Ohio Office of Budget and Management

State of Ohio

Robert H. Taft

Governor

OHIO

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2001

STATE OF OHIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

November 16, 2001

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, 2001. The report is prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

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, prepared this report. 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 2001, 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

Revenues	*FY 2001 Amount*	*Percent of Total*	*Increase/ (Decrease) from FY 2000*	*Percentage Increase/(Decrease) from FY 2000*
Income Taxes	$ 8,302,892	26.2%	$ 204,737	2.5%
Sales Taxes	6,248,705	19.7	15,616	0.3
Corporate and Public Utility Taxes	1,726,263	5.5	28,293	1.7
Motor Vehicle Fuel Taxes	1,457,454	4.6	(1,920)	(0.1)
Other Taxes	930,338	2.9	17,252	1.9
Licenses, Permits and Fees	1,219,605	3.8	63,226	5.5
Sales, Services and Charges	83,891	0.3	(3,090)	(3.6)
Federal Government	10,433,668	32.9	1,112,434	11.9
Tobacco Settlement	315,812	1.0	(96,458)	(23.4)
Investment Income	486,817	1.5	43,251	9.8
Other	514,544	1.6	32,688	6.8
Total	$31,719,989	100.0%	$1,416,029	4.7

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 table above 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, 2001, and the amount and percentage increases and decreases in relation to prior-year's revenues after restatement for a fund reclassification (dollars in thousands).

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

- Licenses, permits and fees increased by $63.2 million or 5.5 percent primarily because of fees collected for the Universal Service Program, which began in fiscal year 2001 to provide assistance to low-income electric utility customers.

- An increase of $1.11 billion or 11.9 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 decreased $96.5 million or 23.4 percent. This revenue is received under terms of the Master Settlement Agreement, as explained further in NOTE 22E.

- Investment income increased $43.3 million or 9.8 percent. Most of the increase is reported in the Highway Operating and the Tobacco Settlement special revenue funds.

- A significant share of the $32.7 million or 6.8 percent increase in other revenue is attributable to increased collections from local government units for their share of highway project costs and from miscellaneous collections at the Department of Natural Resources, the Environmental Protection Agency, and the Department of Job and Family Services.

Expenditures for governmental fund types, presented on the modified accrual basis, for the fiscal year ended June 30, 2001, and the amount and percentage increases and decreases in relation to prior-year's expenditures after restatement for a fund reclassification and certain expenditure reclassifications are shown in the table on the following page for the functions of general government (dollars in thousands).

Expenditures	FY 2001 Amount	Percent of Total	Increase/ (Decrease) from FY 2000	Percentage Increase/(Decrease) from FY 2000
Current:				
Primary, Secondary and Other Education ..	$ 7,194,883	22.9%	$ 560,702	8.5%
*Higher Education Support**	506,511	1.6	67,374	15.3
Public Assistance and Medicaid	10,894,942	34.7	1,406,563	14.8
Health and Human Services	2,555,221	8.1	(58,632)	(2.2)
Justice and Public Protection	2,232,421	7.1	65,019	3.0
Environmental Protection and Natural Resources	340,574	1.2	(13,606)	(3.8)
Transportation	1,756,201	5.6	75,465	4.5
General Government	468,791	1.5	(106,785)	(18.6)
Community and Economic Development	541,166	1.7	88,650	19.6
Intergovernmental	3,361,184	10.7	103,552	3.2
Capital Outlay	411,817	1.3	(217,936)	(34.6)
Debt Service	1,137,537	3.6	83,542	7.9
Total	$31,401,248	100.0%	$2,053,908	7.0

*During fiscal year 2001, the State also provided $1.99 billion in support of higher education institutions through operating transfers to the component units. This represents about a 4.1 percent increase in funding from fiscal year 2000 (as restated) when the State transferred $1.91 billion for this purpose.

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

- The $560.7 million or 8.5 percent increase in primary, secondary and other education expenditures primarily occurred at the Department of Education.

