Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 278 of the 129th G.A.

Date: August 10, 2012

Status: As Introduced

Sponsor: Sens. Kearney and Turner

Local Impact Statement Procedure Required: Yes

Contents: Authorizes tax credits for hiring unemployed individuals; makes changes to the Unemployment Compensation Law; authorizes tax credits for the rehabilitation of distressed areas and for the expansion of broadband connections to rural areas; creates a revolving loan fund and a bonding program for small businesses; makes changes to the Minority Business Bonding Program; and makes several appropriations

Senate Bill 278 makes changes to various Ohio laws, including tax law, unemployment compensation law, and other programs. The bill creates new programs, changes existing ones, and creates new appropriations. The bill contains appropriations for various programs in FY 2012 only, and does not include any reauthorizing or reappropriation language for FY 2013. Please note that though FY 2012 has elapsed, this fiscal note reflects the bill as introduced.

The sections of this fiscal note are organized as follows. Changes to provisions of tax law are covered in the first section; this section also includes a transfer to the Local Government Fund. Changes to unemployment compensation and other Department of Job and Family Services programs are in the second section. Department of Development programs and transfers from unclaimed funds are in the third section. The fourth section includes changes to education programs as well as other changes. Each of these four sections includes highlights summarizing the changes covered in the section, followed by detailed analysis.

Tax and Local Government Fund Provisions

State Fiscal Highlights

STATE FUND	FY 2012	FY 2013	FUTURE YEARS
General Revenue Fund			
Revenues	Potential gain from the elimination of various tax exemptions and credits	Potential gain of up to $116 million from the elimination of various tax exemptions and credits; Potential income tax and CAT revenue losses from credits or deductions for hiring unemployed individuals, qualified rental income, and qualified income from broadband services; losses may be several hundred millions of dollars	Potential gain of up to $116 million annually from the elimination of various tax exemptions and credits; Potential income tax and CAT revenue losses from credits or deductions for hiring unemployed individuals, qualified rental income, and qualified income from broadband services; losses may be several hundred millions of dollars
Expenditures (transfers to Fund 7069)	$50 million increase	- 0 -	- 0 -
Local Government Fund (Fund 7069)			
Revenues	$50 million gain	- 0 -	Possible loss
Expenditures	$50 million increase	- 0 -	Possible decrease
Public Library Fund (Fund 7065)			
Revenues	- 0 -	- 0 -	Possible loss
Expenditures	- 0 -	- 0 -	Possible decrease

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

- Enacting a nonrefundable credit against the personal income tax and the commercial activity tax (CAT) for employers who hire a qualified unemployed individual, a qualified unemployed veteran, or a qualified unemployed disabled veteran would reduce state tax revenues; though the exact amount cannot be determined, LSC staff believe potential losses may be several hundred millions of dollars per year.
- The bill eliminates several tax deductions, exemptions, and credits. This provision may raise GRF tax receipts by about $116 million per year. Timing of revenue gains would be dependent on the effective date of the bill.
- Broadband services income tax and CAT exclusions are likely to reduce revenues from those taxes.
- Deductibility of qualifying residential rental income would reduce GRF revenues from the personal income tax. This change would reduce distributions to the Local Government Fund and Public Library Fund starting in FY 2014.
- The bill transfers $50 million from the GRF to the Local Government Fund (LGF) in FY 2012, and increases the appropriation from LGF by a corresponding amount.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2012	FY 2013	FUTURE YEARS
School Districts			
Revenues	- 0 -	Possible loss	Possible loss
Expenditures	- 0 -	- 0 -	- 0 -
Other Local Governments			
Revenues	$50 million gain	- 0 -	Possible loss
Expenditures	- 0 -	- 0 -	- 0 -
Public Libraries			
Revenues	- 0 -	- 0 -	Possible loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Real property tax exemption for remodeling distressed property may reduce revenue to school districts and other units of local government.
- County undivided local government funds and municipal corporations that received direct distributions from the state's LGF in FY 2011 would receive additional amounts totaling $50 million following a transfer to that fund, in proportion to amounts they each received in FY 2011.
- An Ohio personal income tax deduction for certain residential rental income may reduce LGF and Public Library Fund (PLF) distributions to counties, municipalities, townships, and public libraries starting in the state's FY 2014.
- For school districts that base their school district income taxes on Ohio taxable income, the deduction for certain residential rental income and the deduction for a share of net profits from providing broadband services may reduce tax revenue.

Detailed Fiscal Analysis

The bill includes several tax provisions, most of which have a fiscal impact on the GRF. Under permanent law, a portion of GRF tax receipts are subsequently transferred to the Local Government Fund (LGF, Fund 7069) and the Public Library Fund (PLF, Fund 7065). Am. Sub. H.B. 153 (the operating budget act for fiscal years 2012 and 2013) fixed the LGF and PLF transfer amounts at predetermined levels so that any change in tax receipts from the proposed bill during the biennium will affect the GRF only.[1] For FY 2014 and subsequent years, transfers to the LGF and PLF will resume based on a fixed percentage, but the applicable percentage is not yet known. The Tax Commissioner will determine, by July 5, 2013, the ratio of FY 2013 transfers to the respective funds to total FY 2013 GRF tax revenues. Subsequent transfers to the LGF and PLF will be based on those respective ratios.[2]

Real property tax exemption for improvements to distressed property

The bill provides a partial real property tax exemption for property satisfying specified requirements. The property must be "distressed residential or commercial property" as defined in the bill. The owner must "remodel" the property within one year of acquiring it. The "qualifying improvement" is exempt from tax until the tax year after the year in which the property is sold.

Distressed residential or commercial property is "real property that was or is used exclusively for residential or commercial purposes as classified in the county real property tax records and that is vacant, abandoned, foreclosed-upon, or located in a blighted area." The definition of "blighted area" is in section 1.08 of the Revised Code, and includes a requirement that at least 70% of parcels be "blighted parcels" as defined in that section. The requirement for current or prior use in one of these two classifications may preclude tax benefits under this section for properties converted from other classifications. The bill defines "remodel" to include any change to a building that is distressed residential or commercial property to make it more sound structurally or more habitable or to improve its appearance.

Qualifying improvement is defined in terms of the increase in the assessed value of distressed residential or commercial property for "a tax year after the tax year" when the property was remodeled. This wording may freeze the taxable value at its amount prior to the remodeling, if the qualifying improvement is recalculated each year, until after the property is sold. Alternatively, "a tax year" and "the increase" may be determined once for a given property, the exempted value would equal that amount of increase, and any subsequent increases in real property assessed value would be taxed.

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[1] Section 757.10 of H.B. 153.

[2] Revised Code 131.51.

The bill provides that these changes would go into effect in tax years beginning on or after the bill's effective date, possibly as early as tax year (TY) 2013, payable in 2014. The tax revenue loss that would result from these provisions clearly would depend on the behavior of potential recent purchasers (within a year of the effective date of the bill) and new owners. Potential tax revenue losses are quite large. For property purchases and remodeling that would have been undertaken with or without the tax benefits of the bill, exemption of increases in property values from taxation would result in tax revenue losses. To the extent that the bill's provisions result in value-adding investments that would not otherwise have taken place, the tax exemption for the resulting increases in property values would not reduce revenues from what they would otherwise have been.

