

State of Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2020

(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, 2020. 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 2020, net position of the State's primary government increased by \$79.5 million and ended fiscal year 2020 with a \$30.19 billion balance. Net position of the State's component units decreased by \$65.3 million (after a restatement of beginning balance) and ended fiscal year 2020 with a \$10.55 billion balance. See additional discussion beginning on page 10.

Fund Financial Statements

Governmental funds reported a combined ending fund balance of \$16.92 billion that was comprised of \$200.3 million in nonspendable, \$8.98 billion restricted for specific purposes, \$1.61 billion committed, \$3.21 billion in assigned, and \$2.92 billion in unassigned. See additional discussion beginning on page 14.

As of June 30, 2020, the General Fund's fund balance was approximately \$8.37 billion, including \$60.5 million in nonspendable, \$1.41 billion in restricted, \$764.3 million in committed, \$3.21 billion in assigned, and \$2.92 billion in unassigned. The General Fund's fund balance increased by \$645.9 million (exclusive of a \$3.1 million increase in inventories) or 8.4 percent during fiscal year 2020. See additional discussion beginning on page 14.

Proprietary funds reported net position of \$11.64 billion, as of June 30, 2020, a decrease of \$1.22 billion or 9.5 percent since June 30, 2019. This decrease is largely due to the net decrease of \$1.48 billion in the Unemployment Compensation Fund. See additional discussion beginning on page 16.

Capital Assets

The carrying amount of capital assets for the State's primary government increased to \$29.1 billion at June 30, 2020. The majority of the \$579 million increase during fiscal year 2020 was from additions made to the highway network infrastructure system. See additional discussion beginning on page 16.

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 increased \$90.5 million or 0.5 percent during fiscal year 2020, for an ending balance of \$18.72 billion. During the year, the State issued a par amount of \$7.57 billion dollars in long-term debt of which \$6.37 billion was refunding bonds. See additional discussion beginning on page 18.

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 table 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
Scope	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
Required Financial Statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Fund Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	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
Type of asset/liability information	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
Type of inflow/outflow information	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 22 through 25 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 26 through 45 of this report while the combining fund statements and schedules can be found on pages 179 through 253. 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, Buckeye Tobacco Settlement Financing Authority Revenue Bonds Debt Service Fund, and Coronavirus Relief Special Revenue 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 50 through 149 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 funds and the accompanying note that explains the GAAP versus budgetary basis. Required supplementary information can be found on pages 151 through 177 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Position

During fiscal year 2020, as shown in the table below, the combined net position of the State's primary government increased by \$79.5 million or a modest 0.3 percent. Net position reported for governmental activities increased approximately \$1.3 billion or 7.5 percent, compared to the net position on July 1, 2019, and business-type activities decreased \$1.22 billion, or 9.5 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, 2020 and 2019					
	(dollars in thousands)					
	As of June 30, 2020			As of June 30, 2019		
	Govern- mental Activities	Business- Type Activities	Total Primary Government	Govern- mental Activities	Business- Type Activities	Total Primary Government
Current and Other Assets	\$ 25,837,583	\$ 28,405,731	\$ 54,243,314	\$ 22,402,143	\$ 31,221,878	\$ 53,624,021
Capital Assets.....	28,983,214	114,253	29,097,467	28,379,111	139,382	28,518,493
Total Assets.....	54,820,797	28,519,984	83,340,781	50,781,254	31,361,260	82,142,514
Deferred Outflow s of Resources.....	5,314,116	68,905	5,383,021	6,081,404	182,493	6,263,897
Current and Other Liabilities.....	10,816,307	692,521	11,508,828	8,691,295	566,953	9,258,248
Noncurrent Liabilities.....	27,418,195	16,154,457	43,572,652	28,843,447	18,054,050	46,897,497
Total Liabilities.....	38,234,502	16,846,978	55,081,480	37,534,742	18,621,003	56,155,745
Deferred Inflow s of Resources.....	3,346,892	102,024	3,448,916	2,073,057	63,682	2,136,739
Net Position:						
Net Investment in Capital Assets....	24,838,706	111,342	24,950,048	24,458,022	134,728	24,592,750
Restricted.....	4,683,057	11,674,798	16,357,855	3,928,893	12,645,810	16,574,703
Unrestricted.....	(10,968,244)	(146,253)	(11,114,497)	(11,132,056)	78,530	(11,053,526)
Total Net Position.....	\$ 18,553,519	\$ 11,639,887	\$ 30,193,406	\$ 17,254,859	\$ 12,859,068	\$ 30,113,927

As of June 30, 2020, the primary government's net investment in capital assets (e.g., land, buildings, infrastructure, and construction-in-progress) was \$24.95 billion. Restricted net position was approximately \$16.36 billion, resulting in an unrestricted \$11.11 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, 2020, is included within unrestricted net position.

