

# State of Ohio

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2019

(Unaudited)

### Introduction

This section of the State of Ohio's annual financial report presents management's discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2019. The management's discussion and analysis section should be read in conjunction with the preceding transmittal letter and the State's financial statements, which follow.

### Financial Highlights

#### *Government-wide Financial Statements*

During fiscal year 2019, net position of the State's primary government increased by \$2.86 billion and ended fiscal year 2019 with a \$30.11 billion balance. Net position of the State's component units increased by \$600.1 million, after prior year restatements, and ended fiscal year 2019 with a \$10.6 billion balance. See additional discussion beginning on page 8.

#### *Fund Financial Statements*

Governmental funds reported a combined ending fund balance of \$15.8 billion that was comprised of \$148.1 million in nonspendable, \$8.85 billion restricted for specific purposes, \$1.47 billion committed, \$2.89 billion in assigned, and \$2.45 billion in unassigned. See additional discussion beginning on page 11.

As of June 30, 2019, the General Fund's fund balance was approximately \$7.72 billion, including \$55.5 million in nonspendable, \$1.59 billion in restricted, \$728.7 million in committed, \$2.89 billion in assigned, and \$2.46 billion in unassigned. The General Fund's fund balance increased by \$2.22 billion (exclusive of a \$1.2 million increase in inventories) or 40.4 percent during fiscal year 2019. See additional discussion beginning on page 11.

Proprietary funds reported net position of \$12.86 billion, as of June 30, 2019, an increase of \$1.74 billion since June 30, 2018. This increase is largely due to the net increase of \$1.37 billion in the Workers' Compensation Fund. See additional discussion beginning on page 13.

#### *Capital Assets*

The carrying amount of capital assets for the State's primary government increased to \$28.52 billion at June 30, 2019. The majority of the \$347.4 million increase during fiscal year 2019 was from acquisitions of machinery and equipment and highway network infrastructure. See additional discussion beginning on page 13.

#### *Long-Term Debt — Bonds and Notes Payable and Certificates of Participation Obligations*

Overall, the carrying amount of total long-term debt for the State's primary government decreased \$233.8 million or 1.2 percent during fiscal year 2019, for an ending balance of \$18.63 billion. During the year, the State issued a par amount of one billion dollars in long-term debt. There were no advance refunding bonds. See additional discussion beginning on page 15.

### Overview of the Financial Statements

This annual report consists of three required components: management's discussion and analysis, basic financial statements, including the accompanying notes to the financial statements, and required supplementary information. In addition, this report includes an optional section that contains combining statements and schedules for the non-major governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component unit funds.

The basic financial statements are comprised of the government-wide financial statements and fund financial statements. The figure on the following page summarizes the major features of these statements.

Major Features of the State of Ohio's Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<b>Scope</b>	Entire State government (except fiduciary funds) and the State's component units	The activities of the State that are not proprietary or fiduciary, such as general government, transportation, justice and public protection, etc.	Activities the State operates similar to private businesses, such as the workers' compensation insurance program, lottery, tuition credit program, etc.	Instances in which the State is the trustee or agent for someone else's resources
<b>Required Financial Statements</b>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Fund Net Position</li> <li>• Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> <li>• Statement of Changes in Fiduciary Net Position</li> </ul>
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of asset/liability information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
<b>Type of inflow/outflow information</b>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

**Government-wide Financial Statements – Reporting the State as a Whole**

The two government-wide financial statements, prepared on a basis and focus similar to those used by private-sector companies, report the State's net position and how it has changed. Net position — the difference between the State's assets/deferred outflows of resources and liabilities/deferred inflows of resources — is one way to measure the State's financial health, or position. Over time, increases or decreases in the State's net position indicate whether its financial health has improved or deteriorated, respectively. However, a reader should consider additional nonfinancial factors, such as changes in the State's economic indicators and the condition of the State's highway system, when assessing the State's overall financial status.

These statements, found on pages 20 through 23 of this report, are divided into three categories as follows.

*Governmental Activities* — Most of the State's basic services are reported under this category, such as primary, secondary and other education, higher education support, public assistance and Medicaid, and transportation. Taxes, federal grants, and charges for services, fees, fines and forfeitures finance most of these activities.

*Business-type Activities* — The State charges fees to customers to help cover the costs of certain services it provides. The State reports the following programs and activities as business-type: workers' compensation insurance program, lottery operations, unemployment compensation program, guaranteed college tuition credit program, and the Auditor of State's governmental auditing and accounting services.

*Component Units* — The State presents the financial activities of the Ohio Facilities Construction Commission, Ohio State University, and other entities as discretely presented component units under a separate column in the government-wide financial statements. The Buckeye Tobacco Settlement Financing Authority is presented as a blended component unit with its activities blended and included under governmental activities. Although legally separate, the State is financially accountable for its component units. For further explanation and a complete list of component units, see NOTE 1A. to the financial statements.

## **Fund Financial Statements – Reporting more detail about the State’s most significant funds**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. State law and bond covenants mandate the use of some funds. The Ohio General Assembly establishes other funds to control and manage money for particular purposes or to show that the State is properly using certain taxes and grants. The State employs fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The basic fund financial statements can be found on pages 24 through 43 of this report while the combining fund statements and schedules can be found on pages 173 through 249. The State has three kinds of funds as follows:

*Governmental Funds* — Most of the State’s basic services are included in governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out (i.e., near-term inflows and outflows of spendable resources) and the balances remaining at year-end that are available for spending (i.e., balances of spendable resources). Consequently, the governmental fund financial statements provide a detailed short-term view that helps the financial statement reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the State’s programs. Because these statements do not encompass the long-term focus of the government-wide statements, a reconciliation schedule, which follows each of the governmental fund financial statements, explains the relationship (or differences) between them.

The State’s governmental funds include the General Fund, Job, Family and Other Human Services Special Revenue Fund, and the Buckeye Tobacco Settlement Financing Authority Revenue Bonds Debt Service Fund, all of which are considered major funds. Data from the other governmental funds, which are classified as nonmajor funds, are combined into an aggregated presentation under a single column on the basic governmental fund financial statements. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

For budgeted governmental funds, the State also presents budgetary comparison schedules in required supplementary information and combining statements to demonstrate compliance with the appropriated budget. The State’s budgetary process is explained further in NOTE 1D. to the financial statements.

