimated and rounded) in Ohio in 2013:

OHIO'S TOP 25 PRIVATE SECTOR EMPLOYERS – 2013
Estimated Employment

Company	Headcount	Sector
Wal-Mart Stores, Inc.	48,630	Retail General Merchandiser
Cleveland Clinic Health System	41,200	Health Care
Kroger Company	39,000	Retail Food Stores
Catholic Healthcare Partners	28,850	Health Care
JPMorgan Chase & Co.	23,200	Financial Services
Giant Eagle, Inc	19,500	Retail Food Stores
University Hospitals Health System	19,375	Health Care
Ohio Health	17,000	Health Care
General Electric Company	15,275	Aerospace/Electrical Equipment
Premier Health Partners	14,550	Health Care
Honda Motor Company	13,500	Motor Vehicles
ProMedica Health System	13,375	Health Care
Procter & Gamble Company	13,300	Soaps and Cosmetics
Nationwide Mutual Insurance Co.	13,250	Finance, Insurance
Cincinnati Children's Hospital	13,200	Health Care
United Parcel Service, Inc.	13,100	Transportation Air Delivery
Meijer, Inc.	12,300	Retail General Merchandiser
Bob Evans Farms, Inc.	12,250	Restaurants
Target Corporation	12,250	Retail Department
Sears Holding Corporation	11,000	Retail Department
TriHealth, Inc	10,400	Health Care
Limited Brands, Inc	10,250	Retail Clothing
General Motors Corporation	10,100	Motor Vehicles
Kettering Health Network	10,000	Health Care
Summa Health System	10,000	Health Care

Boldface indicates headquartered in Ohio.
Source: Development Services Agency, Office of Research, March 2013.

POPULATION

Ohio's 2010 decennial census population of 11,536,504 indicated a 1.6% population growth over 2000 and ranked Ohio seventh among the states in population. The following tables show selected census figures.

Ohio Population — Total and by Age Group

Year	Total	Rank Among States	Decennial Growth Rate	1-19 Years	20-64 Years	65 and Over
1970	10,652,017	6	9.7%	4,124,400	5,539,600	993,500
1980	10,797,630	6	1.4	3,502,900	6,125,200	1,169,500
1990	10,847,115	7	0.5	3,141,000	6,299,100	1,407,000
2000	11,353,140	7	4.7	3,216,000	6,629,400	1,507,800
2010	11,536,504	7	1.6	3,067,126	6,847,363	1,622,015

* July 2012 Census population estimate is 11,544,225.

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

Population of Ohio Metropolitan Areas(a)

	1970	1980	1990	2000	2010
Cleveland	2,063,729	1,898,825	2,202,069(b)	2,250,871(b)	2,077,240(b)
Cincinnati	1,106,821	1,100,983	1,526,092(c)	1,646,395(c)	2,130,151(d)
Columbus	1,017,847	1,093,316	1,345,450(e)	1,540,157(e)	1,836,536(e)
Dayton	852,531	830,070	951,270(f)	950,558(f)	979,835(f)
Akron	679,239	660,328	657,575	694,960	703,200
Toledo	643,443	656,940	614,128	618,203	651,429
Youngstown-Warren	537,124	531,350	600,895(g)	594,746(g)	565,773(g)
Canton	393,789	404,421	394,106	406,934	404,422
Lorain-Elyria	256,843	274,909	(b)	(b)	(b)
Hamilton-Middletown	226,207	258,787	291,479	332,807	(e)
Lima	210,074	218,244	154,340	155,084	106,331
Mansfield	129,997	131,205	174,007(g)	175,818(g)	124,475
Steubenville	96,193	91,564	142,523(h)	132,008(h)	124,454(h)

(a) SMSAs in 1970 & 1980, MSAs in 1990 and 2000 (PMSA's for Cleveland, Cincinnati, Akron, and Hamilton-Middletown).
(b) Lorain-Elyria included with Cleveland.
(c) Includes 12 counties (two in Indiana and six in Kentucky).
(d) Includes 15 counties (three in Indiana and seven in Kentucky); Includes Hamilton-Middleton.
(e) Newark added.
(f) Springfield added.
(g) Includes three counties.
(h) Weirton added; includes two counties in West Virginia.
Source: U.S. Census Bureau Web Site, Metropolitan Area Population Estimates.

