Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 314 of the 129th G.A. **Date**: April 17, 2012

Status: As Introduced **Sponsor**: Sens. Wagoner, Jr. and Cafaro

Local Impact Statement Procedure Required: No

Contents: Renames the Department of Development the Development Services Agency and makes the changes affecting the state economic development programs

State Fiscal Highlights

- The bill renames the Ohio Department of Development (ODOD) the Development Services Agency (DSA) and makes corresponding adjustments to appropriations for FY 2013 to reflect the realignment of the state's economic development programs. This includes a net of approximately $15.0 million in additional funding for DSA in FY 2013.
- Notable funding changes for FY 2013 include (1) a new appropriation of $10.0 million for the Ohio Workforce Guarantee Program supported by the Business Development and Assistance Fund (Fund 5LK0), (2) an additional $5.0 million in GRF funding for tourism promotion, and (3) an additional $3.6 million for existing "legacy" project business development commitments supported by the Job Development Initiatives Fund (Fund 5AD0).
- The bill creates the Office of TourismOhio within DSA to promote and market tourism across the state. The bill also establishes a five-year pilot funding mechanism from FY 2014 through FY 2018 that would allow for GRF transfers of up to $10.0 million or more to the Tourism Fund (Fund 5W50) annually to support these activities. The funding is linked to the additional amount of sales tax revenue generated by the tourism industry in these years.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

Overview

The bill makes various statutory changes and corresponding adjustments in FY 2013 appropriations to reflect the realignment of certain economic development programs under the new Development Services Agency (DSA). The most significant funding changes for FY 2013 include the following:

1. Pursuant to a future contract with JobsOhio, a $10.0 million appropriation for the Ohio Workforce Guarantee Program to provide grants to businesses and business consortia for the reimbursement of eligible training expenses;
2. In support of tourism marketing, a $5.0 million appropriation to the new Office of TourismOhio; and
3. An additional $3.6 million to support legacy business development project grants that are supported by unclaimed funds deposited into the Job Development Initiatives Fund (Fund 5AD0).

Among other major changes, the bill alters the way the state promotes tourism in future years. Specifically, the bill creates a five-year funding mechanism for the operations of the newly created Office of TourismOhio that relies on growth in sales tax revenue attributable to the tourism industry. Finally, the bill eliminates the Development Financing Advisory Committee and the Water and Sewer Commission that currently operate under the Ohio Department of Development (ODOD).

Previous changes to economic development programs under JobsOhio

In order to understand the provisions in this bill, it may be helpful to consider previously enacted changes to the Ohio Department of Development (ODOD) and the effect these changes have made on the state's economic development programming. H.B. 1 of the 129th General Assembly established the nonprofit JobsOhio corporation to promote economic development in Ohio. The bill also required ODOD to evaluate its current powers, duties, and functions and make recommendations on how ODOD should be restructured to accommodate JobsOhio's new role. H.B. 1, which became effective in February 2011, required ODOD to use up to $1 million of the Department's FY 2011 GRF appropriations to cover start-up costs for JobsOhio. Subsequently, the Controlling Board approved a contract between ODOD and JobsOhio on January 30, 2012 that formalized the relationship between JobsOhio and ODOD. Other than the $1.0 million for start-up costs, approximately $1.8 million in additional funds were agreed to be paid to JobsOhio for administration of various ODOD loan programs.

Creation of the Office of TourismOhio – 5-Year funding mechanism

The bill creates the Office of TourismOhio to promote the state as a travel destination, and also establishes the TourismOhio Advisory Board to advise the office and DSA on tourism promotion strategies. The bill appropriates $5.0 million to GRF appropriation item 195407, Travel and Tourism, in FY 2013 for the activities and administrative costs of the new office. For FY 2014 through FY 2018, the bill establishes a different funding mechanism to support these efforts. This mechanism is based on the growth in sales tax revenue received from certain tourism-related industries. Specifically, the provision allows for the transfer of up to $10.0 million annually in sales tax proceeds deposited into the Tourism Fund from the GRF. The $10.0 million cap includes an annual inflation adjustment based on the Consumer Price Index – all urban consumers, Midwest region. ODOD staff anticipates that sales tax revenue from these industries will consistently increase annually throughout the duration of the pilot program and beyond.

