



Office of Budget and Management

John R. Kasich
Governor

Timothy S. Keen
Director

HOUSE BILL 497
FY 2015-2016 CAPITAL BILL
TESTIMONY OF TIMOTHY S. KEEN

BEFORE THE

SENATE FINANCE COMMITTEE

MARCH 26, 2014

Chairman Oelslager, Ranking Member Sawyer and members of the Committee, my name is Tim Keen and I am director of the Office of Budget and Management. I appreciate this opportunity to appear before you today to testify in support of House Bill 497, which presents Governor Kasich's recommended capital improvements budget for fiscal years 2015 and 2016.

This bill makes appropriations for the repair, renovation, reconstruction and construction of capital assets of state agencies, colleges, universities and school districts. It also funds a program of grants and loans for local infrastructure projects throughout the state. And with the improved fiscal condition of the state, for the first time in six years, a portion of appropriations in this bill targets funds to support economic development projects of local or regional importance.

Most of the appropriations contained in this bill 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 of this debt service, capital bill appropriations directly impact operating budgets.

Recommended expenditures for the upcoming capital biennium have been made after a careful process that has prioritized the most pressing needs of state government, schools and higher education, with particular emphasis given to each project's impact on jobs and economic growth. Most expenditures are focused on necessary maintenance and upkeep of the state's current capital assets, while much of the new construction funded in this bill is used to replace existing facilities that are no longer cost-effective to repair. The bill also contains capital reappropriations for the upcoming capital biennium. "Reappropriations" reauthorize the appropriation of unexpended balances from previously approved capital projects to ensure that they can continue uninterrupted toward their final completion. I will discuss this in more detail later in my testimony.

FYs 2015 and 2016 Capital Appropriations

H.B. 497 contains \$2.39 billion in capital appropriations, with \$2.07 billion of that amount supported by GRF-backed debt obligations and the remaining \$317.1 million supported by non-GRF-backed bonds and cash funds. Table 1, attached to my testimony, provides a detailed breakdown of capital appropriations by agency and funding source.

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. 497 includes total capital appropriations of \$504.1 million to the Board of Regents and institutions of higher education. Just as significant as the total funding amount provided for higher education is the manner by which capital resources are allocated to the institutions.

Recall that prior to the current capital biennium, capital appropriations for higher education campuses 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 the Governor's belief that state capital support should be directed to projects of the greatest strategic importance for the University System of Ohio.

Prior to the introduction of his first capital appropriations bill, H.B. 482 of the 129th General Assembly, Governor Kasich called upon the state's 37 public higher education institutions to engage in a collaborative process to develop a capital funding plan focused on statewide priorities. Thanks to the hard work and commitment of our higher education leaders, the inaugural collaborative funding process was considered a strong success and the resulting capital funding recommendations were ultimately supported and approved without revision by the General Assembly.

The Governor has again asked higher education to take the lead in developing a collaborative capital funding request that prioritizes the needs of the entire university system ahead of the desires of individual institutions. Led by Ohio University president Dr. Roderick McDavis and Southern State Community College president Dr. Kevin Boys, the higher education community has again delivered a strategic, comprehensive capital funding plan 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:

- Maintenance and Repair - The majority of the higher education capital allocation is targeted toward the maintenance and repair of existing campus facilities. Based on the college presidents' committee recommendation, \$356 million is appropriated for

this purpose, including \$37.2 million for Ohio State's Pomerene Hall renovation and \$28.8 million for the University of Cincinnati's on-going Medical Sciences Building renovation.

- Small Campus Targeted Workforce Development - In recognition of the fact that smaller community colleges have a particular long-term capital planning challenge when trying to accommodate growth at their institutions, the committee recommended that \$16 million be set aside for small campus projects that demonstrate a commitment of local financial resources, support from community stakeholders, and a strong capacity to meet regional or statewide workforce development needs.
- Enhanced Technology - \$15.8 million is targeted in the committee's recommendation for projects that allow institutions to expand online course offerings or upgrade their technology infrastructure, including \$9 million to increase the number of students who are able to take online courses at Columbus State Community College.
- Strategic Expansion – the committee recommended that \$9.1 million be dedicated to expansion projects that enhance Ohio's workforce development efforts, including \$4.6 million toward a new Center for Workforce Innovation and Education at Cincinnati State Community College and \$2 million to support the Center for Sensor Commercialization at Lorain County Community College.
- Student Completion - \$7.6 million is devoted to projects that support comprehensive student success and completion initiatives. For example, a state appropriation of \$3.5 million is provided to Wright State University for their Veterans and Workforce Gateways project, while \$1.4 million will support the Student Services and Advising Center at Northwest State Community College.