The government-wide Statement of Net Position reflects a \$10.97 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 \$11.7 billion of outstanding general obligation and special obligation debt at June 30, 2020, \$8.21 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 \$4.34 billion as of June 30, 2020, for its proportionate share of the net pension liability of the associated pension plans that provide benefits to State employees. This liability was a 29.2 percent decrease from fiscal year 2019.

3) The State reported OPEB liabilities of \$3.12 billion as of June 30, 2020. This liability was a 9 percent increase from the fiscal year 2019 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 2020 and 2019 follows.

Changes in Net Position
For the Fiscal Years Ended June 30, 2020 and 2019
(dollars in thousands)

	Fiscal Year 2020			Fiscal Year 2019		
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government
Program Revenue:						
Charges for Services, Fees, Fines and Forfeitures	\$ 5,504,069	\$ 6,766,392	\$12,270,461	\$ 5,283,218	\$ 6,929,185	\$12,212,403
Operating Grants, Contributions and Restricted Investment Income/ (loss)...	28,234,460	9,011,299	37,245,759	25,555,901	2,303,277	27,859,178
Capital Grants, Contributions and Restricted Investment Income/ (loss)...	1,509,920	-	1,509,920	1,481,791	-	1,481,791
Total Program Revenues.....	35,248,449	15,777,691	51,026,140	32,320,910	9,232,462	41,553,372
General Revenues:						
General Taxes.....	24,775,978	-	24,775,978	25,388,418	-	25,388,418
Taxes Restricted for Transportation.....	2,593,158	-	2,593,158	1,874,409	-	1,874,409
Tobacco Settlement.....	324,269	-	324,269	343,125	-	343,125
Escheat Property.....	194,814	-	194,814	147,736	-	147,736
Unrestricted Investment Income.....	210,539	21	210,560	235,370	24	235,394
Other.....	67	15	82	20	38	58
Total General Revenues.....	28,098,825	36	28,098,861	27,989,078	62	27,989,140
Total Revenue.....	63,347,274	15,777,727	79,125,001	60,309,988	9,232,524	69,542,512
Expenses:						
Primary, Secondary and Other Education	13,500,953	-	13,500,953	13,115,806	-	13,115,806
Higher Education Support.....	2,696,257	-	2,696,257	2,731,166	-	2,731,166
Public Assistance and Medicaid.....	32,728,623	-	32,728,623	30,187,506	-	30,187,506
Health and Human Services.....	1,922,794	-	1,922,794	1,926,151	-	1,926,151
Justice and Public Protection.....	4,213,200	-	4,213,200	4,383,344	-	4,383,344
Environmental Protection and Natural Resources.....	505,950	-	505,950	557,249	-	557,249
Transportation.....	2,661,529	-	2,661,529	2,715,640	-	2,715,640
General Government.....	1,331,397	-	1,331,397	1,223,453	-	1,223,453
Community and Economic Development..	3,498,595	-	3,498,595	3,386,936	-	3,386,936
Interest on Long term Debt (excludes interest charged as program expense).....	98,824	-	98,824	102,143	-	102,143
Workers' Compensation.....	-	2,772,348	2,772,348	-	2,113,612	2,113,612
Lottery Commission.....	-	3,209,778	3,209,778	-	3,242,547	3,242,547
Unemployment Compensation.....	-	9,765,240	9,765,240	-	841,040	841,040
Tuition Trust Authority.....	-	44,813	44,813	-	50,778	50,778
Office of Auditor of State.....	-	95,221	95,221	-	102,347	102,347
Total Expenses.....	63,158,122	15,887,400	79,045,522	60,329,394	6,350,324	66,679,718
Surplus/ (Deficiency) Before Gains (Losses) and Transfers.....	189,152	(109,673)	79,479	(19,406)	2,882,200	2,862,794
Transfers - Internal Activities.....	1,109,508	(1,109,508)	-	1,141,335	(1,141,335)	-
Change In Net Position.....	1,298,660	(1,219,181)	79,479	1,121,929	1,740,865	2,862,794
Net Position, July 1.....	17,254,859	12,859,068	30,113,927	16,132,930	11,118,203	27,251,133
Net Position, June 30.....	\$18,553,519	\$11,639,887	\$30,193,406	\$17,254,859	\$12,859,068	\$30,113,927

