Fiscal Note & Local Impact Statement

124 th General Assembly of Ohio

Ohio Legislative Service Commission
77 South High Street, 9th Floor, Columbus, OH 43215-6136 ✧ Phone: (614) 466-3615
✧ *Internet Web Site:* http://www.lsc.state.oh.us/

BILL:	**H.B. 675**	DATE:	**December 13, 2002**
STATUS:	**As Enacted – Effective December 13, 2002** **(Certain provision effective July 1, 2003 and January 1, 2004)**	SPONSOR:	**Rep. Calvert**

LOCAL IMPACT STATEMENT REQUIRED: **No — Not required for budget bills**

CONTENTS: **Capital appropriations for FY 2003-2004 and other changes to law**

State Fiscal Highlights

STATE FUND – Appropriations/Expenditures	FY 2003-2004 BIENNIUM
Capital Appropriations	
Public School Building Fund	$30,000,000
Highway Safety	$2,150,000
Waterway Safety	$9,421,093
Special Administrative	$16,000,000
Veterans' Home Improvement	$1,279,500
State Fire Marshal	$3,300,000
Sports Facilities Building	$14,500,000
Highway Safety Building	$3,259,329
Administrative Building	$84,126,327
Adult Correctional Building	$40,000,000
Juvenile Correctional Building	$10,000,000
Arts Facilities Building	$48,327,833
Ohio Parks and Natural Resources	$16,719,525
School Building Program Assistance	$284,200,000
Mental Health Facilities Improvement	$33,079,012
Higher Education Improvement	$*553,335,082
Parks and Recreation Improvement	$22,654,520
Transportation Building	$50,000
Clean Ohio Revitalization	$50,000,000
Clean Ohio Revitalization	$37,500,000
Clean Ohio Agricultural Easement	$6,250,000
Clean Ohio Trails	$6,250,000
TOTAL	**$1,272,402,221**

*This number reflects the actual total of Higher Education Improvement Fund appropriations, including the Governor's line item veto of Youngstown State University's CAP-126, Technology Upgrades, $2,134,014. The total appropriation for the Higher Education Improvement Fund listed in the bill, $554,469,095, is incorrect. Nevertheless, the appropriations to each capital project are correct and are unaffected by the incorrect fund total.

- This bill appropriates $1,272,402,221 for capital projects for FY 2003-2004. This amount is 29.3% lower than the approximately $1.8 billion appropriated for the FY 2001-2002 capital biennium.
- The total amount of debt authorized by this bill is $1,060,490,800, which is 32% lower than the $1.56 billion of debt issued in the previous capital budget, Am. Sub. H.B. 640 of the 123rd General Assembly.

Fiscal Effects of Other Law Changes

STATE FUND	FY 2003	FY 2004	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	$2.6 million loss from changes to the job retention tax credit	Annual loss from changes to the job retention tax credit increasing by $2.6 million per year to $10.4 million in FY 2007 and thereafter

	Approximately $95,000 loss from extention of repayment schedule for Hamilton County ADAS Board	Approximately $100,000 loss from extention of repayment schedule for Hamilton County ADAS Board	Approximately $100,000 loss in FY 2005; approximately $43,000 annual gain for FY 2006 through FY 2012
Expenditures (744-321)	Potential minimal decrease	Potential minimal decrease	Potential minimal decrease
Innovation Ohio Loan Guarantee Fund (new)			
Revenues	Potential gain	Potential gain	Potential gain
Expenditures	Potential increase	Potential increase	Potential increase
Innovation Ohio Loan Fund (new)			
Revenues	Potential gain	Potential gain	Potential gain
Expenditures	Potential increase	Potential increase	Potential increase
Ride Inspection Fees (Fund 578)			
Revenues	Gain of approximately $172,000	Gain of approximately $172,000	Gain of approximately $172,000
Expenditures	- 0 -	- 0 -	- 0 -

- ***Job Retention Tax Credit.*** The bill modifies the new job retention tax credit (Am. Sub. H.B. 405) and makes companies that invest in research and development eligible for the tax credit. The bill also decreases to $100 million the minimum amount of investment required to qualify for the credit. These changes to the job retention credit will decrease revenues to the General Revenue Fund. GRF receives 95.2 percent of corporate franchise tax revenues.

- ***Hamilton County Alcohol and Drug Addiction Services Board.*** Current law authorizes the conveyance of specified state-owned real estate located in Hamilton County to the Hamilton County Alcohol and Drug Addiction Services Board for $600,000 with payments to be made over four years. As of June 30, 2002, a total of $195,000 in payments had been made. The outstanding balance ($405,000) is to be repaid in equal installments of $135,000 per fiscal year through FY 2005. Under the bill, the outstanding balance will be repaid in equal installments of $40,500 per fiscal year through FY 2012. Under the bill, the GRF will lose approximately $95,000 to $100,000 in revenue each year for fiscal years 2003 through 2005. The GRF will gain $42,788 in revenue each year for fiscal years 2006 through 2012. However, in FY 2006, the gain in revenue will be slightly offset by a loss of an estimated $7,628 in interest earnings. The GRF will gain a small amount of interest earnings in FY 2013. After all of the payments have been received, the net fiscal effect to the GRF will be zero (assuming a flat earnings rate and spending of all GRF revenues each year).

- ***Innovation Ohio Loan Guarantee Fund and Innovation Ohio Loan Fund.*** Creates the Innovation Ohio Loan Guarantee Fund and the Innovation Ohio Loan Fund as special revenue funds and trust funds, used to implement the Innovation Ohio Loan Program in the Department of Development and permits the issuance of revenue bonds to pay the costs of the program. Neither of these funds shall be comprised in any part of moneys raised by taxation. This program will result in an increase in expenditures when money is lent for projects and a gain in revenue when the money is paid back with interest. It is unknown at this time how much money will be spent.