U.S. Department of Commerce statistics indicate that 12.7% of Ohio's total housing inventory was vacant in 2010. These approximately 650,000 housing units may be vacant for seasonal reasons, or the owners may be trying to rent or sell the properties, or the properties may be rented or sold and awaiting occupancy, or the owners may be holding the properties off the market. The properties, being vacant, appear to satisfy the definition of distressed residential or commercial property for purposes of the tax benefit in this section. LSC does not have comparable statistics on vacant commercial property, but the potential clearly is sizable.

School districts and other units of local government would incur losses that would result from this provision of the bill, without any state offset. Historically, the school funding formula included a local share component based on each school district's taxable property valuation. A decrease in that valuation, as occurs under the bill, led to a decrease in the local share and corresponding increase in the state share. However, under the temporary school funding formula in operation for FY 2012 and FY 2013, a change in taxable property valuation does not affect a district's state share of school funding. Funding in FY 2014 and future years is uncertain.

Personal income tax

New deduction for broadband services in rural areas

The bill authorizes a fraction of a taxpayer's net profits from providing "broadband service" in Ohio to be excluded from taxable income. Both broadband service and qualifying rural areas are defined in federal law.[3] The exclusion from personal income tax is calculated based on the share of the original cost of newly installed tangible property purchased for providing broadband services that is deployed in a rural area, relative to the total cost of newly installed tangible property used for providing the service in the state as a whole.

[3] "Broadband service" means any technology identified by the federal government as having the capacity to transmit data to enable a subscriber to the service to originate and receive high-quality voice, data, graphics, and video; "eligible rural community" means any area of the United States that is not contained in an incorporated city or town with a population in excess of 20,000 inhabitants.

Information from the National Telecommunications and Information Administration indicates that approximately 94.7% of Ohio's 2.7 million-person rural population has access to broadband service. The U.S. Secretary of Agriculture has some discretion on the interpretation of "broadband service," which means additional households could be considered unserved by the technology in future years if higher data transmission speeds are deemed to be necessary to fulfill the definition in federal law. LSC does not have an estimate of the foregone income tax revenue, but circumstances could yield tens of millions in future GRF revenue losses depending on regulatory decisions and actions by telecommunications companies. Revenues of local governments from the school district income tax would also be affected. For school districts in which the amount of school district income tax owed is based on Ohio taxable income, the bill would result in a loss of tax revenue. School districts which tax earned income would not be affected.

Deduction for income from qualified residential rentals

The bill permits certain residential rental property income to be excluded, for five years, in calculating Ohio income subject to taxes. To qualify for this tax break, the residential rental property must be converted by the landlord from distressed property – defined as real property that is vacant, abandoned, foreclosed-upon, or located in a blighted area – and not currently used as residential rental property. To qualify for the Ohio income tax deduction, the residential rental property must be leased or rented solely for residential use and only to individuals or families with incomes of not more than 120% of the median income in the county where they live.

Potential tax revenue losses from this new deduction could be sizable but would depend on the behavior of property owners as well as prospective tenants. For conversions to rental property that would be done regardless of the additional tax benefit, exemption of the income from taxation would result in direct tax revenue losses. For conversions that would be done only in response to this new tax benefit, the state would lose income tax revenue from the former landlords of those tenants who move out of other rental property to the properties generating the tax benefits. The tax-free status of these properties (for five years) would help the new landlords compete for tenants with other landlords who do not have this financial advantage.

In 2010, Ohio median household income was $45,090 (American Community Survey). The total number of households was about 4.6 million (Census 2010), implying that the median income or less was earned by about 2.3 million households. Household income of 120% of the median, or $54,108, may have been earned by 2.6 million to 2.7 million Ohio households, a sizable pool of potential tenants for landlords converting property to residential rental use, although many of these households would not relocate in any given year, and some are in residences owned by one or more members of the household. As noted above, the 120% of median income cutoff would apply under the bill on a county-by-county basis, rather than uniformly statewide as calculated here.

A reduction in Ohio personal income tax revenue would reduce revenue to the GRF. The bill provides that these changes would go into effect in tax years beginning on or after the bill's effective date, perhaps as early as tax year 2013. However, in view of the requirement that the properties be converted to residential rental use, as well as possible time lags in attracting new tenants, LSC assumes that significant revenue losses would not be incurred prior to FY 2014. Distributions of GRF revenue through the LGF and PLF to units of local government and libraries would be reduced beginning in the state's FY 2014.

Revenues of local governments from the school district income tax would also be affected. For school districts in which the amount of school district income tax owed is based on Ohio taxable income, the bill would result in a loss of tax revenue. School districts which tax earned income would not be affected. Rental income is subject to municipal income taxation, but the calculation is not adjusted for deductions taken for state income tax purposes, so municipal income tax revenues would not be affected.

Nonrefundable tax credits for hiring qualified unemployed individuals

The bill creates a nonrefundable tax credit that can be applied against the personal income tax or the commercial activity tax (CAT). Employers required to deduct and withhold income tax from an employee's compensation may claim this credit by hiring a qualified unemployed individual, a qualified unemployed veteran, or a qualified unemployed disabled veteran. The amount of the credit is dependent on the individual being hired; specifically, $4,000 for a qualified unemployed individual, $5,600 for a qualified unemployed veteran, and $9,600 for a qualified unemployed disabled veteran. The direct fiscal effect of this provision is a loss in state tax revenue from the personal income tax; the potential revenue loss will be sizable and could be several hundred millions of dollars per year. If the incentive creates an outcome where employment grows more than it otherwise would, the indirect fiscal effect of this tax incentive would partially offset the revenue loss.

The nonrefundable credit is only available to those employers hiring qualified individuals. Due to data limitations, LSC is unable to estimate how many new hires would possess qualifying characteristics, though the fiscal loss could be sizable. The bill defines a "qualified unemployed individual" as someone who was not a student for at least six months during the past year and was unemployed for at least six months during that one-year period. Data from the U.S. Bureau of Labor Statistics (BLS) suggest that on average 1.7% of U.S. workers employed in recent months were unemployed the previous month. Also, for 15.3% of the unemployed, the duration of unemployment was between 27 to 52 weeks. Assuming these U.S. rates are applicable to state level data implies that up to an estimated 166,000 employed Ohioans each year may qualify their employers for the credit, prior to the limitation related to being a student. BLS data do not specify how many of the recently employed were previously students in the past year, which does not allow for estimating how many individuals may qualify for the credit. Regarding the qualification based on military service, the

U.S. Census Bureau in the 2010 American Community Survey (ACS) estimates that Ohio had approximately 378,803 veterans in the labor force in 2010, of which 41,286 were unemployed. The ACS does not specify how many veterans in the labor force have a service-connected disability, which is the defining characteristic that distinguishes between a "qualified unemployed veteran" and a "qualified unemployed disabled veteran." The ACS estimates that 12.2% of Ohio's 892,782 veterans have a service-connected disability, and if this rate is applied to the number of unemployed veterans, it suggests 5,037 veterans were both unemployed and disabled at the time of the survey.

Even in periods of increasing or high unemployment rates, firms continuously hire workers. Generally, firms hire additional workers because changes in their business environment require increased labor to boost profits or profit margins. A number of firms are likely to get the incentive for hires they would have made anyway, except the firms might choose unemployed workers with characteristics that would qualify the employer to claim the tax credit, rather than other individuals in the labor pool (e.g., longer-term unemployed, new entrants, or retirees re-entering the workforce). The bill may incent some firms to hire. LSC cannot distinguish, even after the fact, between the firms that hired qualifying workers for the tax credit and those that would have hired additional employees regardless of the credit.