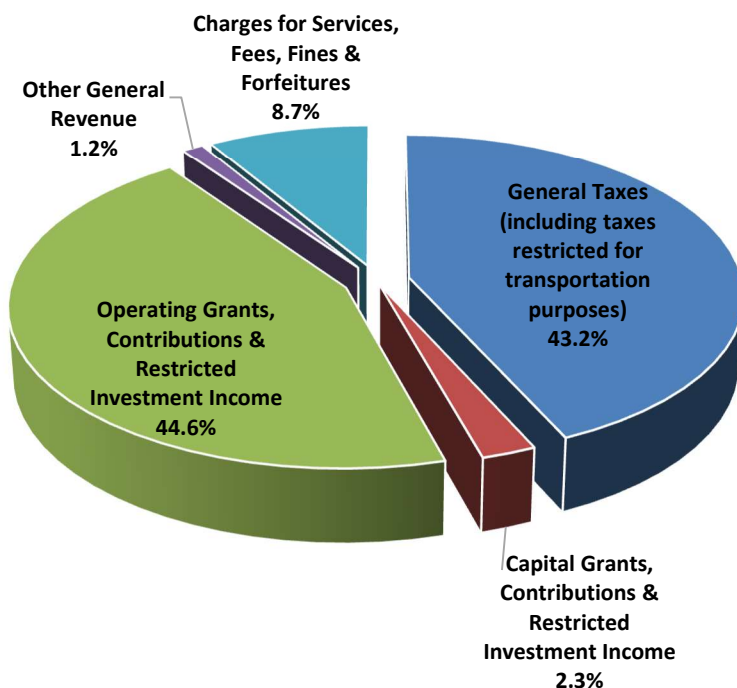
Governmental Activities

Revenues exceeded expenses during fiscal year 2020 for governmental activities. Revenues of \$63.35 billion for fiscal year 2020 were \$3.04 billion higher than those reported for fiscal year 2019. General taxes (including taxes restricted for transportation purposes) comprised 43.2 percent of fiscal year 2020 total revenues and increased by a modest 0.4 percent over the prior fiscal year. Operating grants, contributions and restricted investment income, making up 44.6 percent of total revenues, increased by 10.5 percent compared to fiscal year 2019. Expenses for fiscal year 2020 increased \$2.83 billion or 4.7 percent from fiscal year 2019 primarily in the Public Assistance and

Medicaid and Primary, Secondary and Other Education functions. Fiscal year 2020 net transfers-in of \$1.11 billion reflect a decrease of 2.8 percent from fiscal year 2019.

The following chart illustrates revenues by source of governmental activities as percentages of total reported for the fiscal year ended June 30, 2020.

Governmental Activities -- Sources of Revenue Fiscal Year 2020



Total FY 2020 Revenue for Governmental Activities = \$63.35 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, 2020, with comparative numbers from June 30, 2019. 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, 2020 and 2019
(dollars in thousands)

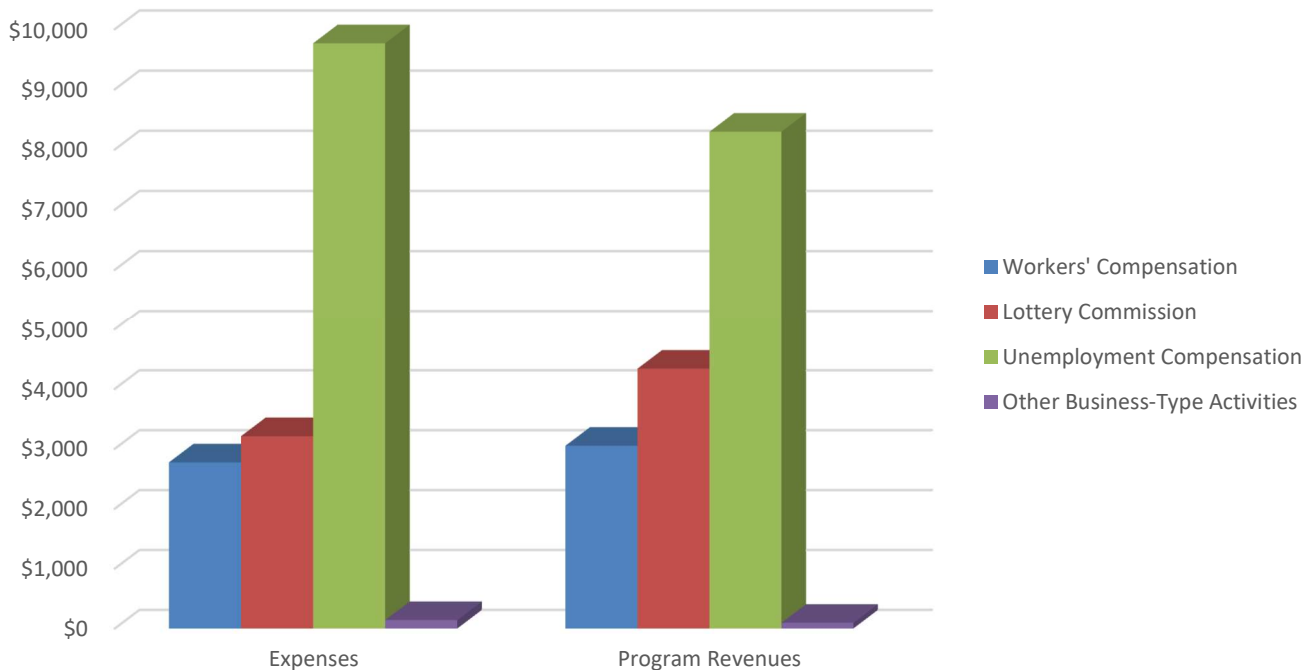
Program	Program Expenses	Percent of Total Expense	Net Cost of Program		Net Cost as Percentage of Total Expenses for Program		Net Cost as Percentage of Total Expenses — All Programs	
			2020	2019	2020	2019	2020	2019
Primary, Secondary and Other Education.....	\$ 13,500,953	21.4%	\$ 11,551,466	\$ 11,115,257	85.6%	84.7%	18.3%	18.4%
Higher Education Support.....	2,696,257	4.3%	2,667,194	2,701,161	98.9%	98.9%	4.2%	4.5%
Public Assistance and Medicaid.....	32,728,623	51.8%	5,862,560	5,809,722	17.9%	19.2%	9.3%	9.6%
Health and Human Services.....	1,922,794	3.0%	360,956	869,496	18.8%	45.1%	0.5%	1.4%
Justice and Public Protection.....	4,213,200	6.7%	2,823,042	2,979,975	67.0%	68.0%	4.5%	4.9%
Environmental Protection and Natural Resources.....	505,950	0.8%	170,329	207,819	33.7%	37.3%	0.3%	0.3%
Transportation.....	2,661,529	4.2%	896,290	994,590	33.7%	36.6%	1.4%	1.7%
General Government.....	1,331,397	2.1%	776,160	537,500	58.3%	43.9%	1.2%	0.9%
Community and Economic Development.....	3,498,595	5.5%	2,702,852	2,690,821	77.3%	79.4%	4.3%	4.5%
Interest on Long-Term Debt.....	98,824	0.2%	98,824	102,143	100.0%	100.0%	0.2%	0.2%
Total Governmental Activities.....	<u>\$ 63,158,122</u>	<u>100.0%</u>	<u>\$ 27,909,673</u>	<u>\$ 28,008,484</u>	<u>44.2%</u>	<u>46.4%</u>	<u>44.2%</u>	<u>46.4%</u>

