

Public Works Commission

(H.B. 119 Main Operating Budget Funding Component)

Senate Finance and Financial Institutions Committee

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Legislative Service Commission*

May 18, 2007

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LSC Redbook
for the
Public Works Commission
(H.B. 119 Main Operating Budget Funding Component)
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May 18, 2007

Public Works Commission

- Implementation of program years 21 and 22 of the SCIP program
- Implementation of program year 4 of the Clean Ohio Program
- Current service and staffing levels will be maintained over the biennium

OVERVIEW

The Agency

The Public Works Commission (PWC) administers the State Capital Improvement Program (SCIP) and the Local Transportation Improvement Program (LTIP). These programs provide grants and loans to local governments for infrastructure projects. The SCIP receives funding from infrastructure bonds and the LTIP receives funding from one cent of the motor fuel tax. PWC also administers a portion of the Clean Ohio Conservation Program (COCP). Currently, the Commission provides funding for a staff of 12.

Funding Distribution

The main appropriations bill contains the *debt service* appropriations for the SCIP and the COCP, as well as *operating* dollars for the COCP. This analysis focuses on these dollars.

The capital re-appropriations bill and the capital bill contain the *capital* dollars for the SCIP. The transportation budget bill, Am. Sub. H.B. 67 of the 127th General Assembly, contains the *operating* dollars for the LTIP and the SCIP as well as the *capital* dollars for the LTIP.

Summary of PWC Budget in the Transportation Bill

The recently enacted transportation bill, Am. Sub. H.B. 67 of the 127th General Assembly, funded PWC at approximately \$69 million in each fiscal year. As table 1 illustrates, the majority of funding is for the LTIP. The LTIP provides direct grants to assist in the costs associated with local road and bridge projects. Grants are distributed on a per capita basis and are used to make cash payments to consultants and contractors for work performed on behalf of the local government. The majority of grants are distributed to cities and counties as well as villages and townships. The LTIP receives one cent of the motor fuel tax, which is the equivalent to roughly \$67 million to \$69 million annually.

The transportation budget also provided funding for the District Administration Program which authorizes the Director of PWC to use investment earnings from the SCIP and LTIP funds for administrative costs incurred by the 19 individual District Public Works Integrating Committees (DPWIC). The bill provided that no more than \$1,235,000 per fiscal year will be available for reimbursement, and individual districts may not receive more than \$65,000 per fiscal year.

| Table1. Summary of FYs 2008-2009 Appropriations in the Enacted Transportation Budget Bill, Am. Sub. H.B. 67 | | | | |
|--|------------|--|---------------------|---------------------|
| Fund | ALI | Title | FY 2008 | FY 2009 |
| Local Transportation Improvement Fund | | | | |
| 052 | 150-402 | LTIP-Operating | \$291,537 | \$306,178 |
| 052 | 150-701 | Local Transportation Improvement Program | \$67,500,000 | \$67,500,000 |
| Local Transportation Improvement Fund Subtotal | | | \$67,791,537 | \$67,806,178 |
| Local Infrastructure Improvement Fund | | | | |
| 038 | 150-321 | SCIP-Operating | \$879,237 | \$918,912 |
| Local Infrastructure Improvement Fund Subtotal | | | \$879,237 | \$918,912 |
| Total Funding: Aid to Local Government Improvements | | | \$68,670,774 | \$68,725,090 |

FYs 2008-2009 Main Operating Budget Recommendations

Turning to the appropriations in the main operating bill, the PWC's executive recommended budget is \$192,662,337 in FY 2008 and \$208,787,009 in FY 2009, for a total of \$401,449,346 for the biennium. Of this total, 91% is for SCIP debt service payments, while 8.6% is for Clean Ohio debt service and Clean Ohio operating expenses. Compared to last biennium, the Commission's total recommended funding is 10% more than FY 2006-2007 appropriations. Overall, the recommendations fully funded PWC's budget request. PWC will be able to maintain current service and staffing levels with these recommendations.

With the new administration PWC plans to focus its efforts on such things as:

- Bringing together all levels of local government during the project selection process;
- Continuing to emphasize repair and replacement of existing infrastructure versus new and expansion;
- Improving Ohio's infrastructure in order to support local businesses and industry; and
- Promoting regional cooperation of the 19 District Public Works Integrating Committees.