- ***Department of Agriculture***. According to the Department of Agriculture, the Ride Inspection Fees Fund (Fund 578) will realize an increase of approximately $172,000 as a result of this bill. This is due to the increase of inspection fees for most amusement rides, as well as the creation of fees for expedited inspection services per ride, failure to cancel a scheduled appointment, and failure to have a ride ready for inspection.

- ***Department of Natural Resources' Division of Mineral Resources Management (744-321).*** The Department of Natural Resources' Division of Mineral Resources Management may see a minimal decrease in expenditures as a result of the changes made to the notification and review procedures for findings regarding mine safety violations.

- ***Self-insurance for Purposes of Workers' Compensation.*** The bill allows school districts, state institutions of higher education and other educational entities the right to self-insure for purposes of workers' compensation for construction projects estimated to cost over $25 million. These employers would be required to make a contribution to the Self-Insuring Guaranty Fund in order to protect the State Insurance Fund from defaults by the employer. The bill could lead to savings or costs to these educational entities, dependent on the number of injury and death claims they experience as a result of these projects.

- ***Fund M87 of the Tobacco Master Settlement Agreement Fund Group.*** Fund M87 of the Tobacco Master Settlement Agreement Fund Group will receive no net change to its appropriations. The bill eliminates the Board of Regents FY 2003 appropriation of $25.5 million within appropriation item 235-405, Biomedical Research and Technology Transfer Commission, and it creates a $25.5 million FY 2003 appropriation item 195-435, Biomedical Research and Technology Transfer Trust Fund, within the Department of Development.

- ***Definition Change.*** The bill changes the definition of "making retail sales." While it is unlikely to do so, this change does have the potential to increase the number of facilities eligible for enterprise zone agreements and incentive agreements for remediation of property.

- ***Taxation of Certain Trusts.*** The bill clarifies the definitions and procedures regarding the taxation of certain trusts under the Ohio personal income tax. Among the changes is a narrowing of the definition of trusts subject to the income tax, which may reduce revenues from the tax on trusts.

- ***Land Conveyances—Kent State and University of Cincinnati.*** The bill permits the State to convey a .86-acre property to the East Liverpool Young Men's Christian Association (YMCA). The State would receive property of roughly the same acreage in exchange, for the benefit of Kent State University. The State is required to pay for the county recorder's costs associated with this property exchange. The bill also permits the State to sell a property located in Hamilton County, the proceeds of which are deposited in the University of Cincinnati's William Gray Endowment Fund.

- ***Elimination of the Budget Study Committee.*** The bill eliminates the Budget Study Committee.

- ***OAKS.*** Temporary law allows the state to acquire the Ohio Administrative Knowledge System (OAKS) software and pay for its installation, using a lease-purchase agreement, spreading out the cost over a number of years. Initial cost estimates range from $120 - $160 million. No appropriation for OAKS is made in this bill.

LOCAL GOVERNMENT	FY 2003	FY 2004	FUTURE YEARS
Counties and other local governments			
Revenues	Minimal gain	$0.1 million loss in LGF and LGRAF	$0.2 million loss in LGF and LGRAF
Expenditures	Potential increase	Potential increase	Potential increase
School Districts			
Revenues	Potential gain	Potential gain	Potential gain
Expenditures	- 0 -	- 0 -	- 0 -
Joint Vocational School Districts			
Revenues	- 0 -	Approximately $9.3 million gain	Approximately $13.2 million gain per year in FYs 2005 and 2006 and varying gains in future years
Expenditures	- 0 -	Varying increases	Varying increases
Hamilton County Alcohol and Drug Addiction Services Board			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	$94,500 decrease	$94,500 decrease	$94,500 decrease in FY 2005; $40,500 annual increase for FY 2006 through FY 2012

-

- ***State Job Retention Tax Credit.*** The bill decreases corporate franchise tax revenues to the Local Government Fund (LGF) and Local Government Revenue Assistance Fund (LGRAF). LGF receives 4.2 percent and LGRAF 0.6 percent of corporate franchise tax revenues.

- ***Municipal Job Retention Tax Credit.*** The bill also authorizes municipal corporations to offer a municipal job retention tax credit. Thus, revenue loss for local governments may potentially be higher than estimated.

- ***County Bridge Improvements.*** Changes in the maturity allowed for bonds issued by counties for bridge improvements could increase expenditures on bridge construction in the near term and increase revenues raised by bond issuance to pay for the improvements. Over time the costs would decline.

- ***Joint Vocational School Districts.*** The bill creates a new program to provide classroom facilities assistance (CFAP) to the 49 joint vocational school districts (JVSD) and allows the School Facilities Commission (SFC) to set aside 2 percent of its capital project appropriations every year for the program. SFC anticipates setting aside approximately $9.3 million in FY 2004, $13.2 million in FY 2005, and $13.2 million in FY 2006 for the program.

- The bill requires the Department of Education to rank the 49 JVSDs from low to high in a 100 percent scale based on their three-year average valuations per pupil. Each JVSD's state share percentage is inversely based on its percentile ranking. However, the bill also specifies a minimum local share of 25 percent and a maximum local share of 95 percent. As a result, the local share for each of the 13 poorest JVSDs would be 25 percent. And the local share of each of the three wealthiest JVSDs would be 95 percent.

