



OBM

Ted Strickland
Governor

J. Pari Sabety
Director

**FY2009-2010 Capital Appropriations Bill
Testimony of J. Pari Sabety
House Finance & Appropriations Committee
May 19, 2008**

Chairman Hottinger, Ranking Member Skindell and members of the committee, I am Pari Sabety, Director of the Office of Budget and Management. I am pleased to appear before you today to provide testimony on the capital appropriations bill for Fiscal Years 2009 and 2010.

In addition to new capital appropriations, this bill also contains a number of corrective technical and appropriation-related items for our current operating budget cycle. My testimony will include highlights of both the new appropriations and the corrective items.

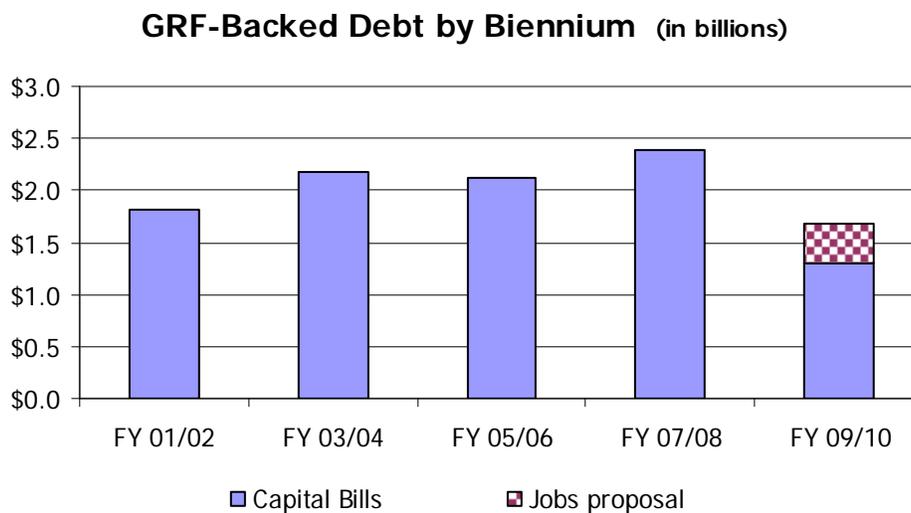
Funding Ohio's Capital Budget

Most of the state's capital improvements are funded through the issuance of debt. Ohio's Constitution limits the issuance of GRF-backed debt to no more than 5% of the annual General Revenue Fund revenues plus net state lottery proceeds. As the Strickland Administration continues to phase in HB66 tax reforms, future GRF tax revenue is projected to show a real reduction in these revenues over the next two years, thus placing a downward constraint on the size of an affordable capital bill. In addition, slow growth in the national economy will further constrain future GRF revenues. However, Ohio's history of cooperation between the Legislative and Executive branches in passing conservative, balanced budgets and responsible debt management has resulted in favorable bond ratings from the three national rating agencies: Fitch, Standard & Poor's and Moody's Investors' Services. Even after the budget reduction measures included in this bill were announced last February, the credit rating agencies continued to rate Ohio as "AA+", the second highest rating. As you are aware, favorable ratings from these agencies result in Ohio paying lower interest rates on the bonds that are sold.

This bill contains total capital appropriations of \$1.296 billion. Of this amount, \$1.185 billion will be funded with the issuance of debt that will be repaid through debt service appropriations from the General Revenue Fund. The remainder, approximately \$111 million, will be funded

through a mix of other sources including cash from non-GRF sources and debt backed by non-GRF sources.

It should be noted that the size of this capital appropriations bill is somewhat smaller than other recent capital bills. There are a few reasons for this. First, the FY 2007-2008 capital bill was unusually large due to significant additional investments in school buildings through the School Facilities Commission. Because of the tobacco securitization consummated as a result of HB119, the state's GRF-backed obligations have been reduced, resulting in a capital bill that is smaller than the last capital bill passed by the General Assembly. Despite this, the FY 2009-2010 capital bill accommodates an additional \$386 million bond issuance that is included in the Building Ohio Jobs package. This is comprised of \$66 million in new authorization for Coal Development Bonds, \$200 million in Clean Ohio Conservation Bonds, and \$120 million in public works infrastructure funding. The Jobs proposal currently is being considered by the General Assembly in a separate bill. The graph below contains a comparison:



