



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: [Am. Sub. S.B. 314 of the 129th G.A.](#)

Date: May 3, 2012

Status: As Passed by the Senate

Sponsor: Sens. Wagoner, Jr. and Cafaro

Local Impact Statement Procedure Required: No

Contents: Renames the Department of Development the Development Services Agency and makes other changes affecting 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.
- Other statutory changes in the bill include altering the state share of funding in the Capital Access and Minority Direct Loan programs, creating the Business Development and Assistance Fund and the InvestOhio Support Fund, and eliminating the Development Financing Advisory Committee and Water and Sewer Commission. Any increases in costs associated with these provisions are likely to have offsetting savings or increases in revenues to various state funds.

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).

In addition to providing a description of FY 2013 appropriation changes, this analysis presents a brief review of the transition of certain programs under JobsOhio, as well as various development-related activities that will be overseen by DSA as proposed under the bill. The analysis then outlines four areas of the bill that have some fiscal effect on the state. Perhaps the most significant of these is the creation of the Office of TourismOhio, including a new funding mechanism for the state's tourism promotion efforts that will rely on additional sales tax revenue derived from these activities. Other significant changes occur in the Capital Access Loan and Minority Direct Loan programs. Additionally, the bill requires investors participating in the Small Business Investment Certificate Program to pay a fee that will be used to administer the program.

The bill includes other provisions with little or no apparent fiscal effect on the state, including the elimination of the Development Financing Advisory Committee and the Water and Sewer Commission. Finally, the bill contains intent language stating that changing the name of the agency to the Development Services Agency should not cause unnecessary expense, and specifically mentions that letterhead, forms, printed materials, and signage referring to the Ohio Department of Development (ODOD) may be used until they are replaced.

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 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 corporation JobsOhio 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.

Restructuring of funds to align with new DSA functions

The bill changes several state funds and appropriation items in FY 2013 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) to support 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		

Many of these changes to appropriation items and funds are described in more detail in the analysis below.

Office of TourismOhio

The bill creates the Office of TourismOhio to promote the state as a travel destination, and 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 derived from tourism to be transferred from the GRF and deposited into the Tourism Fund (Fund 5W50). The \$10.0 million cap is subject to 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. The bill also allows for DSA to enter into cooperative or contractual agreements with organizations or businesses to develop, operate, or participate in tourism-related promotional programs. The bill provides that any excess revenue generated under these contracts be credited to Fund 5W50 and reinvested in ongoing tourism marketing initiatives.

Changes to Capital Access Loan and Minority Direct Loan programs

The bill makes changes to the Capital Access Loan and the Minority Direct Loan programs, two separate loan programs that target similar underserved populations, specifically minorities or underprivileged small business owners. Under the current Capital Access Loan Program, DSA must deposit an amount equal to 50% of the principal amount of the loan or, if the borrower is a minority business enterprise, an amount equal to 80% of the principal amount of the loan with a participating financial institution. The bill changes these thresholds so that the amount the state deposits with the financial institution cannot exceed 50% of the principal amount, or in the case of a loan to a minority business enterprise, an amount that cannot exceed 80% of the principal loaned. Presumably, this will allow for the state to commit funding to a greater number of loans under the program.

In a related change, 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 specifies that this cash transfer must come from Fund 7037.

The bill also makes changes to loan thresholds under the Minority Direct Loan Program. This program provides state loans to qualified businesses that are unable to finance a proposed economic development project through ordinary financial channels at comparable terms. The loans must go toward building facilities or acquiring machinery and equipment for projects that will create or retain jobs. The state assistance is in the form of take-out financing, a mechanism that requires the borrower to complete the project using interim financing from a conventional lender before the state assistance is provided. The bill increases the amount that the Director of Development Services, with Controlling Board approval, may loan to minority businesses from an amount that cannot exceed 60% of the total amount expended in the procurement or improvement of the particular project to 75% of the total amount expended. This change will allow DSA to make bigger loans to businesses qualifying for assistance under the program.

New funds

Business Development and Assistance Fund

The bill creates the Business Development and Assistance Fund (Fund 5LK0) to be used for operating purposes or programs providing business support or business assistance, including grants, loans, or administrative expenses. Specifically, the bill appropriates \$10.0 million under Fund 5LK0 appropriation item 195655, Workforce Development Programs, in FY 2013 for the Ohio Workforce Guarantee Program. The program provides grants to businesses and business consortia for training and education providers for the reimbursement of eligible training expenses. Related

uncodified law specifies that not more than 10% of this funding may be used for administrative purposes.

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 investors 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 approximately \$185,000 to date. In addition to the new fee, the bill adjusts eligibility criteria under InvestOhio. These changes are discussed in more detail in the LSC bill analysis. The potential fiscal effect of these changes could be a minimal decline in tax credits authorized, and subsequently, a slight increase in revenue annually from the personal income tax to the GRF.

Elimination of the Development Financing Advisory Council

The bill eliminates the Development Financing Advisory Council (DFAC), with the Council's duties subsequently vested either with the Director of Development Services or abolished entirely. The bill also makes related changes to the Economic Development Financing Operating Fund (Fund 4510), which currently covers the administrative costs of DFAC, among other expenses. The bill renames Fund 4510 the Business Assistance Fund and specifies that the fund is to be used to pay for the Business Services Division of DSA. In addition, the bill eliminates the Tax Incentive Program Operating Fund (Fund 4S00) and redirects fees collected from businesses participating in the various tax credit programs, specifically the Job Creation Tax Credit and Job Retention Tax Credit programs, to Fund 4510. Finally, the bill allows for payments from Fund 4510 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 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 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 4500) 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.

Other provisions

The bill makes several other statutory changes that have minimal to no fiscal effects on the state or political subdivisions. The first of these is a requirement that the JobsOhio Chief Investment Officer and the Director of Development Services recommend approval of tax credits for projects that have already started to the Tax Credit Authority (TCA) before the Authority decides to approve or disapprove tax credits. The state fiscal effects of this change are minimal, 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.

The bill adds two members to the Third Frontier Commission: (1) the Chief Investment Officer of JobsOhio and (2) a Governor appointee who represents the public at large. Although members of the Commission serve without compensation, they are reimbursed for expenses related to their duties. These expenses are paid from the Third Frontier Research and Development Fund (Fund 7011). Other provisions in the bill relate to subsequent DSA contracts with JobsOhio, and JobsOhio's use of public money and public records requirements, none of which appear to have any direct fiscal effects.