



Office of Budget and Management

John R. Kasich
Governor

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SENATE BILL 310 FY 2017-2018 CAPITAL BILL TESTIMONY OF TIMOTHY S. KEEN

BEFORE THE

SENATE FINANCE COMMITTEE

APRIL 12, 2016

Chairman Oelslager, Ranking Member Skindell and members of the Senate Finance 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 Senate Bill 310, which presents Governor Kasich's recommended capital improvements budget for fiscal years 2017 and 2018.

This bill makes appropriations for the renovation, reconstruction and construction of capital assets of state agencies, colleges, universities and school districts. It also funds a program of grants and loans to local governments for infrastructure projects throughout the state. Additionally, a portion of appropriations in this bill provides funds to support targeted 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 to be funded by General Revenue Fund (GRF) appropriations made in future operating budgets. Through this bond funding mechanism, capital bill appropriations directly impact future operating budgets of the State. The \$2.184 billion in capital appropriations supported by GRF bond funding in

this bill reflects a biennial increase of just \$77 million from total GRF-backed capital appropriations enacted in the FY 2015-2016 capital biennium (\$2.107 billion). Thus, SB 310 is fiscally prudent and affordable and will support the credit rating agencies ranking of Ohio's debt burden as 'moderate' and will support our 'AA+' credit rating and 'stable' credit outlook.

Recommended appropriations for the upcoming capital biennium have been made after a careful process that has prioritized the most pressing needs of state government, K-12 schools and higher education institutions, with particular emphasis given to each project's impact on jobs and economic growth. Most of the proposed capital spending is focused on maintaining and improving 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 and maintain.

FYs 2017 and 2018 Capital Appropriations

S.B. 310 contains \$2.62 billion in capital appropriations, with \$2.18 billion of that amount supported by GRF-backed debt obligations and the remaining \$438 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 Institutions and Statewide Higher Education Projects

S.B. 310 includes total capital appropriations of \$537 million to the Department of Higher Education and institutions of higher education across the state. Just as significant as

the total funding provided for higher education is the manner by which capital resources are allocated across the institutions. Recall that prior to the fiscal year 2013-2014 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 success and the resulting capital funding recommendations were ultimately supported and approved without revision by the General Assembly.

For the third time, the Governor 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 Miami University president Dr. David Hodge and Lorain County Community College president Dr. Roy Church, 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 \$428.2 million in campus-level projects. The committee identified the following strategic investment themes:

- Maintaining Investments - The majority of the higher education capital allocation is targeted toward the maintenance and renovation of existing campus facilities. Based on the college presidents' committee recommendation, \$193.6 million is proposed for this purpose, including \$10 million for structural concrete renovations at Cuyahoga Community College and \$8.4 million for campus-wide HVAC upgrades at Bowling Green University.
- Building World-Class Programs – In addition to outstanding faculty and students, close connections to industry, and cutting edge research equipment, modern capital facilities have become crucial to establishing and elevating world-class programs. In recognition of this, \$95.9 million is proposed for world-class program facility improvement projects, including \$23.9 million for state-of-the-art teaching, research, and instrumentation labs improvements to Pearson Hall at Miami University and \$10 million to create unique learning environments for the Hospitality Management and Culinary Arts program at Columbus State Community College.
- Workforce Development and Career Opportunities – The Ohio Department of Jobs and Family Services estimates that there are currently more than 125,000 openings for in-demand jobs in the state. The committee identified \$59.9 million in projects that will advance the ability of Ohio to fill these openings, including a combined \$7.6 million to enable Lorain County and Lakeland Community Colleges to update facilities and equipment integral to training students for careers in health care.
- Modernizing Learning Environments – This bill contains \$78.8 million to fund projects aimed at modernizing and improving the overall academic experience of students, including \$10 million for the renovation of the Clippenger laboratories facility at Ohio

University, \$7 million for renovations of visual communication and design facilities within Taylor Hall at Kent State University, and \$3.1 million for student career services at Cincinnati 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 \$13.4 million to support the Ohio Library and Information Network (OhioLINK), \$8 million to support the acquisition of Workforce Based Training and Equipment, and \$6 million to support the Ohio Supercomputer Center.