Commercial activity tax

New five year exclusion of receipts from qualified leases or rentals

The bill excludes from taxable gross receipts subject to the CAT those receipts that are realized by a qualifying landlord from the lease or rental of qualifying residential rental property during the first tax period in which the qualifying landlord received rental income from the property. The exclusion also applies to the 19 succeeding tax periods if the qualifying landlord is a calendar quarter taxpayer, or, if the qualifying landlord is a calendar year taxpayer, during the four succeeding tax periods. Qualifying residential rental property and qualifying landlord have the same meaning as above in the personal income tax section. Similarly to the rental income exclusion under the personal income tax, for conversions to rental property that would be done regardless of the additional tax benefit, exemption of receipts from CAT taxation would result in direct tax revenue losses. For conversions that would be done only in response to this new tax benefit, the state would lose CAT revenue from the former landlords of those tenants who move out of other rental property to the properties generating the tax benefits. Potential tax revenue losses from this new exclusion from taxable gross receipts could be sizable, but would depend on the behavior of property owners as well as prospective tenants. Data from the Department of Taxation show estimated CAT receipts of about $3.4 million from lessors of residential buildings and dwellings in FY 2011.

New exclusion for providing broadband telecommunication service in rural areas

The bill provides a new exclusion for taxable gross receipts realized for providing broadband telecommunication services to rural areas as defined in federal law. Amounts excluded are calculated as in the personal income tax section. This exclusion will decrease revenues from the CAT by an undetermined amount. Similarly to the income tax provision, revenue loss under the CAT will depend on spending decisions by telecommunication companies.

Nonrefundable tax credits for hiring qualified unemployed individuals

The bill provides for nonrefundable CAT tax credits to taxpayers that hire qualified unemployed individuals. Qualifications for the CAT credit are the same as those for the personal income tax credit above. The nonrefundable tax credits against the CAT will result in revenue losses. A share of CAT receipts is distributed to the GRF, and the remaining portion of receipts is earmarked for reimbursing school districts and other local governments for the reductions and phase out of local taxes on most tangible personal property (TPP). Distributions to the GRF are 50% of total CAT revenues. Distributions to the School District Tangible Property Tax Replacement Fund are 35.0%. The Local Government Tangible Property Tax Replacement Fund receives 15.0%. The exclusions from gross receipts and the tax credits will reduce revenues to the three funds. If CAT receipts are insufficient for the reimbursements, current law requires a GRF subsidy to the two replacement funds.

Elimination of various tax credits and deductions

Senate Bill 278 eliminates the following credits and deductions under the personal income tax, sales and use tax, and commercial activity tax. These changes to tax law may increase yearly receipts by up to $116 million. Estimates are from the Tax Expenditure Report of the Department of Taxation for FY 2012. The table below provides the estimated gain for each provision.[4] Please note that potential revenue gains in FY 2013 will depend on the effective date of the bill.

[4] The Tax Expenditure Report is published by the Tax Department every two years in conjunction with the introduction of the biennial budget. The Tax Department considers any yearly revenue loss or gain below $1 million to be "minimal."

Table 1. Potential Annual Revenue Gain From the Elimination of Deductions and Exemptions	
Sales Tax	
Sales of materials and services for maintenance and repair of aircraft	$3,900,000
Flight simulators	$1,600,000
Agricultural land tile and portable grain bins	minimal
Sales of qualified tangible personal property to qualified motor racing teams	minimal
Sales of tangible personal property and services for maintenance and repair of qualified fractionally owned aircraft	minimal
Tangible personal property used in storing, preparing, and serving food	$21,800,000
Qualified tangible personal property used in making retail sales	$37,600,000
Copyrighted motion pictures and films	$7,800,000
Tangible personal property used in electronic publishing	$5,400,000
Magazine subscriptions	$11,300,000
$800 tax cap on qualified fractionally owned aircraft	$1,000,000
Subtotal	***$90,400,000***
Personal Income tax	
Campaign contribution credit	$4,700,000
Credit for alternative fuel sold at retail	$1,000,000
Deduction for contributions to college savings programs	$11,500,000
Grape production credit	minimal
Ethanol plant investment credit	minimal
Subtotal	***$17,200,000***
Commercial Activity Tax	
Credit for net operating loss carry forwards and other deferred tax assets	$8,000,000
Subtotal	***$8,000,000***
TOTAL	**$115,600,000**

Additional appropriation to the Local Government Fund

The bill increases the appropriation to the state's Local Government Fund (Fund 7069) by $50 million in FY 2012. This amount is to be transferred from the GRF on the effective date of the section of the bill that provides for the transfer, or as soon as possible thereafter. Distributions to county undivided local government funds and to municipal corporations that received direct distributions from the Local Government Fund in FY 2011 are to be proportionate to the shares of total distributions from Fund 7069 received in that year.

Department of Job and Family Services Programs
State Fiscal Highlights

STATE FUND	FY 2012	FY 2013	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	$17.0 million for Youth Employment Programs	- 0 -	- 0 -

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

- Potential increase or decrease in payments from Ohio's Unemployment Compensation Trust Fund for the Short-Time Compensation Program as well as an increase in costs to administer the program; administrative costs associated with unemployment compensation are generally funded by the federal government.
- Estimated increase in payments from Ohio's Unemployment Compensation Trust Fund, potentially in the tens of millions, from (1) allowing unemployment beneficiaries to retain eligibility while searching for part-time work, (2) extending eligibility to individuals that leave work due to certain personal or family circumstances, including being a domestic violence victim, and (3) paying an additional 26 weeks of regular benefits to individuals that enroll in approved training activities.
- Potential increase in costs to state agencies from reimbursing Ohio's trust fund for individuals that would be eligible for unemployment benefits under the eligibility changes in the bill.
- Increase in expenditures of $17 million in FY 2012 for Youth Employment Programs, which is supported by an increase in GRF appropriations in a new line item 600536, Youth Employment Programs, in the Ohio Department of Job and Family Services.

Detailed Fiscal Analysis

Short-time Compensation Program

The bill creates the Short-Time Compensation Program. Under the program, employees who are members of an affected unit share the work remaining after a reduction in the employees' normal weekly hours of work and receive weekly unemployment benefits for the hours they no longer work. The weekly benefit amount is equal to the employee's regular weekly benefit amount for total unemployment multiplied by the percentage of reduction of the employee's wages under the plan. The weekly benefit amount cannot exceed the state's annually established maximum levels.[5] An employer wanting to participate in the program must submit a plan to the Director of the Ohio Department of Job and Family Services (ODJFS) that satisfies the requirements specified in the bill. In the plan, the employer must certify that the reduction in work hours for a group of workers is in lieu of temporary layoffs.

Start-up costs and federal reimbursement

According to ODJFS, the start-up costs for the program would be at least $2.0 million. Costs would mainly result from reprogramming the computer system that processes unemployment benefits. There may be more costs from hiring new staff for ongoing administration of short-time plans. There would be costs for ODJFS to adopt rules. Administrative costs will likely be fully funded by the federal government.

