



OBM

**H.B. 530 - CAPITAL REAPPROPRIATIONS BILL
TESTIMONY OF TIM KEEN BEFORE THE
SENATE FINANCE AND FINANCIAL INSTITUTIONS COMMITTEE
MARCH 22, 2006**

MR. CHAIRMAN, MEMBERS OF THE SENATE FINANCE AND FINANCIAL INSTITUTIONS COMMITTEE, MY NAME IS TIM KEEN AND I AM THE DIRECTOR OF THE OFFICE OF BUDGET AND MANAGEMENT (OBM). I AM PLEASED TO APPEAR BEFORE YOU TODAY TO PRESENT HOUSE BILL (H.B.) 530, THE CAPITAL REAPPROPRIATIONS BILL FOR FISCAL YEARS (FY) 2007 AND 2008. IN ADDITION TO CAPITAL REAPPROPRIATIONS, THE BILL ALSO PROVIDES NEW CAPITAL APPROPRIATIONS TO SEVERAL AGENCIES FOR THE 2007-2008 BIENNIUM AND MAKES NUMEROUS TECHNICAL AND BUDGET-RELATED CORRECTIONS TO PROVISIONS ENACTED IN AM. SUB. H.B. 66 - THE MAIN OPERATING BUDGET FOR FY 2006 AND 2007.

CAPITAL REAPPROPRIATIONS

THE CAPITAL REAPPROPRIATIONS PORTION OF THE BILL REAUTHORIZES THE UNEXPENDED BALANCES OF PREVIOUSLY APPROPRIATED CAPITAL PROJECTS. THIS REAPPROPRIATION PROCESS IS NECESSARY DUE TO THE CONSTITUTIONAL PROVISION PROHIBITING THE GENERAL ASSEMBLY FROM MAKING ANY APPROPRIATION FOR A PERIOD OF MORE THAN TWO YEARS. TO RECONCILE THIS CONSTITUTIONAL LIMITATION WITH THE REALITY THAT MANY CAPITAL PROJECTS REQUIRE SEVERAL YEARS TO GO FROM ORIGINAL AUTHORIZATION TO COMPLETION,

A MECHANISM HAS EMERGED TO PROVIDE FOR LEGISLATIVE REAPPROPRIATION OF THE UNSPENT BALANCES IN PREVIOUSLY APPROVED CAPITAL APPROPRIATION ITEMS.

THIS REAPPROPRIATIONS PROCESS IS NOT INTENDED TO APPROPRIATE ADDITIONAL DOLLARS OR TO CREATE SIGNIFICANT ISSUES. RATHER, IT IS DESIGNED TO KEEP CAPITAL PROJECTS MOVING AND ON TRACK. SINCE MANY OF THE PROJECTS PRESENTED IN THE BILL ARE ALREADY UNDERWAY, REAPPROPRIATING THE UNEXPENDED BALANCES ASSURES THAT PROJECTS CAN CONTINUE UNINTERRUPTED TOWARD THEIR FINAL COMPLETION.

OF FUNDAMENTAL IMPORTANCE TO THE UNDERSTANDING OF THE REAPPROPRIATIONS CONTAINED IN H.B. 530 IS THAT THE AMOUNTS PRESENTED ARE NOT THE "ACTUAL" AMOUNTS THAT WILL BE REAPPROPRIATED. INSTEAD, THE DOLLAR VALUES CONTAINED IN THE BILL FUNCTION AS PLACEHOLDERS - THAT ARE REASONABLE ESTIMATES. TO THIS END, LANGUAGE IN THE BILL STIPULATES THAT THE "ACTUAL" AMOUNT TO BE REAPPROPRIATED IS THE EXACT UNENCUMBERED AND UNALLOTTED BALANCE AT THE END OF THE FISCAL YEAR (JUNE 30, 2006) FOR EACH PROJECT. THE USE OF THESE ESTIMATES IN THE BILL IS NECESSARY DUE TO THE INABILITY TO KNOW WHAT THE EXACT STATUS OF EACH LINE ITEM WILL BE AT THE END OF THE FISCAL YEAR, AS WELL AS THE TIME LAG BETWEEN PUTTING THE BILL TOGETHER AND ITS ACTUAL INTRODUCTION AND PASSAGE. BUT IN THE FINAL

ANALYSIS, IT IS ONLY THE ACTUAL UNENCUMBERED AMOUNTS THAT WILL BE REAPPROPRIATED.

BECAUSE OF THIS CIRCUMSTANCE, THE TOTAL AMOUNT OF THE REAPPROPRIATIONS CONTAINED IN THE BILL OVERSTATES THE AMOUNTS THAT WILL END UP BEING REAPPROPRIATED ON JULY 1, 2006. IN FACT, THE ESTIMATES THAT WERE CONTAINED IN THE REAPPROPRIATIONS BILL OF TWO YEARS AGO (S.B.189) WERE 29% HIGHER THAN THE FINAL REAPPROPRIATED AMOUNTS.

