Ohio Office of Budget and Management

State of Ohio

Bob Taft

Governor

OHIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2000

STATE OF OHIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

TABLE OF CONTENTS

INTRODUCTORY SECTION

FINANCIAL SECTION

State of Ohio · Office of Budget and Management
30 East Broad Street · Columbus, Ohio 43266-0411

November 17, 2000

To the Governor, the Honorable Members of the General Assembly, and the Citizens of Ohio:

It is my privilege to issue the *Ohio Comprehensive Annual Financial Report* (CAFR) on the financial condition of the State of Ohio for the fiscal year ended June 30, 2000. The report is prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

This report was prepared by the Ohio Office of Budget and Management pursuant to Section 126.21, Ohio Revised Code, which requires that an official financial report of the State be issued annually. The report includes General-Purpose Financial Statements, which provide an overview of the State's financial position and the results of financial operations by fund type.

The Office of Budget and Management is responsible for the accuracy of the data presented and the completeness and fairness of its presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the State of Ohio. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities have been included.

The State's General-Purpose Financial Statements include all funds and account groups that comprise the State's legal entity or primary government. The State's reporting entity is also comprised of its component units for which the elected officials of the State's primary government are financially accountable. We followed the criteria of GASB Statement No. 14, *The Financial Reporting Entity,* to determine the organizations for which the State is financially accountable. NOTE 1A. to the financial statements explains more fully which financial activities are included in the State's reporting entity.

The CAFR includes the following: introductory section; financial section that presents the General-Purpose Financial Statements, combining financial statements, supporting schedules, and fund descriptions; and a statistical section that presents financial, economic, and demographic data for Ohio.

FINANCIAL PRESENTATION

The data in the financial statements are presented in accordance with a fund classification system prescribed by the GASB. The purpose of this system is to improve the comparability of the financial reports of different governmental units. Funds reported for the State's primary government and its component units are classified into four categories: governmental, proprietary, fiduciary, and college and university. Each category reported for the primary government is divided into the following "fund types."

Governmental fund types are those through which State functions are financed. Governmental fund types include the General, special revenue, debt service, and capital projects funds.

Proprietary fund types account for activities that are commercial in nature — similar to those often found in the private sector. Proprietary fund types include the enterprise and internal service funds.

Fiduciary fund types include trust funds, which account for assets held by the primary government in a trustee capacity, and agency funds, which account for assets held by the primary government as an agent for individuals, private organizations, other governments, and/or other funds.

The reporting format for our CAFR is significantly different from the way the State more typically presents its finances on a non-GAAP budgetary basis. The most obvious difference is that the "General Fund" in the CAFR includes more than just the State's General Revenue Fund. The General Fund also includes other funds such as the reimbursement-supported funds used for activities administered by State agencies and departments for which special revenue or proprietary fund classifications were considered to be inappropriate. Furthermore, the majority of budgetary expenditures reported in the General Revenue Fund for the support of higher education have been reclassified on a GAAP basis to "operating transfers to component units," as required by the reporting requirements of GASB Statement No. 14.

INDEPENDENT AUDIT RESULTS

The General-Purpose Financial Statements have been audited by the Office of the Auditor of State, Jim Petro. The outcome of the audit conducted by the Auditor of State, in accordance with generally accepted auditing standards, was an unqualified auditors' report. This opinion indicates there was no limitation on the scope of the auditors' examination and the financial statements were presented fairly, in all material respects, in conformity with GAAP.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The State's management is responsible for establishing and maintaining internal control designed to ensure that the State's assets are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

In fiscal year 1992, an executive order initiated the Internal Accounting Control Program (IACP). The IACP establishes written guidelines for state agencies to follow during periodic management reviews of their accounting operations. Under the program, agencies are required to formally establish, maintain, and annually evaluate and report on internal accounting control.

The State's Central Accounting System (CAS) achieves budgetary control over the various accounts of the State's funds. Ohio's bicameral legislature, the General Assembly, authorizes expenditures by appropriating funds in biennial and supplemental appropriation acts. The Office of Budget and Management uses CAS to control departmental obligation and expenditure activity to ensure authorized appropriations are not exceeded.

The State's non-GAAP budgetary financial statements are prepared on a modified cash basis of accounting. This means that revenues are recognized when cash is received and expenditures are recognized when cash is paid. Encumbrances, reservations of appropriation authority as of June 30, the end of the State fiscal year, are reflected as expenditures on the budgetary basis of accounting.

The State's GAAP financial statements for the governmental, expendable trust, and agency funds have been prepared on a modified accrual basis of accounting. This means that revenues are recognized when measurable and available; expenditures are recognized when goods or services are received or liabilities are incurred. The proprietary, pension trust, and investment trust funds are accounted for on the accrual basis of accounting. This means that revenues are recognized when earned and expenses are recognized when incurred. Additional discussion of the budgetary and GAAP bases of accounting is provided in NOTE 1 to the financial statements.

The CAS maintains all non-GAAP budgetary basis transactions and most GAAP basis adjustments. In addition to the information obtained from the CAS for financial reporting, selected financial information provided by the State's agencies and departments is compiled to complete the GAAP basis financial statements.