AGRICULTURAL AND RESOURCES BASES

With 13.6 million acres (of a total land area of 26.4 million acres) in farmland and an estimated 73,700 individual farms, agriculture combined with related agricultural sectors is an important segment of Ohio's economy. Ohio's 2011 crop production value of $6.5 billion represented 3.1% of the U.S. total value. Ohio accounts for more than 4.0% of total U.S. cash receipts for the following commodities: sweet corn, corn, maple products, green peppers, chicken/eggs, and soybeans. In 2011, Ohio's agricultural sector output (consisting of crops, livestock, poultry and dairy, and services and forestry) totaled $11.0 billion with agricultural exports (primarily soybeans, feed grains and wheat, and their related products) estimated at a value of $5.0 billion.

The availability of natural resources, such as water and energy, is of vital nationwide concern. Ohio has large quantities of these important natural resources. With Lake Erie and the Ohio River on its borders, and many lakes and streams throughout the State, water is readily available for all uses. Additionally, Ohio has sizable coal resources, ranking seventh among the states in coal reserves and tenth in coal production in 2011.

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 55,465 at the end of Fiscal Year 2012. The State engages in collective bargaining with five 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 2015.

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. Full 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. As reflected in the 2012 legislative amendments discussed below, the General Assembly has the power to amend the structure and benefit levels, impose or revise contribution rates or amounts, and 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 public sector retirement funds 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 and public safety personnel, and the increased employee contributions for STRS, OP&F and HPRS included in the September 2012 legislation described below, the current contribution percentages for each system (set forth in the table on the next page) 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 ORSC 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. 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 most recent reporting periods shown 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. Prior to the September 2012 reform legislation, the board of each of the five retirement systems had approved and submitted to the ORSC and the applicable Ohio General Assembly committees a plan to reduce or maintain its amortization period at not more than thirty years.

After extensive review, the General Assembly in September 2012 enacted, and the Governor signed into law to take effect on January 7, 2013, five bills to implement with modifications those plans submitted by the five retirement systems. For PERS, that legislation makes changes including, among others, increasing the years of service and eligibility age necessary to retire with full benefits, increasing from three to five the number of years used in determining "final average salary" for purposes of calculating retirement benefits, reducing the post-retirement cost of living adjustment, and increasing the minimum salary threshold for public employee eligibility to participate in the system. The legislation makes similar changes to STRS, SERS, OP&F and HPRS, and also provides for phased increases in the employee contribution rate for STRS (from the current 10% to a maximum of 14% by July 2016) and OP&F (from the current 10% to a maximum of 12.25% by July 2015), and authorizes the HPRS board to increase employee contributions to a maximum of 14% from the current 10% beginning in July 2013. With the exception of PERS, the legislation also authorizes each retirement system's board to adjust certain pension benefits levels within limits without General Assembly approval. This legislation continues the requirement that each system establish a period of not more than thirty years to amortize its unfunded actuarial accrued pension liability and prepare and submit to the ORSC and the Ohio General Assembly a plan to reduce that amortization period if it exceeds thirty years.

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 2.7% are in HPRS and about 1.3% are in STRS. The following table summarizes State employer and employee contributions to those retirement systems with State employee members ($ in millions):

	PERS		**STRS**		**HPRS**		
Fiscal	Employer/Employee		Employer/Employee		Employer/Employee		Total
Year	Amount	Pct. of Salary(a)	Amount	Pct. of Salary	Amount	Pct. of Salary	Contributions
2007	$399.3/$269.6	13.77%/9.5%	$8.1/$5.8	14.0%/10.0%	$23.0/$9.0	25.5%/10.0%	$714.7
2008	422.5/289.4	14.0/10.0	8.3/5.9	14.0/10.0	23.3/9.5	25.5/10.0	759.0
2009	430.0/300.4	14.0/10.0	8.2/5.8	14.0/10.0	24.6/9.7	25.5/10.0	778.8
2010(b)	406.5/283.0	14.0/10.0	7.4/5.3	14.0/10.0	24.4/9.3	26.5/10.0	735.8
2011(b)	414.4/289.0	14.0/10.0	7.2/5.1	14.0/10.0	25.2/9.5	26.5/10.0	750.3
2012	392.3/273.8	14.0/10.0	6.6/4.7	14.0/10.0	25.0/9.4	26.5/10.0	711.8