- The bill requires SFC to establish by rule a program for JVSDs that is similar to the current Expedited Local Partnership Program. This program would presumably allow JVSDs not yet participating in CFAP to move ahead with portions of their projects by spending local funds first. When the district later becomes eligible for CFAP, the money spent by the district would be credited against its local share.

- The bill specifies which year's percentile ranking should be used to determine the state share for a district receiving funds through CFAP, the Accelerated Urban Program, the Exceptional Needs Program, or the Expedited Local Partnership Program. The bill also specifies demolition of all or part of any existing classroom facilities that are abandoned under a district's building plan be included in the basic project cost. These changes codify current practices, and have no fiscal impact.

- ***County Boards of Revision.*** The bill eliminates the requirement that county boards of revision mail decisions on real property tax complaints to the Tax Commissioner, but provides that the Tax Commissioner may request such decisions from the county auditor. It also specifies that the Tax Commissioner's time for appealing a BOR decision begins when the last mailing is made to other interested parties.

- ***Hamilton County Alcohol and Drug Addiction Services Board.*** Under the bill, the Hamilton County Alcohol and Drug Addiction Services Board will experience a decrease in expenditures for FY 2003 through FY 2005 and an increase in expenditures for fiscal years 2006 through 2012 as payments for a land conveyance are extended over a longer period of time. After all of the payments have been made, the net fiscal effect to the Board will be zero.

- ***Board of County Commissioners Tax Payments to School Districts.*** This provision allows a board of county commissioners to make payments to a district for all or a portion of the amount of taxes that otherwise would have been received by the district when the board purchases or appropriates real estate, an interest in real estate, or an acquisition right for purposes of the construction, maintenance, or operation of county water supply facilities. It also allows the board to consider the amount of payments to a school district when the board establishes the rates and other charges for water supplied.

- ***Local Historical Societies.*** The bill removes caps on what county commissioners may appropriate to county or local historical societies. This could lead to a potential increase in county expenditures.

- ***Tax Increment Financing.*** Temporarily allows the legislative authority of certain cities to use payments made under a tax increment financing (TIF) agreement to be used to finance public improvements that do not directly benefit the property included in the TIF agreement. The public improvements must be identified by June 30, 2003.

Detailed Fiscal Analysis

PERMANENT LAW PROVISIONS

Modifications to the Job Retention Tax Credit

The bill substantially modifies the job retention tax credit (Am. Sub H.B. 405). In addition to manufacturing companies that invest in new plants and equipment, the bill extends eligibility to companies that invest in research and development, or provide "significant corporate administrative functions". The bill decreases the minimum amount of investment to $100 million over a three-year period (currently the minimum investment is $200 million) for firms where the average wage of employment positions is greater than 400 percent of the federal minimum wage. H.B. 405 limited the tax credit to manufacturing operations and required that investments be made to facilities within a 5-mile radius. The bill increases this requirement to 15 miles. Also, the bill specifies the repayment of tax credits for companies that fail to satisfy their commitments and allows companies to renegotiate the amount or term of the tax credit. The bill also authorizes municipal corporations to offer a similar municipal job retention income tax credit.

Credits are granted for investments made from January 1, 2002 through December 31, 2006. Although it is not possible to predict the number or size of projects qualifying for this credit in the future, LSC assumes that a small number of companies will become eligible annually due to the modifications made to the job retention credit (possibly two or three businesses annually) and that the majority of claims will be against the corporate franchise tax (although a small amount may be claimed against the personal income tax). The annual total number of eligible employees would be highly variable due to the wide range in employment. The maximum job retention tax credit is equal to 75 percent of the Ohio income tax withheld from the employees of the eligible business occupying full-time employment positions at the project site. Assuming the maximum credit of 75 percent of payroll, if an additional 3,000 workers were eligible for this credit, the cost of this credit would be approximately $3.5 million. However, this tax credit is nonrefundable. Assuming that only 75 percent of the tax credits will be claimed, state revenue loss would be $2.6 million in FY 2004 (FY 2004 would be the first year the job retention tax credit affect revenues). Each year an additional $2.6 million in credits may be claimed. Thus, estimated revenue loss from the modifications to the job retention tax credit would be $5.2 million in FY 2005, $7.8 million in FY 2006, $10.4 million in FY 2007 and following years. GRF revenue loss (at 95.2 percent of state revenue) would be $2.5 million and $5.0 million in FY 2004 and FY 2005, respectively. Again, assuming that most recipients of the tax credits are corporations, local government fund revenue loss (at 4.2 percent of state franchise tax revenue to the LGF and 0.6 percent to the LGRAF) would be $0.1 million in FY 2004 and $0.2 million in FY 2005.

This amount of revenue loss would be in addition to the $4.4 million in state revenue loss LSC had estimated for Am. Sub. H.B. 405. Thus, revenue loss from the job retention tax credit would be $6.9 million in FY 2004. Similarly, total revenue loss for the ensuing years would be $13.8 million in FY 2005, $20.7 million in FY 2006, and $27.6 million in FY 2007 and remain at that level for the next several years.

Third Frontier Commission and Appropriation Transfer to Development

<u>Third Frontier Commission</u>

This provision creates the Third Frontier Commission within the Department of Development. The commission is charged with coordinating and administering science and technology programs that promote the welfare and maximize the economic growth of the state through research and development capabilities, product and process innovation, and commercialization. Members of the commission will serve without compensation but will receive reimbursement of reasonable and necessary expenses incurred relating to business of the commission. Office space will be provided by the Department of Development and will result in no additional cost. The commission is also required to submit a report to the General Assembly within 90 days of the end of the fiscal year reporting the activities of the commission during the preceding year.

Either the commission or the Department of Development may fund administrative expenses, but these expenses cannot exceed five percent of total expenditures made from the fund.

