

HOUSE FINANCE AND APPROPRIATIONS COMMITTEE
H.B. 16, CAPITAL BUDGET FY2005-2006
THOMAS W. JOHNSON, DIRECTOR
OFFICE OF BUDGET AND MANAGEMENT
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Chairman Calvert, Ranking Minority Member Miller, 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 16, the proposed capital budget for fiscal years 2005 and 2006.

The primary purpose of this capital budget is to address the state's ongoing need to maintain, improve, and construct state facilities and higher education and primary and secondary education facilities throughout Ohio. Although many 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. Ohio has a long history of conservative debt management practices that this budget will not change. 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.

In addition to keeping debt service at responsible levels, Ohio's history of sound and proactive fiscal management has resulted in strong bond ratings from the three main public finance rating agencies: Standard and Poor's, Fitch, and Moody's Investors' Services. Ohio's general obligation debt, which is backed by the full faith and credit of the state, carries the second highest possible bond rating, "AA+" from Standard and Poor's and Fitch and a

comparable “Aa1” from Moody’s. A direct result of these solid ratings is that the state pays lower interest rates on the bonds it sells.

Since 2001, 14 States have had their credit ratings downgraded by one or more of the rating agencies. Four of those States have been downgraded multiple times. The key factors contributing to these State credit downgrades include an “apparent unwillingness” to restore “structural balance” between ongoing revenue and ongoing expenditures and an over-reliance on one-time funds. I am happy to say that although the road has been somewhat bumpy, Ohio has not been downgraded. I give credit to the leadership of Governor Taft, who has made tough decisions in tough times and to the legislature who has ably risen to the challenge. I should note that our work is not yet done. We will collectively face many difficult decisions with respect to the FY 2006-07 operating budget.

Although I am here to talk specifically about House Bill 16, the capital bill for FY 2005-06, I want to talk for a moment about the state’s overall indebtedness for the two-year period – which includes capital appropriations not in this bill. Total capital appropriations for the FY 2005-06 biennium are \$2.48 billion. Nearly \$1 billion in capital appropriations for the FY 2005-06 biennium are included in other legislation.

For the FY2005-06 biennium, capital appropriations have already been provided for:

School Facilities Commission	\$522.6 million	S.B. 189, Reappropriations Bill
	\$243.2 million	H.B. 434, Tobacco Budget
Public Works Commission	\$136.8 million	S.B. 189, Reappropriations Bill
Third Frontier	\$ 50.0 million	S.B. 189, Reappropriations Bill

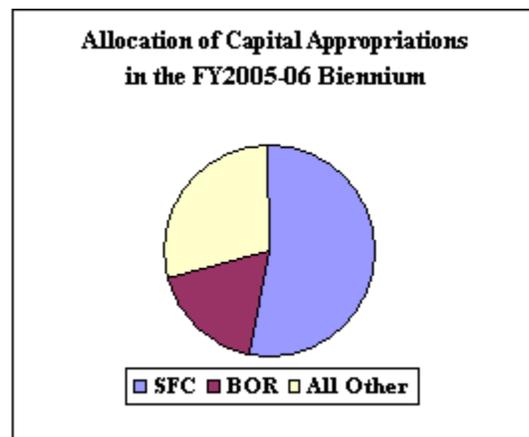
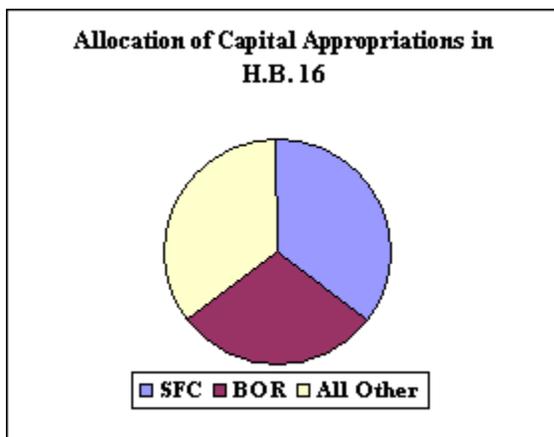
Total GRF-backed appropriations for the FY 2005-06 biennium are slightly lower than GRF-backed appropriations for the FY2003-04 biennium.

	<u>FY2003-04</u>	<u>FY2005-06</u>
GRF-Backed Debt	\$2.18 billion	\$2.11 billion
Other Funds	\$0.23 billion	\$0.37 billion
Total Capital Appropriations	\$2.41 billion	\$2.48 billion

Now I would like to talk about the details of H.B. 16. H.B. 16 contains capital appropriations of \$1.53 billion. Aside from a \$2.5 million increase in spending authority for emergency purposes, this bill contains no GRF.

	<u>FY2005-06</u>
GRF-Backed Debt	\$1.41 billion
Other Funds	\$0.12 billion
Proposed Capital Bill	\$1.53 billion

The majority of capital appropriations in H.B. 16 support the construction of K-12 facilities as well as institutions of higher education. Capital appropriations for the School Facilities Commission (SFC) alone comprise nearly 36% of the total funding included in H.B. 16. For the FY 2005-06 biennium School Facilities Commission's share of total capital appropriations jumps to almost 53%.