(a) Reflects PERS state and local contribution rates only. PERS law enforcement employer/employee contribution rate was 16.7%/10.1% in Fiscal Year 2006, increasing gradually to 17.87%/11.1% in Fiscal Year 2010, and public safety was 16.7%/9.0% in Fiscal Year 2006, increasing gradually to 17.87%/10.5% in Fiscal Year 2010.

(b) Decline in contributions for Fiscal Years 2010 and 2011 over Fiscal Year 2009 is attributed primarily to a two week unpaid "furlough" on State employees in each of those years (see **FISCAL MATTERS** - **Recent and Current Finances** – **Recent Biennia** - **2010-11**). Fiscal Year 2011 contributions include 27 pay periods.

Source: Reflects percent of payroll contributions from the State of Ohio accounting system.

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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 $41.6 million in the 2008-09 biennium, $41.3 million in the 2010-11 biennium, and are estimated at $41.2 million in the 2012-13 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(a)**	**OP&F**	**HPRS**
Valuation as of:	**12/31/11**	**07/01/12**	**06/30/12**	**01/01/12**	**12/31/11**
Active Members	335,354	173,044	121,811	27,463	1,520
State Employees as a Percent of Active Members	16	1	0	0	100
Retirants and Beneficiaries	189,849	143,256	69,038	27,078	1,465
Employer/Employee Contributions (% of Salary) (b)	14.0/10.0(c)	14.0/10.0	14.0/10.0	(d)	26.5/10.0
Active Member Payroll	$12,399.0	$10,879.1	$2,788.2	$1,897.4	$93.1
Market Value of Assets (MVA)	$61,846.7	$60,693.6	$10,331.7	$9,688.4	$603.4
Actuarial Value of Assets (AVA) (e)	$65,436.1	$59,489.5	$10,284.0	$10,309.0	$623.4
Actuarial Accrued Liability (AAL) (f)	$84,529.7	$106,301.8	$16,372.0	$16,346.7	$1,047.7
Funding Ratio (AVA to AAL %, (MVA to AAL %))	77.4 (73.2)	56.0 (57.1)	62.8 (63.1)	63.1 (59.3)	59.5 (57.6)
Unfunded Actuarial Accrued Liability (UAAL) (g)	$19,093.6	$46,812.3	$6,088.0	$6,037.7	$424.3
UAAL to Active Member Payroll %	154.0	430.3	218.4	318.2	455.7

(a) SERS information excludes Medicare Part B reimbursement which is considered a post-employment healthcare benefit reported in accordance with GASB Statement 43 for all data except MVA.
(b) For PERS and SERS, the maximum employer and employee contribution rates under law are 14% and 10%. For STRS and HPRS, the maximum employer and employee contributions rates are 14/14% and 27.5/14%, 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.
(c) PERS state employer/employee contribution rate is 14.0/10.0%, local is 14.0/10.0%, law enforcement is 17.87/11.1%, and public safety is 17.87/10.5%. PERS state and local employer and employee contribution rates increased to their current statutory maximum of 14% and 10%, respectively, in calendar year 2008.
(d) Police is 19.5/12.25% and fire 24/12.25%.
(e) Recognizes assumed long-term investment returns fully each year (8.25% for OP&F, 8.00% for PERS and HPRS, and 7.75% for STRS and SERS). Differences between actual and assumed investment returns, subject to each system's market corridor limitation, are phased-in over a closed four-year period, except for OP&F which phases-in over five-year period.
(f) Reflects an individual entry age normal actuarial cost method.
(g) Amortized over a 30-year open period as a level percent of payroll, except for the portion of PERS members who participate in the member directed plan which uses a level dollar of payroll and SERS which is amortized over a 30-year closed period as a level percent of payroll.