THUS, WHILE H.B. 530 IDENTIFIES APPROXIMATELY \$1.75 BILLION IN REAPPROPRIATIONS, WE ESTIMATE THAT BY JUNE 30, 2006, THE LIKELY REAPPROPRIATION AMOUNT WILL BE MORE IN THE \$1.3 BILLION RANGE. ATTACHED TO MY TESTIMONY IS A TABLE BROKEN DOWN BY AGENCY AND FUND TYPE THAT DETAILS THE DOLLAR AMOUNTS LISTED IN THE BILL.

WHILE THE PRIMARY PURPOSE OF THE BILL IS TO REAUTHORIZE PREVIOUSLY APPROPRIATED CAPITAL PROJECTS, CIRCUMSTANCES SURROUNDING PROJECTS INEVITABLY CHANGE OVER TIME AND THE REAPPROPRIATIONS BILL HAS HISTORICALLY SERVED AS A MECHANISM TO ADJUST APPROPRIATIONS BASED ON THOSE CHANGING CIRCUMSTANCES. SUCH IS THE CASE WITH A LIMITED NUMBER OF ITEMS ADDRESSED IN THIS BILL.

FOR EXAMPLE, THE OHIO EXPOSITIONS COMMISSION HAS COMPLETED PROJECTS THAT WERE FUNDED WITH APPROPRIATIONS TO ITS MASONRY RENOVATIONS AND CAMPGROUNDS RENOVATIONS LINE ITEMS. THE BILL WOULD PERMIT THE COMMISSION, WHICH HOSTS OVER 200 EVENTS EACH YEAR, TO TRANSFER FUNDING REMAINING FOR THIS PURPOSE TO THEIR FACILITY IMPROVEMENT AND MODERNIZATION LINE ITEM TO ASSIST IN IMPROVING THE EXPOSITIONS CENTER'S ENTRANCES, GROUNDS, AND BUILDINGS.

IN ANOTHER EXAMPLE, THROUGH CONTROLLING BOARD ACTION, THE UNIVERSITY OF CINCINNATI PREVIOUSLY TRANSFERRED AMOUNTS ORIGINALLY APPROPRIATED TO LINE ITEM, CAP-174, CLASSROOM/TEACHING LAB RENOVATIONS, INTO NEW CAPITAL LINE ITEMS FOR SPECIFIC CLASSROOM AND LAB RENOVATIONS PROJECTS. THIS IS SOMETHING THAT IS A COMMON PRACTICE IN ORDER TO HELP CAMPUSES KEEP TRACK OF INDIVIDUAL PROJECTS WITHIN A LARGER CAPITAL INITIATIVE. THESE INDIVIDUAL PROJECTS ARE NOW COMPLETE, THUS THE BILL WOULD REDIRECT THE UNSPENT FUNDS TRANSFERRED TO THOSE LINE ITEMS BACK TO THE LINE ITEM TO WHICH THEY WERE ORIGINALLY APPROPRIATED IN ORDER TO FUND REMAINING PROJECTS.

IN ADDITION TO THE ABOVE, THERE ARE ALSO SEVERAL OTHER EXAMPLES OF REPROGRAMMING IN THE BILL WHEREBY HIGHER EDUCATION INSTITUTIONS ARE REQUESTING TO TRANSFER CAPITAL FUNDS FROM LINE ITEMS FOR PROJECTS

WHICH HAVE BEEN COMPLETED TO BASIC RENOVATIONS AND OTHER LINE ITEMS IN THEIR BUDGETS IN ORDER TO FUND HIGH PRIORITY PROJECTS.

SINCE THE STATE'S HIGHER EDUCATION CAPITAL POLICY IS ALREADY CHARGING THESE INSTITUTIONS FOR DEBT SERVICE COSTS ON THESE PREVIOUSLY MADE APPROPRIATIONS, OBM BELIEVES THAT THE REPROGRAMMING OF CAPITAL DOLLARS CONTAINED IN THIS BILL ARE REASONABLE.

NEW CAPITAL APPROPRIATIONS

GIVEN THE FACT THAT THE CAPITAL APPROPRIATIONS BILL WILL NOT BE INTRODUCED UNTIL LATER THIS YEAR, H.B. 530 ALSO CONTAINS NEW CAPITAL APPROPRIATIONS TO SEVERAL AGENCIES. NOTABLE AMONG THESE ARE NEW APPROPRIATIONS TO THE SCHOOL FACILITIES COMMISSION THAT ARE NECESSARY IN ORDER FOR THE COMMISSION TO MOVE FORWARD WITH YEAR SEVEN OF GOVERNOR TAFT'S REBUILD OHIO SCHOOLS INITIATIVE, AS WELL AS APPROPRIATIONS FOR THE THIRD FRONTIER INITIATIVE, THE PUBLIC WORKS COMMISSION, AND THE CLEAN OHIO INITIATIVE. DUE TO TIMING REQUIREMENTS, THESE NEW CAPITAL APPROPRIATIONS WILL MAKE IT POSSIBLE FOR THESE AGENCIES TO PROCEED WITH CAPITAL PROJECTS DURING FY 2007. IN ADDITION TO THE AGENCIES I HAVE JUST IDENTIFIED, NEW CAPITAL APPROPRIATIONS ARE ALSO MADE TO SEVERAL OTHER STATE AGENCIES TO FUND CAPITAL PROJECTS THAT FOR A VARIETY OF REASONS CANNOT WAIT UNTIL THE PASSAGE OF THE CAPITAL

BILL LATER IN THE YEAR. A SECOND TABLE IS ATTACHED TO MY TESTIMONY IDENTIFYING NEW CAPITAL APPROPRIATIONS BY AGENCY AND FUND.

