Fiscal Note & Local Impact Statement

122nd General Assembly of Ohio

BILL:	**Am. Sub. H.B. 850**	DATE:	**December 2, 1998**
STATUS:	**As Enacted – Effective March 18, 1999 (certain provisions effective 12/17/98)**	SPONSOR:	**Rep. Johnson**

LOCAL IMPACT STATEMENT REQUIRED: **No** **Exempted by ORC 103.143(F)**

CONTENTS: **Capital budget appropriations and operating budget adjustments**

State Fiscal Highlights

Capital Appropriations

STATE FUND - Appropriations	*FY99-00 BIENNIUM*
Higher Education Improvement (034)	$ 553,135,596
School Building Program Assistance (032)	355,000,000
Adult Correctional Building (027)	224,255,419
Public School Building Fund (021)	150,000,000
Administrative Building (026)	140,826,221
Mental Health Facilities Improvements (033)	69,762,611
General Revenue Fund (GRF)	32,108,150
Ohio Parks and Natural Resources (031)	48,233,760
Sports Facilities Building (024)	43,790,605
Arts Facilities Building (030)	37,294,000
Parks and Recreation Improvement (035)	28,175,000
Juvenile Correctional Building (028)	25,400,000
Highway Safety (036)	5,790,000
Wildlife (015)	2,770,000
Waterways Safety (086)	2,250,000
Special Administrative (4A9)	1,806,382
Veterans' Home Improvement (604)	1,327,250
Underground Parking Garage Operating (208)	310,000
Total	$ 1,722,234,994

- The bill appropriates $1.7 billion for capital needs. The vast majority of the funds appropriated, $1.5 billion, will be paid from funds generated from the issuance of bonds backed by the state's General Revenue Fund.

- The amount of debt service paid from the GRF is limited to no more than 5.0 percent of total GRF revenues in any particular year.

Corrective Provisions

STATE FUND	FY 1998	FY 1999	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	$0.75 million loss plus potential gain; loss of assets of unknown value	$1.5 million loss plus potential gain
Expenditures	- 0 -	$166.4 million increase and unknown savings	Potential $1.1 million increase and unknown savings
Public School Building Fund (Fund 021)			
Revenues	- 0 -	$139.3 million or more gain	$600,000 or more gain
Expenditures	- 0 -	$139 million or more increase	Potential increase
Income Tax Reduction Fund			
Revenues	- 0 -	$198 million loss	- 0 -
Expenditures	- 0 -	- 0 -	- 0 -
Disaster Services Fund (Fund 5E2)			
Revenues	- 0 -	$26.2 million gain	- 0 -
Expenditures	- 0 -	$26.2 million - $31.9 million increase	- 0 -
Highway Operating Fund (Fund 002)			
Revenues	- 0 -	Potential gain of $6.7 million or more	Potential gain of $1,000,000 or more
Expenditures	- 0 -	$5.7 million or more increase	- 0 -
Department of Mental Health Trust Fund			
Revenues	- 0 -	Gain of up to $1,705,000	- 0 -
Expenditures	- 0 -	- 0 -	- 0 -
Arts Facilities Building Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	$500,000 increase	- 0 -
State Special Revenue Fund Group			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	$15,000 increase	- 0 -
Occupational Licensing Board Fund (SSR Fund 4K9)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Increase of approximately $25,000	- 0 -
Capital Donations Fund (Fund 5A1)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Fund to be closed out	- 0 -
Capital Donations Fund (Fund 602)			
Revenues	- 0 -	Amount to be determined	- 0 -
Expenditures	- 0 -	Amount to be determined	- 0 -
Low and Moderate Income Housing Trust Fund (Fund 646)			
Revenues	- 0 -	$250,000 gain	- 0 -
Expenditures	- 0 -	- 0 -	- 0 -
Adult Correctional Building Fund (Fund 027)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	$250,000 increase	- 0 -

School Building Assistance Fund (Fund 032)			
Revenues	- 0 -	$450,000 or more gain	$900,000 or more gain
Expenditures	- 0 -	Potential increase	Potential increase
State Architect's Office (Fund 131)			
Revenues	- 0 -	Estimated loss of $300,000	- 0 -
Expenditures	- 0 -	- 0 -	- 0 -
State Universities and Colleges			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	$300,000 or more decrease	Potential decrease
Investment Recovery Fund			
Revenues	- 0 -	Potential decrease	Potential decrease
Expenditures	- 0 -	- 0 -	- 0 -
Other State Funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Unknown savings	Unknown savings

Income Tax Reduction Fund

- The Public School Building Fund receives a $139 million transfer from the GRF. These funds will be used for state share of school districts capital construction projects. The bill also appropriates $30.8 million in GRF capital money, and spends an additional $1.2 million for various purposes. The Disaster Services Fund receives a transfer of $26.2 million. Also, interest income, estimated at about $750,000 for FY 1999, will be diverted to the Public School Building Fund and the School Building Assistance Fund. The total transfers and spending will reduce moneys transferred to the Income Tax Reduction Fund by $198 million.

Department of Administrative Services

- The state's conveyance of the Edgerton House in Akron to the Summit County Alcohol, Drug Addiction and Mental Health Services Board would result in a loss of assets, the value of which is currently unknown. However, this provision would save the state the costs of maintenance for the Edgerton House.

- The bill also conveys the Greenfield Residence of Greenfield, Highland County to the Paint Valley Alcohol, Drug Addiction and Mental Health Board, resulting in a loss of assets. The conveyance would save the state the costs of maintenance.

- The bill provides for the conveyance of Thompkins Center in Cambridge, Guernsey County to the Muskingum Area Adolescent Treatment Services, Inc. This conveyance would result in a loss of assets to the state and a decrease in maintenance costs.

- The state's conveyance of 78.4 acres of land in Guernsey County would generate up to $105,225 in revenues or in services, depending on the agreement between the parties. One parcel of land covers 62.6 acres and would be conveyed to the Cambridge City School District. The other parcel of 15.8 acres would be conveyed to Cambridge Township. Cash proceeds from the sale would be credited to the Department of Mental Health Trust Fund.

- The conveyance of three parcels of land located in Summit and Cuyahoga counties, to be purchased by the Trust for Public Land, would generate $1.6 million of revenues to the credit of the state's Mental Health Trust Fund.

- The state would receive $20,000 for the conveyance of 2.5 acres of land located in Wayne County to the Apple Creek Volunteer Fire Department and Emergency Squad, Inc.

- DAS would pay the Department of Transportation $1 million in FY 1999 as the first of nine installment payments to purchase the old ODOT building in downtown Columbus. The purchase price is $9.2 million and provisions for this purchase are expected to be included in future appropriations. The installment payments are $1 million each, plus a final payment of $1.2 million.

- The state would gain one dollar from a lease agreement with Columbus, or an undetermined amount from an agreement with a developer, to redevelop the state-owned Old State School for the Blind property near downtown Columbus. The state would also save the costs of maintenance. The City of Columbus, or whoever leases the building, would be responsible for redeveloping the land and buildings (while maintaining architectural integrity), for providing adequate infrastructure, and for insuring the property. DAS anticipates the buildings to be used for city offices, if the city leases the buildings. At the end of the 99-year lease the land, real estate and improvements would become the property of the city without cost if the city enters into the lease.

- Court costs could increase minimally for DAS with the provision that any claims from contractors of less than $5,000 may be brought to court. However, any disagreements must first go through dispute resolution.

- Emergency management agencies could pay additional money for costlier services outside of the state purchasing program under the provision that allows DAS to suspend the purchasing and contracting rules during an emergency.

Department of Aging

- Allows the Department to use moneys appropriated in line item 490-418, Area Agency on Aging Region 9, Inc., to make grants to Area Agency on Aging Region 9 for the purpose of resolving a projected deficit and assuring continued services to senior citizens in Belmont, Carroll, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, and Tuscarawas counties. Also allows for the repayment of excess grant funding to the state General Revenue Fund.

Arts and Sports Facilities Commission

- Within 45 days, FY 1999 appropriations of $1,000,000 for item 371-602, Capital Donations, will be eliminated, with the outstanding balances to be transferred by the Director of Budget and Management to a new appropriation item CAP-602, Capital Donations Fund. The Executive Director of the Arts and Sports Facilities Commission shall certify to the Director of Budget and Management the amount of funds received for deposit to the new account. The bill appropriates these moneys (amount unknown) to line item CAP-602, Capital Donations Fund.