School Facilities Commission

The School Facilities Commission estimates that with the appropriations contained in this bill, they will be able to continue funding 49 districts with projects currently in progress as well as offering funding to 40 new school districts over the capital biennium.

The bill contains \$650 million in total capital appropriations that continue state support for the construction and renovation of Ohio's primary and secondary educational facilities. The \$650 million appropriated in this bill is comprised of \$500 million in GRF-backed debt appropriations, \$100 million in GRF cash transfers, and \$50 million in available lottery profit dollars.

These appropriations will continue support the Classroom Facilities Assistance and Exceptional Needs programs, as well as the other successful initiatives administered by the commission.

Public Works Commission

This bill also includes \$500.4 million in appropriations for the Public Works Commission, consisting of \$425 million in GRF-backed debt appropriations and \$75.4 million in Revolving Loan Fund appropriations. \$350 million of the GRF-backed appropriations will be used to provide grants and loans to local governments for infrastructure projects such as roads and bridges, water supply and wastewater treatment systems, storm water collection, and solid waste disposal. This appropriation reflects the passage of Issue 1 in the May 2014 election, which increased the annual issuance authority to \$175 million from \$150 million. The \$75.4 million in Revolving Loan Fund appropriations uses the proceeds of repayments from past loans to make additional loans to local governments for these same types of local infrastructure projects.

Clean Ohio Fund

S.B. 310 provides \$100 million in new appropriations for the Clean Ohio Program, 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 river 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 determine the appropriate level of state resources required to first and foremost ensure the useful life and viability of existing state-owned capital assets and second to provide funding for new capital assets that are essential to the State's core missions. State agency capital appropriations are primarily supported by GRF-backed debt with the remainder supported by non-GRF bonds 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 S.B. 310:

Department of Natural Resources

Building on the significant support seen in the last Capital Biennium (\$269.9 million), this bill appropriates \$323.1 million to support renovations, improvements and major maintenance at dams, state parks, forests. The bill also proposes support for other Department of Natural Resources properties across the state. The bill also contains a number of appropriations for local park projects.

As you know, the Governor places a high priority in ensuring the structural integrity of the state's dams. Due to the aging nature of the state's dam infrastructure, considerable investment must be made – both to ensure public safety and promote economic activity. The

recommended appropriation of \$155 million in this bill fully funds dam rehabilitation activities at Buckeye Lake and Lake White, the Portage Lakes East Reservoir and smaller dam rehabilitation projects and continued dam assessments.

Also contained in these proposed appropriations is \$44.9 million for improvements at state parks and day-use facilities – which includes campground, cabin, lodge and park facility renovations – and \$44.2 million in marina and wildlife renovations, improvements, and equipment purchases supported by cash funds.

Department of Rehabilitation and Correction

The bill provides \$150.9 million in new appropriations for the Department of Rehabilitation and Correction to support several major facility renovations as well as general improvements at the 27 state-owned adult correctional institutions.

The recommended appropriations provide \$40.9 million for design, site preparation, and initial construction activities for major capacity increasing projects at Pickaway Correctional Institution, the Ohio Reformatory for Women, and the Franklin Medical Center. These projects will be completed in future biennia, and are needed to address growth occurring in the elderly and female correctional populations. The bill also includes \$73.6 million in investments in DRC facility renovations and \$14.2 million for security improvements. An additional \$20.3 million is provided for Community-Based Correctional Facilities (CBCF), including \$14 million for the replacement of a CBCF in Lucas County.