*Proprietary Funds* — Services for which the State charges customers a fee are generally reported in proprietary funds. Financial statements for the proprietary funds, which are classified as enterprise funds, provide both long- and short-term financial information.

Presented under separate columns on the three statements is information for the Workers’ Compensation, Lottery Commission, and Unemployment Compensation enterprise funds, all of which are considered to be major funds. Data from the other enterprise funds, which are classified as nonmajor funds, are combined into an aggregated presentation under a single column on the statements. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

The enterprise funds are the same as the State’s business-type activities reported in the government-wide financial statements, but the proprietary fund financial statements provide more detail and additional information, such as information on cash flows.

*Fiduciary Funds* — The State is the trustee, or fiduciary, for assets that — because of a trust arrangement — can only be used for the trust beneficiaries. The State is also fiduciary of some agency funds. The State is responsible for ensuring the assets reported in these funds are used for their intended purposes. The State Highway Patrol Retirement System Pension Trust Fund, Variable College Savings Plan Private-Purpose Trust Fund, STAR Ohio Investment Trust Fund, and the agency funds are presented on two statements. Fiduciary information is excluded from the government-wide financial statements because the State cannot use these assets to finance its operations.

## **Discretely Presented Component Unit Statements (Component Unit)**

Following the fund financial statements, the State includes statements for its major discretely presented component units within the basic financial statements section. Nonmajor discretely presented component units are also presented in aggregation under a single column in the component unit financial statements and in combining statements elsewhere in this report.

## **Notes to the Financial Statements**

The basic financial statements section includes notes that more fully explain the information in the government-wide and fund financial statements; the notes provide additional detail that is essential to a full understanding of the data presented in the financial statements. The notes can be found on pages 48 through 143 of this report.

## Required Supplementary Information

Following the notes is a section of required supplementary information in three parts. The first part discusses the assessed condition and estimated and actual maintenance and preservation costs of the state's highway and bridge infrastructure assets that are reported using the modified approach. Limited in application to a government's infrastructure assets, the modified approach provides an alternative to the traditional recognition of depreciation expense. The second part presents schedules disclosing the following for the various retirement systems in which the State participates: the State's share of pension and other postemployment benefit (OPEB) obligations, required employer contributions for pension/actuarially determined employer contributions for OPEB as compared to employer contributions actually paid, and covered payroll. The final part is the budgetary comparison schedule for the General Fund and major special revenue fund and the accompanying note that explains the GAAP versus budgetary basis. Required supplementary information can be found on pages 145 through 171 of this report.

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

### Net Position

During fiscal year 2019, as shown in the table below, the combined net position of the State's primary government increased by \$2.86 billion or 10.5 percent. Net position reported for governmental activities increased approximately \$1.12 billion or 7 percent, compared to the net position on July 1, 2018, and business-type activities increased \$1.74 billion, or 15.7 percent. Condensed financial information derived from the Statement of Net Position for the primary government is presented in the following table.

	Net Position					
	As of June 30, 2019 and 2018					
	(dollars in thousands)					
	As of June 30, 2019			As of June 30, 2018		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Current and Other Assets .....	\$ 22,402,143	\$ 31,221,878	\$ 53,624,021	\$ 20,744,766	\$ 30,291,875	\$ 51,036,641
Capital Assets.....	28,379,111	139,382	28,518,493	28,005,589	165,529	28,171,118
Total Assets.....	50,781,254	31,361,260	82,142,514	48,750,355	30,457,404	79,207,759
Deferred Outflows of Resources.....	6,081,404	182,493	6,263,897	5,121,436	87,464	5,208,900
Current and Other Liabilities.....	8,691,295	566,953	9,258,248	8,738,490	620,237	9,358,727
Noncurrent Liabilities.....	28,843,447	18,054,050	46,897,497	26,176,978	18,704,730	44,881,708
Total Liabilities.....	37,534,742	18,621,003	56,155,745	34,915,468	19,324,967	54,240,435
Deferred Inflows of Resources.....	2,073,057	63,682	2,136,739	2,823,393	101,698	2,925,091
Net Position:						
Net Investment in Capital Assets.....	24,458,022	134,728	24,592,750	24,363,007	162,367	24,525,374
Restricted.....	3,928,893	12,645,810	16,574,703	4,557,063	10,891,404	15,448,467
Unrestricted.....	(11,132,056)	78,530	(11,053,526)	(12,787,140)	64,432	(12,722,708)
Total Net Position.....	\$ 17,254,859	\$ 12,859,068	\$ 30,113,927	\$ 16,132,930	\$ 11,118,203	\$ 27,251,133

As of June 30, 2019, the primary government's net investment in capital assets (e.g., land, buildings, infrastructure, and construction-in-progress) was \$24.59 billion. Restricted net position was approximately \$16.57 billion, resulting in an unrestricted \$11.05 billion deficit. Net position is restricted when constraints placed on their use are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) legally imposed through constitutional or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." The State's Budget Stabilization Fund balance of over \$2.69 billion at June 30, 2019, is included within unrestricted net position.

The government-wide Statement of Net Position reflects a \$11.13 billion deficit for unrestricted governmental activities, which is primarily attributable to the following three factors:

1) The State of Ohio, like many other state governments, issues general and special obligation debt, the proceeds of which benefit local governments and component units. The proceeds are used to build facilities for public-assisted colleges and universities and local school districts and finance infrastructure improvements for local governments. The policy of selling general obligation and special obligation bonds for these purposes has been the practice for many years. Of the \$11.78 billion of outstanding general obligation and special obligation debt at June 30, 2019, \$8.38 billion is attributable to debt issued for state assistance to component units (Ohio Facilities Construction Commission and the colleges and universities) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt. Unspent proceeds related to these bond issuances are included on the Statement of Net Position as restricted net position. By issuing such debt, the State is left to reflect significant liabilities without the benefit of recording the capital assets constructed with the proceeds from the debt issuances.

2) The State reported liabilities of \$6.13 billion as of June 30, 2019, for its proportionate share of the net pension liability of the associated pension plans that provide benefits to State employees. This liability amount was a 74.7 percent increase from fiscal year 2018.

