

**HOUSE FINANCE AND APPROPRIATIONS COMMITTEE**  
**H.B. 675, CAPITAL BUDGET FY2003-2004**  
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Chairman Calvert, ranking member Jerse, members of the committee, my name is Tom Johnson, and I am the Director of the Office of Budget and Management.

I want to thank you for the opportunity to testify today in support of House Bill 675, the Taft Administration's capital budget for fiscal years 2003 and 2004.

The primary purpose of this capital budget is to address the state's ongoing need to maintain, improve, and construct state facilities and primary and secondary education facilities throughout Ohio. Although some of these appropriations are directed toward new construction, the majority is targeted for improving or replacing existing facilities.

Most capital improvements in Ohio are funded through the issuance of debt. The state's debt burden is considered moderate by national standards and Ohio's Constitutional requirement of using no more than 5 percent of annual GRF revenue for debt service is regarded as reasonable and responsible. The state's conservative debt management policies and practices have resulted in solid bond ratings from the three main rating agencies: Standard and Poor's, Fitch, and Moody's Investors' Services.

Standard and Poor's and Fitch rate Ohio's general obligation debt, which is backed by the full faith and credit of the state, as AA+. Moody's gives this debt a comparable Aa1 rating. Ohio's lease-obligation debt, which is backed by GRF appropriations, is rated AA by Standard

and Poor's and Fitch and Aa2 by Moody's. A direct result of these solid ratings is that the state pays lower interest rates on the bonds it sells.

House Bill 675 contains total capital appropriations of \$1.27 billion. Of that amount, \$1.1 billion will be financed with the issuance of debt that will be repaid with debt service appropriations from the general revenue fund. The remainder, \$150.5 million, will be paid for with a mix of other funding sources, such as debt backed by non-GRF sources and other funds that are backed by cash and interest earnings. Unlike prior capital bills, this bill contains no GRF appropriations.

The capital bill before you is smaller than the proposed capital bill for the FY 2001-02 biennium. A significant number of capital appropriations for the FY 2003-04 biennium have already been enacted by the General Assembly. Nearly \$1.0 billion in capital appropriations for this biennium are included in other legislation. Total capital appropriations for FYs 2003-04, including tobacco revenue, are also smaller than those of the last biennium.

	<u>FY 2001-02</u>	<u>FY 2003-04</u>
Capital Bill	\$1.81 billion	\$1.27 billion
	<u>FY 2001-02</u>	<u>FY 2003-04</u>
Total Capital Appropriations	\$2.48 billion	\$2.41 billion
GRF-Backed Debt	\$1.81 billion	\$2.06 billion
Other Funds	\$0.67 billion	\$0.35 billion

For the current biennium, capital appropriations have already been provided for:

School Facilities Commission	\$300.0 million	HB 94, Operating Budget
	\$345.0 million	SB 261, Corrective Bill
	\$148.4 million	SB 242, Tobacco Bill
Public Works Commission	\$289.5 million	HB 524, Reappropriations
Third Frontier	\$50.0 million	SB 261, Corrective Bill

While we are seeing a decrease in total capital appropriations from last biennium, our reliance on GRF-backed debt is increasing. A couple of factors have contributed to this shift.

- As I have already mentioned, while prior capital bills have included GRF appropriations, there is no GRF available in this bill. In the last biennium, for example, \$120.0 million in GRF was used to support school facilities and an additional \$50.0 million was provided for community projects.
- Transfers of tobacco revenue to the GRF have also increased our dependence on GRF-backed debt. The transfer of tobacco revenue included in Senate Bill 261 required us to find an additional \$345.0 million in debt financing to implement our school facilities plan.

This increase in GRF-backed debt does not offset the significant increase needed for school facilities. To accommodate this, most state agencies will experience considerable reductions in their capital appropriations from prior bienniums. For example:

	<u>FY 2001-02</u>	<u>FY 2003-04</u>
Rehabilitation & Corrections	\$90.0 million	\$40.0 million
Mental Health	\$49.5 million	\$19.4 million
MR/DD	\$30.0 million	\$13.4 million

Most other state agencies are facing reductions of the same magnitude. In order to maintain our existing state capital investments, this reduced level of funding cannot continue in future bienniums.

