

Redbook

LBO Analysis of Executive Transportation Budget Proposal – Part II (LSC_135_0002-1)

Public Works Commission

Department of Development

Ohio Turnpike and Infrastructure Commission

Local Government Provisions

Jared Cape, Budget Analyst
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Attachments:

PWC Catalog of Budget Line Items

PWC Appropriation Spreadsheet

DEV Catalog of Budget Line Items

DEV Appropriation Spreadsheet

LBO Redbook

Transportation Budget – Other Agencies

Introduction

Part II of this Redbook covers the two other state agencies funded in the transportation budget for FY 2024-FY 2025: the Public Works Commission (PWC) to operate the Local Transportation Improvement Program and the Department of Development (DEV) for the Roadwork Development Grant Program. These programs make up the remaining \$155.1 million of all funding in the proposed transportation budget, and are analyzed in this Part II of the LBO Redbook. This section also gives an overview of the Ohio Turnpike and Infrastructure Commission (OTIC) and its operating and capital budget for calendar year (CY) 2023. OTIC is a state agency but is not appropriated money from any state funds included in the transportation budget or the main operating budget. The final section of this analysis summarizes the three statutory and uncodified law changes in the As Introduced transportation budget that affect political subdivisions, along with their fiscal effects.

Public Works Commission

Local Transportation Improvement Program

The bill provides appropriations of \$60.3 million in FY 2024 and \$64.3 million in FY 2025 to fund the Local Transportation Improvement Program (LTIP), through which PWC provides grant funding to local governments for road and bridge projects. The program is funded by a share of the revenue generated by the Ohio motor fuel tax (MFT) that is then transferred to the Local Transportation Improvement Program Fund (Fund 7052). This generated \$57.9 million for LTIP in FY 2022. The transportation budget includes two appropriation line items (ALIs) that cover LTIP. The first provides funding for grants and the second provides funding to cover PWC's operating costs for the program.¹ The funding for LTIP in this budget encompasses program years (PY) 37 and PY 38 of the program.

¹ In addition to LTIP, PWC oversees two other programs: the State Capital Improvement Program (SCIP) and a greenspace component of the Clean Ohio Conservation Program (COCP). These two programs are funded by general obligation (GO) bonds. The capital budget bill includes appropriations for the grant and loan awards to entities, while the main operating budget bill provides appropriations for the debt service and operating costs of SCIP and COCP.

Fund/ALI	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 7052 ALI 150701, Local Transportation Improvement Program	\$59,000,000	\$60,000,000	\$64,000,000
% change	--	1.7%	6.7%
Fund 7052 ALI 150402, Local Transportation Improvement Program – Operating	\$313,349	\$328,705	\$323,792
% change	--	4.9%	-1.5%
Local Transportation Improvement Program Total:	\$59,313,349	\$60,328,705	\$64,323,792
% change	--	1.7%	6.6%

LTIP grants (ALI 150701)

This ALI is used to award grants to local governments for road and bridge projects. Although the number of projects funded by LTIP varies from year to year, PWC anticipates that the recommended funding levels will cover awards for approximately 350 projects over the course of the FY 2024-FY 2025 biennium.

The executive budget recommends LTIP grant funding of \$60.0 million in FY 2024 and \$64.0 million in FY 2025. Continuing temporary law allows for prior years' unused funds to be reappropriated. Consequently, there may be more residual funding available for LTIP grants in FY 2024 and FY 2025 beyond the amounts provided in the transportation budget. The balance of the Local Transportation Improvement Program Fund (Fund 7052) was \$90.8 million as of January 31, 2023.