SCHOOL BUILDING ASSISTANCE

THE BILL PROVIDES \$665 MILLION IN NEW CAPITAL APPROPRIATIONS FOR THE CONSTRUCTION AND RENOVATION OF OHIO'S PRIMARY AND SECONDARY EDUCATIONAL FACILITIES THROUGH THE OHIO SCHOOL FACILITIES COMMISSION. IN SO DOING, THE BILL MEETS GOVERNOR TAFT'S CAPITAL FUNDING COMMITMENT FOR FY 2007, OR THE FIRST HALF OF THE NEXT CAPITAL BIENNIUM (FY 2007-2008).

TO DATE, JUST OVER \$4.9 BILLION IN STATE APPROPRIATIONS HAVE BEEN COMMITTED TO SCHOOL DISTRICTS, WITH MORE THAN \$2.0 MILLION BEING SPENT DAILY ON SCHOOL CONSTRUCTION. THESE NEW APPROPRIATIONS WILL ALLOW THE STATE TO CONTINUE FUNDING ITS SHARE OF THE COST OF NEW BUILDING PROJECTS FOR FY 2007 AS WELL AS FOR MORE THAN 60 OTHER PROJECTS ALREADY IN DESIGN OR CONSTRUCTION. SPECIFICALLY, THE \$665 MILLION CONTAINED IN THE BILL WILL SUPPORT THE CLASSROOM FACILITIES ASSISTANCE, EXCEPTIONAL NEEDS, AND ACCELERATED URBAN SCHOOL BUILDING ASSISTANCE PROGRAMS, AS WELL AS THE OTHER SUCCESSFUL INITIATIVES ADMINISTERED BY THE COMMISSION.

THIRD FRONTIER PROJECT/ BOARD OF REGENTS

THE BILL ALSO CONTAINS \$50 MILLION IN NEW CAPITAL APPROPRIATIONS FOR THE THIRD FRONTIER INITIATIVE. THESE APPROPRIATIONS PROVIDE FOR THE FIFTH ROUND OF FUNDING FOR THE PROGRAM AND WILL BE DISTRIBUTED TO SUPPORT RESEARCH AND COMMERCIALIZATION COLLABORATIONS, INCLUDING THE WRIGHT CENTERS OF INNOVATION. THESE COLLABORATIONS MUST INVOLVE AT LEAST ONE STATE SUPPORTED OR STATE ASSISTED INSTITUTION OF HIGHER EDUCATION DIRECTLY OR THROUGH A JOINT USE AGREEMENT. PROJECTS ARE SELECTED AFTER AN EVALUATION OF PROPOSALS BY THE NATIONAL ACADEMY OF SCIENCES OR OTHER QUALIFIED INDEPENDENT EXPERT EVALUATOR. ALL FUNDING MUST BE USED FOR CAPITAL PURPOSES AND AWARDS GENERALLY INVOLVE FACILITY CONSTRUCTION, RENOVATION AND PURCHASE OF RESEARCH EQUIPMENT. JUST AS A POINT OF CLARIFICATION, THESE FUNDS ARE NOT PART OF THE THIRD FRONTIER RESEARCH AND DEVELOPMENT BONDS APPROVED BY THE VOTERS IN STATE ISSUE ONE IN NOVEMBER 2005. ISSUE ONE FUNDS WERE APPROPRIATED LATE LAST YEAR BY THE GENERAL ASSEMBLY IN S.B. 236.

PUBLIC WORKS COMMISSION

THE BILL ALSO INCLUDES \$144.1 MILLION IN NEW CAPITAL APPROPRIATIONS FOR THE FY 2007-2008 BIENNIUM FOR THE PUBLIC WORKS COMMISSION TO SUPPORT LOCAL INFRASTRUCTURE PROJECTS. \$120 MILLION OF THIS AMOUNT IS APPROPRIATED FROM THE STATE CAPITAL IMPROVEMENT PROGRAM AND WILL BE

USED FOR GRANTS, LOANS, AND CREDIT ENHANCEMENTS TO LOCAL GOVERNMENTS FOR LOCAL INFRASTRUCTURE PROJECTS SUCH AS ROADS AND BRIDGES, AND SYSTEMS FOR WATER SUPPLY AND DISTRIBUTION, WASTEWATER COLLECTION AND TREATMENT, SOLID WASTE DISPOSAL, AND STORM WATER COLLECTION. THESE FUNDS WILL BE ALLOCATED TO MORE THAN 600 NEW PROJECTS STATEWIDE.

