



Office of Budget and Management

John R. Kasich
Governor

Timothy S. Keen
Director

H.B. 482, Capital Appropriations Bill Testimony of Tim Keen before the House Finance and Appropriations Committee March 14, 2012

Mr. Chairman, members of the House Finance and Appropriations 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.) 482, Governor Kasich's capital improvements recommendations for fiscal years (FYs) 2013-2014.

The capital bill makes appropriations for the repair, renovation, reconstruction, and construction of capital assets of state agencies, colleges and universities, and schools. It also funds a program of grants and loans for local infrastructure projects throughout the state. Most capital appropriations are supported by long-term debt issued by the State of Ohio, with the principle and interest payments on that debt funded by General Revenue Fund appropriations made in future operating budgets.

As a result, capital bill appropriations directly impact operating budgets. Therefore, consistent with Governor Kasich's commitment to restrain government spending, it is imperative that the FYs 2013-2014 capital bill also be restrained in size. Accordingly, the bill focuses on necessary maintenance and upkeep of the state's core

capital responsibilities. Under these circumstances, the Governor does not feel it would be appropriate for the bill to contain community projects.

FY 2013 – 2014 Capital Appropriations

H.B. 482 contains \$1.74 billion in capital appropriations, with \$1.36 billion of that amount supported by GRF-backed debt obligations and the remaining \$375.6 million supported by various cash funds. Table 1, attached to my testimony, provides a detailed breakdown of capital appropriations by agency and funding source. Over the last several months, I have repeatedly made reference to the fact that this capital bill would be restrained in nature. As a comparison, total biennial capital appropriations over the past decade have ranged from \$2.4 to \$3.5 billion in total appropriations, with \$2.1 to \$2.5 billion of those amounts being in the form of GRF-backed debt appropriations, or tobacco securitization proceeds used in lieu of GRF-backed debt.

Despite the restrained size of this bill, significant state support is still provided to assist local communities and higher education institutions to preserve and improve their infrastructure as a tool for economic growth. It also provides support for ongoing school construction programs as well as state agency capital needs. I would now like to take a few minutes to highlight some of the specific capital appropriations that are contained in this bill.

Higher Education/Board of Regents

H.B. 482 includes total capital appropriations of \$400 million for higher education. Of this amount, \$31 million is appropriated to projects of statewide benefit and \$369 million is appropriated for campus-level projects. Just as significant as the total funding amount provided for higher education, is the manner by which capital resources are allocated to the institutions. For fifteen years, capital appropriations for higher education were distributed through an allocation formula that provided a guaranteed funding amount for each institution but did not strategically allocate resources. Given the limited resources available, it was Governor Kasich's belief that state capital support should be used for the most strategically important projects for the University System of Ohio.

As a result, he called upon the state's 37 higher education institutions to engage in a collaborative process to develop a capital funding plan focused on statewide priorities. Led by Ohio State University president Dr. E. Gordon Gee, the higher education community answered this challenge, developing a comprehensive capital funding plan that was endorsed by each of the state's public higher education institutions. The capital bill before you presents, as adopted, the collaborative committee's recommendations for the funding of campus-level projects. The committee identified the following strategic investment themes:

- Long-Term Maintenance of Existing Facilities - \$207.9 million is appropriated for the maintenance and renovation of existing facilities, including \$28.8 million for the University of Cincinnati's Medical Sciences Building renovation and \$12.5

million for the renovation of four academic buildings at Bowling Green State University.

- Engineering Meets Science - \$96.9 million is targeted for projects that merge the job-creating fields of science and engineering, including \$50 million for a new Chemical and Biomolecular Engineering and Chemistry Building at The Ohio State University.
- Workforce Development - \$30.4 million is dedicated to projects that enhance Ohio's workforce development efforts, including \$10 million toward a new Energy Industry Training Center at Stark State College and \$6 million for an Energy Training and Education Center at Zane State College to help prepare Ohioans for anticipated job opportunities in the energy industry.
- Public-Private Partnerships - \$14.8 million is devoted to projects that enhance private-sector partnerships. For example, a state appropriation of \$12 million is provided to Wright State University's Neuroscience Engineering Collaboration to leverage another \$10 million from the university's private-sector partners.

An additional \$31 million is designated for projects of statewide benefit, including \$9 million to support the Ohio Library and Information Network (OhioLINK). Finally, \$19 million is appropriated to complete the construction of the Central State University student activity center.

School Facilities Commission

The bill contains \$675 million in total capital appropriations that continues state support for the construction and renovation of Ohio's primary and secondary educational facilities. The \$675 million appropriated in this bill is comprised of \$425 million in GRF-Backed debt appropriations, as well as \$250 million in lottery profits proceeds attributed to the video lottery terminal (VLT) licensing fees to be paid by the race tracks. These VLT license fees are upfront, one-time fees and therefore represent non-recurring revenue. As a result we believe it is appropriate to apply these one-time revenues toward school construction projects.

