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# OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research  
and Drafting

Legislative Budget  
Office

H.B. 7  
133<sup>rd</sup> General Assembly

## Fiscal Note & Local Impact Statement

[Click here for H.B. 7's Bill Analysis](#)

**Version:** As Introduced

**Primary Sponsors:** Reps. Ghanbari and Patterson

**Local Impact Statement Procedure Required:** No

Shannon Pleiman, Budget Analyst and other LBO staff

### Highlights

- The bill creates the H2Ohio Trust Fund for the purpose of protecting, preserving, and improving the water quality of Ohio's lakes and rivers through loans, land purchases, or grants to fund cooperative research. The H2Ohio Trust Fund is to be funded through appropriations, proceeds from real property transactions, and the issuance of securities by the Treasurer of State (TOS). The fund is created as a custodial fund, not in the state treasury and is limited to disbursing up to \$50 million per fiscal year.
- The bill creates the H2Ohio Endowment Board. Its chief responsibility would be to approve funding recommendations for water quality activities coordinated by the H2Ohio Advisory Council. The Endowment Board would request distributions of excess GRF revenues at the end of each fiscal year, in an amount to be determined by the Director of Budget and Management, to pay for these water quality activities. Those funds would be deposited in the H2Ohio Trust Fund.
- The bill requires the Endowment Board to hire an executive director to oversee its operations. The Endowment Board may also incur expenses to contract with investment advisors or accountants experts, and to pay for other services related to overseeing the H2Ohio Trust Fund.
- The bill creates the H2Ohio Advisory Council to coordinate grant and loan programs, support research, and oversee water quality initiatives to be funded by the H2Ohio Trust Fund. The departments of Agriculture and Natural Resources, as well as the Ohio Environmental Protection Agency and Lake Erie Commission, may incur some administrative costs to assist the Advisory Council as required under the bill and to prepare annual plans detailing the use of moneys they receive from the H2Ohio Trust Fund.

## Detailed Analysis

### H2Ohio Trust Fund

The bill creates the H2Ohio Trust Fund (hereafter Trust Fund), to be funded by moneys appropriated to it, proceeds from the issuance of securities, some proceeds from real property transactions, and bequests. The Trust Fund is established as a custodial fund, not in the state treasury, meaning that appropriations of the General Assembly would not be required to disburse moneys from the Trust Fund. Funds are administered by the H2Ohio Advisory Council and the H2Ohio Endowment Board for the purpose of protecting, preserving, and improving the water quality of Ohio's lakes and rivers. These purposes are to be achieved fiscally through development loans, land purchases, and grants to fund water quality research. The bill limits disbursements from the Trust Fund to \$50 million per fiscal year.

The bill allows the Trust Fund to be used for the following purposes: (1) the disbursement of funds by the H2Ohio Advisory Council, (2) acquisition of real property by the H2Ohio Endowment Board, (3) administrative expenses incurred by the Advisory Council and the Endowment Board, (4) costs and expenses related to the functions of the Endowment Board, and (5) costs and expenses related to the issuance of securities by the Treasurer of State (TOS).

The bill requires the TOS to serve as trustee of the Trust Fund, including the authority to invest money in the Trust Fund; the bill specifies that earnings of the Trust Fund are to be credited to the Trust Fund. The bill authorizes the TOS to issue securities based on recommendations from the Endowment Board. The securities are to be special obligation securities, backed by repayments of loans issued from the Trust Fund; they are not general obligations the repayment of which would be backed by the full faith and credit of the state. Revenues from the issuance of securities are to be deposited into the Trust Fund.

Additionally, the bill creates the H2Ohio Security Repayment Fund, which is to consist of revenues from the repayment of loans under the program. Moneys in the H2Ohio Security Repayment Fund are to be used to pay the costs associated with issuance and repayment of securities.

### H2Ohio Endowment Board

The Trust Fund may also be used to provide for the administrative expenses incurred by the H2Ohio Endowment Board, including the employment of an executive director. Specifically, these expenses will include (1) reimbursements of expenses incurred by the 12 members of the Endowment Board in the performance of their official Endowment Board duties, and (2) personnel expenses related to the Executive Director. The Executive Director is to be in the unclassified civil service at a rate of pay determined by the Director of Administrative Services. Once the pay rate is established, there are also costs for the employer share of retirement (14% of annual salary) and the employer's share of the health insurance premium (\$7,782 for single coverage or \$20,898 for family coverage in FY 2019).