Ohio receives a federal grant each year to administer unemployment programs. The amount of the grant is based on workload estimates made by the United States Department of Labor (DOL). U.S. DOL also provides "above-base funding" for costs that exceed the estimated costs each quarter. Recent federal legislation (H.R. 3630)[6] appropriates additional funds to states specifically to implement and promote short-time programs. Based on federal guidance, Ohio is expected to receive $3.7 million. Of this amount, federal legislation specified that one third ($1.2 million) was for implementation and two thirds ($2.5 million) was for promotion and enrollment. Within the first five years after receiving the $3.7 million, the federal government can recoup the grant if the state were to discontinue the short-time program or fail to meet federal program requirements. Federal dollars for administration of unemployment programs are deposited into the Unemployment Compensation Fund (Fund 3V40) and expended from line item 600678, Federal Unemployment Programs.

[5] The three dependency classifications and maximum weekly benefits for 2012 are: Class A (no dependents) $400, Class B (one to two dependents) $485, and Class C (three or more dependents) $539.

[6] Middle Class Tax Relief and Job Creation Act of 2011.

Benefit costs

There may not be a net difference in the amount of unemployment benefits issued under the bill. The unemployment benefits issued under short-time plans would likely be offset by less unemployment benefits issued under layoffs, as the reduction in hours under short-time plans would occur in lieu of temporary layoffs. Also, under the bill, employees that participate in the program cannot receive more than the maximum benefits currently available to them. Employees that receive short-time benefits and are subsequently laid off cannot receive benefits in excess of the maximum benefits they could have received if they were *only* laid off. The maximum duration an individual may receive benefits is 26 weeks, though the current average duration is about 17 weeks. In 2011, benefits issued from the trust fund totaled $1.28 billion or about $106.5 million each month. In that year, on average, an individual received $5,328 in regular unemployment benefits – about $296 per week for 18 weeks.[7]

Other states' experiences

Based on data from other states that operate similar programs, short-time unemployment benefits would likely account for a small percentage of unemployment benefits issued in the state. According to a Congressional Research Service (CRS) report, in the 20 states that operated similar programs in 2010, the number of first short-time payments as a percentage of first regular unemployment payments ranged from 0.1% to about 9%, though the range for most of the states was from 1% to 6%.[8] The report suggests that the differences in participation are attributable to the level of promotion of the program among employers (generally, more promotion yields higher participation) as well as the concentration of manufacturing organizations in each state. More specifically, the CRS report cites another report that found that manufacturing and wholesale trade organizations and organizations that use long-term apprenticeship programs are more likely to operate under short-time plans; older and larger firms are also more likely than newer and smaller firms to use short-time plans.[9]

Federal reimbursement and employer funding for benefit costs

Due to recent federal legislation (H.R. 3630), the federal government will fully reimburse unemployment benefits under short-time plans for the first three years the program is operating. States are eligible for federal payments for up to 156 weeks until August 22, 2015, when the authority for federal payments expires. Based on the federal legislation, it appears that short-time benefits will be paid from Ohio's Unemployment

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[7] Based on ODJFS UC 199 Report for 2011. This includes only regular benefits issued from the state's trust fund and does not include federally extended benefits issued by the federal government.

[8] Shelton, Alison M., Compensated Work Sharing Arrangements (Short-time Compensation) as an Alternative to Layoffs, Congressional Research Service, February 15, 2011. Since the report was published, three other states have enacted similar programs for a total of 23 states.

[9] Thomas MaCurdy, *et. al*, "An Alternative to Layoffs: Work Sharing Unemployment Insurance," California Policy Review, August 2004.

Compensation Trust Fund, which will be fully reimbursed by the federal government on a monthly basis based on estimates of short-time payments. The reimbursement will equal the full amount of the benefit as long as employers do not reduce hours by more than 60%, which is the maximum reduction in hours established in the bill. Federal guidance issued in June permits states to not charge employers for benefits.

After the period of federal reimbursement, short-time benefits will be funded by employers within the existing funding mechanisms for when employers institute layoffs. The funding mechanisms differ for the two categories of employers that are classified in state law – "contributory" and "reimbursing" employers.

Contributory employers

Most private employers are contributory employers. There are about 213,290 contributory employers in the state. If a contributory employer has a layoff, payment of the unemployment benefit is paid from the employer's account in Ohio's trust fund. As the balance in an employer's account goes down, the rate of contributions in future years for the employer will increase to replenish the losses.

After the period of federal reimbursement, unemployment benefits issued under short-time plans by contributory employers will likely increase employers' contribution rates when they are reassessed the following year. This would be the same method for funding regular unemployment benefits under layoffs. The bill specifies that short-time benefits will only be charged to the employer that is implementing a short-time plan. Under current law, short-time benefits for a recently hired employee who participates in a short-time plan would be charged to all employers in that employee's base period (the base period is the first four of the last five completed calendar quarters before an unemployment claim was filed). The bill also prohibits employers that are paying the maximum contribution rate from participating in a short-time plan.

Each employer's contribution to the trust fund is based on a state unemployment tax rate that ranges from 0.7% to 9.1% paid on the first $9,000 of each employee's taxable wage. The rate for each employer differs depending on the employer's "experience" of unemployment claims paid from the employer's account. Generally, rates are lower for employers that have contributed over many years with few layoffs; rates are generally higher for employers with frequent layoffs. In 2011, the average tax rate was about 3.8%. In that year, contributions to the trust fund totaled about $1.43 billion.

Reimbursing employers

Reimbursing employers generally include public employers (state agencies, local government entities, etc.) and nonprofit organizations that have elected to be reimbursing employers instead of contributory employers. Reimbursing employers are billed once a month, after the fact, for the amount of benefits paid to the employer's former employees from the trust fund. After the period of federal reimbursement, benefits issued under a short-time plan to employees of reimbursing employers would be financed by the employer through reimbursement to the trust fund, the same as if the employer instituted a layoff. There are 4,835 reimbursing employers in the state. In 2011, these employers reimbursed about $108.4 million to the trust fund.

Impact on Ohio's Unemployment Compensation Trust Fund

There could be a net increase in Ohio's Unemployment Compensation Trust Fund balance during the first three years of the program while the federal government is fully funding benefits. Benefits issued under short-time plans in the first three years for contributory employers would only decrease the trust fund's balance for perhaps a month or two until the federal reimbursement is received; whereas benefits issued under a layoff would decrease the trust fund's balance until contributory employers' experience rates are increased in subsequent years. Therefore, at the end of each of the first three years of the program, there could be a relatively higher balance in the trust fund than there would have been under layoffs. The amount of any net increase in the trust fund balance would depend upon the number of employees under contributory employers that receive short-time benefits in lieu of regular benefits under a layoff – this would depend upon voluntary employer participation in the program. As stated earlier, first short-time benefits as a percentage of first regular unemployment payments in most states has ranged from about 1% to 6%. ODJFS does not expect a significant impact to the trust fund from short-time plans.

After the first three years of the program, there would likely be little, if any, net impact to the trust fund. As stated earlier, short-time benefits would likely be offset by less unemployment benefits issued under layoffs, as the reduction in hours under short-time plans would occur in lieu of temporary layoffs. Benefits will be funded through the existing funded mechanisms: an increase in contribution rates from contributory employers and reimbursements from reimbursing employers.

Since the bill prohibits employers that are paying the maximum contribution rate from participating in a short-time plan, the trust fund would not receive federal reimbursement for these employers during the first three years (i.e., for those employers that would have implemented a short-time plan). However, since these employers may instead implement layoffs, the trust fund will receive contributions from these employers for a longer period of time.