In addition to campus-specific allocations, there are a number of other projects of statewide benefit to the University System of Ohio, including \$12 million to support the Ohio Library and Information Network (OhioLINK), \$12 million to support the Ohio Supercomputer Center, and \$8.5 million to support the acquisition of Workforce Based Training and Equipment.

School Facilities Commission

The bill contains \$675 million in total capital appropriations that continue 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 \$575 million in GRF-backed debt appropriations, as well as \$100 million in lottery profit 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 again apply these one-time revenues toward school construction projects, as was done in the current capital budget.

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 80 districts currently receiving funding as well as offer funding to 20 to 25 new districts each year.

Public Works Commission

This bill also includes \$444 million in appropriations for the Public Works Commission, including \$375 million in GRF-backed debt appropriations and \$69 million in Revolving Loan Fund appropriations. GRF-backed appropriations of \$300 million will be used to provide 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 \$69 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.

Clean Ohio Fund

H.B. 497 provides \$100 million in new appropriations for the Clean Ohio Program, which is the maximum biennial amount authorized by the constitution. Clean Ohio appropriations are contained within the budgets of the three state agencies that administer this program. Seventy-five million dollars is provided for the Public Works Commission's Green Space Conservation Program to fund the preservation of open spaces, sensitive ecological areas, and stream corridors. Both the Department of Natural Resources' Clean Ohio Trails Fund and the Department of Agriculture's Easement Purchase Program are provided with \$12.5 million. The Department of Natural Resources applies these funds to improve outdoor recreational opportunities by funding trail development. The Department of Agriculture uses Clean Ohio funding to purchase agricultural easements from landowners who volunteer to keep their land in agricultural production in perpetuity.

State Agency Capital Appropriations

The purpose of the OBM capital planning process is to identify the appropriate level of state resources required to extend the useful life of state-owned assets or to replace them, if necessary, with new facilities. State agency capital appropriations are primarily supported by GRF-backed debt with the remainder supported by other bond or cash funds, including federal matching funds. The Governor's recommended appropriations are necessary to protect our state infrastructure and maintain the physical facilities in which the citizens of Ohio have already made a significant financial commitment.

The following are notable agency appropriations contained in H.B. 497:

Department of Natural Resources

The bill appropriates \$236.9 million to support repairs, improvements and maintenance at state parks, forests, other Department of Natural Resources properties across the state and local parks projects. Included in these appropriations is \$72.5 million for improvements at state parks and day-use facilities, \$45.1 million for dam rehabilitation, \$21.9 million for repairs and maintenance projects, and \$16.4 million in marina and wildlife renovations and improvements supported by cash funds.

As you know, Ohio can take pride in having one of the highest rated, most diverse and most heavily visited state park systems in the nation. But this is also a system that's showing its age, as recreational facilities built in the 1950s and '60s are past due for long-delayed repairs and renovations. Appropriations in H.B. 497 take an important step to remedy that situation in our state parks and other ODNR facilities.

This budget also contains \$10 million for the department's Healthy Lake Erie Initiative, which will fund capital projects focused on improving the environmental and economic health

of Lake Erie and its coastal region – one of Ohio’s most important natural and economic resources. Primary areas of focus include coastal improvements, placement of dredged material, and wetlands restoration.

Department of Rehabilitation and Correction

The bill provides \$130 million in new appropriations for the Department of Rehabilitation and Correction to support general facility renovations and improvements at the 27 state-owned adult correctional institutions. This level of appropriation represents a significant increase from the department’s capital budgets in recent years, but is necessary because prisons constructed 30 years ago are entering a phase that will require more intensive renovations. These include extensive roof replacements, new HVAC units, plumbing and electrical upgrades, ADA renovations, window replacements and other major projects.