Additionally, the bill provides that the costs and expenses related to the functions of the Endowment Board are to be paid from the Trust Fund. Such costs may include the cost of appointing administrative, investment, financial, or accounting experts as necessary to carry out the Endowment Board's duties and buying, selling, or leasing real property.

## Transfer of surplus GRF revenues requested by the Endowment Board

The bill changes the existing formula for the disposition of surplus GRF revenues, defined in R.C. 131.44(B)(1). Surplus GRF revenues at the end of a fiscal year, if any, are deposited in the Budget Stabilization Fund (BSF) until the target level of 8.5% of GRF revenue is reached under current law. Under the bill, the Executive Director of the H2Ohio Endowment Board is to submit a request to the Director of Budget and Management to transfer an amount of the surplus revenue to the Trust Fund by June 1 each year. If additional surplus revenue above the amount reserved to the BSF is available, the bill provides that an amount up to the requested amount by the Executive Director, as determined by the Director of Budget and Management, is allocated to the Trust Fund. Once the distribution to the Trust Fund is made, the current law distribution formula resumes, and distributions are made to the Income Tax Reduction Fund (ITRF).

Surplus GRF revenues are not available every fiscal year. The following table shows the surplus GRF revenue amounts from FY 2014 to FY 2018. As the table shows, surplus revenue has been distributed to the BSF in four of the last five fiscal years. In those fiscal years, moneys would have been available for transfer to the Trust Fund. Transfers to the Trust Fund as under the bill would have the effect of reducing amounts available for the ITRF, thereby reducing amounts available to be returned to Ohio income taxpayers. The requests and needs of the Endowment Board, and hence the fiscal effect on the ITRF and other funds is yet unknown.<sup>1</sup> Biennial budgets sometimes include provisions which supersede a statutory formula; in such a case the formula described above and potential fiscal impact would be changed.

GRF Ending Balance and Distributions by Fiscal Year (\$ in millions)					
Fiscal Year as of June 30	GRF Ending Balance *	Amount Retained by the GRF	Surplus Revenue	Transfer to BSF in July	Transfer to Other Funds
FY 2014	\$1,277.4	\$146.2	\$1,131.2	\$0.0	\$1,131.2
FY 2015	\$1,286.5	\$157.4	\$1,129.1	\$425.5	\$703.6
FY 2016	\$764.7	\$169.5	\$595.2	\$29.5	\$565.7
FY 2017	\$170.9	\$170.9	\$0.0	\$0.0	\$0.0
FY 2018	\$849.9	\$162.4	\$687.5	\$657.5	\$30.0

\*GRF ending cash balance less reservations for prior year encumbrances

<sup>1</sup> The authorized retained balance reflects moneys set aside pursuant to law for specific purposes such as pre-funding the cost of subsequent fiscal years' income tax reductions. More information regarding disposition of the GRF surplus ending balance in a particular fiscal year is available on the Office of Budget and Management website in the July edition of that year's Monthly Financial Report.

## **H2Ohio Advisory Council**

The bill creates the H2Ohio Advisory Council consisting of 18 members for the purpose of disbursing money from the Trust Fund. Advisory Council members will be reimbursed for their actual and necessary traveling and other expenses incurred in their official Advisory Council duties. Additionally, the bill requires the Ohio Lake Erie Commission (LEC), the Department of Agriculture, and the Ohio Environmental Protection Agency to provide administrative support to the Advisory Council. LEC is also required to provide the meeting place for council meetings. As mentioned above, these administrative expenses incurred by the Advisory Council will be paid from the Trust Fund.

## **Departments of Agriculture, Natural Resources, and Environmental Protection Agency**

The departments of Agriculture and Natural Resources, as well as the Ohio Environmental Protection Agency are allowed to apply for loans or grants under the Trust Fund for programs that address water quality issues. If money is awarded under the Trust Fund to these state agencies, they must prepare an annual plan (due March 1) detailing how the money will be spent. As a result, these agencies may incur a minimal administrative cost to prepare an annual plan. The H2Ohio Advisory Council must approve the annual plan before an agency expends money appropriated to it from the Trust Fund.