3) The State reported OPEB liabilities of \$2.86 billion as of June 30, 2019. This liability amount was a 12.1 percent increase from the fiscal year 2018 amount.

For more information related to pensions and OPEB see NOTES 9, 14, 15, and 18.

Condensed financial information derived from the Statement of Activities, which reports how the net position of the State's primary government changed during fiscal years 2019 and 2018 follows.

**Changes in Net Position  
For the Fiscal Years Ended June 30, 2019 and 2018**

(dollars in thousands)

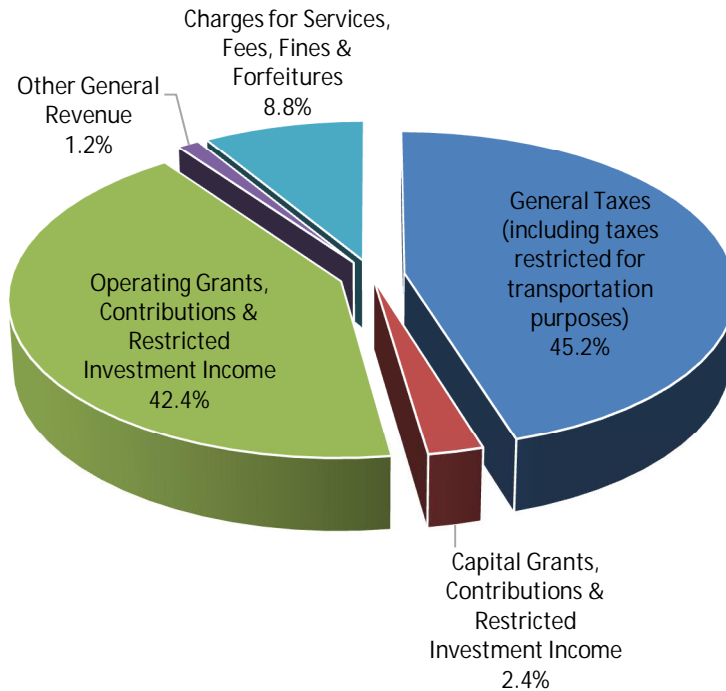
	Fiscal Year 2019			Fiscal Year 2018		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
<b>Program Revenue:</b>						
Charges for Services, Fees,						
Fines and Forfeitures .....	\$ 5,283,218	\$ 6,929,185	\$ 12,212,403	\$ 5,229,708	\$ 6,633,679	\$ 11,863,387
Operating Grants, Contributions and Restricted Investment Income/ (loss).....	25,555,901	2,303,277	27,859,178	25,162,423	1,402,895	26,565,318
Capital Grants, Contributions and Restricted Investment Income/ (loss).....	1,481,791	-	1,481,791	1,424,697	-	1,424,697
Total Program Revenues.....	<u>32,320,910</u>	<u>9,232,462</u>	<u>41,553,372</u>	<u>31,816,828</u>	<u>8,036,574</u>	<u>39,853,402</u>
<b>General Revenues:</b>						
General Taxes.....	25,388,418	-	25,388,418	23,640,505	-	23,640,505
Taxes Restricted for Transportation.....	1,874,409	-	1,874,409	1,891,116	-	1,891,116
Tobacco Settlement.....	343,125	-	343,125	352,355	-	352,355
Escheat Property.....	147,736	-	147,736	158,770	-	158,770
Unrestricted Investment Income.....	235,370	24	235,394	24,741	15	24,756
Other.....	20	38	58	17	-	17
Total General Revenues.....	<u>27,989,078</u>	<u>62</u>	<u>27,989,140</u>	<u>26,067,504</u>	<u>15</u>	<u>26,067,519</u>
Total Revenue.....	<u>60,309,988</u>	<u>9,232,524</u>	<u>69,542,512</u>	<u>57,884,332</u>	<u>8,036,589</u>	<u>65,920,921</u>
<b>Expenses:</b>						
Primary, Secondary and Other Education.....	13,115,806	-	13,115,806	13,244,868	-	13,244,868
Higher Education Support.....	2,731,166	-	2,731,166	2,771,493	-	2,771,493
Public Assistance and Medicaid.....	30,187,506	-	30,187,506	30,454,468	-	30,454,468
Health and Human Services.....	1,926,151	-	1,926,151	1,744,243	-	1,744,243
Justice and Public Protection.....	4,383,344	-	4,383,344	3,670,780	-	3,670,780
Environmental Protection and Natural Resources.....	557,249	-	557,249	567,788	-	567,788
Transportation.....	2,715,640	-	2,715,640	2,598,688	-	2,598,688
General Government.....	1,223,453	-	1,223,453	951,063	-	951,063
Community and Economic Development.....	3,386,936	-	3,386,936	3,458,487	-	3,458,487
Interest on Long term Debt (excludes interest charged as program expense).....	102,143	-	102,143	97,799	-	97,799
Workers' Compensation.....	-	2,113,612	2,113,612	-	2,227,977	2,227,977
Lottery Commission.....	-	3,242,547	3,242,547	-	3,022,690	3,022,690
Unemployment Compensation.....	-	841,040	841,040	-	929,460	929,460
Tuition Trust Authority.....	-	50,778	50,778	-	57,115	57,115
Office of Auditor of State.....	-	102,347	102,347	-	81,574	81,574
Total Expenses.....	<u>60,329,394</u>	<u>6,350,324</u>	<u>66,679,718</u>	<u>59,559,677</u>	<u>6,318,816</u>	<u>65,878,493</u>
<b>Surplus/ (Deficiency) Before Gains (Losses) and Transfers.....</b>						
	(19,406)	2,882,200	2,862,794	(1,675,345)	1,717,773	42,428
Transfers - Internal Activities.....	1,141,335	(1,141,335)	-	1,168,236	(1,168,236)	-
Change in Net Position.....	1,121,929	1,740,865	2,862,794	(507,109)	549,537	42,428
Net Position, July 1.....	16,132,930	11,118,203	27,251,133	16,640,039	10,568,666	27,208,705
Net Position, June 30.....	<u>\$ 17,254,859</u>	<u>\$ 12,859,068</u>	<u>\$ 30,113,927</u>	<u>\$ 16,132,930</u>	<u>\$ 11,118,203</u>	<u>\$ 27,251,133</u>

**Governmental Activities**

Expenses exceeded revenues during fiscal year 2019 for governmental activities. Revenues of \$60.31 billion for fiscal year 2019 were \$2.43 billion higher than those reported for fiscal year 2018. General taxes (including taxes restricted for transportation purposes) comprised 45.2 percent of fiscal year 2019 total revenues and increased by 6.8 percent over the prior fiscal year. Operating grants, contributions and restricted investment income, making up 42.4 percent of total revenues, increased by 1.6 percent compared to fiscal year 2018. Expenses for fiscal year 2019 increased \$769.7 million or a modest 1.3 percent from fiscal year 2018 primarily in the Justice and Public Protection and General Government functions. Fiscal year 2019 net transfers-in of \$1.14 billion reflect a decrease of 2.3 percent from fiscal year 2018.