Sources: Retirement systems' CAFRs and annual actuarial valuations.

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The following table summarizes financial and funding information for each of the retirement systems for the five years previous to the current year information provided above as reported by the particular system ($ in millions):

Retirement System 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								
12/31/10*	$63,649.1	$80,485.0	$16,836.0	79.1%	$63,649.1	79.1%	$12,450.0	135.2%
12/31/10	$60,599.5	$79,630.1	$19,030.6	76.1%	$63,649.1	79.9%	$12,450.0	152.9%
12/31/09	$57,629.4	$76,555.0	$18,925.6	75.3%	$57,733.8	75.4%	$12,548.3	150.8%
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%
STRS								
07/01/11	$58,110.5	$98,766.2	$40,655.7	58.8%	$63,116.7	63.9%	$11,097.6	366.3%
07/01/10	$55,946.3	$94,720.7	$38,774.4	59.1%	$54,140.4	57.2%	$11,057.3	350.7%
07/01/09	$54,902.9	$91,441.0	$36,538.1	60.0%	$50,095.7	54.8%	$10,800.8	338.3%
07/01/08	$69,198.0	$87,432.4	$18,234.3	79.1%	$66,837.4	76.4%	$10,460.5	174.3%
07/01/07	$66,671.5	$81,126.6	$14,445.1	82.2%	$72,935.4	89.9%	$10,199.5	141.6%
SERS(d)								
06/30/11	$10,397.0	$15,943.0	$5,546.0	65.2%	$10,619.2	66.6%	$2,852.4	194.5%
06/30/10	$10,787.0	$14,855.1	$4,068.1	72.6%	$9,071.9	61.1%	$2,842.7	143.1%
06/30/09	$9,723.0	$14,221.0	$4,498.0	68.4%	$8,134.1	57.2%	$2,787.4	161.4%
06/30/08	$11,241.0	$13,704.0	$2,463.0	82.0%	$10,793.5	78.8%	$2,651.8	92.9%
06/30/07	$10,513.0	$13,004.0	$2,562.0	80.8%	$11,711.2	90.1%	$2,603.3	98.4%
OP&F								
01/01/11	$10,681.0	$15,384.4	$4,703.4	69.4%	$10,075.5	65.5%	$1,868.5	251.7%
01/01/10	$10,794.1	$14,830.7	$4,036.7	72.8%	$9,056.8	61.1%	$1,895.2	213.0%
01/01/09	$9,309.2	$14,307.1	$4,998.0	65.1%	$7,757.6	54.2%	$1,900.9	262.9%
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%
HPRS								
12/31/10*	$631.0	$981.4	$350.4	64.3%	$647.1	65.9%	$94.8	369.7%
12/31/10	$631.0	$1,017.8	$386.8	62.0%	$647.1	63.6%	$94.8	408.0%
12/31/09	$620.4	$940.1	$319.7	66.0%	$595.0	63.3%	$94.8	337.2%
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%

(a) Recognizes assumed long-term investment returns fully each year (8.25% for OP&F, 7.75% for SERS, and 8.0% for the remaining systems). Differences between actual and assumed investment returns, subject to each system's market corridor limitation, 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, except for SERS for which UAAL was amortized over a closed period of time of 30-years in Fiscal Year 2009, 29-years in Fiscal Years 2007 and 2010, and 28-years in Fiscal Years 2008 and 2011.

(d) Excludes Medicare Part B reimbursement which is considered a post-employment health care benefit reported in accordance with GASB 43 for all data except MVA.

* Reflects revised actuarial assumptions based on completion of a five-year experience study.

