



## *Resolution Analysis*

*Mark C. Flanders*

*Legislative Service Commission*

### **Sub. S.J.R. 1**

123rd General Assembly

(As Reported by H. Finance & Appropriations)

**Sens. Carnes, Cupp, White, Ray, Johnson, Gardner, Hottinger, Kearns, Fingerhut, Prentiss, Latell, Herington, Shoemaker, Oelslager, Watts, Brady, Spada, Mumper, Drake, Mallory, Armbruster, Espy**

**Reps. Thomas, Cates, Carey, Perz, Metzger, O'Brien, Womer Benjamin, Damschroder, Hoops, Core, Amstutz, Mottley, Corbin, Mead, Vesper, Barrett, D. Miller, Metelsky, Jones, Wilson, Sullivan, Opfer, Goodman, R. Miller**

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### **RESOLUTION SUMMARY**

- Proposes a constitutional amendment to:
  - (1) Authorize legislation providing for the issuance of general obligation bonds for the purpose of paying the costs of facilities for a system of common schools throughout the state and facilities for institutions of higher education.
  - (2) Prohibit the issuance of direct obligations of the state if the amount of debt service payments the state must make in any future fiscal year from the General Revenue Fund and net lottery proceeds would exceed 5% of total General Revenue Fund expenditures and net lottery proceeds expenditures during the fiscal year preceding issuance, unless this limit is waived by the vote of at least three-fifths of the members of each house of the General Assembly.

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## CONTENT AND OPERATION

### *New bonding authority*

(Section 2n of Article VIII, Ohio Constitution)

The state of Ohio cannot issue general obligation bonds--bonds that are backed by the pledge of the state's full faith and credit--except for purposes and in amounts specifically authorized by the Ohio Constitution. The authority to issue general obligations is provided in Article VIII of the Constitution. General obligations presently authorized by Article VIII include (1) up to \$1.2 billion for public infrastructure capital improvements, pursuant to Section 2m, (2) up to \$1.2 billion outstanding at any one time for highways, pursuant to Section 2m, (3) up to \$200 million outstanding at any one time for state and local park capital improvements, pursuant to Section 2l, (4) up to \$50 million outstanding at any one time for financing coal research, pursuant to Section 15, (5) unspecified amounts to repel invasion, suppress insurrection, or defend the state in war, pursuant to Section 2, and (6) up to \$750,000 at any one time to "supply casual deficits or failures in revenues, or to meet expenses not otherwise provided for," pursuant to Section 1.

The resolution proposes to enact Section 2n of Article VIII of the Ohio Constitution to authorize the General Assembly to provide by law for the issuance of general obligation bonds for the purpose of paying the costs of (1) facilities for a system of common schools throughout the state and (2) facilities for state-supported and state-assisted institutions of higher education. The total principal amount of bonds issued is to be determined by the General Assembly.

### *Full faith and credit*

The full faith and credit, revenue, and taxing power of the state is pledged to the payment of any obligations issued under the authority of Section 2n, and provision must be made or authorized for the timely payment of debt service through the establishment of bond retirement funds, the sufficiency and appropriation of the amounts pledged to debt service, and the continuation, collection, and application of sufficient taxes, excises, and revenues to the extent needed for debt service. No further act of appropriation is required for continuing the application of the excises, taxes, and revenues pledged to the payment of debt service. Revenue currently restricted primarily for highway-related purposes by Section 5a of Article XII of the Constitution is not available for the payment of debt service on the new obligations. Net lottery proceeds can be pledged or used

for the payment of debt service on obligations issued for school facilities, but not on obligations issued for facilities for institutions of higher education.

In the case of the issuance of bond anticipation notes, provision must be made by law or in the bond or note proceedings for the establishment and maintenance of special funds, into which must be paid the same amount, during the period the notes are outstanding, that would have been sufficient to pay the principal on those bonds during that period if the bonds had been issued without the prior issuance of anticipation notes. The special funds and investment income on them must be used solely for the payment of the principal of the notes or of the bonds anticipated.

### **Maturation period**

Each issue of obligations under Section 2n must mature not later than December 31 of the 25th year after the year of issuance. Obligations issued to refund previously issued obligations must mature not later than December 31 of the 25th year after the year in which the original obligation to pay was issued or entered into.

### **Taxability**

Obligations issued under Section 2n, their transfer, and the investment earnings on them, including profit made on their sale, exchange, or other disposition, are free from taxation within the state.

### **5% limitation on the amount of direct obligations**

(Section 17, Article VIII, Ohio Constitution)

The resolution prescribes in the Constitution a limitation on the issuance of direct obligations that the state has informally adhered to for several years. (Direct obligations of the state are defined as notes and bonds issued by the state on which the state is the primary or sole obligor.) Under the terms of proposed Section 17, such obligations cannot be issued if in any future fiscal year the amount required for the payment of debt service on all direct obligations to be outstanding and payable from the General Revenue Fund or net lottery proceeds during that future fiscal year would exceed 5% of the total General Revenue Fund expenditures and net lottery proceeds expenditures of the state during the fiscal year immediately preceding issuance. However, this limitation does not apply if it is waived by the affirmative vote of three-fifths of the members of each house of the General Assembly, nor does it apply to (1) obligations issued to retire bond anticipation notes issued in anticipation of bonds that were within the 5% limit as estimated at

the time they were issued or (2) debt contracted by the state to repel invasion, suppress insurrection, or defend the state in war.

**Computation of the 5% limit**

For the purpose of determining whether obligations can be issued within the 5% limit, proposed Section 17 directs the General Assembly to enact laws for computing the amounts needed for debt service, and permits the General Assembly to provide for (1) estimating debt service payments on bond anticipation notes, (2) including payments of debt service on obligations issued to refund or retire prior obligations in lieu of such payments on such prior obligations, and (3) the method of computing payments of debt service on obligations required to be retired or for which sinking fund deposits are required before stated maturity.

The Governor or his designee is required to determine and certify (1) the amounts required to be applied or set aside for debt service for the fiscal year, (2) the obligations to which that debt service relates, (3) the General Revenue Fund expenditures and net lottery proceeds expenditures of the state, (4) other financial data needed to calculate the 5% limit, and (5) the latest allowable maturity of obligations. This certification is conclusive for the purposes of the validity of obligations issued under Article VIII.

**Effective date**

The proposed constitutional amendment is to be submitted to the electors at the general election to be held on November 2, 1999. If approved by the electors, the constitutional amendment will take effect immediately.

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**HISTORY**

ACTION	DATE	JOURNAL ENTRY
Introduced	01-20-99	p. 74
Reported, S. Finance & Financial Institutions	02-17-99	pp. 132-133
Adopted Senate (33-0)	02-17-99	pp. 133-135
Reported, H. Finance & Appropriations	04-14-99	p. 412

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