IN ADDITION, \$24.1 MILLION IS ALSO APPROPRIATED FROM THE REVOLVING LOAN FUND WHICH RECEIVES ITS REVENUE FROM LOAN REPAYMENTS. THE REVENUE FROM THE LOAN REPAYMENTS WILL BE USED BY THE PUBLIC WORKS COMMISSION TO MAKE OVER 80 ADDITIONAL LOANS TO LOCAL GOVERNMENTS FOR THE SAME TYPES OF PROJECTS I MENTIONED JUST A MOMENT AGO.

CLEAN OHIO INITIATIVE

THE BILL ALSO PROVIDES \$100 MILLION IN CLEAN OHIO FUNDS THROUGH THE DEPARTMENTS OF AGRICULTURE, DEVELOPMENT, AND NATURAL RESOURCES AS WELL AS THE PUBLIC WORKS COMMISSION. \$50 MILLION OF THIS AMOUNT WILL BE FUNDED THROUGH GENERAL OBLIGATION BONDS BACKED BY THE GRF, WHILE THE OTHER \$50 MILLION WILL BE FUNDED THROUGH SPECIAL OBLIGATION BONDS BACKED BY LIQUOR PROFITS. IN 2000, VOTERS APPROVED TWO CONSTITUTIONAL AMENDMENTS AUTHORIZING UP TO \$100 MILLION PER YEAR, WITH NO MORE THAN \$400 MILLION OUTSTANDING AT ANY ONE TIME. TO DATE THE CLEAN OHIO FUND HAS PROVIDED \$300 MILLION FOR HUNDREDS OF COMMUNITY-DIRECTED

INVESTMENT PROJECTS ACROSS THE STATE. THESE FUNDS HAVE BEEN ESSENTIAL IN REVITALIZING URBAN AREAS, PROTECTING RIVERS AND WATERSHEDS, PRESERVING GREENSPACE, AND EXPANDING OHIO'S SYSTEM OF RECREATIONAL TRAILS. THESE APPROPRIATIONS WILL BRING THE TOTAL AMOUNT AUTHORIZED SINCE 2000 TO \$400 MILLION. AS THESE BONDS ARE RETIRED ADDITIONAL DEBT CAN BE ISSUED IN FUTURE YEARS TO PROVIDE ONGOING SUPPORT FOR THE CLEAN OHIO PROJECT.

BUDGET CORRECTIVE ITEMS

IN ADDITION TO NEW CAPITAL APPROPRIATIONS AND REAPPROPRIATIONS, H.B. 530 ALSO CONTAINS A NUMBER OF BUDGET CORRECTIVE ITEMS THAT PERTAIN TO H.B. 66. SINCE ENACTMENT OF THE BUDGET BILL, DRAFTING ERRORS HAVE BEEN IDENTIFIED AND IMPLEMENTATION ISSUES HAVE ARISEN THAT NECESSITATE THE INCLUSION OF THESE TECHNICAL AND BUDGET-RELATED CORRECTIVE ITEMS, THAT I BELIEVE COULD ACCURATELY BE DESCRIBED AS NON-CONTROVERSIAL. EXAMPLES OF THESE ITEMS INCLUDE THE FOLLOWING:

H.B. 66 ELIMINATED CERTIFICATE OF COMPLIANCE REQUIREMENTS ON FOREIGN INSURANCE COMPANIES BY AMENDING ORC SECTION 3901.78 AND DELETING SECTIONS 3901.781 THROUGH 3901.784. IT HAS SINCE BEEN DISCOVERED THAT ORC SECTION 3905.43 ALSO CONTAINED A REFERENCE TO CERTIFICATES OF COMPLIANCE THAT WAS NOT REMOVED. THE CORRECTIVE ACTION CONTAINED IN

THE BILL WOULD DELETE THE REFERENCE TO CERTIFICATES OF COMPLIANCE THAT IS NOW OUTDATED.

IN ANOTHER EXAMPLE, IN ORDER TO EASE THE ADMINISTRATIVE BURDEN AT THE LOCAL LEVEL, THE BILL ALIGNS THE REQUIRED DATES FOR LOCAL ENTITIES PAYING ADDITIONAL FEES CHARGED ON BIRTH AND DEATH CERTIFICATES AS WELL AS DIVORCE AND DISSOLUTION DECREES. FOR EXAMPLE, THERE ARE CURRENTLY THREE ADDITIONAL FEES OR SURCHARGES LEVIED ON BIRTH CERTIFICATES. A LOCAL BOARD OF HEALTH IS REQUIRED TO COLLECT AND FORWARD TO THE STATE TWO OF THESE SURCHARGES ON THE TENTH DAY FOLLOWING THE END OF THE MONTH AND ANOTHER 30 DAYS FOLLOWING THE END OF THE QUARTER. TO REDUCE CONFUSION, THE BILL CHANGES THE SCHEDULE SO THAT ALL BIRTH CERTIFICATE SURCHARGES WOULD BE DUE 30 DAYS FOLLOWING THE END OF THE QUARTER.

OTHER CORRECTIVE ITEMS

IN ADDITION TO THE CORRECTIONS AND CLARIFYING ITEMS JUST MENTIONED, THERE ARE THREE AMENDMENTS THAT ARE MORE SUBSTANTIVE TO WHICH I WOULD LIKE TO DRAW YOUR ATTENTION.