Effects on borrowing

On January 12, 2009, Ohio's trust fund balance was depleted and the state began borrowing from the federal government to pay unemployment benefits. As of June 27, 2012, the loan balance was $1.79 billion. Ohio must pay back borrowed amounts from the trust fund and pay interest on borrowed amounts from state funds. ODJFS anticipates borrowing intermittently for cash flow purposes over the next few years.

In the first three years of the program, if a potentially higher fund balance were used to fund regular unemployment benefits, it would reduce the state's need to borrow from the federal government to issue regular benefits. It could also be used to pay back the federal government for amounts that have already been borrowed. Any reduction in the loan balance would reduce the state's interest payments, which are due by the end of each federal fiscal year. ODJFS estimates the interest payment for this year (due September 30) will be $67.5 million. Last year, an interest payment of $70.7 million was made from the Unemployment Compensation Interest Contingency Fund (Fund 5HC0).

After the first three years of the program, it is unlikely that short-time benefits would require the state to borrow any additional amounts from the federal government to issue benefits since benefits issued under short-time plans would be offset by a decrease in regular benefits issued under layoffs.

Fringe benefits

The bill requires employers that provide fringe benefits to continue to provide those benefits under short-time plans. State agencies and local government entities that participate in short-time plans would realize an increase in costs to continue to provide these benefits to employees participating in short-time plans. These are costs that would not be incurred if a state or local government entity were to institute layoffs.

Worker training

The bill requires that employers permit employees participating in short-time programs to participate in training programs including employer-sponsored training and other training programs funded under the federal Workforce Investment Act (WIA). This may increase the costs of local workforce investment areas and local One-Stop centers to provide training services to employees participating in short-time programs, as the number of employees under a short-time plan would likely be greater than the number of employees that would have been affected by a layoff. In FY 2011, about 18,790 adults and 19,790 dislocated workers received training services under WIA through local One-Stops. The average cost per individual in that year was about $1,600.

WIA workforce training programs are fully funded by the federal government. For FY 2012, Ohio's federal WIA allocation was $105.5 million. Of this amount, $89.2 million (85%) was allocated to Ohio's 20 workforce investment areas, and the state retains about $16.3 million (15%) for statewide activities, including the Rapid Response Program, and administration. WIA funds are expended out of line item 600688, Workforce Investment Act.

Bridge to Work Program

The bill establishes the Bridge to Work Program. Under this program, employers may hire unemployed individuals but do not pay them wages; individuals' unemployment benefits serve as wages. The bill limits participation to actual unemployment benefit claimants. The bill specifies that unemployment benefits are not considered income for the purposes of determining eligibility for need-based programs that are either fully or partially funded with federal dollars.

It is not clear if the program would meet the definition of a Learn to Earn Program, which was recently established in law by S.B. 316 (the definition will become effective later this year). A learn to earn program is defined as any program established by ODJFS that offers a structured, supervised training opportunity to an eligible unemployment compensation claimant with a designated worksite training provider. Participation is voluntary and may not exceed 24 hours a week for six weeks. (However, the bill specifies different parameters: individuals may work 38 hours per week up to eight weeks.) Individuals may receive unemployment compensation benefits while in the program. These provisions establish parameters for a learn to earn program, but do not require ODJFS to implement such a program.

According to ODJFS, a learn to earn program can be established through agency rules; and, such a program is currently in development. Therefore, there is no direct fiscal impact from the provisions in the bill. When the program takes effect, there would be costs for establishing criteria and rules for participating and for monitoring employers to ensure compliance with rules and law. The amount of the increase in costs would depend upon the number of employers that choose to participate in the program.

There may be an indirect increase in costs to need-based programs operated by ODJFS, as individuals may be eligible for receiving benefits or services while receiving unemployment benefits. Such programs include Medicaid, the Food Assistance Program (formerly named "Food Stamps"), the Prevention, Retention, and Contingency (PRC) Program, and Ohio Works First (OWF) cash assistance. These programs are funded mainly with federal dollars as well as with state dollars.

Provisions based on the Unemployment Insurance Modernization Act (UIMA)

The UIMA, a part of the American Recovery and Reinvestment Act (ARRA), made available incentive payments to states that amended their unemployment compensation laws to provide more generous base-period calculations and to expand qualifications for benefits through two of four policy changes. These incentive payments are no longer available.[10] The bill includes three of the four policy changes, which are summarized in the table below. (The remaining change, not included in the bill, would reduce benefits for claimants with dependents.) The table also includes the estimated impact to benefit payments issued from the trust fund for each policy.

[10] A total of $264.5 million was available to Ohio. Ohio received one-third of the incentive payment ($88.1 million) from adopting a more generous base period. If a state made two of the four changes proposed prior to September 1, 2011, the state could have qualified for the remaining federal dollars.

Table 2. Summary of Unemployment Compensation Policy Changes based on UIMA		
Policy Category	**Policy Change Description**	**Estimated Annual Impact**
"Work search" Definition	Extend eligibility to unemployed individuals seeking part-time employment	$15 million to $25 million increase in payments
Domestic Violence/Compelling Family Reason	Extend eligibility to individuals that leave work due to certain personal or family circumstances such as being a domestic violence victim, caring for a sick immediate family member, or relocating with a spouse who moved due to a change in the location of their employment	$33 million increase in payments
Training Activities	Pay an additional 26 weeks of regular benefits to individuals that enroll in approved training activities	$19 million increase in payments

The cost estimates for all these options were made by Urban Institute economist Dr. Vroman in a report to ODJFS. The estimates are based on benefit levels and the number of beneficiaries in 2009 and 2010. Beneficiaries have declined significantly since then, which would result in much lower estimates. However, benefit levels generally increase each year, which would put slight upward pressure on the estimates in future years. The estimates also include multiple assumptions pertaining to the number of individuals that could be eligible for benefits under each policy change. In his report, Dr. Vroman states that the estimates should be regarded as "preliminary," as data from other states is limited and other factors could affect the number of claimants under each policy option. However, these are the only estimates available to LSC staff on how these eligibility changes would impact the trust fund. The estimates only pertain to impact to the trust fund and do not include administrative costs that ODJFS could incur to establish and maintain such changes. More details on each policy are listed in the following sections.

Work search definition

Under current law, individuals are only eligible for unemployment benefits if they show that they are seeking full-time employment. The bill extends eligibility to individuals who seek part-time work by changing the definition of "work search" to include part-time employment. This change is estimated to increase benefit payments from $15 to $25 million annually. Though this provision changes the definition of work search, the bill retains the initial minimum requirements for benefit eligibility. Generally, to qualify for benefits, an individual must have worked at least 20 weeks in covered employment with sufficient wages during a base period. "Covered employment" is time spent working for an employer that participates in the UC system. "Sufficient wages" amount to at least $222 on average per week for 2012, before taxes or other deductions (this amount is updated each year). The base period is the first four of the last five completed calendar quarters before the claim was filed. Generally, most part-time workers do not meet the minimum requirements for unemployment benefits.

Domestic violence/compelling family reason

According to a report from Urban Institute economist Dr. Vroman, extending eligibility to individuals that leave work due to certain personal or family circumstances may cost the trust fund $33.0 million per year. Dr. Vroman states that the costs are mostly associated with those citing compelling family circumstances; costs associated with domestic violence victims are relatively low. A "compelling family circumstance" is defined as one of the following situations: having a sickness or disability that required leaving employment, caring for a sick immediate family member, or relocating with a spouse who moved due to a change in the location of their employment.

