# Air Quality Development Authority

**Senate Finance and Financial Institutions Committee**

*Glenn C. Wintrich, Economist*

*Legislative Service Commission*

*May 11, 2005*

*Additional copies are available on our website at* ***www.lsc.state.oh.us***
*Click on 'Budget Documents' then 'Redbooks'*

# LSC Redbook

# for the

# Air Quality Development Authority

**Senate Finance and Financial Institutions Committee**

*Glenn C. Wintrich, Economist*

*Legislative Service Commission*

## TABLE OF CONTENTS

**Overview** ..... **1**

***Staffing Levels*** ..... ***4***

**Analysis of Executive Proposal** ..... **4**

**Analysis of Executive Proposal** ..... **5**

***Air Quality Development Authority*** ..... ***5***

**Requests Not Funded** ..... **7**

**Attachments:**

**Catalog of Budget Line Items**

**LSC Budget Spreadsheet By Line Item: Executive to House Passed**

*May 11, 2005*

# Air Quality Development Authority

- Ohio Coal Development Office was transferred to the OAQDA from the Department of Development

## OVERVIEW

The Ohio Air Quality Development Authority (OAQDA) is a nonregulatory state government agency that was established in 1970 in response to environmental mandates handed down by the federal government in the first Clean Air Act. A seven-member board governs the Authority. The Governor appoints five of the members and the remaining two members are the directors of the Ohio Department of Health and the Ohio Environmental Protection Agency. Currently, the Authority has seven full-time employees. The Authority assists Ohio businesses, government agencies, and not-for-profit agencies and individuals in complying with air quality regulations by providing technical and financial assistance. The OAQDA is also the home agency for the Ohio Coal Development Office (OCDO), which provides grants to support research and development of clean coal technology.

Recommended funding for FY 2006 is $18,231,041. This is a 3.1% decrease from FY 2005. Recommended funding for FY 2007 is $20,153,590. This is a 10.5% increase over the recommended funding for FY 2006.

### ***Financing Assistance***

The OAQDA assists Ohio businesses, government agencies, and not-for-profit agencies in complying with environmental standards by financing the purchase, construction, or installation of air pollution control equipment. In addition, the Authority provides financial assistance for energy efficiency and conservation and for ethanol and other bio-fuel production facilities.

The OAQDA has also recently developed a new financing instrument that will enable small companies to attain the benefits of OAQDA financing without incurring the costs that are usually associated with bond financing. This will allow the OAQDA financing to be accessible for projects that are below $20,000. Before development of this tool, projects needed to be in the $2-3 million range to be viable candidates for OAQDA financing.

The bonds issued by the OAQDA are air quality revenue bonds on either a tax-exempt or taxable basis. The repayment stream and funding for the Authority come from rentals and lease payments paid by the business, agency, or utility for which the bonds were issued. Because state revenues are not used, these bonds do not contribute to overall state debt.

## Clean Air Resource Center

Officially entitled the "Office of Ombudsman for the Small Business Stationary Source Technical and Environmental Compliance Assistance Program," the Clean Air Resource Center assists small businesses as they face the challenges of new and sometimes stringent air regulations. The Authority operates the Ohio Clean Air Ombudsman for Small Business program and the Small Business Assistance program.

The Ohio Clean Air Ombudsman for Small Business serves not only as a repository of complaints, but also as a source of education and assistance. The ombudsman educates small businesses about the requirements of clean air regulations at the state and federal levels; provides access to expert technical advice on rules, regulations, and compliance options; and provides financing advice and assistance to small businesses. This program is funded by revenue generated by permit fees collected pursuant to Title V of the Clean Air Amendments of 1990.

The Small Business Assistance program enables small businesses with 100 or fewer employees to attain the benefits of OAQDA financing without incurring all the costs normally associated with bond finance. The initial focus for this financial assistance program was the development of an assistance mechanism that would provide assistance to the most businesses possible using limited resources. A careful consideration of options led to the adoption of a small grant program that helps small businesses meet the initial costs of clean air compliance financing. Projects as small as $25,000 have been approved under this program.