In order to keep pace with the level of funding needed to rebuild Ohio's schools, many state agencies will experience considerable reductions in their capital appropriations from the

prior biennium. The table on page five of my testimony provides a comparison of agency funding in the FY2005-06 and FY2003-04 biennia.

State of Ohio
Summary of Capital Improvements Appropriations
FY 2003-04 Biennium Compared to FY 2005-06 Biennium

State Agencies	FY 2003-04			FY 2005-06		
	Appropriations by Source			Appropriations by Source		
	GRF Debt Funds	Other Funds	Total	GRF Debt Funds	Other Funds	Total
Alcohol and Drug Addiction Services	266,512	0	266,512	100,000	0	100,000
Adjutant General	7,000,000	0	7,000,000	10,209,000	9,649,000	19,858,000
Administrative Services	42,385,882	0	42,385,882	33,431,576	0	33,431,576
Agriculture	8,285,536	0	8,285,536	7,927,655	0	7,927,655
Attorney General	0	0	0	0	0	0
Board of Regents/Higher Education	504,468,468	0	504,468,468	438,343,998	0	438,343,998
Capitol Square Review and Advisory Board	500,000	0	500,000	2,276,750	0	2,276,750
Commerce	0	3,300,000	3,300,000	0	8,590,000	8,590,000
Ohio Cultural Facilities Commission	57,827,833	0	57,827,833	39,582,000	0	39,582,000
Development	0	50,000,000	50,000,000	0	50,000,000	50,000,000
Education Telecommunications Commission	1,000,626	0	1,000,626	1,027,038	0	1,027,038
Expositions Commission	5,500,000	0	5,500,000	5,000,000	0	5,000,000
Health	800,000	0	800,000	0	0	0
Historical Society	5,000,000	0	5,000,000	4,010,560	0	4,010,560
Job and Family Services	0	16,000,000	16,000,000	0	2,076,956	2,076,956
Judiciary/Supreme Court	5,476,000	0	5,476,000	0	0	0
Library Board	0	0	0	0	0	0
Mental Health	19,412,500	0	19,412,500	9,750,000	0	9,750,000
Mental Retardation	13,400,000	0	13,400,000	12,732,257	0	12,732,257
Natural Resources	54,075,000	9,421,093	63,496,093	47,484,000	8,600,000	56,084,000
Public Safety	1,500,000	5,409,329	6,909,329	744,900	5,150,000	5,894,900
Public Works	37,500,000	0	37,500,000	157,500,000	16,750,000	174,250,000
Rehabilitation and Correction	40,000,000	0	40,000,000	42,100,000	0	42,100,000
School Facilities Commission	249,200,000	65,000,000	314,200,000	535,600,000	9,000,000	544,600,000
School for the Blind	2,000,000	0	2,000,000	1,821,733	0	1,821,733
School for the Deaf	2,077,954	0	2,077,954	1,878,513	0	1,878,513
Secretary of State	5,800,000	0	5,800,000	0	0	0
Third Frontier	50,000,000	0	50,000,000	50,000,000	0	50,000,000
Transportation	0	50,000	50,000	0	0	0
Veterans' Home	600,000	1,279,500	1,879,500	0	4,689,000	4,689,000
Youth Services	10,000,000	0	10,000,000	10,930,182	0	10,930,182
Subtotal: New Capital Bill [HB 16]	1,124,076,311	150,459,922	1,274,536,233	1,412,450,162	114,504,956	1,526,955,118
School Facilities Commission [in HB 94, SB 261 & SB 242, HB 95]	767,800,000	25,600,000	793,400,000			
Public Works Commission [in HB524]	240,000,000	49,500,000	289,500,000			
Regents - Third Frontier - [in HB 524]	50,000,000	0	50,000,000			
Veterans Home [in HB 524]	1,377,000	0	1,377,000			
Public Works Commission [in SB 189]				120,000,000	16,750,000	136,750,000
School Facilities Commission [in SB 189 and HB 434]				522,600,000	243,200,000	765,800,000
Third Frontier [in SB 189]				50,000,000	0	50,000,000
Grand Total: Biennial Capital Budget	2,183,253,311	225,559,922	2,408,813,233	2,105,050,162	374,454,956	2,479,505,118

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 \$544.6 million over the FY2005-06 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 plan to rebuild Ohio's schools. In total, \$1.31 billion has been appropriated for FYs 2005-06 from a combination of funding sources, including bond proceeds and tobacco settlement revenues. Nearly \$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 nearly 60 school facility projects, currently in design or construction. These projects include the 8 largest urban districts in the state and the additional 24 school districts that were approved for funding in FY 2005. In doing so, the success of past efforts that has led to over 275 newly constructed or renovated school buildings in 165 districts school districts across the state will be continued. More specifically, the proposed \$522.4 million will support the Classroom Facilities Assistance (CFAP), the Exceptional Needs, and the Accelerated Urban School Building Assistance programs.