Approved training activities

The bill provides an additional 26 weeks of unemployment benefits to individuals that enroll in approved training activities. Dr. Vroman estimates this provision could result in an increase in benefits per year of about $19 million. Costs could be more or less depending on the number of individuals that meet the training requirements outlined in the bill. Dr. Vroman has cautioned that due to the lack of data on the duration of training activities, this estimate is particularly "questionable."

Administration

The additional administrative funding the state would receive from DOL as a result of the UIMA policy changes would depend on the actual increase in ODJFS's costs to process additional claims. For implementing the training provisions, ODJFS has estimated administrative costs of about $3 million, due to significant amounts of system reprogramming; ODJFS also estimates an implementation timeline from 12 to 18 months for that provision. For implementing the eligibility change for those with compelling family circumstances and domestic violence victims, ODJFS's administrative costs would likely increase to establish rules, determine instances of domestic violence, and determine if claimants' circumstances meet the criteria of "compelling family circumstances." As ODJFS currently does not perform these determinations, costs may be significant; though, no specific estimate is available. For allowing those seeking part-time work to meet work search requirements, ODJFS had estimated a minimal increase in administrative costs. The administrative costs for changing benefit amounts based on dependents is uncertain.

Effects on borrowing

As stated earlier, Ohio currently has a principal balance of $1.79 billion from borrowing from the federal government to issue regular benefits. When the state is in a borrowing situation, new or increased benefits must be paid from the state's current unemployment tax receipts. The benefits extended to individuals under the UIMA provisions in the bill may reduce the amount available to pay existing benefits and therefore increase the amount the state must borrow to pay those benefits. Any additional borrowing that results from this bill will increase the amount of trust fund dollars that will be utilized to pay back the principle and state resources that will be needed to pay interest on those amounts.

Effects on employers

Reimbursing employers. Reimbursing employers are billed once a month, after the fact, for the amount of benefits paid to the employer's former employees from the trust fund. The bill may increase the amount of unemployment compensation that the state or local governments will have to reimburse to the trust fund for public employees who would be eligible for benefits under the bill.

Contributory employers. Most private employers are contributory employers. If a contributory employer must pay on a claim, payment of the unemployment compensation benefit is paid from the employer's account in the trust fund. Depending on an employer's "experience" of unemployment claims paid from the employer's account, the state tax rate ranges from 0.7% to 9.1%, paid on the first $9,000 of each employee's taxable wage.

Private employers' experience rates may increase from paying benefits to individuals who would be eligible under the bill. This would result in an increase in the state's unemployment tax receipts deposited into Ohio's trust fund. However, employers' experience rates would not be affected by individuals that receive benefits due to involvement in an approved training program. The bill specifies that benefits for these individuals would be paid out of the state's mutualized account in the trust fund. The mutualized account is separate from employer accounts in the trust fund and is maintained for the primary purpose of recovering the costs of unemployment benefits that were paid and not chargeable to individual employers for a variety of reasons. This account is supported by a mutualized tax rate that is the same for all contributory employers (0.4%) regardless of each employer's experience rate. If benefits paid to claimants in training programs are significant, the mutualized tax rate may increase for contributory employers, thereby increasing receipts to the Ohio trust fund's mutualized account. The mutualized account has had a negative balance since FY 2006.

Pathways Back to Work Fund

The bill establishes the Pathways Back to Work Fund in temporary law. The bill specifies that the fund is to be used to provide (1) subsidized employment to unemployed and low-income adults, (2) summer and year-round employment opportunities to low-income youth, and (3) competitive grants to local workforce investment boards to provide job training services to low-income adults. The bill makes no appropriations to support these activities. The bill also does not specify a revenue source for the Pathways Back to Work Fund.

Youth employment programs

The bill authorizes the Director of ODJFS to issue competitive grants to nonprofit organizations that administer job programs for urban youth and summer employment programs for all youth in the state. The bill specifies the information that nonprofit organizations must provide to apply for the grants for urban youth. It also specifies services that organizations must provide to urban youth including case management, educational services, job readiness activities, and other support services. For summer youth programs, the bill specifies that organizations that apply for grants are required to provide at least 20% of matching funds to receive a grant. The bill earmarks $12 million for grants to urban youth programs and $5 million for grants for summer employment opportunities in FY 2012. This funding is supported by a new GRF line item established in the bill, 600536, Youth Employment Programs, and appropriated in ODJFS.

Department of Development Programs

State Fiscal Highlights

STATE FUND	FY 2012	FY 2013	FUTURE YEARS
General Revenue Fund			
Revenues	Cash transfer of $12.1 million from Unclaimed Funds Trust Fund	Cash transfer of $63.0 million from Unclaimed Funds Trust Fund	- 0 -
Expenditures	Cash transfer of $40.0 million to Small Business Microloan Revolving Fund (Fund 5KS0); Cash transfer of $30.0 million to Clean Ohio Revitalization Fund; Increase of $70.0 million for Neighborhood Revitalization Block Grants; Cash transfer of $40.0 million to Fund 5KV0	- 0 -	- 0 -
Unclaimed Funds Trust Fund (Fund 5430)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Cash transfer of $12.1 million to the GRF	Cash transfer of $63 million to the GRF	- 0 -
Small Business Microloan Revolving Fund – New (Fund 5KS0)			
Revenues	Cash transfer of $40 million from the GRF; potential gain from loan repayments	Gain from loan repayments	Gain from loan repayments
Expenditures	Increase of up to $40 million to make and administer microloans	Increase to make and administer microloans	Increase to make and administer microloans
Minority and Small Business Bonding Administrative and Loss Reserve Fund (Fund 4500)			
Revenues	Gain from new surety bond premiums	Gain from new surety bond premiums	Gain from new surety bond premiums
Expenditures	Minimal increase to administer Small Business Bonding Program and Small Business Development Financing Advisory Board	Minimal increase to administer Small Business Bonding Program and Small Business Development Financing Advisory Board	Minimal increase to administer Small Business Bonding Program and Small Business Development Financing Advisory Board

Minority and Small Business Bonding Fund (Fund 4490)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase to cover losses on small business surety bonds	Potential increase to cover losses on small business surety bonds	Potential increase to cover losses on small business surety bonds
Clean Ohio Revitalization Fund (Fund 7003)			
Revenues	Cash transfer of $30 million from the GRF	- 0 -	- 0 -
Expenditures	Increase of up to $30 million for additional brownfield revitalization projects	- 0 -	- 0 -
Infrastructure Development Loan Fund (Fund 5KV0) – Public Works Commission			
Revenues	Gain of $40 million from GRF transfer	Gain in revenue from loan repayments, including principal and interest	
Expenditures	Increase of $40 million to provide loans and grants for local infrastructure projects	Increase in expenditures to continue the revolving loan program, subject to the necessary appropriations being provided	

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

- The bill requires the transfer of $40 million in FY 2012 from the GRF to the Small Business Microloan Revolving Fund (Fund 5KS0). These funds will be used to make and administer loans of up to $50,000 for eligible small businesses with fewer than 500 employees. Loan repayments would be deposited into Fund 5KS0.
- The bill increases the current maximum bond amount for the Minority Business Bonding Program, and sets the maximum bond amount for the new Small Business Bonding Program, at $2 million.
- The Minority and Small Business Bonding Administrative and Loss Reserve Fund (Fund 4500) could gain revenues from additional premiums on larger minority business bonds up to the $2 million cap, and would gain revenues from new bonds issued for small businesses under the Small Business Bonding Program.
- Fund 4500 would incur some minimal additional administrative costs to start up the Small Business Bonding Program and to support the Small Business Development Financing Advisory Board.
- The Minority and Small Business Bonding Fund (Fund 4490) could incur additional expenses to cover losses resulting from bond defaults that occur under the bonding programs.
- The bill creates the Neighborhood Revitalization Block Grant Program in the Department of Development to assist counties and political subdivisions with local rehabilitation projects. The bill appropriates $70 million in FY 2012 out of GRF line item 195529, Neighborhood Revitalization Block Grants, for this purpose.
- The bill increases appropriations to line item C19500, Clean Ohio Revitalization, in the Clean Ohio Revitalization Fund (Fund 7003) by $30 million in FY 2012 through a

cash transfer from the GRF in order to support additional brownfield cleanup projects.