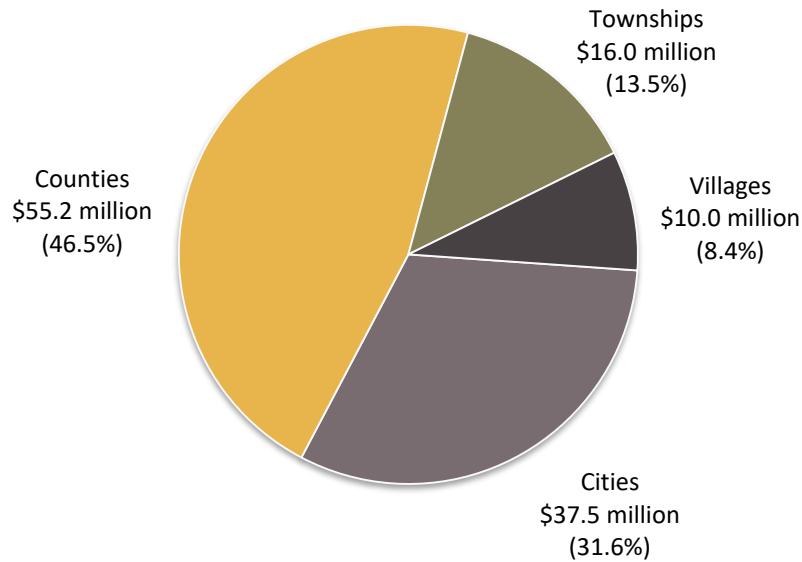
Grant application and award process

LTIP funding is allocated annually on a per-capita basis to each of the 19 district public works integrating committees (DPWICs), consisting of local officials representing all levels of government across Ohio. LTIP grants cover up to 100% of project costs. Eligible costs include property and facility acquisition, engineering and design, and construction. Each DPWIC has some discretion in evaluating and scoring applications using a locally developed methodology based on certain statutory criteria. After evaluating and scoring the projects, a DPWIC creates a list of high-priority projects. PWC then reviews the project selection and evaluation methodology to ensure fair and objective decision making. Once approved, a formal agreement is issued, with PWC providing technical assistance through the project's completion.

Grant awards in the FY 2022-FY 2023 biennium

The chart below shows LTIP grant distributions in PY 35 and PY 36, corresponding to the FY 2022-FY 2023 biennium, by political subdivision. Overall funding under LTIP during this span was \$118.7 million. County governments received the largest share of grants at 46.5% (\$55.2 million) of the total, while cities were next with 31.6% (\$37.5 million). Townships and villages together made up the remaining 21.9% (\$26 million) awarded in the last two years.

LTIP Grant Awards by Political Subdivision, PY 35-PY 36 (\$118.7 million)



Broken down by project type, about \$98.7 million (83.1%) of the grant funding during these two program years was to support road projects and approximately \$20.1 million (16.9%) was to fund bridge projects. Overall, 297 projects were approved over this time period, averaging about \$400,000 in grant funding per project.

LTIP operating support (ALI 150402)

This ALI supports LTIP’s administrative expenses, which are funded by investment income generated by the holdings in Fund 7052. PWC currently employs a staff of eight and will fill a vacant information technology (IT) position to meet the needs of their new IT platform. Personnel services and purchased personnel services costs are \$241,902 in FY 2024 and \$244,682 in FY 2025, or roughly 75% of the amount under this ALI. Administrative expenses include costs for project monitoring, processing disbursement requests, maintaining PWC’s information systems, and preparing financial reports. PWC typically maintains an active portfolio of approximately 350 ongoing LTIP projects, notwithstanding a decrease to roughly 300 projects during the COVID-19 pandemic years. With the LTIP funding recommended in the transportation budget, PWC expects to approve a similar number of LTIP projects for PY 37 and PY 38.

LTIP comprises about 20% of total administrative costs among the three infrastructure programs under PWC’s purview. The other 80% is paid under the operating ALIs for PWC’s other grant programs: the State Capital Improvement Program (60%) and the greenspace component of the Clean Ohio Conservation Program (20%). Operating appropriations covering the administrative costs for those programs are in the main operating budget bill.

PWC rolled out a new IT platform in FY 2022 to process applications and track project status across these infrastructure programs. LTIP’s proportionate 20% share of this cost was \$41,688 in FY 2022. FY 2023 costs will be higher, since the in-house IT staffer has left for other work, delaying some of the work. The ongoing platform maintenance has subsequently been contracted to Deloitte. In FY 2023, LTIP plans to contribute approximately \$109,300 for these services.