## Customer Education

The Authority reaches out to its clients, through both the Clean Air Resource Center and traditional OAQDA financing programs, using three major vehicles: close cooperation with other state agencies, cooperative efforts with trade associations, and independent outreach programs.

Cooperation with other state agencies enables the OAQDA to leverage its resources to assist its clients. The Clean Air Resource Center relies on the Ohio EPA Small Business Assistance program for technical information about state interpretation and implementation of air quality regulations. The Center has also worked with the OEPA's Office of Pollution Prevention to provide technical and financial information to businesses. The Authority works with the Department of Development on a project basis. The Ohio Air Quality Development Authority has been involved in an energy conservation program with the Department of Administrative Services, helping to reduce the cost to the state of such investments.

The Authority works with various state agencies and statewide trade associations to provide information to Ohio businesses. Examples include committee briefings, membership mailings, and training efforts. A significant project was with the printing industry of Ohio. This sector, composed of mostly small businesses, faced a significant regulatory burden under the Clean Air Act. The Authority was actively involved in the project Enviroprint Ohio. Other associations that the Authority worked with include the Ohio Cast Metals Association, Ohio Chemical Council, Ohio Small Business Council, and the National Federation of Independent Businesses-Ohio.

The Authority reaches out to its clients independently by attending various conferences, making presentations and speeches, distributing literature, and by responding to inquiries. Although resource limitations have led to less reliance on this method of outreach, OAQDA plans to give more emphasis to this method in the future.

## ***Ohio Coal Development Office***

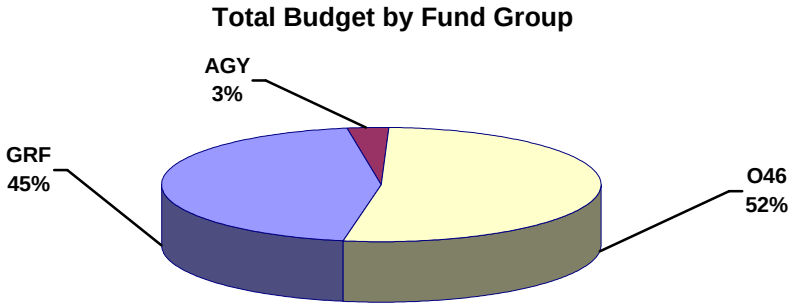
Within the Ohio Air Quality Development Authority, the Ohio Coal Development Office co-funds the development and implementation of technologies that can use Ohio's vast reserves of high sulfur coal in an economical and environmentally sound manner. This is important as numerous energy forecasts project coal to fuel at least half of the nation's electric power production through 2015 and probably beyond. This program is critical for Ohio, which generates nearly 90% of its electricity from coal. Further, Ohio is the third largest consumer of coal and the fourth largest consumer of electricity in the U.S. While alternative energy technologies are under development and transition, coal will remain the backbone of this state's and this nation's energy supply for some time to come.

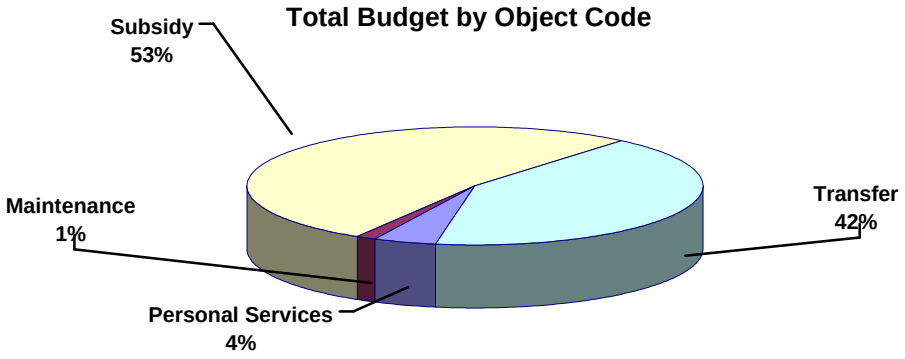
Projects supported by the OCDO are sought through public solicitations and requests-for-proposals (RFP). While OCDO can support projects ranging from applied research through commercial demonstration, it is this latter category that is of particular interest. Types of projects and funding levels are defined within the RFPs. Proposals are reviewed by independent technical reviewers, then submitted to the Office's statutorily created Technical Advisory Committee (TAC), a 15-member group comprised of public and private members having an interest in coal, power production, and the environment. Projects favorably recommended by the TAC are submitted to the OAQDA for final approval, and then grant negotiations commence.