Board of Deposit

- The Board of Deposit would be able to adopt a resolution authorizing the acceptance of payments by financial transaction device to pay for state expenses. Expenditures of state offices may increase under any contracts entered into with financial institutions, issuers, or processors of financial transaction devices. Revenues of state offices may increase due to surcharges or convenience fees imposed upon persons making payments by means of financial transaction devices.

Department of Development

- $250,000 will be transferred from the Department of Rehabilitation's Adult Correctional Building Fund to Development's Low and Moderate Income Housing Trust Fund to provide grants for the repairing and beautification of properties bordering the Water Tower Park site in Cleveland. The moneys were originally to be used to help build a prison at the site formerly called Coit Road, which the state redeveloped. Instead of a prison, plans have been made to create an industrial park at the site. The moneys will be used for the neighboring properties because the demolition of the former buildings on the site apparently caused damage to the houses.

- The bill contains a statement of intent to support the Atomic Vapor Laser Isotope Separation (AVLIS) production facility to be located in Piketon, Ohio.

Education

- Earmarks $2.2 million within line item 200-501, Base Cost Funding, in fiscal year to provide grants to community schools for the special education costs exceeding the special education funding amounts specified in law. This provision does not increase appropriations. Therefore, it has no fiscal effect beyond spending already appropriated.

- Earmarks $90,000 within line item 200-502, Pupil Transportation, in fiscal year 1999 to be used by the Lucas Counties Educational Service Center to fund a countywide base transportation pilot project authorized in law. The provision does not increase appropriations. Therefore, it has no fiscal effect beyond spending already appropriated.

Permits the Governor, the state Superintendent of Public Instruction, or the majority of a school district board of education to file with the Auditor of State a written request for a determination that a school district is in a state of fiscal watch.

Bureau of Employment Services

- Transferring surplus computers and computer equipment directly to chartered schools would decrease the amount available for resale, lease or transfer by the Director of Administrative Services. Since proceeds from resale or lease of this surplus equipment is currently deposited in the Investment Recovery Fund, this would potentially decrease revenues to the fund. The Bureau of Employment Services would not realize a fiscal impact by this action.

Family and Children First Cabinet Council

- Potential $100,000 increase in expenditures associated with the total cost of creating an office to review rules for substitute care providers hiring a coordinator, and providing the maintenance and supervision of the office having to be paid with new resources.

Department of Human Services

- By placing a moratorium on nursing facility rate increases resulting from workers compensation premium increases, the state may "recoup" some previously "overpaid" amounts, resulting in a zero net change in the workers compensation component of the nursing facility per diem rate during the period January 1, 1999 to December 31, 2000. Without this provision, if premium rates were to increase by more than 5 percent, the state would be required to increase reimbursement rates.

Department of Natural Resources

- $55,000 is included in the GRF for the ODNR Recreational Trail Feasibility Study which was omitted from the 1996-1998 capital budget.

Board of Nursing

- The Board of Nursing (NUR) currently performs the majority of the tasks that the Department of Administrative Services' Central Service Agency (CSA) undertakes for 19 other boards and commissions.

For the remainder of FY 1999, NUR will still be required to pay the required fees to CSA even though it will begin performing the tasks that CSA provides.

- In future fiscal years, NUR will be able to provide all services currently carried out by CSA at costs equal to or less than the fees charged by CSA.

Department of Public Safety

- The change to section 40 of Am. Sub. H.B. 215 would appropriate $31.9 million to the Disaster Services Fund. Of the $31.9 million, $26.2 million would be transferred from the GRF and $5.7 is the cash balance in the Disaster Services Fund that was not expended in FY98. The $26.2 million transfer to the Disasters Services Fund would eventually be transferred to certain state agencies, local governments, and individuals to cover costs associated with the 1998 floods that affected 26 counties in Central and Southern Ohio. A little less than one-half of these monies would go to state agencies, specifically the Ohio Department of Transportation (ODOT), the Adjutant General, the Ohio Emergency Management Agency (EMA).

- The ODOT Highway Operating Fund, line item 722-422, Highway Construction – Federal, would ultimately gain at least $5.7 million from the $26.2 million transfer to the Disaster Services Fund.

- The expenditure of the $26.2 million transfer from the GRF would leverage up to $72.7 million from the federal government for disaster relief. This is not reflected in the table above. In addition, the federal government is spending $91.3 million, for a total of $164 million.

- After all estimated costs for the 1998 floods are paid, about $5.7 million dollars of the $31.9 million appropriation would remain for future disaster relief.

Board of Regents

- Requires the Board of Regents to establish criteria for the local administration of capital facilities projects by state universities and state community colleges. The Board of Regents estimates that three additional projects would be administered locally as a result of this provision in fiscal year 1999, resulting in an estimated loss of $300,000 to the State Architect's Office. In the future, if additional projects are administered locally, there would be potential losses to the State Architect's Office.
- Requires the Board of Regents to establish criteria for the local administration of capital facilities projects by state universities and state community colleges. The Board of Regents estimates that three additional projects would be administered locally as a result of this provision in fiscal year 1999, resulting in estimated savings of $300,000 to state universities and community colleges. In the future, if additional projects are administered locally, there would be additional potential savings to state universities and colleges.

Rehabilitation Services Commission

- Proceeds from the sale, lease, or transfer of surplus computers and computer equipment by the Department of Administrative Service could decrease as some equipment is transferred directly to the Rehabilitation Services Commission.

Student Aid Commission

- Makes an appropriation of $15,000 in FY 1999 to the Ohio Student Aid Commission.

School Facilities Commission

- The Public School Building Fund (021) could experience a potential increase in revenues and expenditures as a result of language removing the prohibition on the Controlling Board to increase appropriations to and transfer moneys from the fund.

- Funds 021 and School Building Program Assistance (032) could also experience further potential gains in revenues as a result of language permitting the School Facilities Commission to retain investment earnings. Fund 021 could experience additional potential gains through exercising the authority to recoup the state share of the unspent balance of local project construction funds.

- The phased-in funding mechanism for school districts with a state share of project costs more than $40 million will increase the speed of state expenditure in the short run because additional districts will receive funding earlier. However, the postponed obligation for the larger districts will be felt in later biennia.

Local Fiscal Highlights

Corrective Provisions

LOCAL GOVERNMENT	FY 1998	FY 1999	FUTURE YEARS
Counties, Municipalities, and Townships			
Revenues	- 0 -	$10.3 million to $16.5 million gain	Potential gain (counties only)
Expenditures	- 0 -	$10.3 million to $16.5 million increase	Potential increase (counties only)
School Districts (maintenance funds)			
Revenues	- 0 -	Potential gain	Potential gain
Expenditures	- 0 -	Potential increase	Potential increase
School Districts (project construction funds)			
Revenues	- 0 -	Potential gain	Potential gain
Expenditures	- 0 -	Potential increase	Potential increase
School Districts (general funds)			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	Potential decrease	Potential decrease
Cambridge City School District and Cambridge Township			
Revenues	- 0 -	Gain of assets	- 0 -
Expenditures	- 0 -	Potential increase of up to $105,225	Potential increase
Certain ADAMH Boards			
Revenues	- 0 -	Gain of asset	- 0 -
Expenditures	- 0 -	Potential increase	Potential increase

Counties

- Permits specified counties to increase their lodging tax rate and use any additional revenues generated for the support of a convention facilities authority. It appears that only Richland County would be eligible to take advantage of this provision. Richland stands to gain approximately $450,000 per year if they levy the full 4 percent authorized.

Counties, Municipalities, and Townships

- The state will end up transferring between $10.3 and $16.5 million, of the total $26.2 million GRF transfer for flood response, recovery, and mitigation to help local governments cover their costs.

- The state would gain one dollar from a lease agreement with Columbus, or an undetermined amount from an agreement with a developer, to redevelop the state-owned Old State School for the Blind property near downtown Columbus. The state would also save the costs of maintenance. The City of Columbus, or whoever leases the building, would be responsible for redeveloping the land and buildings (while maintaining architectural integrity), for providing adequate infrastructure, and for insuring the property. DAS anticipates the buildings to be used for city offices, if the city leases the buildings. At the end of the 99-year lease the land, real estate and improvements would become the property of the city without cost if the city enters into the lease.