Department of Development

Roadwork Development Program

The transportation budget also provides funding for the Roadwork Development Program overseen by the Department of Development (DEV). This funding is appropriated under the transportation budget because it comes from a portion of motor fuel tax (MFT) proceeds transferred from the Highway Operating Fund (Fund 7002).

Fund/ALI	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
4W00 ALI 195629, Roadwork Development	\$15,200,000	\$15,200,000	\$15,200,000
% change	--	0.0%	0.0%

The bill provides continuation funding of \$15.2 million each fiscal year for the Roadwork Development Grant Program, the same as has been appropriated since FY 2012. The program is funded by quarterly transfers of MFT revenue to the Roadwork Development Fund (Fund 4W00) under the DEV budget from the Highway Operating Fund (Fund 7002) used by the Ohio Department of Transportation (ODOT). Because the use of Ohio MFT is constitutionally restricted, the grants may only be used on projects that improve public roads and highways and may not be used for other economic development purposes. Eligible costs include widening, paving, road construction and reconstruction, and right-of-way infrastructure improvements such as sewer or utility lines, as well as work on roads leading to and on the grounds of public airports. All Roadwork Development Grants are subject to Controlling Board approval. In FY 2022, the Controlling Board approved 31 grants totaling approximately \$15.2 million. In FY 2023, through March 2023, the Controlling Board is expected to have approved seven grants totaling approximately \$3.7 million.

Ohio Turnpike Infrastructure Commission

Overview

The Ohio Turnpike Infrastructure Commission (OTIC) is a state agency but is not appropriated money from any state funds included within the transportation or main operating budget bills. However, R.C. 5537.17 requires the Commission to submit its budget to the Office of Budget and Management, the General Assembly, and the Legislative Service Commission for review. This analysis consists of a summary of the Commission’s capital and operating budgets for calendar year (CY) 2022.

OTIC is overseen by a ten-member board charged with funding and maintaining the Ohio Turnpike that spans northern Ohio. A 241-mile east-west toll road built during the 1950s, the Turnpike is marked as portions of three federal interstate highways, stretching from eastern Ohio on I-76, running through most of northern Ohio on I-80, and ending at the western boundary of Ohio on I-90. The chief source of revenue covering operating and capital expenses is toll collections. OTIC contracts with the Ohio State Highway Patrol (District 10) to provide law enforcement and

motorist assistance along the Turnpike. As of the end of CY 2022, OTIC employed a staff of 613 full-time and 190 part-time employees, for a total of 803 employees overall.

ODOT projects funded by Turnpike bonds

H.B. 51 of the 130th General Assembly, enacted in 2013, allowed the state to finance additional road construction by creating a funding partnership between OTIC and the Ohio Department of Transportation (ODOT). In total, 13 major new road construction projects were approved by ODOT and OTIC using \$1.38 billion in Turnpike bond funding under this arrangement. These programs all fell under ODOT’s “Major New” construction program. These are projects that add capacity or provide new roads. Through December 31, 2022, ODOT has expended approximately \$1.37 billion on these infrastructure projects. As of December 31, 2022, 11 of these 13 projects are complete and two are ongoing.

To cover the additional debt related to the bonds issued for ODOT’s “Major New” projects, in addition to capital expenditures on the Turnpike itself, the Commission instituted a ten-year schedule of toll increases starting in CY 2014 through CY 2023. Under the plan, tolls are planned to increase by 2.7% annually, but vary according to class of vehicle, miles traveled, and whether the vehicle is subject to the full toll or a discounted rate under E-ZPass[®]. Under the planned increases, the toll for a regular two-axle passenger vehicle driving the entire 241-mile length of the Turnpike with an E-ZPass[®] has risen from \$11.25, as it was in CY 2013, and currently stands at \$14.75 in CY 2023. For that same vehicle and travel length with no E-ZPass[®], the toll cost has increased from \$16.50 and stands at \$21.50 in CY 2023. OTIC expects to change the current schedules of toll rates by January 1, 2024. Under the proposed five-year schedule of tolls, toll rates will increase by 7.7% for CY 2024 and CY 2025, and then 2.7% per year through CY 2028.