THE FIRST IS FOR MONEYS TO COVER A PROJECTED \$30 MILLION SHORTFALL IN OHIO INSTRUCTIONAL GRANT FUNDING FOR BOTH FY 2006 AND 2007. OBM HAS WORKED WITH THE BOARD OF REGENTS TO CONSIDER CORRECTIVE ACTIONS

WHICH ARE ALSO INCLUDED IN THIS BILL. THUS THE LANGUAGE IN THE BILL PROVIDES UP TO \$30 MILLION IN EACH FISCAL YEAR, WITH A PORTION ANTICIPATED TO COME FROM AVAILABLE APPROPRIATION AUTHORITY WITHIN THE BOARD OF REGENTS BUDGET AND THE REMAINING PORTION COMING FROM NEW APPROPRIATIONS.

ANOTHER CHANGE IN THE BILL TO WHICH I WOULD LIKE TO DRAW YOUR ATTENTION, PROVIDES \$1.65 MILLION IN ADDITIONAL GRF APPROPRIATIONS TO THE OHIO VETERANS HOME FOR BOTH FY 2006 AND 2007 FOR OPERATING ASSISTANCE AND DIVERTS NON-GRF REVENUE EARMARKED FOR CAPITAL IMPROVEMENTS TO HELP MEET THE OPERATING COSTS OF THE AGENCY. THE PLAN IS TO TRANSFER APPROXIMATELY \$1 MILLION FY 2006 AND 2007 FROM THIS NON-GRF REVENUE SOURCE. SINCE ADDITIONAL RESOURCES MAY STILL BE NECESSARY IN THE CURRENT BIENNIUM, THE BILL ALSO ALLOWS THE FLEXIBILITY TO TRANSFER ADDITIONAL DOLLARS FROM THIS NON-GRF REVENUE SOURCE TO MEET THE AGENCY'S SHORT TERM OPERATING NEEDS.

ALSO, AS YOU WILL RECALL, IN THIS YEAR'S STATE OF THE STATE ADDRESS, GOVERNOR TAFT PROPOSED AN EXPANSION OF OUR SCHOOL BREAKFAST AND LUNCH PROGRAMS SO THAT MORE LOW-INCOME CHILDREN HAVE HEALTHY MEALS TO HELP THEM SUCCEED IN SCHOOL. CONTAINED IN THE BILL IS A PROVISION THAT WOULD REQUIRE SCHOOL DISTRICTS TO OFFER BOTH BREAKFAST AND LUNCH

PROGRAMS WHERE AT LEAST ONE-FIFTH OF THE STUDENTS ARE ELIGIBLE UNDER FEDERAL GUIDELINES FOR FREE BREAKFAST AND LUNCH. UNDER CURRENT LAW, THIS IS A REQUIREMENT IF ONE-THIRD OF STUDENTS MEET ELIGIBILITY GUIDELINES. THIS CHANGE WILL ENSURE THAT AN ADDITIONAL 120,000 LOW-INCOME STUDENTS HAVE ACCESS TO FREE OR REDUCED PRICED HEALTHY MEALS DURING THE SCHOOL YEAR. ACCORDING TO THE DEPARTMENT OF EDUCATION, THIS CHANGE WILL BRING ADDITIONAL FEDERAL FUNDS TO OHIO WITH NO INCREASE IN STATE MATCHING FUNDS. THERE IS ALSO NO REQUIRED MATCH FOR SCHOOL DISTRICTS THAT PARTICIPATE IN THE PROGRAM.

TAX CORRECTIONS

IN H.B. 66, THE GENERAL ASSEMBLY APPROVED THE MOST COMPREHENSIVE TAX REFORM SEEN IN OHIO IN DECADES. IMPLEMENTATION OF THESE CHANGES HAS YIELDED A NUMBER OF SUGGESTED MODIFICATIONS THAT ARE PRESENTED IN THE BILL. MOST OF THESE CHANGES ARE TECHNICAL, CLARIFYING, OR CONFORMING TO THE ORIGINAL INTENT, BY MOVING TO EITHER CORRECT MISTAKES THAT WERE MADE IN DRAFTING, OR CLEANING UP THE LANGUAGE WHERE WE HAVE FOUND THAT IT WAS NOT AS PRECISE OR AS CLEAR AS INTENDED.

FOR EXAMPLE, H.B. 66 INCLUDED A PROVISION TO HOLD HARMLESS FROM A REVENUE LOSS ASSOCIATED WITH THE PHASE OUT OF THE TANGIBLE PERSONAL PROPERTY TAX, THOSE BOND AND FIXED SUM LEVIES THAT WERE IN PLACE PRIOR

TO SEPTEMBER 1, 2005. AS CURRENTLY WRITTEN HOWEVER, ORC SECTION 5751.20 PROVIDES REIMBURSEMENT ONLY FOR CERTAIN LEVIES THAT WERE APPROVED PRIOR TO SEPTEMBER 1, 2005 AND FIRST LEVIED IN TAX YEAR 2006. AS A RESULT, THIS LANGUAGE INADVERTANTLY DENIES REIMBURSEMENT FOR LEVIES APPROVED PRIOR TO SEPTEMBER 1, BUT NOT COLLECTED UNTIL TAX YEAR 2007. THE BILL WOULD REMOVE THE SPECIFIC REFERENCE TO 2006 AND THUS MAKE THE SECTION CONSISTENT WITH THE INTENT OF REIMBURSING ALL QUALIFYING LEVIES APPROVED PRIOR TO SEPTEMBER 1, 2005.