**State of Ohio**  
**Summary of Governor Taft's Proposed Capital Budget for FYs 2003-2004**  
**H. B. 675, as Introduced**

<b>State Agencies</b>	<b>Appropriations by Source</b>		
	<b>GRF Debt Funds</b>	<b>Other Funds</b>	<b>Total</b>
Alcohol and Drug Addiction Services	266,512	0	266,512
Adjutant General	7,000,000	0	7,000,000
Administrative Services	42,385,882	0	42,385,882
Agriculture	8,285,536	0	8,285,536
Arts & Sports Facilities Commission	57,827,833	0	57,827,833
Board of Regents/Higher Education	504,468,468	0	504,468,468
Capitol Square Review and Advisory Board	500,000	0	500,000
Commerce	0	3,300,000	3,300,000
Development	0	50,000,000	50,000,000
Education Telecommunications Commission	1,000,626	0	1,000,626
Expositions Commission	5,500,000	0	5,500,000
Health	800,000	0	800,000
Historical Society *	5,000,000	0	5,000,000
Job and Family Services	0	16,000,000	16,000,000
Judiciary/Supreme Court	5,476,000	0	5,476,000
Mental Health	19,412,500	0	19,412,500
Mental Retardation	13,400,000	0	13,400,000
Natural Resources	54,075,000	9,421,093	63,496,093
Public Safety	1,500,000	5,409,329	6,909,329
Public Works	37,500,000	0	37,500,000
Rehabilitation and Correction	40,000,000	0	40,000,000
School Facilities Commission	249,200,000	65,000,000	314,200,000
School for the Blind	2,000,000	0	2,000,000
School for the Deaf	2,077,954	0	2,077,954
Secretary of State	5,800,000	0	5,800,000
Third Frontier	50,000,000	0	50,000,000
Transportation	0	50,000	50,000
Veterans' Home	600,000	1,279,500	1,879,500
Youth Services	10,000,000	0	10,000,000
<b>Subtotal: New Capital Bill [HB 675]</b>	<b>1,124,076,311</b>	<b>150,459,922</b>	<b>1,274,536,233</b>
School Facilities Commission [in HB 94, SB 261 & SB 242]**	645,000,000	148,400,000	793,400,000
Public Works Commission [in HB 524]	240,000,000	49,500,000	289,500,000
Regents - Third Frontier - [in SB 261]	50,000,000	0	50,000,000
Veterans' Home [in HB 524]	1,377,000	0	1,377,000
<b>Grand Total: Capital Budget for FYs 2003-2004</b>	<b>2,060,453,311</b>	<b>348,359,922</b>	<b>2,408,813,233</b>

\* The \$5,000,000 for the Ohio Historical Society is appropriated in Fund 030 to the Arts and Sports Facilities Commission

\*\* SB 242 also canceled \$180M in outstanding encumbrances

## **Highlights of the Capital Appropriations**

Some highlights of the capital appropriations in this bill are as follows:

### **School Building Assistance**

This capital budget supports Governor Taft's highest priority of enabling every child to succeed. It provides \$314.2 million over the FY 2003-04 biennium for the construction and renovation of Ohio's primary and secondary educational facilities. In doing so, the budget meets Governor Taft's commitment for the biennium as envisioned by his 12-year plan to rebuild Ohio's schools. In total, \$927.6 million has been appropriated for FYs 2003-04 from a combination of funding sources, including bond proceeds and tobacco settlement revenues. Over \$2.0 million is being spent daily on school construction.

As introduced, this capital measure will allow the state to continue funding its share of the cost for over 300 school facility building projects, currently in design or construction, including an additional 16 school districts that were approved for funding in FY 2003. More specifically, the proposed \$314.2 million will support the Classroom Facilities Assistance (CFAP), the Exceptional Needs, and the Accelerated Urban School Building Assistance programs, among the other successful initiatives administered by the Ohio School Facilities Commission.

Another component of the Governor's plan for school facilities is being addressed in this legislation with the creation of the Joint Vocational School Facilities Assistance Program. As written, up to 2% of any Classroom Facilities Assistance Program appropriations made in a given year will be set-aside for renovating and upgrading Ohio's joint vocational school buildings. This will be nearly \$9.0 million per fiscal year. Similar to the Classroom Facilities

Assistance Program, funding for Joint Vocational School District facility projects will be based on a calculated local/state share, derived from a 3-year average relative wealth ranking for all Joint Vocational School Districts. The process for renovating and upgrading these facilities may begin as soon as FY 2004 for the first five Joint Vocational Schools.

## **Higher Education**

As I have already outlined, most state agencies will experience significant reductions in capital appropriations under this proposal. Even in this tight economic environment, this bill makes higher education facilities a priority. House Bill 675 recognizes the need to adequately fund the critically important infrastructure on our higher education campuses by providing:

- ❑ \$307.5 million for campus specific projects.
- ❑ \$91.0 million dollars to institutions for basic renovations.
- ❑ \$20.0 million dollars for Research Facilities Action and Investment Funds to promote research and economic development in Ohio.
- ❑ \$2.0 million dollars for Eminent Scholars Capital Grants. This program, tied to investments that were made in Senate Bill 261, enhances the ability of Ohio's institutions to attract recognized scholars and address issues of vital statewide significance.