OTIC operating and capital budgets for CY 2023

Operating budget

The Commission’s CY 2023 operating budget was adopted on December 19, 2022. Table 1 below displays actual operating revenues and expenditures for CY 2021, as well as the amounts budgeted for CY 2022 and CY 2023. The budget projects \$391.3 million in operating revenue for CY 2023. Operating expenditures are slated to be around \$143 million per year in total.

	CY 2021 Actual	CY 2022 Adopted Budget	CY 2023 Adopted Budget	% of Total CY 2023 Budget*
Revenue Sources				
Tolls	\$344.8	\$354.7	\$350.3	89.5%
Concessions	\$15.1	\$15.5	\$15.9	4.1%
Investments	-\$0.0*	\$7.5	\$12.6	3.2%
Fuel Tax Allocation	\$3.4	\$3.3	\$9.3	2.4%
Other	\$7.9	\$7.9	\$3.2	0.8%

Table 1. OTIC Operating Budgets, CY 2021-CY 2023 (\$ millions)				
	CY 2021 Actual	CY 2022 Adopted Budget	CY 2023 Adopted Budget	% of Total CY 2023 Budget*
Coronavirus Grant Revenue	\$1.2	--	--	--
Total Revenue	\$372.4	\$388.9	\$391.3	
Operating Expenditures				
Services & Toll Operations	\$52.1	\$52.9	\$57.6	40.2%
Roadway & Structure Maintenance	\$22.6	\$42.5	\$48.6	33.9%
Administration & Insurance	\$8.7	\$16.7	\$19.7	13.7%
Traffic Control, Safety, Patrol, & Communications	\$12.7	\$15.5	\$17.4	12.1%
Total Expenditures	\$96.1	\$127.6	\$143.3	
Net Operating Profit	\$276.3	\$261.3	\$248.0	

*There was a negligible investment loss of \$42,000 in CY 2021.

Net operating profits are used to finance OTIC’s capital improvement program, including both the bonds issued to fund Turnpike capital projects and the additional bond debt for ODOT infrastructure projects. Of the \$248.0 million in expected CY 2023 operating profits, around \$134.8 million will be used for debt service payments.

Capital budget

OTIC’s capital budget was adopted under Resolution 92-2022. It outlines \$226.0 million in spending for maintenance and construction for CY 2023. Under the resolution, approximately \$202.9 million is for certain capital projects and \$23.1 million is for unidentified capital funding needs that may arise. Table 2 below breaks down the capital program costs for CY 2023 by purpose.

Table 2. OTIC Capital Program Allocations, CY 2023		
Capital Program	Amount Allocated (\$ millions)	% of Total Capital Budget
Bridge Repair and Resurfacing	\$53.9	23.8%
Road Resurfacing	\$39.0	17.3%
Toll Collection System Modernization	\$36.4	16.1%
Pavement Replacement	\$34.8	15.4%
Uncommitted	\$23.1	10.2%

Capital Program	Amount Allocated (\$ millions)	% of Total Capital Budget
Equipment and Facilities	\$19.6	8.7%
Small Projects and Others	\$13.5	6.0%
Service Plaza Improvements	\$5.7	2.5%
Total	\$226.0	

Core maintenance, including road and bridge repair, replacement, and resurfacing, together make up about \$127.7 million in planned spending, or 56.5% of capital costs for CY 2023. Rounding out capital expenses and accounting for \$38.8 million, or 17.2% of the capital budget, are expenditures for maintenance vehicles and equipment, toll and service plaza upgrades, computer and communications equipment, and slope and drainage repairs. Uncommitted funds, which provide for additional project expenditures and for future projects, accounts for \$23.1 million, or 10.2% of the total capital budget.