Business-Type Activities

The State's enterprise funds reported net position of \$11.64 billion, as of June 30, 2020, compared to \$12.86 billion, as of June 30, 2019, a decrease of \$1.22 billion, or 9.5 percent. The Unemployment Compensation Fund reported a \$1.48 billion decrease in net position during fiscal year 2020, primarily due to the novel coronavirus (COVID-19) pandemic and the resulting spike in unemployment rates. The Workers' Compensation Fund reported a \$268.5 million increase in net position during fiscal year 2020 primarily from higher returns on its investment portfolio.

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 16.

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2020
(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, 2020, and June 30, 2019 (dollars in thousands).

	As of and for the Fiscal Year Ended June 30, 2020			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance (Deficit).....	\$ 2,924,183	\$ -	\$ -	\$ 2,924,183
Total Fund Balance.....	8,367,212	4,643,948	3,911,273	16,922,433
Total Revenues.....	37,891,148	15,364,846	9,962,291	63,218,285
Total Expenditures.....	36,005,625	15,692,379	13,296,752	64,994,756

	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

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2020, General Fund revenue increased by \$237.8 million. Federal grant revenue rose \$659.4 million or 7 percent primarily due to increased funding for Medicaid and COVID-19 related expenditures. Sales Tax and Motor Vehicle Fuel Tax revenues each rose over \$200 million. A decrease in Income Tax revenue of \$726.5 million or 7.6 percent was due to a combination of tax policy changes providing a four percent personal income tax reduction effective for tax year 2019 and a rise in the unemployment rate due to the COVID-19 pandemic. Expenditures increased \$1.45 billion, or 4.2 percent, from the prior year. Public Assistance and Medicaid and Primary, Secondary and Other Education showed increased expenditures of \$635.7 million and \$541.5 million, respectively, largely due to higher Medicaid spending in response to COVID-19 and new spending for the Student Wellness and Success fund that addresses nonacademic barriers such as mental health services and mentoring. Total fund balance at June 30, 2020, increased by \$645.9 million (exclusive of a \$3.1 million increase in inventories) or 8.4 percent. The State's Budget Stabilization Fund remained unchanged with a balance of over \$2.69 billion that is included within unassigned fund balance.

General Fund Budgetary Highlights

The State ended the first year of its 2020-21 biennial budget on June 30, 2020, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of \$5.73 billion. Total budgetary sources for the General Fund (including \$1.12 billion in transfers from other funds) in the amount of \$40.23 billion were below final estimates by \$402.8 million or 1 percent during fiscal year 2020. Primarily this shortfall was the result of lower than expected transfers from other funds. Total tax receipts were above final estimates by \$372.4 million or 1.5 percent due to higher than expected income and sales tax receipts.