Budget by Fund Group

The majority of the Public Works Commission's funding in the main operating bill comes from the GRF. These dollars are used to service the debt and financing costs for conservation projects funded under the COCP as well as infrastructure projects funded under the SCIP.

| Table 2. FYs 2008-2009 Budget by Fund Group | | | | | |
|--|----------------------|--------------------------|------------------------|--------------------------|-----------------------|
| Fund Group | FY 2008 | % of Total Budget | FY 2009 | % of Total Budget | Biennium Total |
| General Revenue Fund | \$192.4 million | 99.8% | \$208.5 million | 99.8% | \$400.9 million |
| Clean Ohio Conservation Fund | \$301,537 | <1% | \$311,509 | <1% | \$613,046 |
| TOTAL | \$192 million | 100% | \$208.8 million | 100% | \$401 million |

Budget by Object of Expense

Most of PWC's expenditures over the biennium will be for debt service on Clean Ohio Bonds and SCIP bonds. This is shown in object of expense number 90 – Transfer and Other in Table 3 below. The increase in equipment in FY 2009 accounts for the purchase of desktops and printers. Furthermore, increases in purchased services in FY 2008 reflect estimated bond counsel fees for the issuance of Clean Ohio bonds over the biennium.

| Object of Expense | FY 2007 (est.) | FY 2008 (rec.) | % Change | FY 2009 (rec.) | % Change |
|-------------------------|----------------------|----------------------|-------------|----------------------|-------------|
| 10 – Personal Services | \$318,555 | \$258,497 | (18.8%) | \$270,742 | 4.7% |
| 13 – Purchased Services | \$7,560 | \$13,000 | 72% | \$8,331 | (35%) |
| 20 – Maintenance | \$39,393 | \$27,351 | (30.5%) | \$28,211 | 3.1% |
| 30 – Equipment | \$9,928 | \$2,689 | (73%) | \$4,225 | 57% |
| 90 – Transfer and Other | \$189 million | \$192 million | 1.5% | \$208 million | 8.3% |
| TOTAL | \$189 million | \$192 million | 1.5% | \$208 million | 8.3% |

* Includes only object of expense for appropriation items: 150-904, Conservation Gen Oblig Debt Service; 150-907, St. Capital Improv. G.O. Debt Service; and 150-403, Clean Ohio Operating Expenses. Figures based on OBM Report RBUDS12K.

Staffing Levels

The Commission's staffing levels have been fairly constant over recent years. From 1991 to 1998, the staff was reduced from 18 to the current level of 12. The table below displays PWC's staffing levels from FYs 2004 to 2009. The 12 staff in the table below is the funded amount of staff positions. The Commission is currently operating with 11.

| Program Series/Division | 2004 | 2005 | 2006 | 2007 | Estimated | |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | | | | 2008 | 2009 |
| SCIP/LTIP/COCP | 13 | 13 | 13 | 13 | 12 | 12 |
| Totals | 13 | 13 | 13 | 13 | 12 | 12 |

ADDITIONAL FACTS AND FIGURES

Funding Process

SCIP and LTIP Funding

To apply for SCIP or LTIP funds a political subdivision must apply to its District Public Works Integrating Committee (DPWIC). There are 19 Public Works Districts that are responsible for recommending projects to PWC. The DPWICs consist of local officials representing all levels of government. Each DPWIC evaluates and scores applications using a locally developed methodology based on criteria listed in Chapter 164. of the Ohio Revised Code. These evaluation criteria focus on the financial need of the subdivision, the project's strategic importance to the district and subdivision, and emphasize the repair and replacement of infrastructure rather than new and expansionary infrastructure.

After evaluating and scoring the projects, the DPWIC creates a list of high priority projects that are submitted to PWC. The Commission reviews the project selection and evaluation methodology used by the DPWIC to ensure fair and objective decision making. Then, each application is reviewed for completeness and project eligibility. After all requirements are met on the district level and the application is approved, a formal agreement is issued by PWC to the individual political subdivision. The Commission's staff maintains ongoing contact with local communities, providing technical assistance through the project's completion.

Clean Ohio Conservation Program

The funding allocation process of the Clean Ohio Conservation Program is nearly identical to the SCIP and LTIP funding process. The only difference is funding is available through the Clean Ohio Program and local governments and nonprofits apply through their Natural Resource Assistance Councils rather than DPWICs.

ANALYSIS OF EXECUTIVE PROPOSAL

Program Series

Aid to Local Government Improvements

Purpose: This program series provides grants and loans to address Ohio's local public infrastructure needs.