These appropriations will continue support for the Classroom Facilities Assistance and Exceptional Needs programs, as well as the other successful initiatives administered by the commission. The School Facilities Commission estimates that with the appropriations contained in this bill, they will be able to continue support for 77 districts currently receiving funding as well as offer funding to 20 to 25 new districts each year.

Public Works Commission

H.B. 482 also includes \$365.3 million in appropriations for the Public Works Commission, including \$300 million in GRF-Backed debt appropriations and \$65.3 million in Revolving Loan Fund appropriations. The \$300 million in GRF-Backed appropriations will be used 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. The \$65.3 million in Revolving Loan Fund

appropriations meanwhile use the proceeds of repayments from past loans to make additional loans to local governments for the type of infrastructure projects I just mentioned.

State Agency Capital Appropriations

As discussed above the focus of this bill in terms of funding for state agencies is to preserve and extend the useful life of existing state assets. To accomplish this, state agencies will receive a total of \$287.9 million in total appropriations with \$219.3 million supported by GRF-backed debt appropriations and the remainder supported by various cash funds, including federal matching funds. 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. Ninety-five percent of appropriations made to state agencies for the facilities and assets they operate or maintain are for renovations and maintenance projects. Only five percent of total state funds appropriated are being used to support new construction.

The following are notable agency appropriations contained in this bill:

Department of Rehabilitation and Correction

The bill provides \$67.9 million in new appropriations for the Department of Rehabilitation and Correction to support general facility renovations and improvements at the state's twenty-eight adult correctional institutions. As discussed previously in my

remarks, all of these appropriations are for renovations and improvements to existing facilities, to extend their useful life.

Department of Youth Services

The bill also provides \$15.5 million in new appropriations for the Department of Youth Services to support general facility renovations and security improvements at the state's six juvenile justice institutions.

Department of Administrative Services

This bill also provides \$30 million in new appropriations for the Department of Administrative Services, including \$15.5 million for renovations and improvements to the State of Ohio Computer Center (SOCC) that will permit the consolidation of IT services for a number of agencies. This consolidation not only makes sense from an operating standpoint, but will also result in greater efficiencies moving forward.

Department of Mental Health

The bill appropriates \$10.0 million for the Department of Mental Health (DMH) to support community housing, treatment, and support projects across the state. Since DMH has repurposed funds previously appropriated for a new hospital in northeast Ohio to a less expensive renovation alternative, the savings can be used to fund the department's institutional renovation needs for the upcoming biennium. Therefore, the bill provides no new appropriations for this purpose.

Department of Developmental Disabilities

The bill provides \$14.6 million for the Department of Developmental Disabilities (DDD) to maintain and support its 10 developmental centers. Similar to DMH, DDD has

previously authorized appropriation authority assigned to lapsed projects that will be used to support new local housing projects in the upcoming biennium and thus will not require new appropriation for this purpose in the bill.

Adjutant General

The bill also provides \$18.8 million to support the construction of a new armory in Delaware as well as repairs and renovations to existing armories. I will note, that this is one of the few instances where this bill funds new construction. The construction of the Delaware Armory, which is being planned and constructed in collaboration with the city of Delaware is funded by a combination of \$3.9 million in GRF-backed debt and \$11.8 million in federal matching funds. The Delaware Armory project is part of a long-term facility realignment process for the Adjutant General that is consolidating operations into fewer facilities by closing smaller, outdated armories across the state and consolidating their activities into fewer modern facilities.

Department of Natural Resources

The bill appropriates \$51.2 million to support maintenance, repairs, and improvements at state parks and forests across the state. Included in these appropriations is \$10 million for dam rehabilitation projects, \$6 million for recreational trails, and \$12.8 in marina and wildlife projects supported by cash funds within the department.

Attorney General

Also appropriated is \$14.5 million in GRF-backed appropriations for the Attorney General for the purpose of modernizing the state's crime labs and to make

improvements at the Peace Officer Training Academy located in London, Ohio. Included in this amount is funding to build a state-of-the-art crime lab and investigations facility on the grounds of the Bowling Green State University campus which will expand the capabilities of the current Bowling Green BCI Office, while allowing for a unique, first-of-its-kind partnership between BCI and BGSU. The collaboration aims to advance the forensic sciences while preparing future scientists and investigators to leave college immediately ready for employment in the public safety field.

Coal Research and Development

The bill appropriates \$10 million in the Department of Development for Coal Research and Development (R&D). While coal research and development spending has historically been supported by operating appropriations contained in each biennial operating budget, those appropriations are funded through the issuance of state bonds and, like other capital appropriations, tend to spend out over multiple biennia. For that reason, H.B. 153 reestablished coal R&D appropriations as capital appropriations effective fiscal year 2012. As a result, the capital reappropriations bill includes \$28.5 million in reauthorized spending for coal R&D and, for the first time \$10 million in new coal R&D capital appropriations for this purpose are included in a capital bill. Combined with reappropriations, a total of \$38.5 million will be appropriated to support research and application technologies to facilitate use of Ohio coal in an environmentally appropriate manner.