## Staffing Levels

Pursuant to collective bargaining contracts, state employees will receive a 4% raise on July 1, 2005. Paired with an increase in benefit costs, staffing costs will increase for the FY 2006-2007 biennium. The following table provides the number of filled positions by program since 2002. The increase from nine to fourteen employees for FY 2005 and beyond coincides with the transfer of the Ohio Coal Development Office from the Department of Development to the Ohio Air Quality Development Authority.

| Ohio Air Quality Development Authority Staffing Levels | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | *Estimated* | |
| **Program Series/Division** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** |
| OAQDA | 10 | 9 | 9 | 14 | 14 | 14 |
| | | | | | | |
| **Totals** | 10 | 9 | 9 | 14 | 14 | 14 |



# ANALYSIS OF EXECUTIVE PROPOSAL

## Air Quality Development Authority

***Purpose:*** All Ohio Air Quality Development Authority funds and activities are in this single program series. There are three components to this series: Air Quality Facility Development and Financing, the Clean Air Resource Center, and the Ohio Coal Development Office.

The following table shows the line items that are used to fund this agency, as well as the Governor's recommended funding levels.

| Fund | ALI | Title | FY 2006 | FY 2007 |
|---|---|---|---|---|
| **General Revenue Fund** | | | | |
| GRF | 898-402 | Coal Development Office | $568,814 | $573,814 |
| GRF | 898-901 | Coal R&D General Obligation Debt Service | $7,071,100 | $8,980,800 |
| | | **General Revenue Fund Subtotal** | **$7,639,914** | **$9,554,614** |
| **Agency Fund Group** | | | | |
| 570 | 898-601 | Operating Expenses | $256,875 | $263,693 |
| 4Z9 | 898-602 | Small Business Ombudsman | $263,165 | $264,196 |
| 5A0 | 898-603 | Small Business Assistance | $71,087 | $71,087 |
| | | **Agency Fund Group Subtotal** | **$591,127** | **$598,976** |
| **Coal Research & Development Fund** | | | | |
| 046 | 898-604 | Coal Research & Development | $10,000,000 | $10,000,000 |
| | | **Coal Research & Development Fund Subtotal** | **$10,000,000** | **$10,000,000** |
| **Total Funding: Agency** | | | **$18,231,041** | **$20,153,590** |

This analysis focuses on the following specific programs within the agency:

- ***Air Quality Facility Development and Financing***
- ***Clean Air Resource Center***
- ***Ohio Coal Development Office***

### *Air Quality Facility Development and Financing*

***Program Description:*** The Air Quality Facility Development and Financing program supports the primary activities of the OAQDA. The program's primary focus is providing financing assistance for investment in: air pollution control, air pollution prevention, energy efficiency and conservation, and ethanol and other biofuel production facilities.

***Funding Source:*** Administrative fees generated from the issuance of bonds

***Line Items:*** 898-601

***Implication of Executive Recommendation:*** The executive recommendation will provide enough funding to support the Air Quality Facility Development and Financing program's primary activities.