Differences between the two bases of accounting (GAAP vs. non-GAAP budgetary) include: 1) entity differences — the GAAP reporting entity may include organizations such as financing authorities and other component units that are not included in the State's budget; 2) basis differences — the GAAP basis results in the reporting of accruals while the non-GAAP budgetary basis results in the reporting of cash transactions; and 3) timing differences — for example, GAAP recognizes expenditures for payables for goods and services received, whereas the non-GAAP budgetary basis considers unliquidated encumbrances as expenditures. A reconciliation between the GAAP basis and non-GAAP budgetary basis fund balances is presented in NOTE 3 to the financial statements.

CASH MANAGEMENT

In Ohio, with the exception of certain organizations within the State's reporting entity that have independent powers to manage and invest their funds, the Treasurer of State is responsible for investing the State's cash and investments pool. During fiscal year 2000, cash management and investment transactions made by the Treasurer of State's Office, in accordance with the Uniform Depository Act, were limited to checking accounts and certificates of deposit with qualified public depositories, U.S. government and agency obligations, commercial paper, repurchase agreements, bankers' acceptances, bonds of foreign nations diplomatically recognized by the United States, and security lending agreements. Legal requirements for the investment of funds maintained in the State's cash and investments pool are discussed in NOTE 4 to the financial statements.

Quarterly, the Office of Budget and Management allocates the investment income earned on the cash and investments pool to the various funds designated by law to receive the earnings. The allocation is calculated in accordance with a formula based on average daily cash balances invested over the quarter. The Ohio Lottery Commission's investment portfolio, which is dedicated to the payment of deferred lottery prizes and is accounted for as part of the cash and investments pool, however, is not part of the investment earnings allocation just described. Instead, the Treasurer of State credits the investment earnings from the dedicated portfolio directly to the credit of the fund that accounts for this activity.

GENERAL GOVERNMENTAL FUNCTIONS

The following schedule presents a summary of revenues, recorded on the modified accrual basis, for the governmental fund types (General, special revenue, debt service, and capital projects funds) for the fiscal year ended June 30, 2000, and the amount and percentage increases and decreases in relation to prior-year's revenues after restatement (dollars in thousands).

Revenues	*FY 2000 Amount*	*Percent of Total*	*Increase/ (Decrease) from FY 1999*	*Percentage Increase/(Decrease) from FY 1999*
Income Taxes	$ 8,098,155	26.7%	$ 954,811	13.4%
Sales Taxes	6,233,089	20.5	398,790	6.8
Corporate and Public Utility Taxes	1,697,970	5.6	(119,671)	(6.6)
Motor Vehicle Fuel Taxes	1,459,374	4.8	13,695	.9
Other Taxes	913,086	3.0	(4,419)	(.5)
Licenses, Permits and Fees	1,156,380	3.8	18,803	1.7
Sales, Services and Charges	86,998	.3	5,267	6.4
Federal Government	9,321,234	30.7	537,047	6.1
Tobacco Settlement	412,270	1.4	412,270	N/A
Investment Income	495,063	1.6	(59,852)	(10.8)
Other	482,269	1.6	(25)	0.0
Total	$30,355,888	100.0%	$2,156,716	7.6

Significant increases and decreases reported for the State's *major* revenue sources are explained as follows:

- The $954.8 million or 13.4 percent increase in income taxes is mainly attributable to a stronger economy and the realization of capital gains resulting from a strong stock market performance.
- Sales tax revenues rose $398.8 million or 6.8 percent because of increases in consumer spending and growth in Ohio's retail sales.
- The $119.7 million or 6.6 percent decrease in corporate and public utility tax revenue may be attributed to the restructuring of the corporate franchise tax, the expansion of this tax's investment credit, and weaker-than-expected corporate profits.
- An increase of $537 million or 6.1 percent in federal government revenue is primarily due to increases in federal reimbursements for the Medicaid and Temporary Assistance for Needy Families programs.
- Tobacco settlement revenue increased $412.3 million because fiscal year 2000 was the first year that Ohio received moneys under the Master Settlement Agreement, as explained further in NOTE 24.

Expenditures for governmental fund types, presented on the modified accrual basis, for the fiscal year ended June 30, 2000, and the amount and percentage increases and decreases in relation to prior-year's expenditures after restatement are shown as follows for the functions of general government (dollars in thousands).

Expenditures	FY 2000 Amount	Percent of Total	Increase/ (Decrease) from FY 1999	Percentage Increase/(Decrease) from FY 1999
Current:				
Primary, Secondary and Other Education	$ 6,636,569	22.2%	$ 232,591	3.6%
*Higher Education Support**	411,853	1.4	33,985	9.0
Public Assistance and Medicaid	9,488,379	31.7	926,727	10.8
Health and Human Services	2,613,853	8.7	65,493	2.6
Justice and Public Protection	2,167,402	7.2	131,663	6.5
Environmental Protection and Natural Resources	354,180	1.2	24,111	7.3
Transportation	1,680,736	5.6	183,183	12.2
General Government	575,576	1.9	(85,435)	(12.9)
Community and Economic Development	452,516	1.5	53,611	13.4
Intergovernmental	3,026,320	10.1	128,226	4.4
Capital Outlay	1,491,621	5.0	226,836	17.9
Debt Service	1,053,995	3.5	29,870	2.9
Total	$29,953,000	100.0%	$1,950,861	7.0

*During fiscal year 2000, the State also provided $1.67 billion in support of higher education institutions through operating transfers to the component units. This represents about a 7.1 percent increase in funding from fiscal year 1999 when the State transferred $1.56 billion for this purpose.