- Higher education support expenditures increased $67.4 million or 15.3 percent due to increased spending for local community colleges and technical colleges.

- Spending at the Department of Job and Family Services greatly contributed to the $1.41 billion or 14.8 percent increase in public assistance and Medicaid expenditures.

- The $106.8 million or 18.6 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 2001.

- Community and economic development expenditures grew by $88.7 million or 19.6 percent. The majority of the rise is due to increased spending in the special revenue fund at the Department of Development for both the Universal Service Program, which was newly established during fiscal year 2001, and the Home Energy Assistance Program and other community and economic development programs at the department accounted for in the General Fund.

- The majority of the $217.9 million or 34.6 percent decrease in capital outlay expenditures resulted from reductions in construction of adult correctional facilities, highway capital improvements, parks and natural resources projects, and state facilities.

- Debt service expenditures rose $83.5 million or 7.9 percent to meet increased principal repayment and interest requirements for general obligation bonds issued for local infrastructure improvements, highway capital improvements, and capital construction for higher education institutions and local school districts.

An additional analysis of revenues and expenditures for all governmental funds reported for fiscal year 2001 is shown in the graphic presentation that follows this letter.

GENERAL FUND

For fiscal year 2001, the General Fund reported the following balances and the amount and percentage increases and decreases in relation to prior-year's balances after restatement for a fund reclassification (dollars in thousands).

General Fund	Balance, as of and for the year ended June 30, 2001	Increase/ (Decrease) from FY 2000	Percentage Increase/(Decrease) from FY 2000
Unreserved/Undesignated Fund Balance	$ 167,919	$ (156,393)	(48.2)%
Total Fund Balance	1,880,898	(841,387)	(30.9)
Total Revenues	20,929,044	686,934	3.4
Total Expenditures	18,850,108	1,521,420	8.8

The 30.9 percent decrease in the General Fund's total fund balance primarily resulted from growth in expenditures and transfers-out that exceeded growth in revenues and transfers-in by $640.2 million and from the $201.2 million prior period adjustment to beginning fund balance, as further discussed in NOTE 2A.

As of June 30, 2001, the State's primary government designated $13.1 million for budget stabilization purposes, as detailed in NOTE 19, and reserved $1.7 billion in fund balance for a total designated and reserved fund balance of approximately $1.71 billion for the General Fund. This is compared to a total designated and reserved fund balance of approximately $2.40 billion, as of June 30, 2000. Total fund balance reserves for the General Fund decreased by $38.5 million or 2.2 percent since June 30, 2000. Unreserved/designated fund balance for the General Fund decreased $646.5 million or 98 percent since the end of the last fiscal year primarily because no amount was designated for the Income Tax Reduction Program, as of June 30, 2001. The unreserved/undesignated fund balance decreased by $156.4 million, which is 48.2 percent less than the unreserved/undesignated balance reported, as of June 30, 2000.

PROPRIETARY AND FIDUCIARY FUNDS

The State's enterprise funds reported retained earnings of $4.75 billion, as of June 30, 2001, as compared to $6.71 billion in retained earnings, as of June 30, 2000. These results were caused primarily by the Workers' Compensation Enterprise Fund, which reported a retained earnings balance of $4.52 billion, as of June 30, 2001, as compared to a $6.45 billion retained earnings balance, as of June 30, 2000, a 30 percent decrease. Operating revenues for the enterprise funds decreased to $5.22 billion in fiscal year 2001 from $7.15 billion in fiscal year 2000; operating expenses increased to $6.45 billion in fiscal year 2001 from $5.25 billion in fiscal year 2000. The decrease in operating revenues primarily resulted from decreases in premium and assess-ments revenue and investment income for the Workers' Compensation Enterprise Fund. 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 $75.7 million, as of June 30, 2001, as compared to $77.3 million, as of June 30, 2000, a 2.1 percent decrease. Fiscal year 2001 operating revenues totaling $303.3 million had increased by $17.0 million, or 6.0 percent, since fiscal year 2000. Fiscal year operating expenses totaling $307.5 million, however, had decreased by $7.1 million, or 2.3 percent, since fiscal year 2000.