City of Columbus

- The redevelopment costs of the Old School for the Blind could be substantial for the City of Columbus, should the city choose to enter into the contract. If the City of Columbus does not lease the building, DAS would expect a developer to lease and redevelop the property.

School Districts

- Corrects the existing inconsistency regarding a school district's FY 1998 comparable SF-3 foundation payment calculation. The state would continue to pay certain basic aid adjustments to school districts.

- By clarifying that the local share of balances remaining in project construction funds can be used only for maintenance of new facilities, the bill could generate potential increases in school district maintenance fund revenues and expenditures. However, it is possible that the increase in school district maintenance fund revenues and expenditures will be at least in part offset by a decrease in revenues and expenditures for school district general funds.

- Additionally a potential increase in revenues and expenditures for both school district maintenance and project construction funds could occur as a result of language permitting the use of investment income earned by the fund. School district project construction funds could experience additional revenues and expenditures as a result of the removal of language prohibiting the Controlling Board from transferring moneys from Fund 021.

- As a result of the phased-in funding mechanism that is triggered at $40 million, the project construction funds of certain districts might experience increased revenues and expenditures in certain years. Specifically, since this would provision no longer require the commitment of the entire state share of basic project costs up front, an additional number of construction projects can be funded.

- Provisions in the bill permitting districts receiving payments through certain agreements to raise their current debt ceiling could result in an increase in both revenues and expenditures to local project construction funds. While the Cincinnati City School District is the only district currently eligible to take advantage of this provision, any benefit gained in terms of issuing additional debt will not be felt until future years.

- School districts will benefit from the additional $139 million in construction funds made available from the Public School Building Fund.

- The provision corrects the existing inconsistency regarding a school district's FY 1998 comparable SF-3 foundation payment calculation. School districts that are eligible for certain basic aid adjustments would continue to receive these payments. These districts' FY 1998 comparable SF-3 funding amounts would increase for the purposes of the on-going guarantee and the cap calculations.

- The Cambridge City School District and Cambridge Township in Guernsey County would pay up to $105,225 for two parcels of land, covering 78.4 acres. The Cambridge City School District would gain 62.6 acres and Cambridge Township would gain another 15.8 acres of land. These local governments also face potential increases in maintenance costs.

ADAMH Boards

- The Summit County Alcohol, Drug Addiction and Mental Health Board would gain the value of the Edgerton House, the value of which is currently unknown. The Board would also be responsible for maintenance costs of the Akron house and conveyance costs.

- The Paint Valley Alcohol, Drug Addiction and Mental Health Board of Greenfield, Highland County, would gain the value of the Greenfield Residence. The value of the property is currently unknown. The Board would also be responsible for maintenance costs, operating the facility as a children's residential program, and for conveyance costs.

Apple Creek Volunteer Fire Department and Emergency Squad

- The Apple Creek Volunteer Fire Department and Emergency Squad, Inc. of Wayne County would purchase 2.5 acres near Apple Creek Road in East Union Township for $20,000, and pay conveyance costs. The fire squad could be faced with minimal maintenance costs as a result of the conveyance.

Detailed Fiscal Analysis

Income Tax Reduction Fund

When the biennial operating budget bill is passed, the General Assembly officially accepts a set of GRF revenue estimates, and makes spending decisions based on those estimates. As required by the Ohio Constitution, the General Assembly always passes balanced budgets. The projected ending GRF fund balance is not only positive, but it generally equals or exceeds 0.5 percent of prior year GRF revenue.

Surplus revenues that are not spent over the course of the fiscal year are returned to taxpayers as an income tax credit (which functions like a rate reduction). The formula that allocates surplus revenues to the Income Tax Reduction Fund (ITRF) provides for maintaining a 5 percent balance in the Budget Stabilization Fund (BSF) and the aforementioned 0.5 percent GRF carry over. Surplus revenue comes from a combination of higher revenues than expected and from spending less than the amount appropriated.

Supplemental GRF spending or transfers to other funds subsequent to the passage of the biennial operating bill reduce the amount of surplus revenue that can be used for the income tax cut. Of course, small expenditures and/or transfers may be absorbed by lapses in GRF appropriations, unspent GRF capital money, or other offsets. Large expenditures and transfers, or tax reductions, however, clearly reduce the ending GRF fund balance and thereby reduce the potential tax cut from what it would otherwise have been.[1]

Spending of supplemental GRF money (or transfers of that money, or GRF tax reductions) does not cause permanent tax rate increases. The tax credits that are paid for out of the ITRF result from unanticipated budget surpluses. The tax credits thus come from favorable “surprises” in revenues and spending, and are not a fixed feature of the tax structure. In no case does any supplemental GRF spending or transfer cause any taxpayer to pay more than the statutory tax rates in permanent law. Likening a reduction in the tax credits to a tax increase is like calling a reduction in a manufacturer’s rebate on a car a “price increase.” The manufacturer’s rebate is driven by supply and demand conditions that prevail at the moment: excess supply will cause incentives to be offered. On the other hand, stated prices, like statutory tax rates, are permanent features of the pricing structure.

This bill transfers $139 million to the Public School Building Fund (PSBF, Fund 021) from the GRF. Assuming all other things are held constant, this reduces the ending GRF fund balance for FY 1999 by $139 million. This reduces the amount that will go to the Income Tax Reduction Fund (ITRF) to reduce state income tax rates for tax year 1999.

The bill also transfers $26.2 million from the GRF to the Disaster Services Fund and appropriates $30.8 million in GRF money for capital projects. There is an additional $1.2 million of GRF spending for various purposes and a revenue loss of $0.75 million. All told these

[1] The impact of the supplemental transfers in such bills as H.B. 650 and H.B. 850 are restricted to the year in which the transfers of GRF money are made. That is to say, since the funds are one-time transfers for capital projects, they do not become part of base GRF spending and thus do not affect surplus revenue calculations in subsequent years. Furthermore, these up-front expenditures for capital reduce future ongoing debt service obligations, and thus actually decrease future GRF expenditures.

measures reduce the ending GRF fund balance for fiscal year 1999 by $198 million. All other things held constant, this reduces the ITRF transfer and the tax year 1999 income tax cut by $198 million.

At this point, LBO does not know how large the GRF surplus for FY 1999 will be. At the beginning of FY 1999, OBM revised upward their estimates of GRF revenues by $342.5 million and revised estimated GRF spending downward by $15.7 million (excluding transfers, the figure would be $70.2 million). The new spending estimates take into account the additional education funding committed by HB 650 and HB 770. So, if GRF revenues and spending hit the revised targets, the GRF operating surplus in FY 1999 will be $358.2 million higher than the original Conference Committee estimates for the FY 1998-99 budget (HB 215).

There are three elements at work in determining the new estimated ending fund balance. First, because of the amount of transfers made in FY 1998, and the fact that by year's end no deficit for FY 1999 was expected (when HB 215 was passed, the revenue and spending assumptions were such that an operating deficit of $84.8 million was expected) the carry-forward from FY 1998 to FY 1999 was lower than expected. GRF carry-forward was $103 million less than originally expected. Second, acting in the opposite direction, as we explained above, revenue and spending assumptions have been favorably altered. There is now an expected $273.8 million operating surplus for FY 1999 (a gain of $358.2 million). The net effect is a year-end fund balance $255 million higher than originally forecasted.

The third element is where revenues and spending finish relative to the revised estimates. It is unclear from the first four months of FY 1999 whether the revised targets will be met. Currently GRF revenue is running behind estimate. Sales tax revenue and federal grants both show sizable shortfalls. On the other hand, spending is also below the revised targets. Exactly how these will balance out over the course of the fiscal year is still uncertain. Christmas season sales tax revenues and final settlements of CY 1998 income taxes are major wild cards in the forecast. At this point, it still seems likely that there will be at least $198 million in surplus revenue for FY 1999, and so the full $198 million in transfers to the PSBF and the Disaster Services Fund, along with the GRF capital appropriations and other provisions, are covered. Whether there will be any additional money left for the ITRF is unclear.

