

LSC Redbook

Analysis of the Executive Budget Proposal

**Commissioners of the Sinking
Fund**

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March 2009

READER'S GUIDE

The Legislative Service Commission prepares an analysis of the executive budget proposal for each agency. These analyses are commonly called "Redbooks." This brief introduction is intended to help readers navigate the Redbook for the Commissioners of the Sinking Fund (CSF), which includes the following three sections.

1. **Overview:** Provides a brief description of CSF and an overview of the provisions of the executive budget that affect CSF, including major new initiatives proposed for CSF.
2. **Analysis of Executive Proposal:** Provides a detailed analysis of the executive budget recommendations for CSF, including funding for each appropriation line item
3. **Attachments:** Includes the catalog of budget line items (COBLI) for CSF, which briefly describes each line item, and the LSC budget spreadsheet for CSF.

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ATTACHMENTS:

- Catalog of Budget Line Items
- Budget Spreadsheet By Line Item

Commissioners of the Sinking Fund

- Appropriations to the Commissioners support debt service payments and costs for Ohio's general obligation bonds.
- The executive proposal reduces funding for debt service payments due to a plan to restructure the state's existing debt.

OVERVIEW

Agency Overview

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's operating budget (090401). (Please see the Treasurer's Redbook for details.)

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, Third Frontier research and development, site development for business, and highways.

The Sinking Fund is also required under the Ohio Constitution and Revised Code to prepare and publish a semi-annual report, which includes financial statements of the state's general obligation bonds, debt service requirements, and funding sources.

Recommended funding for FY 2010 is \$711.9 million. This is a 30.8% decrease from the adjusted appropriation for FY 2009. Recommended funding for FY 2011 is \$724.7 million. This is a 1.8% increase compared to the recommended funding for FY 2010. The decrease in the recommended funding is made possible by a plan to restructure the state's existing debt. (See Major Initiatives for details).

Appropriation Overview

The following table provides the executive's recommendations by fund group for the Commissioners of the Sinking Fund for the FY 2010-FY 2011 biennium.

Table 1. Executive Budget Recommendations by Fund Group, FY 2010-FY 2011

Fund Group	FY 2009*	FY 2010	% change, FY 2009-FY 2010	FY 2011	% change, FY 2010-FY 2011
Debt Service Fund	\$1,028,681,900	\$711,930,400	-30.8%	\$724,663,300	1.8%
TOTAL	\$1,028,681,900	\$711,930,400	-30.8%	\$724,663,300	1.8%

*FY 2009 figures represent adjusted appropriations.

Major Initiatives

The executive recommended debt service funding includes the necessary amounts for debt service payment in the upcoming biennium. The recommended funding takes into consideration a plan to restructure a portion of the state's debt in the next biennium. Under the plan, new refunding bonds will be issued in the upcoming biennium and the bond proceeds from the refunding bonds would be used in place of GRF funding to defray current costs of debt service. The effect would be to delay repayment of existing debt to future fiscal years while reducing the amount of debt service paid during the upcoming biennium.

According to estimates presented in the executive's plan, the restructuring would reduce the GRF cash flow used to pay debt service in the FY 2010-FY 2011 biennium by approximately \$400 million. The plan would repay the new debt service from newly-issued refunding bonds on a proportional basis in FY 2012 through FY 2021.

Table 2 presents the projected impact by fiscal year of the debt restructuring plan on total GRF debt service payments for FY 2009 through FY 2021. The negative numbers in the table represent higher debt service payments in future years. As shown in the table, the state would pay \$90 million more in interest payments due to the delay in repaying existing debt. The executive estimates that the \$90 million in extra interest paid in the future is equivalent to \$7.3 million in present value terms.

Fiscal Year	Debt Service (Prior to the Restructuring Plan)	Debt Service (After Restructuring)	Estimated Effect on GRF Cash Flow	Present Value of the Effect on GRF Cash Flow*
2009	\$898,573	\$0	\$898,573	\$896,210
2010	\$207,684,018	\$7,678,958	\$200,005,059	\$195,666,342
2011	\$216,036,247	\$15,764,250	\$200,271,997	\$189,511,075
2012		\$19,039,000	(\$19,039,000)	(\$17,550,456)
2013		\$39,514,000	(\$39,514,000)	(\$35,449,768)
2014		\$47,239,000	(\$47,239,000)	(\$41,095,569)
2015		\$57,037,375	(\$57,307,375)	(\$48,341,932)
2016		\$68,630,125	(\$68,630,125)	(\$56,132,422)
2017		\$64,167,000	(\$64,167,000)	(\$50,865,108)
2018		\$59,366,000	(\$59,366,000)	(\$45,610,243)
2019		\$50,173,375	(\$50,173,375)	(\$37,358,576)
2020		\$45,195,125	(\$45,195,125)	(\$32,616,929)
2021		\$40,508,000	(\$40,508,000)	(\$28,336,568)
TOTAL	\$424,618,837	\$514,582,208	(\$89,963,371)	(\$7,283,944)

*Cash-Flow Impact discounted by the All-In Cost of Borrowing (approximately 3.2%) to April 1, 2009.