A CHANGE TO THE COMMERCIAL ACTIVITY TAX PROVISIONS OF H.B. 66, WOULD ADD TO THE EXCLUSION FROM GROSS RECEIPTS, ANY TAXES COLLECTED BY AN ENTITY FROM A CUSTOMER FOR WHICH THE ENTITY IS REQUIRED TO REMIT THE TAX TO A TAXING AUTHORITY. CURRENTLY THE LAW ALLOWS A TAXPAYER TO EXCLUDE ONLY SALES OR USE TAXES COLLECTED AS A VENDOR. THIS WOULD CLARIFY THAT GROSS RECEIPTS TO A TAXPAYER DOES NOT INCLUDE ANY RECEIPTS COLLECTED IN THEIR ROLE AS AN AGENT FOR A TAXING AUTHORITY.

THESE TWO ITEMS ARE EXAMPLES OF THE TYPE OF CORRECTIVES CONTAINED IN THE BILL THAT WILL PROVIDE CLARITY AND IMPROVE THE ABILITY OF THE DEPARTMENT OF TAXATION AND LOCAL GOVERNMENTS TO IMPLEMENT THE LAW AND CONFORM WITH THE ORIGINAL INTENT OF TAX REFORM.

HOUSE FINANCE ACTIONS

AS YOU KNOW H.B. 530 IS SCHEDULED FOR A VOTE THIS AFTERNOON ON THE HOUSE FLOOR. I WOULD LIKE TO TAKE THIS OPPORTUNITY TO EXTEND MY THANKS TO CHAIRMAN CALVERT AND THE HOUSE FINANCE AND APPROPRIATIONS COMMITTEE FOR THEIR WORK ON THIS BILL TO THIS POINT. MOST OF THE CHANGES MADE TO THE "AS INTRODUCED" VERSION OF THE BILL IN HOUSE FINANCE ARE SUPPORTED BY THE ADMINISTRATION. HOWEVER THERE ARE THREE PROVISIONS NOW IN THE HOUSE REPORTED BILL THAT ARE OF CONCERN AND THAT I WOULD LIKE TO ADDRESS AT THIS TIME.

THE FIRST OF THESE IS A PROVISION REGARDING NURSING HOME CAPITAL COSTS IN WHICH THE HOUSE ADDED LANGUAGE REQUIRING THE DEPARTMENT OF JOB AND FAMILY SERVICES TO MAKE MONTHLY PAYMENTS TO QUALIFYING NURSING HOMES AND INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED FOR NEW FACILITIES, CAPITAL PROJECTS, CHANGE OF PROVIDER AGREEMENTS, AND RENOVATIONS. AS YOU ARE AWARE, DURING H.B. 66, AN ATTEMPT WAS MADE TO ADDRESS THE CAPITAL PROJECT "PIPELINE" PROBLEM CAUSED BY THE TRANSITION TO A NEW REIMBURSEMENT FORMULA. HOWEVER, THE FUNDING MECHANISM PROPOSED WAS FLAWED AND THE PROVISION WAS VETOED. THE ADMINISTRATION IS PREPARED TO ACCEPT AN AMENDMENT THAT ADDRESSES STRANDED CAPITAL COSTS, IS LIMITED TO \$10 MILLION, AND PROVIDES FOR AN EQUITABLE

DISTRIBUTION OF FUNDS. WE ARE PREPARED TO WORK WITH THE GENERAL ASSEMBLY TO DEVELOP AN ACCEPTABLE PROPOSAL.

A SECOND PROVISION ADOPTED IN HOUSE FINANCE WOULD REPLACE A TEMPORARY LAW PROVISION IN H.B. 66 THAT PROVIDED AN EXEMPTION TO THE COMMERCIAL ACTIVITY TAX (CAT) FOR ANY INTERMODAL TRANSPORTATION CENTER LOCATED WITHIN A FREE TRADE ZONE. THE HOUSE HAS ADOPTED AND WOULD MAKE PERMANENT IN THIS BILL, A PROVISION THAT WOULD EXEMPT THE TAXABLE GROSS RECEIPTS GENERATED BY A QUALIFYING DISTRIBUTION CENTER (QDC) AND DEFINES A QDC AS ONE WITH ANNUAL GROSS RECEIPTS EXCEEDING \$100 MILLION AND THAT SHIPS AT LEAST 50 PERCENT OF ITS INVENTORY OUT OF STATE.

