



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Sub. S.B. 5 of the 128th G.A. **Date:** March 27, 2009
Status: As Reported by Senate Finance & Financial Institutions **Sponsor:** Sen. Buehrer

Local Impact Statement Procedure Required: No — No local cost

Contents: Creates the Grants for Grads Program in the Ohio Housing Finance Agency

State Fiscal Highlights

STATE FUND	FY 2010 — FUTURE YEARS
Grants for Grads Fund (New Fund)	
Revenues	Gain from appropriations and other sources of revenue to be determined
Expenditures	Approximately \$2.3 million in grants annually
Ohio Housing Finance Agency Operating Expenses Fund (Fund 5AZ0)	
Revenues	- 0 -
Expenditures	Potential minimal increase for additional payroll costs annually
Other Ohio Housing Finance Agency Administrative Accounts	
Revenues	- 0 -
Expenditures	Potential minimal increase for additional administrative costs annually

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The bill creates the Grants for Grads Fund which the Ohio Housing Finance Agency (OHFA) would use to disburse down payment and closing cost assistance grants to college graduates who purchase their first home in Ohio.
- The Grants for Grads Fund could disburse up to approximately \$2.3 million in grants in each fiscal year under the program. The bill provides for grant awards to be recaptured through liens enforced if grantees do not meet the conditions of the program or have been found to be participating fraudulently.
- OHFA may incur additional payroll expenses from the OHFA Operating Expenses Fund (Fund 5AZ0) and additional administrative costs from other nonappropriated agency accounts to administer the Grants for Grads Program.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

Grants for Grads Program

The bill creates the Grants for Grads Program, to be operated by the Ohio Housing Finance Agency (OHFA). The program is to provide grants toward down payments and closing costs on the first home purchased in Ohio by a graduate who has earned an associate, bachelor's, master's, doctoral, or other postgraduate degree. The bill requires applicants to purchase a first home in Ohio with the intent to live and work in the state for at least five years after graduation. Eligible graduates must apply for the program within 60 days of graduation.

Grants for Grads Fund

The bill creates in the state treasury the Grants for Grads Fund, to consist of all appropriations, grants, gifts, and contributions made from any source to OHFA for deposit in the fund. The bill specifies that moneys in the fund are to be invested by the Treasurer of State in the same manner as moneys in the GRF, and that all investment earnings of the fund are to be credited to the fund.

Awarding of grants

Under the bill, OHFA would award grants through two random lottery drawings each year, the first to take place by January 31 and the second to take place by July 31. Each lottery is to consist of applicants who applied during the preceding six-month period. The bill requires OHFA to pick 150 grantees to receive grant awards for each six-month period, as well as up to 50 alternate grantees who would receive awards if additional funding is available after the first 150 grants in a period have been awarded. If there are less than 150 applicants in a given six-month period, the bill specifies that the lottery is to be dispensed with and all eligible applicants are to receive grants. Grant amounts would be based on the type of degree earned by a graduate according to the schedule shown in Table 1.

Degree Earned	Amount of Grant
Associate	\$2,500
Bachelor's	\$5,000
Master's, doctorate, or other postgraduate degree	\$10,000

The bill requires grants to be awarded as a cash payment when the grantee obtains a mortgage loan, and requires that the grant must be applied in full to pay all or a portion of the down payment or closing costs on the purchase of a first home. The bill prohibits a grantee from receiving any cash back at the time of closing in the event that

the amount of a grant is larger than the eligible down payment or closing costs. The bill provides for the expiration of grants if they are unused after 24 months.

Estimate of grant expenditures

According to the Ohio Board of Regents, Ohio's public institutions of higher education awarded an estimated 74,202 degrees in FY 2008. The Association of Independent Colleges and Universities of Ohio reports that its member institutions, consisting of private colleges and universities in the state, awarded 30,455 degrees in FY 2008. Between these estimates for public and private institutions, the total number of degrees awarded in FY 2008 is 104,657. Of this total, 20,646 (19.7%) were associate degrees, 57,934 (55.3%) were bachelor's degrees, and 26,077 (24.9%) were master's, doctorate, or other graduate and professional degrees.