The following chart illustrates revenues by source of governmental activities as percentages of total reported for the fiscal year ended June 30, 2019.

### Governmental Activities -- Sources of Revenue Fiscal Year 2019



#### Total FY 19 Revenue for Governmental Activities = \$60.31 Billion

The following table presents the total expenses and net cost of each of the State's governmental programs for the fiscal year ended June 30, 2019, with comparative numbers from June 30, 2018. The net cost (total program expenses less revenues generated by the program) represents the financial burden that was placed on the State's taxpayers by each of these programs. This cost is essentially funded with the State's general revenues from taxes, tobacco settlement, unrestricted investment income, and escheat property.

**Program Expenses and Net Costs of Governmental Activities by Program**  
For the Fiscal Years Ended June 30, 2019 and 2018  
*(dollars in thousands)*

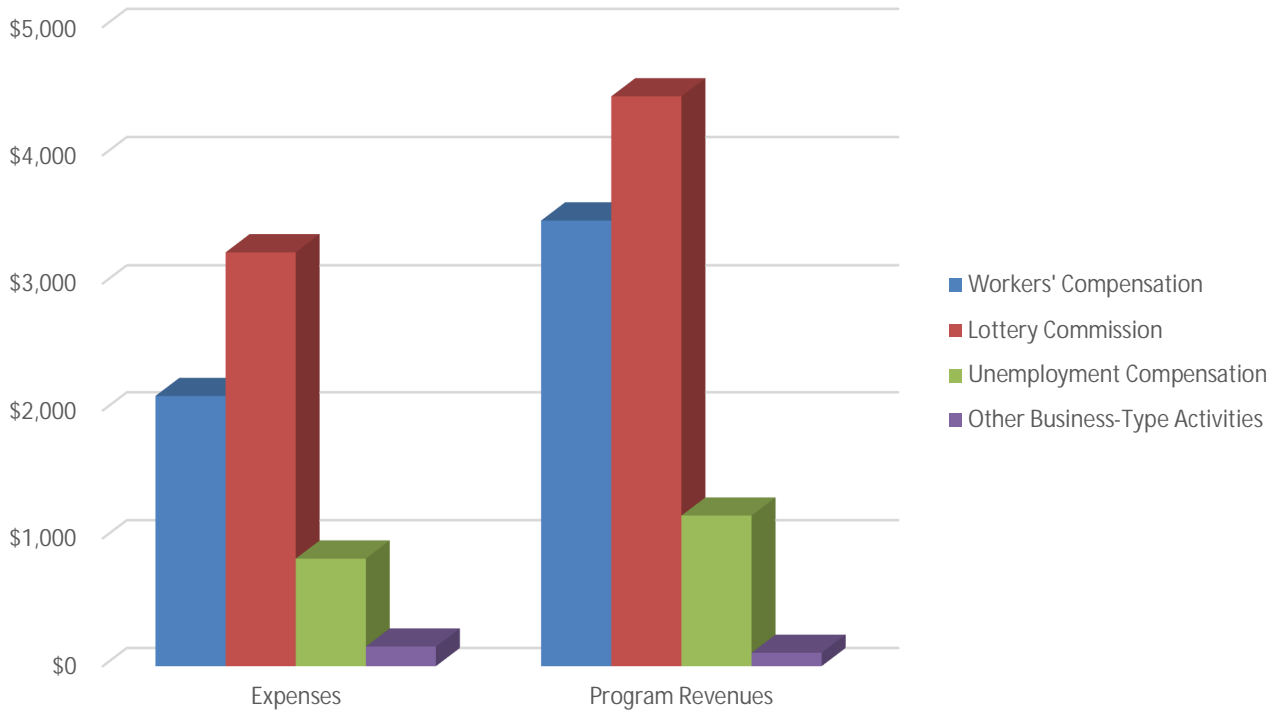
Program	Program Expenses	Percent of Total Expense	Net Cost of Program		Net Cost as Percentage of Total Expenses for Program		Net Cost as Percentage of Total Expenses — All Programs	
			2019	2018	2019	2018	2019	2018
Primary, Secondary and								
Other Education.....	\$ 13,115,806	21.8%	\$ 11,115,257	\$ 11,329,509	84.7%	85.5%	18.4%	19.0%
Higher Education Support.....	2,731,166	4.5%	2,701,161	2,742,360	98.9%	98.9%	4.5%	4.6%
Public Assistance and Medicaid.....	30,187,506	50.0%	5,809,722	6,137,025	19.2%	20.2%	9.6%	10.3%
Health and Human Services.....	1,926,151	3.2%	869,496	718,928	45.1%	41.2%	1.4%	1.2%
Justice and Public Protection.....	4,383,344	7.3%	2,979,975	2,321,432	68.0%	63.2%	4.9%	3.9%
Environmental Protection								
and Natural Resources.....	557,249	0.9%	207,819	213,817	37.3%	37.7%	0.3%	0.4%
Transportation.....	2,715,640	4.5%	994,590	965,423	36.6%	37.2%	1.7%	1.6%
General Government.....	1,223,453	2.0%	537,500	386,981	43.9%	40.7%	0.9%	0.6%
Community and								
Economic Development.....	3,386,936	5.6%	2,690,821	2,829,575	79.4%	81.8%	4.5%	4.8%
Interest on Long-Term Debt.....	102,143	0.2%	102,143	97,799	100.0%	100.0%	0.2%	0.2%
Total Governmental Activities.....	<u>\$ 60,329,394</u>	<u>100.0%</u>	<u>\$ 28,008,484</u>	<u>\$ 27,742,849</u>	<u>46.4%</u>	<u>46.6%</u>	<u>46.4%</u>	<u>46.6%</u>

**Business-Type Activities**

The State’s enterprise funds reported net position of \$12.86 billion, as of June 30, 2019, compared to \$11.12 billion, as of June 30, 2018, an increase of \$1.74 billion, or 15.7 percent. The Workers’ Compensation Fund reported a \$1.37 billion increase in net position during fiscal year 2019 primarily from higher returns on its investment portfolio and a rise in premium and assessment income.