Department of Youth Services

H.B. 497 provides \$36.1 million in new appropriations for the Department of Youth Services to support general facility renovations at the state’s three remaining juvenile correctional facilities, and to replace the housing units at the department’s Circleville facility. With this budget, the Department of Youth Services will begin a long-term program to replace its current housing units with new, reconfigured housing. As completed, this plan will improve security, maximize staff supervision and interaction with youths, and provide a more effective environment. Other facilities at the site, such as administration, education, and maintenance

buildings, will not be reconfigured. The housing units at Indian River and Cuyahoga Hills would be replaced in future biennia.

Department of Mental Health and Addiction Services

The bill appropriates a total of \$19.6 million for the Department of Mental Health and Addiction Services, including \$15 million to continue the department's commitment to support multiple treatment and support projects in communities across the state, with a specific emphasis on housing. This will better help the State support those affected by mental illness and addiction by expanding capacity for projects such as permanent supportive housing, consumer operated recovery programs and residential treatment needs. The bill also represents for the first time a meaningful investment in capital needs for addiction recovery, reflecting the broader mission of the newly combined agency. Another \$2 million from this total appropriation will make infrastructure enhancements necessary for the continued implementation of the electronic medical records project currently underway in a proposed partnership with the Ohio State University Wexner Medical Center.

Department of Developmental Disabilities

The bill appropriates \$20.2 million for the Department of Developmental Disabilities, including \$5 million to support and maintain its ten developmental centers and \$15 million to provide capital funds for community housing assistance. The community housing allocation will fund projects through a process in which applicants demonstrate the need for residential renovations, home purchase or residential accessibility projects that enable clients to be served closer to home. Also, the community housing assistance funding commits \$500,000 to

complete a joint project with the Department of Mental Health and Addiction Services to pilot a housing program that will serve persons diagnosed with both mental illness and intellectual disabilities through a consolidated approach by the two agencies.

Ohio Expositions Commission

The bill provides \$49 million in appropriations for the Ohio Expositions Commission. Of this total, \$11 million is for the general repair and maintenance of the facility, while \$38 million is provided for development of a new, all-purpose exhibition building and a new animal-exhibit building. These projects will improve enjoyment of the Ohio State Fair and enhance the Expositions Commission's ability to host large-scale events, including the All American Quarter Horse Congress.

Department of Transportation

Included in this capital budget is a \$100 million appropriation for the Department of Transportation to construct and reconstruct maintenance facilities, outposts and yards. In past years, projects of this type were sporadically funded out of ODOT's operating budget. As you know, the capital bill does not include appropriations for highways and bridges – and ODOT only infrequently receives appropriations in the capital bill. However, a \$100 million appropriation for the Department of Transportation is included in this capital bill because ODOT Director Jerry Wray has developed a multi-year plan to systematically address the department's need for maintenance facilities, which are critical to a well-maintained highway system. Funding will be provided from bonds backed by highway-user receipts.

Community Projects

With the return of the state's financial condition to structural stability, I announced last fall that we believe a small portion of the capital budget can support targeted economic development projects of local or regional importance. Over the last several months, local economic development groups, as well as a statewide arts group, facilitated collaborative processes to seek recommendations from local stakeholders as to what projects would have the greatest impact on their communities. As a result of this and other input, the bill includes a number a projects that have the backing of local leaders and most often include commitments of local resources.

Capital-related Language Items

In addition to capital appropriations, the bill contains a few other provisions that amend or enact capital-related language. These provisions can be categorized into bond issuance-related changes and the authorization of Certificates of Participation (COPs) for technology projects.

Bond Issuance-related Changes

The first such provision contains clean-up language relating to dissolution of the Ohio Building Authority – originally enacted in H.B. 153 of the 129th General Assembly and effective January 1, 2012 – and the transfer of its responsibilities between the Department of Administrative Services with respect to facility operations and management and, with respect to bond issuance, the Treasurer of State. While the transfer of those responsibilities has been accomplished, there remained some references to the Ohio Building Authority in the Revised Code that need to be changed to the appropriate successor agency. This bill completes that necessary cleanup.