The fund balance of the expendable trust funds grew approximately 8.3 percent to $3.06 billion, as of June 30, 2001, from $2.82 billion, as of June 30, 2000. This increase in fund balance was due largely to the introduction of the Variable College Savings Plan, which was first introduced during fiscal year 2001. Revenues for the expendable trust funds rose to $1.38 billion in fiscal year 2001 from $950.3 million in fiscal year 2000; expenditures increased to $1.11 billion in fiscal year 2001 from $768.8 million in fiscal year 2000.

Net assets of the pension trust fund were approximately $608.3 million, as of June 30, 2001, as compared to $634.8 million, as of June 30, 2000, a 4.2 percent decrease. Total additions to plan net assets for the pension trust fund decreased to $7.2 million in fiscal year 2001 from $64 million in fiscal year 2000, an 88.7 percent decrease, while total deductions to plan net assets increased to $33.7 million in fiscal year 2001 from $31.1 million in fiscal year 2000, an 8.4 percent increase. The sharp decrease in fiscal year 2001 additions is due to an overall decline in investment income; the increase in deductions is due to pension benefit and healthcare claims paid and transfers to other retirement systems.

The State Treasury Asset Reserve of Ohio (STAROhio) Investment Trust Fund reported net investment income of $371.9 million in fiscal year 2001, as compared to $305.8 million in fiscal year 2000, and net assets held in trust for pool participants was $8.40 billion, as of June 30, 2001, as compared to $5.25 billion, as June 30, 2000, a 59.9 percent increase. 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. (Fitch). Standard & Poor's Ratings Services (S&P) rates the State's general obligation debt AA+, except for Highway Capital Improvement Obligations, which are rated AAA.

State obligations (issued by the Ohio Building Authority and the Treasurer of State) secured by General Revenue Fund appropriations are rated Aa2 by Moody's and AA by S&P and Fitch. As of June 30, 2001, the State's primary government reported a total of $8.99 billion in outstanding liabilities in its General Long-Term Obligations Account Group as detailed in the table on the following page (dollars in thousands):

Type of Obligation	Outstanding Balance, As of June 30, 2001	Percentage Increase/(Decrease) Since June 30, 2000
General Obligation Bonds	$3,034,037	23.3%
Revenue Bonds and Notes	218,900	(6.0)
Special Obligation Bonds	4,744,055	(4.6)
Certificates of Participation	12,305	(15.7)
Other General Long-Term Obligations	981,781	0.4
Total	$8,991,078	3.8

For the proprietary funds, Ohio's primary government also reported $203.1 million (net of unamortized discounts of approximately $2.1 million) in revenue bonds, as of June 30, 2001.

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 1N to the financial statements, the State's primary government is self-insured for claims under its traditional healthcare plan (OhioMed Health Plan) and for vehicle liability while it has placed public official fidelity bonding with a private insurer. The State self-funds tort liability and most property losses on a pay-as-you-go basis; however, selected state agencies have acquired private insurance for their property losses. 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 has been significantly derailed by the September 11 terrorist attacks on New York and Washington D.C. The economy, which was arguably just skirting recession prior to the attacks, is now engulfed in a full-blown downturn. The only question now is how severe the recession will be.

Growth in the U.S. economy shrank in the third quarter of 2001 to its lowest performance in more than 10 years. Real Gross Domestic Product (GDP), the total value of goods and services produced in the U.S. and adjusted for inflation, fell at 0.4 percent annual rate in the third quarter of this year, following a 0.3 percent growth rate in the second quarter. Many economists expect the worst performance of the U.S. economy to come in the fourth quarter of this year.