The chart below compares program expenses and program revenues for business-type activities. Additional analysis of the Business-Type Activities’ revenues, expenses, and other changes in net position is included with the discussion of the Proprietary Funds beginning on page 13.

**Business-Type Activities — Expenses and Program Revenues**  
**Fiscal Year 2019**  
*(dollars in millions)*



**FINANCIAL ANALYSIS OF THE STATE’S FUNDS**

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

Governmental funds reported the following results, as of and for the fiscal years ended June 30, 2019 and June 30, 2018 (dollars in thousands).

	As of and for the Fiscal Year Ended June 30, 2019			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance (Deficit).....	\$ 2,455,345	\$ -	\$ (6,242)	\$ 2,449,103
Total Fund Balance.....	7,718,152	4,712,294	3,370,405	15,800,851
Total Revenues.....	37,653,335	13,510,855	9,219,966	60,384,156
Total Expenditures.....	34,554,711	13,335,634	13,076,201	60,966,546

	As of and for the Fiscal Year Ended June 30, 2018			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance (Deficit).....	\$ 667,887	\$ (1,937)	\$ -	\$ 665,950
Total Fund Balance.....	5,497,549	4,788,937	3,782,356	14,068,842
Total Revenues.....	35,500,831	13,636,302	8,678,181	57,815,314
Total Expenditures.....	34,908,401	13,522,695	12,525,041	60,956,137

### *General Fund*

The main operating fund of the State is the General Fund. During fiscal year 2019, General Fund revenue increased by \$2.15 billion. Income taxes, sales taxes, and corporate and public utility taxes revenue collectively increased \$1.68 billion or 7.8 percent over the prior year due to an improved economy. Likewise, Investment Income increased in 2019 by \$305.4 million. Expenditures decreased \$353.7 million, a modest 1 percent, from the prior year. This reduction primarily resulted from a prior year expenditure of state assistance to the Ohio Facilities Construction Commission for primary and secondary school construction projects, without a corresponding transaction in fiscal year 2019. In total, the fiscal year 2019 fund balance increased \$2.22 billion (exclusive of a \$1.2 million increase in inventories) or 40.4 percent. The State's Budget Stabilization Fund received a transfer-in of \$657.5 million in fiscal year 2019, thus ending the year with a healthy balance of over \$2.69 billion that is included within unassigned fund balance.

### *General Fund Budgetary Highlights*

The State ended the second year of its 2018-19 biennial budget on June 30, 2019, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of \$6.13 billion. Total budgetary sources for the General Fund (including \$977 million in transfers from other funds) in the amount of \$40.63 billion were below final estimates by \$809.8 million or 2 percent during fiscal year 2019. Primarily this shortfall was the result of lower than expected transfers from other funds. Total tax receipts were above final estimates by \$36.7 million or 0.1 percent due to higher than expected income, corporate and public utility, and sales tax receipts.

Total budgetary uses for the General Fund (including \$1.21 billion in transfers to other funds) in the amount of \$40.34 billion were below final estimates by \$3.86 billion or 8.7 percent for fiscal year 2019. The majority of lower than appropriated spending came from economic development, Medicaid, and higher education programs. Additionally, there were lower than expected transfers to other funds. There was no budget stabilization designation at June 30, 2018, for use in balancing the final fiscal year 2019 budget.

The main appropriations act (Act) for the 2018-19 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2017. Reflecting a continued focus on job creation and based on a conservative economic forecast, the Act provided for GRF appropriations of approximately \$33.3 billion in fiscal year 2019, a 3.5 percent increase from fiscal year 2018 appropriations.

GRF appropriations for major program categories in fiscal year 2019, relative to 2018 appropriations, reflect the following changes: 5.7 percent increase for Medicaid; increase of 1.6 percent for primary and secondary education; a 0.3 percent decrease for higher education; 2.1 percent increase for mental health and developmental disabilities; and an increase of 1.6 percent for corrections and youth services.

The Act reflected tax law changes that were projected to decrease GRF revenues by approximately \$30.8 million in fiscal year 2019. These items included a 2017 tax year reduction in the number of personal income tax brackets from nine to seven and an increase in the State personal income tax deduction amount for contributions to college savings and care for disabled individuals accounts.

As is customary in the second year of a biennium, the State revised fiscal year 2019 revenue forecasts to reflect updated economic assumptions, actual fiscal year 2018 revenues, and certain minor tax law adjustments since the Act's adoption. The revised fiscal year 2019 GRF tax revenue forecast is approximately \$382.6 million more than previously estimated. The increases are primarily in the personal income and sales and use taxes.

The 2018-19 Act also modified certain components of the school funding formula to better distribute resources to districts with less capacity to raise revenues locally and limited increases in tuition and fees for two- and four-year higher education institutions. In addition, the newly created health insuring corporation provider assessment, which deposits revenue in a non-GRF fund, replaced the previous GRF sales tax, an estimated revenue loss to GRF of approximately \$600 million in fiscal year 2019.

The Ohio Constitution prohibits the State from borrowing money to fund operating expenditures in the GRF. Therefore, by law, the GRF's budget must be balanced so that appropriations do not exceed available cash receipts and cash balances for the current fiscal year.

The State ended fiscal year 2019 with a GRF cash balance of \$1.54 billion and a GRF budgetary fund balance of \$1.15 billion. The State continues to meet its statutory target to maintain an ending fund balance reflecting one-half of one percent of fiscal year 2019 GRF revenues.



