www.lsc.ohio.gov

OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research and Drafting

Legislative Budget Office

H.B. 72
133rd General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 72's Bill Analysis

Version: As Introduced

Primary Sponsors: Reps. Rogers and Cera

Local Impact Statement Procedure Required: No

Tom Middleton, Senior Budget Analyst

State Fiscal Highlights

- Annual funding for loans under the pilot program could total up to $200 million to be transferred from the Budget Stabilization Fund (BSF) to the Supplemental State Capital Improvements Fund. The actual amount transferred depends on various provisions in the bill, but the potential total in transfers out of the BSF is $1 billion over the five-year pilot period.
- The bill provides annual funding for grants under the pilot program equaling 50% of the investment earnings on money in the BSF that was earned in the prior fiscal year. This funding amount would be transferred to the Supplemental State Capital Improvements Fund. Based on investment earnings to the BSF in FY 2017, the most recent year for which LSC has such information, the amount for grants under the pilot program would have been about $9.6 million per year.
- The bill provides an appropriation for the pilot program in each of FY 2020 and FY 2021, the amount for each year equaling the annual sum of (1) the amount for pilot program loans, (2) the amount for grants, and (3) the amount in loan repayments received into the newly created fund, for additional loans under the pilot program.
- The pilot program will result in the Ohio Public Works Commission (PWC) incurring additional operating costs over the next five fiscal years. Presumably, the added operating costs would be covered by some portion of the BSF-sourced appropriations. PWC estimates around $200,000 to $250,000 in operating costs, including the potential need to hire two new staff members to operate the pilot program, as well as other related administrative expenses.

Local Fiscal Highlights

- Local governments that are currently eligible for assistance under PWC's State Capital Improvement Program (SCIP) are also eligible for the infrastructure assistance under the pilot program.
- The bill also allows these local governments to receive capital assistance for five other types of infrastructure facilities under the pilot program, including (1) airports, (2) railroad crossings, (3) facilities with historical interest or significance, (4) transit systems, and (5) dams.

Detailed Analysis

Overview

The bill creates the Supplemental State Capital Improvements Pilot Program under the Ohio Public Works Commission (PWC) to provide state funding in the form of loans and grants to local governments for five additional types of infrastructure projects other than those allowed under the current State Capital Improvement Program (SCIP). These five additional types of projects eligible for funding under the bill include: (1) airports, (2) railroad crossings, (3) facilities with historical interest or significance, (4) transit systems, and (5) dams. Under the bill, PWC is to administer the pilot program in the same manner as SCIP, including the requirement that projects move through a district public works integrating committee (DPWIC) before submission to the Commission. Whereas the existing SCIP is a bond-funded program, the loans and grants under the pilot program would be funded through transfers from the Budget Stabilization Fund (BSF). The type of projects that actually receive funding under the pilot program would depend primarily on funding availability and the applications that are received by PWC, along with the recommendations that each DPWIC submits. The bill terminates the pilot program five years after the effective date of the bill.

Supplemental SCIP Pilot Program funding

The Supplemental SCIP Pilot Program created by the bill is to be funded primarily through transfers from the BSF to a fund called the Supplemental State Capital Improvements Fund. The amount transferred to the new fund consists of the following over the FY 2020-FY 2021 biennium:

1. For loans, an amount that is not to exceed $200 million from the BSF in any fiscal year; and
2. For grants, an amount equaling 50% of the investment earnings on money in the BSF that was earned in the prior fiscal year.

In addition to these sources of funding, pilot program loan repayments may also be used for additional loans.

The amounts transferred for loans depends on the Director of PWC determining and certifying the amount needed in a particular fiscal year and the approval of the Director of the Office of Budget and Management after reviewing the cash balance and financial condition of the BSF. Consequently, there is no closer estimate of the potential amount that may be available for any single fiscal year, other than the limit of up to $200 million per year. The bill specifies that money transferred from the BSF for loans shall be counted as part of the balance of the BSF. Finally, at the end of the five-year pilot program, the bill requires all money in the Supplemental State Capital Improvements Fund to be transferred to the BSF.