Department of Administrative Services

The corrective measures that affect primarily the Department of Administrative Services (DAS) provide for five property conveyances and a lease agreement, changes in state contracting requirements, and reimbursements for minority business enterprise services.

Conveyances to Benefit Mental Health Services

The bill conveys three state-owned properties to local Alcohol, Drug Addiction and Mental Health Services boards and provides for other real estate-related provisions. The Edgerton House, located in Akron in Summit County, would be conveyed to the Summit County Alcohol, Drug Addiction and Mental Health Services Board. The consideration for the property is the mutual benefit to the state and to the county, according to the bill. Although the state would not gain revenues from the conveyance, the state would forfeit maintenance costs on the property. The Summit County Alcohol, Drug Addiction and Mental Health Services Board would be responsible for the very minimal conveyance costs and for maintenance costs.

The Greenfield Residence of Greenfield in Highland County would be conveyed to the Paint Valley Alcohol, Drug Addiction and Mental Health Board. As with the Edgerton conveyance, the price for the property is basically zero dollars and the value of the property is unknown to this office. The Paint Valley Board would pay the conveyance costs and be responsible for maintenance of the property.

The bill also conveys the Thompkins Center in Cambridge, Guernsey County to the Muskingum Area Adolescent Treatment Services, Inc. This conveyance would also result in a loss of assets to the state and a potential decrease in maintenance costs. This, and the previous two properties would be used for the provision of mental health services, or the local entities forfeit use of the properties.

Additional land conveyances of 62.6 acres to Cambridge City School District and 15.8 acres to Cambridge Township in Guernsey County would generate up to $105,225 in revenues. The bill states that a combination of cash and services may be used to pay for the conveyance, but the value must be $105,225. The amount paid for the conveyances would be credited to the Mental Health Trust Fund.

This bill also conveys three parcels of land to the Trust for Public Land. Two parcels are located in the Village of Walton Hills in Cuyahoga County and total 91 acres, and a 283-acre parcel is in Sagamore Hills Township in Summit County. The cost of the conveyance is $1.6 million and would be paid by the Trust for Public Land, as would the conveyance costs. The bill actually state the parcels shall be conveyed to the Trust and its public collaboratives - the Cleveland Metroparks, the National Park Service, and Sagamore Hills Township.

Conveyance to Apple Creek Volunteer Fire Department and Emergency Squad, Inc.

The conveyance of 2.5 acres of land located in East Union Township in Wayne County to the Apple Creek Volunteer Fire Department and Emergency Squad, Inc. would generate $20,000 in revenues to the state. The fire squad could be faced with additional minimal maintenance costs for the property.

Purchase of ODOT Building

DAS would pay the Department of Transportation $1 million for the first of nine installment payments to purchase the old ODOT building in downtown Columbus. This provision parallels an appropriation in this bill of over $6 million for renovations to the old ODOT building. DAS anticipates the relocation of some state agencies to the building in FY 2000. DAS also expects to provide payments for at least nine years to own the building at a price of $9.2 million. Future appropriations bills are expected to provide for seven more $1 million installment payments and one last payment for $1.2 million.

Lease of the Old School for the Blind

DAS would enter into a lease with the City of Columbus or a developer for the redevelopment and later expected occupancy of the Old School for the Blind property, located near downtown Columbus. The price of the conveyance would be one dollar for the City of Columbus or an undetermined amount for a developer. At the time of the writing of the provision, DAS was not sure if the City of Columbus would lease the property, but now it is probable that the city would lease the space. The buildings would probably be used for city office space. The redevelopment costs have not yet been determined. The bill also authorizes DAS to contract for engineering services related to plans and specifications. These services would increase costs for the state in FY 1999, but the state would save the costs of maintenance.

Rural Areas Community Improvements

The bill earmarks $500,000 for improvements to the Ritz Theatre, located in Tiffin in Seneca County. An equal amount is deleted from Arts and Sports Facilities Commission.

Competitive Selection Process Provisions

The bill also allows state contractors to bring court claims against the state for disagreements related to capital improvement projects. The disagreeing parties would first have to go through dispute resolution services before any court claims. The resulting potential for an increase in claims would generate revenues or expenditures for the state and adjudication costs for a few counties; however, many cases would end from dispute resolution practices. Previously claims for projects that cost more than $5,000 were not allowed.

The bill also allows DAS to exempt emergency management agencies who are participating in recovery activities from purchasing and contracting requirements. This provision could also minimally increase costs for agencies that do not follow competitive bidding processes.

Other Provisions Related To DAS And ODOT

Other provisions clarify plan and cost estimate submission requirements for the renovation of the Ohio Departments Building, and the Department of Transportation's authority in its capital and real estate projects. The bill specifies that the Ohio Building Authority must submit a plan and cost estimate to DAS for the expenses associated with the repair and renovation of the exterior, roof, and grounds of the Ohio Departments Building. These renovations are the responsibility of DAS. Previously, the wording implied that the plans and cost estimates for the expenses that are not the responsibility of DAS were to be submitted to DAS. Another provision clarifies that DAS' responsibilities for standards and inspections of state-owned real estate do not interfere with the Department of Transportation's authority over its projects. Neither of these provisions have a fiscal effect.

Department of Aging

The Department of Aging is the state administrative agency that oversees the operations of Area Agencies on Aging. The Department recently became aware of serious financial issues that exist at Area Agency on Aging Region 9 (AAA 9). AAA 9 provides services in a nine-county area that includes Belmont, Carroll, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, and Tuscarawas counties. To ensure that services to seniors in the area continue without interruption and that the financial situation does not deteriorate further, the Department has entered into a contract with Area Agency on Aging, Region 10B (AAA 10B) to provide financial management services at AAA 9.

On October 19, 1998, the Controlling Board approved the creation of a new appropriation line item for the Department of Aging, ALI 490-418, Area Agency on Aging Region 9, Inc. The Controlling Board also approved the transfer of $191,806 in unused FY 1998 GRF appropriation authority from line item 490-412, Residential State Supplement, to the new account. The $191,806 will be used to pay AAA 10B for the period of October 1, 1998 through June 30, 1999. Pending Controlling Board approval, the contract will be renewed in the next biennium at a cost of $77,036 for the period from July 1, 1999 through December 31, 1999.

As stated above, the Controlling Board approved the expenditure of funds from the newly created line item, 490-418, to pay AAA 10B for financial management services that they will provide. This bill adds temporary law allowing the Department to expend funds from the same line item to make grants to AAA 9 for the purpose of resolving a projected deficit and assuring continued services. The bill also requires that if any grants are made from this line item, no later than June 1, 1999, the Director of Aging must certify to the Director of Budget and Management the amount of deficit expenditures incurred during the current biennium by AAA 9. Furthermore, if the amount of the grants exceeds the certified deficit, AAA 9 is required to pay the state back that amount. If moneys related to the deficit are recovered after the deficit has been certified, AAA 9 must repay the state the amount recovered. Any repayment will be credited to the state General Revenue Fund.

Grant amounts are yet to be determined. The Department is in the process of analyzing information it has received from the fiscal management contractor (AAA 10B) that is overseeing the investigation. The Department will seek Controlling Board approval for an increase in appropriation authority in line item 490-418 on December 7, 1998, so it can start making grants to AAA 9, as necessary.

Arts and Sports Facilities Commission

Ritz Theatre Renovations

Changes in appropriations in S.B. 230, Section 25 (Arts Facilities Building Fund (Fund 030) would delete $500,000 in funding for item CAP-035, Ritz Theatre Renovations. Instead the bill appropriates $500,000 for this project in the Rural Area Community Improvements line item under DAS. This historical building is located in Seneca county.

The bill deletes FY 1999 appropriations for General Service Fund item 371-602, Capital Donations Fund, and then allows for the transfer of any account balances to a newly created appropriation item CAP-602, Capital Donations Fund (Fund 5A1). The Director of Budget and Management, in consultation with the Executive Director of the Arts and Sports Facilities Commission, shall verify the amounts available for deposit and then transfer the funds to the new account. The bill appropriates these moneys (amount unknown) to line item CAP-602, Capital Donations Fund.

