



Office of Budget and Management

John R. Kasich
Governor

Timothy S. Keen
Director

HOUSE BILL 529
FY 2019-2020 CAPITAL BILL
TESTIMONY OF TIMOTHY S. KEEN

BEFORE THE
HOUSE FINANCE COMMITTEE

FEBRUARY 27, 2018

Chairman Smith, Ranking Member Cera, and members of the House Finance Committee, my name is Tim Keen and I am director of the Office of Budget and Management. I appreciate this opportunity to appear before you today to testify in support of House Bill 529, which presents Governor Kasich's recommended capital improvements budget for fiscal years 2019 and 2020.

This bill makes appropriations for the renovation, reconstruction and construction of capital assets of state agencies, colleges, universities and school districts. It also funds a program of grants and loans to local governments for infrastructure projects throughout the state. Additionally, a portion of appropriations in this bill provides funds to support targeted projects of local or regional importance.

Most of the appropriations contained in this bill are supported by long-term debt issued by the State of Ohio, with the principle and interest payments on that debt to be funded by General Revenue Fund (GRF) appropriations made in future operating budgets. Through this bond funding mechanism, capital bill appropriations directly impact future operating budgets of the State. The \$2.224 billion in capital appropriations supported by GRF bond funding in this

bill reflects a biennial increase of \$13.7 million from total GRF-backed capital appropriations enacted in the FY 2017-2018 capital biennium (\$2.211 billion). H.B. 529 is manageable and affordable within our current and future budget capacity, keeping the State well under the constitutional five percent limitation on debt service as a percent of revenue. The bill will continue to support the credit rating agencies ranking of Ohio's debt burden as 'moderate', our 'AA+' credit rating and our 'stable' credit outlook.

Recommended appropriations for the upcoming capital biennium have been made after a careful process that has prioritized the most pressing needs of state government, K-12 schools and higher education institutions, with particular emphasis given to each project's impact on jobs and economic growth. Most of the proposed capital spending is focused on maintaining and improving the state's current capital assets, while much of the new construction funded in this bill is used to replace existing facilities that are no longer cost-effective to repair and maintain or no longer optimal for current program delivery needs.

The bill also contains capital reappropriations for the upcoming capital biennium. "Reappropriations" reauthorize the appropriation of unexpended balances from previously approved capital projects to ensure that they can continue uninterrupted toward their completion. I will discuss reappropriations in more detail later in my testimony.

FYs 2019 and 2020 Capital Appropriations

H.B. 529 contains \$2.63 billion in capital appropriations, with \$2.22 billion of that amount supported by GRF-backed debt obligations and the remaining \$402 million supported by non-GRF-backed bonds and cash funds. Table 1, attached to my testimony, provides a detailed breakdown of capital appropriations by agency and funding source.

I would now like to take a few minutes to highlight some of the specific capital appropriations that are contained in this bill.

Higher Education Institutions and Statewide Higher Education Projects

H.B. 529 includes total capital appropriations of \$483.4 million to the Department of Higher Education and institutions of higher education across the state. Just as significant as the total funding provided for higher education is the manner by which capital resources are allocated across the institutions. Recall that prior to the fiscal years 2013 and 2014 capital biennium, capital appropriations for higher education campuses were distributed through an allocation formula that provided a guaranteed funding amount for each institution, but did not strategically allocate resources.

As has been done in recent biennia, the Governor asked higher education to take the lead in developing a collaborative capital funding request that prioritizes the needs of the entire university system ahead of the desires of individual institutions. Led by Cleveland State University president Dr. Ronald Berkman and Stark State College president Dr. Para Jones, the higher education community has again delivered a strategic, comprehensive capital funding plan endorsed by each of the state's public higher education institutions. The capital bill before you presents, as adopted, the collaborative committee's recommendations for the funding of \$400.0 million in campus-level projects.

The committee used the same guiding principles that have framed the three previous capital budgets. They are: building world class programs, maintaining investment, advancing strategic collaboration through partnerships with other public institutions and the private sector, reflecting the needs of today's students by strengthening their learning environments,

enhancing our ability to respond to new or increased workforce opportunities in the state, and encouraging joint efforts to reduce construction costs and generate ongoing efficiencies.