Another capital-related language provision in this bill is needed for the Department of Transportation to carry out its program to replace or renovate maintenance facilities, outposts and yards. This language reinstates the Transportation Building Fund, from which these expenditures will be made. The fund will receive bond proceeds, issued by the Treasurer of State as authorized by this bill, to be administered through the Transportation Facilities Bond Service Trust Fund, which is also created in this bill.

Technology Projects

Two uncodified law provisions in this bill authorize technology projects. It is the practice of OBM not to use long-term obligations to fund technology projects where the useful life of the project is less than the usual term of our long-term bonds. There are two such projects funded here. The bill authorizes \$45 million in COPs to assist the Department of Administrative Services in the implementation of the Enterprise Data Center Solutions project. This project is an information technology initiative that will expand and improve the state's cloud computing environment and support upgrades to enterprise shared solutions. This project is part of the statewide information technology optimization initiative and will help the state achieve substantial savings in future years by permitting the elimination of duplicative efforts across multiple state agencies.

The bill also authorizes \$10 million in COPs to replace outdated banking systems in the Treasurer of State's office with a modern Treasury Management System. Components of the existing infrastructure are nearly two decades old, run on outdated green-screen technology, and are not eligible for security upgrades – meaning they may be vulnerable to cyber-attack. This new Treasury Management System will transform, streamline and

integrate banking, cash accounting and investment processes and enhance the State of Ohio's financial capabilities for years to come.

Capital Reappropriations

As I indicated earlier, H.B. 497 contains provisions to reappropriate unexpended balances of previously approved capital projects. The reappropriations process is necessary due to the constitutional provision prohibiting the General Assembly from making any appropriation for a period of more than two years and to reconcile that with the reality that many capital projects require several years to go from original authorization to completion.

The 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. In addition, the reappropriations process has historically served as a mechanism to deal with projects for which circumstances have changed since the time when funds were originally appropriated. Such is the case for a limited number of items in this bill, where funds in such instances have been redirected to other projects in the bill.

Of fundamental importance to the understanding of the reappropriations contained in H.B. 497 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 based on agency submission to OBM and OBM's analysis of those requests.

To this end, language in the bill stipulates that the “actual” amount to be reappropriated for each project is the exact unencumbered and unallotted balance at the end of the fiscal year (i.e. June 30, 2014). 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, plus whatever adjustments between line items the General Assembly authorizes in this bill, that will be reappropriated. For purposes of bill preparation, those numbers as of January 24 are listed by agency and type on the attached Table 2.

As you may know, 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, 2014, so that existing projects may proceed uninterrupted, our goal is to have the bill passed by the General Assembly by April 1st.

Mr. Chairman, members of the Committee, I will be happy to address any questions you may have at this time.

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Attachments:

Table 1 – Summary of Capital Appropriations – FYs 2015-2016

Table 2 – Summary of Capital Reappropriations – FYs 2015-1016

Table 1
Summary of Appropriations
Capital Appropriations FYs 2015-2016
March 26, 2014