### *Other Major Governmental Funds*

The *Job, Family and Other Human Services Fund* had a fund balance of \$286.5 million at June 30, 2019, an increase of \$13.1 million, or 4.8 percent, compared to fiscal year 2018. The increase is primarily due to a \$153 million decrease in Medicaid federal share spending for activities such as nursing facility, hospital, and prescription drugs and a \$119.1 million reduction in transfers-out of cash. Partially offsetting the expenditure decrease, is an overall \$94.8 million revenue decrease.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2019, totaled approximately \$4.43 billion dollars, a decrease of \$89.7 million or 2 percent since June 30, 2018. Tobacco settlement receipts decreased \$34.1 million from the prior year. Debt service expenditures decreased \$35 million during fiscal year 2019 as a result of scheduled principal and interest payments on outstanding bonds. Overall expenditures exceeded revenues resulting in a net decrease in fund balance.

### **Proprietary Funds**

#### *Major Proprietary Funds*

The State's proprietary fund financial statements report the same type of information found in the business-type activities portion of the government-wide financial statements, but in a slightly different format.

The *Workers' Compensation Fund's* fiscal year 2019 net position increased \$1.37 billion, or 13.8 percent, to \$11.3 billion, as compared to the prior year. During the fiscal year, investment income increased \$854.5 million, largely due to a 3.6 percent increase in the net return on its investment portfolio. Additionally, premium and assessment income increased \$127.6 million and ultimately exceeded benefits and claims expenses by \$530.4 million.

For fiscal year 2019, the Lottery Commission Fund reported \$1.22 billion in net income before transfers of approximately \$1.16 billion to the Lottery Profits Education Fund. Net position at June 30, 2019, in the amount of \$247.4 million, increased 32.9 percent over fiscal year 2018. The increase is primarily attributable to an increase of \$272.1 million in charges for sales and services and \$33.2 million in investment income revenues. A \$141.2 million increase in prizes expense partly offset the revenue increase.

The \$328.9 million net position increase in the *Unemployment Compensation Fund* is primarily due to a continued decline in the unemployment rate. The unemployment rate in Ohio dropped from an average of 4.7 percent in fiscal year 2018 to an average of 4.3 percent in fiscal year 2019. The decrease in the unemployment rate resulted in an \$87.9 million or 9.5 percent decrease in benefits and claims expense from the previous fiscal year. Although premium and assessment income declined \$88.4 million during the year, the healthy beginning net position, the reduced expenses, and an \$8.4 million rise in investment income resulted in a 33.7 percent increase in net position.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

As of June 30, 2019, and June 30, 2018, the State's primary government had invested \$28.52 billion and \$28.17 billion, respectively, net of accumulated depreciation of \$4.86 billion and \$4.73 billion, respectively, in a broad range of capital assets, as detailed in the table on the following page.

The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was 1.2 percent (a 1.3 percent increase for governmental activities and a 15.8 percent decrease for business-type activities). Depreciation expense increased 4.3 percent for governmental activities and decreased 0.9 percent for business-type activities.

The State completed construction on a variety of infrastructure, facilities and software projects during fiscal year 2019 totaling approximately \$648.8 million, as compared with \$315.6 million in the previous fiscal year. As further detailed in the notes to the financial statements (NOTE 20D), the State had \$398.2 million in major construction commitments (unrelated to infrastructure), as of June 30, 2019, compared to \$431.4 million for the prior year.

**Capital Assets, Net of Accumulated Depreciation**

**As of June 30, 2019 and 2018**

*(dollars in thousands)*

	As of June 30, 2019			As of June 30, 2018		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land .....	\$ 2,471,922	\$ 9,466	\$ 2,481,388	\$ 2,432,987	\$ 9,466	\$ 2,442,453
Buildings .....	1,546,166	15,084	1,561,250	1,562,728	22,048	1,584,776
Land Improvements .....	178,841	-	178,841	169,767	-	169,767
Machinery and Equipment .....	503,472	27,815	531,287	351,535	35,601	387,136
Vehicles .....	224,713	1,837	226,550	202,771	1,816	204,587
Infrastructure:						
Highway Network:						
General Subsystem .....	8,713,214	-	8,713,214	8,661,898	-	8,661,898
Priority Subsystem .....	8,875,085	-	8,875,085	8,724,307	-	8,724,307
Bridge Network .....	2,920,096	-	2,920,096	2,836,116	-	2,836,116
Parks, Recreation, and Natural Resources System ....	130,877	-	130,877	103,930	-	103,930
	<u>25,564,386</u>	<u>54,202</u>	<u>25,618,588</u>	<u>25,046,039</u>	<u>68,931</u>	<u>25,114,970</u>
Construction-in-Progress .....	2,814,725	85,180	2,899,905	2,959,550	96,598	3,056,148
Total Capital Assets, Net .....	<u>\$ 28,379,111</u>	<u>\$ 139,382</u>	<u>\$ 28,518,493</u>	<u>\$ 28,005,589</u>	<u>\$ 165,529</u>	<u>\$ 28,171,118</u>

**Modified Approach**

For reporting its highway and bridge infrastructure assets, the State has adopted the use of the modified approach. To use this approach, a government must maintain an asset management system and demonstrate that the infrastructure is being preserved approximately at or above an established condition level. Under this approach, infrastructure is not depreciated, and maintenance and preservation costs are expensed. Infrastructure assets accounted for using the modified approach include approximately 43,361 lane miles of highway and approximately 108.2 million square feet of deck area that comprises 14,344 bridges for which the State has the responsibility for ongoing maintenance.

Ohio accounts for its pavement network in two subsystems: Priority and General. It is the State's goal to allow no more than 25 percent of the total lane-miles reported for each of the priority and general subsystems to be classified with a "poor" condition rating. The most recent condition assessment, completed by the Ohio Department of Transportation (ODOT) for fiscal year 2019, indicates that 3.2 percent and 2.5 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. Comparatively, 3.1 percent and 1.4 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating in fiscal year 2018.

For the bridge network, it is the State's intention to allow no more than 15 percent of the total number of square feet of deck area to be in "fair" or "poor" condition. The most recent condition assessment, completed by ODOT for fiscal year 2019, indicates that only 1.6 percent of the number of square feet of bridge deck area was considered to be in "fair" and "poor" conditions, a 0.1 percent decrease over the prior year.