Total budgetary uses for the General Fund (including \$1.52 billion in transfers to other funds) in the amount of \$41.49 billion were below final estimates by \$3.2 billion or 7.2 percent for fiscal year 2020. The majority of lower than appropriated spending came from community and economic development and higher education programs. Additionally, there were lower than expected transfers to other funds. There was no budget stabilization designation at June 30, 2019, for use in balancing the final fiscal year 2020 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, following a 17-day interim appropriations act. Reflecting a goal of making wise investments to positively impact Ohio's future, the budget targeted resources to children and families, as well as to Ohio's education system, workforce, local communities, environment, and mental health and addiction recovery efforts. The Act provided for GRF appropriations of approximately \$34 billion in fiscal year 2020, a 4 percent increase from fiscal year 2019 expenditures, and approximately \$36 billion in fiscal year 2021, a 6 percent increase from fiscal year 2020 appropriations. The underlying economic forecast does not consider the possible economic effects of the COVID-19 pandemic.

GRF appropriations for major program categories in fiscal year 2020, relative to 2019 actual spending, and 2021, relative to 2020 appropriations, reflect the following changes: 3.3 percent increase in Medicaid in fiscal year 2020 and 11.8 percent increase in fiscal year 2021; increases of 3.9 percent in fiscal year 2020 and 0.2 percent in fiscal year 2021, which include transfers from the GRF in support of student wellness and success, for primary and secondary education; increases of 4.6 percent in fiscal year 2020 and 2.6 percent in fiscal year 2021 for higher education; 1.4 percent decrease in fiscal year 2020 and a 2.8 percent increase in fiscal year 2021 for mental health and developmental disabilities; and increases of 4 percent in fiscal year 2020 and 3.5 percent in fiscal year 2021 for corrections and youth services.

The Act reflects tax law changes that are projected to decrease GRF revenues by approximately \$410 million in fiscal year 2020 and \$177 million in fiscal year 2021. These items include an across-the-board four percent reduction in State personal income tax rates and elimination of the bottom two tax brackets (effective in tax year 2019), which will eliminate tax liability for individuals with taxable income less than \$21,750, and the creation of two new non-refundable tax credits, one for lead abatement expenses and one for Qualified Opportunity Zone investments. Also reflected in the 2020-21 Act is the creation of the H2Ohio Fund to pay for water quality projects in Lake Erie and across Ohio's rivers, lakes, and waterways. A \$172 million GRF transfer initially funded the H2Ohio Fund in fiscal year 2020. The Act requires that fiscal year 2021 GRF surplus, if any, be transferred in equal amounts to the H2Ohio Fund and the Budget Stabilization Fund.

As widely reported, the COVID-19 pandemic late in fiscal year 2020 had negative impacts on global and local economies. The State took steps to mitigate some effects on the State's financial position for later fiscal year 2020 and for fiscal year 2021 by reducing non-essential expenditures. The mitigating measures included non-essential hiring freezes, pay freezes, contract services freezes not essential for the emergency response and, state agency spending cuts not related to the pandemic response or other essential government functions up to 20 percent. Some agencies increased spending in targeted areas to mitigate the health and economic impacts of COVID-19.

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 2020 with a GRF cash balance of \$1.27 billion and a GRF budgetary fund balance of \$784.8 million. The State continues to meet its statutory target to maintain an ending fund balance reflecting one-half of one percent of fiscal year 2020 GRF revenues.

Other Major Governmental Funds

The *Job, Family and Other Human Services Fund* had a fund balance of \$312.5 million at June 30, 2020, an increase of \$25.9 million, or 9.1 percent, compared to fiscal year 2019. During fiscal year 2020, Federal Government revenue increased \$1.2 billion and Public Assistance and Medicaid expenditures increased \$1.61 billion related to Medicaid spending partly due to COVID-19 pandemic effects. Contributing to the increase in fund balance was a \$227.1 million increase in Sales, Services and Charges revenue and a decrease of nearly \$200 million in Transfers-out of cash.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2020, totaled approximately \$4.31 billion dollars, a decrease of \$118.9 million or 2.7 percent since June 30, 2019. In fiscal year 2020, the Authority issued a par amount of \$5.35 billion in refunding bonds, which had an associated net premium of \$511.9 million. The Payment to Refunded Bond Escrow Agents of \$5.57 billion and Debt Service payments of \$593.7 million offsets the bond related proceeds and Tobacco Settlement revenue of \$286.5 million resulting in a net decrease in fund balance.