The following table shows the line items that are used to fund the Aid to Local Government Improvements program series, as well as the Governor's recommended funding levels.

| Fund | ALI | Title | FY 2008 | FY 2009 |
|--|---------|--|----------------------|----------------------|
| General Revenue Fund | | | | |
| GRF | 150-904 | Conservation General Obligation Debt Service | \$14,847,200 | \$19,779,200 |
| GRF | 150-907 | State Capital Improvements General Obligation Debt Service | \$177,513,600 | \$188,696,300 |
| General Revenue Fund Subtotal | | | \$192,360,800 | 208,475,500 |
| Clean Ohio Conservation Fund | | | | |
| 056 | 150-403 | Clean Ohio Operating Expenses | \$301,537 | \$311,509 |
| Clean Ohio Conservation Fund Subtotal | | | \$301,537 | \$311,509 |
| Total Funding: Aid to Local Government Improvements | | | \$192,662,337 | \$208,787,009 |

The Aid to Local Government Improvements program series includes two programs:

- **Program 1.01: State Capital Improvement Program (SCIP)**
- **Program 1.03: Clean Ohio Conservation Program (COCP)**

Program 1.01: State Capital Improvement Program (SCIP)

Program Description: SCIP uses infrastructure bond proceeds to provide grants and loans to local governments for improvement of their infrastructure systems. Bond issuing authority is provided in Section 2p, Article VIII of the Ohio Constitution. Each year approximately \$120-\$150 million in bonds are issued to provide the grants and loans. Eligible projects include improvements to roads, bridges, culverts, water supply systems, wastewater systems, storm water collection systems, and solid waste disposal systems. The SCIP also has two subprograms, the Small Government Program, which sets aside \$12 million each fiscal year for villages and townships less than 5,000 in population, and the Emergency Assistance Program, which provides \$2.5 million for infrastructure emergencies.

Funding Source: GRF used for debt service

Line Items: See table below.

| Line Item* | FY 2008 | FY 2009 |
|--|----------------------|----------------------|
| 150-907, State Capital Improvement General Oblig. Debt Service | \$177,513,600 | \$188,696,300 |
| General Revenue Fund | \$177,513,600 | \$188,696,300 |

* Program also funded by 150-321, SCIP Operating Expense which received total appropriations of \$1,798,149 in the Transportation budget bill, Am. Sub. H.B. 67 of the 127th General Assembly.

Implication of Executive Recommendation: Total recommended funding for this program will allow debt service payments to continue as scheduled and allow PWC to implement program years 21 and 22 of the SCIP.

Temporary and Permanent Law Provisions

Permanent Law

Issuance of bonds for public infrastructure capital improvements (R.C. 151.08, 164.03, and 164.08) Section 2p(B)(1), Article VIII of the Ohio Constitution (effective November 8, 2005). Authorizes the issuance of general obligation bonds and other obligations of the state to finance or assist in the financing of capital improvement projects of local subdivisions. The bill implements this provision by authorizing the Ohio Public Facilities Commission to issue not more than \$120 million in principal amount of obligations in any of the first five fiscal years of issuance and not more than \$150 million in principal amount of obligations in any of the next five fiscal years. The bill limits the total amount of obligations that can be issued pursuant to Section 2p(B)(1), Article VIII of the Ohio Constitution to not more than \$1,350,000,000. None of these obligations can be issued, however, until at least \$1,199,500,000 aggregate principal amount of infrastructure obligations have been issued pursuant to Section 2m, Article VIII of the Ohio Constitution. The Public Works Commission allocates these bond proceeds among the state's district public works integrating committees.

Temporary Law

State Capital Improvements General Obligation Debt Service (Section 371.10). Requires that appropriation item 150-907, State Capital Improvements General Obligation Debt Service, be used to pay all debt service and related financing costs of the SCIP over the biennium.

Program 1.03: Clean Ohio Conservation Program

Program Description: The Clean Ohio Conservation Program (COCP) was created by Am. Sub. H.B. 3 of the 124th General Assembly. This program provides grants for brownfields revitalization projects and open space acquisition. The COCP has two funds: the Clean Ohio Revitalization Fund (which is administered by the Department of Development and the Ohio Environmental Protection Agency) and the Clean Ohio Conservation Fund (which is administered by the Public Works Commission). Grant funding is from bond sales, of which 75% is used for open space acquisition, 12.5% for agricultural easements, and 12.5% for recreational trail construction. One bond is usually issued in a calendar year and the funds are disbursed over a two-year program. The COCP provides cash payments to various property owners to acquire and provide access improvements to open space and enhance riparian corridors. The program primarily services local governments in Ohio, nonprofit organizations, and consultants and contractors hired to perform work on approved projects.

Funding: GRF and investment income. The GRF supports the program's debt service payments and bond investment income pays for the program's operating expenses.

