

Commissioners of Sinking Fund

Senate Finance and Financial Institutions Committee

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Legislative Service Commission*

May 3, 2005

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LSC Redbook

for the

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May 3, 2005

Commissioners of Sinking Fund

- The Commissioners of Sinking Fund receives its operating funds through a GRF line item in the Treasurer of State's budget.
- Appropriations to the Sinking Fund support debt service payments on Ohio's general obligation debts.

OVERVIEW

The Commissioners of the Sinking Fund administer the debt service payments and administrative expenses related to state general obligation bonds issued for the following purposes: primary and secondary education facilities, higher education facilities, coal research and development, parks and natural resources capital improvements, conservation projects, local infrastructure projects, and highways.

Under Am. Sub. H.B. 640 of the 123rd General Assembly (effective September 14, 2000) the Sinking Fund authority to issue obligations for parks and natural resources capital improvements (pursuant to Section 21 of Article VIII of the Ohio Constitution) and coal research and development (pursuant to Section 15 of Article VIII of the Ohio Constitution) was transferred to the Ohio Public Facilities Commission. The authority to issue highway capital improvements general obligation bonds (pursuant to Section 2m of Article VII of the Ohio Constitution) was transferred to the Treasurer of State.

In addition, Am. Sub. H.B. 3 of the 124th General Assembly (effective July 26, 2001) authorized the Ohio Public Facilities Commission to issue obligations for conservation projects pursuant to Section 20 of Article VIII of the Ohio Constitution and added appropriation authority to the Commissioners of the Sinking Fund to facilitate the debt service payments for those projects.

The Board of Commissioners of the Sinking Fund consists of five members. The Auditor of State serves as the president of the Board and the Secretary of State serves as the secretary. The remaining three members are the Governor, the Treasurer of State, and the Attorney General. The Sinking Fund has an office in the Treasurer of State's office and receives its operating funds through a GRF line item in the Treasurer of State operating budget (ALI 090-401).

Summary of FYs 2006-2007 Budget Issues

The executive recommendation will provide continuing funding for debt service payments and administrative expenses related to state general obligations administered by the Commissioners of the Sinking Fund.

ANALYSIS OF EXECUTIVE PROPOSAL

Program Series 1

General Obligations Debt Retirement

Purpose: The General Obligations Debt Retirement program series provides for debt service payments related to certain state general obligation bonds.

The following table shows the line items that are used to fund the General Obligations Debt Retirement as well as the Governor’s recommended funding levels.

| Fund | ALI | Title | FY 2006 | FY 2007 |
|---|---------|---|----------------------|----------------------|
| Debt Service Fund | | | | |
| DSF | 155-902 | Highway Capital Improvements Bond Retirement Fund | \$180,620,600 | \$196,464,900 |
| DSF | 155-903 | Natural Resources Bond Retirement Fund | \$26,166,000 | \$24,659,100 |
| DSF | 155-904 | Conservation Projects Bond Service Fund | \$14,687,300 | \$17,668,800 |
| DSF | 155-906 | Coal Research/Development Bond Retirement Fund | \$7,071,100 | \$8,980,800 |
| DSF | 155-907 | State Capital Improvement Bond Retirement Fund | \$163,131,400 | \$174,545,100 |
| DSF | 155-908 | Common Schools Bond Retirement Fund | \$200,724,700 | \$236,911,500 |
| DSF | 155-909 | Higher Education Bond Retirement Fund | \$140,600,300 | \$158,114,100 |
| Debt Service Fund Subtotal | | | \$733,001,400 | \$817,344,300 |
| Total Funding: General Obligations Debt Retirement | | | \$733,001,400 | \$817,344,300 |

This analysis focuses on the following specific programs within the General Obligations Debt Retirement program series:

■ **Program 1: General Obligations Debt Retirement**

Program 1: General Obligations Debt Retirement

Program Description: The Commissioners of the Sinking Fund manage and pay debt service on certain general obligation bonds that are authorized by the state constitution and the legislature for specific purposes.