Assuming that graduates apply to the Grants for Grads Program and are eligible for funding in approximately the same proportions as they receive their degrees, Table 2 provides a rough estimate of the number of grants that could be awarded in a single program year at each of the three levels specified in the bill.

Table 2. Estimated Annual Grants for Grads Awards at FY 2008 Graduation Levels				
Degree	Individual Grant Amount	Estimated Percentage of Awards*	Estimated Number of Awards	Estimated Total Awarded
Primary grantees (300)				
Associate	\$2,500	19.7%	59	\$147,500
Bachelor's	\$5,000	55.3%	166	\$830,000
Graduate/Postgraduate	\$10,000	24.9%	75	\$750,000
Subtotal – Primary Grantees	-	100.0%	300	\$1,727,500
Alternate grantees (100, assuming availability of funding)				
Associate	\$2,500	19.7%	20	\$50,000
Bachelor's	\$5,000	55.3%	55	\$275,000
Graduate/Postgraduate	\$10,000	24.9%	25	\$250,000
Subtotal – Alternate Grantees	-	100.0%	100	\$575,000
Grand Total	-	-	400	\$2,302,500

* Percentages may not total exactly 100% due to rounding.

If 300 primary grantees (150 for each six-month period) are awarded grants at the estimated proportions above, OHFA could incur grant expenditures from the Grants for Grads Fund of approximately \$1.7 million in each fiscal year under the program. Assuming that funds are available for awards to the 100 alternate grantees chosen -- 50 for each six-month period -- up to an additional \$575,000 could be awarded. This would constitute a total of approximately \$2.3 million awarded annually for down payment assistance and closing costs under the Grants for Grads Program.

LSC's estimate of expenditures under the program assumes consistent graduation rates and an equal likelihood for graduates at each degree level to purchase a home. Actual expenditures would likely be influenced by a number of factors, including the actual rates at which recipients of each type of degree apply for the program and meet all eligibility requirements, as well as the overall employment and housing markets in Ohio, which may influence the likelihood of graduates to remain in the state and purchase a first home.

Recapture of grant funds

The bill requires OHFA to secure the amount of each grant issued under the program by a five-year lien on the home purchased with the grant money, to be enforced as (but be subordinate to) a mortgage lien. This lien would then be enforced if OHFA determines that a grantee is failing to comply with program criteria, is fraudulently participating in the program, or moves to another state within five years of purchasing the first home for which grant funds were used. The bill requires that under the first two circumstances, the lien on the grantee's home is to be enforced in full in order for the state to recapture the amount of the grant award. In the third case, that of moving out of state within five years, the enforcement of the lien is subject to the following schedule, as shown in Table 3. The bill specifies that a lien is extinguished once funds have been recaptured under these provisions and allows for the extinguishment of a lien if a grantee moves to another residence in Ohio within the five-year period after receiving the grant.

Table 3. Grant Recapture Requirements by Duration of Grantee Residence	
Months Resided in First Home	Percentage Recaptured
Less than 12 months	100%
12 months and 1 day to 24 months	80%
24 months and 1 day to 36 months	60%
36 months and 1 day to 48 months	40%
48 months and 1 day to 60 months	20%

Although the bill does not specify how recaptured funds are to be collected or deposited, presumably any amount recaptured through the enforcement of liens would be returned to the Grants for Grads Fund.

Administrative costs

It is possible that OHFA would incur increased administrative costs to its Homeownership Office for the operation of the Grants for Grads Program. Any additional payroll expenses would be paid from line item 997601, Ohio Housing Finance Agency Personal Services, in the OHFA Operating Expenses Fund (Fund 5AZ0). This fund is capitalized by a portion of OHFA's revenue from various

fees and charges it collects for the administration of its homeownership programs and multifamily housing programs. FY 2009 appropriations for this line item are approximately \$10.2 million.

The bill requires OHFA to prepare an annual report on the Grants for Grads Program for submission to the Governor, Director of Development, Chancellor of the Board of Regents, President of the Senate, and Speaker of the House. The report is required to include information on the activities of the program, including the number and dollar amount of grants awarded. The costs associated with the publication of this report, as well as other nonpayroll administrative expenses associated with the program, including adopting administrative rules, reviewing grant applications, conducting the award lottery, and conducting an internal audit of the program, would be paid out of other OHFA accounts that are not supported by state appropriations.

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