The American consumer remains the key. Consumers have been widely and justly credited with keeping the U.S. economy out of recession through the second quarter of 2001. However, consumers respond to headline numbers. Massive corporate layoffs and the recent jump in the unemployment rate have definitely unsettled consumer confidence. Following the September 11 attacks, consumers have taken flight, too shocked and too scared to spend. In fact, holiday celebrations this year are expected to be subdued, and consumer spending which makes up two-thirds of the U.S. economy, may actually decline in the fourth quarter for the first time since 1991.

In an effort to stimulate the U.S. economy, the Federal Reserve Board (Fed) has lowered short-term interest rates ten times since the start of this year. At its November meeting the Fed cut the federal funds rate, a benchmark for short-term interest rates, by another fifty basis points. The federal funds rate now stands at two percent, the lowest level in 40 years.

The Fed remains extremely concerned about the fragile state of consumer confidence and the shattered state of the U.S. economy in general. In its comments, the Fed indicated that it stands ready to further adjust interest rates until it sees concrete evidence of a turn in economic activity.

The outlook for the Ohio economy has also deteriorated since the beginning of the current budget cycle in July 2001. Ohio's economy is now in a recession that has been characterized by widespread layoffs and falling corporate profits that will likely last into next year. The state's fiscal conditions have changed rapidly in recent months. In addition to increasing demands for more government spending on human service programs in response to the weakening economy, the state's revenue picture has taken a turn for the worse. As a result, the state's personal income, corporate income and sales tax revenues were under severe pressure, and unable to reach projected levels of collections.

MAJOR INITIATIVES AND PROJECTS

The State Operating Budget

In June 2001, Governor Bob Taft signed into law Amended Substitute House Bill 94, which when combined with other legislation authorizing expenditures, provides over $45.1 billion in General Revenue Fund (GRF) dollars and over $90.9 billion in all funds for the fiscal year 2002-2003 operating budget of the State of Ohio including funding for primary and secondary education. The GRF is a non-GAAP budgetary basis operating fund reported in the General Fund. The budget as enacted is balanced and does not include any new taxes. The budget provides significant increases for primary and secondary education while holding the line on spending for overhead and department operations of other state agencies, boards and commissions. Within this context, the budget reflects the Taft Administration's four broad goals of 1.) enabling every child to succeed, 2.) promoting prosperity, 3.) caring for those in need, and 4.) promoting public health and public safety.

Primary and Secondary Education

The highest priority of the state is giving children the opportunity to succeed. This is reflected in the fiscal year 2002-2003 budget, which provides 62.7 percent of all new GRF dollars to support education at all levels and implements a new school funding formula that guarantees that every school child in Ohio will have access to the resources necessary for a quality education. Total state support for primary and secondary education totals $7.4 billion in fiscal year 2002 (an eight-percent increase over fiscal year 2001) and $7.8 billion in fiscal year 2003 (a five-percent increase over fiscal year 2002). Pursuant to the new school funding formula, per pupil spending will increase to $4,814 in 2002 (an increase of 12.1 percent over fiscal year 2001) and $4,949 in 2003 (an increase of 2.8 percent over fiscal year 2002). Per pupil spending should rise to $5,527 by fiscal year 2007. The funding model is based on successful 1999 local school districts and removes those districts that fall within the top and bottom five percent of districts with regard to income and property wealth.

The budget also provides additional funding for new academic standards, student assessment, school improvement initiatives, student intervention services, students with special needs, the creation of parity aid which will provide increased aid for low-wealth school districts, all-day kindergarten for 50 additional districts and 12,000 more children, and more training for teachers and principals. House Bill 94 also provides $300 million to fund the next installment of the school facilities plan, and makes a permanent commitment to providing advanced technology in classrooms for all grades by dedicating all of the money in the Tobacco Settlement Education Technology Trust Fund to the Ohio SchoolNet Commission. This will provide funding for the acquisition of hardware, as well as to support the infrastructure that has been developed, and to provide professional development opportunities for teachers to learn to incorporate this technology into the curriculum.