Office of Budget and Management

Per Cent for Arts Program - Office of Budget and Management Responsibilities

The bill directs the Director of the Office of Budget and Management to prepare a preliminary report listing each capital project or repair costing more than $4,000,000, and the amount that is to be spent for the Per Cent for Arts Program. The Director must prepare the report within 45 days after the effective date of any act in which more than $4,000,000 is to be spent by a state agency on the construction or renovation of a public building. The Director is to send a copy of the preliminary report the Arts Council and to each state agency that received an appropriation or nonappropriated state proceeds of more than $4,000,000.

State agencies would then have 30 days in which to respond to the Director’s preliminary report; they may either request that the Director take into account the fact that art may not be appropriate for the particular project, or they may ask the Director to reconsider the preliminary report. If the Director approves the request, the Director must revise the preliminary report. The

Director is required to send a final report to the Arts Council and to each state agency affected within 45 days after sending the preliminary report.

The Office of Budget and Management has the primary responsibility for carrying out the new provisions of the bill. According to a spokesperson from the Office, similar responsibilities are already being performed by OBM, and thus, the new requirements will have little impact on the workload of the Office.

Great Lakes Science Center – Ohio Arts Council Encumbrance

Temporary law in the bill requires that encumbrance 991810, in the amount of $50,000, established in the name of the Ohio Arts Council in fiscal year 1996 by Cleveland State University, be paid to the Great Lakes Science Center by Cleveland State University. The payment is to reimburse the Center for art it purchased in lieu of its formal participation in the Per Cent for Arts program. Since these funds have been encumbered, there is no additional increase in expenditures by the state to make this payment.

Transfer of Monies from Obsolete Funds

The bill would require the Director of the Office of Budget and Management (OBM) to determine the cash balances in three funds abolished by prior legislation and transfer the balances from those obsolete funds. The obsolete funds, the affected agency, and the cash balance amounts to be transferred are listed below. Revenue gains to the funds receiving monies would be minimal.

1. Fund 495 State Acceptors Fund - <u>Department of Agriculture</u>

   This fund went to line item 700-625 - Meat Contract Inspection. The bill would transfer the cash balance of $12,011.25 remaining in Fund 495 to *Fund 4T6 Poultry and Meat Products Fund*, which serves essentially the same purpose as the old fund. Fund 495 was abolished by the 121st GA and ceased to exist in FY 1996.

2. Fund 4D3 Cosmetology Adjudication Fund - <u>Cosmetology Board</u>

   This fund went to line item 879-601 - Cosmetology Adjudication. The bill would transfer $24,449.29 remaining in Fund 4D3 to *Fund 4K9 Occupational Licensing and Regulatory* Fund. Monies from Fund 4K9 go to the cosmetology board along with numerous other boards. Fund 4D3 was abolished by the 122nd GA and ceased to exist in FY 1998.

3. Fund 4K0 Beverage Tax Administration Fund - <u>Department of Taxation</u>

   This fund went to line item 110-604 - Beverage Tax Administration. Under the bill, the $134.52 cash balance in this fund will be transferred to the *GRF*. The beverage tax was repealed by referendum in 1994, and the fund ceased to exist in FY 1996. Prior to repeal, this fund received 1 percent of the new beverage tax. The moneys in the fund were used in administering and enforcing the tax.

Preparation of Capital Budget

The bill makes technical changes to ORC section 126.03, requiring the OBM director to submit a capital plan biennially with the concurrence of the Governor. The bill also makes technical changes in this section to language explaining what capital projects shall not be included in the biennial capital budget. Essentially the same as in current law, these projects are ones that involve transportation infrastructure and are handled by ODOT. These changes have no direct fiscal impact on the state or political subdivisions.

Adjustments to Capital or Operating Budgets

The bill creates ORC section 126.15, which permits the director of OBM to require an agency head certify amounts in certain funds, transfer monies from one fund to another, transfer appropriation authority between funds, and to cancel and reestablish encumbrances under circumstances. The director is permitted to take such actions if he or she determines they are necessary because an act of the General Assembly which:

- Reorganizes administrative agencies
- Transfers certain programs
- Creates new funds
- Modifies certain capital projects
- Consolidates certain funds

This new section could have a fiscal impact on any affected agencies, funds, projects, or programs, possibility resulting in revenue gains or losses and/or expenditure increases or decreases. It is not possible to estimate the effects of this change because it cannot be know which agencies, funds, projects, or programs would be affected. However, these changes would not be expected to create any net additional costs for the state as a whole.

Controlling Board

Actions and Authority (sections 111.15, 119.01, 127.14, and 127.16)

The bill revises existing permanent law as is relates to the actions and authority of the Controlling Board to: (1) exempt it from the statutes governing the adoption of rules by state agencies; (2) add more specificity to its appropriation transfer authority; and (3) modify the current list of purchases that are exempt from competitive selection requirements or approval of the Controlling Board to include purchases that are made by a state institution of higher education in accordance with the terms of a contract between a vendor and an inter-university purchasing group. These changes would not alter in any fundamental sense the Controlling Board's current way of doing business nor its workload, and thus they carry no direct and immediate fiscal effect on the state or its political subdivisions.

Counties

This item would permit certain counties that currently levy a lodging tax at 3 percent and who meet other conditions to levy an additional lodging tax of up to four percent (bringing the total up to 7 percent). The additional tax would be levied by the board of county commissioners. In order to qualify, a county must already have a convention facilities authority (CFA) as of November 15, 1998. However, the county must not already have a convention center or facility, and the CFA must not itself already levy a tax.

According to the best available information, only 4 counties currently levy the 3 percent tax and already have a CFA. Those counties are Richland, Franklin, Muskingum, and Guernsey. Of these counties, Franklin, Guernsey, and Muskingum could not levy the additional tax because their CFAs levy a tax already. Franklin also already has a convention facility. That leaves only Richland county as a potential candidate to levy the additional tax.

All of the revenue from the additional 4 percent tax must be dedicated to the CFA. The tax revenue can be used for constructing, maintaining, operating, and promoting a convention facility, including the costs associated with bonds or bond anticipation notes. The additional levy may not be reduced while any bonds to which the tax revenue is pledged remain outstanding, unless an adequate replacement revenue source is provided. Finally, Richland County would have to amend the resolution levying their current tax within 45 days of the effective date of this provision.

LBO estimates that if Richland increases its tax rate to 7 percent the additional annual revenue would be about $450,000. This estimate assumes that the elasticity of demand for lodging is negative one: i.e., for every one percent increase in the after-tax price of lodging due to the tax increase, the quantity of lodging consumed declines by one percent.

Board of Deposit – Credit Cards

This amendment authorizes the State Board of Deposit to adopt a resolution providing that fees, costs, taxes, assessments, fines, penalties, payments, or other expenses owed to a state office may be paid by means of a financial transaction device. A financial transaction device includes a credit card, debit card, charge card, or prepaid or stored value card. The Board of Deposit is allowed to set a surcharge or convenience fee that may be imposed upon persons making payments by means of financial transaction devices.

Expenditures of state offices may increase under any contracts entered into with financial institutions, issuers, or processors of financial transaction devices. Revenues of state offices may increase due to the collection of surcharges or convenience fees imposed upon persons making payments by means of financial transaction devices. Whether the state revenues would increase more than expenditures is uncertain and could vary with different agencies.

Department of Development

Low- and Moderate-Income Housing Trust Fund

This provision allows for the transfer of $250,000 from DRC's Adult Correctional Building Fund to the Low- and Moderate-Income Housing Trust Fund for repairs and improvements to properties bordering the Water Tower Park site in Cleveland. The Housing Trust Fund is used to assist with housing activities for low- to moderate-income Ohioans. In this case the moneys will be used for repairs from damage done to the properties due to the demolition of the Fisher Body plant. The state purchased the 47-acre site expecting to build a prison there. Since DRC will no longer need these moneys for the prison, the state plans to create an industrial park, the Water Tower Park.

Support for the ALVIS Production Facility (back of the bill)

Through this provision, the General Assembly explicitly states its support to attract an Atomic Vapor Laser Isotope Separation (ALVIS) production facility to the Portsmouth Gaseous Diffusion Plant in Piketon, Ohio. The proposal for this facility will be coordinated through the Department of Development. Should the Department be successful in attracting the facility, it will seek the resources consistent with the proposal for infrastructure and job training support.

