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**H.B. 699, Capital Appropriations Bill
Testimony of Tim Keen before the
Senate Finance and Financial Institutions Committee
December 12, 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.) 699, the capital appropriations bill for fiscal years 2007-2008. In addition to making capital appropriations for the current biennium, H.B. 699 also contains a number of technical, corrective, and budget-related adjustments.

As you are aware, most capital appropriations are backed by debt issued by the State of Ohio. In planning for and managing that debt, the Taft Administration has continued Ohio's historically conservative approach to debt management. As a result, this bill makes important investments in Ohio's capital facility and infrastructure needs while remaining affordable in relation to the state's overall debt capacity. This responsible approach to fiscal management has been a consistent theme of the Taft Administration and has been reflected in the Governor's willingness to make tough decisions in what has often been a challenging economic and budget environment. While it has at times been difficult, through these efforts, we have managed to maintain a solid bond rating (AA+ from Standard and Poor's and Fitch rating agencies and a comparable Aa1 from Moody's) at a time when several other states were seeing their ratings downgraded. The benefit of maintaining a solid bond rating is that it provides

us with the ability to issue debt authorized in this and previous capital bills at a lower interest rate. As a new administration takes office next month, they will be among the beneficiaries of the choices made by this Governor as they will inherit a state government that not only has a solid bond rating, but that is also in sound financial condition with a balance of more than \$1 billion in the Budget Stabilization Fund - the largest balance ever held in that fund.

FY 2007 – 2008 Capital Appropriations

Before I talk about this bill however, I would like to remind you of the \$1.0 billion in appropriations made in H.B 530 (the reappropriations and corrective bill). As you may recall, due to the timing of the capital bill, it was necessary for a number of agencies to receive advance capital appropriations in H.B. 530. The largest of these appropriations were made for the School Facilities Commission (\$665.0 million), the Public Works Commission (\$144.1 million), the Third Frontier Program (\$50 million), and the Clean Ohio Program (\$100 million) and were necessary in order for those agencies and programs to proceed with capital projects during fiscal year 2007. In addition to the aforementioned agencies, it was also necessary for H.B. 530 to provide appropriations to several other agencies in order to fund high priority capital projects that for a variety of reasons could not wait until the passage of this bill. The table attached to my testimony identifies the H.B. 530 capital appropriations by agency and funding source and how they fit within the overall capital appropriations for the fiscal year 2007-2008 biennium. The appropriations identified in the table for H.B. 699 reflect

the bill as reported by the House Finance and Appropriations Committee yesterday afternoon.

Turning to the bill you have before you, it contains \$1.8 billion in capital appropriations, with \$1.6 billion of that supported by GRF-backed debt and the remaining \$211.3 million supported by various cash funds.

As with recent capital bills, the top priority in H.B. 699 continues to be support for the construction and renovation of school facilities under Governor Taft's Rebuild Ohio Plan. In addition to continued priority funding for school facilities, this bill also provides increased funding to support the facilities needs of the state's higher education institutions, invests in improvements to Ohio's infrastructure, and provides continued funding for the Third Frontier initiative.

I would now like to take a few minutes to highlight some of the specific priorities that are funded in this bill.

School Building Assistance

H.B. 699 provides \$698.6 million in new capital appropriations for the construction and renovation of Ohio's primary and secondary educational facilities through the Ohio School Facilities Commission. The appropriations contained in this bill fully fund Governor Taft's Rebuild Ohio Plan to date and will provide the state share of funding for new building projects for fiscal year 2008 as well as for more than 300 other facilities already in design or construction. Specifically, the \$698.6 million appropriated in this bill, along with \$665 million provided in H.B. 530 and \$648.5 million provided in S.B. 321 (the Tobacco Budget 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.

To date, just over \$5.6 billion in state appropriations have been committed to Ohio's school districts, with approximately \$3 million being spent daily on school construction. By the time that Governor Taft leaves office early next month, Rebuild Ohio will have supported the construction or renovations of more than 700 facilities in more than 300 districts.

Higher Education/Board of Regents

In addition to continued funding for school facilities projects, the bill also provides \$529.6 million in funding for the facilities needs of Ohio's public higher education institutions, an increase of \$88.2 million over the fiscal years 2005-2006 biennium. The Governor recognizes the need to provide priority funding to adequately support the critically important infrastructure on our higher education campuses and does this by providing \$306.3 million for campus specific projects, \$123.3 million to institutions for basic renovations, and \$118.3 million dollars to support statewide projects.

