Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Sub. H.J.R. 12 of the 128th G.A.

Date: January 13, 2010

Status: As Reported by House Economic Development

Sponsors: Reps. S. Williams and Goyal

Local Impact Statement Procedure Required: No — Not required for joint resolutions

Contents: Proposing to amend Section 2p of Article VIII of the Constitution of the State of Ohio to permit the issuance of additional general obligation bonds to fund research and development

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
Secretary of State – Statewide Ballot Advertising Fund (Fund 5FH0)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Increase for election costs, dependent on length of ballot language	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The resolution proposes to submit a constitutional amendment, which would authorize the state to issue up to $950 million of additional general obligation bonds for research and development purposes, for state voters' approval on the May 4, 2010 ballot.
- The ballot advertising costs for this ballot measure would depend upon the length of the ballot language, but could be in the tens of thousands of dollars. The costs would be paid from the Statewide Ballot Advertising Fund (Fund 5FH0), a fund in 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 on May 4, 2010. The constitutional amendment proposes to permit the state to issue a total of $950 million in new general obligation bonds for research and development purposes in FY 2012 and thereafter. 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 for ballot advertising under Article XVI, Section 1 of the Ohio Constitution, which requires that notice of ballot questions be published once a week for three consecutive weeks in a newspaper of general circulation in each Ohio county. The cost would depend on the length of the amendment proposed by this resolution. According to a SOS official, it spent $567,095 in ballot advertising costs for the three statewide issues that appeared on the November 2009 ballot. Statewide advertising costs for H.J.R. 12, because it calls for just one ballot issue, would likely be considerably less. Any such advertising cost will be paid out of Statewide Ballot Advertising Fund (Fund 5FH0). The revenue source for this fund is GRF transfers from the Controlling Board.

Furthermore, if the constitutional amendment is approved by voters, it would allow the General Assembly to enact a law providing for the new issuance of up to $950 million in general obligation bonds for research and development purposes. Under the proposed amendment, the state may issue up to $190 million in principal amount of such bonds in a fiscal year, plus any unobligated balance of prior fiscal years, beginning in FY 2012 and thereafter.[1] The fiscal impact will depend on the timing of the bond issuance and the interest rate that will be paid on each bond. The debt service payments will be spread over the entire lifetime of the bonds. Assuming the state issued $190 million of such bonds per fiscal year, in FY 2012 through FY 2016, with a maturity period of ten years and an interest rate of 5.25%, the estimated total cost of debt service payments would be approximately $1.2 billion; debt service payments would range between $25 million and $125 million per fiscal year. In addition, the estimated debt service payments for the new bonds as proposed under this resolution would be added to the state's current debt service payments. In future years, these additional debt service payments may reduce the availability of state revenue for other state programs. The resolution specifies that debt service payments related to the new

[1] Currently, under the Ohio Constitution, the state is allowed to issue up to $100 million of such bonds per fiscal year, plus any unobligated balance of prior fiscal years, in FY 2006 through FY 2008, and subsequently issue up to $50 million in each fiscal year beginning in FY 2009 through FY 2012, plus any unobligated balance of prior fiscal years. Through January 2010, the General Assembly had authorized $450 million worth of bonds for Third Frontier purposes.

bonds are backed by the state's full faith, revenue, credit, and taxing power, but are not restricted by the state 5% debt limit.

In addition, if the resolution is approved by voters, the Department of Development is required to use independent reviewers to review the merits of proposed projects. As of this writing, LSC staff do not know if this provision would increase or decrease the Department's administrative costs. The administrative costs would be paid from GRF line item 195422, Technology Action. If funding in this line item is insufficient for the FY 2010-2011 biennium, the Department is also allowed to use funding in line item 195686, Third Frontier Operating (Fund 7011), subject to approval by the Controlling Board.

Table 1 (below) presents the estimated debt service payments for an additional $950 million worth of general obligation bonds. The issuance would increase the state's annual debt service expenditures by approximately $25 million to $125 million per year, assuming it issued $190 million in each year, beginning in FY 2012 through FY 2016. The estimates are calculated based on bonds with a ten-year maturity period and an average interest rate of 5.25%. It should be noted, actual amounts 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.

Table 1: Estimated Increase in Debt Service ($ in millions)

Payment Date	Debt Service
2013	$24.9
2014	$49.8
2015	$74.7
2016	$99.6
2017	$124.5
2018	$124.5
2019	$124.5
2020	$124.5
2021	$124.5
2022	$124.5
2023	$99.6
2024	$74.7
2025	$49.8
2026	$24.9
TOTAL	$1,245.3

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