New Capital Appropriations

The Strickland Administration has taken a measured and judicious approach to the FY 2009-2010 capital budget recommendations. I have already described the relief that replacement of GRF-backed bonds for school construction have provided us as a result of tobacco securitization. We have taken advantage of that relief to invest in the priorities of the state's administrative agencies to meet the longterm needs of our citizens. Investments are targeted to support higher

education, expand recreational assets for Ohioans, reduce energy costs by increasing energy efficiency of state facilities, meet the needs of vulnerable Ohioans, and maintain the continued safety and security of our communities. Highlights of the recommendations include:

- Full funding for a new psychiatric hospital in Cuyahoga County at \$87 million;
- A twofold increase in investments in community mental health projects compared to FY 2007-2008 levels;
- Funding for the Ohio Department of Natural Resources' dam rehabilitation and maintenance initiative of \$10 million;
- Funding of \$1.5 million for Camp Perry improvements to upgrade the facility for alternate recreational uses;
- Completion of the "man down" alert system implementation and fund substantially all security projects requested for the Department of Rehabilitation and Corrections;
- A 33% increase in investments in Community-based correctional facilities over the last biennium;
- Full funding for new facilities at the Ohio School for the Deaf and Ohio School for the Blind through the School Facilities Commission at \$37.08 million;
- Full funding for projects directed at the safety of youthful offenders, as well as to physically secure facilities in accordance with the recent S.H. vs Strickland settlement agreement;
- A 51% increase in funding over last biennium for capital needs in community corrections for Ohio's juvenile offenders; and
- Full funding for Ohio to acquire an experimental forest in Vinton County.

Let me take a moment to highlight the Strickland Administration's ongoing commitment to higher education. Despite the limitations of our state's resources in this economy, we have allocated \$444 million to dedicate to campus capital projects for universities and community colleges across our state in support of the University System of Ohio. Of this amount, \$279 million are dedicated to capital projects, \$113 million are dedicated for basic renovations and \$21 million are allocated for instructional and information technology. Additionally, we have funded \$31.2 million in statewide projects shared by all higher education institutions, such as OhioLINK, OARnet, the Ohio Supercomputer Center, the Action and Investment Fund and other Technology Initiatives. Finally, in support of the Speed to Scale Program for Central State

University, we have provided \$14 million in funding towards the construction of a new student activities center for that campus.

Over the past several months, the Office of Budget and Management has been working in partnership with state agencies to review each budget request. As a result, the capital recommendations reflected in this bill include each agency's critical priorities as well as required maintenance efforts necessary to sustain the significant investments of past capital bills. An appendix to my written testimony contains an agency-by-agency list of recommended appropriations, and whether those appropriations are backed GRF debt or other sources. This appendix also provides detailed insight into the size of the FY2007-2008 capital bill compared to the FY2009-2010 capital bill, and may be a helpful resource as you review and consider the agency-specific recommendations in this bill.

Corrective Items Included in FY2009-2010 Capital Bill

The capital appropriations bill provides an opportunity for the Executive and Legislative branches to make necessary corrections to the current operating budget legislation and address any other emerging budget-related issues as appropriate. For ease in understanding the corrective provisions included in the FY2009-2010 capital bill, the items may be grouped into three general categories:

- 1) Items related to the FY2008-2009 operating budget recalibration actions taken by the Strickland Administration in February 2008;
- 2) Items that make technical corrections to H.B. 119 provisions; and
- 3) Items to address emergent issues within state government.

The next part of my testimony will provide an overview of each of these categories.

Items Related to Recalibration

In late February I provided testimony to this Committee regarding the status of Ohio's FY2008 budget and our revised projections for the remainder of the biennium. During that session I described actions that the Strickland Administration planned to take in order to ensure that our state's spending did not exceed the revised – and reduced – revenue projections for fiscal year 2008 and 2009. Most of those actions could be taken within the Governor's existing authority; other actions required legislative approval.