Higher Education

As I have already mentioned, many state agencies will experience significant reductions in capital appropriations under this proposal. Even in this tight fiscal environment, this bill

places a high priority on higher education facilities. House Bill 16 recognizes the need to adequately fund the critically important infrastructure on our higher education campuses by providing:

- \$281.4 million for campus specific projects.
- \$77.1 million to institutions for basic renovations.
- \$5.0 million dollars for Research Facilities Action and Investment Funds to promote research and economic development in the state.

In addition, this bill appropriates an additional \$2.0 million for Central State University to go toward a new multi-use academic facility.

Third Frontier

This capital budget also continues to support the state's largest commitment to date to expanding Ohio's high-tech research capabilities and creating high-wage jobs. It provides \$50.0 million in funding for Wright Centers of Innovation and Wright Projects. These programs, along with others such as the Third Frontier Fuel Cell Program, the Innovation Ohio Loan Fund, the Third Frontier Internship Program, and the Ohio Research Commercialization Grant Program are components of Governor Taft's \$1.1 billion Third Frontier Project.

The \$50.0 million included in this bill is the fourth in a series of appropriations that will total \$500.0 million over ten years to strengthen Ohio's research and commercialization capacity. 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.

Additional Priorities

In addition to the major initiatives I just highlighted, this budget provides support for a number of other important priorities such as constructing a new National Guard facility and supporting key local projects in communities across Ohio.

Construction of a new National Guard facility

This bill appropriates almost \$3.0 million to match over \$6.6 million in federal and \$3.0 million in local funds for the construction of the Marysville Readiness Center. The state appropriations will be used for land acquisition, design, and construction costs. The cost of land acquisition must be available prior to the fall of 2005 to ensure receipt of federal funds.

Construction of the facility is the Adjutant General's top priority in its six-year capital improvement plan as the Adjutant General continues to replace aging and outdated facilities with newer state of the art centers that will enable the organization to continue to attract new recruits.

Supporting key community projects

House Bill 16 includes investments in a number of capital projects that will enhance community and economic development in communities across the state, consistent with Governor Taft's promise in his last State of the State Address, to place the highest priority to those community projects that create jobs and grow our economy. These are investments that have the backing of local leaders and most often include commitments of local resources. Let me highlight a few projects for you:

Cleveland Clinic Heart Care Center: \$5 million for the Cleveland Clinic Heart Center which, upon completion, will provide 1,425 new jobs, approximately \$15.8 million to the State of Ohio in withholding taxes and an estimated \$5.3 million for the City of Cleveland. By 2010, it is estimated that the Heart Center's withholding taxes will reach \$27 million for Ohio and more than \$9 million for the city of Cleveland.

National Underground Railroad Freedom Center (Cincinnati): \$4.15 million for the Freedom Center that will be responsible for 1,404 jobs. The Freedom Center is expected to attract more than 261,000 visitors annually, who will generate \$12.4 million a year in economic benefits to the region. But the economic and job benefits are not limited to Hamilton County alone. Half of Ohio counties have one or more communities with Underground Railroad sites. It is projected that Underground Railroad tourism for those communities will increase from \$3 million in 2003 to \$7.5 million by 2007, in large part because of the presence and support of the Freedom Center.

Rural: The state also committed significant resources to the rural counties of the state by funding 90 projects that cover the majority of Ohio's counties.

Language Issues

In addition to the capital appropriations I have just described, House Bill 16 includes a number of language changes. I would like to briefly highlight some of those language changes.

Education Leadership Project Fund: Creates an interest-retaining fund within the state treasury that will allow the Department of Education to receive a grant from the Wallace Foundation. The three-year \$1.2 million annual grant stipulates that the fund must retain interest

so that it may be used for the project. The department does not have an existing fund to meet this requirement.

Health Care Spending Account: This language permits state employees, in calendar year 2005, to make payroll deductions of up to \$500 and receive benefits up to the amount deducted for a variety of health care related expenses as those expenses are incurred.

County Consolidated Language: Authorizes the transfer of funds from non-GRF sources identified by JFS, including the temporary transfer of funds from the Federal Fiscal Relief Fund. It further allows OBM to transfer the funds where needed to pay back the federal government for the FY 2000-2003 TANF liability and to pay counties the additional administration funds needed to make them whole for FY 2005.

Infrastructure Bonds: Accomplishes the long-sought consolidation of GRF-backed general obligation bonds in the Ohio Public Facilities Commission (OPFC) by moving issuance of public works infrastructure bonds from the Treasurer to the OPFC. In part, this will bring Ohio into line with most other states as currently Ohio is one of only a few states in which more than one entity issues General Obligation Bonds.

Emergency Management Agency (EMA): Because of the Southeast Ohio floods of 2004, \$2.5 million in additional funds are needed for flood relief and emergency funding.

Local Administration Authority: Current law requires DAS administration of most higher education projects with state appropriations of \$4 million or greater. DAS currently has authority to grant local administration for higher education projects with state appropriations less than \$4 million. The proposed language will clearly indicate the authority of higher education institutions to administer their own projects without payment of the local administration fee to DAS, regardless of the state appropriation amount. It also continues to permit institutions of

higher education to utilize DAS SAO services at their discretion; the local administration fee would be assessed in this instance.

Conclusion

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