Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **Sub. H.B. 530**

DATE: **March 23, 1998**

STATUS: **As Reported by Local Governments and Townships**

SPONSOR: **Rep. Brading**

LOCAL IMPACT STATEMENT REQUIRED: **No — Permissive**

CONTENTS: **Exempts from the calculation of a subdivision's debt limit certain securities issued for permanent improvements and raises counties' voted and overall debt limitations**

State Fiscal Highlights

- No direct fiscal effect on the state.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1998	FY 1999	FUTURE YEARS
Counties			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential increase in debt service	Potential increase in debt service
Other Local Governments			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential increase in debt service	Potential increase in debt service

- Exempting certain securities from the calculation of a subdivision's debt limit would increase debt capacity.
- Increasing counties' unvoted and overall debt limitations would greatly expand debt capacity and could result in increased debt issuance.
- Additional debt issuance would increase debt service payments.

Detailed Fiscal Analysis

TIF Debt Service

Subdivisions can issue general obligation debt to pay the costs of permanent improvements in tax increment financing (TIF) districts. New construction located in these districts is granted a reduction of taxes if an agreement for tax redirection is signed. Under this agreement a special fund is created where all "payments in lieu of taxes" are deposited. These payments in lieu of taxes are pledged or appropriated for debt service payments on debt issued for permanent improvements in TIF districts.

This proposal would remove not more than seventy-five per cent of the principal amount of these securities from the calculation of a subdivision's debt limit. The extent to which a percentage of the principal amount of the securities would be excluded from debt limit calculations is dependent upon the ability of payments received under the in lieu of taxes agreement to meet total debt service obligations.

Bond issuance in TIF districts can entail a certain degree of risk. If development fails to reach the levels expected or fails to occur at all, retirement of the bonds would prove difficult. Although this would have no direct fiscal effect, increasing debt capacity may influence future decisions regarding the issuance of debt. Increasing the total amount of debt issued would subsequently increase the total amount of debt service payments. Since borrowing represents long term commitments of future revenues, there is a certain amount of risk inherent to increased activity in this area.

County Debt Limitations

The bill makes two changes to current law regarding county debt limitations. First, the bill would raise counties' limits on unvoted debt . Under this proposal, a county cannot incur net indebtedness that exceeds an amount equal to five and one-half percent of its tax valuation without a vote. This increases the percent limitation from one to five and one-half percent and effectively allows counties to incur greater amounts of debt without voter approval. However, unvoted debt is still subject to the state's indirect 10-mill limit on property tax levied. In light of this restriction, the five and one half percent unvoted debt limit may have differing effects upon debt issues backed by property tax.

Secondly, Sub. H.B. 530 would change how a county's total net indebtedness (both voted and unvoted) is calculated. Currently, counties cannot incur debt which exceeds the following levels: 1) counties with a tax valuation not exceeding $100 million, three percent of that valuation; 2) counties with tax valuations greater than $100 million but less than or equal to $300 million, $3 million plus 1.5% of that valuation in excess of $100 million; and 3) counties with tax valuations exceeding $300 million, $6 million plus 2.5% of the valuation in excess of $300 million. In calendar year 1996 there were twelve group 2 counties (tax valuations greater than $100 million but less than or equal to $300 million); the remainder were group three counties (tax valuations greater than $300 million). The bill would change this method of calculation and apply a flat limit of 9.5% of tax valuation across the board.

The following table illustrates the proposed changes in county debt limitations for a select number of counties.

Effects of Debt Limitation Changes Proposed by H.B. 530 for Selected Counties

COUNTY	TOTAL TAX VALUATION[1]	CURRENT UNVOTED DEBT LIMIT	PROPOSED UNVOTED DEBT LIMIT	CURRENT TOTAL NET INDEBTEDNESS (VOTED AND UNVOTED) LIMITS	PROPOSED TOTAL NET INDEBTEDNESS (VOTED AND UNVOTED) LIMITS
BUTLER	$4,887,959,592	$48,879,596	$268,837,778	$120,698,990	$464,356,161
CLERMONT	$2,887,730,944	$28,877,309	$158,825,202	$70,693,274	$274,334,440
CUYAHOGA	$23,204,517,717	$232,045,177	$1,276,248,474	$578,612,943	$2,204,429,183
DELAWARE	$2,083,857,182	$20,838,572	$114,612,145	$50,596,430	$197,966,432
FAIRFIELD	$1,680,031,861	$16,800,319	$92,401,752	$40,500,797	$159,603,027
FRANKLIN	$17,253,139,805	$172,531,398	$948,922,689	$429,828,495	$1,639,048,281
GREENE	$2,320,670,512	$23,206,705	$127,636,878	$56,516,763	$220,463,699
HAMILTON	$14,994,351,000	$149,943,510	$824,689,305	$373,358,775	$1,424,463,345
LAKE	$4,550,887,650	$45,508,877	$250,298,821	$112,272,191	$432,334,327
LUCAS	$5,798,148,883	$57,981,489	$318,898,189	$143,453,722	$550,824,144
MAHONING	$2,914,904,770	$29,149,048	$160,319,762	$71,372,619	$276,915,953
MONTGOMERY	$8,068,981,192	$80,689,812	$443,793,966	$200,224,530	$766,553,213
OTTAWA	$1,160,117,865	$11,601,179	$63,806,483	$27,502,947	$110,211,197
STARK	$4,667,301,637	$46,673,016	$256,701,590	$115,182,541	$443,393,656
SUMMIT	$8,802,125,247	$88,021,252	$484,116,889	$218,553,131	$836,201,898
VINTON[2]	$113,136,428	$1,131,364	$6,222,504	$3,197,046	$10,747,961

[1] Total Tax Valuation includes total value of business tangible property taxes, taxable value of residential and agricultural real property, taxable value of public utility, commercial, industrial and mineral real property, and taxable value of public utility tangible personal property in calendar year 1996.

[2] Vinton is one of the twelve group two counties (total tax valuation greater than $100 million but less than or equal to $300 million). As of calendar year 1996, Vinton County also had the lowest total tax valuation of all 88 counties in Ohio.

Under the changes proposed by Sub.H.B. 530, the amount of allowable unvoted debt would increase by 450%, while total net indebtedness limitations would be approximately 3 times greater than current levels.

Current law excludes a number of securities from the calculation of a county's net indebtedness including, but not limited to: self-supporting securities issued for water systems or facilities, sanitary sewerage systems or facilities, parking facilities, correctional and detention facilities, voted general obligation securities issued for permanent improvements for sanitary sewerage or water systems, securities issued for sports facilities under section 307.673 of the Revised Code, and sales tax supported bonds. Sub. H.B. 530 would expand counties' debt capacity above and beyond current levels. An increase in debt capacity could result in increased debt service obligations, although it is not certain how many counties would take advantage of this increased capacity. Debt issuance is still subject to bond ratings, funds available for debt service and the overall fiscal capacity of the county.

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