The vast majority of the higher education capital allocation is targeted toward the maintenance and renovation of existing campus facilities. In fact, based on the college presidents' committee recommendation, \$393.0 million, or 98.3%, is proposed for this purpose.

In addition to campus-specific allocations, there are a number of projects of statewide benefit to Ohio's public colleges and universities appropriated to the Department of Higher Education. These include \$10.2 million to support the Ohio Academic Resources Network (OARnet), which serves as the broadband backbone for the state connecting Ohio's education, healthcare, public broadcasting and government entities, \$8.0 million to support the acquisition of Workforce Based Training and Equipment, commonly known as RAPIDS grants, that are used to purchase state-of-the-art equipment to address specific regional workforce needs, and \$6.1 million to support the Ohio Supercomputer Center by securing sensitive systems and replacing end-of-life technology.

Facilities Construction Commission

The Facilities Construction Commission(FCC) administers the state's school building construction program which provides state support to assist local school districts in the construction and renovation of Ohio's primary and secondary education facilities. This bill provides \$625.0 million in spending authority for the continuation of this program in the upcoming capital biennium. With this appropriation level, the FCC estimates they will be able to continue funding 75 districts with projects currently in progress as well as offering funding to 20 new school districts over the next two years.

The \$625.0 million appropriation is comprised of \$475.0 million GRF-backed debt, \$75.0 million in non-GRF cash-backed appropriations supported by a transfer from unused revolving loan funds in the Development Services Agency, \$50.0 million in Lottery Profits, and \$25.0 million in existing appropriations that can be redirected to support the School Building Program. FCC also receives appropriations to support capital projects of the Ohio History Connection, a number of local historical or cultural projects and a small amount for non-school state agency planning and energy efficiency projects.

Public Works Commission

The Ohio Public Works Commission provides financing for local public infrastructure needs through the State Capital Improvement Program (SCIP) which has been approved by voters four times, most recently in May of 2014. This bill continues support for this program and includes \$514.0 million in appropriations for the Public Works Commission, consisting of \$425.0 million in GRF-backed debt appropriations and \$89.0 million in Revolving Loan Fund appropriations. \$350.0 million of the GRF-backed appropriations will be used to provide grants and loans to local governments for infrastructure projects such as roads and bridges, water supply and wastewater treatment systems, storm water collection, and solid waste disposal.

The \$89.0 million in Revolving Loan Fund appropriations uses the proceeds of repayments from past loans to make additional loans to local governments for these same types of local infrastructure projects. Also included in the PWC appropriation total is \$75.0 million for the Clean Ohio Green Space Conservation Program which I will now discuss.

Clean Ohio Fund

H.B. 529 provides \$100.0 million in new appropriations for the Clean Ohio Program within the budgets of the three state agencies that administer this program, with \$75.0 million provided for the Public Works Commission's Green Space Conservation Program to fund the preservation of open spaces, sensitive ecological areas, and river and stream corridors. Both the Department of Natural Resources' Clean Ohio Trails Program and the Department of Agriculture's Easement Purchase Program are provided with \$12.5 million. The Department of Natural Resources applies these funds to improve outdoor recreational opportunities by funding trail development. The Department of Agriculture uses Clean Ohio funding to purchase agricultural easements from landowners who volunteer to keep their land in agricultural production in perpetuity.

The Clean Ohio Program is authorized by sections 2o and 2q of the Ohio Constitution which authorizes the issuance of bonds in the amount of \$50.0 million annually, \$100.0 million biennially, subject to the limitation that no more than \$400.0 million of those bonds may be outstanding at any one time. Based on recent and planned changes by OBM, Clean Ohio bond issuances have been structured to allow the maximum of \$50.0 million in bonds to be issued in future years at the discretion of the General Assembly while remaining under the \$400.0 million outstanding limitation. This brings me to an important point. The Clean Ohio program's bond issuance authority is different than most other bond authorization provisions in that as Clean Ohio bonds mature and are paid off, the authority to replace those bonds with new bonds is automatic. In other words, the authority for Clean Ohio bonds is 'revolving' such that the program may continue to be funded without the need to be reauthorized or renewed.