Sources: Retirement systems' CAFR's 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 adopted, beginning in 2004, a series of health care preservation plans to adjust benefits and contributions by employers, employees, and retirees. 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:	**12/31/11**	**01/01/12**	**06/30/12**	**01/01/12**	**12/31/11**
Value of Assets (a)	$12,115.0	$2,968.2	$355.1	$780.1	$99.0
Actuarial Accrued Liability (AAL) (b)	$31,023.0	5,094.4	$2,691.5	$3,698.8	$424.1
Unfunded Actuarial Accrued Liability (UAAL) (c)	$18,908.0	2,126.3	$2,336.4	$2,918.6	$325.1
Funding Ratio (Assets to AAL %)	39.1%	58.3%	13.2%	21.1%	23.3%
Employer Contribution (% of Salary) (d)	4.0%	1.0%	0.2%(e)	6.75%	1.75%

(a) For PERS and HPRS, investment returns are recognized fully each year with the differences between actual and assumed investment returns (assumed at 5%), subject to each system's market corridor limitation, phased-in over a closed four-year period. For STRS, SERS and OP&F, reflects market value.

(b) Reflects an individual entry age normal 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.

(e) SERS also collects a health care surcharge from employers for employees who earn less than an actuarially determined minimum compensation amount. This amount is in addition to the amount allocated to health care from the employer contributions.

* Reflects revised actuarial assumptions based on completion of a five-year experience study.

Sources: Retirement systems' annual actuarial valuations.

The following table presents a summary of assets and actuarial accrued liabilities for post-employment healthcare benefits for the three years previous to the current year information provided above for each of the State's public retirement systems ($ in millions):

Retirement System Valuation Year-End	Value of Assets(a)	Actuarial Accrued Liability (AAL)(b)	Unfunded Actuarial Accrued Liability(c)	Funding Ratio (Assets to AAL)	Employer Contribution (% of Salary)(d)(e)
PERS					
12/31/10	$11,267.5	$26,928.8	$15,661.3	41.8%	5.0%
12/31/09	$10,936.0	$31,558.0	$20,622.0	34.7%	5.9%
12/31/08	$10,748.0	$29,623.1	$18,875.0	36.3%	7.0%
STRS					
01/01/11	$3,108.5	$8,631.3	$5,522.8	36.0%	1.0%
01/01/10	$2,967.5	$11,355.0	$8,387.5	26.1%	1.0%
01/01/09	$2,693.7	$13,413.7	$10,720.0	20.1%	1.0%
SERS					
06/30/11	$355.7	$2,410.1	$2,054.4	14.8%	0.6%
06/30/10	$325.0	$2,369.1	$2,044.1	13.7%	0.5%
06/30/09	$376.5	$4,280.3	$3,903.8	8.8%	4.2%
OP&F					
01/01/11	$717.7	$3,295.3	$2,577.6	21.8%	6.75%
01/01/10	$573.4	$3,232.4	$2,659.0	17.7%	6.75%
01/01/09	$438.7	$3,163.6	$2,725.0	13.9%	6.75%
HPRS					
12/31/10	$104.7	$406.9	$302.2	25.7%	1.75%
12/31/09	$100.8	$287.6	$186.8	35.0%	3.5%
12/31/08	$95.8	$324.2	$228.4	29.5%	4.5%

(a) For PERS & HPRS, recognizes investment returns fully each year (PERS assumed at 6.5% and HPRS assumed at 6.5% in 2008-2009 and 5.0% in 2010) with the differences between actual and assumed investment returns, subject to each system's market corridor limitation, are phased-in over a closed four-year period. For STRS, SERS and OP&F, reflects market value.

(b) Reflects an individual entry age normal 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. For PERS, reflects overall effective rate.

(e) SERS also collects a health care surcharge from employers for employees who earn less than an actuarially determined minimum compensation amount. This amount is in addition to the amount allocated to health care from the employer contributions.

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 34th in state taxes per capita in 2010. 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 in part 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 **FISCAL MATTERS - 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 2008 and, after the postponement discussed under **FISCAL MATTERS – Recent and Current Finances – Recent Biennia - 2010-11**, again in 2011, 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, while the 2011 rates for the equivalent income brackets are 0.587% and 5.925%, respectively.

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 2010 was 3%. A school district income tax is currently approved in 181 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.