Capital Related Language Items

In addition to the proposed new capital appropriations for the FYs 2013-2014 capital biennium, the bill also contains a few language items authorizing changes in the state's capital financing programs. These items include the creation of a Higher Education Improvement Taxable Projects Fund to segregate appropriations for those higher education projects that are not eligible for tax exempt bond funding and authorization of certificates of participation (COPS) for improvements to the Multi Agency Radio Communications System (MARCS) and development of the State Tax and Revenue System (STARS).

Higher Education Improvement Taxable Projects Fund

The bill would create the Higher Education Improvement Taxable Projects Fund to fund higher education appropriations that are not eligible to be funded from tax exempt debt under the Internal Revenue Code. Under federal tax law, projects in which private and not-for-profit entities collaborate with a public entity may not be eligible to be funded from tax-exempt bond proceeds, particularly if the project could result in financial payments or gain to the public entity. Most of the projects with appropriations from the higher education improvement taxable fund are related to public-private research and development initiatives that involve private funding and/or the potential for commercial applications.

Similar to the approach taken by the General Assembly in implementing the Third Frontier Research and Development program, the creation of a taxable bond fund enables the State to fund these key projects and remain in compliance with federal tax

law and the Internal Revenue Code. Allowing the OBM Director to allocate and transfer appropriations between the higher education taxable and tax exempt bond improvement funds facilitates compliance with these potential federal law and tax code issues.

Multi-Agency Radio Communications System

The bill also authorizes up to \$90 million in COPS for upgrades and improvements to the MARCS system. The MARCS system, which is a multi-agency radio communications system that permits communication between state and participating local law enforcement agencies was developed and employed in the late 1990's and early 2000s and is now approaching the end of its useful life, to the point that much of the system is will soon no longer be supported by the manufacturer. The COPS would fund modernization of the system and would allow additional capacity for local emergency and law enforcement agencies whose own stand-alone systems are experiencing similar obsolescence issues. With this additional local participation, redundant systems and the costs of supporting them could go away with more participation also helping the state to offset some of the costs of the upgrades. Debt service payments on the COPS issued are expected to be recovered through user fees paid by the state and local entities that utilize the system.

State Taxation Accounting and Revenue System

The bill also authorizes funding for continued development and implementation of the STARS project in the Department of Taxation through issuance of an additional \$20 million in COPS. The STARS project was initially authorized in H.B. 119 of the 127th General Assembly and would replace the multiple obsolete systems that Taxation uses, some of them dating to the 1980's, to administer state taxes with a single system.

CONCLUSION

I appreciate the opportunity to appear before you today to present the contents of Governor Kasich's proposed capital plan for FYs 2013 and 2014. Thank you for your time and consideration. I would be happy to answer any questions you might have at this time.

Table 1
Summary of Capital Appropriations in H.B. 482
Capital Appropriations Bill for FYs 2013-2014

Proposed State Capital Appropriations for FYs 2013-2014 by Agency
Capital Appropriations Arranged by Agency and Source of Funding

State Agency	GRF-Backed Debt	Cash Funds	Total
Adjutant General	\$ 6,000,000	\$ 12,771,046	\$ 18,771,046
Administrative Services	\$ 30,000,000	\$ -	\$ 30,000,000
Agriculture	\$ 1,000,000	\$ -	\$ 1,000,000
Attorney General	\$ 14,504,433	\$ -	\$ 14,504,433
Board of Regents/Higher Education	\$ 400,000,000	\$ -	\$ 400,000,000
Capital Square Review and Advisory Board	\$ 2,200,000	\$ -	\$ 2,200,000
Commerce	\$ -	\$ 2,500,000	\$ 2,500,000
Cultural Facilities Commission/Ohio Historical Society	\$ 7,500,000	\$ -	\$ 7,500,000
Development	\$ 10,000,000	\$ -	\$ 10,000,000
Developmental Disabilities	\$ 14,635,000	\$ -	\$ 14,635,000
E-Tech	\$ 3,562,434	\$ -	\$ 3,562,434
Expositions Commission	\$ 7,500,000	\$ -	\$ 7,500,000
Job and Family Services	\$ -	\$ 927,500	\$ 927,500
Mental Health	\$ 10,000,000	\$ -	\$ 10,000,000
Natural Resources	\$ 38,440,000	\$ 12,800,000	\$ 51,240,000
Public Safety	\$ 320,000	\$ 6,963,000	\$ 7,283,000
Public Works Commission	\$ 300,000,000	\$ 63,500,000	\$ 363,500,000
Rehabilitation and Correction	\$ 67,886,857	\$ -	\$ 67,886,857
School Facilities Commission	\$ 425,000,000	\$ 250,000,000	\$ 675,000,000
School for the Blind	\$ 1,049,436	\$ -	\$ 1,049,436
School for the Deaf	\$ 1,313,983	\$ -	\$ 1,313,983
Veterans' Services	\$ 3,915,718	\$ 26,120,863	\$ 30,036,581
Youth Services	\$ 15,463,280	\$ -	\$ 15,463,280
Total Appropriations	\$ 1,360,291,141	\$ 375,582,409	\$ 1,735,873,550