Significant increases and decreases for the State's *major* expenditure categories are explained as follows:

- Spending at the Department of Human Services greatly contributed to the $926.7 million or 10.8 percent increase in public assistance and Medicaid expenditures.
- Justice and public protection expenditures grew by $131.7 million or 6.5 percent. The majority of the rise is due to increased spending at the Department of Rehabilitation and Correction and the Department of Youth Services.
- An increase in highway construction spending at the Department of Transportation primarily accounts for the $183.2 million or 12.2 percent rise in transportation expenditures.
- The $85.4 million or 12.9 percent decline in general government expenditures resulted from a decrease in the payment of borrower rebates arising from the State's cash and investment pool's participation in securities lending activities during fiscal year 2000.
- The $53.6 million or 13.4 percent increase in community and economic development expenditures can be attributed to increased spending at the Department of Development for the Home Energy Assistance Program, Community Development Block Grant Program, and the Y2K Compliance Program.
- The majority of the $226.8 million or 17.9 percent increase in capital outlay expenditures occurred at the School Facilities Commission, which provides assistance to local school districts for the construction of school buildings.

An additional analysis of revenues and expenditures for all governmental funds reported for fiscal year 2000 is shown in the graphic presentation that follows this letter.

GENERAL FUND

Many State programs are accounted for in the General Fund, which reported the following (dollars in thousands):

	Balance as of June 30, 2000	Increase from FY 1999	Percentage Increase from FY 1999
Unreserved/Undesignated Fund Balance	$ 324,312	$ 1,539	.5%
Total Fund Balance	2,722,285	82,213	3.1
Total Revenues	20,242,240	1,344,556	7.1
Total Expenditures	17,331,076	1,134,115	7.0

The 3.1 percent increase in the General Fund's total fund balance primarily resulted from lower-than-budgeted spending and higher-than-expected revenue.

As of June 30, 2000, the State's primary government designated $659.6 million for the purposes described in NOTE 19, and reserved $1.74 billion in fund balance for a total designated and reserved fund balance of approximately $2.40 billion for the General Fund. This is compared to a total designated and reserved fund balance of approximately $2.32 billion, as of June 30, 1999. Total fund balance reserves for the General Fund increased by $176.3 million or 11.3 percent since June 30, 1999. Most of the increase resulted from a $117.9 million increase in the reserve for encumbrances and a $46.4 million increase in the budget stabilization reserve.

PROPRIETARY AND FIDUCIARY FUNDS

The State's enterprise funds reported retained earnings of $6.71 billion, as of June 30, 2000, as compared to $5.58 billion in retained earnings (as restated), as of June 30, 1999. These results were caused primarily by the Workers' Compensation Enterprise Fund, which reported a retained earnings balance of $6.45 billion, as of June 30, 2000, as compared to a $5.24 billion retained earnings balance, as of June 30, 1999, a 23.1 percent increase. Operating revenues for the enterprise funds increased to $7.15 billion in fiscal year 2000 from $6.42 billion (as restated) in fiscal year 1999; operating expenses increased to $5.25 billion in fiscal year 2000 from $4.55 billion in fiscal year 1999. The increase in operating revenues primarily resulted from increases in premium and assessments revenue for the Bureau of Workers' Compensation Enterprise Fund and from charges for sales and services revenue generated for the other enterprise segments. The increase in operating expenses is mostly attributable to an increase in payments for premium dividend credits and rebates and benefits and claims from the Workers' Compensation Enterprise Fund.

The State's internal service funds reported retained earnings of approximately $77.3 million, as of June 30, 2000, as compared to $100.6 million (as restated), as of June 30, 1999, a 23.1 percent decrease. Fiscal year 2000 operating revenues totaling $286.3 million had increased by $14.5 million, or 5.3 percent, since fiscal year 1999. Fiscal year operating expenses totaling $314.7 million, however, had increased by $28.4 million, or 9.9 percent, since fiscal year 1999 (after restatement).

The fund balance of the expendable trust funds grew approximately 6.9 percent to $2.82 billion, as of June 30, 2000, from $2.64 billion, as of June 30, 1999. Revenues for the expendable trust funds rose to $950.3 million in fiscal year 2000 from $888.9 million in fiscal year 1999; expenditures increased to $768.8 million in fiscal year 2000 from $745.7 million in fiscal year 1999.