Third Frontier Project

This bill also contains \$50 million in new capital appropriations for the Third Frontier initiative. These appropriations, which are in addition to the \$50 million provided in H.B. 530, will support another 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 Science 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 in 2005 by the General Assembly in S.B. 236.

Public Works Commission

H.B. 699 also includes \$120 million in GRF-backed capital appropriations for the Public Works Commission to support grants, loans, and credit enhancements to local governments for 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 are in addition to \$120 million appropriated for this purpose in H.B. 530.

In addition to GRF-backed appropriations for the infrastructure projects, this bill also appropriates \$25.3 million from the Revolving Loan Fund which receives its revenue from loan repayments. These appropriations will be used by the Public Works Commission to make additional loans to local governments for the types of projects I mentioned just a moment ago. When combined with appropriations contained in H.B. 530, this will increase total appropriations for the Public Works Commission for the fiscal years 2007 – 2008 biennium to \$289.4 million.

State Agency Capital Appropriations

As a result of a difficult economic and budgetary climate which restricted capital capacity, as well as commitments for supporting educational facilities, infrastructure improvements, and the Third Frontier initiative, limited funding has been available to support agency capital needs in recent years. In this bill, the Governor seeks to increase the level of support to address the facilities needs of our state agencies. As a result of this effort, the amounts appropriated in this bill represent the first actual increase for many agencies in several years. The Governor's recommended appropriations are necessary to protect our infrastructure and maintain the physical facilities in which the citizens of Ohio have already made a significant financial commitment.

The following are examples of agency appropriations contained in this bill:

Rehabilitation and Correction

This bill provides \$36.2 million in new appropriations for the Department of Rehabilitation and Correction to support general facility renovations and improvements. In addition to the funding provided in this bill, \$30 million was provided for the same purpose in H.B. 530.

Department of Administrative Services

This bill provides \$25 million in new appropriations for the Department of Administrative Services to support ongoing renovations to the North High Street Office Complex, office space planning for the Rhodes Tower, and renovations and

improvements to the Governor's Residence and the State of Ohio Computer Center (SOCC).

Department of Mental Health

The bill appropriates \$22.7 million for the Department of Mental Health for facility maintenance and renovation as well as \$2.5 million to support planning and design of a new state hospital in Cuyahoga County to replace an existing facility in Cleveland. This is in addition to the \$4.0 million provided for this purpose in H.B. 530.

Ohio Exposition Commission

The bill appropriates a total of \$19.7 million for the Ohio Exposition Commission to fund facility repair and renovation projects and support construction of a new multi-purpose building.

Department of Agriculture

The bill appropriates \$11.3 million for the Department of Agriculture for facility maintenance and renovation and the construction of a new Plant Industries Building.

Adjutant General

The bill appropriates \$10.9 million to support planning for a new armory in Delaware as well as repairs and renovations to existing armories.

Schools for the Blind and the Deaf

The bill appropriates \$4 million under the Ohio School Facilities Commission to support planning and design costs for a new joint use school facility for the Ohio State School for the Blind and the Ohio School for the Deaf. This appropriation is the first step in replacing the aging and obsolete facilities of the two institutions. In addition to

being the source of the funding, OSFC will also be involved in the planning process in order to take advantage of their experience and success in managing school construction projects.

Supporting Key Community Projects

Consistent with Governor Taft's promise to place the highest priority to those community projects that create jobs and grow our economy, H.B. 699 also 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. The state also committed significant resources to the rural counties of the state by funding 117 projects that cover the majority of Ohio's counties.

General Revenue Fund Appropriations

In addition to capital appropriations, there are a number of budget corrective items that require GRF appropriations. Because these items involve fiscal year 2007 spending needs, it is necessary to address them in this bill.

Pandemic Preparedness

The first of these items would provide appropriations to cover the costs of being prepared to respond to an outbreak of pandemic influenza. Specifically, the bill makes a non-GRF appropriation of \$17.5 million to the Department of Health for the purchase of 1.2 million doses of antiviral for pandemic influenza preparedness. This appropriation is funded through GRF transfers that would be made on an as needed basis. It is estimated that the GRF transfers will occur about every six months and that

not more than \$6 million will be spent in fiscal year 2007. This purchase, coupled with an allocation of 1.7 million doses of federally purchased antivirals, will enable Ohio to meet the Center for Disease Control's guidelines for pandemic influenza preparedness and have enough antivirals to treat 25% of the state's population.

In addition to appropriations made for the Department of Health, the bill also provides \$634,000 in GRF appropriations to the Department of Agriculture to purchase security and emergency preparedness supplies and equipment items so that the department can fully respond to the pandemic flu or other large-scale emergency event. These appropriations will enhance the department's field response as well as equip its Reynoldsburg facilities with adequate laboratory supplies and equipment.