***Temporary and Permanent Law Provisions:*** None

## ***Clean Air Resource Center***

***Program Description:*** The Clean Air Resource Center fulfills the federal requirement to provide specific assistance to small businesses that must comply with the Clean Air Act of 1990. The program provides information to small businesses and helps them determine if they must comply with Clean Air Act requirements, and what they must do to be in compliance. The program also assists in determining how to finance any changes that must be made in order to comply with regulations.

***Funding Source:*** Transfers of Title V permit fees from the Ohio Environmental Protection Agency (OEPA)

***Line Items:*** 898-602, 898-603

***Implication of Executive Recommendation:*** The executive recommendation provides adequate funding to support the activities of the Clean Air Resource Center. If additional funding is needed for the Small Business Assistance Program it may be requested through the Controlling Board.

***Temporary and Permanent Law Provisions:*** None

## ***Ohio Coal Development Office***

***Program Description:*** The Ohio Coal Development Office co-funds the development and implementation of technologies that can use Ohio's high-sulfur coal reserves in an economical and environmentally sound manner. The Office oversees ongoing grants providing technical, administrative, and management assistance. The Office monitors the progress of these projects to insure that funding is being properly used and substantial progress is being made. The Office also supports the Ohio Coal Research Consortium, a network of Ohio universities conducting research in the clean coal technologies.

***Funding Source:*** General Revenue Fund and Ohio coal research and development GO bonds

***Line Items:*** 898-402, 898-604, 898-901

***Implication of Executive Recommendation:*** The executive recommendation will allow the Coal Development Office to fund the activities of the Coal Research and Development program.

***Temporary and Permanent Law Provisions:*** Temporary law grants the Ohio Public Facilities Commission authorization to issue and sell bonds and other obligations of the state to provide moneys to the credit of the Coal Research and Development Fund.

## REQUESTS NOT FUNDED

The following tables contain line items in which the executive recommendation for funding is below the requested level for FY 2006 and FY 2007.

| Coal Research/Development Fund | | | | | | |
|---|---|---|---|---|---|---|
| Fund Line Item | FY 2006 Requested | FY 2006 Recommended | Difference | FY 2007 Requested | FY 2007 Recommended | Difference |
| 898-604 | $13,168,357 | $10,000,000 | ($3,168,357) | $13,168,357 | $10,000,000 | ($3,168,357) |

The above line item reduction for the Coal Research/Development Fund will reduce the amount available for clean technology research and development grants. The funding for this line item results from the issuance of coal research and development GO bonds.

| Agency Fund Group | | | | | | |
|---|---|---|---|---|---|---|
| Fund Line Item | FY 2006 Requested | FY 2006 Recommended | Difference | FY 2007 Requested | FY 2007 Recommended | Difference |
| 898-603 | $197,463 | $71,087 | ($126,376) | $197,463 | $71,087 | ($126,376) |

The recommended funding for this line item is set at the approximate levels of FY 2005 expenditures. If further funding is needed to support the activities of the Small Business Assistance program the agency may request the release of available funds through the Controlling Board.

# General Revenue Fund

### GRF 898-402 Coal Development Office

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|---|---|---|---|---|---|
| $0 | $0 | $507,573 | $563,814 | **$568,814** | **$573,814** |
| | N/A | N/A | 11.1% | **0.9%** | **0.9%** |

***Source:*** GRF

***Legal Basis:*** ORC 1551.11 through 1551.35, 1555.02 through 1555.17; Main Operating Budget Bill of the 126th G.A. (originally established by Am. Sub. H.B. 291 of the 115th G.A.)

***Purpose:*** These funds will pay for the administrative costs of evaluating and processing research proposals and grant administration, which contribute to the development of clean coal technology as a major energy resource.