Net assets of the pension trust fund were approximately $634.8 million, as of June 30, 2000, as compared to $600.1 million, as of June 30, 1999, a 5.8 percent increase. Total additions to plan net assets for the pension trust fund increased to $64 million in fiscal year 2000 from $37 million in fiscal year 1999, a 72.9 percent increase, while total deductions to plan net assets increased to $31.1 million in fiscal year 2000 from $25.6 million in fiscal year 1999, a 21.4 percent increase. The sharp increase in fiscal year 2000 additions is due to an overall increase in investment income, and the increase in deductions is due to an increase in pension benefit and healthcare claims paid.

The State Treasury Asset Reserve of Ohio (STAROhio) Investment Trust Fund reported net investment income of $305.8 million in fiscal year 2000, as compared to $277.5 million in fiscal year 1999, and net assets held in trust for pool participants was $5.25 billion, as of June 30, 2000, as compared to $5.34 billion, as June 30, 1999, a 1.7 percent decrease. STAROhio is a State-sponsored external investment pool, which the Treasurer of State administers for local government participants.

DEBT ADMINISTRATION

Ohio's credit ratings for general obligation debt are Aa1 by Moody's Investors Service, Inc. (Moody's) and AA+ by Fitch Inc., Standard & Poor's Ratings Services (S&P) rates the State's general obligation debt AA+, except for Highway Capital Improvement Obligations, which S&P rates AAA.

Moody's rates the obligations supported by the General Revenue Fund that are issued by the Ohio Building Authority and the Ohio Public Facilities Commission as Aa2. S&P and Fitch generally rate unenhanced debt of the two state financing authorities as AA, an upgrade from the previous AA- rating. As of June 30, 2000, the State's primary government reported a total of $8.66 billion in outstanding liabilities in its General Long-Term Obligations Account Group as follows (dollars in thousands):

Type of Obligation	*Outstanding Balance*	*Percentage Increase/(Decrease) Since June 30, 1999*
General Obligation Bonds	$2,461,673	25.4%
Revenue Bonds and Notes	232,785	3.6
Special Obligation Bonds	4,973,657	(1.8)
Certificates of Participation	14,590	(13.0)
Other General Long-Term Obligations	978,159	(3.4)
Total	$8,660,864	4.6

For the proprietary funds, Ohio's primary government also reported $214 million (net of unamortized discounts of approximately $2.5 million) in revenue bonds, as of June 30, 2000.

RETIREMENT SYSTEMS

Employees of the primary government or its component units may be eligible to participate in the Public Employees Retirement System, the State Teachers Retirement System, the State Highway Patrol Retirement System, or the Alternative Retirement Plan. Further information on the State's participation in the different retirement systems can be found in NOTE 9 to the financial statements.

RISK MANAGEMENT

As discussed in NOTE 1.O. to the financial statements, the State's primary government retains risk for claims arising from the State's traditional health care plan (OhioMed Health Plan), vehicle liability, public fidelity blanket bonds, property losses, and tort liability. Also, the State's primary government participates in a public entity risk pool, which is accounted for in the Bureau of Workers' Compensation Enterprise Fund, for the financing of its workers' compensation liability.

ECONOMIC OVERVIEW AND OUTLOOK

The U.S. economy is slowing down after four consecutive years of solid growth. The year 2000 will be the fourth consecutive year in which economic expansion has exceeded 4.0 percent, the best performance since the 1960s. Real Gross Domestic Product (GDP), the total value of goods and services produced in the U.S. and adjusted for inflation, grew at a stronger than expected annual rate of 5.6 percent in the second quarter of this year, following a growth rate of 4.8 percent in the first quarter.

For the year 2000, real GDP growth is estimated at 5.2 percent, the highest growth rate since 1984. However, recent reports on the health of the U.S. economy suggest that business activity is cooling. Real growth in the U.S. economy is predicted to cool to a more moderate pace of 3.5 percent in 2001 and 3.4 percent in 2002. By the standards of the 1980s, such a growth rate would be characterized as a boom. But with the higher potential growth now estimated, it qualifies as a soft-landing.

The Federal Reserve Bank (Fed) is succeeding in its attempt to slow down the economy with help from higher oil prices. The Fed boosted interest rates six times from mid 1999 to May of this year, aiming to curb economic growth and keep inflation in check. The impact of higher interest rates and costlier credit is still working its way through the economy. Will the Fed be satisfied with the slowdown it has generated, or does it believe that the brakes need to be applied harder? Chairman Alan Greenspan's recent comments certainly suggest that the U.S. economy can grow more quickly without igniting a sharp increase in inflation, which would imply that less braking is required.

All in all, the strong sectors of the economy continue to outweigh the weak ones, with higher productivity growth balancing out the higher employment costs. As a result, the overall economic picture remains on a positive growth track with no recession predicted for the near term. The future of the U.S. economy is becoming more dependent on events overseas, as well as the behavior of the U.S. consumer. The most likely scenario at the present time is that the U.S. economy will gradually slow to a more moderate path, with real GDP advancing at an annual growth rate of 3.0 percent to 3.5 percent over the next two years.

Ohio's revenue picture remains in line with the current budget forecast of moderate economic growth and low inflation. The General Revenue Fund (GRF), the state's major budgetary operating fund reported within the General Fund, remained strong, ending the fiscal year 2000 with a budgetary fund balance of $855.8 million. The strong financial performance of the GRF in FY 2000 allowed for a 6.9 percent temporary tax cut in the personal income tax rate for calendar year 2000. In addition, Ohio's Budget Stabilization Fund or "Rainy Day Fund," another budgetary fund reported as part of the General Fund, remained intact with a current fund balance of approximately $1 billion.