Department of Education

Base Cost Adjustments

The provision corrects the existing inconsistency regarding a school district's FY 1998 comparable SF-3 funding calculation. The provision includes basic aid adjustments for sections 3317.022 and 3317.027 in a school district's FY 1998 comparable SF-3 funding. These two adjustments are currently subject to the cap in FY 1999. The provision also removes basic aid adjustments for sections 3317.026 and 3317.028 from a school district's FY 1999 SF-3 funding amount. These two adjustments are currently excluded from a district's FY 1998 comparable SF-3 funding amount.

Section 3317.022 provides a basic aid recomputation to a district containing a large amount of certain types of state exempt property. In FY 1998, the state paid about $6.7 million for this adjustment.

Section 3317.026 provides partial subsidies to help school districts pay their refunded taxes. This section was created by HB 215 of the 122nd General Assembly. The state made the first payment in June 1998, with a total amount of $4.9 million. School districts could have received these overpayments in several years prior to FY 1998.

Section 3317.027 provides a June recomputation for basic aid when tax revenues are lost by a school district for the current calendar year due to taxpayer bankruptcy and/or appeal of tax valuations. The state paid about $9.5 million in FY 1998 for this adjustment.

Section 3317.028 provides a June recomputation for basic aid when a district's tax revenue changes (increase or decrease) for the current calendar year mainly due to the swing of business tangible personal property value. The net amount of this adjustment in FY 1998 was about $0.9 million.

The basic aid adjustments for sections 3317.022, 3317.026, 3317.027, and 3317.028 had been paid outside a school district's SF-12 foundation payments before FY 1999. As a result of HB 650/HB 770 of the 122nd General Assembly, SF-3 has replaced SF-12 to represent the state foundation payments to the district. The district's FY 1998 foundation funding needs to be reconstructed to make it comparable to its FY 1999 SF-3 funding. In general, all FY 1998 comparable SF-3 funding elements are subject to the cap in FY 1999. The provision corrects the existing inconsistency regarding these basic aid adjustments. According to different natures of these payments, adjustments for sections 3317.022 and 3317.027 would be included in school districts' FY 1998 base numbers and would be subject to the cap in FY 1999. It would increase those eligible districts' FY 1998 base numbers for the purposes of on-going guarantee and the cap calculations. Adjustments for sections 3317.026 and 3317.028 would be excluded from school districts' FY 1998 base numbers and would not be subject to the cap in FY 1999. The state would continue to make these payments outside the foundation program.

Grants for Community Schools for Special Education Costs

The bill earmarks $2.2 million within line item 200-501, Base Cost Funding, in fiscal year 1999 to be used by the Department of Education to provide grants to community schools for the special education costs exceeding the special education funding amounts received by community schools under section 3314.08 of Am. Sub. H.B. 770 of the 122nd General Assembly and section 50.52.10 of Am. Sub. H.B. 215 of the 122nd General Assembly. Since the line item's appropriation would not be increased, there would be no fiscal effect beyond spending already appropriated.

Lucas County Educational Service Center Countywide Base Transportation Pilot Project

The bill earmarks $90,000 within line item 200-502, Pupil Transportation, in fiscal year 1999 to be used by the Lucas Counties Educational Service Center to fund a countywide base transportation pilot project authorized by section 19 of Am. Sub. H.B. 650 of the 122nd General Assembly. The provision does not increase appropriations. Therefore, it has no fiscal effect beyond spending already appropriated.

Fiscal Watch

The bill permits the Governor, the state Superintendent of Public Instruction, or the majority of a school district board of education to file with the Auditor of State a written request for a determination that a school district is in a state of fiscal watch.

Restrictions to Adoption of Model Health Curriculum

The bill prohibits the state board of education from adopting a model competency-based education program in health or physical education without the approval of the General Assembly by way of a concurrent resolution. Once approved, the state board may not revise the program without the adoption of an additional concurrent resolution. As part of the process of adopting a concurrent resolution approving or adopting a model program, the standing committees in the House and Senate having jurisdiction over primary and secondary education must conduct at least one public hearing on the program or its revisions. According to a representative of the Department of Education, the process of legislative review and approval of proposed model curriculum should result in no appreciable fiscal impact.

Bureau of Employment Services

The bill gives the Administrator of the Bureau of Employment Services the authority to transfer surplus computers and computer equipment directly to an accredited chartered public school. Currently, the agency is required to furnish a list of all excess and surplus supplies with an appraisal of their value to the Director of Administrative Services. The Director of Administrative Services takes immediate possession of such articles and may either dispose of them via sale, lease, or transfer, or in the case of a surplus or excess motor vehicle (not exceeding $4,500 in value) donate the vehicle to a nonprofit organization. Proceeds from the transfer, sale, or lease of surplus equipment is paid into the state treasury to the credit of the Investment Recovery Fund, which pays the operating expenses of the state surplus property program.

A direct transfer of surplus computers and computer equipment would decrease revenues to the Investment Recovery Fund. Since the amendment is permissive, it only has the **potential** to do so. Local governments (school districts) would not be affected, as chartered schools are not associated with any school district in Ohio. Funding for these schools is based on a formula that allocates the moneys to the student rather than the school.

Family And Children First Cabinet Council

Streamlining of Substitute Care Licensure and Certification Review Standard and Procedures

The bill requires the creation of an office to perform the review of rules governing the certification and licensure of substitute care providers. The members of the Ohio Family and Children First Cabinet Council are required to enter into an agreement to create this office no later than 90 days after the effective date of this bill. The members must agree to specify one of the departments represented on the Council as the department responsible for housing and supervising the office. Also, the agreement among the Council must include a recommendation for funding the office.

The purpose of this office is to simplify and streamline the standards and the multi-certification process for substitute care providers. Contingent upon which department houses this newly created office, LBO assumes that the cost associated with it will vary from being absorbed with in existing departmental resources to the expense of creating an office, hiring a coordinator, and providing the maintenance and supervision of the office. LBO assumes that total costs should not exceed $100,000.

The House amended this section of law to include the requirement that the newly created office provide local family and children first councils, substitute care providers and other interested parties the opportunity to help the office with the review and determination of rules.

Department of Human Services

Moratorium on statutory provisions of Section 5111.29 of the Revised Code

The bill temporarily places a moratorium on the granting of extreme hardship rate increases offered by Section 5111.29 of the Revised Code during the period January 1, 1999 and December 31, 2000.

Currently, Section 5111.29 of the Revised Code, requires the Department of Human Services (ODHS) to increase the per diem rates paid to Medicaid nursing facilities providers under the prospective cost-based reimbursement system, if workers compensation premiums increase by greater than 5 percent. Under, a prospective payment system, the state pays facility specific per diem rates to nursing facilities and ICF/MRs based upon cost reports from a previous reporting period (preceding calendar year). Included in the rate computation is a workers compensation premium component. Thus, when the Bureau of Workers Compensation (BWC) issued a premium discount in 1997 and issued rebates in June 1998, a situation whereby the state was paying nursing facilities at a rate that included the discounted premium and rebate amount in its calculation (paying providers at a higher workers compensation premium) emerged.

Thus, this moratorium would prevent any further rate adjustments offered by Section 5111.29 from occurring during the stated two-year period or until the discount and rebate amounts have been “recouped”. Thereby equalizing previous “overpayments” with future premium increases in the next two years.

LBO has been unable to obtain an estimate of the value of the rebates and premium discounts made by BWC. We believe that this amount would represent the maximum amount of previously paid per diems that could be saved by this moratorium, assuming that workers compensation premiums rise by more that 5 percent during the two-year period, and that all eligible providers seek increased reimbursement as a result of such premium increases. We can only guess that the anticipated savings are more than minimal in nature.

Judiciary/Supreme Court

This corrective item has no direct fiscal effect upon either the state or any local government. This item modifies language in Am. Sub. H.B. 215 that was itself amended by Section 4 of Am. Sub. H.B. 770. It also maintains the exemption from section 3379.10, the Per Cent for Arts program.