The *Coronavirus Relief Fund* was created in late fiscal year 2020 to receive \$3.75 billion of federal funding under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) for emergency expenditures related to the COVID-19 pandemic. Total expenditures of \$430.2 million include General Government expenditures of \$350.1 million in allowable distributions to local governments to cover expenses incurred due to the public health emergency. The \$80.1 million balance of expenditures consists primarily of State agency purchases for personal protection equipment and other allowable COVID-19 related costs. The State reports \$430.3 million in revenue which includes \$9.6 million in Investment Income. The balance of funding received but not expended as of June 30, 2020, is reported as a \$3.3 billion Unearned Revenue liability. The fund balance as of June 30, 2020, totaled \$24.6 million.

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 2020 net position increased by \$268.5 million, or 2.4 percent, to \$11.56 billion, as compared to the prior year. Despite an increase in Benefits and Claims expense of \$500.7 million and an Investment Income decrease of \$398.2 million, overall revenues exceeded expenses resulting in a modest net position increase over the prior year.

For fiscal year 2020, the *Lottery Commission Fund* reported \$1.13 billion in net income before transfers of approximately \$1.13 billion to the Lottery Profits Education Fund. Net position at June 30, 2020, in the amount of \$246.6 million, decreased a slight 0.3 percent from fiscal year 2019.

The Unemployment Compensation Fund ended fiscal year 2020 with a \$176.6 million net deficit. The \$1.48 billion net position decrease in the Unemployment Compensation Fund over the prior year is due to the economic impact of the COVID-19 pandemic and resulting unemployment rate increases. The unemployment rate in Ohio increased from an average of 4.3 percent in fiscal year 2019 to an average of 6.7 percent in fiscal year 2020, with spikes starting late in fiscal year 2020. Federal Government revenue increased \$7.1 billion in response to the crisis compared to the prior fiscal year. Unemployment Benefits and Claims expense increased \$8.92 billion over the previous fiscal year. Additionally, to assist in offsetting rising unemployment benefit costs, the State secured \$217.8 million in federal repayable advances (loans) in accordance with Title XII of the Social Security Act from the Federal Unemployment Account. The total amount of federal repayable advances is outstanding at June 30, 2020, and reported as an Intergovernmental Payable.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2020, and June 30, 2019, the State's primary government had invested \$29.1 billion and \$28.52 billion, respectively, net of accumulated depreciation of \$4.99 billion and \$4.86 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 2 percent (a 2.1 percent increase for governmental activities and an 18 percent decrease for business-type activities). Depreciation expense decreased 35.2 percent for governmental activities and decreased 7.3 percent for business-type activities.

The State completed construction on a variety of infrastructure, facilities and software projects during fiscal year 2020 totaling approximately \$1.01 billion, as compared with \$648.8 million in the previous fiscal year. As further detailed in the notes to the financial statements (NOTE 20D), the State had \$487.9 million in major construction commitments (unrelated to infrastructure), as of June 30, 2020, compared to \$398.2 million for the prior year.

Capital Assets, Net of Accumulated Depreciation

As of June 30, 2020 and 2019

(dollars in thousands)

	As of June 30, 2020			As of June 30, 2019		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 2,519,465	\$ 9,466	\$ 2,528,931	\$ 2,471,922	\$ 9,466	\$ 2,481,388
Buildings	1,644,209	7,960	1,652,169	1,546,166	15,084	1,561,250
Land Improvements	172,476	-	172,476	178,841	-	178,841
Machinery and Equipment	505,189	21,491	526,680	503,472	27,815	531,287
Vehicles	226,724	1,413	228,137	224,713	1,837	226,550
Infrastructure:						
Highway Network:						
General Subsystem	9,074,849	-	9,074,849	8,713,214	-	8,713,214
Priority Subsystem	9,143,435	-	9,143,435	8,875,085	-	8,875,085
Bridge Network	2,996,353	-	2,996,353	2,920,096	-	2,920,096
Parks, Recreation, and Natural Resources System	225,860	-	225,860	130,877	-	130,877
	26,508,560	40,330	26,548,890	25,564,386	54,202	25,618,588
Construction-in-Progress	2,474,654	73,923	2,548,577	2,814,725	85,180	2,899,905
Total Capital Assets, Net	<u>\$ 28,983,214</u>	<u>\$ 114,253</u>	<u>\$ 29,097,467</u>	<u>\$ 28,379,111</u>	<u>\$ 139,382</u>	<u>\$ 28,518,493</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 43,422 lane miles of highway and approximately 108.4 million square feet of deck area that comprises 14,352 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 2020, indicates that 4.1 percent and 2.2 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. Comparatively, 3.2 percent and 2.5 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating in fiscal year 2019.

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 2020, indicates that only 1.4 percent of the number of square feet of bridge deck area was considered to be in "fair" and "poor" conditions, a 0.2 percent decrease over the prior year.

Fiscal year 2020 total actual maintenance and preservation costs for the pavement network were \$898.5 million, compared to estimated costs of \$699.2 million, while total actual maintenance and preservation costs for the bridge network were \$447.5 million, \$55.4 million above estimate. In the previous fiscal year, 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 were \$451.6 million, \$27.2 million above 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.

