



# Ohio Legislative Service Commission

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## Fiscal Note & Local Impact Statement

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**Bill:** Sub. S.B. 131 of the 128th G.A.      **Date:** February 17, 2010  
**Status:** As Reported by House Agriculture & Natural Resources      **Sponsor:** Sens. Gillmor and Cafaro

**Local Impact Statement Procedure Required:** No — No local cost

**Contents:** Requires the Department of Administrative Services to establish a biobased product preference program

### State Fiscal Highlights

- **State procurement costs.** The bill would require the Department of Administrative Services to establish a biobased product preference program requiring state agencies, including institutions of higher education, to purchase biobased products where possible. The overall impact on procurement costs for state agencies and institutions of higher education would depend largely on the price and availability of biobased products.
- **Department of Administrative Services – Implementation.** Statewide procurement policy is overseen by the Department of Administrative Service's General Services Division. The Division is funded by charges assessed to state agencies that use DAS's centralized purchasing services. These amounts are deposited into the General Services Division Fund (Fund 1170). Overall, the Division could incur some new costs for developing and implementing program guidelines.
- **Extension of alternative fuel tax credit.** The bill extends an existing tax credit for retail dealers that sell alternative fuel for taxable years ending in 2010 and 2011. The tax credit extension would reduce revenue to the GRF, the Local Government Fund (LGF), and the Public Library Fund (PLF) during FY 2010, FY 2011, and FY 2012. The total revenue loss is likely to be less than \$1 million per year.

### Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

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## Detailed Fiscal Analysis

### Overview

The bill would require the Department of Administrative Services (DAS) to establish a biobased product preference procurement program that is to apply to all purchases made by state agencies and state institutions of higher education. Purchases of motor fuel, heating oil, and electricity would, however, be exempted from the requirement. The requirement would also not apply in cases where the (1) availability of the biobased item is limited, (2) product performance of the biobased product does not meet required standards, or (3) cost of the biobased product is determined to be unreasonable. Furthermore, the bill authorizes state agencies and institutions of higher education to purchase a nonbiobased product in situations where a biobased alternative would not meet specific needs. In these cases, agencies or institutions of higher education would not be required to receive prior authorization for such purchases, but would be required to inform DAS or the Board of Regents, respectively, of the need to buy a nonbiobased product.

Under the bill, a biobased product is generally an item that the United States Department of Agriculture (USDA) defines as a commercial or industrial product that is composed in whole or large part of biological products or renewable domestic agricultural or forestry materials. Examples include construction materials, industrial goods, furniture, office supplies, housewares, cleansers, toiletries, and clothing. Approximately 3,700 such items are listed under the USDA's Biopreferred Program.

### Procurement costs

#### Department of Administrative Services

It is possible that the bill could lead to some new administrative costs for developing guidelines and implementing the biobased product preference program. Developing guidelines and overseeing the program would likely be the responsibility of the Office of Procurement Services, housed within DAS's General Services Division. This office assists state agencies with the procurement of supplies and services through competitive selection and negotiated contracts. Implementation of a biobased product preference would entail (1) reviewing contracts to confirm that biobased products are purchased as required and (2) identifying biobased product alternatives. However, DAS may be able to offset a portion of any new costs by adapting catalogs of biobased products and procurement training materials provided by the USDA for federal procurement officers. DAS's Office of Procurement Services is supported by charges assessed to user agencies for centralized purchasing services and deposited into the General Services Fund (Fund 1170). According to DAS's annual report for FY 2008, state agencies spend about \$3.5 billion annually on supplies and services, including those overseen by DAS and those purchased by agencies under their own authority.

## **State agencies and institutions of higher education**

Overall, estimating how a bioproduct procurement preference would affect procurement costs for the state and institutions of higher education would depend on the types of goods that state agencies and institutions of higher education intend to buy and whether comparable biobased equivalents are readily available at competitive prices. A USDA official informed LSC that despite the number of products in the federal program, many purchases are still exempted due to price, availability, and performance. However, as they become more widely available and more competitive in price, biobased products could make up a larger share of purchases than they do now, both on the federal and state level.

The requirements of the bill would also affect institutions of higher education. Much of their purchasing is done on a decentralized basis. It is reasonable to assume that the effects of a biobased product purchasing preference would be the same for institutions of higher education as it would be for the state. That is, the effect on procurement costs would hinge on availability and cost competitiveness of biobased goods compared to nonbiobased products.

## **Report on biobased product procurement**

The bill also requires DAS and the Board of Regents to provide a report on the amount spent on biobased products, as well as the amount and type of biobased purchases made by September 30, 2010 and yearly thereafter to the Governor, the President of the Senate, and the Speaker of the House of Representatives. There may be some additional administrative costs for both DAS and the Board of Regents to prepare this report.

## **Extension of the income tax credit for alternative fuels**

The bill extends an existing tax credit for retail dealers that sell alternative fuel for taxable years ending in 2010 and 2011. The credit is currently available for taxable years ending in 2008 and 2009. The tax credit is nonrefundable and is available under the personal income tax. The amount of the credit is 15 cents per gallon of alternative fuel sold by the dealer, except that the credit amount drops to 13 cents per gallon for fuel sold during portions of calendar year 2011 that fall within the dealer's taxable year 2011. Credit amounts are slightly less for biodiesel blends.

The tax credit extension would reduce revenue to the GRF, the Local Government Fund (LGF), and the Public Library Fund (PLF) during FY 2010, FY 2011, and FY 2012. The total revenue loss is likely to be less than \$1 million per year. The GRF would bear 94.35% of the total revenue loss occurring in FY 2010 and FY 2011 (but 94.1% of any loss occurring in FY 2012), the LGF would bear 3.68% (regardless of fiscal year), and the PLF would bear 1.97% (2.22% in FY 2012).