THE ADMINISTRATION IS GENERALLY OPPOSED TO ADDITIONAL EXEMPTIONS TO THE CAT BEYOND THOSE APPROVED IN H.B. 66 AND IS CONCERNED THAT THIS LANGUAGE IS OVERLY BROAD. WHILE WE ACKNOWLEDGE THAT THERE MAY BE A NEED FOR VERY LIMITED EXEMPTIONS THAT WOULD APPLY TO UNUSUAL BUSINESS MODELS AND/OR UNIQUE CIRCUMSTANCES, WE BELIEVE THAT THE EXEMPTION ADOPTED IN THE HOUSE IS MUCH TOO BROAD TO FIT THAT DEFINITION. AT A \$100 MILLION THRESHOLD, DISTRIBUTION CENTERS THAT ARE LESS THAN NATIONAL IN SCOPE WOULD NONETHELESS GET A CAT EXEMPTION FOR THEIR SUPPLIERS. THE ADMINISTRATION FEELS STRONGLY THAT THE THRESHOLD FOR BEING A QDC SHOULD BE AT LEAST \$500 MILLION IN ANNUAL TAXABLE GROSS RECEIPTS, AND

THAT AS A MATTER OF TAX EQUITY THE QDC SHOULD PAY AN ANNUAL FEE IN LIEU OF THE CAT TAX PAID BY ITS SUPPLIERS.

THE THIRD ITEM THAT I WOULD LIKE TO SPEAK TO IS THE DECISION OF THE HOUSE TO REMOVE FROM THE BILL LANGUAGE THAT WOULD MERGE TWENTY REGULATORY BOARDS INTO THE DEPARTMENT OF COMMERCE EFFECTIVE JULY 1, 2007. THIS LANGUAGE WAS IN RESPONSE TO H.B. 66, WHICH STATED THAT IT WAS THE INTENT OF THE GENERAL ASSEMBLY TO CONSOLIDATE TWENTY INDIVIDUAL LICENSING BOARDS INTO THE DEPARTMENTS OF COMMERCE, HEALTH, AND PUBLIC SAFETY. TO CARRY THIS OUT, A TRANSITION TEAM WAS CREATED AND CHARGED WITH DEVELOPING A PLAN FOR THE CONSOLIDATION. THE BUDGET BILL MADE NO APPROPRIATIONS FOR THE AFFECTED BOARDS FOR FY 2007, PENDING THE OUTCOME OF THE TRANSITION TEAM'S WORK. THIS BILL INCLUDES INDIVIDUAL APPROPRIATIONS FOR EACH OF THESE BOARDS FOR FY 2007. THE "AS INTRODUCED" VERSION OF THE BILL ALSO CONTAINED LANGUAGE CONSISTENT WITH THE RECOMMENDATION OF THE TRANSITION TEAM TO CONSOLIDATE ALL TWENTY BOARDS INTO THE DEPARTMENT OF COMMERCE, EFFECTIVE JULY 1, 2007. DUE TO THE POTENTIAL TO STREAMLINE OPERATIONS, IMPROVE EFFICIENCIES, AND ASSURE MANAGEMENT ACCOUNTABILITY, I RESPECTFULLY REQUEST THAT THE SENATE RESTORE THE CONSOLIDATION LANGUAGE FROM THE "AS INTRODUCED" VERSION OF THE BILL, TO ITS VERSION OF HB 530.

CONCLUSION

AS I MENTIONED EARLIER, CAPITAL APPROPRIATIONS, UNLIKE OPERATING APPROPRIATIONS, REQUIRE A 90-DAY DELAY BEFORE THEY ARE EFFECTIVE. IN ORDER TO ENSURE THAT APPROPRIATIONS CONTAINED IN THIS BILL ARE IN PLACE BY JULY 1, 2006, SO THAT EXISTING PROJECTS MAY PROCEED UNINTERRUPTED, PUBLIC WORKS COMMISSION PROJECTS CAN TAKE ADVANTAGE OF THE SUMMER CONSTRUCTION SEASON, AND SO THAT THE OHIO SCHOOL FACILITIES COMMISSION CAN APPROVE DISTRICTS FOR FUNDING IN TIME TO QUALIFY FOR THE NOVEMBER BALLOT, OUR GOAL IS TO HAVE THE BILL SIGNED INTO LAW BY APRIL 1, 2006.

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY. THANK YOU FOR YOUR TIME AND CONSIDERATION. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MIGHT HAVE.

Table 1
Summary of Capital Reappropriations in H. B. 530
Capital Reappropriations Bill for FYs 2007-2008

Proposed State Capital Reappropriations for FYs 2007-2008 by Agency
Amounts are estimates of what will be reappropriated effective July 1, 2006
Actual Appropriations will be the unencumbered and unallotted balances as of June 30, 2006