MAJOR INITIATIVES AND PROJECTS

Primary and Secondary Education - Ohio Supreme Court Case Update

On May 11, 2000 the Ohio Supreme Court ruled in a 4-3 decision that the State's response to the 1997 DeRolph case had not met the "thorough and efficient" standard set in the Ohio Constitution. The Supreme Court cited seven specific areas to be addressed by the State: 1) continued reliance on local property as a primary means to fund Ohio's schools has not been specifically addressed, 2) the cost of an adequate education formula has structural deficiencies and may not reflect the actual amount per pupil that is required to provide an adequate education, 3) continuing attention must be given to the mechanism which funds the construction of new and the repair of old school buildings - requiring school districts to pass levies as a prerequisite for obtaining State funding should be reviewed, 4) School Solvency Assistance Fund must be reevaluated so that funds are available and used only in the case of extreme emergency, 5) unfunded mandates required by House Bill 412 and Senate Bill 55 must be addressed and immediately funded, 6) phantom revenue (when the growing property wealth gives the illusion of an increasing revenue stream that is not realized) has not been eliminated, and 7) strict, statewide academic guidelines must be developed and rigorously followed throughout all of Ohio's public school districts.

The school funding debate has been primarily focused in Columbus at the Statehouse by the opinions of state officials and special interest groups. Through the use of "field trips", Governor Taft took the debate outside of Columbus to hear what Ohioans in the rest of the State think about education and school funding. The field trips are unique opportunities to listen and learn from citizens about the issue of school funding. The field trip meetings, which are moderated public events, are available live through web cast technology.

At the same time the field trips are taking place, the General Assembly has convened two legislative committees made up of both House and Senate members. The Joint Committee to Re-Examine the Cost of an Adequate Education and The Joint Select Committee on School Funding and Accountability have been meeting throughout the year to continue to solve the issues surrounding education funding. The Supreme Court will retain jurisdiction of the case and continue it until June 15, 2001 when the State will need to prove they have sufficiently addressed the issues listed above.

The State's Capital Budget

In June 2000, the Governor signed House Bill 640, the State's Capital Budget Bill for the 2001-2002 biennium. The $1.8 billion bill provides more than $1.1 billion for school construction for primary, secondary, and higher education facilities. In addition to funding education initiatives, the capital budget also includes over $115 million to address the construction and maintenance needs of state facilities which house Ohio's adult and juvenile offenders. Over $103 million was allocated to support and maintain Ohio's extensive system of community parks and natural resources. In addition, the capital bill implements a section of the Ohio Constitution that was approved by the electors of the state in November 1999. The provision grants the Ohio Public Facilities Commission the authority to issue general obligation bonds for primary, secondary and higher education facility projects, thus providing debt cost savings to the State.

Rebuilding Ohio's Schools – A 12 Year Plan

Senate Bill 272 complements the State's capital budget by addressing the facility needs of schools throughout Ohio and allowing the State to use these funds in ways that help schools most effectively. The legislation provides funding for the Accelerated Urban Program and Joint Vocational School Facilities. The Accelerated Urban Program allows Ohio's six remaining "Big 8" urban districts to receive accelerated funding for their building needs. The legislation also requires the Ohio School Facilities Commission to present a funding recommendation for the facility needs of Ohio's 49 joint vocational school districts. Other provisions include: the Exceptional Needs Program, which provides a permanent funding program for districts ranked below the 50^{th} percentile in terms of wealth and that demonstrate severe facility needs; the Facilities Assessment Program, which provides a mechanism for every school district in Ohio to seek an assessment of their current facilities; and the Emergency Assistance Program, which allows the School Facilities Commission to provide assistance to districts that suffer unexpected damage from a natural disaster.

These initiatives are an integral part of the Governor's "Rebuilding Ohio's Schools" plan. The plan, which will provide $10.2 billion in State funding along with $12.9 billion in local matching funds, will have fully funded the State's share of every school building need across the State by 2012. The Education Facilities Trust Fund, as discussed in the "Ohio's Tobacco Settlement" section, will keep school districts' facilities maintained in good condition. The State's $10.2 billion share of funding during the 12-year plan will be comprised of $5.9 billion from the State's capital budgets, $2.5 billion from the State's settlement with tobacco companies, and $1.8 billion from operating appropriations and interest earnings.

Governor's Commission for Student Success

As part of his education initiatives, Governor Taft established The Commission for Student Success that is made up of 33 members – committed educators, parents, teachers, business and community leaders and public officials. The Commission is charged with the following tasks as part of its mission: 1) recommend the kind of rigorous academic expectations and assessments that will ensure the success of students in school, in the workplace and in life; 2) propose actions to guarantee that students, teachers, parents and the public understand what schoolchildren are expected to know and be able to do; 3) examine what is working in Ohio and elsewhere, including practical consequences for students and educators based on demonstrated performance; and 4) make sure the various parts fit together as aligned components of an effective education system that helps students achieve high academic standards.