Highway Capital Improvements Bond Retirement Fund

This line item finances the retirement of debt that has been issued for the purpose of paying costs of construction, reconstruction, or other improvements of highways, including those on the state highway system and urban extensions thereof, those within or leading to public parks or recreation areas, and those within or leading to municipal corporations. The debt is issued under the authority of Section 2m, Article VIII of the Ohio Constitution, approved by voters on November 7, 1995. Not more than \$220 million in bonds may be issued in any fiscal year and not more than \$1.2 billion principal amount may be outstanding at any time. Bond maturity cannot exceed 30 years. The issue has “rollover” authority, so additional bonds may be issued as other bonds are retired.

Funding Source: Gasoline Excise Tax

Line Item: 072 155-902

Implication of the Executive Recommendation: The recommended funding will allow for the continued payment of debt service on bonds.

Natural Resources Bond Retirement Fund

This line item pays debt service on bonds issued to finance capital improvements related to: state and local parks and land and water recreation facilities; soil and water restoration and protection; land management, including preservation of natural areas and reforestation; water management, including dam safety; stream and lake management; and other projects that enhance the use and enjoyment of Ohio's natural resources. The bonds are issued under the authority of Section 21, Article VIII of the Ohio Constitution, approved by voters on November 2, 1993. Not more than \$50 million in bonds may be issued within any single calendar year, and no more than \$200 million may be outstanding at any one time. Funds to pay the debt service are transferred to this non-GRF account from the GRF.

Funding Source: GRF

Line Item: 073 155-903

Implication of the Executive Recommendation: The recommended funding will allow for the continued payment of debt service on bonds.

Conservation Projects Bond Service Fund

This line item pays debt service on bonds issued to provide monies for conservation purposes. The bonds are issued under the authority of Section 2o, Article VIII of the Ohio Constitution, approved by voters on November 7, 2000. It was implemented under Amended Substitute House Bill 3 of the 124th General Assembly. Funds to pay the debt service are transferred to this non-GRF account from the GRF.

Funding Source: GRF

Line Item: 155-904

Implication of the Executive Recommendation: The recommended funding will allow for the continued payment of debt service on bonds.

Coal Research and Development Bond Retirement Fund

This line item pays debt service on bonds issued to provide moneys for financial assistance for research and development of coal technology that will encourage the use of Ohio coal. The bonds were issued under the authority of Section 15 of Article VIII of the Ohio Constitution, approved by voters on November 5, 1985. Not more than \$100 million in bonds may be outstanding in any single calendar year. Funds to pay the debt service are transferred to this non-GRF account from the GRF.

Funding Source: GRF

Line Item: 076 155-906

Implication of the Executive Recommendation: The recommended funding will allow for the continued payment of debt service on bonds.

State Capital Improvements Bond Retirement Fund

This line item pays debt service on bonds issued to provide moneys for local infrastructure projects financed by the Public Works Commission. Formerly, this money has come from a line item in the Treasurer of State's budget. Now funding comes from GRF line item 150-907 under the budget for the Public Works Commission.

Funding Source: GRF

Line Item: 077 155-907

Implication of the Executive Recommendation: The recommended funding will allow for the payment of debt service on bonds.

Common Schools Bond Retirement Fund

This line item pays debt service on bonds issued to provide moneys for common schools. The corresponding GRF line item (230-908) is in the School Facilities Commission's budget.

Funding Source: GRF

Line Item: 078 155-908

Implication of the Executive Recommendation: The recommended funding will allow for the payment of debt service on bonds.

Higher Education Bond Retirement Fund

This line item pays debt service on bonds issued to provide moneys for higher education. The corresponding GRF line item (235-909) is in the budget for the Board of Regents.

Funding Source: GRF and proceeds from the issuance of debt

Line Item: 079 155-909

Implication of the Executive Recommendation: The recommended funding will allow for the payment of debt service on bonds.

Temporary Law Provisions: Designates appropriations items in the Commissioners of Sinking Fund section for the purpose of paying debt service and financing costs on bonds or notes of the state issued under the Ohio Constitution and acts of the General Assembly. Appropriates additional amounts, if necessary, for the purpose of paying bonds or other instruments of indebtedness.