Source: Blue Book - Executive Budget proposed for FYs 2010-2011, pg. D-76.

The executive plan indicates that only existing noncallable general obligation bonds issued for the purposes of common schools, higher education, and local infrastructure will be refunded, and then replaced with new debt at a lower interest rate. The debt restructuring plan also includes limitations on the term of maturities for new refunding bonds to ten years, the amounts of new debt issued, and the interest rates, to contain the state's overall GRF debt burden and to ensure that the plan achieves its near-term savings. The plan also maintains Ohio's relatively rapid debt amortization; according to the executive's estimates, the plan's impact on the rate of amortization of the state's GRF-backed debt will be modest in the short-term and negligible over the medium-to-long term due to the restructuring's relatively small size and short repayment period.

ANALYSIS OF EXECUTIVE PROPOSAL

Introduction

This section provides an analysis of the Governor's recommended funding for each appropriation item in CSF's budget.

General Obligation Debt Retirement Funds

The Commissioners of the Sinking Fund manage and pay debt service and other associated costs on the general obligation bonds that are authorized by the state constitution and the legislature for specific purposes in the following table:

Governor's Recommended Amounts for General Obligation Debt Retirement Funds				
Fund	ALI and Name		FY 2010	FY 2011
Debt Service Fund Group				
7070	155905	Third Frontier Research and Development Bond Retirement Fund	\$20,948,300	\$29,011,600
7072	155902	Highway Capital Improvement Bond Retirement Fund	\$202,074,000	\$203,434,200
7073	155903	Natural Resources Bond Retirement Fund	\$26,334,400	\$26,549,400
7074	155904	Conservation Projects Bond Service Fund	\$20,711,100	\$25,684,900
7076	155906	Coal Research and Development Bond Retirement Fund	\$9,968,400	\$10,947,000
7077	155907	State Capital Improvement Bond Retirement Fund	\$148,331,900	\$163,443,500
7078	155908	Common Schools Bond Retirement Fund	\$192,559,200	\$165,510,500
7079	155909	Higher Education Bond Retirement Fund	\$85,317,700	\$89,480,300
7090	155912	Job Ready Site Development Bond Retirement Fund	\$5,685,400	\$10,601,900
Debt Service Fund Group Subtotal			\$711,930,400	\$724,663,300
Total Funding: General Obligation Debt Retirement Funds			\$711,930,400	\$724,663,300

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

Highway Capital Improvement Bond Retirement Fund (155902)

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. 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. Funds to pay the debt service are transferred to this non-GRF account from the Highway Operating Fund (Fund 7002) in the Department of Transportation's budget.

Natural Resources Bond Retirement Fund (155903)

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 2l, Article VIII of the Ohio Constitution. 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 line item 725903, Natural Resources General Obligation Debt Service, in the Department of Natural Resources' budget.

Conservation Projects Bond Service Fund (155904)

This line item pays debt service on bonds issued to provide moneys for conservation purposes. The bonds are issued under the authority of sections 2o and 2q, Article VIII of the Ohio Constitution. 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 line item 150904, Conservation General Obligation Debt Service, in the Public Works Commission's budget.

Third Frontier Research and Development Bond Retirement Fund (155905)

This line item pays debt service on bonds issued to provide funding for local government infrastructure, support research and development applicable to high tech business, and enhance business site development. The bonds are issued under the authority of Section 2p, Article VIII of the Ohio Constitution. Funds to pay the debt service are transferred to this non-GRF account from the GRF line item 195905, Third Frontier Research & Development General Obligation Debt Service, in the Department of Development's budget.

Coal Research and Development Bond Retirement Fund (155906)

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, Article VIII of the Ohio Constitution. 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 line item 898901, Coal Research and Development General Obligation Debt Service, in the Air Quality Development Authority's budget.

State Capital Improvement Bond Retirement Fund (155907)

This line item pays debt service on bonds issued to provide moneys for local infrastructure projects financed by the Public Works Commission under the authority of sections 2m and 2p, Article VIII of the Ohio Constitution. Funding comes from GRF line item 150907, State Capital Improvements General Obligation Debt Service, under the budget for the Public Works Commission.