It is anticipated that the Commission will report on its conclusions and make recommendation to the Governor, the General Assembly, and the State Board of Education by December 30, 2000.

Strong Economy and Income Tax Relief

A one-time income tax rate reduction of approximately 6.9 percent in fiscal year 2001 for the 2000 tax year will be made possible by a strong economy that produced total budgetary revenues and other financing sources of $20.1 billion for the General Revenue Fund in fiscal year 2000, approximately $500.3 million more than estimated. This combined with spending restraint that resulted in disbursements and other financing uses of $20.1 billion in fiscal year 2000 for the General Revenue Fund, which was $321.6 million less than estimated, bolstered the State's financial position, and allowed the State to designate $610.4 million of the General Revenue Fund's June 30, 2000 fund balance for income tax reduction.

Reforms in Income and Estate Taxes

In June 2000, Governor Taft signed two bills, which promise to ease the burden taxes place on Ohio's citizens. House Bill 612 focuses on making the tax system more efficient and more taxpayer friendly. The bill simplifies the tax system and gives taxpayers more time to appeal tax rulings. It also allows more choice in the payment and delivery of taxes, by authorizing the Ohio Department of Taxation to approve alternative commercial delivery services like UPS and FedEx. The bill creates opportunities for taxes to be filed and paid over the Internet by authorizing the acceptance of electronic signatures.

The second bill, Senate Bill 108, increases the tax-exempt level of estate value from the current level of $25,000 or less to $338,000 or less in 2003. The bill also creates a deduction designed to preserve family-owned farms and businesses. Families that qualify can choose to deduct up to $675,000 from the taxable value of the estate. These changes will eliminate the burden of filing and paying estate tax for 78 percent of Ohioans who would otherwise have to pay, thus saving Ohio taxpayers nearly $200 million over the next two years. The impact of the estate tax cuts on local governments will be mitigated by increasing local government's share of estate tax revenues from the current 64 percent to 80 percent by 2002. In fiscal year 1999, 27,676 estates paid tax totaling $408.5 million.

New State Agency Oversees Human Services and Employment Assistance Programs

July 1, 2000 marked the official creation of the Department of Job and Family Services (JFS). The new agency was created from the merger of the Ohio Bureau of Employment Services and the Ohio Department of Human Services. JFS will combine the job-matching computer systems operated by the two former agencies to eliminate duplication of effort and create a more efficient workforce development system. JFS will also implement the federal Workforce Investment Act. The Act, which took effect July 1, authorizes a new workforce system to replace the Job Training Partnership Act and other provisions of federally funded job training programs. JFS employs 3,700 people and has an annual budget of $10.4 billion. Among the programs it manages are employment and economic assistance, health care, child support, adoption, foster care, and protective services.

Improved Technology to Interact with State Government
Ohio is striving to become a leader in the use of technology to benefit its citizens. To this end, the State has undertaken the following initiatives to enable citizens to interact more easily and efficiently with the State of Ohio.

In March 2000, the Governor established, by Executive Order, the Governor's Council on Electronic Commerce. The Council provides leadership for the implementation of electronic commerce throughout state government. The council is responsible for: 1) developing a strategic plan for electronic delivery of state services by March 2001; 2) assisting state agencies in posting their most frequently requested forms on-line, become accessible to customers by e-mail by December 31, 2000, and have key services available on-line by December 31, 2002; 3) reinventing the State's home page to allow customers to search by services offered, rather than by state agency; and 4) fostering a "One Stop, E-Shop" philosophy to allow customers to do business with the State through a single on-line form.

The Ohio General Assembly passed legislation to enable citizens to conduct commerce via the Internet. Senate Bill 242 allows Ohioans to renew vehicle registrations over the telephone or the Internet and to pay for the registration fees by credit card or debit card. House Bill 611 gives the Bureau of Workers' Compensation the authority to allow clients to file claims and employers to pay their premiums through the Internet, while House Bill 488 gives electronic contracts, signatures, and records the same legal standing as those created and signed on paper.

Ohio's Tobacco Settlement
In March 2000, the Governor signed into law Senate Bill 192, Ohio's plan for using revenue from the Tobacco Master Settlement Agreement. The legislation, which contains a comprehensive plan for the use of tobacco revenue through fiscal year 2012, is in response to the recommendations of the Governor's Tobacco Task Force. For fiscal years 2012 through 2025, the bill contains a plan for using part of the revenue.