To open this discussion let me highlight various actions taken by the Administration since February. OBM has worked with state agencies, boards and commissions to develop revised spending plans for the rest of FY2008 and FY2009 in order to ensure that we would be able to maintain critical services to Ohioans in light of lower revenue projections. Agencies have taken very seriously the need to contain costs and, as you are aware, this has resulted in very difficult decisions with trying consequences.

- The provision of some state-administered safety net services is being restructured. Two state psychiatric hospitals will be closed in Cambridge and Dayton. The number of units in state developmental centers for individuals with MR/DD will be reduced consistent with an increased emphasis on community-based services.
- Agencies reduced expenses in their administrative offices in an attempt to avoid (or reduce) effects on direct services to Ohioans. As a result, some of our colleagues in the state's labor force have learned that they will lose their jobs through early retirement incentive programs, workforce reductions, and not filling vacancies.
- OBM continues to impose additional controls on state agencies' hiring activities and equipment purchases. These controls are bearing fruit. I can report to you that we have significantly slowed the rate of hires at state agencies, and in the first 45 days of implementation, IT equipment and technology purchases were reduced by 90% over last year.
- We continue to work with Commissioner Levin and the staff at the Department of Taxation to closely monitor the state's revenue situation and our position relative to the revised February 2008 revenue estimates. At this time, we remain on the same revenue course that I described in February.

It is time to enlist the assistance of the General Assembly to implement some changes that require legislative approval. The capital appropriations bill contains the following nine provisions necessary to support the FY 2008-2009 budget recalibration:

- For the Department of Mental Retardation and Developmental Disabilities, language which allows DMR to convert up to 100 ICF/MR beds to community placements;
- For the Ohio Department of Transportation, language that changes the funding source of an earmark for airport improvements from the General Revenue Fund to the Highway Operating Fund;

- For the Ohio Department of Job and Family Services, language which allows excess funds in Child Support Collections (once TANF MOE is met) for public assistance activities, specifically, to cover the projected deficit in the Disability Financial Assistance Program;
- For the Ohio Department of Job and Family Services, language which allows the Office of Child Support and the Office of Ohio Health Plans to share third party liability information, thereby saving on contract expenditures;
- For the Office of Budget and Management, allow the transfer of excess interest earnings from tobacco securitization proceeds to the GRF;
- For the Office of Budget and Management, increases the authority of the OBM director to transfer amounts from non-GRF funds to the GRF by \$50 million over the biennium;
- For the Department of Taxation, requires that any tax preparer that prepares 50 income tax returns to file the income tax returns electronically;
- For the Department of Taxation, requires all vendors to remit their sales tax returns electronically.

However, the FY2009-2010 Capital Bill does not include an appropriations increase that the Administration believes is necessary for us to contend with increased caseloads and other programmatic concerns within Ohio's Medicaid program. As I discussed before this committee in February 2008, our updated Medicaid forecast showed an increased need for GRF appropriation for the remainder of this biennium. Today, we are projecting that we will need a total GRF appropriation increase of \$344 million, \$121.8 million of which is state share.

The increased spending authority is necessary to support increased spending related to higher caseload forecasts. We look forward to continuing the productive discussions we have already had with the Legislature on this topic as the bill moves through the legislative process.

Items That Make Technical Changes to H.B. 119

Approximately fifty technical corrections are included in the capital appropriations bill. Members of my staff have worked with House and Senate caucus staff in order to understand the needs identified by state agencies and various stakeholder groups. As a result, all technical corrections included in the "As Introduced" version of the bill have been vetted jointly by the staff of the Legislative and Executive branches. Detailed information about these items is available from your caucus staff members.

Items that Address Emergent Issues

The FY2009-2010 Capital Bill includes dozens of items that are related to some element of the financial operations of state government, but that are not purely technical in nature. In other words, items in this category address an emergent need that has been identified since the passage of H.B. 119 and also cannot wait to be addressed next year in the FY2010-2011 operating budget process.

The table I have attached to the back of this testimony summarizes the capital appropriations made in this bill by department and by source of obligation.

Thank you for allowing me to present a general description of the contents of the FY2009-2010 Capital Bill, including corrective items and other technical amendments. I will be happy to answer any questions you may have.