## **Third Frontier**

This capital budget also supports the state's largest commitment ever to expanding Ohio's high-tech research capabilities and creating high-wage jobs by providing \$50.0 million in funding for Governor Taft's Third Frontier Initiative. The \$50.0 million included in this bill is

the second in a series of appropriations that will total \$500.0 million to strengthen Ohio's research and commercialization capacity and is just one component of the Governor's 10-year, \$1.6 billion plan. The first \$50.0 million, authorized in Senate Bill 261, will be used to create Wright Centers of Innovation focusing on such things as biomedical technology and information technology. The funding included in this bill will be awarded on a competitive basis to support the facilities and equipment necessary for research programs, technology and product development, and commercialization programs at or involving state-assisted institutions of higher education.

The proposal before you also includes several language provisions necessary to implement the Third Frontier initiative: Specifically, House Bill 675:

- ❑ Creates the Third Frontier Commission to coordinate and administer science and technology programs that expand Ohio's high technology research and development capabilities. The Commission consists of the director of the Department of Development, the Chancellor of the Board of Regents, and the Governor's Science and Technology Advisor.
- ❑ Creates the Third Frontier Advisory Board, a 16-member body appointed by the Governor and the leaders of the House and Senate to provide general advice to the Third Frontier Commission on issues such as strategic planning and funding priorities.
- ❑ Establishes the Innovation Ohio Loan Program to help finance targeted industries with high-growth, high-wage potential consistent with regional priorities.

## **Additional Priorities**

In addition to the major initiatives I just highlighted, this budget provides support for a number of other important priorities such as addressing the lab needs of the state, updating voting machines, and supporting key local projects in communities across Ohio.

### **□ Constructing a new lab**

The missions of the Ohio Department of Health and the Ohio Environmental Protection Agency focus on protecting the health of the citizens of Ohio as well as the environment of the state. ODH prevents human health threats and maintains the only laboratory in Ohio with the authority for testing agents of bioterrorism. The EPA protects the environment and public health by reducing or eliminating environmental pollutants that can adversely affect the health of Ohioans. Murray Hall, the current location of both labs, is no longer able to accommodate the testing demands of both agencies. It has structural and operational problems that limit ODH's ability to address bioterrorism testing and EPA's ability to conduct hazardous waste sample analysis.

Given recent events, such as the anthrax scare of last year, the emergence of West Nile Virus, and continuing threats of bioterrorism, the timing is right to create a lab facility that can adequately respond to the health and safety needs of Ohio's citizens.

### **□ Updating our voting machines**

This budget also proposes appropriating \$5.8 million to match approximately \$115.0 million in federal funds made available to the State of Ohio through the federal Help America Vote Act of 2002. These funds will be used by the Secretary of State's office to purchase updated voting machines across the state.

❑ **Supporting key community projects**

Finally, House Bill 675 includes investments in a number of capital projects that will enhance community and economic development in communities across the state. These are investments that have the backing of local leaders and most often include commitments of local resources.

**Language Issues**

In addition to the capital appropriations I have just described, House Bill 675 includes a few language changes that I would like to bring to your attention. The most significant items include changes to trusts and Chapter 4117 of the Ohio Revised Code.

**Trust Changes**

The trust changes included in this proposal include technical corrections, a provision to ease administrative compliance for bank trust departments, and language changes to clarify business/non-business income. The Ohio Department of Taxation has worked with interested parties on the provisions included in this bill. Many of these changes are critical to ensure that the revenue assumptions used in Senate Bill 261 are realized.

**Changes to Chapter 4117**

House Bill 675 also includes two collective bargaining issues that modify Chapter 4117 of the Ohio Revised Code. Language in the bill:

- ❑ Creates an exception for licensed attorneys working for public employers. Adding this exception is consistent with the other exceptions already included in section

4117.01(C) of the Ohio Revised Code. Under current law, many public attorneys are not in bargaining units but some are. This change recognizes that when licensed attorneys work for public employers, they serve in a fiduciary, personal, and confidential capacity to their employers based upon the attorney client relationship.

- Gives the State Controlling Board the authority to reject the recommendations in the fact finder's report regarding disputes in a state collective bargaining agreement.

Currently, this authority rests with the General Assembly.

### **Conclusion**

This concludes my testimony on the proposed capital budget. I will be happy to answer any questions you may have.