State Agency Capital Appropriations

The purpose of the OBM capital planning process is to determine the appropriate level of state resources required to ensure the useful life and viability of existing state-owned capital assets and to provide funding for new capital assets that are essential to the State's core missions. As I mentioned earlier, state agency capital appropriations are primarily supported by GRF-backed debt with the remainder supported by non-GRF bonds or cash funds, including federal matching funds. I believe the recommended appropriations are necessary to protect our state infrastructure and maintain the physical facilities in which we have already made a significant financial commitment.

The following are notable agency appropriations contained in H.B. 529:

Department of Mental Health and Addiction Services

H.B. 529 provides \$168.6 million in new appropriations for the Department of Mental Health and Addiction Services to fund the construction of a replacement for the Twin Valley Behavioral Healthcare Hospital, general renovations at the Department's five remaining state hospitals, our continued support of community recovery housing and program space for the mentally ill and drug addicted, and the creation of a new program aimed at bolstering community service organizations.

The recommended appropriations provide \$112.0 million for the design and construction of a replacement mental health facility adjacent to the Twin Valley Behavioral Health Kosar facility. The Twin Valley facility was constructed over 40 years ago as a geriatric facility and the existing space presents increasingly difficult challenges in meeting the physical and mental health programming needs of its current patients.

The bill provides \$21.5 million to support traditional community mental health housing and treatment options. Moreover, the bill also provides \$20.0 million for the Community Resiliency Project. This new grant program will support the establishment, expansion and/or renovation of safe and healthy programming spaces for middle- and high-school age youth to access pro-social activities in the community. While the space would be available for the entire community, the programming emphasis will focus on engaging a broad spectrum of at-risk youth. Applicants would be community service organizations that provide programs to the targeted population.

Department of Rehabilitation and Correction

The bill provides \$220.0 million in new appropriations for the Department of Rehabilitation and Correction to support several major facility renovations as well as general improvements at the 27 state-owned adult correctional institutions.

The recommended appropriations provide \$114.3 million for the continuation of construction activities for three major projects currently underway at Pickaway Correctional Institution, the Ohio Reformatory for Women, and the Franklin Medical Center. These projects are needed to address growth occurring in the geriatric, female, and Security Level 3 correctional populations. Additional recommended appropriations of \$101.2 million will address critical security and general renovations across the DRC system. Notable projects include perimeter security improvements, fire suppression, and updating the man down system.

Department of Administrative Services

The bill appropriates a total of \$105.7 million for the Department of Administrative Services facility projects, including \$66.3 million in GRF-backed debt and \$39.4 million from non-GRF cash funds. The recommended appropriations provide \$50.0 million to complete the Rhodes Tower exterior, window replacement, and insulation project, In addition, the recommended appropriations provide \$16.0 million to upgrade end-of-life building infrastructure for the State of Ohio Computer Center, \$9.4 million for infrastructure upgrades for the Riffe Center, and \$7.0 million for infrastructure replacements at MARCS tower sites.

The bill also authorizes funding for DAS Office of Information Technology projects that I will discuss later in my testimony.

Department of Natural Resources

New capital appropriations for the Department of Natural Resources total \$234.6 million, \$201.9 million coming from GRF-backed bonds, and \$32.7 million from cash-backed sources.

DNR's recommended capital can be grouped into two main areas with \$52.0 million recommended for renovation and repair of dams and \$82.0 million for improvements at state parks. The state park funding is primarily for constructing and improving lodges, cabins and campgrounds, and includes \$15.0 million for reconstruction of the Hocking Hills Lodge. The appropriation also supports the Clean Ohio Trails program as mentioned earlier, the NatureWorks grant program, a number of local park, recreation, and conservation projects, and the Healthy Lake Erie initiative that addresses water quality concerns in the lake.

New cash-backed capital projects are funded primarily from the Wildlife Fund with a total appropriation of \$31.6 million that supports land acquisition and capital improvements at wildlife areas across the state, including \$6.0 million for renovation and repair of dams. I would also note an additional six dam renovation projects in wildlife areas are being funded by GRF bonds supporting the Parks and Natural Resources fund.