- The bill provides $40 million in FY 2012 to the Infrastructure Development Loan Fund (Fund 5KV0), which is to be used by the Public Works Commission to competitively award loans or grants to local governments for infrastructure improvement projects. Loan repayments are to be deposited into Fund 5KV0 to be used to make additional loans, establishing a revolving loan program. The initial funding for the program is supported by a $40 million transfer from the GRF.
- The bill requires cash transfers of $12.1 million from the Unclaimed Funds Trust Fund (Fund 5430) to the GRF in FY 2012, and $63 million from Fund 5430 to the GRF in FY 2013. These transfers are in addition to the up to $215 million authorized for transfer from Fund 5430 to the GRF under H.B. 153, the main operating budget act for the FY 2012-FY 2013 biennium.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2012	FY 2013	FUTURE YEARS
Counties, municipalities, townships, and public libraries			
Revenues	Gain from Neighborhood Revitalization Block Grants	- 0 -	- 0 -
Expenditures	Increase for eligible Neighborhood Revitalization Block Grant projects	- 0 -	- 0 -
Counties, municipalities, and townships			
Revenues	Gain of $40.0 million in loans or grants	Gain from loan awards through continuation of revolving loan program; potential gain from real property taxes and payments in lieu of taxes from property owners benefitting from infrastructure projects	
Expenditures	Potential increase of $40.0 million in infrastructure improvement projects	Increase from loan repayments, including principal and interest; potential increase in spending on infrastructure improvement projects through continuation of loan program	

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The bill authorizes the Department of Development to award up to $70 million in Neighborhood Revitalization Block Grants in FY 2012. Counties and political subdivisions would be able to spend these funds to carry out eligible rehabilitation projects.
- The bill creates a $40 million program to competitively award loans or grants for local government infrastructure improvement projects. Revenue from loan repayments would be used to make new loans, creating a revolving loan program. The funds, administered by the Public Works Commission, may be used to satisfy any requirement to provide a matching contribution to draw federal funds either directly or through the state.
- Any loans awarded would be directed towards public infrastructure improvements in blighted or distressed areas. As a result of the public improvements, real

property values and thus, real property tax revenues, may rise. Loans would be repaid through payments in lieu of taxes from property owners benefitting from the public infrastructure improvements.

Detailed Fiscal Analysis

Small Business Revolving Microloans Program

The bill establishes a Small Business Revolving Microloan Program in the Department of Development (DOD) to provide financial assistance to Ohio businesses with fewer than 500 employees. Loans under the program are to be used for capitalization requirements, business expansion, and the creation and retention of jobs. Loans are capped at $50,000 and are to be repaid at a fixed rate at or below the market rate in the community where the borrower does business.

The bill establishes the Small Business Microloan Revolving Fund (Fund 5KS0) in the state treasury for the purposes of issuing these loans and receiving loan repayments. The bill provides an initial capitalization of this fund through a cash transfer from the GRF of $40.0 million in FY 2012. The bill appropriates that amount in line item 195666, Small Business Revolving Microloans, in FY 2012 to provide loans under the program.

The bill also requires the Director of Development to adopt, amend, or rescind rules to govern the program. Such rules are to include the qualifications for receiving a loan; procedures and criteria for reviewing loan applications; and procedures for determining the amount of a loan, purposes for which a loan may be used, and interest to be paid on a loan. Adopting such rules and starting up the program could result in additional administrative costs to DOD, which would likely be paid using a portion of the initial cash transfer from the GRF to Fund 5KS0.

Small and minority business bonding programs

The bill establishes a Small Business Bonding Program that is broadly similar to the current Minority Business Bonding Program run by DOD. Under the existing program, eligible minority businesses may apply for a surety bond of up to $1 million from the state on contracts with the state or instrumentalities thereof, political subdivisions or instrumentalities thereof, or other obligees. In order to receive a bond, minority businesses pay a premium to the state, which is deposited into the Minority Business Bonding Administrative and Loss Reserve Fund (Fund 4500), which supports the administration of the program and covers a portion of any losses resulting from defaults. Most default losses are paid from the Minority Business Bonding Fund (Fund 4490), which is capitalized on an as-needed basis by the transfer of unclaimed funds held by the Department of Commerce.

New Small Business Bonding Program

As mentioned above, the new Small Business Bonding Program established by the bill is modeled after the existing Minority Business Bonding Program. The bill renames the two funds used by the existing program accordingly. Fund 4490 is renamed the Minority and Small Business Bonding Fund, while Fund 4500 is renamed the Minority and Small Business Bonding Administrative and Loss Reserve Fund.

The new Small Business Bonding Program established by the bill allows small businesses, defined as those with annual payroll expenditures of $5 million or less, to apply for a surety bond of up to $2 million from the Small Business Development Financing Advisory Board (see below). Participating small businesses would pay a premium into Fund 4500. The amount of the premium charged to businesses would be determined by the Director of Development with the advice of the Superintendent of Insurance based on the market rates for similar bond premiums. The current premium rate for the Minority Business Bonding Program is 2% of the face value of the bond; a similar premium would likely be put into effect for the Small Business Bonding Program.

Adding small businesses to the eligible businesses that may apply for surety bonds and pay premiums would result in an increase in premium revenues to Fund 4500. However, the extent of such an increase would depend on the premium rates adopted for small businesses, the number of businesses that participate, and the value of the surety bonds issued. In the event of a default on a bond issued under the program, Fund 4500 would also be used to cover a portion of any losses resulting from defaults on surety bonds under the Small Business Bonding Program in conjunction with Fund 4490, in the same manner as the current Minority Business Bonding Program structure.

Changes to Minority Business Bonding Program

The bill increases the maximum amount of a surety bond that may be issued to a minority business from $1 million to $2 million, equal to the maximum allowable amount under the newly created Small Business Bonding Program. If larger bonds are issued under the Minority Business Bonding Program, this could also result in an increase in participating businesses and an increase in premiums paid into Fund 4500. Additionally, any increase in defaults under the program could result in additional expenditures from Fund 4490.

Small Business Development Financing Advisory Board

The bill creates the Small Business Development Financing Advisory Board, to consist of ten members, seven of whom are to be appointed by the Governor with the advice and consent of the Senate. The remaining three members are the Director of Development or the Director's designee, a member of the House of Representatives appointed by the Speaker of the House, and a member of the Senate appointed by the President of the Senate. This Board generally mirrors the current Minority Business

Development Financing Advisory Board in its composition and duties, but deals with small businesses rather than minority businesses.