The Toll Collection System Modernization Program expenditure for CY 2023 accounts for \$36.4 million, or 16.1% of the overall capital budget. The modernization project began in 2019 and is planned for completion in 2023, and entails the addition of two new toll plazas, the removal of nine others, the removal of nearly all E-ZPass[®] toll lane entrance and exit gates, and some other improvements. The total project cost is projected to be around \$274.4 million. In the long run, OTIC estimates savings of \$257.0 million in operating costs from these improvements over 30 years.

Transportation budget provisions affecting local government

Motor fuel tax distributions

The transportation budget includes temporary law provisions, ongoing from previous biennia, that affect the distribution of motor fuel tax (MFT) revenue and the amounts that the Ohio Department of Transportation (ODOT) and political subdivisions will receive during the FY 2024-FY 2025 biennium. The first of these provisions is Section 757.10 of the bill. It allows the first 2% of MFT revenue to be deposited into the Highway Operating Fund (Fund 7002) for use by ODOT before any of the statutory distributions of the revenue governed under R.C. 5735.051 occur. The second provision, Section 757.30 of the bill, requires cash transfers of around \$166.1 million in FY 2024 and \$168.9 million in FY 2025 from the Highway Operating Fund (Fund 7002) to the Gasoline Excise Tax Fund, which is used to distribute MFT revenue to political subdivisions under statutory formula allocations. Under this formula, municipalities receive 42.86% of the distributions, counties receive 37.14%, and townships receive 20.00%. Prior transportation budget acts have contained a similar provision, but in different annual amounts.

Highway Transportation Safety Fund

The transportation budget contains new Ohio Highway Transportation Safety Fund (Fund 5X10) ALI 772504, Ohio Highway Transportation Safety, and appropriates \$2.7 million in

FY 2024 and \$1.6 million in FY 2025 for specific public safety projects in transportation districts where a community's local government fund (LGF) distributions were reduced under provisions of the traffic photo-monitoring devices law. Fund 5X10 consists of cash transfers from Fund 7002 equating to the amounts of LGF allocations to communities that were reduced due to their use of traffic photo-monitoring devices.

Sale of Cincinnati Southern Railway

The bill permits a railway board of trustees created under the Ferguson Act of 1869 to sell a railroad or portion of a railroad upon approval by the electorate, including when and in what amount the proceeds are to be periodically disbursed to a municipal corporation for rehabilitating, modernizing, or replacing existing municipal infrastructure.

This provision pertains specifically to the proposed sale of the Cincinnati Southern Railway (CSR) that runs from Cincinnati to Chattanooga to the Norfolk Southern Corporation for \$1.6 billion. The line was constructed by Cincinnati and completed in 1880. In October 1881, the city entered into a lease agreement with what is today a subsidiary of the Norfolk Southern Corporation (NSC) to run the railway. This lease is scheduled to expire in 2026. The bill makes the necessary law modifications to facilitate the outright sale of the CSR to NSC. Cincinnati receives \$25.0 million a year from the current lease agreement with the NSC subsidiary. If approved, the proposed sale price is approximately \$1.6 billion.

Under the bill, the proceeds would be deposited into a trust fund overseen and invested by the CSR Board of Trustees. Cincinnati would receive scheduled payments from those investment earnings to be used only for the upkeep, repair, or replacement of existing infrastructure. The money Cincinnati collected from the lease would go into the city's designate bond debt retirement fund.

Regional transit authority audits

The bill eliminates a requirement that the Auditor of State, at least once a year, audit the accounts and transactions of one large and two small regional transit authorities (RTAs). In accordance with current performance audit procedures, the selected regional transit authorities pay the costs of this performance audit. These payments are deposited into the Public Audit Expense – Local Government Fund (Fund 4220). While eliminating the annual three-RTA audit quota, the bill retains the general requirement that the State Auditor review the accounts of all RTAs pursuant to the law governing the audit of public agencies.