State Agency	Cash Funds		Debt Funds		Total
	GRF	Other Cash Funds	Backed by the GRF	Backed by Other Revenue	
Alcohol and Drug Addiction Services	\$ -	\$ -	\$ 3,088,902	\$ -	\$ 3,088,902
Adjutant General	\$ -	\$ 10,119,475	\$ 6,076,902	\$ -	\$ 16,196,376
Administrative Services	\$ 963,900	\$ -	\$ 74,933,078	\$ -	\$ 75,896,978
Aging	\$ -	\$ -	\$ -	\$ -	\$ -
Agriculture	\$ -	\$ -	\$ 7,659,614	\$ -	\$ 7,659,614
Arts and Sports Facilities Commission	\$ -	\$ -	\$ 40,856,048	\$ -	\$ 40,856,048
Attorney General	\$ -	\$ -	\$ 51,942	\$ -	\$ 51,942
Board of Regents/Higher Education	\$ -	\$ -	\$ 488,257,972	\$ -	\$ 488,257,972
Capital Square Review and Advisory Board	\$ -	\$ 966,631	\$ 1,743,633	\$ -	\$ 2,710,264
Commerce	\$ -	\$ 33,833	\$ -	\$ -	\$ 33,833
Development	\$ -	\$ -	\$ 30,000,000	\$ 53,910,427	\$ 83,910,427
E-Tech	\$ -	\$ -	\$ 1,941,225	\$ -	\$ 1,941,225
Expositions Commission	\$ -	\$ -	\$ 5,017,940	\$ -	\$ 5,017,940
Health	\$ -	\$ -	\$ -	\$ -	\$ -
Historical Society	\$ -	\$ -	\$ -	\$ -	\$ -
Job and Family Services	\$ -	\$ 18,076,956	\$ -	\$ -	\$ 18,076,956
Judiciary/Supreme Court	\$ -	\$ -	\$ -	\$ -	\$ -
Mental Health	\$ -	\$ -	\$ 20,187,766	\$ -	\$ 20,187,766
Mental Retardation	\$ -	\$ -	\$ 17,619,809	\$ -	\$ 17,619,809
Natural Resources	\$ 103,847	\$ 21,073,222	\$ 91,354,418	\$ -	\$ 112,531,487
Public Safety	\$ -	\$ 3,081,567	\$ 1,932,241	\$ 3,561,703	\$ 8,575,511
Public Works Commission	\$ -	\$ 65,646,475	\$ 306,056,846	\$ -	\$ 371,703,321
Rehabilitation and Correction	\$ -	\$ -	\$ 105,036,819	\$ -	\$ 105,036,819
School Facilities Commission	\$ -	\$ 161,002,280	\$ 190,205,552	\$ -	\$ 351,207,832
School for the Blind	\$ -	\$ -	\$ 2,350,124	\$ -	\$ 2,350,124
School for the Deaf	\$ -	\$ -	\$ 1,758,450	\$ -	\$ 1,758,450
Secretary of State	\$ -	\$ -	\$ -	\$ -	\$ -
Transportation	\$ -	\$ -	\$ -	\$ -	\$ -
Veterans' Home	\$ -	\$ 4,465,430	\$ -	\$ -	\$ 4,465,430
Youth Services	\$ -	\$ -	\$ 12,269,883	\$ -	\$ 12,269,883
Total Reappropriations	\$ 1,067,747	\$ 284,465,869	\$ 1,408,399,164	\$ 57,472,130	\$ 1,751,404,909

Table 2
Summary of New Capital Appropriations in H. B. 530
Capital Reappropriations Bill for FYs 2007-2008

Public Works Commission	Amount
Fund 038 State Capital Improvements Fund	\$ 120,000,000
Fund 040 Revolving Loan Fund	\$ 24,100,000
Fund 056 Ohio Conservation Fund	\$ 37,500,000
	\$ 181,600,000
School Facilities Commission	
Fund 032 School Building Program Assistance Fund	\$ 585,000,000
Fund 021 Public School Building Fund	\$ 80,000,000
	\$ 665,000,000
Development	
Fund 003 Clean Ohio Assistance	\$ 53,000,000
Fund 012 Job Ready Sites	\$ 30,000,000
	\$ 83,000,000
Expositions Commission	
Fund 026 Administrative Building Fund	\$ 500,000
Department of Natural Resources	
Fund 026 Administrative Building Fund	\$ 1,000,000
Fund 031 Parks and Natural Resources Fund	\$ 5,050,000
Fund 035 Parks and Recreation Improvement Fund	\$ 1,500,000
Fund 061 Clean Ohio Trail Fund	\$ 6,250,000
	\$ 13,800,000
Department of Rehabilitation and Correction	
Fund 027 Adult Correctional Building Fund	\$ 30,024,990
Department of Youth Services	
Fund 028 Juvenile Correctional Building Fund	\$ 1,750,000
Department of Mental Health	
Fund 033 Mental Health Facilities Improvement Fund	\$ 5,500,000
Board of Regents	
Fund 034 Higher Education Improvement Fund	\$ 53,500,000
Department of Agriculture	
Fund 047 Agricultural Easement Fund	\$ 6,250,000
Department of Commerce	
Fund 546 State Fire Marshall Fund	\$ 1,908,000
Ohio Veterans Home	
Fund 604 Veterans' Home Improvement Fund	\$ 552,500
Capital Square Advisory and Review Board	
Fund 026 Administrative Building Fund	\$ 1,610,500
Total New Appropriations	\$ 1,044,995,990
GRF-Backed Debt Appropriations	\$ 885,435,490
Other Revenue Debt Appropriations	\$ 53,000,000
Cash Appropriations	\$ 106,560,500