Funding for the grant component of the bill would depend on the investment earnings of moneys in the BSF in the prior fiscal year. These earnings may fluctuate from year to year based on the balance of the BSF and a multitude of economic factors. This makes it difficult to provide an estimate of these earnings in future years. However, as an example, the BSF money accrued investment earnings of approximately $19.2 million in FY 2017, the most recent fiscal year for which LSC has this detailed information. Consequently, this would mean that around $9.6 million (50% of the $19.2 million earnings in FY 2017) would have been transferred to the Supplemental State Capital Improvements Fund for grants under the pilot program in FY 2020 if the bill was in effect. Ultimately, the amount of BSF investment earnings that could be transferred and used for Supplemental SCIP Pilot Program grants will depend on the prior year balance of the BSF and other economic factors.

PWC operating costs

For the current budget biennium, PWC received appropriations of approximately $1.2 million in each of FY 2018 and FY 2019 to cover the costs of administering its current infrastructure programs. Of that amount, around $900,000 per year (75%) is for SCIP operating costs, while the remaining $300,000 (25%) is for the Local Transportation Improvement Program, funded by a portion of state motor fuel tax revenue. The Commission employs a staff of ten.

PWC will incur additional operating costs to manage the Supplemental SCIP Pilot Program over its five-year period of existence. Given the greater number of projects and project types that would be eligible for funding under the pilot program, the review process could be more involved. In total, PWC estimates around $200,000 to $250,000 in operating costs, including the potential to hire two new staff members to assist in the administration of the pilot program, as well as other administrative expenses. Presumably, the additional operating costs of the pilot program would be covered by the appropriations contained in the bill.

Background on the State Capital Improvement Program

Under the current SCIP structure, local governments may apply for grants or loans to perform capital improvements to roads, bridges, water supply systems, stormwater systems, wastewater systems, and water supply systems. The program is funded by general obligation (GO) bonds issued by the state. Consequently, this funding must be approved by voters to allow for the bond issuances under various sections of Article VIII of the Ohio Constitution. Overall, voters have approved nearly $5.5 billion in bond funding for SCIP from when the program was originally created and funded in 1987, then under subsequent voter approvals in 1995, 2005, and 2014 (amending the Ohio Constitution to create sections 2k, 2m, 2p, and 2s of Article VIII, respectively).

Of the total bond funding, the approvals prior to 2014 enabled the state to issue a sum of $3.6 billion in bonds supporting the program from FY 1989 to FY 2016. The amount that could be issued in each year started at $120 million (plus the sum total of amounts that could have been issued in prior years, but were not). Later approvals increased the threshold to $150 million per year (plus prior year unused amounts). In the most recent voter approval in

2014, voters authorized an additional $1.875 billion in SCIP funding over the ten-year period spanning FY 2017 to FY 2026. This allows for bonds to be issued amounting to $175 million per year from FY 2017 to FY 2021, then up to $200 million per year from FY 2022 to FY 2026.

Generally, the funding that PWC allocates for grant and loan projects each year falls roughly in line with the funding received from bond issuances in that year. In addition, there are two statutory set-asides from annual SCIP allocations: (1) $15 million per year is set aside for small governments, including villages and townships with populations of 5,000 or less, and (2) $3 million per year is set aside for use at the Director's discretion to pay for emergency infrastructure projects. Finally, PWC uses the principal and interest income from local government loan repayments from previously awarded SCIP loans, recycling this funding for additional loans under the SCIP Revolving Loan Program.

SCIP funding is appropriated under the capital budget. Funding for the program in the most recent capital budget bill, H.B. 529 of the 132nd General Assembly, included $350 million over the FY 2019-FY 2020 capital biennium. In addition, the bill provided $89 million for the SCIP Revolving Loan Program.

SCIP project approval process

To apply for SCIP funds, a political subdivision must apply to its DPWIC. There are 19 DPWICs that are responsible for recommending projects to PWC. DPWICs consist of local officials representing all levels of government. Each DPWIC evaluates and scores applications using a locally developed methodology based on criteria listed in Chapter 164. of the Revised Code. These evaluation criteria focus on the financial need of the subdivision, the project's strategic importance to the district and subdivision, and emphasize the repair and replacement of infrastructure rather than new and expansionary infrastructure.

After evaluating and scoring the projects, a DPWIC creates a list of high-priority projects and submits them to PWC. PWC reviews the project selection and evaluation methodology used by the DPWIC to ensure fair and objective decision making. Then, each application is reviewed for completeness and project eligibility. After all requirements are met on the district level and the application is approved, a formal agreement is issued by PWC to the individual political subdivision. PWC's staff maintains ongoing contact with local communities, providing technical assistance through the project's completion.

HB0072IN/zg