Public Works Commission

Dedicated Purpose Fund Group

7052 150402 Local Transportation Improvement Program - Operating

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
\$292,952	\$265,615	\$218,290	\$313,349	\$328,705	\$323,792
% change	-9.3%	-17.8%	43.5%	4.9%	-1.5%

Source: Dedicated Purpose Fund Group: Investment income from PWC's share of Ohio motor fuel tax revenue

Legal Basis: R.C. 164.14 and 5735.051; Section 209.10 of H.B. 74 of the 134th G.A.

Purpose: This line item funds the operating expenses of the Local Transportation Improvement Program (LTIP). Administrative activities include project monitoring, processing disbursement requests, and maintaining PWC's information systems.

7052 150701 Local Transportation Improvement Program

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
\$67,282,808	\$57,912,651	\$60,444,867	\$59,000,000	\$60,000,000	\$64,000,000
% change	-13.9%	4.4%	-2.4%	1.7%	6.7%

Source: Dedicated Purpose Fund Group: A portion of Ohio motor fuel tax distributions amounting to approximately 2.3% of the tax revenue

Legal Basis: R.C. 164.14 and 5735.051; Section 209.10 of H.B. 74 of the 134th G.A.

Purpose: This line item provides the funding to award grants to political subdivisions to finance local road and bridge projects under LTIP. Grant funds are allocated on a per capita basis to each of the Public Works Commission's 19 district public works integrating committees. Typically around 300 to 400 LTIP grants are awarded annually.

FY 2024 - FY 2025 Appropriations - As Introduced

All Fund Groups

Line Item Detail by Agency			FY 2022	Estimate FY 2023	Introduced FY 2024	FY 2023 to FY 2024 % Change	Introduced FY 2025	FY 2024 to FY 2025 % Change
Report For: Transportation Budget			Version: As Introduced					
PWC Public Works Commission								
7052	150402	Local Transportation Improvement Program - Operating	\$ 218,290	\$ 313,349	\$ 328,705	4.90%	\$ 323,792	-1.49%
7052	150701	Local Transportation Improvement Program	\$ 60,444,867	\$ 59,000,000	\$ 60,000,000	1.69%	\$ 64,000,000	6.67%
Dedicated Purpose Fund Group Total			\$ 60,663,157	\$ 59,313,349	\$ 60,328,705	1.71%	\$ 64,323,792	6.62%
Public Works Commission Total			\$ 60,663,157	\$ 59,313,349	\$ 60,328,705	1.71%	\$ 64,323,792	6.62%

Department of Development

Dedicated Purpose Fund Group

4W00 195629 Roadwork Development

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
\$15,174,870	\$12,255,302	\$6,421,501	\$15,200,000	\$15,200,000	\$15,200,000
% change	-19.2%	-47.6%	136.7%	0.0%	0.0%

Source: Dedicated Purpose Fund Group: Transfers from the Highway Operating Fund (Fund 7002) used by ODOT

Legal Basis: R.C. 122.14; Sections 207.10 and 207.20 of H.B. 74 of the 134th G.A.

Purpose: This line item provides funding for the Roadwork Development Grant Program, used for public road improvements associated with economic development opportunities that retain or attract business for Ohio. These grants are typically received by local governments or other regional entities like port authorities, but are occasionally awarded to businesses directly. Typically, a grant recipient must provide at least 25% in matching funds towards the project. Grants are approved by the Controlling Board.

FY 2024 - FY 2025 Appropriations - As Introduced

All Fund Groups

Line Item Detail by Agency			FY 2022	Estimate FY 2023	Introduced FY 2024	FY 2023 to FY 2024 % Change	Introduced FY 2025	FY 2024 to FY 2025 % Change
Report For: Transportation Budget			Version: As Introduced					
DEV Department of Development								
4W00	195629	Roadwork Development	\$ 6,421,501	\$ 15,200,000	\$ 15,200,000	0.00%	\$ 15,200,000	0.00%
Dedicated Purpose Fund Group Total			\$ 6,421,501	\$ 15,200,000	\$ 15,200,000	0.00%	\$ 15,200,000	0.00%
Department of Development Total			\$ 6,421,501	\$ 15,200,000	\$ 15,200,000	0.00%	\$ 15,200,000	0.00%