Common Schools Bond Retirement Fund (155908)

This line item pays debt service on bonds issued to provide moneys for common schools. The bonds are issued under the authority of Section 2n, Article VIII of the Ohio Constitution. Funding comes from GRF line item 230908, Common Schools General Obligation Debt Service, in the School Facilities Commission's budget.

Higher Education Bond Retirement Fund (155909)

This line item pays debt service on bonds issued to provide moneys for higher education. The bonds are issued under the authority of Section 2n, Article VIII of the Ohio Constitution. Funds to pay the debt service are transferred to this non-GRF account from the GRF line item 235909, Higher Education General Obligation Debt Service, in the budget for the Board of Regents.

Job Ready Site Development Bond Retirement Fund (155912)

This line item pays debt service on bonds issued to provide moneys for Third Frontier Job Ready Site Development purposes. The bonds are issued under the authority of Section 2p, Article VIII of the Ohio Constitution. Funds to pay the debt service are transferred to this non-GRF account from the GRF line item 195912, Job Ready Site Development General Obligation Debt Service, in the Department of Development's budget.

Debt Service Fund Group

7070 155905 Third Frontier Research and Development Bond Retirement Fund

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
\$0	\$11,457,942	\$11,749,792	\$24,523,400	\$20,948,300	\$29,011,600
	N/A	2.5%	108.7%	-14.6%	38.5%

Source: DSF: GRF

Legal Basis: Section 397.10 of Am. Sub. H.B. 119 of the 127th G.A. (originally authorized by Article VIII, Section 2p of the Ohio Constitution, approved by voters on November 8, 2005.)

Purpose: This line item pays debt service on bonds issued to pay costs of research and development projects for the Third Frontier Research and Development purposes. Funds to pay the debt service are transferred to this non-GRF account from the GRF. The corresponding GRF line item, 195905 Third Frontier Research & Development General Obligation Debt Service is in the Department of Development's budget.

7072 155902 Highway Capital Improvement Bond Retirement Fund

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
\$181,163,642	\$198,794,291	\$206,078,646	\$205,139,500	\$202,074,000	\$203,434,200
	9.7%	3.7%	-0.5%	-1.5%	0.7%

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

Legal Basis: Section 397.10 of Am. Sub. H.B. 119 of the 127th G.A. (originally authorized by Article VIII, Section 2m of the Ohio Constitution, approved by voters on November 7, 1995; replaced line item 155900, Highway Capital Improvement Bond Retirement (Fund 072), in FY 2002)

Purpose: Highway Capital Improvement 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.

7073 155903 Natural Resources Bond Retirement Fund

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
\$25,373,565	\$21,771,967	\$22,740,318	\$25,723,000	\$26,334,400	\$26,549,400
	-14.2%	4.4%	13.1%	2.4%	0.8%

Source: DSF: GRF transfers

Legal Basis: Section 397.10 of Am. Sub. H.B. 119 of the 127th G.A. (originally authorized by Article VIII, Section 2l of the Ohio Constitution, approved by voters on November 2, 1993; replaced line item 155900, 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. The corresponding GRF line item 725903, Natural Resources General Obligation Debt Service, is in the Department of Natural Resource's budget.

7074 155904 Conservation Projects Bond Service Fund

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
\$9,916,551	\$14,160,770	\$15,705,563	\$19,779,200	\$20,711,100	\$25,684,900
	42.8%	10.9%	25.9%	4.7%	24.0%

Source: DSF: GRF

Legal Basis: Section 397.10 of Am. Sub. H.B. 119 of the 127th G.A. (originally established by Am. Sub. H.B. 3 of the 124th G.A.; replaced line item 725904, 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 parks, 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. The corresponding GRF line item 150904, Conservation General Obligation Debt Service, is in the Public Works Commission's budget.

7076 155906 Coal Research and Development Bond Retirement Fund

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
\$7,053,193	\$7,015,212	\$7,132,604	\$8,192,500	\$9,968,400	\$10,947,000
	-0.5%	1.7%	14.9%	21.7%	9.8%

Source: DSF: GRF transfers

Legal Basis: Section 397.10 of Am. Sub. H.B. 119 of the 127th 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. The corresponding GRF line item 898901, Coal Research and Development General Obligation Debt Service, is in the Air Quality Development Authority's budget.

7077 155907 State Capital Improvement Bond Retirement Fund

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
\$157,571,484	\$175,664,186	\$177,931,614	\$188,696,300	\$148,331,900	\$163,443,500
	11.5%	1.3%	6.0%	-21.4%	10.2%

Source: DSF: GRF

Legal Basis: Section 397.10 of Am. Sub. H.B. 119 of the 127th 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 150907, State Capital Improvement G.O. Debt Service).

