

Third Frontier Research & Development Projects Bond Service Fund (Fund 070)

Revenues	- 0 -	\$13,910,000 gain	\$19 million gain
Expenditures	\$0	\$13,910,000 increase	\$19 million increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2006 is July 1, 2005 – June 30, 2006.

- GRF appropriations totaling \$18,034,400 are in place to pay all debt service and related financing costs during the period July 1, 2005 to June 30, 2007 on obligations issued for both the Job Ready Site program and for research and development projects. The Office of the Sinking Fund or the Director of Budget and Management will effectuate the required payments.
- For the Job Ready Site program, a total of \$30 million in general obligation bonds may be issued. For research and development projects, a total of \$200 million in general obligation bonds may be issued.
- The Department of Development will administer both the Job Ready Site program (via District Public Works Integrating Committees) and awards of support for research and development projects under the Third Frontier program (via the Third Frontier Commission). Two appropriation items have been established to pay for operating costs incurred by the agency for these purposes; line item 195-688, Job Ready Site Operating, and line item 195-686, Third Frontier Operating.

Local Fiscal Highlights

- Under the Job Ready Site program, any political subdivision or nonprofit economic development organization is eligible to receive funding for costs associated with the acquisition of land and buildings, building construction, and improvements to land and buildings. Individual grant awards are capped at \$5 million.
- Awards of support for research and development projects will be awarded competitively to individuals, public and private entities, agencies, and institutions, private companies or organizations, research organizations, or combinations of consortiums thereof. Support may be in such manner as the Third Frontier Commission determines, and may include grants, loans, subsidies, contributions, advances, or guarantees, or by payment or reimbursement from available money, or by providing staffing or other support including computer or other technology capacity, or equipment or facilities, including interest in real property.

Detailed Fiscal Analysis

Job Ready Site Program

The bill establishes the Job Ready Site program, which will be administered by the Department of Development. The program will provide grants to any political subdivision or nonprofit economic development organization (and, with the approval of the Director of Development, to private, for-profit entities) for costs associated with the acquisition of land and buildings, building construction, improvements to land and buildings, planning or determining feasibility studies, indemnity or surety bonds and premiums on insurance, remediation, and infrastructure improvements. Projects eligible for funding include projects that, upon

completion, will be sites and facilities primarily intended for commercial, industrial, or manufacturing use. Projects intended primarily for residential, retail, or government use are not eligible for funding. Individual grant awards are capped at \$5 million. Additionally, grants may not be used to support more than 75% of a project's total cost, and not more than 10% of a grant may be used to pay the costs of professional services.

Grants may be awarded either through an annual competitive process (applicable to at least two-thirds of grants awarded each year), or at the discretion of the Director of Development. Competitive grant applications will be reviewed, both for completeness and project eligibility, by a District Public Works Integrating Committee. Committees will prioritize eligible projects after considering both local priorities, and: (a) the potential economic impact of the project, (b) the potential impact of the project on economic distress, (c) the amount of local, federal, and private funding available to the project, (d) the demonstrated need for the project, (e) the strength of the project's marketing plan, and (f) the level of financial need. Committees will then select and forward up to three eligible project applications to the Director of Development, who has ultimate approval authority over competitively selected projects. The Director must take into consideration geographic diversity of awards when making the selection of eligible projects to receive grants. All grants, both competitive and discretionary, must be approved by the Controlling Board.

Job Ready Site Development Fund

The bill establishes the Job Ready Site Development Fund, which will consist of proceeds of obligations issued and sold pursuant to sections 151.01 and 151.11 of the Revised Code and under the authority of Article VIII, Section 2p of the Ohio Constitution. The Ohio Public Facilities Commission is authorized to issue general obligations of the state to pay the costs of sites and facilities, the total principal amount of which is not to exceed \$30 million.⁷ Additionally, the bill creates the Job Ready Site Development Bond Service Fund, which will be used to support debt service payments on obligations issued under the Job Ready Site program.

In temporary law, included as amendments to Am. Sub. H.B. 66 of the 126th General Assembly (the budget act for the 2005-2007 biennium), the following new line items are established and appropriated under the Department of Development:

			FY 2006	FY 2007
GRF	195-912	Job Ready Site Development General Obligation Debt Service	\$0	\$4,124,400
012	195-688	Job Ready Site Operating	\$622,200	\$746,155

⁷ Article VIII, Section 2p of the Ohio Constitution authorizes the issuance of \$150 million in general obligation bonds to pay the costs of sites and facilities. Bond issuance is limited up to \$30 million in the first three fiscal years, and up to \$15 million in the last four fiscal years.