The commission may make grants and loans to individuals, public agencies, private companies or organizations, or joint ventures for any range of activities relating to the commission's purpose, along with establishing a competitive process to award the grants and loans according to merit. The grants and loans will be funded through the appropriations made to the Third Frontier Commission.

Third Frontier Advisory Board

Upon the request of the Third Frontier Commission, a Third Frontier Advisory Board will provide advice to the commission on strategic planning, budget and funding priorities, methods of measuring the progress and impact of programs of the commission, and studies to be conducted relevant to the goals of programs administered by the commission. The 16 members of the advisory board will not receive compensation for their service to the board but will receive payment for reasonable and necessary expenses incurred relating to the business of the board.

Biomedical Research and Technology Transfer Commission

On July 1, 2003, the Biomedical Research and Technology Transfer Commission (BRTTC) will be abolished of all of its functions. These functions will be transferred to the Third Frontier Commission, which will act as the BRTTC's successor and carry on the obligations of the BRTTC.

Appropriations

Fiscal year 2003 appropriations of $25.5 million for the BRTTC are eliminated from the Board of Regents' appropriation item 235-405, Biomedical Research and Technology Transfer Commission, and re-appropriated to the Department of Development's appropriation item 195-435, Biomedical Research and Technology Transfer Trust Fund. These appropriations are made within Fund M87 of the Tobacco Master Settlement Agreement Fund Group and result in no net change in appropriations made from the fund. Appropriation item 195-435, Biomedical Research and Technology Transfer Trust Fund must be used by the Department of Development to support the duties and responsibilities of the Third Frontier Commission that are related to biomedical research and technology. Along with the creation of the Third Frontier Commission and the elimination of the BRTTC, all encumbrances of the BRTTC will be transferred from the Board of Regents to the Department of Development.

Ohio Veterans' Home Agency

This provision of the bill renames the "Ohio Veterans' Home" to the "Ohio Veterans' Home Agency" to reflect the establishment of a second veterans' home in Georgetown, Ohio. During the current biennium, the state committed capital funding to provide 35 percent of the cost of construction of the new home and the United States Department of Veterans Affairs (VA) awarded a federal grant that funded 65 percent of the cost of construction.

This provision of the bill also makes permissive, rather than mandatory, the requirement that a resident of a veterans' home pay the amount equal to the rate of the per diem grant reimbursement for the resident's care that is not paid by the VA, because the VA determines that the resident has excess income or assets and therefore rendered the veterans' home ineligible to collect the per diem grant reimbursement. The current income threshold set by the VA is $15,936 a year. The VA adjusts this threshold annually.

Since 1989, the VA has provided annual increases in the daily reimbursement rates for the per diem grant received as payment for each day of care provided to the residents of the Home. The per diem has gone up from $17.78 a day in 1998 to $26.95 a day now for domiciliary care. In addition, each resident of the Ohio Veterans' Home is assessed a monthly fee to cover a portion of the costs to provide for their care. The charge is determined by the level of care provided, in relation to the veteran's ability to pay based on their monthly income. The current per diem grant could result in a monthly payment of $1,160 ($819.73 per diem that the VA would not pay, plus $341.00 maximum monthly assessment) for a domiciliary resident whose income is above the VA's threshold. According to a spokesperson from the Ohio Veteran's Home, some residents do not have that amount of income, and therefore cannot pay that amount. Thus, this provision of the bill that makes the payment requirement permissive does not have much fiscal impact on the state. It simply reflects the present practice. There are currently 16 domiciliary residents whose income is higher than the VA's threshold.

Department of Administrative Services (DAS) State Architect's Fund (Fund 131)

The bill establishes in statute the State Architect's Fund (Fund 131), originally created by the Controlling Board, to pay for the operating expenses of the State Architect's Office. The revenues consist of fees that the State Architect charges most state agencies for bid notification, contract negotiations, and construction management services related to building projects. In addition to these fees, this provision would allow the Director of Budget and Management to supplement the State Architect's Fund (Fund 131) with a portion of investment earnings from the Administrative Building Fund (Fund 026), the bond fund used to construct state office buildings. The provision would therefore likely result in a gain in revenue for the State Architect's Fund and a loss of revenue for the Administrative Building Fund.

Health Benefits Coverage for Members of Certain Boards or Commissions

The bill modifies current law affecting health care coverage provided to persons appointed to boards or commissions for a fixed term and who are compensated on a per meeting basis, or are paid only for expenses related to their appointed duties. The bill specifies that these persons may receive coverage only if they pay the full premiums and costs associated with their health care coverage. This language apparently clarifies Department of Administrative Services' (DAS) existing practice.

County Bridge Improvements

The bill authorizes a county to issue bonds for bridge improvements using long life expectancy material for the bridge deck and increases the maximum maturity of bonds so issued. Currently, the maximum maturity for bonds issued under Chapter 133 of the Ohio Revised Code to finance the cost of constructing or repairing a bridge is 20 years. The bill proposes to allow a maximum maturity not to exceed the expected useful life of the bridge deck as determined by the county engineer for bonds issued to pay the costs of constructing or repairing a bridge using long life expectancy material, and of purchasing, installing, and maintaining any performance equipment to monitor the physical condition of a bridge that is under construction or being repaired. Any material that is to be used in the bridge construction should be expected to last at least 30 years before any replacements need to be made.

The county engineer would be required to prepare a cost savings analysis and submit it to the board of county commissioners. The cost savings analysis would include a determination of the expected useful life of the bridge versus the debt service payments incurred by the local governments to issue the longer maturity bonds. If the savings from the longer life of the bridge exceed the greater debt service payments, the longer maturity debt could be authorized.