Elimination of the Development Financing Advisory Council

The bill eliminates the Development Financing Advisory Council (DFAC) on July 1, 2012, with the council's duties subsequently vested either with the Director of Development Services or abolished entirely. The Economic Development Financing Operating Fund (Fund 4510) currently funds the administrative costs of DFAC, among other expenses. The FY 2013 appropriation for these purposes under Fund 4510 appropriation item 195625, Economic Development Financing Operating, is $3.0 million. The bill renames Fund 4510 the Business Assistance Fund and appropriates approximately $3.7 million in FY 2013 for administrative expenses associated with the operation of tax credit programs, loan servicing, the Ohio Film Office, and the Office of Strategic Business Investments. The bill also allows for payments from the fund to JobsOhio for services provided in administering DSA loan programs. The contract approved by the Controlling Board on January 30, 2012, allocated approximately $1.8 million to be paid to JobsOhio for those services.

Elimination of the Water and Sewer Commission

The bill also eliminates the currently inactive Water and Sewer Commission. The bill transfers the unencumbered balances of the two funds that supported the Commission's activities — the Water and Sewer Fund (Fund 4440), which made loans to local governments, and the Water and Sewer Administration Fund (Fund 6110), which covered loan administration costs — to the General Reimbursement Fund (Fund 6850). As a result, Fund 6850 may gain up to approximately $409,000, the current combined balances of Fund 4440 and Fund 6110. Fund 4440 has not been active since FY 2008, and Fund 6110 has not been active since FY 2011.

Other cash transfers

In addition to the cash transfers associated with the elimination of the Water and Sewer Commission, the bill includes two other cash transfers. The first of these is the

transfer of the remaining cash balance in the Tax Incentive Programs Operating Fund (Fund 4S00) to the Business Assistance Fund (Fund 4510). The second is a transfer of the remaining cash balance in the Brownfield Redevelopment Fund (Fund 5KD0) to the New Markets Fund (Fund 5JR0). The management of brownfield redevelopment projects is pending agreement with JobsOhio.

New Funds

InvestOhio Support Fund

The bill creates the InvestOhio Support Fund to cover administrative expenses associated with the new InvestOhio tax credit initiative established under H.B. 153, the main operating budget act for the FY 2012 - FY 2013 biennium. The fund is to consist of fees that are paid by businesses when they apply for a small business investment certificate under InvestOhio. The fee is either 0.01% of the investment or $100, whichever is greater, to cover the costs of administering the program. The amount of revenue into the fund will depend on the investment amounts and number of certificates applied for. It is difficult to project revenue from the fees because of the relatively recent establishment of the program; however, based on information from ODOD staff, if the fee was applied starting with the program's inception, the InvestOhio Support Fund would have received around $185,000 to date. The bill also contains new eligibility criteria in applying for the certificate. These changes could possibly lead to a minimal decline in tax credits authorized, and subsequently slightly increase revenue annually from the personal income tax to the GRF.

Business Development and Assistance Fund (Fund 5LK0)

The bill also creates the Business Development and Assistance Fund (Fund 5LK0) to receive money from businesses for reimbursements, contracts, donations, or sponsorships, as well as contracts or grants from public agencies or political subdivisions. The fund receives an appropriation of $10.0 million in FY 2013 from a future contract with JobsOhio for the Ohio Workforce Guarantee Program. The program will provide grants to businesses and business consortia for training and education providers for the reimbursement of eligible training expenses.

Changes to the Capital Access Loan Program Fund

The bill permits a deposit of up to $3.0 million to be made annually into the Capital Access Loan Program Fund (Fund 5S90) from either the Minority Business Enterprise Loan Fund (Fund 4W10), the Facilities Establishment Fund (Fund 7037), or a combination of the two funds. Current law permits up to $3.0 million to be deposited into Fund 5S90 from Fund 7037. Fund 5S90 and Fund 4W10 operate two separate loan programs, but target similar underserved populations, specifically minorities or underprivileged potential small business owners.