Under the Commissioners of the Sinking Fund:

090	155-912	Job Ready Site Development Bond Service Fund	\$0	\$4,124,400
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Additionally, the following capital line item is established as if it were created under Am. Sub. H.B. 16 of the 126th General Assembly (the capital appropriations act for the 2004-2006 biennium):

CAP-003	Job Ready Site Development	\$30,000,000
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Grants under the Job Ready Site program will be issued as capital awards, and will be drawn from CAP-003. GRF 195-912 and Fund 090 will be used to pay all debt service and related financing costs on obligations issued under the Job Ready Site program (the Office of the Sinking Fund or the Director of Budget and Management will effectuate the required payments by intrastate transfer voucher). Fund 012 is to be used for operating costs incurred by the Department of Development in administering the Job Ready Site program. Operating costs may include certain expenses of the District Public Works Integrating Committees, audit and accountability activities, and costs associated with formal certifications verifying that site infrastructure is in place and is functional.

Research and Development Projects

The bill authorizes the Third Frontier Commission to award "support"⁸ for research and development projects. Research and development projects are defined as projects or activities in support of Ohio industry, commerce, and business that include, without limitation, research and product innovation, development, and commercialization. Projects may also support any and all matters relating to research and development purposes, including: attracting researchers and research teams; developing and commercializing products and processes; and promoting, developing, and securing intellectual property and rights and matters, property interests, and financial rights and matters.

Support is to be awarded competitively to individuals, public and private entities, agencies, and institutions, private companies or organizations, partnerships, business trusts or other business entities or ventures, research organizations, or combinations of consortiums thereof. Generally, support may only be awarded to an in-state entity. If awarded to an individual or private entity, agency, institution, company, partnership, business trust or other business entity or venture, or organization, the research and development project must primarily benefit the state, and if the recipient is not an in-state entity, it must relocate and become an in-state entity not later than six months after entering into agreement with the Commission for the support. All awards of support must be approved by the Controlling Board.

⁸ Support may be in such manner as the Commission determines, and may include grants, loans (including loans to lenders or the purchase of loans), subsidies, contributions, advances, or guarantees, or by payment or reimbursement from available money, or by providing staffing or other support including computer or other technology capacity, or equipment or facilities, including interest in real property.

Third Frontier Research and Development Fund

The bill establishes the Third Frontier Research and Development Fund, which will consist of proceeds of obligations issued and sold pursuant to sections 151.01 and 151.10 of the Revised Code and under the authority of Article VIII, Section 2p of the Ohio Constitution. The Ohio Public Facilities Commission is authorized to issue and sell general obligations of the state to pay costs of research and development projects, in an aggregate amount not to exceed \$200 million.⁹

In temporary law, included as amendments to Am. Sub. H.B. 66 of the 126th General Assembly (the budget act for the 2005-2007 biennium), the following new line items are established and appropriated under the Department of Development:

			FY 2006	FY 2007
011	195-686	Third Frontier Operating	\$713,028	\$1,932,056
011	195-687	Third Frontier Research &	\$100,000,000	\$100,000,000

Under the Commissioners of the Sinking Fund:

070	155-905	Third Frontier Research & Development Projects Bond Service Fund	\$0	\$13,910,000
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Awards of support under the Third Frontier Research and Development Fund will be issued from line item 195-687, Third Frontier Research & Development Projects. Newly established Fund 070 will be used to pay all debt service and related financing costs on obligations issued for research and development projects (the Office of the Sinking Fund or the Director of Budget and Management will effectuate the required payments by intrastate transfer voucher from an existing line item under the Department of Development's budget: GRF 195-905, Third Frontier Research & Development General Obligation Debt Service). Line item 195-686, Third Frontier Operating, is to be used for operating expenses incurred by the Department of Development in administering awards for research and development projects.

Costs Associated with Bond Issuances

The cost of bond issuance will depend primarily on the interest rates that will be paid on the bonds and the number of years over which they are paid off. For the Job Ready Site program, a total of \$30 million in general obligation bonds with a maximum of 30 years' maturity period may be issued. For research and development projects, a total of \$200 million in general obligation bonds with a maximum of 20 years' maturity period may be issued.

Assuming a maturity of 20 years and an interest rate of 4.5%, the combined principal and interest payments will equal slightly less than \$0.08 per year for each dollar of bonds issued.

⁹ Article VIII, Section 2p of the Ohio Constitution authorizes the issuance of \$500 million in general obligation bonds to pay costs of research and development projects. Bond issuance is limited up to \$100 million in the first three fiscal years, and up to \$50 million in the last four fiscal years.

The total cost of a borrowed dollar will be \$1.54 (20 years x \$0.077 per year); \$1.00 for the dollar borrowed and \$0.54 for the interest. These debt service payments will be spread over the entire lifetime of the bonds.

Even though the cost is spread out over many years, the cost to pay the debt will be added to the state's existing debt service schedule and will limit the availability of state revenue for other state programs. The bonds issued for the Job Ready Site program and for research and development projects are general obligations of the state. In other words, the bonds are backed by the state's full faith, revenue, credit, and taxing power for the payment of the debt service. However, the debt service on these bonds is not included in the calculation of total debt service subject to the state's 5% limit on debt service.