The bill would have a minimal impact on counties expenditures. Long life expectancy material would cost more and increase the longevity of the bridge deck compared to regular material. However, the longer maturity bonds would cost less in interest payments, overall.

Ohio Loan Guarantee Fund

Establishes the Innovation Ohio Loan Program in the Department of Development to provide financial assistance to eligible innovation projects in the state. According to the legislative declaration of intent, this program intends to maintain and enhance the competitiveness of the Ohio economy and to improve the economic welfare of all the people of the state, to ensure that "high-value" jobs based on research, technology, and innovation are available to the people of the state. The bill creates two new funds, the Innovation Ohio Loan Guarantee Fund and the Innovation Ohio Loan Fund, and permits the issuance of revenue bonds to pay the costs of this program. Since this is a non-GRF revenue stream, it should not affect the state's bond rating or the 5 percent limit on debt service. This program will result in an increase in expenditures when money is lent for projects and a gain in revenue when the money is paid back with interest. It is unknown at this time how much money will be spent.

The Innovation Ohio Loan Fund will receive revenues from the repayment of loans made from the fund, the recovery of loan guarantees, including interest, and the sale, lease, or other disposition of property acquired or constructed from moneys in the fund derived from the proceeds of the sale of obligations. The bill requires the obligations to be paid out of moneys in the Innovation Ohio Loan Fund, and allows the obligations issued for the Innovation Ohio Loan Guarantee Fund to be sold at private sale without publication of notice. In addition, the bill permits moneys from loan repayments, recovery of loan guarantees, and the disposition of property to be held in separate accounts within the Innovation Ohio Loan Fund or in the Bond Service Fund and pledged to the security of obligations, or applied to the payment of bond service charges without need for appropriation or released from such pledges and transferred to the Innovation Ohio Loan Fund upon the written direction of the Director of the Department of Development.

This provision also authorizes the Director, with the approval of the Controlling Board, to make loans and loan guarantees to pay the allowable innovation costs of eligible innovation projects in targeted innovation industry sectors. However, the bill specifies that the amount of an Innovation Ohio loan may not exceed 90 percent of the total cost of an eligible innovation project, and that the amount to be guaranteed under the program may not exceed 90 percent of the allowable innovation costs of the eligible innovation project.

This bill also permits reimbursement of the costs of creating and protecting intangible property, such as a patent, copyright, or trademark that is related to an eligible innovation project, and increases the combined total amount of the unpaid principal of loans and loan guarantees that the Director may make under the Innovation Ohio Loan Guarantee Fund Law and Facilities Establishment Fund Law, from $500 million to $700 million.

Political Subdivisions' Joint Contracting Authority

The bill expands current law (Section 715.02) such that in addition to municipal corporations, other political subdivisions may enter into agreements with municipal corporations and/or other political subdivisions for joint construction or management of public works, utilities, or improvements benefiting the local entities in the agreement.

Political subdivisions, in addition to municipal corporations, may issue bonds to generate revenue to fund their portion of the costs.

In addition to municipal corporations, other political subdivisions could experience potential savings from participating in joint improvement projects.

Local Historical Societies

The bill allows county commissioners to appropriate any amount of money to county or local historical societies. Under current law, county commissioners are limited in the amount they may appropriate, dependent upon the size of the county. The bill also allows the money appropriated to be used for the restoration and reconstruction of historic buildings, something not allowed under current law. This could lead to a potential increase in expenditures, dependent on what county commissioners appropriate.

<u>Department of Natural Resources – Division of Mineral Resources Management</u>

Provisions within this bill change the notification and review procedures for the finding of a mine safety violation. Under this bill, the deputy mine inspector would no longer have to notify the Mineral Resources Management's Division Chief; instead the inspector would have to notify the owner, operator, lessee, agent, and representative of the miners of the mine involved of the finding. The owner, operator, lessee, or agent of the mine involved may request a review of the inspector's finding by the Chief of the Division of Mineral Resources Management. The chief would be required to review the inspector's finding and make a written determination regarding it, as well as providing a copy of the written determination to the owner, operator, lessee, or agent of the mine involved if a request is made. Currently, the chief reviews findings, makes written determinations, and provides a copy of that determination to the owner, operator, lessee, or agent of the mine involved for every finding. This may minimally decrease expenditures to the department since only reviews and copies are provided upon receipt of a request.

The bill also adds requirements for the examination of surface coal mines by a certified mine foreperson and changes the class of employees that can be designated as first aid providers at coal mines. These provisions will not have a fiscal effect on the department.

<u>Department of Agriculture – Ride Inspection Fee Increases</u>

The Department of Agriculture received $356,387 in ride inspection fees in FY 2002. These fees are used to administer and enforce amusement ride safety statutes. The fees are also used to fund an advisory board that studies ride safety and reviews rules developed by the department. The last fee increase was in 1992. As a result of this bill, the department estimates that there would be a fee increase of $171,555 in Fund 587. The fee increase collected would be as follows:

Description	Number of Rides Inspected	Current Fee	Amount of Increase	Projected Income Increase
Permit	2042	$50	$0	$0
Kiddie Ride	1100	$50	$50	$55,000
Roller Coaster	38	$500	$450	$17,100
Aerial Lift/Bungee	9	$300	$150	$1,350
Other Rides	900	$100	$60	$54,000
Go Karts	993	N/A	$5	$4,965
Midseason Operation	800	$10	$15	$12,000
Expedited Inspection Fee	50	N/A	$100	$5,000
Failure to Cancel Fee	2	N/A	$100	$200
Inspection Delay Fee	50	N/A	$100	$5,000
Concession (Game) Fee	847	$50	$20	$16,940
Total				**$171,555**

Estate Tax Return and Filings

The bill would eliminate obsolete references regarding estate tax returns and filing requirements when an estate is minimal. This will have no significant impact on the state or local governments.