7078 155908 Common Schools Bond Retirement Fund

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
\$188,885,689	\$232,753,821	\$265,094,567	\$339,648,300	\$192,559,200	\$165,510,500
	23.2%	13.9%	28.1%	-43.3%	-14.0%

Source: DSF: GRF

Legal Basis: Section 397.10 of Am. Sub. H.B. 119 of the 127th 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 230908, Common Schools G.O. Debt Service) is in the School Facilities Commission's budget.

7079 155909 Higher Education Bond Retirement Fund

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
\$134,230,210	\$154,433,290	\$160,613,532	\$208,747,200	\$85,317,700	\$89,480,300
	15.1%	4.0%	30.0%	-59.1%	4.9%

Source: DSF: GRF

Legal Basis: Section 397.10 of Am. Sub. H.B. 119 of the 127th 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 235909, Higher Education General Obligation Debt Service) is in the Board of Regents' budget.

7090 155912 Job Ready Site Development Bond Retirement Fund

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
\$0	\$3,445,759	\$3,585,493	\$8,232,500	\$5,685,400	\$10,601,900
	N/A	4.1%	129.6%	-30.9%	86.5%

Source: DSF: GRF

Legal Basis: Section 397.10 of Am. Sub. H.B. 119 of the 127th G.A. (originally authorized by Article VIII, Section 2p of the Ohio Constitution, approved by voters on November 8, 2005).

Purpose: This line item pays debt service on bonds issued to provide monies for the Third Frontier Job Ready Site Development purposes. The bonds are issued under the authority of Section 2p of Article VIII of the Ohio Constitution, approved by voters on November 8, 2005. It was implemented under SB 236 of the 126th G.A. Funds to pay the debt service are transferred to this non-GRF account from the GRF. This line item pays debt service on bonds issued to provide moneys to improve local government infrastructure, support research and development applicable to high-tech business, and enhance business site development. The corresponding GRF line item 195912, Job Ready Site Development General Obligation Debt Service, in the Department of Development's budget.

LSC Budget Spreadsheet by Line Item, FY 2010 - FY 2011

<i>Fund</i>	<i>ALI</i>	<i>ALI Title</i>	<i>2008</i>	<i>2009</i>	<i>As Introduced 2010</i>	<i>% Change 2009 to 2010</i>	<i>As Introduced 2011</i>	<i>% Change 2010 to 2011</i>
CSF Commissioners of Sinking Fund								
7070	155905	Third Frontier Research and Development Bond Retirement Fund	\$ 11,749,792	\$ 24,523,400	\$ 20,948,300	-14.6%	\$ 29,011,600	38.5%
7072	155902	Highway Capital Improvement Bond Retirement Fund	\$ 206,078,646	\$ 205,139,500	\$ 202,074,000	-1.5%	\$ 203,434,200	0.7%
7073	155903	Natural Resources Bond Retirement Fund	\$ 22,740,318	\$ 25,723,000	\$ 26,334,400	2.4%	\$ 26,549,400	0.8%
7074	155904	Conservation Projects Bond Service Fund	\$ 15,705,563	\$ 19,779,200	\$ 20,711,100	4.7%	\$ 25,684,900	24.0%
7076	155906	Coal Research and Development Bond Retirement Fund	\$ 7,132,604	\$ 8,192,500	\$ 9,968,400	21.7%	\$ 10,947,000	9.8%
7077	155907	State Capital Improvement Bond Retirement Fund	\$ 177,931,614	\$ 188,696,300	\$ 148,331,900	-21.4%	\$ 163,443,500	10.2%
7078	155908	Common Schools Bond Retirement Fund	\$ 265,094,567	\$ 339,648,300	\$ 192,559,200	-43.3%	\$ 165,510,500	-14.0%
7079	155909	Higher Education Bond Retirement Fund	\$ 160,613,532	\$ 208,747,200	\$ 85,317,700	-59.1%	\$ 89,480,300	4.9%
7090	155912	Job Ready Site Development Bond Retirement Fund	\$ 3,585,493	\$ 8,232,500	\$ 5,685,400	-30.9%	\$ 10,601,900	86.5%
Debt Service Fund Group Total			\$ 870,632,129	\$ 1,028,681,900	\$ 711,930,400	-30.8%	\$ 724,663,300	1.8%
Total All Budget Fund Groups			\$ 870,632,129	\$ 1,028,681,900	\$ 711,930,400	-30.8%	\$ 724,663,300	1.8%