

# **LSC Redbook**

**Analysis of the Executive Budget Proposal**

## **Ohio Air Quality Development Authority**

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## **ATTACHMENTS:**

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

# Ohio Air Quality Development Authority

- The executive recommends \$1.8 million in FY 2014 and \$2.0 million in FY 2015
- Significant expansion of grant program to assist small businesses with buying clean air equipment
- OAQDA oversees approximately \$120 in bond issuances annually

## OVERVIEW

### Agency 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. OAQDA assists Ohio businesses, government agencies, and not-for-profit agencies and individuals in complying with air quality regulations by providing technical and financial assistance. Using the tool of conduit financing, OAQDA qualifies projects for tax exemptions if the projects contribute to better air quality.

Recommended funding for FY 2014 is \$1,752,893, a nearly 102.0% increase compared to estimated FY 2013 spending of \$867,893. Recommended funding for FY 2015 is \$1,977,893, a 12.8% increase over the FY 2014 amount. The entirety of the increased funding will go toward the Authority's effort to ramp up an existing grant program to help small businesses cover the cost of clean air equipment. This initiative is overseen by the Clean Air Resource Center, a unit within OAQDA that provides grants, loans, and technical assistance to small businesses in meeting clean air rules and regulations. In other areas, the executive recommends funding at FY 2013 levels.

### Appropriation Overview

Table 1 below provides the executive's recommendations for OAQDA by fund group over the FY 2014-FY 2015 biennium as compared to FY 2013 estimated expenditures. OAQDA's operations are funded primarily through a portion of Title V permit fees administered by the Ohio Environmental Protection Agency and fees paid by businesses that obtain OAQDA assistance in obtaining tax incentives for certain clean air projects. These amounts are accounted for under the Agency Fund Group. In addition to these amounts, OAQDA funds the state's energy policy strategies through

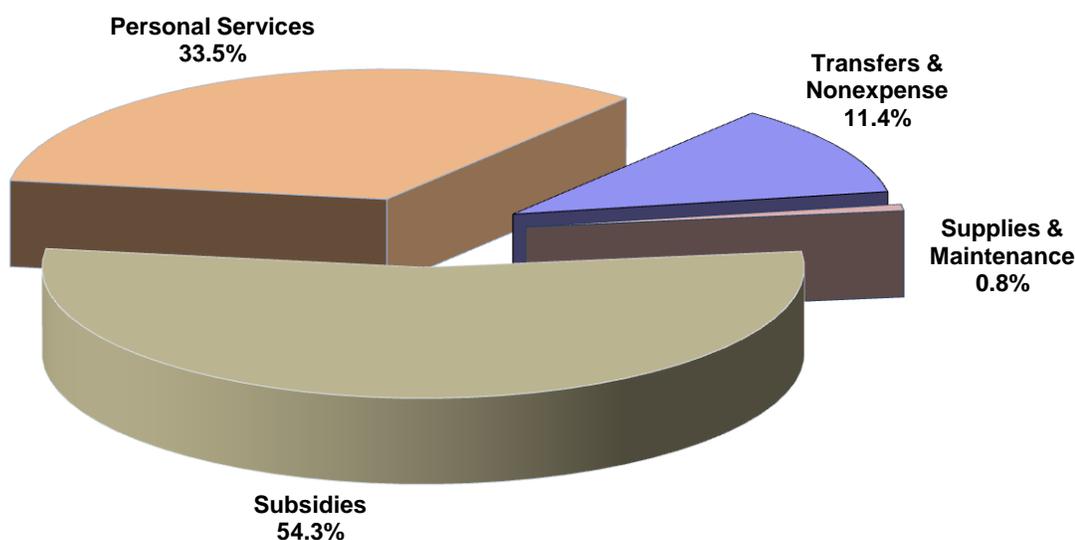
cash transfers from other specified state agencies, as well as other sources. This funding flows through a single appropriation item within the General Services Fund Group under OAQDA's budget.

Fund Group	FY 2013*	FY 2014	% change, FY 2013-FY 2014	FY 2015	% change, FY 2014-FY 2015
General Services	\$240,681	\$240,681	0.0%	\$240,681	0.0%
Agency	\$627,212	\$1,512,212	141.1%	\$1,737,212	14.9%
<b>TOTAL</b>	<b>\$867,893</b>	<b>\$1,752,893</b>	<b>102.0%</b>	<b>\$1,977,893</b>	<b>12.8%</b>

\*FY 2013 figures represent estimated expenditures.