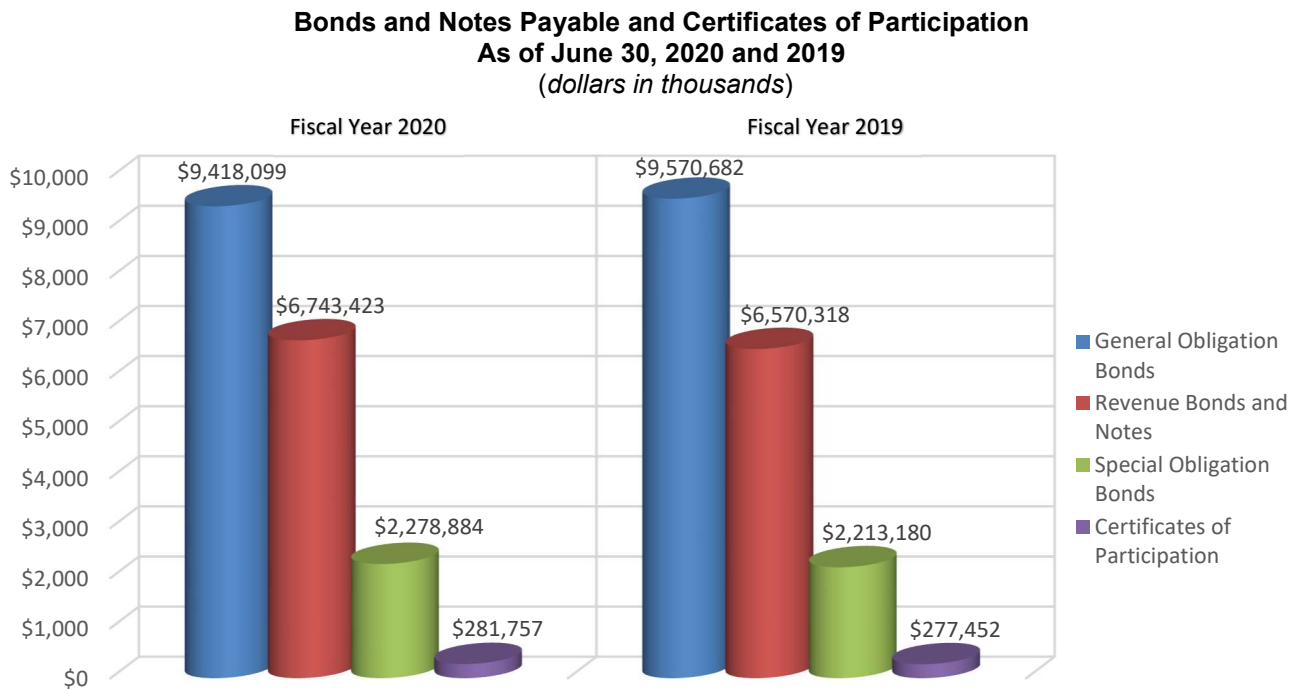
More detailed information on the State's capital assets can be found in NOTE 8 to the financial statements and in the Required Supplementary Information Infrastructure section of this report.

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 2020, the State issued a par amount of \$1.53 billion in general obligation bonds, \$5.53 billion in revenue bonds, \$472.2 million in special obligation bonds, and \$31.1 million in certificates of participation. Of the general obligation bonds, revenue bonds, and special obligation bonds issued, \$805.1 million, \$5.35 billion, and \$215.3 million, respectively, were refunding bonds. The total increase in the State's debt for the current fiscal year, based on carrying amount, was 0.5 percent, all in governmental activities.

As of June 30, 2020, and June 30, 2019, the State had total debt, all in governmental activities, of approximately \$18.72 billion and \$18.63 billion, respectively, as shown in the chart below.



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:

