Fiscal Note & Local Impact Statement

123 rd General Assembly of Ohio

BILL: **S.B. 206** DATE: **December 7, 1999**

STATUS: **As Introduced** SPONSOR: **Sen. Carnes**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **Provides for the implementation of Sections 2n and 17 of Article VIII of the Constitution and makes an appropriation**

State Fiscal Highlights

STATE FUND	FY 2000	FY 2001	FUTURE YEARS
General Revenue Fund			
Revenues	-0-	-0-	-0-
Expenditures	Estimated $18.0 million decrease - however no net fiscal effect	Estimated $31.8 million decrease - however no net fiscal effect	Estimated $30.9 million decrease - however no net fiscal effect
Common Schools Capital Facilities Bond Service Fund			
Revenues	Estimated $13.7 million gain	Estimated $14.6 million gain	Estimated $15.4 million gain
Expenditures	Estimated $13.7 million increase	Estimated $14.6 million increase	Estimated $15.4 million increase
Higher Education Capital Facilities Bond Service Fund			
Revenues	Estimated $4.4 million gain	Estimated $17.2 million gain	Estimated $15.4 million gain
Expenditures	Estimated $4.4 million increase	Estimated $17.2 million increase	Estimated $15.4 million increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2000 is July 1, 1999 – June 30, 2000.

- The bill would produce an $18.0 million decrease in General Revenue Fund (GRF) expenditures in FY 2000 and a $31.8 million decrease in FY 2001 as the result of transferring these moneys from the GRF to the newly created bond service funds. Since these moneys are transferred from the GRF to the bond service funds, there should be no net effect.

- The bill specifically authorizes both the Treasurer of State (TOS) and the Ohio Public Facilities Commission (OPFC) to issue $150 million in general obligation bonds to support capital costs for a system of common schools and state-supported institutions of higher education. While the bill authorizes total bond issues of $300 million, the entire amount would not be issued this fiscal year.

- Although the issuing of debt by TOS and OPFC is already permitted, these bonds must currently be issued as special obligations of the state. The Office of Budget and Management (OBM) estimates that the issuing of general obligation bonds would lower interest rates by about .1 percent.

- The newly created Common Schools Capital Facilities Bond Service Fund would receive at least $13.7 million in FY 2000 and $14.6 million in FY 2001, while the Higher Education Capital Facilities Bond Service Fund would receive at least $4.4 million in FY 2000 and $17.2 million in FY 2001. OBM believes that debt service requirements for future years would be at least equal to those estimated for FY 2001. In the event that debt service needs surpass the amounts transferred to the bond service funds, the bill authorizes additional appropriations as necessary to meet those needs.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

Provisions of the Bill

The bill permits the issuing of general obligation bonds of up to $150 million each by TOS and OPFC. Proceeds from the bonds issued by TOS would be deposited in the School Building Program Assistance Fund and used to support the capital costs for a system of common schools throughout the state. Moneys generated from the sale of bonds by OPFC meanwhile, would be placed in the Higher Education Improvement Fund and used to support the cost of capital facilities at Ohio's state-supported and assisted higher education institutions. The bill also creates the Common Schools and Higher Education Capital Facilities Bond Service Funds out of which the debt service on the general obligation bonds authorized in this bill would be paid. To support anticipated debt service through the newly created bond service funds, the bill also transfers a total of $18.0 million in FY 2000 and $31.8 million in FY 2001 from Lease-Rental payment line items in the School Facilities Commission and Board of Regents operating budgets. In the event that additional moneys are needed to support debt service on bonds authorized in the bill, such amounts would automatically be appropriated. The amount of the two bond issues that would be authorized in the bill were previously appropriated and therefore would not increase the total debt authorized to support primary, secondary, and higher education capital projects. Since the bill contains an emergency clause, its provisions would become effective immediately.

Fiscal Effects of the Bill

The bill would permit the implementation of Section 2n of Article VIII of the Ohio Constitution by authorizing TOS and OPFC to issue $150 million in general obligation bonds to support capital costs of a system of common schools as well as state-supported institutions of higher education. Although existing law permits the issuing of bonds for school facilities and higher education facilities by TOS and OPFC, such debt must be issued as special obligations of the state. By instead permitting the use of general obligation bonds, the state would have the benefit of borrowing at a lower interest rate. According to OBM, as a result of issuing general obligation debt, interest rates paid by the state could be reduced by approximately .1 percent, thereby resulting in decreased annual and cumulative debt service expenditures.

While a total of $300 million in general obligation debt is authorized in the bill, neither TOS or OPFC anticipates issuing the full amount immediately. Instead, the plan is for the two entities to issue $255 million in fifteen-year bonds, with TOS issuing $140 million and OPFC $115 million. Assuming then that all $300 million in fifteen-year bonds are issued at 6.0 percent, with $255 million issued in FY 2000 and the remaining $45 million issued in FY 2001, LBO estimates annual debt service costs of approximately $26.2 million in FY 2000 and $30.9 million 2001[1]. Under this scenario, total annual debt service expenditures of $30.9 million would be experienced through FY 2014, before decreasing to

[1] Due to differences in the timing of debt service payments on the bonds issued by OPFC, OBM estimates a lower payment in FY 2000. This estimate is reflected by the fact that the bill transfers only $4.4 million in FY 2000.

$4.6 million in FY 2015 and zero in FY 2016. Total cost to the state over the life of the bonds would thus be $463.3 million, with each bond service fund contributing approximately $231.7 million[2].

The bill also creates the Common Schools Capital Facilities Bond Service Fund and the Higher Education Capital Facilities Bond Service Fund out of which the estimated debt service amounts discussed above would be paid. Under the provisions of the bill, the Common Schools Capital Facilities Bond Service Fund would receive $13.7 million in FY 2000 and $14.6 million in FY 2001, while the Higher Education Capital Facilities Bond Service Fund would receive $4.4 million in FY 2000 and $17.2 million in FY 2001. This increase in bond service fund revenues and expenditures are tied to decreases in FY 2000 and 2001 GRF expenditures as the result of transferring moneys from GRF line items to the individual bond service funds. These moneys are currently contained in the line items of the Ohio School Facilities Commission and the Ohio Board of Regents and were appropriated to cover lease-rental payments on special obligation bonds already authorized. While LBO estimates indicate that the amounts transferred to the bond service funds might be insufficient to cover debt service needs, the bill also authorizes additional appropriations as necessary to meet those needs.

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[2] Based on a comparison of 15-year general obligation and special obligation bonds. While the estimate assumes an interest rate of 6.0 percent for general obligation bonds, actual rates may be higher or lower than assumed here.