Chart 1 shows executive recommendations for the FY 2014-FY 2015 biennium broken down by expense category. Note that over half of the recommended budget falls within the category of subsidies. This reflects the proposal in the executive budget to expand grant assistance to small businesses for the purchase of clean air equipment. Personal services costs account for just over one-third of OAQDA's recommended budget. This category includes payroll costs associated with six full-time employees (two positions are currently vacant) and the appointed members of the Authority. The transfer and nonexpense category refers to reimbursements to the Air Quality Development trust account for operating expenses associated with administering the financing assistance that the Authority provides.

**Chart 1: Biennial Executive Budget Recommendations by Expense Category, FY 2014-FY 2015**



## ANALYSIS OF EXECUTIVE PROPOSAL

Recommended Amounts for Air Quality Development Authority				
Fund	ALI and Name		FY 2014	FY 2015
<b>General Services Fund Group</b>				
5EG0	898608	Energy Strategy Development	\$240,681	\$240,681
<b>General Services Fund Group Subtotal</b>			<b>\$240,681</b>	<b>\$240,681</b>
<b>Agency Fund Group</b>				
4Z90	898602	Small Business Ombudsman	\$288,232	\$288,232
5700	898601	Operating Expenses	\$323,980	\$323,980
5A00	898603	Small Business Assistance	\$900,000	\$1,125,000
<b>Agency Fund Group Subtotal</b>			<b>\$1,512,212</b>	<b>\$1,737,212</b>
<b>Total Funding: Air Quality Development Authority</b>			<b>\$1,752,893</b>	<b>\$1,977,893</b>

### Energy Strategy Development (898608)

The executive recommends funding of \$240,681 in each fiscal year for Fund 5EG0, appropriation item 898608, Energy Strategy Development, no change when compared to estimated FY 2013 spending in this area. Specifically, this appropriation funds OAQDA efforts to track program metrics, primarily job creation targets, and repayment activities related to various loans awarded by the state. OAQDA uses this line item to monitor ten noncoal project loans awarded under the Advanced Energy Program between 2009 and 2011. The loans issued for noncoal projects total approximately \$61.5 million. Originally, the state allocated \$150.0 million under the Advanced Energy Program in grant and loan funding to technology companies to aid in the development, production, and use of advanced energy technologies in the state. The money was split between coal and noncoal projects. When the Ohio Coal Development Office was moved to the Development Services Agency in 2011, oversight of the coal projects under the program moved as well.

The Authority also uses these funds to coordinate with delegated personnel from other state agencies to develop energy initiatives, projects, and policy for the state. Uncodified law in H.B. 59 allows the Director of Budget and Management to transfer cash from various funds used by six state agencies to Fund 5EG0 to be used by the Authority for such purposes. These agencies, funds, and cash transfers are listed in Table 2.

<b>Department/Agency</b>	<b>Fund</b>	<b>FY 2014 Amount</b>	<b>FY 2015 Amount</b>
Administrative Services	Office Services (Fund 1170)	\$27,405	\$27,439
Agriculture	Central Support Indirect Cost (Fund 5GH0)	\$27,405	\$27,439
Development Services	Supportive Services (Fund 1350)	\$27,405	\$27,439
Environmental Protection	Central Support Indirect Cost (Fund 2190)	\$27,405	\$27,439
Natural Resources	Central Support Indirect (Fund 1570)	\$27,405	\$27,439
Transportation	Highway Operating (Fund 7002)	\$39,150	\$39,199

### **Small Business Ombudsman (898602)**

Appropriation item 898602, Small Business Ombudsman, supports OAQDA's Office of Ombudsman, commonly referred to as the Clean Air Resource Center. The executive proposal recommends funding the Center's activities at \$288,232 for both FY 2014 and FY 2015, the same amount appropriated in FY 2013. The Center is funded by revenue generated by pollution control permit fees as required by federal and state statute. The Center provides small business assistance including: (1) on-site visits to identify air pollution problems and solutions, (2) technical assistance for meeting pollution requirements, and (3) distribution of information on financing assistance to purchase pollution control equipment. OAQDA estimates that approximately 40,000 small businesses (100 or fewer employees and not a major source of air emissions) across the state are required to know whether or not they are covered by the federal Clean Air requirements, and, if they are, what they must do to be in compliance. The Clean Air Resource Center assists small businesses in translating complex federal rules and regulations into language which is both accessible and understandable. Overall, the Clean Air Resource Center fulfills Ohio's mandate under the Clean Air Act amendments of 1990 to offer business assistance as part of the state's efforts in attaining and maintaining national ambient air quality standards.

### **Operating Expenses (898601)**

Appropriation item 898601, Operating Expenses, provides funding for payroll, fringe benefits, and maintenance for some of the Authority's employees and the board members appointed by the Governor. The employees' duties fall into two categories: administering the state's air quality financing assistance programs in encouraging investment in clean air technology, and overseeing the Clean Air Resource Center.