Line Items: See table below.

| Line Item | FY 2008 | FY 2009 |
|---|---------------------|---------------------|
| 150-904, Conservation General Obligation Debt Service | \$14,847,200 | \$19,779,200 |
| 150-403, Clean Ohio Operating Expenses | \$301,537 | \$311,509 |
| Local Transportation Improvement Fund Total | \$15,148,737 | \$20,090,709 |

Implication of Executive Recommendation: The recommendations will allow debt service payments for Clean Ohio bonds to continue as scheduled and will allow current service and staffing levels to be maintained. Appropriations for Clean Ohio operating expenses will be used for application review/approval and project agreement processing.

Temporary Law Provisions

Temporary Law

Conservation General Obligation Debt Service (Section 371.10). Requires that appropriation item 150-904, State Capital Improvements General Obligation Debt Service, be used to pay all debt service and related financing costs of the COCP over the biennium.

Reimbursement to the General Revenue Fund (Section 371.10). Requires that on or before June 15, 2009 the PWC shall certify to OBM any excess investment earnings credited to the Clean Ohio Conservation Fund (Fund 056) and transfer the excess investment earnings to appropriation item 770-409, Farmland Preservation within the Department of Agriculture.

Clean Ohio Operating Expenses (Section 371.10). Requires appropriation item 150-403 to be used for Clean Ohio operating expenses.

REQUESTS NOT FUNDED

The executive recommendations fully fund PWC's budget request allowing current service and staffing levels to remain the same.

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General Revenue Fund

GRF 150-904 Conservation General Obligation Debt Service

| 2004 | 2005 | 2006 | 2007 Estimate | 2008 House Passed | 2009 House Passed |
|-------------|-------------|-------------|------------------|----------------------|----------------------|
| \$3,721,066 | \$9,150,021 | \$7,897,420 | \$17,168,800 | \$14,698,728 | \$19,037,480 |
| | 145.9% | -13.7% | 117.4% | -14.4% | 29.5% |

Source: GRF

Legal Basis: Section 371.10 of H.B. 119 of the 127th G.A. (originally established by Am. Sub. H.B. 3 of the 124th G.A.)

Purpose: Moneys in this line item pay all debt service and financing costs on obligations issued for conservation projects under the Clean Ohio Conservation Program.

GRF 150-907 State Capital Improvements General Obligation Debt Service

| 2004 | 2005 | 2006 | 2007 Estimate | 2008 House Passed | 2009 House Passed |
|---------------|---------------|---------------|------------------|----------------------|----------------------|
| \$135,253,809 | \$148,273,922 | \$152,595,038 | \$172,145,100 | \$175,738,464 | \$181,620,189 |
| | 9.6% | 2.9% | 12.8% | 2.1% | 3.3% |

Source: GRF

Legal Basis: Section 371.10 of H.B. 119 of the 127th G.A.

Purpose: This line item is used to pay all debt service and financing costs of the State Capital Improvement Program.

Clean Ohio Conservation Fund

056 150-403 Clean Ohio Operating Expenses

| 2004 | 2005 | 2006 | 2007 Estimate | 2008 House Passed | 2009 House Passed |
|-----------|-----------|-----------|------------------|----------------------|----------------------|
| \$243,469 | \$247,573 | \$233,576 | \$375,436 | \$301,537 | \$311,509 |
| | 1.7% | -5.7% | 60.7% | -19.7% | 3.3% |

Source: CLF: Investment income

Legal Basis: Section 371.10 of H.B. 119 of the 127th G.A. (originally established by Am. Sub. H.B. 3 of 124th G.A.)

Purpose: This line item funds the administrative expenses of the PWC's portion of the Clean Ohio Conservation Program.

LSC Budget Spreadsheet by Line Item, FY 2008 - FY 2009

| <i>Fund</i> | <i>ALI</i> | <i>ALI Title</i> | <i>Estimated 2007</i> | <i>As Introduced 2008</i> | <i>House Passed 2008</i> | <i>% Change Est. 2007 to House 2008</i> | <i>As Introduced 2009</i> | <i>House Passed 2009</i> | <i>% Change House 2008 to House 2009</i> |
|---|------------|--|---------------------------|-----------------------------------|------------------------------|---|-----------------------------------|------------------------------|--|
| <i>PWC Public Works Commission</i> | | | | | | | | | |
| GRF | 150-904 | Conservation General Obligation Debt Service | \$17,168,800 | \$ 14,847,200 | \$ 14,698,728 | -14.4% | \$ 19,779,200 | \$ 19,037,480 | 29.5% |
| GRF | 150-907 | State Capital Improvements General Obligation Debt Service | \$172,145,100 | \$ 177,513,600 | \$ 175,738,464 | 2.1% | \$ 188,696,300 | \$ 181,620,189 | 3.3% |
| General Revenue Fund Total | | | \$ 189,313,900 | \$ 192,360,800 | \$ 190,437,192 | 0.6% | \$ 208,475,500 | \$ 200,657,669 | 5.4% |
| 056 | 150-403 | Clean Ohio Operating Expenses | \$375,436 | \$ 301,537 | \$ 301,537 | -19.7% | \$ 311,509 | \$ 311,509 | 3.3% |
| Clean Ohio Conservation Fund Total | | | \$ 375,436 | \$ 301,537 | \$ 301,537 | -19.7% | \$ 311,509 | \$ 311,509 | 3.3% |
| Total All Budget Fund Groups | | | \$ 189,689,336 | \$ 192,662,337 | \$ 190,738,729 | 0.6% | \$ 208,787,009 | \$ 200,969,178 | 5.4% |