The new changes delete earlier references to capital appropriation line items from Am. H.B. 748 and Am. Sub. S.B. 264 of the 121st General Assembly. These line items related to work on the Ohio Departments Building. All new funds for work on this project will now exist in a single capital appropriation line item CAP-001, Ohio Courts Building Renovations. This change deletes reference to any specific line item and defines appropriation as meaning “any appropriations made to or for the benefit of the Supreme Court for the repair and renovation of the Ohio Departments Building.”

Additionally, the change in control of the project necessitated that references to the Department of Administrative Services be changed to the Judiciary/Supreme Court. In the future, any moneys received by the Ohio Building Authority for the repairs and renovations that have not been used will be refunded to the Judiciary/Supreme Court, not the Department of Administrative Services, for redeposit into the Administrative Building Fund, Fund 026. Also, this item maintains the manner in which the appropriation may be released is the same for the Judiciary/Supreme Court as it was for the Department of Administrative Services.

Department of Natural Resources

ODNR Communications System

The Department of Natural Resources, Administrative Building Fund 026, will transfer $3,050,000 into line item CAP-741, DNR Communications System. This amount is the unencumbered and unallotted balance that was originally appropriated to the Multi-Agency

Radio Communication System (MARCS) Equipment (CAP-744). The Department of Natural Resources does not wish to be involved in the MARCS project as the agency already has an communications system that ODNR feels is adequate for the agency's needs. This will bring the balance in CAP-741 to approximately $3,245,352.

ODNR Recreational Trail Feasibility Study

The ODNR Recreational Trail Feasibility Study was included in the original 1996-1998 capital budget for General Revenue Fund CAP-876, but was inadvertently deleted. This corrective item merely replaces the $55,000 for the feasibility study.

Board of Nursing

Under section 125.22 of the Revised Code, the Central Service Agency (CSA) of the Department of Administrative Services provides routine accounting and data entry support to 20 state boards and commissions. The Board of Nursing receives some services from CSA, but currently performs the majority of the activities undertaken by CSA in-house. As contained in this bill, NUR will start to perform the following tasks:

1. Enter data into State Accounting;
2. Prepare and process payroll information; and
3. Perform the final sign-off on all personnel matters.

In exchange for providing these services, CSA charges fees to the various boards and commissions covered in this section of the Revised Code. Since NUR will still be required to pay its FY 1999 fee, it will face increased expenditures of approximately $25,000 in FY 1999. In future years, the board will be able to perform these services in-house for the equivalent or for less than the fees that CSA charges to the boards.

Political Subdivisions

This item excludes securities issued to evidence loans from the state infrastructure bank pursuant to section 5531.09 of the Revised Code from the net indebtedness of a subdivision.

This item has no direct fiscal effect on the state or on subdivisions. Although this item has no direct fiscal effect on subdivisions, increasing a subdivision's debt capacity may influence future decisions regarding the issuance of debt. An increase in the total amount of debt issued would subsequently increase the total amount of debt service payments and require a long-term commitment of future revenues.

Department of Public Safety

Disaster Services Transfer and Flood Costs

Office of Budget and Management is requesting a FY 99 appropriation of $31.9 million for Fund 5E2 - Disaster Services to cover 1998 flood costs. After paying all the state costs for the 1998 floods, the Disaster Services line item would still have about $5.7 million available for any future disaster relief. The monies for the $31.9 appropriation request would come from a $26.2 million transfer from the GRF and from the $5.7 million cash balance in the fund.

The Ohio Emergency Management Agency (EMA) estimates the total cost to the state at $26.2 million for response, recovery, and mitigation of the 1998 floods. The federal government is estimated to be contributing another $164 million.

According to the EMA, the twenty-six counties listed below have been declared disaster areas. Of this number, twenty-three (23) counties were declared federal disaster areas and the Governor declared three additional counties as state disaster areas. Those three counties are eligible for state funding only. According to EMA, these three counties sustained relatively minor damage and are unlikely to receive much aid, if any.

"Federally Declared" Counties			**"State Only Declared" Counties**
Athens	Jefferson	Ottawa	Delaware
Belmont	Knox	Perry	Licking
Coshocton	Meigs	Pickaway	Marion
Franklin	Monroe	Richland	
Guernsey	Morgan	Sandusky	
Harrison	Morrow	Tuscarawas	
Holmes	Muskingum	Washington	
Jackson	Noble		

The table below lists the amount the state will pay for each disaster relief program, the amount of the federal government's share for each program, and who ultimately gets reimbursed.

State and federal costs
for response, recovery, and mitigation of the 1998 floods

Program	Who is reimbursed	What is paid for	State share (in millions)	Federal share (in millions)
Public Assistance	Local governments	Infrastructure damage, debris removal, response	6.0	18.0
Public Assistance	State agencies*	Infrastructure damage, debris removal, response	2.4	7.2
Emergency Watershed Program	Local governments	Stream bank clean up and reconstruction	4.3	12.7
Emergency Relief	ODOT	Damage to state and federal roads	5.7	22.8
Mission Assignments	U.S agencies: Corp of Engineers, EPA, Others	Debris removal, hazardous material clean-up, other	0.4	2.2
Grants	Private citizens	Damage to property	1.2	3.6
Total		**Response and recovery**	**20.0**	**66.5**
Mitigation grants	Local governments, private citizens	Flood mitigation	6.2	6.2
Total			*26.2***	*72.7*

*About $3.3 million of the total would go to the Adjutant General, $4.5 million to the Ohio Department of Transportation (ODOT), and the rest to other unspecified agencies.
**The federal government's total share of the costs includes another $91.3 million.

In April 1999, the EMA expects to update flood cost estimates. Significant flood damage occurred that is not included in the $190.2 million cost estimate, because this total only reflects damages addressed and accounted for through governmental or private grants, loans, and insurance claims. EMA reports that these currently unaccounted for damages are significant, particularly in agriculture. Pending federal legislation could increase greatly the payments or loans to Ohio farmers for damages related to the disaster.

Board of Regents

State Universities and Colleges – Local Administration of Capital Projects

The bill requires the Board of Regents to adopt rules to establish criteria for the local administration of capital facilities projects by state universities, the Medical College of Ohio at Toledo, state community colleges, and the Northeastern Ohio University College of Medicine. The criteria are to be developed with the Department of Administrative Services and higher education representatives selected by the Board of Regents. The criteria are to include the following:

- The adequacy of staffing levels and expertise needed to administer the project;
- Past performance of the institution in administering such projects;
- The amount of institutional or other non-state money to be used in financing the project.

The Board of Regents and the Department of Administrative Services are required to approve the request of any institution of higher education seeking to administer a capital facilities projects that meets the above criteria.

According to a spokesperson from the Board of Regents, approximately 45 percent of higher education capital projects are administered locally currently. Universities and community colleges report that administering projects locally saves them both time and money. They save time by not having to wait for the Department of Administrative Services (DAS) to set bid dates, set interview dates, open bids, etc. They save money by completing projects more quickly and by not having to pay DAS administration fees.

For the upcoming biennium, the Board of Regents projects that three additional projects would be administered locally, saving universities approximately $300,000. This estimate assumes a 1.5 percent DAS administration fee. This provision would also decrease revenues to DAS by a like amount. In future years, if an even higher percentage of projects are administered locally, universities and community colleges could save even more, with a corresponding decrease of revenues to the Department of Administrative Services.

Cleveland Playhouse

The bill makes changes to the capital reappropriations bill, Amended Senate Bill 230, by increasing the appropriation to Cleveland Playhouse, CAP – 073, from $500,000 to $1,000,000, and by decreasing the appropriation to Intermuseum Laboratory, CAP-111 from $500,000 to zero. There is no net increase to Cleveland State University's total reappropriations.

Rehabilitation Services Commission

The bill permits direct transfers of computers and computer equipment from any state agency to the Commission to be used for any purposes the commission considers appropriate.

If appropriate surplus equipment were identified and made available to RSC under the conditions described in the amended bill, a potential negligible decrease in revenues could result as proceeds from the sale, transfer, or lease of surplus equipment would be lost. Currently, sections 125.12, 125.13, and 125.14 of the Revised Code govern the disposal of surplus supplies by any state agency. Specifically, such surpluses are transferred to the Director of Administrative Services who then disposes of the items by sale, lease, or transfer to state agencies; state-supported or state-assisted institutions of higher education; tax-supported agencies, municipal corporations or other political subdivisions of the state; and the general public. Proceeds of such transfers, sales, or leases, are paid into the state treasury to the credit of the Investment Recovery Fund, the fund originally used to purchase the supplies, or the Recycled Materials Fund as appropriate.