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	30,319	28,695	94.6	24
2008	Total	12,451.7	419.2	3.4	8
	per capita	40,947	36,401	88.9	34
2009	Total	11,852.7	403.5	3.4	8
	per capita	38,637	35,001	90.6	33
2010	Total	12,308.5	414.6	3.4	8
	per capita	39,791	35,777	89.9	31
2011	Total	12,949.9	436.8	3.4	8
	per capita	41,560	37,527	90.3	31
2012**	Total	13,401.9	453.6	3.4	8
	per capita	42,693	39,289	92.0	30

Source: U.S. Department of Commerce, Bureau of Economic Analysis.
*Excludes District of Columbia.
**Preliminary data.

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
2008	138.71	4,494.60	3.1
2009	128.45	4,158.85	3.1
2010	129.81	4,187.16	3.1
2011	137.95	4,475.28	3.1
2012	148.10	4,785.60	3.1

(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.

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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 2011 show that these property taxes represent 3.53% 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
2010	Real	238,264,394,249	35.0	14,486,087,962(e)
	Tangible(d)	320,961,400	5.0(b)	18,432,832
	Public Utility(c)(f)	10,096,712,600(g)	52.9	747,237,219
2011	Real	231,189,983,505	35.0	14,602,588,295(e)
	Tangible(d)	-0-	-0-(b)	-0-
	Public Utility(c)(f)	10,526,028,040(g)	51.0	804,746,979

(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 was taxable in 2009 and 2010.
(c) Includes public utility personal property owned and located within Ohio and railroad real property; excludes public utility real property.
(d) Includes machinery, inventories, fixtures; effective tax year 2007 includes telephone company property. Excludes public utility tangible property. Effective tax year 2009 includes only telephone company 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 provided for the State to make distributions to school districts and other local taxing units from revenue generated by the 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. In Fiscal Year 2012, the State begins phasing-out tangible personal property tax replacement payments to schools and local governments with replacement payments to schools reduced by two percent of each district's total resources in Fiscal Year 2012 and Fiscal Year 2013 for a total reduction of four percent; and replacement payments to local governments reduced by two percent of total resources for tax years 2011, 2012, and 2013 for a total reduction of six percent. Under current law, replacement payments will then continue thereafter at the 2013 amounts.

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 2011 was $388.9 million and in Fiscal Year 2012 was $406.7 million.

Property tax relief payments by the State to local subdivisions totaled $2.89 billion in the 2008-09 biennium, $3.36 billion for the 2010-11 biennium and are appropriated at $3.41 billion for the 2012-13 biennium.

SCHOOLS AND MUNICIPALITIES

Schools

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

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

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

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

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

Under the financial structure in place before the 2009-10 biennium, Ohio's 613 public school districts and 49 joint vocational school districts receive a major portion (but less than 50%) of their operating moneys from State subsidy appropriations (the primary portion of which is known as the Foundation Program) distributed in accordance with statutory formulae that take into account both local needs and local taxing capacity. The Foundation Program amounts steadily increased in recent years, including small aggregate increases even in those Fiscal Years in which appropriations cutbacks were imposed.

School districts also rely upon receipts from locally voted taxes. In part because of provisions of some State laws, such as that partially limiting the increase (without further vote of the local electorate) in voted property tax collections that would otherwise result from increased assessed valuations, some school districts have experienced varying degrees of difficulty in meeting mandated and discretionary increased costs. Local electorates have largely determined the total moneys available for their schools. Locally elected boards of education and their school administrators are responsible for managing school programs and budgets within statutory requirements.

The State's school subsidy formulas that were used until the 2009-10 biennium were structured to encourage both program quality and local taxing effort. Until the late 1970's, although there were some temporary school closings, most local financial difficulties that arose were successfully resolved by the local districts themselves by some combination of voter approval of additional property tax levies, adjustments in program offerings, or other measures. For more than 20 years, requirements of law and levels of State funding have sufficed to prevent school closings for financial reasons, which in any case are prohibited by current law.

To broaden the potential local tax revenue base, local school districts also may submit for voter approval income taxes on the district income of individuals and estates. Many districts have submitted the question, and income taxes are currently approved in 181 districts.