Fiscal year 2019 total actual maintenance and preservation costs for the pavement network were \$870.7 million, compared to estimated costs of \$744.3 million, while total actual maintenance and preservation costs for the bridge network was \$451.6 million, \$27.2 million above estimate. In the previous fiscal year, total actual maintenance and preservation costs for the pavement network were \$909.6 million, compared to estimated costs of \$751.3 million, while total actual maintenance and preservation costs for the bridge network were \$452.3 million, \$10.5 million below estimate. Overall, the State's costs for actual maintenance and preservation for highway infrastructure assets have exceeded estimates over the past two years due to steadily increasing underlying costs for the materials and labor associated with infrastructure projects.

More detailed information on the State's capital assets can be found in NOTE 8 to the financial statements and in the Required Supplementary Information Infrastructure section of this report.

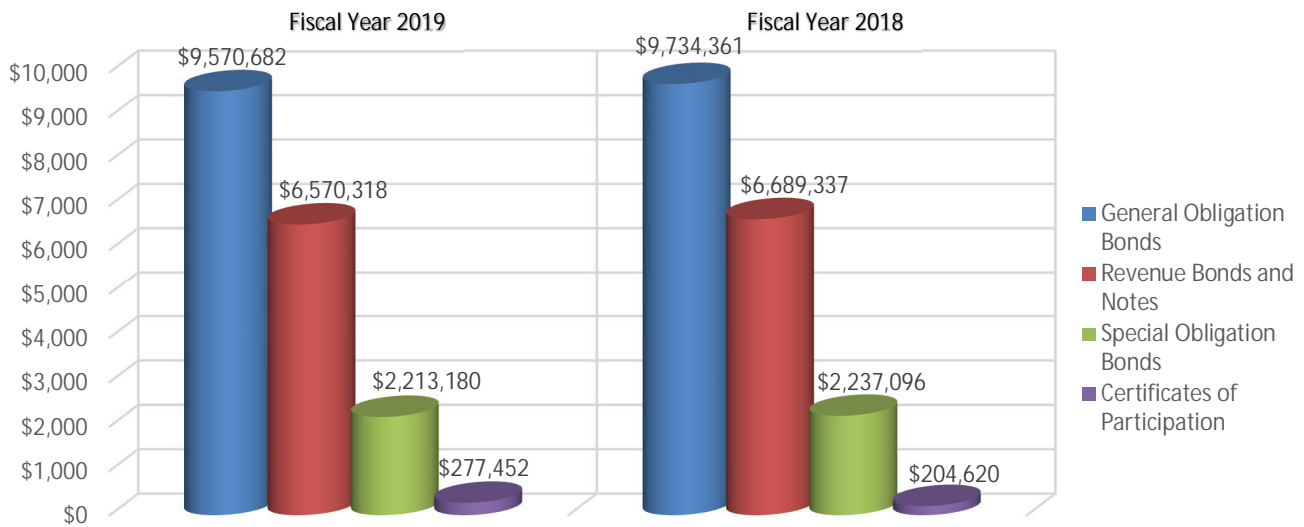
**Debt — Bonds and Notes Payable and Certificates of Participation Obligations**

The State’s general obligation bonds are backed by its full faith and credit. Revenue bonds and notes are secured with revenues pledged for the retirement of debt principal and the payment of interest. Special obligation bonds are supported with lease payments from tenants of facilities constructed with the proceeds from the bonds. Under certificate of participation (COPs) financing arrangements, the State is required to pay base rent (subject to appropriation) that approximates interest and principal payments made by trustees to certificate holders.

During fiscal year 2019, the State issued a par amount of \$697.1 million in general obligation bonds, \$205 million in special obligation bonds, and \$99.3 million in certificates of participation. There were no advance refunding bonds. The total decrease in the State’s debt for the current fiscal year, based on carrying amount, was 1.2 percent, all in governmental activities.

As of June 30, 2019, and June 30, 2018, the State had total debt, all in governmental activities, of approximately \$18.63 billion and \$18.87 billion, respectively, as shown in the chart below.

**Bonds and Notes Payable and Certificates of Participation**  
**As of June 30, 2019 and 2018**  
*(dollars in thousands)*



**Credit Ratings**

Both the State’s general and special obligation bonds carry a “stable” credit outlook from all three credit rating agencies. A credit outlook is an indication of the pressure on the rating over the near-to-intermediate term and should not be viewed as a precursor to a rating change.

The ratings and rating outlooks in effect from time to time reflect only the views of the particular rating organization. An explanation of its view of the meaning and significance of its rating or outlook may be obtained from the respective rating agency. Generally, the rating agencies base their rating on submitted information and on their own investigations, studies, and assumptions. There can be no assurance that the ratings or outlooks assigned will continue for any given time. Rating agencies may lower or withdraw a rating at any time, if in its judgment circumstances so warrant.

The State's bonds and notes are rated as follows:

<b>Credit Ratings As of June 30, 2019</b>					
Bonds and Notes	Issuer	Fitch Inc.	Moody's Investor Services, Inc.	S & P Global Ratings Services	Security and Source of Funds
<b>General Obligations Bonds:</b>					
Common Schools Capital Facilities ..	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Higher Education Capital Facilities ...	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Highway Capital Improvements .....	Treasurer of State	AA+	Aa1	AA	Highway User Receipts
Infrastructure Improvements .....	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Coal Research and Development .....	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Natural Resources Capital Facilities .	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Conservation Projects .....	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Third Frontier Research and Development .....	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Site Development .....	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Veterans' Compensation .....	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
<b>Revenue Bonds:</b>					
Major New State Infrastructure.....	Treasurer of State	N/A	Aa2	AA	Federal Transportation Grants
Tobacco Settlement Asset-Backed...	Buckeye Tobacco Settlement Financing Authority	N/A	Ca to B-	B-	Pledged Receipts from the Tobacco Master Settlement Agreement
<b>Special Obligation Bonds:</b>					
Mental Health Facilities.....	Treasurer of State	AA	Aa2	AA	General Revenue Funds
Parks and Recreation Facilities.....	Treasurer of State	AA	Aa2	AA	General Revenue Funds
Cultural and Sports Facilities.....	Treasurer of State	AA	Aa2	AA	General Revenue Funds
Adult Correctional Facilities.....	Treasurer of State	AA	Aa2	AA	General Revenue Funds
Administrative Facilities.....	Treasurer of State	AA	Aa2	AA	General Revenue Funds
Juvenile Correctional Facilities.....	Treasurer of State	AA	Aa2	AA	General Revenue Funds
Transportation Building Projects.....	Treasurer of State	AA	Aa2	AA	Highway User Receipts
Highway Safety Facilities.....	Treasurer of State	AA	Aa2	AA	Highway User Receipts