Controlling Board Emergency Purposes

Another change in the bill to which I would like to draw your attention, increases the fiscal year 2007 appropriation to the Controlling Board's Emergency Purposes line item by \$3.0 million. Appropriations from this line item are transferred, at the discretion of the Controlling Board, to state agencies for various unforeseen needs. A wrongful imprisonment settlement very early in the fiscal year consumed \$2.5 million of the original \$5.0 million appropriation, and another \$1.2 million was used to reimburse county boards of election for costs associated with a congressional special election in September. In order to ensure that adequate resources remain available through the remainder of the fiscal year, an appropriation increase was included in this bill.

Secretary of State Fund Transfer

The bill contains a \$6 million cash transfer from the GRF to federal Help America Vote Act (HAVA) funds to correct for interest earnings that were credited to the GRF in error. The federal HAVA program required interest to be retained by the funds and used for HAVA purposes. Without statutory authority to credit the interest to these funds, the interest is automatically credited to the GRF. A federal audit uncovered this problem and the language in this bill now credits the interest to the appropriate funds.

Central State University

The bill also contains an increase of \$1.75 million in GRF appropriations for Central State University. This funding is intended to restore the reduction in Central State's supplement enacted in H.B. 66. Since the financial crisis of the mid-1990's, the university has made significant gains in improving its financial condition. As a result of the institution's progress on this front, the state began the process of phasing out supplemental funding. Unfortunately, several recent events have adversely affected the university's finances. A decrease in enrollment – in part tied to the university's change from quarters to semesters last fall – led to a reduction in tuition revenues. The 97% hold harmless provision led to a reduction in CSU's State Share of Instruction. These factors, coupled with the loss of the supplement, had serious fiscal consequences for the university. This appropriation in this bill is intended to restore some of the funding reductions and help the university improve its financial condition.

Public Utilities Commission

This bill allows the Director of Budget and Management to transfer up to \$2.1 million in cash from the GRF to the Public Utilities Fund so that the Public Utilities Commission can continue to operate the motor carrier safety program. Federal legislation replaced the existing program with a new one that takes effect on January 1, 2007, however the implementing rules will not be adopted by that date. This delay precludes Ohio from collecting revenues under the old program, and leaves the state's motor carrier safety program without the ability to collect state revenues for most, if not all, of FY 2007. If circumstances at the federal level change and Ohio receives funding in FY 2007, the language contained in this bill would allow the GRF transfer to be repaid.

Ethics Commission

The bill also increases fiscal year 2007 GRF appropriations for the Ethics Commission by \$206,000. This increase is necessary to address operating expenses of the agency as the result of an increase in the number and complexity of investigations as well as the need to upgrade the agency's internal systems for financial disclosure filings. With these additional funds, the Commission will be able to complete the financial disclosure database and hire two additional investigative attorneys.

House Committee Action

In addition to the above GRF appropriations, the House Finance and Appropriations Committee added \$234,000 in appropriations for the Shawnee State University Supplement and \$25,000 for the Northeast Ohio Universities Collaboration

and Innovation Study Commission to examine further collaboration among five state supported universities in northeast Ohio.

Other Corrective Items

In addition to the GRF corrections just mentioned, there are a number of language items contained in the bill. I would like to draw to your attention to two of these items involving the Clean Ohio Program and the Ohio Turnpike Commission.

Clean Ohio

Earlier this year, H.B. 530 authorized the issuance of the last \$100 million from the \$400 million authorized for Clean Ohio Conservation and Revitalization bonds. These popular programs provide funding for green space conservation, the development of recreational trails, farmland preservation, and the remediation of abandoned industrial sites. Language in this bill would allow future General Assemblies to authorize the issuance of additional bonds, as those that are outstanding are retired, thus allowing for the continuation of the Clean Ohio programs.

Ohio Turnpike Commission

H.B. 699 contains several provisions to strengthen the legislative and executive oversight of the Ohio Turnpike Commission. Under these provisions, the Commission would be required to submit its proposed budget to the Governor and General Assembly, appear before the General Assembly while it is considering the Department of Transportation's biennial budget, obtain OBM approval prior to issuing or refinancing debt or altering the terms of their Master Trust Agreements that govern their bond issuances, and notify the Governor and General Assembly of proposed toll rate

changes. The bill also adds the directors of Development and Budget and Management to the Turnpike Commission, renames the existing legislative oversight committee to the Turnpike Legislative Review Committee, and allows the committee to conduct its meetings in locations chosen by the General Assembly.