Also in June, the Governor signed into law Senate Bill 1, which implements the recommendations of the Governor's Commission for Student Success. The purpose of the Commission was to recommend solutions to improve Ohio's schools significantly. The Commission recommended a systematic approach that meets the needs of the students and is based on good standards and common sense. The recommendations, as translated into law are to:

- Set clear, rigorous and reasonable academic standards;
- Create a system of assessments to measure student performance against the standards;
- Develop intervention strategies to produce real and lasting improvements in student learning; and
- Reward success and correct failure by developing an accountability system that is fair and focused on the performance of each school.

The budget provides the resources to accelerate work in areas where reform is already taking place, and to begin work in new areas.

Rebuilding Ohio's Schools

One of the cornerstones of Ohio's new school funding systems is Governor Taft's Rebuild Ohio Plan – a 12-year plan to provide funding to repair or replace every school building in Ohio that needs it. The plan will allow every Ohio school child to be able to learn in safe, modern facilities and give school districts the capability to create customized classrooms and instruction tailored to meet students' needs. The Ohio School Facilities Commission (OSFC), charged with providing funding to public school districts and overseeing the construction and renovation of school facilities, has disbursed over $2 billion, and is currently spending approximately $1.75 million a day. Funding helps pay for renovations, repairs, and new construction of Ohio's primary and secondary schools, in accordance with the 12-year, $10 billion school facilities plan. Twenty new school buildings were opened during calendar year 2000, and 31 more are scheduled to open by the end of calendar year 2001. OSFC has more than 300 school buildings in 37 local school districts in various phases of design or construction, representing a combined state and local commitment of $1.72 billion. No other state in the nation has adopted such an ambitious building program.

Primary and Secondary Education — Ohio Supreme Court Case Update

On September 6, 2001 the Ohio Supreme Court issued its third ruling in the long-running school funding case. The court found constitutional the basic principles of the new school funding formula. The funding formula adequately addresses such issues as the over-reliance on local property taxes, funding for special education, vocational education and student transportation costs. However, the Court has ordered additional action on the remaining areas of concern; faster implementation of parity aid and changes to the base funding formula. Estimates to address the Court's concerns are as much as $1.24 billion for fiscal year 2002.

The Ohio Supreme Court has reconsidered the DeRolph III decision in light of the Attorney General's motion for reconsideration, and has referred the issues raised in the motion to a mediator for settlement. The Attorney General asked the Court to reconsider those portions of its decision that 1.) require the elimination of the five-percent wealth screens and 2.) make the Court's adjustments to the base-cost formula retroactive to July 1, 2001. The motion to reconsider was filed as a result of the Court's reviewing incorrect data; therefore, the Court was understandably misled in concluding that the purpose of applying the five-percent wealth screens was to reduce the base cost. Furthermore, the reconsideration was requested to accommodate the fact that current budgets are in place and that time is needed to make the necessary adjustments requested by the Court.

Workers Compensation Rate Reductions

The Ohio Bureau of Workers' Compensation (BWC) approved on June 28, 2000, a 75-percent premium credit for private employers for the policy periods July 1, 2000 through December 31, 2000 and January 1, 2001 through June 30, 2001, which resulted in the return of approximately $1.3 billion to these employers. On December 14, 2000, BWC awarded a $180 million refund of excess premiums and a one-time 75 percent premium reduction for the January 2001 policy period to public employer taxing districts, which resulted in a savings of approximately $200 million.

On April 24, 2001, BWC awarded to private employers another one-time 75-percent premium reduction for the policy periods July 1, 2001 through December 31, 2001 and January 1, 2002 through June 30, 2002. It is estimated that this reduction will result in a return of approximately $1.3 billion to these employers.