Community Projects

The administration continues to believe that a small portion of the capital budget can support targeted projects of local or regional importance. During the last several months, community representatives throughout the state worked with the administration and their legislators to identify priority projects from across the state. As a result of this process and collaboration with state legislators and the administration, this bill includes a number of projects that have strong community support, most of which also include commitments of local resources. Examples of these projects include mental health and drug treatment facilities, local jails, facilities for people with developmental disabilities, parks, recreation and conservation projects, historical and cultural facilities, and agricultural society improvements.

Capital-related Language Items

In addition to capital appropriations, the bill contains two capital-related language provisions. The first improves flexibility within the State Capital Improvement Program by allowing districts to receive greater than 10 percent of their annual allocation in the form of loans as opposed to grants. Second, language is included authorizing the transfer of the former Montgomery Developmental Center (MDC) to the Montgomery County Alcohol Drug Addiction

and Mental Health Board (ADAMHS). A similar arrangement was made with the Mahoning County ADAMHS Board for the Youngstown Developmental Center in the most recent operating budget. The Montgomery ADAMHS Board intends to work with the YWCA of Dayton to repurpose MDC for use as a shelter for women and children who have experienced violence in their lives. MDC is ideally suited for this purpose; it is close to a bus stop, has multiple housing units, and greenspace for children to play.

Authorization for Technology Projects

It is the practice of OBM not to use long-term debt to fund technology projects which have a useful life that is significantly shorter than the traditional facility projects financed through our long-term bonds. Accordingly, this bill includes uncodified law provisions that authorize the issuance of Certificate of Participation (COPs) for three separate technology projects. The bill authorizes \$29.6 million in COPs to enable DAS's Office of Information Technology to continue implementation of the Enterprise Data Center Solutions and Ohio Administrative Knowledge System projects. These projects include continuing adoption of a single identity management system for state agency IT systems, implementing the capability for state agencies to protect data and share it for data analytics projects, enterprise management of state and federal grants, and upgraded servers to replace end-of-life hardware at the State of Ohio Computer Center.

The second COPs project authorized in this bill would continue to automate and streamline the collection and administration of taxes through the State Taxation Accounting and Revenue System (STARS). The \$12.0 million recommendation would fund the migration of the personal income tax, the last major tax source not yet in STARS.

Finally, this bill authorizes \$14.0 million in COPs to fund the replacement of JFS's two unemployment insurance systems – the Employer Resource Information Center and Ohio Job Insurance – into a single integrated system. The current systems are nearing obsolescence and are quite costly to maintain. Like bonds, COPs debt service will be paid through GRF appropriations in future operating budgets.

Capital Reappropriations - Background

As I indicated earlier, H.B. 529 contains provisions to reappropriate unexpended balances of capital projects previously approved by the General Assembly. This “reappropriation” is necessary due to the constitutional provision prohibiting appropriations from being made for a period of more than two years. To reconcile this constitutional limitation with the reality that many capital projects require several years to complete, the reappropriation of the unspent balance of capital projects previously approved by the General Assembly is necessary for each new capital biennium.

This reappropriations process is not intended as a vehicle for new capital appropriations nor is it intended to raise new issues. Rather, it is designed to keep previously-approved capital projects progressing on schedule. Since most of the capital projects presented in the bill are already underway, the reappropriation of unexpended balances ensures those projects can continue without interruption or delay. In addition, the reappropriations process has historically served as a mechanism to deal with projects for which circumstances have changed since the time when funds were originally appropriated. Such is the case for a limited number of items in this bill, where funds in such instances have been redirected to other projects.

Of fundamental importance to the understanding of the reappropriations contained in H.B. 529 is that the amounts presented are not the “actual” amounts that will be reappropriated. Instead, the dollar values contained in the bill are reasonable-estimate placeholders developed by OBM based on its review of agency requests. To this end, Section 509.100 of the bill stipulates that the “actual” amount to be reappropriated for each capital project is the exact unencumbered and unexpended balance as of the end of the fiscal year (i.e., June 30, 2018). The use of estimates in the bill is necessary due to the inability to know as of the date of the bill’s introduction or passage, the exact unencumbered balance of the various capital appropriations. In the final analysis, it is the actual unencumbered amounts as of June 30, 2018, plus any adjustments between line items the General Assembly may authorize in the bill, that will be reappropriated.