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

- 2000-01 – $13.3 billion (a 15% increase over the previous biennium).
- 2002-03 - $15.2 billion (a 17% increase over the previous biennium before the expenditure reductions discussed under **Fiscal Matters – Recent and Current Finances - Recent Biennia - 2002-03**).
- 2004-05 - $15.7 billion (a 3.3% increase over the previous biennium before the expenditure reductions discussed under **Fiscal Matters – Recent and Current Finances - Recent Biennia - 2004-05**).
- 2006-07 - $16.4 billion (a 4.5% increase over the previous biennium before the expenditure reductions discussed under **Fiscal Matters – Recent and Current Finances - Recent Biennia - 2006-07**).
- 2008-09 - $17.2 billion (a 5.1% increase over the previous biennium before the expenditure reductions discussed under **Fiscal Matters – Recent and Current Finances - Recent Biennia - 2008-09**).
- 2010-11 - $17.0 billion (a 1.6% decrease over the previous biennium. These amounts are exclusive of the $1.463 billion of appropriations to school districts for the 2010-11 biennium from "Federal Stimulus" funding received under the American Recovery and Reinvestment Act of 2009).

State appropriations for school funding for the 2012-13 biennium are $16.6 billion (a 2.3% decrease from those appropriations in the previous biennium), representing a decrease of 2.3% in Fiscal Year 2012 over Fiscal Year 2011 and an increase of 0.6% in Fiscal Year 2013 over Fiscal Year 2012. These amounts are exclusive of the $1.463 billion of appropriations to school districts for the 2010-11 biennium of "Federal Stimulus" funding received under the American Recovery and Reinvestment Act of 2009.

The amount of lottery profits transferred to the Lottery Profits Education Fund (LPEF) totaled $728.6 million in Fiscal Year 2010, $738.8 million in Fiscal Year 2011, $771.0 million in Fiscal Year 2012 and is appropriated at $680.5 million in Fiscal Year 2013. The 2010-11 biennial appropriations Act authorized the implementation of video lottery terminals (VLTs) at Ohio seven horse racing tracks. See **FISCAL MATTERS - Recent and Current Finances – Recent Biennia - 2010-11** for discussion of litigation concluded in the Ohio Supreme Court declaring that the authorization of those VLTs is subject to voter referendum and subsequent withdrawal of that referendum by the committee for the petitioners. Ohio participation in the multi-state lottery commenced in May 2002. A constitutional provision requires that net lottery profits be paid into LPEF be used solely for the support of elementary, secondary, vocational and special education purposes, including application to debt service on general obligation bonds to finance common school facilities.

The most recent State biennial appropriations Act signed into law June 30, 2011, repeals the school funding system enacted for the 2010-11 biennium that was known as the "Evidence Based Model" and in its place creates a temporary formula allocating funding to school districts based on a wealth-adjusted portion of their State education aid for Fiscal Year 2011 under that prior Evidence Based Model. The temporary formula funds schools for the current 2012-13 biennium. See **FISCAL MATTERS - Recent and Current Finances – Current Biennium** for discussion of a new funding formula proposed as part of the Governor's Executive Budget for the 2014-2015 biennium.

Under the temporary formula for the 2012-13 biennium, the State Department of Education will compute and pay to each school district, for Fiscal Years 2012 and 2013, education aid based on the per pupil funding it received for Fiscal Year 2011, adjusted by its share of a statewide per pupil adjustment amount that is indexed by the district's relative tax valuation per pupil. That statewide per pupil adjustment amount must be determined by the Department such that the State's total education aid obligation does not exceed the aggregate appropriated amount. A supplemental funding provision for Fiscal Years 2012 and 2013 guarantees to each district State operating funding in an amount at least equal to the amount of State operating funding (excluding any ARRA moneys) the district received for Fiscal Year 2011 under the prior Evidence Based Model. The Department is also required to pay the additional amount of $17 per student to each district that is rated as "Excellent with Distinction" or "Excellent" on the annual district and school academic performance report cards issued by the Department.

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

Municipalities

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

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

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

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

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