BWC attributes these savings to improved workplace safety and claims handling, as well as a better-than-expected return on investments. BWC's experience is markedly better than that of most other states, as during the past two years workers' compensation rates have continued to rise at the national level.

E-Commerce/Internet

In April 2001, the state unveiled the redesign of its Internet site. The redesign was one of the electronic government initiatives that Governor Taft announced in his 2000 State of the State address and led by the Governor's Council on Electronic Commerce. The state web portal, www.Ohio.gov, will improve access to vital state services through the Internet. The portal is designed to be a single point of contact for Ohio constituents via the Internet. The new portal is a customer-centric site that features an intentions-based design, allowing site visitors to go directly to the service or information they seek without having to know the appropriate state agency provider. Several transactional services are featured as links from the front page. In addition to the online transactional services, Ohio.gov also features information divided into categories according to the type of customer seeking information. Those categories are "resident," "business," "visitor," and "state employee." There also is a fifth category entitled "government," containing information about the various branches of government. The next release of Ohio's portal will feature portal personalization. A user will be able to request a user id and password, which will be the key to customizing a MyOhio.gov page that will feature the subject and geographical information of the individual user's interest.

Support for Ohio's Steel Industry

In order to protect and retain existing jobs in Ohio, in March 2001, Governor Taft signed Senate Bill 11, toughening the law prohibiting the use of foreign steel in public improvement projects supported by state capital funds. In addition to signing Senate Bill 11, the Governor has also created a $110 million Ohio Steel Development Initiative to provide grants and loans for strategic capital investments, tax exempt financing for pollution control equipment, grants for infrastructure improvements, and training dollars to upgrade the skills of workers. This initiative will help position Ohio's steel industry for future growth by becoming more competitive and efficient. The Governor also sent letters to President Bush and Commerce Secretary Dan Evans to discuss how the Federal Emergency Steel Loan Guarantee program can be updated to make it more accessible and beneficial to Ohio's steel companies.

Tax Amnesty Opportunity
For the first time in Ohio's history, taxpayers have the opportunity to settle delinquent taxes in full with no penalty and only half the amount of interest normally charged. Tax amnesty will be available through January 15, 2002 for taxes that were due on or before May 1, 2001, and for taxpayers whose liabilities are unknown to the Ohio Department of Taxation, meaning their taxes have not been billed or assessed, nor are they currently undergoing an audit. Taxes covered by the program include: personal and school district income taxes; sales and use taxes; employer and school district withholding taxes; pass-through entity taxes; corporate franchise taxes; public utility excise taxes; and personal property taxes. The Department of Taxation estimates that the program will generate about $17 million at the program's onset, and approximately $5 million annually in succeeding years from newly enrolled taxpayers.

Ohio Access
In June 2000, Governor Taft convened a work group charged with conducting a comprehensive review of Ohio's services and support systems for people with disabilities and making recommendations for improving these services over the next six years consistent with the following three guiding principles:

- Increase community capacity
- Prioritize resources
- Assure quality and accountability

The work group developed long-term recommendations in a written report submitted to Governor Taft on February 28, 2001. Within the long-term recommendations, short-term priorities were identified and included in the fiscal year 2002-2003 biennial budget. The budget included approximately $145 million over the span of the biennium for new initiatives and expansion of existing programs for Ohioans with disabilities. Examples include additional slots for home and community-based waivers, new opportunities for independent living, and a redesign of the Mental Retardation/Developmentally Disabled Medicaid delivery system.

Clean Ohio Fund (Issue 1)
In November 2000, Ohio voters approved Issue 1 to support community efforts for the protection of land and water resources. This $400 million bond fund will assist local communities to clean up and redevelop brownfield sites, protect green space, preserve farmland, improve water quality and expand Ohio's network of recreational trails and greenways. Implementation language of Issue 1 was approved by the General Assembly in the form of House Bill 3. This legislation was considered concurrent with the biennial budget bill and subsequently passed by the General Assembly.