Department of Youth Services

S.B. 310 provides \$34.7 million in new appropriations for the Department of Youth Services to support general facility renovations at the state's three juvenile correctional facilities, and to complete funding for housing unit replacements at the department's Circleville facility, a project that began with capital appropriations in the current biennium. With this funding, the Department of Youth Services will continue a long-term program to replace its current housing units with new, reconfigured housing. When completed, this plan will improve security, maximize staff supervision and interaction with youths, and provide for a more effective treatment environment. The housing units at Indian River and Cuyahoga Hills are expected to be replaced in future biennia.

The bill also provides \$8.7 million for community projects consisting of renovations at several community corrections facilities and juvenile detention centers, including the replacement of a juvenile detention center in Allen County.

Department of Administrative Services

The bill appropriates a total of \$68.6 million for the Department of Administrative Services facility projects, including \$57.9 million in GRF-backed debt and \$10.7 million in cash backed appropriations. The recommended appropriations provide \$19.3 million to support the first phase of the Rhodes Tower exterior, window replacement, and insulation project, \$18.1 million to complete the final phase of the North High-Chestnut building renovation, and \$15.9 million to replace and upgrade end-of-life building infrastructure for both the State of Ohio Computer Center and various utility sheds at MARCS tower sites.

The bill also contains funding for OIT technology projects that I will discuss later in my testimony.

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. Up until the previous Capital Bill, 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. However, a second \$100 million appropriation for the Department of Transportation is included in this capital bill to continue funding the implementation of ODOT Director Jerry Wray's 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

The administration continues to believe that a small portion of the capital budget can support targeted projects of local or regional importance. During the last several months, community representatives throughout the state worked with the administration and their legislators to identify priority projects from across the state. As a result of this process and collaboration with state legislators and the administration, this bill includes a number a projects that have strong community support, most of which also include commitments of local resources.

Capital-related Language Items

In addition to capital appropriations, the bill contains a number of capital-related language provisions that authorize necessary actions or otherwise improve our ability to manage capital programs.

Within the Public Works Commission, one provision clarifies that grants can be awarded for the development of open spaces previously acquired through the Clean Ohio Greenspace Conservation program. Current law requires that grants for development occur in connection with the acquisition of the open space. Another provision changes the State Capital Improvement Program (SCIP) set-aside requirements from defined dollar amounts to percentages in order to scale those set-asides to the larger SCIP authorizations enacted by the voters in May 2014 (Article VIII, Section 2s). While on the topic of the newly-enacted SCIP authorizations, the bill also includes those statutory changes required to implement the new authorization.

Within the School Facilities Commission, a provision in this bill expands a school district's ability to segment its facilities needs on a building-by-building basis and to proceed with as few as one segment at a time. Under current law, each segment must be valued at a minimum of two percent of the district's tax valuation.

Authorization for Technology Projects

It is the practice of OBM not to use long-term debt to fund technology projects where the useful life of the project is significantly less than the appropriate term of our long-term bonds. This bill includes uncodified law provisions that authorize the issuance of Certificate of Participation (COPs) for four separate technology projects. The bill authorizes \$30 million in COPs to assist the department of Administrative Services in the implementation of the

Enterprise Data Center Solutions projects. These projects include upgrading the Ohio Business Gateway platform for continued growth in revenue collection and usage – a project that has seen great success under the leadership of Lt. Governor Mary Taylor – adopting a single identity management system for all state agency IT systems, and segregating next generation 9-1-1 call connection and routing from any network-enabled device for reliability and security.

The bill also authorizes \$22 million in COPs for two Ohio Administrative Knowledge System (OAKS) projects. The first project implements procurement and contracting capabilities such as paperless workflows, contract management, and supplier relationship management. The second project provides grants management functions for centralized reporting and controls. These projects not only facilitate the movement of the Department of Transportation into the OAKS system, but will enable other agencies to stop maintaining their own, separate systems to serve these functions.

The third COPs project authorized in this bill would continue to automate and streamline the collection and administration of taxes through the State Taxation Accounting and Revenue System (STARS). The \$10 million recommendation would fund the integration of the cigarette and other tobacco products tax and the pass through entity tax.