### GRF 898-901 Coal R & D General Obligation Debt Service

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|---|---|---|---|---|---|
| $0 | $0 | $7,192,980 | $9,185,100 | **$7,071,100** | **$8,980,800** |
| | N/A | N/A | 27.7% | **-23.0%** | **27.0%** |

***Source:*** GRF

***Legal Basis:*** ORC 1551.03; Main Operating Budget Bill of the 126th G.A. (originally established in ORC 151.07 and Section 15 of Article VIII of the Ohio Constitution, approved by voters on November 5, 1985)

***Purpose:*** This line item will pay for debt service on bonds issued to provide funds for financial assistance for research and development of clean coal technology that will encourage the use of Ohio coal. Not more than $100 million in bonds may be outstanding in any single calendar year. Prior to FY 2002, this item was paid from the budget of the Commissioners of the Sinking Fund.

# Coal Research/Development Fund

### 046 898-604 Coal Research and Development Fund

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|---|---|---|---|---|---|
| $0 | $0 | $8,520,120 | $8,500,000 | **$10,000,000** | **$10,000,000** |
| | N/A | N/A | -0.2% | **17.6%** | **0.0%** |

***Source:*** 046: Coal bond proceeds

***Legal Basis:*** ORC 1551.03; Main Operating Budget Bill of the 126th G.A. (originally established in ORC 151.07 and Section 15 of Article VIII of the Ohio Constitution, approved by voters on November 5, 1985, and by Am. Sub. H.B. 750 of the 116th G.A.)

***Purpose:*** The funds will be directed toward programs that seek to find ways to burn clean Ohio coal with fewer emissions in a manner that meets federal clean air standards.

# Agency Fund Group

### 4Z9 898-602 Small Business Ombudsman

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|---|---|---|---|---|---|
| $197,653 | $204,778 | $194,006 | $233,482 | **$263,165** | **$264,196** |
| | 3.6% | -5.3% | 20.3% | **12.7%** | **0.4%** |

***Source:*** AGY: Title V permit fees

***Legal Basis:*** ORC 3706.19 (mandated by Federal Clean Air Act Amendments of 1990)

***Purpose:*** The Clean Air Ombudsman for Small Business educates small businesses about requirements of Clean Air regulations at the state and federal levels; provides access to expert technical advice on rules, regulations, and compliance options; and provides financing advice and assistance to small businesses.

### 570 898-601 Operating Expenses

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|---|---|---|---|---|---|
| $219,853 | $184,260 | $222,816 | $243,383 | **$256,875** | **$263,693** |
| | -16.2% | 20.9% | 9.2% | **5.5%** | **2.7%** |

***Source:*** AGY: Fees and charges paid by firms for which the OAQDA issues tax-exempt or taxable bonds

***Legal Basis:*** ORC 3706

***Purpose:*** This line item contains funds for personal services for the OAQDA. These funds are used to compensate the authority's board members and employees. Funds are transferred from the authority's general trust fund to this line item solely to cover payroll costs through the state personnel system.

### 5A0 898-603 Small Business Assistance

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|---|---|---|---|---|---|
| $66,121 | $17,526 | $28,495 | $85,000 | **$71,087** | **$71,087** |
| | -73.5% | 62.6% | 198.3% | **-16.4%** | **0.0%** |

***Source:*** AGY: Title V permit fees

***Legal Basis:*** ORC 3706.19(E)

***Purpose:*** This line item provides funds which are used to enable small businesses to attain the benefits of OAQDA financing without incurring all the costs normally associated with bond finance.