House Bill 3 provides the first $100 million in capital funds for local projects. State funding, which will provide 75 percent of a project's total costs, will be matched by 25 percent funding from local political subdivisions, non-profit organizations, and charitable organizations. State funds will leverage an additional $33 million for a total of $133 million available funds for local projects from the program's initial appropriation. Monies are appropriated to four separate funds as follows:

- *Clean Ohio Conservation Fund* – The Public Works Commission will administer this fund, which has been appropriated $37.5 million in capital funds for the acquisition of open spaces and development of the open spaces for recreation purposes.

- *Clean Ohio Trail Fund* – The Department of Natural Resources will administer this fund, which has been appropriated $6.25 million in capital funds for the purchase of land or interests in land for recreational trails and for the construction of recreational trails.

- *Clean Ohio Agricultural Easement Fund* – The Department of Agriculture will administer this fund, which has been appropriated $6.25 million in capital funds for the purchase of agricultural easements.

- *Clean Ohio Revitalization Fund* – This fund, which the Department of Development will administer, is divided into two components that will receive $50 million in total appropriations. The first component provides $40 million to make grants for brownfield revitalization projects. The second component is the Clean Ohio Assistance Program, which will use $10 million for grants to distressed areas that will pay for assessments, cleanup, or remediation of brownfields. The grants will also be made for public health projects related to a release or threatened release of hazardous substances or petroleum at a property where little or no economic redevelopment potential exists.

CERTIFICATE OF ACHIEVEMENT
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, 2000. This was the 11th 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.

ADDITIONAL INFORMATION
The Ohio Office of Budget and Management provides access to the fiscal year 2001 *Ohio Comprehensive Annual Financial Report*, fiscal year 2001 *Ohio Budgetary Financial Report*, and other State-related financial data and information on the Internet at http://www.state.oh.us/obm/.

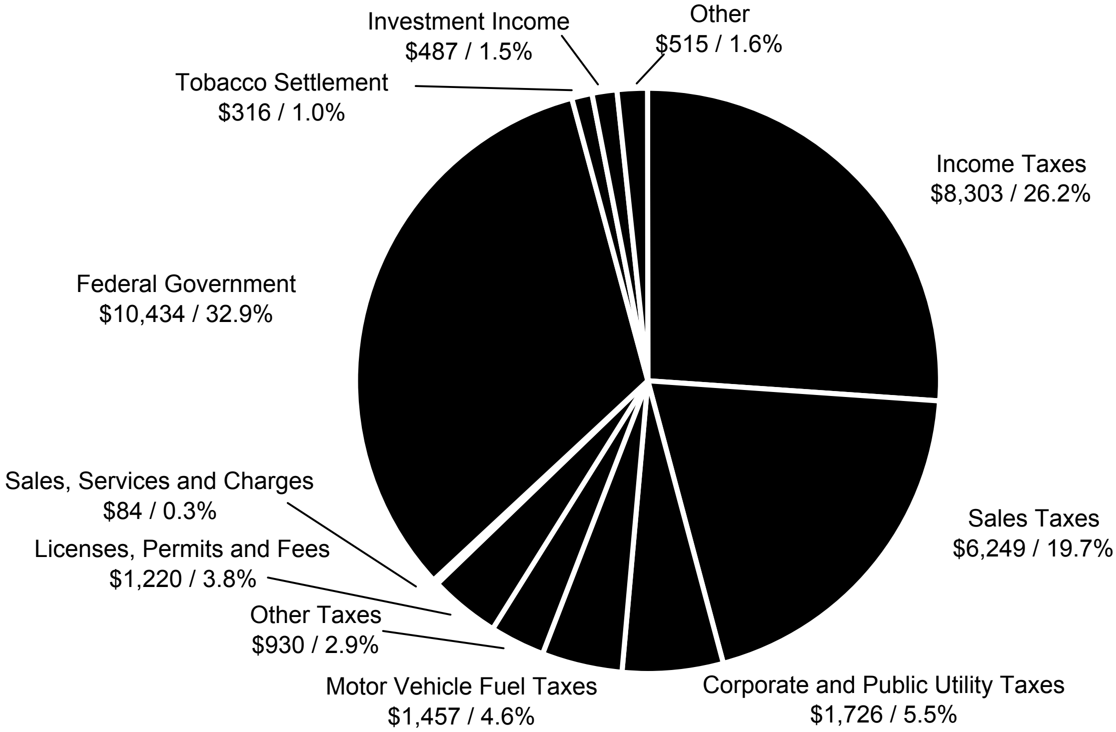
ACKNOWLEDGMENTS
In conclusion, I wish to express my appreciation to the staffs of the various State agencies whose time and dedicated efforts made this report possible.