The primary OAQDA activity is the administration of the state's air quality financing assistance programs, serving Ohio businesses, utilities, and public sector entities. The financing structures come in five typical forms: (1) Qualified Energy Conservation Bonds (QECB) for local governments, (2) Small Business Project Loans, (3) Utility Loans, (4) State Agency Lease and Loan Agreements, and (5) Advanced

Energy Loans to businesses. These activities are completely market driven. Bond issuance is estimated to total around \$55 million annually for bonds to businesses, while approximately \$65 million annually is projected in QECCB issues for local governments. Administering the financing assistance programs entails educating the potential client base about available assistance, developing potential projects, reviewing applications, authorizing and issuing the bonds, and administering outstanding bonds throughout their terms, which can last as long as 40 years.

### **Small Business Assistance (898603)**

The executive budget recommends significant increases in funding for this line item in the FY 2014-FY 2015 biennium, from \$71,087 in estimated FY 2013 spending to \$900,000 in FY 2014 and \$1,125,000 in FY 2015. With the funding, OAQDA will change the type of grant available to small businesses for purchasing clean air equipment under the Clean Air Resource Center. Until now, the Clean Air Resource Center awarded grants to cover the cost of *financing* the purchase of equipment. However, this grant program is currently underused because of changes in the tax code that have decreased the tax incentives for financing with OAQDA. In FY 2014, however, OAQDA plans to offer grants that would directly cover a portion of the cost of *purchasing* the equipment itself. OAQDA will determine the ideal number of grant recipients and the amount to be awarded after consulting with the Ohio Environmental Protection Agency on how many small businesses that would be eligible and seek assistance. To qualify, the business must have 100 or fewer employees and comply with the federal Clean Air laws. An example of an eligible small business entity would be a dry cleaning company that buys control devices for dryer exhaust airstreams designed to prevent the release of dry-cleaning solvent vapors into the atmosphere. The grant program is funded by Title V fees, and supplements the financing capacity of the Clean Air Resource Center.

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## Air Quality Development Authority

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### General Revenue Fund

#### GRF 898402 Coal Development Office

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$380,015	\$225,885	\$47,491	\$0	\$0	\$0
	-40.6%	-79.0%	-100%	N/A	N/A

**Source:** General Revenue Fund

**Legal Basis:** Discontinued line item (originally established by Am. Sub. H.B. 291 of the 115th G.A.)

**Purpose:** This funded the operating expenses of the Ohio Coal Development Office, which was transferred from OAQDA to the Ohio Development Services Agency (ODSA) in FY 2012. The replacement ODSA GRF appropriation item is 195402.

#### GRF 898901 Coal Research and Development General Obligation Debt Service

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$8,693,317	\$6,672,557	\$0	\$0	\$0	\$0
	-23.2%	-100%	N/A	N/A	N/A

**Source:** General Revenue Fund

**Legal Basis:** Discontinued line item (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 paid for debt service on coal research and development bonds. The Ohio Coal Development Office was transferred from OAQDA to the Ohio Development Services Agency in FY 2012, and the GRF appropriation item under ODSA is 195901. The bond revenue provides financial assistance for research and development of clean coal technology to encourage the use of Ohio coal.

## Air Quality Development Authority

### General Services Fund Group

#### 5EG0 898608 Energy Strategy Development

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$298,300	\$155,564	\$90,766	\$240,681	<b>\$240,681</b>	<b>\$240,681</b>
	-47.8%	-41.7%	165.2%	<b>0.0%</b>	<b>0.0%</b>

**Source:** General Services Fund Group: Federal grants, private grants and loans, and fund transfers from GSF Funds (Fund 1170 used by the Department of Administrative Services; Fund 5GH0 used by the Department of Agriculture; Fund 1350 used by the Development Services Agency; Fund 2190 used by the Environmental Protection Agency; and Fund 1570 used by the Department of Natural Resources), and HOF Fund 7002 used by the Department of Transportation

**Legal Basis:** Section 213.20 of H.B. 59 of the 130th G.A. (originally created in Am. Sub. H.B. 119 of the 127th G.A.)

**Purpose:** This line item is used to monitor non-coal project loans awarded between 2009 and 2011 through the Advanced Energy Program. Loan monitoring activities include tracking program metrics and assessing repayment terms. The coal projects funded under the program are monitored by the Ohio Coal Development Office under the Development Services Agency. This line item is also used to coordinate with other state agencies on energy issues, and to develop energy initiatives, projects, and policy for the state.