Capital Reappropriations

H.B. 529 includes an estimated \$1.26 billion in reappropriations which is roughly 15 percent lower than the last capital reappropriation bill (S.B. 260 for the fiscal 2017-18 biennium) which identified \$1.48 billion in estimated reappropriations. The actual reappropriation amount for S.B. 260 was \$1.39 billion, about 6 percent less than the amount stated in that bill.

Attached to my testimony is Table 2 that details the reappropriation amounts included in the bill by agency and by fund type. Please note that while two dozen agencies receive reappropriations, three agencies – the Public Works Commission, the Facilities Construction Commission, and the Department of Higher Education – account for \$915.1 million, or 72% of the total estimated reappropriations.

Closing Remarks

As you know, capital appropriations, unlike operating appropriations, require a 90-day delay before they are effective. In order to ensure that appropriations and reappropriations contained in this bill become effective by July 1, 2018, so that existing projects may proceed without delay, the bill would need to be signed into law by April 1, 2018.

I have with me today several staff members from the Office of Budget and Management that were instrumental in the development of this capital bill and I'd like to thank them and all the staff at OBM who worked on the development of the capital bill. I appreciate the opportunity to provide testimony today and thank you for your time and consideration. Mr. Chairman, members of the Committee, at this time, I would be happy to address any questions you may have.

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Attachment:

Table 1 – Summary of Capital Appropriations – FYs 2019-2020

Table 2 – Summary of Capital Reappropriations – FYs 2019-2020

Table 1
Summary of Capital Appropriations in H.B. 529
Capital Appropriations Bill for FYs 2019-2020
February 27, 2018

Capital Appropriation Recommendations Arranged by Agency and Source of Funding

| State Agency | GRF-Backed Debt | Other Sources | Total |
|--|-------------------------|-----------------------|-------------------------|
| Adjutant General | \$ 9,421,439 | \$ 22,055,366 | \$ 31,476,805 |
| Administrative Services 1 | \$ 66,250,000 | \$ 39,424,700 | \$ 105,674,700 |
| Agriculture 2 | \$ 17,717,000 | \$ - | \$ 17,717,000 |
| Attorney General | \$ 3,813,752 | \$ - | \$ 3,813,752 |
| Board of Regents/Higher Education | \$ 483,382,500 | \$ - | \$ 483,382,500 |
| Broadcast Education Media (ETC) | \$ 1,586,910 | \$ - | \$ 1,586,910 |
| Capital Square Review and Advisory Board | \$ 1,270,000 | \$ 1,730,000 | \$ 3,000,000 |
| Commerce | \$ 525,000 | \$ 3,172,500 | \$ 3,697,500 |
| Development Services Agency | \$ 5,000,000 | \$ - | \$ 5,000,000 |
| Developmental Disabilities | \$ 30,775,000 | \$ - | \$ 30,775,000 |
| Expositions Commission | \$ 7,000,000 | \$ - | \$ 7,000,000 |
| Facilities Construction Commission (Schools) 3 | \$ 475,000,000 | \$ 125,000,000 | \$ 600,000,000 |
| Facilities Construction Commission (FCC) | \$ 57,968,500 | \$ - | \$ 57,968,500 |
| Job and Family Services 1 | \$ - | \$ 1,287,223 | \$ 1,287,223 |
| Ohio History Connection | \$ 23,557,000 | \$ - | \$ 23,557,000 |
| Mental Health and Addiction Services | \$ 168,605,600 | \$ - | \$ 168,605,600 |
| Natural Resources 2 | \$ 201,858,103 | \$ 32,760,000 | \$ 234,618,103 |
| Public Safety | \$ 1,800,000 | \$ 10,600,000 | \$ 12,400,000 |
| Public Works Commission 2 | \$ 425,000,000 | \$ 89,000,000 | \$ 514,000,000 |
| Rehabilitation and Correction | \$ 220,024,071 | \$ - | \$ 220,024,071 |
| School for the Blind | \$ 225,500 | \$ - | \$ 225,500 |
| School for the Deaf | \$ 237,050 | \$ - | \$ 237,050 |
| Supreme Court | \$ 513,000 | \$ - | \$ 513,000 |
| Taxation 1 | \$ - | \$ - | \$ - |
| Transportation | \$ 200,000 | \$ 60,000,000 | \$ 60,200,000 |
| Veterans' Services | \$ - | \$ 16,609,072 | \$ 16,609,072 |
| Youth Services | \$ 22,497,797 | \$ - | \$ 22,497,797 |
| Total Recommended Appropriations | \$ 2,224,228,222 | \$ 401,638,861 | \$ 2,625,867,083 |