The state GRF receives 20 percent of the estate tax revenues. The municipality or township of an estate origin receives the remaining 80 percent of estate tax revenues.

School Facilities Commission – Joint Vocational School Districts

The bill creates a new program to provide classroom facilities assistance to the 49 joint vocational school districts and allows the School Facilities Commission (SFC) to set aside up to 2 percent of its capital project appropriations each year for the program. The bill requires the Department of Education to rank the 49 joint vocational school districts from low to high in a 100 percentile scale based on their three-year average valuations per pupil. The state share of the basic project cost is based on each joint vocational school district's percentile ranking. The state share percentage will be higher for a joint vocational school district with a lower percentile ranking. However, the bill specifies a minimum local share of 25 percent and a maximum local share of 95 percent. In other words, the local share for each of the 13 poorest joint vocational school districts would be 25 percent. And the local share for each of the three wealthiest joint vocational school districts would be 95 percent. The remaining 33 districts would retain their calculated percentile-based share calculations.

Preliminary calculations by the School Facilities Commission (SFC) estimate the cost of this program to be $400 million. The state share would be 46.9 percent. These estimates are based upon a 1990 study by the commission and are likely to change when assessments are done after the effective date of this bill. However, SFC anticipates setting aside $9.3 million in FY 2004, $13.2 million in FY 2005, and $13.2 million in FY 2006 for the program.

The bill also requires SFC to establish by rule a program for joint vocational school districts that is similar to the Expedited Local Partnership Program that is currently available to all city, local, and exempted village school districts. The program would presumably allow joint vocational school districts not yet participating in the classroom facilities assistance program to move ahead with portions of their projects by spending local funds first for state approved projects. When the district later becomes eligible for the classroom facilities assistance, the money spent by the district would be credited against its local share.

School Facilities Commission – City, Local, and Exempted Village School Districts

The bill specifies that for districts receiving funds through the Classroom Facilities Assistance Program, the Accelerated Urban Program, and the Exceptional Needs Program, the district's relative wealth percentile ranking for purposes of calculating the district's share of the project cost must be the district's percentile ranking for the prior fiscal year. Districts participating in the Expedited Local Partnership Program may enroll in the program at any point in the fiscal year. Therefore, the bill specifies that districts entering into an agreement with School Facilities between July 1 and August 31 in any fiscal year will use the percentile ranking calculated for the prior fiscal year. Districts entering into agreements between September 1 and June 30 of a fiscal year will use the percentile ranking calculated for the current fiscal year. The bill also specifies that demolition of all or part of any existing classroom facilities that are abandoned under a district's building plan be included in the basic project cost. All of these changes codify current practices and have no additional fiscal impact.

Community Colleges, Branch Campuses, Technical Colleges – Increased Threshold for Competitive Bidding

This change modifies current language in order to raise the dollar threshold above which a contract entered into by a community college district, university branch district, or technical college district for a capital improvement project must be competitively bid. The threshold rises from the current $15,000 to $50,000.

The change will have no significant direct fiscal effects. The threshold increase will allow a campus to avoid competitive bidding for larger projects than at present. The higher threshold could save minimal amounts of project administrative expenses, such as those arising from advertising, bid meetings and intra-agency coordination. In addition, there could be potential cost reductions arising from the saving of time in the selection of vendors and contractors. However, a contract might be agreed at an amount higher than would have been obtained under competitive bidding.

County Water Supply Facilities Property Tax Exemption—Payments to School Districts for Foregone Property Tax Revenue

When a board of county commissioners purchases or appropriates real estate, an interest in real estate, or an acquisition right for purposes of the construction, maintenance, or operation of county water supply facilities, the real estate, interest, or right is generally exempted from local property taxes. It would therefore lower the property tax value and tax revenue for an affected school district if the real estate, interest, or right was previously subject to taxation. This provision allows a board of county commissioners to make payments to the district for all or a portion of the amount of the taxes that otherwise would have been received by the district. It also allows the board to consider the amount of payments to a school district when the board establishes the rates and other charges for water supplied.

It should be noted that state education aid for school districts is largely distributed in a reverse relationship to the property wealth of school districts. When a district's property value decreases its state education generally increases unless the district is on the guarantee. (A district is guaranteed to receive the greater of the state aid amount calculated by the formulas or the amount received by the district in FY 1998.) The state education aid formulas equalizes up to 26 mills of property taxes. In other words, the loss in the local property tax revenue in the first 26 mills is generally made up by the increase in state education. The revenue generated by the millage rate that is above 26 mills, however, will not be compensated by state education aid. Therefore, if the board is going to compensate a school district for all the loss, the district could be compensated twice for the revenue generated by the first 26 mills of local property tax levies.

OBM to Provide Expenditure Estimates for Initiative Petitions to Secretary of State

The bill requires the Office of Budget and Management, instead of the Tax Commissioner, to prepare an estimate of annual expenditures of public funds for a state law or constitutional amendment proposed by initiative petition and to file the estimate with the Secretary of State.

The bill also allows the Office of Budget and Management and the Tax Commissioner to issue a joint estimate if the proposed state law or constitutional amendment necessitates both the expenditure of public funds and a levy of tax.

The bill could result in a minimal increase in expenses to OBM. The current role of the Tax Commissioner includes estimates of both expenditures and annual yields; but the bill spreads the requirements over two agencies by making the estimate of expenditures a new requirement of the Office of Budget and Management and eliminating that as a requirement of the Tax Commissioner.