### Federal Special Revenue Fund Group

#### 3BM0 898607 Air Quality Development Federal/Oxygen Fuel

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$4,622	\$0	\$0	\$0	<b>\$0</b>	<b>\$0</b>
	-100%	N/A	N/A	<b>N/A</b>	<b>N/A</b>

**Source:** Federal Special Revenue Fund Group: Federal grants from the United States Environmental Protection Agency (USEPA)

**Legal Basis:** As needed line item (originally established by the Controlling Board on June 12, 2006)

**Purpose:** This line item is used to assist the development and testing of oxy-fuel combustion technology.

## Air Quality Development Authority

### State Special Revenue Fund Group

#### 4Z90 898602 Small Business Ombudsman

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$297,453	\$252,369	\$130,998	\$288,232	<b>\$288,232</b>	<b>\$288,232</b>
	-15.2%	-48.1%	120.0%	<b>0.0%</b>	<b>0.0%</b>

**Source:** State Special Revenue Fund Group: Title V permit fees administered by the Ohio Environmental Protection Agency

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

**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.

#### 5700 898601 Operating Expenses

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$204,838	\$198,836	\$217,981	\$323,980	<b>\$323,980</b>	<b>\$323,980</b>
	-2.9%	9.6%	48.6%	<b>0.0%</b>	<b>0.0%</b>

**Source:** State Special Revenue Fund Group: Fees and charges paid by firms for which the OAQDA issues tax-exempt or taxable bonds

**Legal Basis:** ORC Chapter 3706

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

#### 5A00 898603 Small Business Assistance

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$5,942	\$0	\$0	\$15,000	<b>\$900,000</b>	<b>\$1,125,000</b>
	-100%	N/A	N/A	<b>5,900.0%</b>	<b>25.0%</b>

**Source:** State Special Revenue Fund Group: Title V permit fees administered by the Ohio Environmental Protection Agency

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

**Purpose:** This line item provides grants to eligible businesses with 100 or fewer employees to purchase clean air equipment.

## Air Quality Development Authority

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### Coal Research/Development Fund

**7046 898604 Coal Research and Development Fund**

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$35,049,340	\$5,289,535	\$0	\$0	<b>\$0</b>	<b>\$0</b>
	-84.9%	-100%	N/A	<b>N/A</b>	<b>N/A</b>

**Source:** Coal Research/Development Fund: Coal bond proceeds

**Legal Basis:** Discontinued line item (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:** These funds were used for OAQDA programs that sought to find ways to burn clean Ohio coal with fewer emissions in a manner that met federal clean air standards. The Ohio Coal Development Office was transferred to the Ohio Development Services Agency in FY 2012 and currently administers similar programs.

# FY 2014 - FY 2015 Introduced Appropriation Amounts

# All Fund Groups

Line Item Detail by Agency			FY 2012	Estimate FY 2013	Introduced FY 2014	FY 2013 to FY 2014 % Change	Introduced FY 2015	FY 2014 to FY 2015 % Change
<b>Report For Main Operating Appropriations Bill</b>			<b>Version: As Introduced</b>					
<b>AIR Air Quality Development Authority</b>								
GRF	898402	Coal Development Office	\$ 47,491	\$0	\$0	N/A	\$0	N/A
<b>General Revenue Fund Total</b>			<b>\$ 47,491</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>	<b>\$0</b>	<b>N/A</b>
5EG0	898608	Energy Strategy Development	\$ 90,766	\$ 240,681	\$ 240,681	0.00%	\$ 240,681	0.00%
<b>General Services Fund Group Total</b>			<b>\$ 90,766</b>	<b>\$ 240,681</b>	<b>\$ 240,681</b>	<b>0.00%</b>	<b>\$ 240,681</b>	<b>0.00%</b>
4Z90	898602	Small Business Ombudsman	\$ 130,998	\$ 288,232	\$ 288,232	0.00%	\$ 288,232	0.00%
5700	898601	Operating Expenses	\$ 217,981	\$ 323,980	\$ 323,980	0.00%	\$ 323,980	0.00%
5A00	898603	Small Business Assistance	\$ 0	\$ 15,000	\$ 900,000	5,900.00%	\$ 1,125,000	25.00%
<b>State Special Revenue Fund Group Total</b>			<b>\$ 348,979</b>	<b>\$ 627,212</b>	<b>\$ 1,512,212</b>	<b>141.10%</b>	<b>\$ 1,737,212</b>	<b>14.88%</b>
<b>Air Quality Development Authority Total</b>			<b>\$ 487,237</b>	<b>\$ 867,893</b>	<b>\$ 1,752,893</b>	<b>101.97%</b>	<b>\$ 1,977,893</b>	<b>12.84%</b>