State of Ohio
 Capital improvements Appropriations
 FY2007-2010
 FY 2009-2020 Capital Bill – As Introduced

State Agencies	FY 2007-08 Appropriations by Source			FY 2009-10 Appropriations by Source		
	GRF Debt Funds	Other Funds	Total	GRF Debt Funds	Other Funds	Total
Alcohol and Drug Addiction Svcs	450,000	0	450,000	1,550,000	0	1,550,000
Adjutant General	9,975,000	877,275	10,852,275	6,500,000	107,792	6,607,792
Administrative Services	26,519,500	0	26,519,500	30,300,000	0	30,300,000
Agriculture	11,285,631	0	11,285,631	6,365,000	0	6,365,000
Attorney General	0	0	0	0	0	0
Board of Regents/Higher Ed	528,636,534	0	528,636,534	495,109,802	0	495,109,802
Capitol Square Review and Advisory Board	1,097,000	0	1,097,000	2,057,748	0	2,057,748
Commerce	0	4,120,000	4,120,000	0	1,600,000	1,600,000
Ohio Cultural Facilities Comm	55,296,000	0	55,296,000	46,198,834	0	46,198,834
Development	30,000,000	0	30,000,000	30,000,000	40,000,000	70,000,000
e-Tech Ohio	1,310,000	0	1,310,000	10,250,000	0	10,250,000
Expositions Commission	19,696,000	0	19,696,000	6,000,000	0	6,000,000
Health	0	0	0	0	0	0
Historical Society	0	0	0	0	0	0
Job and Family Services	0	2,000,000	2,000,000	0	7,037,869	7,037,869
Judiciary/Supreme Court	0	0	0	0	0	0
Library Board	0	0	0	200,000	0	200,000
Mental Health	23,480,000	0	23,480,000	104,520,000	0	104,520,000
Mental Retardation	20,677,373	0	20,677,373	21,500,774	0	21,500,774
Natural Resources	60,291,700	16,140,000	76,431,700	77,598,833	11,650,000	89,248,833
Public Safety	600,000	1,500,000	2,100,000	3,000,250	1,696,345	4,696,595
Public Works	120,000,000	25,300,000	145,300,000	150,000,000	39,500,000	189,500,000
Rehabilitation and Correction	36,175,010	0	36,175,010	72,000,000	0	72,000,000
School Facilities Commission	540,000,000	158,632,362	698,632,362	0	0	0
School for the Blind	1,000,000	0	1,000,000	574,500	0	574,500
School for the Deaf	1,000,000	0	1,000,000	637,000	0	637,000
Secretary of State	0	0	0	0	0	0
Third Frontier/Wright Centers	50,000,000	0	50,000,000	100,000,000	0	100,000,000
Transportation	0	0	0	500,000	0	500,000
Veterans' Home	0	2,700,000	2,700,000	0	9,313,601	9,313,601
Youth Services	18,241,831	0	18,241,831	20,550,000	0	20,550,000
Subtotal: Capital Bills [HB 699 and HB XXX]	1,555,731,579	211,269,637	1,767,001,216	1,185,412,741	110,905,607	1,296,318,348
Public Works Commission [HB 530 and HB 496]	157,500,000	24,100,000	181,600,000	120,000,000	24,500,000	144,500,000
Agriculture [HB 530]	6,250,000	0	6,250,000			
Board of Regents/Higher Education [HB 530]	3,500,000	0	3,500,000			
Capitol Square Review and Advisory Board [HB 530]	1,610,500	0	1,610,500			
Commerce	0	1,908,000	1,908,000			
Development [HB 530]	30,000,000	53,000,000	83,000,000			
School Facilities Commission [HB 530 and SB 321]	585,000,000	728,500,000	1,313,500,000			
Third Frontier/Wright Centers [HB 530]	50,000,000	0	50,000,000			
Exposition Commission [HB 530]	500,000	0	500,000			
Mental Health [HB 530]	5,500,000	0	5,500,000			
Natural Resources [HB 530]	13,800,000	0	13,800,000			
Rehabilitation and Correction [HB 530]	30,024,990	0	30,024,990			
Veterans' Home [HB 530]	0	552,500	552,500			
Youth Services [HB 530]	1,750,000	0	1,750,000			
Grand Total: Biennial Capital Budgets	2,441,167,069	1,019,330,137	3,460,497,206	1,305,412,741	135,405,607	1,440,818,348