Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.J.R. 6 of the 130th G.A.

Date: January 8, 2014

Status: As Introduced

Sponsor: Sens. Bacon and Manning

Local Impact Statement Procedure Required: No

Contents: To seek voter approval of issuing additional general obligation bonds to fund public infrastructure capital improvements

State Fiscal Highlights

- The resolution proposes to submit for the state voters' approval at the May 6, 2014, special election a constitutional amendment authorizing the state to issue up to $1.875 billion in general obligation bonds for public infrastructure improvement purposes.
- Appropriations made to the Controlling Board under GRF appropriation item 911441, Ballot Advertising Costs, are used to reimburse the Secretary of State for expenses incurred in advertising ballot issues statewide. The amounts of the reimbursements approved by the Controlling Board are transferred to the Statewide Ballot Advertising Fund (Fund 5FH0) under the Secretary of State's budget.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

The resolution proposes to include a constitutional amendment on the ballot of the statewide special election to be held on May 6, 2014. The resolution proposes to enact Section 2s of Article VIII of the Ohio Constitution to authorize the General Assembly to permit the issuance of up to $1.875 billion in general obligation (GO) bonds to fund public infrastructure capital improvements.

Under the proposed amendment, the state may issue up to $175 million principal amount of infrastructure GO bonds in each of the first five fiscal years. In addition, not more than $200 million principal amount of those obligations may be issued in each of the next five fiscal years of issuance. In each case, the state may also issue the principal amount of those obligations that in any prior fiscal year could have been but were not issued within the fiscal year limits. The proposed amendment specifies that the maximum maturity period for each issue of obligations must not exceed 30 years. The proposed amendment also specifies that no obligations may be issued pursuant to Section 2s until all of the infrastructure obligations authorized under Section 2p of Article VIII, Ohio Constitution have been issued. In November 2005, Ohio voters approved a constitutional amendment (under Section 2p) authorizing the state to issue up to $1.35 billion in GO bonds for public infrastructure capital improvement purposes. According to an official at the Office of Budget and Management, the authority under Section 2p would be exhausted by FY 2017.

The resolution would have a direct fiscal impact on the state, but not on local governments.

Fiscal effect

If both houses of the General Assembly concur in the resolution, it would increase costs for the Secretary of State (SOS). The SOS would incur costs of between tens and hundreds of thousands of dollars to include the issue in the statewide special election and for statewide advertising costs to inform Ohioans on the ballot issue. The actual advertising costs would depend on the number of words that need to be included in the ballot issue. Any such advertising cost will be paid out of the Statewide Ballot Advertising Fund (Fund 5FH0). The revenue source for this fund is GRF transfers from the Controlling Board.

Indirect fiscal effect

Furthermore, if the constitutional amendment is approved by voters, the General Assembly would be able to enact law and authorize the issuance of up to $1.875 billion in GO bonds to finance or assist in financing the costs of projects for the local government public infrastructure capital improvements. Therefore, voter approval of the proposed amendment would allow additional debt authorization and issuance of GO bonds for such purposes in the future. The fiscal impact to the state and local government will depend on the timing of bond issuance and the interest rate that will be paid on each bond. In addition, the debt service payments will be spread over the entire lifetime of the bonds.

Assuming the state issued $175 million of such bonds per fiscal year, in FY 2017 through FY 2021, and $200 million each in FY 2022 through FY 2026, with a maturity period of 30 years and an interest rate of 4.5%, the estimated total cost of debt service payments would be approximately $3.5 billion, spread over 30 years; debt service payments would range between $10.7 million and $115.1 million per fiscal year.[1] Actual debt service payments may be higher or lower depending on market interest rates at the times the bonds are issued and the number of years over which they are to be paid off. Funding for debt service payments on bonds issued to fund public infrastructure capital improvements comes from GRF.[2] Thus, the estimated debt service payments for bonds under this resolution will be added to the state's current debt service payments. As a result, it may reduce the availability of state revenue for other state programs in future years. In addition, the resolution specifies that debt service payments related to the new bonds are backed by the state's full faith, revenue, credit, and taxing power. Thus, these bonds are included in the total bonded debt of the state and restricted to the state 5% debt limit.[3]

Bond proceeds from bonds under this resolution would provide continuing funding for the State Capital Improvement Program (SCIP), administered by the Public Works Commission (PWC). SCIP provides grants, loans, and loan assistance or local debt support to eligible counties, cities, villages, townships, and water and sanitary districts for eligible public infrastructure improvement projects. Under the SCIP, eligible local governments must apply for funding through the 19 district integrating committees. As projects are approved, grants and loans will be awarded resulting in a revenue gain to particular political subdivisions. In addition, SCIP has two subprograms, the Small Government Program and the Emergency Program, under which certain amounts of funding are set aside in each fiscal year for villages and townships with less than 5,000 in population and for infrastructure emergencies, respectively. Funding under the Small Government Program is mainly for selected

[1] Interest rates on public infrastructure bonds issued between 1997 and 2007 (ten years prior to the financial crisis) ranged between 3.3% and 5.4%. The 30-year maturity is simply a maturity period assumed by LSC staff.

[2] Debt service on bonds issued under the authority of Section 2p, Article VIII of the Ohio Constitution is paid from GRF line item 150907, State Capital Improvements General Obligation Debt Service, under the Public Works Commission's budget.

[3] In FY 2000, Ohio's Constitution established a 5% debt limit on the amount of GRF-backed debt that the state may incur in a fiscal year. In general, the state may not issue new obligations if total debt service payments for any future fiscal year on the new and the then outstanding bonds would exceed 5% of the total estimated GRF revenues plus net state lottery proceeds in the fiscal year of issuance, unless the 5% debt limit is waived by voters or by a three-fifths vote of each house of the General Assembly.

village and township projects that have not been funded through the districts. Funding under the Emergency Program is for emergency projects based on a first come, first served basis year-round as long as funding is available.

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