As Introduced (Executive)

As Passed by the House

1 (CD-584-PWC) Issuance of Bonds for Public Infrastructure Capital Improvements**R.C. 151.08, 164.03, 164.08**

Authorizes the issuance of general obligation bonds and other obligations of the state to finance or assist in the financing of capital improvement projects of local subdivisions. Implements this provision by authorizing the Ohio Public Facilities Commission to issue not more than \$120 million in principal amount of obligations in any of the first five fiscal years of issuance and not more than \$150 million in principal amount of obligations in any of the next five fiscal years. The bill limits the total amount of obligations that can be issued pursuant to Section 2p(B)(1), Article VIII of the Ohio Constitution to not more than \$1,350,000,000. None of these obligations can be issued, however, until at least \$1,199,500,000 aggregate principal amount of infrastructure obligations have been issued pursuant to Section 2m, Article VIII of the Ohio Constitution. The Public Works Commission allocates these bond proceeds among the state's district public works integrating committees.

R.C. 151.08, 164.03, 164.08

Same as the Executive.

2 (CD-585-PWC) State Capital Improvements General Obligation Debt Service**Section: 371.10**

Requires that GRF appropriation item 150-907, State Capital Improvements General Obligation Debt Service, be used to pay all debt service and related financing costs of the State Capital Improvement Program (SCIP) over the biennium.

Section: 371.10

Same as the Executive.

As Introduced (Executive)

As Passed by the House

3 (CD-586-PWC) Clean Ohio Operating Expenses**Section: 371.10**

Requires GRF appropriation item 150-403, Clean Ohio Operating Expenses, to be used by the Ohio Public Works Commission in administering sections 164.20 to 164.27 of the Revised Code. These sections deal with review and approval of project applications, natural resource assistance councils, policies for open space acquisition, etc.

Section: 371.10

Same as the Executive.

4 (CD-588-PWC) Conservation General Obligation Debt Service**Section: 371.10**

Requires that GRF appropriation item 150-904, Conservation General Obligation Debt Service, be used to pay all debt service and related financing costs of the Clean Ohio Conservation Program over the biennium.

Section: 371.10

Same as the Executive.

5 (CD-597-PWC) Reimbursement to the General Revenue Fund**Section: 371.10**

Requires that on or before June 15, 2009 the Public Works Commission shall certify to the Office of Budget and Management (OBM), 1) the total amount disbursed from GRF appropriation item 700-409, Farmland Preservation, during FY 2008 and FY 2009, and 2) any excess investment earnings credited to the Clean Ohio Conservation Fund (Fund 056). Requires the Director of OBM to transfer this amount to the GRF in an amount equal to that disbursed under GRF appropriation item 700-409, Farmland Preservation over the biennium.

Section: 371.10

Same as the Executive.

As Introduced (Executive)

Fiscal effect: Currently, the amount of investment earning from Fund 056 that may be credited to the GRF are unknown. Overall, this provision will offset GRF disbursements by the Department of Agriculture for operating expenses of the Department's Office of Farmland Preservation. The Public Works Commission transferred \$178,600 to the GRF during the FY 2002-2003 biennium.

As Passed by the House

Fiscal effect: Same as the Executive.

As Introduced (Executive)

As Passed by the House

6 (CD-364-CSF) Debt Service Cost

Sections: 397.10, 518.06

Specifies that certain appropriation items of the Commissioners of the Sinking Fund be used for the purpose of paying debt service and financing costs on state bonds or notes issued pursuant to the Ohio Constitution and acts of the General Assembly. Appropriates additional amounts, if necessary, to fully fund debt service and financing costs.

Fiscal effect: None.

Sections: 397.10, 518.06

Same as the Executive.

Fiscal effect: Same as the Executive.