1- Certificates of Participation (COPS) are the recommended source of funding for Administrative Services OIT projects (\$29.6 million), JFS Unemployment system replacement (\$14.0 million), and Taxation STARS (\$12.0 million) but are not appropriated. As a result, those amounts are not included in the table above.

2- Clean Ohio appropriations are included in Public Works Commission (\$75.0 million), Agriculture (\$12.5 million), and Natural Resources (\$12.5 million) totals.

3- In addition to the \$600 million in new appropriations for SFC, \$25 million will be redirected for the school building program from existing appropriations in the reappropriations section of the bill.

Table 2
Summary of Capital Reappropriations in H.B. 529
FYs 2019-2020
February 27, 2018

Proposed Capital Reappropriations for FYs 2019-2020 by Agency and Source of Funding
 Actual reappropriations will be the unencumbered and unallotted balances as of June 30, 2018

| State Agency | GRF-Backed Debt | Other Sources | Total |
|--|-------------------------|-----------------------|-------------------------|
| Adjutant General | \$ 315,004 | \$ 500,000 | \$ 815,004 |
| Administrative Services | \$ 30,314,920 | \$ 5,812,000 | \$ 36,126,920 |
| Agriculture | \$ 24,196,400 | \$ - | \$ 24,196,400 |
| Attorney General | \$ 1,409,263 | \$ - | \$ 1,409,263 |
| Board of Regents/Higher Education | \$ 320,082,733 | \$ - | \$ 320,082,733 |
| Broadcast Education Media (ETC) | \$ 368,474 | \$ - | \$ 368,474 |
| Capital Square Review and Advisory Board | \$ 641,669 | \$ - | \$ 641,669 |
| Commerce | \$ - | \$ 4,185,565 | \$ 4,185,565 |
| Development Services Agency | \$ 2,500,000 | \$ 18,500,000 | \$ 21,000,000 |
| Developmental Disabilities | \$ 2,230,000 | \$ - | \$ 2,230,000 |
| Expositions Commission | \$ 567,000 | \$ - | \$ 567,000 |
| Facilities Construction Commission (Schools) | \$ 127,934,863 | \$ 36,815,984 | \$ 164,750,847 |
| Facilities Construction Commission (FCC) | \$ 2,743,330 | \$ - | \$ 2,743,330 |
| Ohio History Connection | \$ 19,600,631 | \$ - | \$ 19,600,631 |
| Mental Health and Addiction Services | \$ 28,435,000 | \$ - | \$ 28,435,000 |
| Natural Resources | \$ 50,051,259 | \$ 30,243,890 | \$ 80,295,149 |
| Public Safety | \$ 85,276 | \$ 1,741,006 | \$ 1,826,282 |
| Public Works Commission | \$ 324,441,140 | \$ 103,092,820 | \$ 427,533,960 |
| Rehabilitation and Correction | \$ 71,246,978 | \$ - | \$ 71,246,978 |
| School for the Blind | \$ 1,661,352 | \$ - | \$ 1,661,352 |
| School for the Deaf | \$ 3,375,022 | \$ - | \$ 3,375,022 |
| Transportation | \$ - | \$ 20,000,000 | \$ 20,000,000 |
| Veterans' Services | \$ - | \$ 22,183,459 | \$ 22,183,459 |
| Youth Services | \$ 7,849,361 | \$ - | \$ 7,849,361 |
| Total Reappropriations | \$ 1,020,049,675 | \$ 243,074,724 | \$ 1,263,124,398 |