The bill also permits a reduced amount of money to be disbursed from Fund 5S90 for deposit into a financial institution's reserve account as part of the Capital

Access Loan Program, from 50% of the principal amount of the loan to *up to 50%*. It changes the required deposit for minority business enterprise loans from 80% of the principal amount to *up to 80%* of the principal amount. The bill also increases minority business enterprise loans made from DSA from 60% to 75% of the principal amount loaned. Presumably, these adjustments will allow for DSA to spread the share of state funds under these programs to more loans.

Restructuring of Funds to Align with New DSA Functions

The bill changes several state fund and appropriation items to reflect new roles and duties under DSA. These changes are shown in the tables below. Table 1 displays the adjustments in funding for agency operations in FY 2013.

Table 1: Adjustments to FY 2013 Appropriations for DSA

Fund	ALI	ALI Name	Increase (Decrease) in FY 2013 Appropriation
GRF	195407	Travel and Tourism	$5,000,000
GRF	195415	Business Development Services	$2,413,387
GRF	195426	Clean Ohio Implementation	$468,365
GRF	195497	CDBG Operating Match	$1,015,000
GRF	195528	Economic Development Projects	($26,943,518)
GRF	195532	Technology Programs and Grants (New)	$13,547,341
GRF	195533	Business Assistance (New)	$5,899,465
Total GRF			**$1,400,040**
5AD0	195633	Legacy Projects	$3,600,000
Total GSF			**$3,600,000**
5LK0	195655	Workforce Development Programs (New)	$10,000,000
Total SSR			**$10,000,000**
Total All Budget Fund Groups			**$15,000,040**

In total, the bill appropriates an additional $1.4 million in GRF funding, an additional $3.6 million in funding under the Job Development Initiatives Fund (Fund 5AD0) for existing business development incentives, and an additional $10.0 million in Business Development and Assistance Fund (Fund 5LK0) support for job training under the Ohio Workforce Guarantee Program. Table 2 provides a crosswalk of realigned ODOD appropriation items to reflect the new budget structure under DSA.

Table 2: Realignment of Appropriation Items under DSA				
Fund	**Current ALI Name**	**Current ALI**	**Bill ALI Name**	**Bill ALI**
GRF	Thomas Edison Program	195401	Technology Programs and Grants	195532
GRF	Technology Action	195422		
GRF	Small Business Development	195404	Business Assistance	195533
GRF	Minority Business Enterprise Division	195405		
GRF	Global Markets	195432		
GRF	Governor's Office of Appalachia	195416	Appalachia Assistance	195535
GRF	Appalachian Local Development Districts	195501		
GRF	Appalachian Regional Commission Dues	195502		
3080	Federal Projects	195605	Home Weatherization Program	195670
3080			Brownfield Redevelopment	195671
3080			Manufacturing Extension Partnership	195672
4510	Economic Development Financing Operating	195625	Business Assistance Programs (Fund 4510)	195649
4S00	Tax Incentives Programs	195630		
5HJ0	Motion Picture Tax Credit Program	195604		
5JR0	New Market Tax Credit Program	195656	Redevelopment Program Support (Fund 5JR0)	195635
5KD0	Brownfield Stormwater Loan	195621		

Other provisions

The bill makes several other statutory changes that have minimal to no fiscal effects on the state or political subdivisions. The provisions include a requirement that the JobsOhio Chief Investment Officer and the Director of Development Services recommend approval of tax credits to the Tax Credit Authority (TCA) before the authority decides to approve or disapprove tax credits. The bill also allows for tax credits on projects that already started to still be eligible to apply. However, these changes produce minimal state fiscal effects, since the tax credits' withholding period is not extended after TCA approval, but rather begins earlier upon the recommendation of the JobsOhio Chief Investment Officer and the Director of Development Services. Other provisions in the bill relate to JobsOhio's use of public money and public records requirements, none of which appear to have any direct fiscal effects.