Debt Service Fund Group

071 155-901 Highway Obligation Bond Retirement Fund

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|--------------|--------------|--------------|------------------|----------------------|----------------------|
| \$49,657,366 | \$47,613,807 | \$35,593,610 | \$10,450,000 | \$0 | \$0 |
| | -4.1% | -25.2% | -70.6% | -100.0% | N/A |

Source: DSF: Gasoline Excise Tax; appropriations made under the Department of Transportation

Legal Basis: Section 101 of Am. Sub. H.B. 95 of the 125th G.A. (originally authorized by Article VIII, Section 2i of the Ohio Constitution, approved by voters on November 5, 1968; replaced line item 155-900, Highway Obligations Bond Retirement (Fund 071), in FY 2002)

Purpose: This debt has been issued for the construction and improvement of state highways and their urban extensions, and capital improvements on structures of, or relating to highway transportation or highway research and development. The debt service for this issue is paid by highway funds. No more than \$100 million could be issued in a single calendar year, and no more than \$500 million could be outstanding at any time. Bond maturity could not exceed 30 years.

072 155-902 Highway Capital Improvement Bond Retirement Fund

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|---------------|---------------|---------------|------------------|----------------------|----------------------|
| \$141,302,654 | \$136,925,475 | \$149,491,931 | \$168,500,000 | \$180,620,600 | \$196,464,900 |
| | -3.1% | 9.2% | 12.7% | 7.2% | 8.8% |

Source: DSF: Gasoline Excise Tax; appropriations made under the Department of Transportation

Legal Basis: Section 101 of Am. Sub. H.B. 95 of the 125th G.A. (originally authorized by Article VIII, Section 2m of the Ohio Constitution, approved by voters on November 7, 1995; replaced line item 155-900, Highway Capital Improvement Bond Retirement (Fund 072), in FY 2002)

Purpose: Highway Capital Improvements Bonds are issued for the purpose of paying costs of construction, reconstruction, or other improvements of highways, including those on the state highway system and urban extensions thereof, those within or leading to public parks or recreation areas, and those within or leading to municipal corporations. Bond maturity cannot exceed 30 years. Not more than \$220 million in bonds may be issued in any fiscal year and not more than \$1.2 billion principal amount may be outstanding at any time. As the bonds are retired, additional obligations may be issued.

Sinking Fund, Commissioners of - Catalog of Budget Line Items

073 155-900 Natural Resources Bond Retirement

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|-------------|------|------|---------------|-------------------|-------------------|
| \$7,293,180 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | N/A | N/A | N/A | N/A |

Source: DSF: GRF

Legal Basis: Discontinued line item (originally authorized by Article VIII, Section 21 of the Ohio Constitution, approved by voters on November 2, 1993; replaced in FY 2002 by line item 155-903, Natural Resources Bond Retirement)

Purpose: This line item paid debt service on bonds issued to finance capital improvements related to: state and local parks and land and water recreation facilities; soil and water restoration and protection; land management, including preservation of natural areas and reforestation; water management, including dam safety; stream and lake management; flood control and flood damage control; fish and wildlife resource management; and other projects that enhance the use and enjoyment of Ohio's natural resources. Not more than \$50 million in bonds may be issued within any single calendar year, and no more than \$200 million may be outstanding at any one time. Funds to pay the debt service were transferred to this non-GRF account from the GRF.

073 155-903 Natural Resources Bond Retirement Fund

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|--------------|--------------|--------------|---------------|-------------------|-------------------|
| \$10,395,604 | \$18,722,985 | \$21,617,256 | \$26,914,300 | \$26,166,000 | \$24,659,100 |
| | 80.1% | 15.5% | 24.5% | -2.8% | -5.8% |

Source: DSF: GRF transfers

Legal Basis: Section 101 of Am. Sub. H.B. 95 of the 125th G.A. (originally authorized by Article VIII, Section 21 of the Ohio Constitution, approved by voters on November 2, 1993; replaced line item 155-900, Natural Resources Bond Retirement (Fund 073), in FY 2002)

Purpose: This line item pays debt service on bonds issued to finance capital improvements related to: state and local parks and land and water recreation facilities; soil and water restoration and protection; land management, including preservation of natural areas and reforestation; water management, including dam safety; stream and lake management; flood control and flood damage control; fish and wildlife resource management; and other projects that enhance the use and enjoyment of Ohio's natural resources. Not more than \$50 million in bonds may be issued within any single calendar year, and no more than \$200 million may be outstanding at any one time.