As with the Minority Business Development Financing Advisory Board, members of the Small Business Development Financing Advisory Board are entitled to actual and necessary expenses incurred while engaged in official Board business and are to be paid a per diem rate equivalent to step 1 of pay range 31, or $9.15 per hour. This equates to $73.20 per member for each day of Board business conducted. These costs, as well as other administrative costs of the program, would likely be paid out of Fund 4500, as they are currently for the Minority Business Bonding Program.

Neighborhood Revitalization Block Grants Program

The bill creates the Neighborhood Revitalization Block Grants Program for DOD to assist political subdivisions with eligible revitalization purposes. Funds are to be awarded to counties, who in turn will provide awards to other political subdivisions, nonprofit organizations, or for-profit organizations for capital infusions to county land banks, rehabilitating distressed properties, and creating property maintenance programs. The bill appropriates $70.0 million in FY 2012 from the GRF for this purpose, in DOD line item 195529, Neighborhood Revitalization Block Grants.

Clean Ohio Revitalization Program

The bill provides additional funding for the Clean Ohio Revitalization Program in FY 2012 by transferring $30 million from the GRF to the Clean Ohio Revitalization Fund (Fund 7003), and appropriating it in line item C19500, Clean Ohio Revitalization. H.B. 487 of the 129th General Assembly subsequently appropriated $12 million to the line item, effective September 10, 2012. As a result, these appropriations from the 129th General Assembly increase available funds to the line item by a combined $42 million.

S.B. 181 of the 128th General Assembly previously appropriated $80 million to the program for FY 2011 and FY 2012 using the proceeds of Clean Ohio bonds that are repaid from state liquor profits. The additional $30 million would be used to increase the number of grants that could be issued to clean up and remediate brownfield sites, primarily in urban areas, in preparation for planned future development.

Unclaimed funds transfers to the GRF

H.B. 153, the main operating budget act for the FY 2012-FY 2013 biennium, authorized cash transfers of up to $215 million from the Unclaimed Funds Trust Fund (Fund 5430) to the GRF over the FY 2012-FY 2013 biennium. As of August 2012, $125.0 million in cash has been transferred from Fund 5430 to the GRF under this authority. In addition to the amounts authorized for transfer under H.B. 153, this bill requires additional cash transfers of $12.1 million in FY 2012 and $63.0 million in FY 2013 from Fund 5430 to the GRF.

Education and Other State Fiscal Highlights

STATE FUND	FY 2012	FY 2013	FUTURE YEARS
General Revenue Fund			
Revenues (transfers in)	Up to $180.6 million	$63 million from unclaimed funds (in the Department of Commerce)	- 0 -
Expenditures	Increase of $153.0 million	- 0 -	- 0 -
Budget Stabilization Fund (Fund 7013)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures (transfer to GRF)	$68.5 million	- 0 -	- 0 -
Economic Development Programs Fund (Fund 5JC0)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures (transfer to GRF)	Up to $100.0 million	- 0 -	- 0 -

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

- The bill appropriates an additional $50.0 million in FY 2012 for state foundation aid to school districts.
- The bill appropriates $45.0 million in FY 2012 for the new Workforce Realignment Program to be administered by the Chancellor of the Board of Regents.
- The bill appropriates $9.0 million in FY 2012 for an Ohio Skills Bank Grant Program to be administered by the Chancellor of the Board of Regents.
- The bill appropriates $30.0 million in FY 2012 for the School Facilities Commission to administer a grant program to assist schools in becoming more energy efficient.
- The bill appropriates $19.0 million in FY 2012 for the new High School Job Training Grants Program to be administered by the Ohio Department of Education.
- The bill requires transfers to the GRF of $68.5 million from the Budget Stabilization Fund and up to $100.0 million from the Economic Development Programs Fund.
- The bill requires transfers to the GRF of $12.1 million in FY 2012 and $63.0 million in FY 2013 from unclaimed funds in the Department of Commerce.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2012	FY 2013	FUTURE YEARS
School Districts and Community Colleges			
Revenues	Increase of $99.0 million	- 0 -	- 0 -
Expenditures	Increase of $49.0 million	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The bill appropriates an additional $50.0 million in FY 2012 for state foundation aid to school districts.
- School districts receive up to $30.0 million in grants from the School Facilities Commission, which must be spent on projects that make schools more energy efficient.
- School districts and community colleges receive up to $19.0 million in grants from the Ohio Department of Education for creating or enhancing career-technical job training programs.

Detailed Fiscal Analysis

Workforce Realignment Program

The bill establishes the new Workforce Realignment Program to be administered by the Chancellor of the Board of Regents and appropriates $45.0 million in FY 2012 from the GRF for the program. The bill specifies that the program is to provide scholarships and grants to individuals who have been unemployed for more than six months. The scholarships and grants are to assist the awardees in obtaining the industry-recognized credentials needed to obtain employment in high-growth fields. Scholarships are to be targeted to institutions offering degrees or certificates in two years or fewer.

Ohio Skills Bank Grant Program

The bill establishes the new Ohio Skills Bank Grant Program to be administered by the Chancellor of the Board of Regents and appropriates $9.0 million in FY 2012 from the GRF for the program. The bill specifies that the program is to provide grants to partnerships and coalitions between institutions of higher education and industry actors. The grants are to identify and mitigate critical skill shortages within targeted industries and facilitate worker training opportunities. Grant recipients must obtain a 25% funding match from private sector sources.

Energy Efficiency Grants Program

The bill establishes the new Energy Efficiency Grants Program to be administered by the School Facilities Commission (SFC) and appropriates $30.0 million in FY 2012 from the GRF for the program. The bill specifies that SFC is to provide grants to schools to assist the schools in becoming more energy efficient.

High School Job Training Grants Program

The bill establishes the new High School Job Training Grants Program to be administered by the Ohio Department of Education (ODE) and appropriates $19.0 million in FY 2012 from the GRF for the program. The bill specifies that the program is to provide grants to school districts and community colleges partnering with sponsoring local employers to create or strengthen 11th and 12th grade career-technical job training programs. Sponsoring employers are required to participate in the design of the job training programs to ensure that the curricula includes the development of skills that are transferable to the workplace and on the job experience with the sponsoring employer. The bill requires sponsoring employers to match at least 25% of the awarded grant amounts.

State foundation aid for school districts

The bill increases the appropriation for state foundation aid for school districts by $50.0 million in FY 2012. This results in an increase in expenditures for the state and an increase in revenues for school districts. The distribution of state foundation aid to school districts in FY 2012 is based on the distribution in FY 2011. Following this distribution, ODE must adjust the amount of aid allocated to each district so that total aid remains within the appropriation. An increase in appropriation as under the bill, therefore, will follow the same distribution as established for FY 2012 under current law.

Transfer from the Budget Stabilization Fund to the GRF

The bill requires that $68.5 million be transferred from the Budget Stabilization Fund (Fund 7013) to the GRF on the effective date of Section 11 of the bill or as soon thereafter as possible. Because the bill contains an appropriation, this provision is expected to go into effect immediately if the bill is passed and signed into law.

Transfer from the Economic Development Programs Fund to the GRF

The bill requires that up to $100.0 million be transferred from the Economic Development Programs Fund (Fund 5JC0) to the GRF as soon as possible in FY 2012. This money is to be used for workforce development initiatives in the bill. Fund 5JC0 is created in Revised Code section 3772.17, which specifies that the upfront fees of $50 million for each casino license, or a total of $200 million for the four casinos, are to be deposited into this fund. Because the bill contains an appropriation, this provision is expected to go into effect immediately if the bill is passed and signed into law.

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