Capital Appropriation Recommendations Arranged by Agency and Source of Funding

State Agency	GRF-Backed Debt	Other Sources	Total
Adjutant General	\$ 4,438,294	\$ 4,709,406	\$ 9,147,700
Administrative Services	\$ 24,864,459	\$ -	\$ 24,864,459
Agriculture 1	\$ 14,100,000	\$ -	\$ 14,100,000
Attorney General	\$ 8,510,651	\$ -	\$ 8,510,651
Board of Regents/Higher Education	\$ 504,124,000	\$ -	\$ 504,124,000
Broadcast Education Media (ETC)	\$ 1,117,296	\$ -	\$ 1,117,296
Capital Square Review and Advisory Board	\$ 889,000	\$ -	\$ 889,000
Commerce	\$ -	\$ 3,405,000	\$ 3,405,000
Development Services Agency	\$ 3,000,000	\$ -	\$ 3,000,000
Developmental Disabilities	\$ 20,165,000	\$ -	\$ 20,165,000
Expositions Commission	\$ 49,000,000	\$ -	\$ 49,000,000
Facilities Construction Commission (SFC)	\$ 575,000,000	\$ 100,000,000	\$ 675,000,000
Facilities Construction Commission (FCC)	\$ 3,500,000	\$ -	\$ 3,500,000
Facilities Construction Commission (AFC)	\$ 76,400,704	\$ -	\$ 76,400,704
Mental Health and Addiction Services	\$ 19,579,140	\$ -	\$ 19,579,140
Natural Resources 1	\$ 215,164,210	\$ 21,783,274	\$ 236,947,484
Public Safety	\$ 1,165,600	\$ 7,000,000	\$ 8,165,600
Public Works Commission 1	\$ 375,000,000	\$ 69,000,000	\$ 444,000,000
Rehabilitation and Correction	\$ 130,000,000	\$ -	\$ 130,000,000
School for the Blind	\$ 1,039,460	\$ -	\$ 1,039,460
School for the Deaf	\$ 967,770	\$ -	\$ 967,770
Supreme Court	\$ 4,955,435	\$ -	\$ 4,955,435
Transportation	\$ -	\$ 100,000,000	\$ 100,000,000
Veterans' Services	\$ -	\$ 11,173,641	\$ 11,173,641
Youth Services	\$ 36,104,321	\$ -	\$ 36,104,321
Total Recommended Appropriations	\$ 2,069,085,340	\$ 317,071,321	\$ 2,386,156,661

1 - Clean Ohio appropriations are included in Public Works Commission (\$75.0 million), Agriculture (\$12.5 million), and Natural Resources (\$12.5 million) totals.

Table 2
Summary of Capital Reappropriations
FYs 2015-2016
March 18, 2014

Proposed State Capital Reappropriations for FYs 2015-2016 by Agency
Amounts are estimates of what will be reappropriated effective July 1, 2014
Actual Appropriations will be the unencumbered and unallotted balances as of June 30, 2014

State Agency	GRF-Backed Debt	Other Sources	Total
Adjutant General	\$ 1,837,775	\$ 9,194,422	\$ 11,032,197
Administrative Services	\$ 18,063,609	\$ 20,000	\$ 18,083,609
Agriculture	\$ 1,420,840	\$ -	\$ 1,420,840
Attorney General	\$ 2,310,105	\$ -	\$ 2,310,105
Board of Regents/Higher Education	\$ 323,302,036	\$ -	\$ 323,302,036
Capital Square Review and Advisory Board	\$ 1,857,566	\$ -	\$ 1,857,566
Commerce	\$ -	\$ 1,237,255	\$ 1,237,255
Facilities Construction Commission	\$ 165,760,824	\$ 321,804,626	\$ 487,565,450
Development	\$ 26,506,571	\$ -	\$ 26,506,571
Developmental Disabilities	\$ 1,940,000	\$ -	\$ 1,940,000
Broadcast Education Media (ETC)	\$ 2,788,143	\$ -	\$ 2,788,143
Expositions Commission	\$ 1,605,396	\$ -	\$ 1,605,396
Job and Family Services	\$ -	\$ 820,804	\$ 820,804
Mental Health	\$ 6,879,952	\$ -	\$ 6,879,952
Natural Resources	\$ 82,731,558	\$ 10,268,964	\$ 93,000,522
Public Safety	\$ 623,444	\$ 1,680,241	\$ 2,303,685
Public Works Commission	\$ 381,825,912	\$ 108,281,638	\$ 490,107,550
Rehabilitation and Correction	\$ 135,943,871	\$ -	\$ 135,943,871
School for the Blind	\$ 1,449,718	\$ -	\$ 1,449,718
School for the Deaf	\$ 1,930,632	\$ -	\$ 1,930,632
Veterans' Services	\$ 3,468,610	\$ 17,645,927	\$ 21,114,537
Youth Services	\$ 7,286,121	\$ -	\$ 7,286,121
Total Reappropriations	\$ 1,169,532,683	\$ 470,953,877	\$ 1,640,486,560