During fiscal year 2000, the first year when base payments were made to the states under the settlement, Ohio received $412.3 million - 7.1 percent less than the pre-adjusted base payment projected for the year. From fiscal years 2001 through 2025, Ohio's share of the payments from the master settlement agreement is projected at approximately $9.7 billion. If the actual revenues received are less than what has been estimated, funding for all funds except the Education Facilities Trust Fund (see below) will be reduced accordingly. If the actual revenues received are greater than what has been estimated, the excess amount will be deposited to the State's Income Tax Reduction Fund. The bill provides for the creation of the following funds and their funding plans:

- The Education Facilities Trust Fund, administered by the School Facilities Commission, will receive an estimated $2.42 billion through fiscal year 2012. The money will be used for the construction, renovation, and repair of Ohio's primary and secondary schools.
- The Education Facilities Endowment Fund will receive an estimated $2.1 billion through fiscal year 2025. The money will be maintained as a permanent source of revenue for constructing, renovating, and repairing Ohio's primary and secondary schools. All investment earnings from this fund are to be transferred quarterly to the Education Facilities Trust Fund.
- The Education Technology Trust Fund will receive an estimated $225 million through fiscal year 2012. The funds are to be used to provide new and innovative technology for primary and secondary education, including chartered nonpublic schools, and for state and private nonprofit institutions of higher education.
- The Tobacco Use Prevention and Cessation Trust Fund will receive approximately $1.3 billion through fiscal year 2012. The Tobacco Use Prevention and Control Foundation, which administers the fund, will prepare and update annually a five-year plan to reduce tobacco use.
- The Law Enforcement Improvements Trust Fund will receive an estimated $25 million through fiscal year 2001. The Ohio Attorney General's Office will use these funds to maintain, upgrade, and modernize its law enforcement training and laboratory facilities.
- The Southern Ohio Agricultural and Community Development Trust Fund will receive an estimated $236 million through fiscal year 2011. The foundation that will administer this fund will sponsor programs that will replace the production of tobacco in southern Ohio with the production of other agricultural products, and mitigate the adverse economic impact of reduced tobacco production in the region.

- Ohio's Public Health Priorities Trust Fund will receive an estimated $261 million through fiscal year 2012 for minority health programs, alcohol and drug abuse prevention programs, enforcement of Ohio's underage tobacco use laws, and emergency medical assistance to senior citizens whose health has been adversely affected by tobacco use. This funding will also partially reimburse hospitals, free medical clinics, and counties that pay similar entities that provide free health care to the general public.
- The Biomedical Research and Technology Transfer Trust Fund within the Ohio Board of Regents will receive an estimated $510 million through fiscal year 2012. The funds will be used to make a strategic assessment of the types of investments in biomedical research and biotechnology that would improve the health of Ohioans and create jobs and business opportunities, and develop and implement grant-making policies and processes.

Debt Issuance for Brownfields and Greenspace

On November 7, 2000, Ohio voters approved a constitutional amendment that authorizes the State to issue $200 million in general obligation bonds over the course of 25 years. The bonds will finance the purchase of additional "greenspace" land or interest in land devoted to natural areas, open spaces and agriculture. The amendment also approves the issuance of an additional $200 million in revenue bonds to finance the cleanup of public or privately owned "brownfields" defined as properties that are environmentally contaminated. The amendment became a statewide ballot issue through passage of House Joint Resolution 15 by the General Assembly in May 2000. The passage of implementing legislation is necessary and is anticipated to be undertaken by the next General Assembly during fiscal year 2001.

AWARDS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Ohio for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1999. This was the tenth consecutive year that the State has achieved this prestigious award.

To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Award for Distinguished Budget Presentation

The GFOA presented an Award for Distinguished Budget Presentation to the State of Ohio for its fiscal years 2000-01 budget document. This is the second time the State has received the award. To receive this award, a government must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communication device. The award is valid for a period of one year only.

ADDITIONAL INFORMATION

The Ohio Office of Budget and Management provides access to the fiscal year 2000 *Ohio Comprehensive Annual Financial Report*, fiscal year 2000 *Ohio Budgetary Financial Report*, and other State-related financial data and information at its home page on the Internet at http://www.state.oh.us/obm/.

ACKNOWLEDGMENTS

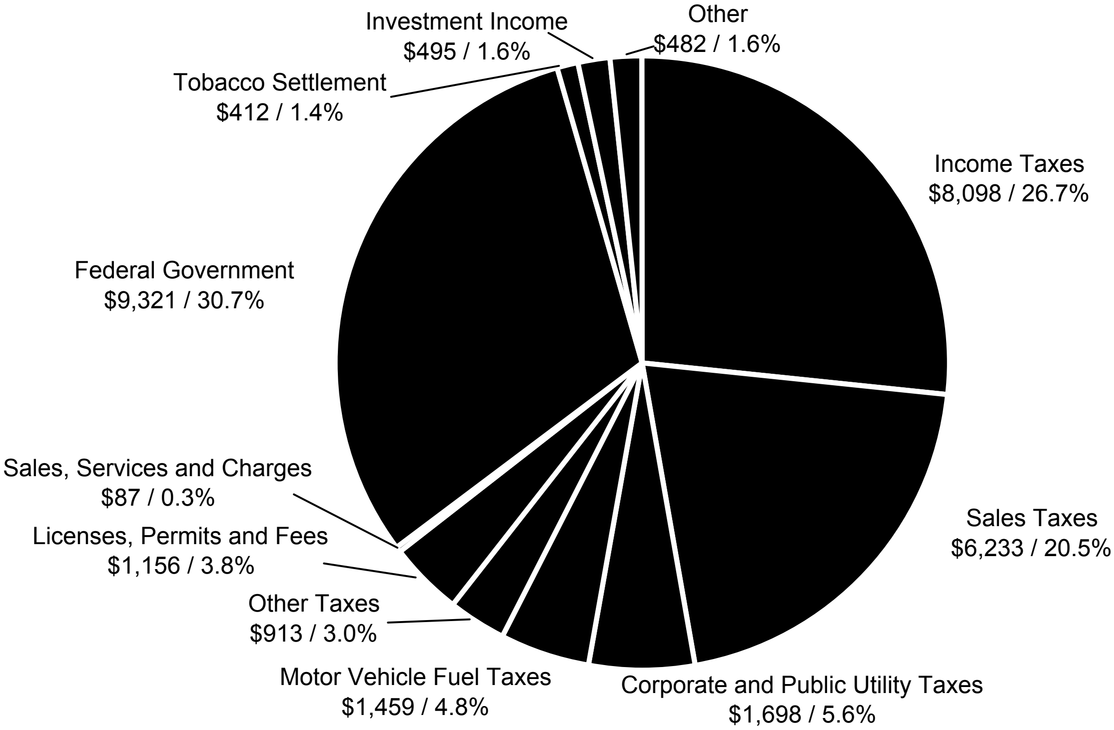
In conclusion, I wish to express my appreciation to the staffs of the various State agencies whose time and dedicated efforts made this report possible.