Credit Ratings As of June 30, 2020						
Bonds and Notes	Issuer	Fitch Inc.	Kroll Bond Rating Agency	Moody's Investor Services, Inc.	S & P Global Ratings Services	Security and Source of Funds
General Obligations Bonds:						
Common Schools Capital Facilities ...	Ohio Public Facilities Commission	AA+	N/A	Aa1	AA+	General Revenue Funds
Higher Education Capital Facilities	Ohio Public Facilities Commission	AA+	N/A	Aa1	AA+	General Revenue Funds
Highway Capital Improvements	Treasurer of State	AA+	AAA	Aa1	AAA	Highway User Receipts
Infrastructure Improvements	Ohio Public Facilities Commission	AA+	N/A	Aa1	AA+	General Revenue Funds
Coal Research and Development	Ohio Public Facilities Commission	AA+	N/A	Aa1	AA+	General Revenue Funds
Natural Resources Capital Facilities ..	Ohio Public Facilities Commission	AA+	N/A	Aa1	AA+	General Revenue Funds
Conservation Projects	Ohio Public Facilities Commission	AA+	N/A	Aa1	AA+	General Revenue Funds
Third Frontier Research and Development	Ohio Public Facilities Commission	AA+	N/A	Aa1	AA+	General Revenue Funds
Site Development	Ohio Public Facilities Commission	AA+	N/A	Aa1	AA+	General Revenue Funds
Veterans' Compensation	Ohio Public Facilities Commission	AA+	N/A	Aa1	AA+	General Revenue Funds
Revenue Bonds:						
Major New State Infrastructure.....	Treasurer of State	N/A	N/A	Aa2	AA	Federal Transportation Grants
Tobacco Settlement Asset-Backed.....	Buckeye Tobacco Settlement Financing Authority	N/A	N/A	N/A	BBB+ to A*	Pledged Receipts from the Tobacco Master Settlement Agreement
*The Class 2 Senior Current Interest Bonds and the Class 2 Turbo Capital Appreciation Bonds are Non-Rated.						
Special Obligation Bonds:						
Mental Health Facilities.....	Treasurer of State	AA	N/A	Aa2	AA	General Revenue Funds
Parks and Recreation Facilities.....	Treasurer of State	AA	N/A	Aa2	AA	General Revenue Funds
Cultural and Sports Facilities.....	Treasurer of State	AA	N/A	Aa2	AA	General Revenue Funds
Adult Correctional Facilities.....	Treasurer of State	AA	N/A	Aa2	AA	General Revenue Funds
Administrative Facilities.....	Treasurer of State	AA	N/A	Aa2	AA	General Revenue Funds
Juvenile Correctional Facilities.....	Treasurer of State	AA	N/A	Aa2	AA	General Revenue Funds
Transportation Building Projects.....	Treasurer of State	AA	N/A	Aa2	AA	Highway User Receipts
Highway Safety Facilities.....	Treasurer of State	AA	N/A	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

In March 2020, the onset of the COVID-19 pandemic in the United States resulted in the temporary closure of many non-essential businesses and a sharp decrease in economic activity. Ohio's unemployment rate rose from 4.2 percent in October 2019 to 17.3 percent in April 2020. In May 2020, restrictions eased, and economic recovery began at a slow pace. At the beginning of November 2020, the consensus among forecasters suggest the economy with continue to grow in the fourth quarter of calendar year 2020. Ohio's unemployment rate in October 2020 was 5.6 percent, a decrease of 11.7 percent from April 2020. From October 2019 to October 2020, Ohio's nonfarm payroll employment decreased by approximately 354 thousand jobs.

Nationally, real gross domestic product (GDP) expanded in the third quarter at an annualized rate of 33.1 percent, following a 31.4 percent decrease in the second quarter of the calendar year. Growth has slowed on a year-over-year basis due to the response in combating the impact of the COVID-19 pandemic. Compared with a year earlier, the real GDP is approximately 2.9 percent lower.

The national labor market outlook strengthened further in October 2020, as the level of nonfarm payroll employment increased by 638 thousand jobs. While this is the sixth straight month of increases, these gains were smaller than in the prior five months. The U.S. unemployment rate for October 2020 was 6.9 percent, up from 3.6 percent in October 2019.

General Revenue Fund

For fiscal year 2021, total fiscal year-to-date GRF receipts collected through October 2020 are \$25.6 million below estimates and \$2.1 billion higher than collections through October of the prior fiscal year. Total fiscal year-to-date GRF disbursements through October 2020 are \$725.6 million below estimates for the first four months of fiscal year 2021 and \$858.3 million above expenditures for the first four months of the prior fiscal year. As of October 2020, receipts were 0.2 percent below budget estimates and disbursements were 5.2 percent below budget estimates for fiscal year 2021. Fiscal year 2021 receipts are 18.5 percent ahead of receipts for the first four months of fiscal year 2020, due largely to an increase in federal grant funding. Disbursements for fiscal year 2021 are 7 percent above disbursements for the same time period of fiscal year 2020.

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 balance of over \$2.69 billion.

Workers' Compensation Fund

The Ohio Bureau of Workers' Compensation (BWC) has taken measures to address the economic impact on its financial situation and the challenges its customers are experiencing related to the COVID-19 pandemic. BWC's actions include: negotiating cost reductions with current suppliers and limiting non-critical purchases in compliance with Governor DeWine's Executive Orders and other State guidance, reducing private employer estimated annual payroll by 20 percent for the policy year beginning July 1, 2020, and approving a policy holder dividend of up to \$1.5 billion to private and public taxing district (PEC) employers. In addition, private employer statewide average base rates will decrease an average of 13 percent for the July 1, 2020, policy year, while those for PEC will decrease 10 percent for the January 1, 2021, policy year.

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, 34th Floor, Columbus, Ohio 43215-3457 or by e-mail at Contact@obm.ohio.gov.