OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

S.J.R. 2

134th General Assembly

Fiscal Note & Local Impact Statement

Click here for S.J.R. 2's Bill Analysis

Version: As Introduced

Primary Sponsors: Sens. Gavarone and Yuko

Local Impact Statement Procedure Required: No

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Highlights

- The resolution proposes to submit for state voters' approval at the November 8, 2022 general election, a constitutional amendment authorizing the state to issue up to $1 billion in general obligation bonds for clean water improvements; up to $100 million in bonds may be issued per year, in addition to amounts previously authorized but unissued.
- Inclusion of the constitutional bond issue on a statewide election ballot increases costs within the Office of the Secretary of State (SOS). The costs are due to both placement of the ballot issue and its advertising as required by the Revised Code. Such costs would be in the hundreds of thousands of dollars, and funded by cash transfers authorized by the Controlling Board.
- If approved by voters, the amendment would allow the bond issuing authority to provide grants to municipalities, counties, townships, and other political subdivisions to finance clean water projects, with geographical distribution generally based on a watershed's phosphorus loading as a percentage of phosphorus loading statewide, subject to reserving 50% of the bond proceeds for counties of the western Lake Erie basin.
- If approved by voters, debt service on the bond issuances, likely paid by the GRF, would amount to several tens of millions of dollars annually for the term of the bonds.

Detailed Analysis

S.J.R. 2 proposes to include a constitutional amendment on the ballot of the general election to be held on November 8, 2022. The resolution proposes to enact Section 2t of Article VIII of the Ohio Constitution to authorize the General Assembly to permit the issuance of up to $1.0 billion in general obligation (GO) bonds to fund clean water improvements. Under the proposed constitutional amendment, the state may issue up to $100 million principal amount of clean water improvement GO bonds in each fiscal year, plus the principal amount of those obligations that in any prior fiscal year could have been but were not issued. GO bonds are backed by the full faith and credit of the state. The proposed amendment specifies that the maximum maturity period for each issue of obligations must not exceed 20 years.

Fiscal effect

Secretary of State

If both houses of the General Assembly concur in the resolution, it would increase costs for the Secretary of State (SOS). The SOS would likely incur costs of hundreds of thousands of dollars to include the issue in the statewide general election and for statewide advertising costs to inform voters of the ballot language, including explanations and arguments for and against the issue. The actual advertising costs would depend on the number of words that need to be included. As an example, the SOS paid approximately $410,000 in FY 2019 in statewide ballot advertising costs related to State Issue 1 on the November 6, 2018 ballot. Any such advertising costs will be paid out of the Statewide Ballot Advertising Fund (Fund 5FH0). The revenue source for this fund is cash transfers authorized by the Controlling Board from the Emergency Purposes Fund (Fund 5KM0).

General Revenue Fund debt service

If the amendment proposed under the resolution is approved by voters, the General Assembly would be able to enact law authorizing the issuance of up to $1 billion in GO bonds. The fiscal impact to the state would depend on the timing of bond issuance and the interest rate that would be paid on each bond. In addition, the debt service payments will be spread over the entire lifetime of the bonds. Funding for debt service payments on GO bonds comes from the GRF.[1] Thus, issuance of bonds under the newly created constitutional section would reduce the availability of state revenue for other programs, to the extent that the issued debt would not have otherwise been issued under Sections 2(l), 2(o), 2(p), 2(q), or 2(s) of Article VIII of the Ohio Constitution.[2]

Assuming the state issued the maximum $100 million of bonds each fiscal year beginning in FY 2024 and ending in FY 2033 (ten years) at an annualized interest rate of 4.5%, the estimated total of debt service (debt service = principal + interest) would be approximately $1.53 billion ($1.00 billion principal repayment + $0.53 billion interest), spread over 30 years. Annual payments would reach a maximum of around $77 million if all authorized bonds were issued, under certain assumptions.[3] Actual debt service payments may be higher or lower depending on

[1] Except for highway-related bonds, the funding for which comes from receipts of the motor fuel tax.

[2] Debt is currently authorized under these sections of the Ohio Constitution, for the purposes of conservation projects, soil and water restoration and protection, natural area restoration, and water and lake management, as well as for assisting in financing of infrastructure projects of political subdivisions.

[3] The calculations in this paragraph assume a 4.5% rate of annual interest, with payments made twice annually. Further, the estimates assume $50 million of bonds issued every six months throughout the first ten years, and no further increases in the authorization amount. Lastly, these figures assume that the debt would not have been issued under another category of bond.

market interest rates at the times the bonds are issued and the actual schedule employed for issuing the bonds.

Allocation of bond proceeds

If the proposed amendment were approved by voters, it specifies that the proceeds of GO bonds issued must be used for financing clean water improvements of municipal corporations, counties, townships, and other governmental entities, and for costs to the state for planning, financial management, or administrative services performed in relation to the issuance of the obligations. Allocation of the proceeds is specified under the amendment and requires a minimum of 50% of the amount be allocated to the various counties of the western Lake Erie basin. The amendment otherwise requires the proceeds to be allocated according to a watershed's proportion of phosphorous loading compared to the total amount of phosphorous loading in the watersheds of the state as determined by scientific assessments.

Debt management practices

Because the new debt is to be a general obligation of the state, any future debt service is subject to the state's 5% debt limit. In general, additional GO debt obligations cannot be issued if issuance would cause debt service for any future fiscal year to exceed 5% of total estimated GRF revenues plus net state lottery proceeds for the fiscal year of issuance. The 5% debt limit may be waived under certain circumstances by a three-fifths vote of each house of the General Assembly.

Additionally, Office of Budget and Management's (OBM) maintains generally stricter debt management standards, as compared to the 5% debt limitation. As an example, when issuing GO bonds, OBM considers the impacts such issuance would have on the state's credit rating, whereas such consideration is not accounted for in the Revised Code. As a result, OBM policies can sometimes restrict total debt issuance, particularly in times of economic slowdowns or tumult in the bond markets. A much greater amount of information on OBM's debt issuance and management policies is provided in Section II of the agency's "Debt and Interest Rate Management Policy" guidebook.[4]

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[4] https://archives.obm.ohio.gov/Files/Bonds_and_Investors/Resources/Policy_Procedures_Guidelines/Debt_and_Interest_Rate_Risk_Management_Policy/Debt_and_Interest_Rate_Risk_Management_Policy-August-2019.pdf.