Sincerely,

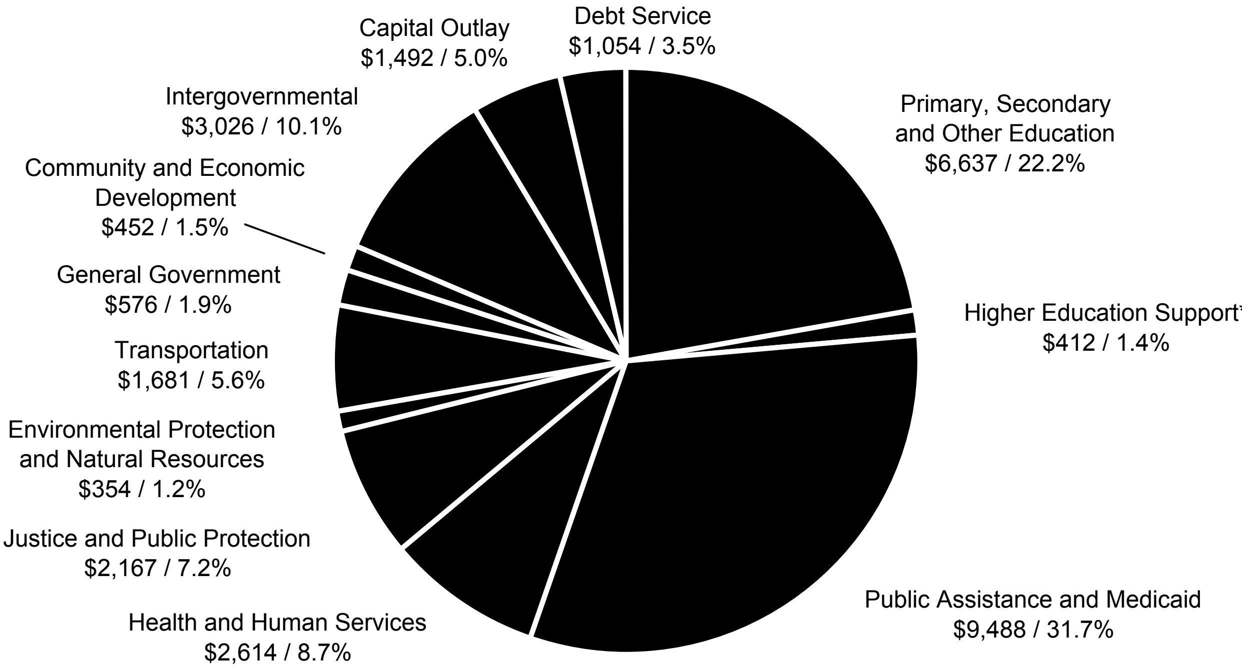
Thomas W. Johnson

Thomas W. Johnson, Director

GAAP Basis Revenues for All General Governmental Fund Types
Fiscal Year 2000
(dollars in millions)



GAAP Basis Expenditures for All General Governmental Fund Types
Fiscal Year 2000
(dollars in millions)



* In the governmental funds, budgetary expenditures for Higher Education Support totaling $1.67 billion are reported on a GAAP basis as "Operating Transfers to Component Units," as shown on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances, pages 24 and 25.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Ohio

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1999

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

STATE OF OHIO OFFICIALS

EXECUTIVE

Bob Taft
Governor

Maureen O'Connor
Lieutenant Governor

Betty D. Montgomery
Attorney General

Jim Petro
Auditor of State

Joseph T. Deters
Treasurer of State

J. Kenneth Blackwell
Secretary of State

LEGISLATIVE

Richard H. Finan
President of the Senate

Jo Ann Davidson
Speaker of the House

JUDICIAL

Thomas J. Moyer
Chief Justice
Supreme Court

STATE OF OHIO ORGANIZATION CHART