### *Limitations on Debt*

Section 17 of Article VIII of the Ohio Constitution, approved by Ohio voters in November 1999, establishes an annual debt service "cap" applicable to future issuances of 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 five percent of the total of estimated GRF revenues 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 general obligation debt for Third Frontier Research and Development, development of sites and facilities, and veterans compensation, and general obligation bonds 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 Director of the Ohio Office of Budget and Management as the State official responsible for making the five percent determinations and certifications. Application of the five percent 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 State met the requirements of Section 17 of Article VIII of the Ohio Constitution. More detailed information on the State's long-term debt, including changes during the year, can be found in NOTES 10 through 13 and NOTE 15 to the financial statements.

### **Conditions Expected to Affect Future Operations**

#### *Economic Factors*

Through October 2019, leading economic indicators might predict slowing in the pace of economic activity. The Ohio unemployment rate in October 2019 was 4.2 percent. From October 2018 to October 2019, Ohio's nonfarm payroll employment increased by approximately 20 thousand jobs.

Nationally, real gross domestic product (GDP) expanded by 1.9 percent in the third quarter, a bit faster than had been expected. The economy was two percent larger than a year earlier. Growth has slowed on a year-over-year basis after reaching 3.2 percent in the second quarter of 2018. The U.S. economy has expanded for a record 41

straight quarters at a compound annual rate of 2.3 percent. Compared with a year earlier, the real GDP is approximately 1.6 percent lower.

The national labor market outlook strengthened further in October 2019, as the level of nonfarm payroll employment increased by 128 thousand jobs. The U.S. unemployment rate for October 2019 was 3.6 percent, up from 3.5 percent in September 2019, which was the lowest level seen since December 1969.

#### *The 2020-21 Biennial Budget*

The main appropriations act (Act) for the 2020-21 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor on July 18, 2019. Reflecting a conservative underlying economic forecast, the Act provides for GRF appropriations of approximately \$34 billion in fiscal year 2020, a 4 percent increase over fiscal year 2019 actual expenditures, and \$36 billion in fiscal year 2021, a 6 percent increase over fiscal year 2020 appropriations.

GRF appropriations for major program categories in fiscal year 2020, relative to 2019 expenditures, and 2021, relative to 2020 appropriations, reflect the following changes: for Medicaid, 3.3 percent increase in fiscal year 2020 and 11.8 percent increase in fiscal year 2021; for elementary and secondary education, including transfers-in support of student wellness and success, 3.9 percent increase in fiscal year 2020, and 0.2 percent increase in fiscal year 2021; for higher education, 4.6 percent increase in fiscal year 2020, and 2.6 percent increase in fiscal year 2021; for mental health and developmental disabilities (excluding Medicaid program services), 1.4 percent decrease in fiscal year 2020, and 2.8 percent increase in fiscal year 2021; for corrections and youth services, 4 percent increase in fiscal year 2020, and 3.5 percent increase in fiscal year 2021. The Act also created the H2Ohio fund to pay for water quality projects across Ohio's waterways. The H2Ohio Fund was initially funded by a \$172 million transfer from the GRF in early fiscal year 2020. Any fiscal year 2021 GRF surplus is required to be evenly transferred between the H2Ohio Fund and the Budget Stabilization Fund.

The Act reflects certain tax policy changes, resulting in estimated net GRF revenue decreases of \$410 million in fiscal year 2020 and \$177 million in fiscal year 2021. Included in these changes are an across-the-board four percent reduction in personal income tax rates and the elimination of the bottom two income tax brackets. Additionally, the Act increases the legal age to purchase tobacco products from 18 to 21 and creates a tax on the volume of nicotine-containing vapor products.

#### *General Revenue Fund*

For fiscal year 2020, total fiscal year-to-date GRF receipts collected through October 2019 are \$78.1 million above estimates and \$225 million higher than collections through October of the prior fiscal year. Total fiscal year-to-date GRF disbursements through October 2019 are \$127.8 million below estimates for the first four months of fiscal year 2020 and \$17.6 million below expenditures for the first four months of the prior fiscal year. As of October 2019, receipts were 0.7 percent above budget estimates and disbursements were 1 percent below budget estimates for fiscal year 2020. Fiscal year 2020 receipts are 2 percent ahead of receipts for the first four months of fiscal year 2019. Disbursements for fiscal year 2020 are 0.1 percent below disbursements for the same time period of fiscal year 2019.

#### *Budget Stabilization Fund*

The Budget Stabilization Fund (BSF) is Ohio's rainy day savings account, a reserve balance set aside in good economic times to protect the State's budget from cyclical changes in revenues and expenditures should the economy become weakened unexpectedly. By law, the target balance for the BSF can be up to 8.5 percent of the prior fiscal year's GRF revenues. The BSF continues to maintain a record-high balance of over \$2.69 billion, the strongest reserves in State history.

#### *Workers' Compensation Fund*

The Ohio Bureau of Workers' Compensation (BWC) is decreasing private statewide average employer base rates an average of 20 percent for the July 1, 2019 policy year, producing estimated savings for these employers of \$244.1 million based on projected policy year 2019 payroll levels of \$127.4 billion. BWC continues to provide grants to employers to purchase safety equipment, promote health and wellness, and implement drug-free workplaces. BWC is also expanding the Substance Use Recovery and Workplace Safety program into additional counties during fiscal years 2020 and 2021. The Substance Use Recovery and Workplace Safety program provides reimbursement and training to help employers with hiring, managing, and retaining workers in addiction recovery.

#### **Contacting the Ohio Office of Budget and Management**

This financial report is designed to provide the State's citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to the Ohio Office of Budget and Management, Financial Reporting Section, 30 East Broad Street, 34<sup>th</sup> Floor, Columbus, Ohio 43215-3457 or by e-mail at [Contact@obm.ohio.gov](mailto:Contact@obm.ohio.gov).