Table 1 shows the estimated debt service payments for the Job Ready Site program bonds and the research and development project bonds. The estimates in Table 1 assume that \$30 million in bonds are issued in FY 2006 for the Job Ready Site program with debt service payments starting in FY 2007, and that \$100 million in bonds are issued in both FY 2006 and FY 2007 with debt service payments starting one year after issuance. The estimates assume 15-year bonds with a 4.75% interest rate.

Fiscal Year	R&D Bonds	Job Ready Site Program Bonds
2007	\$9	\$3
2008	\$19	\$3
2009	\$19	\$3
2010	\$19	\$3
2011	\$19	\$3
2012	\$19	\$3
2013	\$19	\$3
2014	\$19	\$3
2015	\$19	\$3
2016	\$19	\$3
2017	\$19	\$3
2018	\$19	\$3
2019	\$19	\$3
2020	\$19	\$3
2021	\$19	\$3
2022	\$9	\$0
2023	\$0	\$0

Third Frontier Commission

The Third Frontier Commission is responsible for the allocation of funds appropriated by the General Assembly to support programs and activities associated with the Third Frontier Project. The membership of the Commission consists of the Director of the Ohio Department of Development, the Chancellor of the Ohio Board of Regents, and the Science and Technology Advisor to the Governor. Under S.B. 236, an additional six members are added to the

Commission. These members are to be appointed by the Governor, and of the six, one must represent the central region of Ohio, one the west central, one the northeast, one the northwest, one the southeast, and one the southwest. Each person must have a background in business or research in order to be eligible for appointment to the Commission. Additionally, each member of the Commission is required to file financial disclosure statements, as provided under division (B) of section 102.02 of the Revised Code.

Support and Financial Gain Restrictions

Members of the Third Frontier Commission and members of the Third Frontier Advisory Board are prohibited from receiving awards of support for Third Frontier research and development projects. Additionally, members are prohibited from receiving any financial gain from an entity that is awarded support, if that financial gain is directly related to, or is the direct result of that support.

Outreach Activities – EDGE Program

The Third Frontier Commission is required to conduct outreach activities that seek to include minorities in the various projects and initiatives sponsored, funded, encouraged, or otherwise promoted by the Commission. These activities are intended to be conducted in coordination with the EDGE (Encouraging Diversity, Growth, and Equity) program (see below) and must include the following:

- identifying and partnering with historically black colleges and universities to implement a minority technology demonstration project funded by the National Science Foundation;
- working with all institutions of higher education to support minority faculty and students involved in science and engineering;
- developing a plan to contact by telephone minority-owned businesses and entrepreneurs regarding participation in Third Frontier projects and initiatives;
- identifying minority professional and technical trade associations and economic development assistance organizations regarding Third Frontier projects and initiatives;
- partnering with regional technology councils to foster local efforts to support minority-owned technology businesses or otherwise identify networks of minority-owned technology businesses, entrepreneurs, and individuals operating locally; and
- identifying minority technology firms and marketing them to the investment community.

The EDGE program was launched by Executive Order in December 2002. The program is designed to facilitate access to state government contracts and business services for EDGE-certified businesses. The program establishes goals for state agencies in awarding contracts to certified EDGE businesses. EDGE procurement contracts apply to goods and services, professional services, information technology services, construction, architecture, and

engineering. The program also includes a mentor-protégé component that pairs larger companies as mentors to EDGE program participants to benefit both companies commercially.

According to information provided by the Department of Development, the requirements established under S.B. 236 with respect to Third Frontier Commission outreach activities mirror departmental requirements already in place for the EDGE program. Therefore, it is not anticipated that the requirements outlined above will impose any additional costs or administrative burden on the agency.

Outreach Activities – Rural Areas

Additionally, the Third Frontier Commission is required to conduct similar outreach activities that seek to include rural areas in the various projects and initiatives sponsored, funded, encouraged, or otherwise promoted by the Commission. Rural areas are defined as any area in the state not located within a metropolitan statistical area.

Annual Reports

The Department of Development is required to produce and post on its web site, the following reports: (a) annual reports on the progress and status of agreements entered into under the Job Ready Site program for both competitively awarded and discretionary grants, (b) annual reports under the Job Ready Site program that include details on each grant awarded, the status of projects funded in the past, and the amount and impact of grants awarded for projects in economically distressed areas, and (c) semiannual reports detailing all support awarded for research and development projects, including the amount or type of support and the progress and performance metrics for the projects.

It is assumed that the Department of Development will incur some small amount of administrative cost in compiling the information necessary to produce the reports described above. Printing costs are expected to be minimal, as only the semiannual reports for research and development projects are required to be copied and delivered to the Governor, Speaker and Minority Leader of the House, and President and Minority Leader of the Senate (Section 184.15 of the bill). It seems likely that publishing the other reports to the agency's web site alone will meet the reporting requirements of the bill. Further, the Department of Development's web site normally contains links to various annual reports and information related to other grant and subsidy programs. In light of this, the reporting requirements of S.B. 236 are not likely to present much of a challenge or administrative burden to the agency.

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