However, it is not anticipated that surplus computer equipment will be offered to and accepted by the RSC in significant quantities. Currently, the RSC has several hundred customers awaiting computer equipment for use in preparation for employment. These customers need special adaptive technology (e.g., Braille printers) that cost on average $6,000 to $7,000 per customer. Such adaptive equipment is not likely to be included among computer equipment that state agencies may identify as surplus, at least not in quantities that would free up already budgeted funds, nor is it likely that surplus equipment such as central processing units (CPUs) would have capacity sufficient to support adaptive technologies. However, RSC appreciates the possibility that some surplus equipment might be used to enhance existing programs.

Department of Rehabilitation & Correction
Department of Mental Health

Effective December 6, 1998, pursuant to an interagency agreement as well as a related Controlling Board action taken on October 19, 1998, independent laboratories currently being operated by the departments of Rehabilitation and Correction (DRC) and Mental Health (DMH) will merge into one unified laboratory under DRC's control. This means that DMH's entire Central Laboratory in the Office of Support Services (19 employees and associated equipment, inventory, and supplies) will be transferred to DRC's laboratory operation located at the Corrections Medical Center in Columbus. The expenditure burden and related revenue stream for DMH's laboratory operation would be absorbed as well. Presumably, in the long run, the state will realize cost savings as a result of efficiencies gained through the creation of one unified laboratory. The bill contains permanent and temporary law provisions that address this merger, and as they essentially codify that reality, there is no fiscal effect. (See sections 5119.16 and 5121.35 of the Revised Code and Section 83 of the bill.)

Student Aid Commission

The bill makes an appropriation of $15,000 in fiscal year 1999 to the Ohio Student Aid Commission, to be used by the Director of the Office of Budget and Management to satisfy any outstanding financial obligations of the Commission. The appropriation can also be used to incur any new obligations of the Student Aid Commission after all obligations have been met.

School Facilities Commission and School Districts

Investment Income

The bill contains language permitting both the state and school districts to retain and expend fund balances that include investment income. This provision should result in an increase in both state and local revenues and expenditures from the Public School Buildings (021) and School Building Program Assistance (032) funds as well as local project construction funds.

Under the bill any income to Funds 021 or 032 will be treated the same as any other appropriation or source of revenue and thus be used to construct or repair classroom facilities pursuant to sections 3318.01 to 3318.20 of the Revised Code. As for investment income generated by local construction project funds, the expenditure of such proceeds would have to be used for what are deemed appropriate purposes by the School Facilities Commission. According to a representative of the Office of Budget and Management (OBM), while there would be some amount of additional funds available for the purposes of constructing and repairing classroom facilities, it is difficult to accurately determine exactly how much that would be at either the state or local level.

Since Fund 021 and Fund 032 will now receive their own investment income, the GRF will forego those amounts. LBO's information on past investment earnings of the two funds is complete only through 1996. Through 1996, Fund 021 had earned an average of $633,000 per year, while Fund 032 had earned an average of $912,000 per year. So, the two funds combined had earned $1,545,000 per year on average. Since more money is now flowing into these funds, we would expect the average daily cash balance to be larger now than in the past. Therefore, we estimate that the average annual revenue loss to the GRF will be at least $1.5 million, and possibly more. The average annual gain to Fund 021 should be at least $600,000, and the average annual gain to Fund 032 should be at least $900,000.

Remaining Balances

By clarifying that the local share of balances remaining in local project funds must be returned to the state or used for maintenance of new facilities, the bill could generate potential increases in Fund 021 and school district maintenance fund revenues and expenditures. Specifically, the bill would require that fund balances (including investment earnings) remaining from completed projects must be transferred to the School Facilities Commission and the school district maintenance fund in a proportion dictated by the state and local share of contributions to funding the project. As with the issue of investment earnings discussed above, it is difficult to accurately determine the extent to which state and local funds will benefit from this provision. What appears to be the case however, is that since current law requires the state share of construction projects be expended first and that it is unlikely under that arrangement that the state could recoup any appreciable amount, state funds should experience some gain. This being said however, any gain in revenue experienced by Fund 021 will be offset by expenditures to construct or repair additional classroom facilities.

Increased Controlling Board Authority

Both Fund 021 and local construction project funds could experience a potential increase in revenues and expenditures as a result of language providing the Controlling Board the authority to increase appropriations for and transfer moneys from Fund 021. Specifically, the bill removes the prohibition on the Controlling Board's ability to transfer moneys from Fund 021, thereby increasing its ability to release more than the amount initially appropriated to the fund.

Phased-In Funding for Large Projects

Under current law, once a district is conditionally approved for assistance, the full amount of funding deemed necessary to cover the state share of the basic project costs must be reserved or encumbered. Since a number of larger districts have projects that are to be considered for assistance in the next round, and these projects have estimated state shares in excess of $40 million, the number of districts that the School Facilities Commission would actually be able to fund would obviously be reduced. Specifically, based on estimates developed by LBO for fiscal year 1997, at least four of the districts identified in the table below that are likely be addressed with this round of funding will each require a state share in excess of $40 million. As illustrated in the table below, these districts together would require the state to reserve or encumber approximately $250 million or 50 percent of the moneys appropriated in the bill.

Large Projects Potentially Impacted by Phased-In Funding			
County	**School District**	**Estimated Cost**	**Percent of Total Appropriation**
Allen	Lima City SD	$47 million	9.4
Mahoning	Youngstown City SD	$73 million	14.6
Marion	Marion City SD	$53 million	10.5
Stark	Canton City SD	$77 million	15.5
	Total	$250 million	50.0

Under the bill however, a mechanism would be put in place to afford the School Facilities Commission the flexibility to encumber the state share of the basic project costs in phases over the life of that project as the phases are bid. In cases where many of a district's facilities are in need of significant reconstruction, the project must proceed in sequential phases so that there is space for on-going educational needs during the construction period. This process can lead to total construction timelines of 5 to 10 years. Specifically, under this provision, if the state share of the basic cost for any project exceeds $40 million, the School Facilities Commission may authorize that the amount of the state funds encumbered be limited to reflect funding necessities as dictated by the bidding and construction schedules for the biennium in question. During subsequent years, projects whose reservation of funding was postponed by the mechanism would have priority in the receipt of state funds over those for which initial funding is being sought.

Based on the last round of projects served, for which the average state share of basic project costs was slightly more than $20 million, this approach to funding districts with significant costs could free up enough moneys to fully fund a number of additional projects each fiscal year. Therefore, based on the average state share of basic project costs in the last round and the 1997 estimates provided in the immediately preceding table, and assuming the Controlling Board approves capping state assistance at $40 million per project over the biennium, this provision could free up nearly $90 million or more for additional projects.

Funding Additional Debt

The bill also contains a provision permitting school districts with the approval of the superintendent of public instruction to incur net indebtedness in excess of currently mandated ceilings. Specifically, the provision would permit districts to issue additional debt to fund permanent improvements from payments received through an agreement with a political subdivision operating a public recreational facility within the district. Such payments would be in lieu of taxes that would have been generated for the district had the facility not been tax exempt. In order to issue additional debt, the revenue generated by payments received from the subdivision must be deemed sufficient to meet coverage and debt service requirements. As a result of increasing the district's ability to issue additional debt, this provision could result in potentially sizeable increases in local project construction fund revenues and expenditures in future years.

Currently the only district in the state that falls under this provision is Cincinnati City School District, which entered into an agreement with Hamilton County and the city of Cincinnati. Under the agreement, in future years, the district is to receive $10 million annually in payments which OBM estimates could leverage up to $100 million in bond proceeds for permanent improvements. Since Cincinnati ranks high statewide in terms of relative wealth (491st) as measured by adjusted per pupil valuation, and is thus way down the list in terms of receiving state building assistance, the availability of this additional funding should not impact the demand for state dollars.

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Attachment under separate cover: Capital Appropriations and Project Descriptions

HB0850sr