Sinking Fund, Commissioners of - Catalog of Budget Line Items

074 155-904 Conservation Projects Bond Service Fund

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|------|-------------|-------------|------------------|----------------------|----------------------|
| \$0 | \$4,363,713 | \$4,717,100 | \$11,235,700 | \$14,687,300 | \$17,668,800 |
| | N/A | 8.1% | 138.2% | 30.7% | 20.3% |

Source: DSF: GRF

Legal Basis: Section 101 of Am. Sub. H.B. 95 of the 125th G.A. (originally established by Am. Sub. H.B. 3 of the 124th G.A.; replaced line item 725-904, Conservation General Obligation Debt Service, under the Department of Natural Resources, in FY 2002)

Purpose: This line item pays the debt service on bonds issued to finance the Clean Ohio Conservation Fund projects: acquisition of land or land rights for park, forests, wetlands, endangered plant or animal habitat, and connecting corridors for natural areas; projects for construction or enhancement of facilities that are necessary to make open space areas accessible to the public; projects that protect or enhance riparian corridors and watersheds; and projects which construct or enhance recreational trails.

076 155-906 Coal Research/Development Bond Retirement Fund

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|-------------|-------------|-------------|------------------|----------------------|----------------------|
| \$7,739,230 | \$9,958,243 | \$7,217,343 | \$9,185,100 | \$7,071,100 | \$8,980,800 |
| | 28.7% | -27.5% | 27.3% | -23.0% | 27.0% |

Source: DSF: GRF transfers

Legal Basis: Section 101 Am. Sub. H.B. 95 of the 125th G.A. (originally authorized by Article VIII, Section 15 of the Ohio Constitution, approved by voters on November 5, 1985; replaced line item 155-900, Coal Research/Development Bond Retirement (Fund 076), in FY 2002)

Purpose: This line item pays debt service on bonds issued to provide moneys for financial assistance for research and development of 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.

077 155-907 State Capital Improvement Bond Retirement Fund

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|---------------|---------------|---------------|------------------|----------------------|----------------------|
| \$132,952,675 | \$139,012,631 | \$139,327,537 | \$155,269,700 | \$163,131,400 | \$174,545,100 |
| | 4.6% | 0.2% | 11.4% | 5.1% | 7.0% |

Source: DSF: GRF

Legal Basis: Section 101 of Am. Sub. H.B. 95 of the 125th G.A. (originally established by Am. Sub. H.B. 640 of the 123rd G.A.; replaced line item 155-900, State Capital Improvement Bond (Fund 077), in FY 2002)

Purpose: This line item pays debt service on bonds issued to provide moneys for local infrastructure projects. In the past, this money has been a line item in the Treasurer of State's budget (line item 090-900, State Capital Improvement Bond Service Fund). The GRF counterpart for this line item is in the budget for the Public Works Commission (line item 150-907, State Capital Improvement G.O. Debt Service).

Sinking Fund, Commissioners of - Catalog of Budget Line Items

078 155-908 Common Schools Bond Retirement Fund

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|--------------|--------------|---------------|------------------|----------------------|----------------------|
| \$34,880,973 | \$61,674,451 | \$108,297,519 | \$170,145,400 | \$200,724,700 | \$236,911,500 |
| | 76.8% | 75.6% | 57.1% | 18.0% | 18.0% |

Source: DSF: GRF

Legal Basis: Section 101 of Am. Sub. H.B. 95 of the 125th G.A. (originally established by Am. Sub. H.B. 640 of the 123rd G.A.; replaced line item 155-900, Common Schools Capital Facility Bond (Fund 078), in FY 2002)

Purpose: State Issue 1 in November 2000 created general obligation bonds for education. This line item pays debt service on bonds issued to provide moneys for common schools. The corresponding GRF appropriation (line item 230-908, Common Schools G.O. Debt Service) is in the School Facilities Commission's budget.