CONCLUSION

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 at this time.

State of Ohio
Summary of Capital Improvements Appropriations
FY 2005-06 Biennium Compared to FY 2007-08 Biennium
As Reported by House Finance and Appropriations

State Agencies	FY 2005-06 Appropriations by Source			FY 2007-08 Appropriations by Source		
	GRF Debt Funds	Other Funds	Total	GRF Debt Funds	Other Funds	Total
Alcohol and Drug Addiction Services	100,000	0	100,000	450,000	0	450,000
Adjutant General	10,209,000	9,649,000	19,858,000	9,975,000	877,275	10,852,275
Administrative Services	33,431,576	0	33,431,576	25,519,500	0	25,519,500
Agriculture	7,927,655	0	7,927,655	11,285,631	0	11,285,631
Attorney General	0	0	0	0	0	0
Board of Regents/Higher Education	438,343,998	0	438,343,998	529,636,534	0	529,636,534
Capitol Square Review and Advisory Board	2,276,750	0	2,276,750	350,000	0	350,000
Commerce	0	8,590,000	8,590,000	0	4,120,000	4,120,000
Ohio Cultural Facilities Commission	39,582,000	0	39,582,000	54,021,000	0	54,021,000
Development	0	50,000,000	50,000,000	30,000,000	0	30,000,000
e-Tech Ohio	1,027,038	0	1,027,038	1,310,000	0	1,310,000
Expositions Commission	5,000,000	0	5,000,000	19,696,000	0	19,696,000
Health	0	0	0	0	0	0
Historical Society	4,010,560	0	4,010,560	0	0	0
Job and Family Services	0	2,076,956	2,076,956	0	2,000,000	2,000,000
Judiciary/Supreme Court	0	0	0	0	0	0
Library Board	0	0	0	0	0	0
Mental Health	9,750,000	0	9,750,000	22,730,000	0	22,730,000
Mental Retardation	12,732,257	0	12,732,257	21,427,373	0	21,427,373
Natural Resources	47,484,000	8,600,000	56,084,000	60,366,700	16,140,000	76,506,700
Ohio STEM Education Authority	0	0	0	16,000,000	0	16,000,000
Public Safety	744,900	5,150,000	5,894,900	600,000	1,500,000	2,100,000
Public Works	157,500,000	16,750,000	174,250,000	120,000,000	25,300,000	145,300,000
Rehabilitation and Correction	42,100,000	0	42,100,000	36,175,010	0	36,175,010
School Facilities Commission	535,600,000	9,000,000	544,600,000	540,000,000	158,632,362	698,632,362
School for the Blind	1,821,733	0	1,821,733	1,000,000	0	1,000,000
School for the Deaf	1,878,513	0	1,878,513	1,000,000	0	1,000,000
Secretary of State	0	0	0	0	0	0
Third Frontier/Wright Centers	50,000,000	0	50,000,000	50,000,000	0	50,000,000
Transportation	0	0	0	0	0	0
Veterans' Home	0	4,689,000	4,689,000	0	2,700,000	2,700,000
Youth Services	10,930,182	0	10,930,182	18,241,831	0	18,241,831
Subtotal: Capital Bills [HB 16 and HB 699]	1,412,450,162	114,504,956	1,526,955,118	1,569,784,579	211,269,637	1,781,054,216
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			
Thrd Frontier [in SB 189]	50,000,000	0	50,000,000			
Agriculture [in HB 530]				6,250,000	0	6,250,000
Board of Regents/Higher Education				3,500,000	0	3,500,000
Capital Square Review and Advisory Board				1,610,500	0	1,610,500
Commerce				0	1,908,000	1,908,000
Development [in HB 530]				30,000,000	53,000,000	83,000,000
Public Works Commission [in HB 530]				157,500,000	24,100,000	181,600,000
School Facilities Commission [in HB 530 and SB 321]				585,000,000	728,500,000	1,313,500,000
Third Frontier/Wright Centers [in HB 530]				50,000,000	0	50,000,000
Exposition Commission				500,000	0	500,000
Mental Health				5,500,000	0	5,500,000
Natural Resources				13,800,000	0	13,800,000
Rehabilitation and Correction				30,024,990	0	30,024,990
Veterans' Home				0	552,500	552,500
Youth Services				1,750,000	0	1,750,000
Grand Total: Biennial Capital Budgets	2,105,050,162	374,454,956	2,479,505,118	2,455,220,069	1,019,330,137	3,474,550,206