Usage of State Fire Marshal's Fund to Purchase Land or Construct Facilities

Allows the Department of Commerce to use excess funds in the State Fire Marshal's Fund (Fund 546) to acquire by purchase, lease, or otherwise, real property or interests in real property to be used for the benefit of the State Fire Marshal's offices, or to construct, acquire, enlarge, equip, furnish, or improve the Fire Marshal's office facilities or the Ohio Fire Academy facilities. Excess funds are determined available if the cash balance is in excess of the amount needed to pay ongoing operating expenses of the Fire Marshal and the Ohio Fire Academy. The cash balance available in Fund 546 at the end of FY 2002 was $15.3 million. This capital budget appropriates a total of $3.3 million from Fund 546: $1.5 million for the purchase of land that is adjoined to property currently owned by the State Fire Marshal, and $1.8 million for an addition and modification of the State Fire Marshal's dormitory.

Educational Entities as Self-Insuring Employers for Workers' Compensation Coverage

The bill allows the Administrator of the Bureau of Workers' Compensation to grant state institutions of higher education, school districts, and other educational entities the right to self-insure for construction projects estimated to cost over $25 million.

Self-insuring employers are responsible for paying all workers' compensation claims for employees of contractors and subcontractors injured or killed during construction. Self-insuring employers are also required to make a contribution to the Self-Insuring Employers' Guaranty Fund. This contribution protects the State Insurance Fund from losses if a self-insuring employer were to default on its obligations.

The bill could lead to either savings or costs for these educational entities. If granted self-insuring status, the entities would not be required to pay premiums to the Bureau of Workers' Compensation for the construction project. However, it is possible that the entity could pay more in injury and death benefits than it would have paid in premiums, dependent on the number of injuries and deaths experienced during a project.

Technical Changes in the Definition of "Making Retail Sales"

The bill changes the definition of "making retail sales" for the purpose of property tax law. Currently, "making retail sales" means "*the effecting of transactions* wherein one party is obligated to pay the price and the other party is obligated to provide a service or to transfer title to or possession of the item sold." The bill changes the definition to read, "*the effecting of point-of-final-purchase transactions at a facility open to the consuming public,* wherein one party is obligated to pay the price and the other party is obligated to provide a service or to transfer title to or possession of the item sold."

While it is unlikely to do so, this change does have the potential to increase the number of facilities eligible for enterprise zone agreements and incentive agreements for remediation of property. It is important to note that these agreements are permissive on the part of local governments.

Corporate Franchise Tax – Payment of Interest on Late Estimated Tax Payments

The bill restores the manner in which interest is computed on late payments of estimated corporation franchise tax liability, disregarding the recently enacted "safe harbor" provision in
Sub. S.B. 200 of the 124th General Assembly. That bill limited the amount of penalty imposed on late payments of delinquent estimated tax payments if a taxpayer's payments are equal to its previous tax liability or nearly equal to its current tax liability. The bill clarifies that the interest due on a delinquent portion of estimated taxes is based on the tax owed for the tax year. This provision will have a minimal fiscal effect.

Personal Income Tax

<u>Taxation of Certain Trusts</u>

Amended Substitute Senate Bill 261 allowed the treatment of certain trusts as taxable entities and subjected them to the Ohio income tax beginning taxable year 2002. The bill clarifies the definitions and procedures set forth in S.B. 261. Among the changes is a narrowing of the definition of trusts subject to the income tax, which may reduce revenues from the tax on trusts.

Ohio Museum Property Act – Possession of Property on Loan by Museums

The bill vests title of property on loan to a museum operated by a governmental agency or nonprofit corporation, in the museum if the property has been held for seven years and certain notification provisions have been met. It also allows museums to apply conservation measures to property on loan if it notifies the owner. When accepting property on loan, a museum would be required to provide a written summary of these provisions of the Ohio Revised Code, if enacted. This would result in minimal increased expenditures.

Requirements of County Boards of Revision

The bill eliminates the requirement that county boards of revision mail decisions on real property tax complaints to the Tax Commissioner, but provides that the Tax Commissioner may request such decisions from the county auditor. The bill also specifies when each party's 30-day window for appealing a decision begins. The Tax Commissioner's time for appealing a decision begins when the last mailing is made to other interested parties. This provision of the bill could result in a potential minimal decrease in spending for county boards of revision.

UNCODIFIED LAW SECTIONS

Land Conveyances

East Liverpool Land Conveyance

The bill permits the State to convey a .86 acre property to the East Liverpool Young Men's Christian Association (YMCA). The State would receive property of roughly the same acreage in exchange, for the benefit of Kent State University. The State is required to pay for the county recorder's costs associated with this property exchange.

Property Located in Hamilton County – Proceeds to University of Cincinnati

The bill permits the State to sell a property located in Hamilton County to any purchaser at a price agreed upon by the University of Cincinnati trustees. However, the property first must be subjected to two independent appraisals. The proceeds of the sale are to be deposited in the University of Cincinnati's William Gray Endowment Fund.

Hamilton County Alcohol and Drug Addiction Services Board – Land Conveyance Repayment Schedule

Current law (Am. Sub. S.B. 164 of the 124th General Assembly) authorizes the conveyance of specified state-owned real estate located in Hamilton County to the Hamilton County Alcohol and Drug Addiction Services Board. Consideration for the conveyance is $600,000, with payments to be made over four years in accordance with the payment schedule set forth in current law. As of June 30, 2002, a total of $195,000 in payments had been made. The outstanding balance ($405,000) is to be repaid in equal installments of $135,000 per fiscal year through FY 2005.