Finally, this bill authorizes \$25.0 million in COPs to replace the aging fingerprint and criminal history systems at the Attorney General's Bureau of Criminal Investigation. These systems have become antiquated and their replacement is a top priority of Attorney General Mike DeWine. Replacing and modernizing these systems will ensure the state has access to accurate and reliable fingerprint and background check information.

Closing Remarks

As you 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 become effective as early as possible in the 2017-2018 capital biennium, the bill would need to be signed into law as soon as is practical.

I have with me today several staff members from the Office of Budget and Management that were instrumental in the development of this capital bill and I'd like to thank them for their diligent work throughout this process. I appreciate the opportunity to provide testimony today and thank you for your time and consideration. Mr. Chairman, members of the Committee, at this time, I would be happy to address any questions you may have.

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Attachment:

Table 1 – Summary of Capital Appropriations – FYs 2017-2018

Table 1
Summary of Capital Appropriations in S.B. 310
Capital Appropriations Bill for FYs 2017-2018
April 12, 2016

Proposed State Capital Appropriations for FYs 2017-2018 by Agency
Capital Appropriations Arranged by Agency and Source of Funding

State Agency	GRF-Backed Debt	Other Sources	Total
Adjutant General	\$ 7,350,000	\$ 22,100,000	\$ 29,450,000
Administrative Services	\$ 57,859,371	\$ 10,693,000	\$ 68,552,371
Agriculture 1	\$ 15,362,446	\$ -	\$ 15,362,446
Attorney General	\$ 2,554,167	\$ -	\$ 2,554,167
Board of Regents/Higher Education	\$ 536,955,000	\$ -	\$ 536,955,000
Broadcast Education Media (ETC)	\$ 952,987	\$ -	\$ 952,987
Capital Square Review and Advisory Board	\$ 300,000	\$ -	\$ 300,000
Commerce	\$ 300,000	\$ 4,197,500	\$ 4,497,500
Development Services Agency	\$ 10,000,000	\$ 5,000,000	\$ 15,000,000
Developmental Disabilities	\$ 28,440,000	\$ -	\$ 28,440,000
Expositions Commission	\$ 10,900,000	\$ -	\$ 10,900,000
Facilities Construction Commission (SFC)	\$ 500,000,000	\$ 150,000,000	\$ 650,000,000
Facilities Construction Commission (FCC) ²	\$ 66,845,000	\$ -	\$ 66,845,000
Job and Family Services	\$ -	\$ 497,298	\$ 497,298
Mental Health and Addiction Services	\$ 41,175,000	\$ -	\$ 41,175,000
Natural Resources 1	\$ 278,954,541	\$ 44,177,252	\$ 323,131,793
Public Safety	\$ 2,935,941	\$ 9,950,000	\$ 12,885,941
Public Works Commission 1	\$ 425,000,000	\$ 75,400,000	\$ 500,400,000
Rehabilitation and Correction	\$ 150,851,567	\$ -	\$ 150,851,567
School for the Blind	\$ 794,653	\$ -	\$ 794,653
School for the Deaf	\$ 3,105,134	\$ -	\$ 3,105,134
Supreme Court	\$ 8,373,883	\$ -	\$ 8,373,883
Transportation	\$ -	\$ 100,000,000	\$ 100,000,000
Veterans' Services	\$ -	\$ 15,505,221	\$ 15,505,221
Youth Services	\$ 34,745,430	\$ -	\$ 34,745,430
Total Recommended Appropriations	\$ 2,183,755,120	\$ 437,520,271	\$ 2,621,275,391

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

2- Ohio History Connection projects are included in the FCC amount.

**Certificates of Participation (COPs) are the recommended source of funding for Administrative Services OIT projects (\$52.0 million), Attorney General AFIS system replacement (\$25.0 million), and Taxation STARS (\$10 million) but are not subject to appropriation. As a result, those amounts are not included in the table above.*