# LSC Budget Spreadsheet by Line Item, FY 2006 - FY 2007

| Fund | ALI | ALI Title | Estimated 2005 | As Introduced 2006 | House Passed 2006 | % Change Est. 2005 to House 2006 | As Introduced 2007 | House Passed 2007 | % Change House 2006 to House 2007 |
|---|---|---|---|---|---|---|---|---|---|
| **AIR** | | **Air Quality Development Authority** | | | | | | | |
| GRF | 898-402 | Coal Development Office | $563,814 | $ 568,814 | $ 568,814 | 0.9% | $ 573,814 | $ 573,814 | 0.9% |
| GRF | 898-901 | Coal R & D General Obligation Debt Service | $9,185,100 | $ 7,071,100 | $ 7,071,100 | -23.0% | $ 8,980,800 | $ 8,980,800 | 27.0% |
| **General Revenue Fund Total** | | | **$ 9,748,914** | **$ 7,639,914** | **$ 7,639,914** | **-21.6%** | **$ 9,554,614** | **$ 9,554,614** | **25.1%** |
| 046 | 898-604 | Coal Research and Development Fund | $8,500,000 | $ 10,000,000 | $ 10,000,000 | 17.6% | $ 10,000,000 | $ 10,000,000 | 0.0% |
| **Coal Research/Development Fund Total** | | | **$ 8,500,000** | **$ 10,000,000** | **$ 10,000,000** | **17.6%** | **$ 10,000,000** | **$ 10,000,000** | **0.0%** |
| 4Z9 | 898-602 | Small Business Ombudsman | $233,482 | $ 263,165 | $ 263,165 | 12.7% | $ 264,196 | $ 264,196 | 0.4% |
| 570 | 898-601 | Operating Expenses | $243,383 | $ 256,875 | $ 256,875 | 5.5% | $ 263,693 | $ 263,693 | 2.7% |
| 5A0 | 898-603 | Small Business Assistance | $85,000 | $ 71,087 | $ 71,087 | -16.4% | $ 71,087 | $ 71,087 | 0.0% |
| **Agency Fund Group Total** | | | **$ 561,865** | **$ 591,127** | **$ 591,127** | **5.2%** | **$ 598,976** | **$ 598,976** | **1.3%** |
| ***Total All Budget Fund Groups*** | | | ***$ 18,810,779*** | ***$ 18,231,041*** | ***$ 18,231,041*** | ***-3.1%*** | ***$ 20,153,590*** | ***$ 20,153,590*** | ***10.5%*** |

| As Introduced (Executive) | As Passed by the House |
|---|---|
| **(CD-780-AIR) Coal Development Office** | |
| **Section:** *203.27* | **Section:** *203.27* |
| Earmarks GRF appropriation item GRF 898-402, Coal Development Office, for administrative costs of the Coal Development Office.<br><br>Fiscal Effect: None | Same as the Executive. |
| **(CD-783-AIR) Science and Technology Collaboration** | |
| **Section:** *203.27* | **Section:** *203.27* |
| Establishes that the Air Quality Development Authority shall work in close collaboration with the Department of Development, the Board of Regents, and the Third Frontier Commission in relation to Alignment Programs and appropriation items and other technology-related programs and appropriation items in the Department of Development, Air Quality Development Authority, and the Board of Regents.<br>Alignment programs shall be managed to build on existing competitive research strengths, encourage new and emerging discoveries and commercialization of ideas and products that will benefit the Ohio economy, and to ensure improved collaboration among Alignment Programs with programs administered by the Third Frontier Commission, and with other state programs that are intended to improve economic growth and job creation.<br><br>Fiscal Effect: None | Same as the Executive. |

| As Introduced (Executive) | As Passed by the House |
|---|---|
| **(CD-781-AIR) Coal Research and Development General Obligation Debt Service** | |
| **Section:** *203.27* | **Section:** *203.27* |
| Earmarks appropriation item GRF 898-901, Coal R & D Gen. Obligation Debt Service, to pay all debt service and related financing costs at the times they are required to be made under sections 151.01 and 151.07 of the Revised Code.<br><br>Fiscal Effect: None | Same as the Executive. |
| **(CD-784-AIR) Issuance of Obligations by the Ohio Coal Development Office** | |
| **Section:** *318.12* | **Section:** *318.12* |
| Grants the Ohio Public Facilities Commission authorization to issue and sell bonds and other obligations of the state to provide moneys to the credit of the Coal Research and Development Fund.<br><br>Fiscal Effect: None | Same as the Executive. |