079 155-909 Higher Education Bond Retirement Fund

| 2002 | 2003 | 2004 | 2005 Estimate | 2006 House Passed | 2007 House Passed |
|--------------|--------------|--------------|------------------|----------------------|----------------------|
| \$50,032,680 | \$67,737,998 | \$91,220,421 | \$134,765,600 | \$140,600,300 | \$158,114,100 |
| | 35.4% | 34.7% | 47.7% | 4.3% | 12.5% |

Source: DSF: GRF

Legal Basis: Section 101 of Am. Sub. H.B. 95 of the 125th G.A. (originally established by Am. Sub. H.B. 640 of the 123rd G.A.; replaced line item 155-900, Higher Education Capital Facility Bond (Fund 079), in FY 2002)

Purpose: State Issue 1 in November 2000 created general obligation bonds for education. This line item pays debt service on bonds issued to provide moneys for higher education. The corresponding GRF appropriation (line item 235-909, Higher Education General Obligation Debt Service) is in the Board of Regents' budget.

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

| <i>Fund</i> | <i>ALI</i> | <i>ALI Title</i> | <i>Estimated 2005</i> | <i>As Introduced 2006</i> | <i>House Passed 2006</i> | <i>% Change Est. 2005 to House 2006</i> | <i>As Introduced 2007</i> | <i>House Passed 2007</i> | <i>% Change House 2006 to House 2007</i> |
|--|------------|--|---------------------------|-----------------------------------|------------------------------|---|-----------------------------------|------------------------------|--|
| <i>CSF Sinking Fund, Commissioners of</i> | | | | | | | | | |
| 071 | 155-901 | Highway Obligation Bond Retirement Fund | \$10,450,000 | \$ 0 | \$ 0 | -100.0% | \$ 0 | \$ 0 | N/A |
| 072 | 155-902 | Highway Capital Improvement Bond Retirement Fund | \$168,500,000 | \$ 180,620,600 | \$ 180,620,600 | 7.2% | \$ 196,464,900 | \$ 196,464,900 | 8.8% |
| 073 | 155-903 | Natural Resources Bond Retirement Fund | \$26,914,300 | \$ 26,166,000 | \$ 26,166,000 | -2.8% | \$ 24,659,100 | \$ 24,659,100 | -5.8% |
| 074 | 155-904 | Conservation Projects Bond Service Fund | \$11,235,700 | \$ 14,687,300 | \$ 14,687,300 | 30.7% | \$ 17,668,800 | \$ 17,668,800 | 20.3% |
| 076 | 155-906 | Coal Research/Development Bond Retirement Fund | \$9,185,100 | \$ 7,071,100 | \$ 7,071,100 | -23.0% | \$ 8,980,800 | \$ 8,980,800 | 27.0% |
| 077 | 155-907 | State Capital Improvement Bond Retirement Fund | \$155,269,700 | \$ 163,131,400 | \$ 163,131,400 | 5.1% | \$ 174,545,100 | \$ 174,545,100 | 7.0% |
| 078 | 155-908 | Common Schools Bond Retirement Fund | \$170,145,400 | \$ 200,724,700 | \$ 200,724,700 | 18.0% | \$ 236,911,500 | \$ 236,911,500 | 18.0% |
| 079 | 155-909 | Higher Education Bond Retirement Fund | \$134,765,600 | \$ 140,600,300 | \$ 140,600,300 | 4.3% | \$ 158,114,100 | \$ 158,114,100 | 12.5% |
| Debt Service Fund Group Total | | | \$ 686,465,800 | \$ 733,001,400 | \$ 733,001,400 | 6.8% | \$ 817,344,300 | \$ 817,344,300 | 11.5% |
| Total All Budget Fund Groups | | | \$ 686,465,800 | \$ 733,001,400 | \$ 733,001,400 | 6.8% | \$ 817,344,300 | \$ 817,344,300 | 11.5% |

As Introduced (Executive)

(CD-669-CSF) Debt Service Costs

Section: 101

Specifies appropriation items are for the purpose of paying debt service costs on state bonds issued pursuant to the Ohio Constitution and acts of the General Assembly, and appropriates additional amounts if necessary. The Ohio Constitution requires repayment of general obligation bonds.

Fiscal effect: None.

As Passed by the House

Section: 101

Same as the Executive.

 (CD-961-CSF) Commissioner of the Sinking Fund Highway Bond Transfer Authorization

No provision.

Section: 209.99

Authorizes the transfer of the balance remaining after provision for payment of all outstanding bonds, notes, coupons, and charges from Highway Obligation Bond Retirement Fund to the Highway Capital Improvements Bond Service Fund.

Fiscal effect: None.