Sincerely,

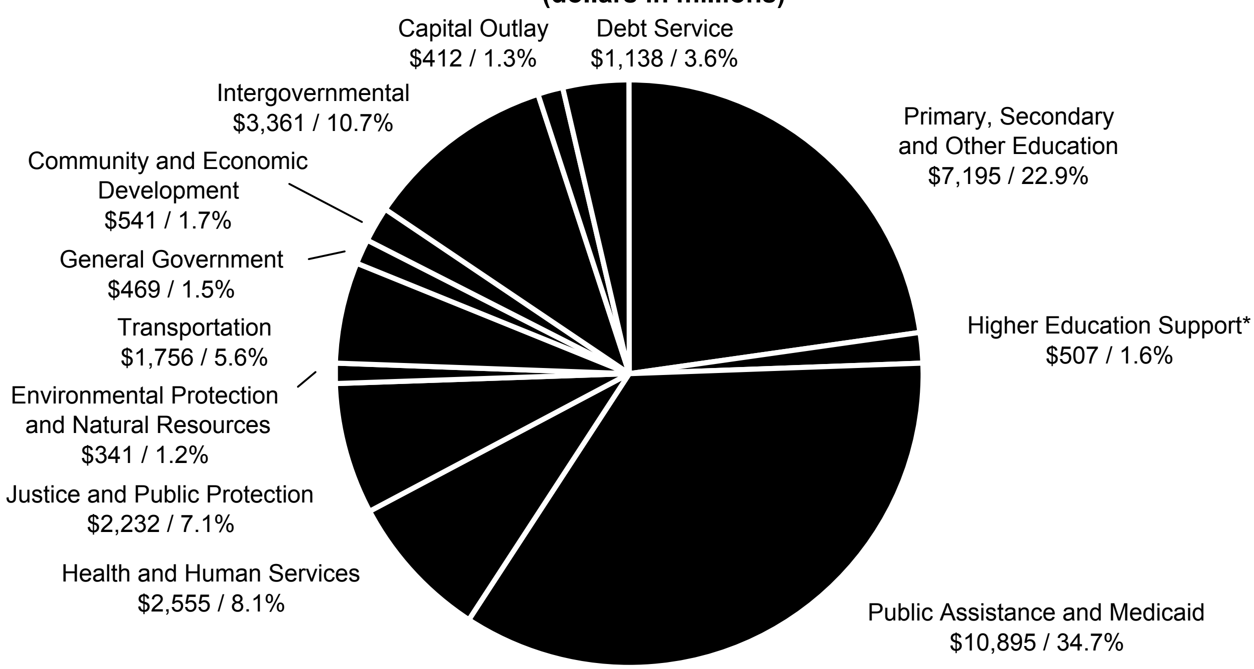
Thomas W. Johnson

Thomas W. Johnson
Director

GAAP Basis Revenues for All General Governmental Fund Types
Fiscal Year 2001
(dollars in millions)



GAAP Basis Expenditures for All General Governmental Fund Types
Fiscal Year 2001
(dollars in millions)



* In the governmental funds, budgetary expenditures for Higher Education Support totaling $1.99 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.

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