Under the bill, the outstanding balance will be repaid in equal installments of $40,500 per fiscal year through FY 2012.

Land Conveyance Repayment Schedule					
Fiscal Year	Payments to the GRF		Total Payments Plus Interest Deposited in the GRF		Difference in Amounts Deposited in GRF
	Current Law	**Capital Bill**	**Current Law**	**Capital Bill**	
2002	$195,000	$195,000	$195,000	$195,000	
2003	$135,000	$40,500	$146,018	$51,518	($94,500)
2004	$135,000	$40,500	$142,628	$42,788	($99,839)
2005	$135,000	$40,500	$142,628	$42,788	($99,839)
2006		$40,500	$7,628	$42,788	$35,161
2007		$40,500		$42,788	$42,788
2008		$40,500		$42,788	$42,788
2009		$40,500		$42,788	$42,788
2010		$40,500		$42,788	$42,788
2011		$40,500		$42,788	$42,788
2012		$40,500		$42,788	$42,788
2013				$2,288	$2,288

The table above compares payments, by fiscal year, under current law versus under the bill. In addition, the table shows total payments plus interest that will be deposited in the GRF under each repayment plan. Interest rates will vary from year to year. For purposes of this analysis, LSC applied the average earnings on investments in the state treasury for FY 2001 (5.65 percent) to the amounts to be repaid annually. (This figure comes from the Treasurer of State's most recent annual report.) Moreover, LSC assumes that the total payment amount and interest earned each year will be spent from the GRF in each succeeding year.

Under the bill, the GRF will lose approximately $95,000 to $100,000 in revenue each year for FYs 2003 through 2005. The GRF will gain $42,788 in revenue each year for FYs 2006 through 2012. However, in FY 2006, the gain in revenue will be slightly offset by a loss of an estimated $7,628 in interest earnings. The GRF will gain a small amount of interest earnings in FY 2013. After all of the payments have been received, the net fiscal effect to the GRF will be zero (assuming a flat earnings rate and spending of all GRF revenues each year).

Under the bill, the Hamilton County Alcohol and Drug Addiction Services Board will experience a decrease in expenditures for FY 2003 through FY 2005 and an increase in expenditures for FYs 2006 through 2012 as payments for a land conveyance are extended over a longer period of time. After all of the payments have been made, the net fiscal effect to the board will be zero.

Tax Increment Financing

Tax increment financing (TIF) is an economic development financing technique under Ohio law that enables local governments to apply the increased tax revenue resulting from improvements or new development on an existing property toward payment for public improvements directly relating to that property. Simply put, it captures the projected property tax revenue stream and earmarks those moneys for public improvements directly related to the project. TIF agreements are entered into for a specified number of years. Generally, the length of the TIF agreement is based on the estimated time it will take the TIF payments to cover the costs (or a portion of the costs) of the intended public improvement.

Under current law, if a TIF is set up to finance a certain public improvement and the public improvement turns out to be less expensive than originally estimated or the TIF brings in more revenue than anticipated, the TIF could end sooner then the agreed upon time. In subsequent years tax revenues generated by the improvements would be distributed to school districts and local governments in accordance with local tax levies. Under the bill, however, if the public improvement needs of the property involved in the TIF agreement have been made, the legislative authority of an impacted city[1] may specify other public improvement needs for the city that do not *directly* benefit the parcel involved in the TIF agreement, but are in support of urban redevelopment. The public improvements must be identified by June 30, 2003. This provision is repealed July 1, 2003.

Ohio Administrative Knowledge System (OAKS) Project

The bill permits the Department of Administrative Services (DAS) to acquire software associated with OAKS and pay for its installation via a lease-purchase agreement. This would allow the substantial system costs to be paid for over a negotiated period of time. OAKS is a project designed to consolidate the state's separate accounting, payroll, procurement, asset management, and capital improvements project tracking systems into one computer package. DAS and the Office of Budget and Management (OBM) are coordinating the development of this initiative. Initial estimates have placed the cost of the system between $120-160 million.

LSC fiscal staff: *Nelson Fox, Senior Budget Analyst*
Allison Thomas, Economist
Sara Anderson, Budget Analyst
Marilyn Barnes, Programmer/Analyst
Jean Botomogno, Economist
Ivy Chen, Economist
Nickie Evans, Economist
Sean Fouts, Budget Analyst
Jonathan Lee, Budget Analyst
Allan Lundell, Senior Economist
Meegan Michalek, Economist
Chris Murray, Economist
Jeremie Newman, Budget Analyst
Laura Potts, Budget Analyst
David Price, Senior Budget Analyst
Wendy Risner, Budget Analyst
Ruhaiza Ridzwan, Economist
Carol Robison, Budget Analyst
Joe Rogers, Budget Analyst
Maria Seaman, Budget Analyst
Jamie Slotten, Budget Analyst
Kerry Sullivan, Budget Analyst
Zak Talarek, Budget Analyst
Holly Wilson, Budget Analyst
Linda Wiford, Database Administrator
Wendy Zhan, Senior Budget Analyst

HB0675EN

---

[1] An impacted city is defined as "a municipal corporation that meets either of the following criteria: (1) it is attempting to cope with problems of urban blight and other urbanization problems, to create or preserve jobs and employment opportunities, and to improve the economic welfare of its residents by taking affirmative action regarding specified housing construction or leasing involving a metropolitan housing authority and by having a certified workable program for community improvement that meets specified criteria, or (2) it has been declared a major disaster area or part of such an area, for a limited period, under the Disaster Relief Act of 1970."