



OHIO LEGISLATIVE SERVICE COMMISSION

Resolution Analysis

Paul Luzzi

H.J.R. 4

132nd General Assembly
(As Introduced)

Rep. Schuring

BILL SUMMARY

- Proposes a constitutional amendment to permit the issuance of general obligation bonds to pay unemployment benefits or to repay outstanding advances made by the federal government to the state unemployment compensation program.

CONTENT AND OPERATION

Bond authority to pay unemployment benefits or finance advances

The resolution proposes an amendment to the Ohio Constitution authorizing the General Assembly to enact laws for the issuance of bonds and other obligations of the state for either of the following purposes:

(1) Paying unemployment benefits authorized under state law when the fund created for that purpose (the Unemployment Compensation Fund) is or will be depleted;

(2) Financing or assisting in the financing of the cost to repay outstanding advances made by the federal government (essentially, loans) to the Ohio unemployment compensation program (see "**Background**," below).

Under the proposed amendment, bonds or other obligations to finance or assist in financing the cost of outstanding federal advances can be issued only if the Director of Budget and Management determines that the rate of interest charged by the federal government for outstanding advances exceeds the rate of interest the Treasurer of State likely would obtain for the bonds.¹

¹ Proposed Article VIII, Section 2t(A) and (B), Ohio Constitution.

Maturity of obligations

The proposed amendment authorizes the General Assembly to determine the maturity dates and the principal amounts of any obligations issued. This authority is subject to constitutional limitations on the state's ability to issue obligations on which principal and interest exceed 5% of estimated revenues from the General Revenue Fund and state lottery proceeds during the fiscal year in which the obligations are issued.²

Debt service

The full faith and credit, revenue, and taxing power of the state are pledged to the timely payment of the principal, interest, and other accreted amounts payable on the obligations (known as "debt service"). The General Assembly is required to provide by law for the sufficiency and appropriation of excises, taxes, and revenues pledged or committed to debt service and for covenants to continue the levy, collection, and application of sufficient excises, taxes, and revenues to the extent needed for purposes of paying debt service. The General Assembly also is required to establish a bond retirement fund. No further act of appropriation is necessary for these purposes.

The obligations authorized by the proposed amendment, and any plan for servicing them, are not subject to the following provisions in the Ohio Constitution:

(1) A requirement that every tax be imposed in pursuance of a law, and that every law imposing a tax state the purpose to which the tax must be applied;

(2) A prohibition against the state contracting debt for internal improvements;

(3) A prohibition against the state, or any political subdivision, issuing or renewing bonds unless the legislation issuing or renewing the bonds provides for annual taxes that are sufficient to pay the interest on the bonds and provides a sinking fund for their final redemption;

(4) A prohibition against the state giving or loaning its credit to, or in aid of, an association or corporation or becoming a joint owner, or stockholder in a company or association;

(5) A prohibition against the state assuming the debts of any county, city, town, or township, or of any corporation unless the debt was created to repel invasion, suppress insurrection, or defend the state during a war.

² Proposed Article VIII, Section 2t(E), Ohio Constitution by reference to Article VIII, Section 17, Ohio Constitution, not in the resolution.



Fees and taxes received in connection with the use of public highways by motor vehicles may not be pledged to the payment of debt service on the general obligations authorized under the amendment.³

Tax exemption

Under the proposed constitutional amendment, the obligations, their transfer, and the interest or other income from the obligations, including any profit made on the sale, exchange, or other disposition of them, are at all times free from taxation within Ohio.⁴

Election and effective date

The resolution provides that the proposed constitutional amendment will be submitted to the electors at the special election to be held on May 8, 2018. If approved by a majority of the electors voting on the proposal, the constitutional amendment will take effect immediately.

Background – advances under the Federal Unemployment Tax Act

The Federal Unemployment Tax Act⁵ creates a federal-state partnership for unemployment under which employers who contribute to a state unemployment compensation fund approved by the U.S. Department of Labor receive a significant tax credit on their federal unemployment taxes. If the state has insufficient funds to pay unemployment benefits, federal law permits a state's governor, or the governor's designee (in Ohio, the JFS Director) to apply to the U.S. Secretary of Labor to receive three-month "advances" (loans).⁶ If a state does not repay advances as required, the basic penalty is a "graduated" loss of the federal tax credit for all employers in the state.⁷

HISTORY

| ACTION | DATE |
|---------------|-------------|
| Introduced | 10-11-17 |

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³ Proposed Article VIII, Section 2t(C) and (F), Ohio Constitution, by reference to Ohio Const., art. XII, secs. 5, 5a, 6, and 11, and Ohio Const., art. VIII, secs. 4 and 5, not in the resolution.

⁴ Proposed Article VIII, Section 2t(D), Ohio Constitution.

⁵ 26 United States Code (U.S.C.) 3301 *et seq.*

⁶ 42 U.S.C. 1321, 20 Code of Federal Regulations (C.F.R.) 606.4, and R.C. 4141.43(F).

⁷ 26 U.S.C. 3302(c)(2).

