

Redbook

LBO Analysis of Executive Budget Proposal

Ohio Air Quality Development Authority

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LBO Redbook

Ohio Air Quality Development Authority

Quick look...

- The Ohio Air Quality Development Authority (OAQDA) assists businesses, political subdivisions, and not-for-profit entities in complying with the federal Clean Air Act by (1) issuing revenue bonds and notes to install clean air facilities and helping them qualify for tax exemptions on the project and (2) issuing grants to eligible small businesses to buy clean air equipment.
- A seven-member board governs the Authority, of whom five are paid and two serve ex officio. The Authority does not have regulatory power.
- The executive budget provides OAQDA with increased funding for operations and small business grants totaling approximately \$3.0 million in FY 2024 and \$3.1 million for FY 2025, including funding a new GRF line item for \$1.0 million in each fiscal year.
- The new GRF ALI 898500, Small Business Relief Acceleration is to be used for an increase in the amount of grants awarded under the OAQDA’s existing Clean Air Resource Center.
 - Operating revenue consists of a portion of air permit fees collected by the Ohio Environmental Protection Agency and transferred to OAQDA and various fees collected by OAQDA, including administrative fees on revenue bond issuances.
- The Authority has six permanent staff members as of January 2023.¹

Fund Group	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
General Revenue	N/A	N/A	\$1,000,000	\$1,000,000
Dedicated Purpose	\$1,010,282	\$1,471,349	\$2,016,000	\$2,119,000
Total Funding	\$1,010,282	\$1,471,349	\$3,016,000	\$3,119,000
% change	14.3%	45.6%	105.0%	3.4%
<i>GRF % change</i>	N/A	N/A	N/A	0.0%

Analysis of FY 2024-FY 2025 budget proposal

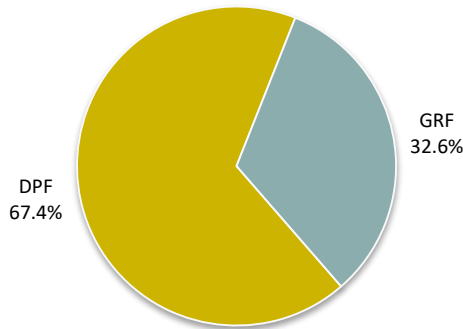
Executive recommendations by expense category

The total recommended budget amount for the Ohio Air Quality Development Authority (OAQDA) for FY 2024 is \$3.0 million, a \$1.5 million increase from anticipated FY 2023 expenditures, or a 105.0% increase. Total budget recommendations for FY 2025 are \$103,000 higher than the

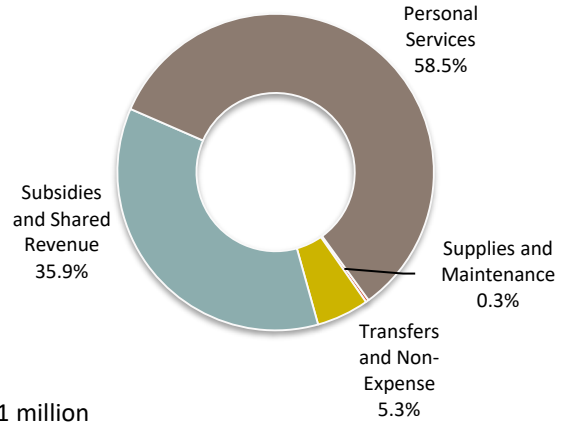
¹ Based on data from [State of Ohio Employee Headcount Trends](#) (visited February 22, 2023). On that date, OAQDA also had one part-time intermittent employee and four fixed-term board members.

recommended amount for FY 2024, a 3.4% increase. Of the total executive recommended budget for the FY 2024-FY 2025 biennium, \$1.0 million in each fiscal year will come from the GRF. The GRF funding is in a new GRF ALI 898500, Small Business Relief Acceleration, to be used for a proposed increase in grants awarded by the OAQDA’s existing Clean Air Resource Center.

**Chart 1: AIR Budget by Fund Group
FY 2024-FY 2025 Biennium**



**Chart 2: AIR Budget by Expense Category
FY 2024-FY 2025 Biennium**



Biennial total: \$6.1 million

Of the total budget recommendations for the FY 2024-FY 2025 biennium, approximately 58.5% (\$3.6 million) of the amount is planned to be allocated for personal services costs related to the six full-time permanent employees, one part-time employee, five appointed members of the Authority, and personnel costs associated with an additional five full-time positions that would be filled in the next biennium. About 35.9% (\$2.2 million) would support the small business grants awarded through the Clean Air Resource Center. Transfers and non-expense make up approximately 5.3% (\$328,000) of the budget, covering reimbursements to the Air Quality Development trust account for operating expenses associated with administering the financing assistance that OAQDA provides; an uncodified provision in the budget bill authorizes such reimbursements. Finally, 0.3% (\$20,000) is for supplies and maintenance.

OAQDA operating costs

Operating Expenses (ALIs 898601 and 898602)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 5700 ALI 898601, Operating Expenses					
\$463,162	\$613,624	\$729,471	\$958,583	\$1,700,000	\$1,800,000
% change	32.5%	18.9%	31.4%	77.3%	5.9%
Fund 4290 ALI 898602, Small Business Ombudsman					
\$148,589	\$91,883	\$119,035	\$212,766	\$216,000	\$219,000
% change	-38.2%	29.6%	78.7%	1.5%	1.4%

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Total Operating					
\$611,751	\$705,507	\$848,506	\$1,171,349	\$1,916,000	\$2,019,000
% change	15.3%	20.3%	38.0%	63.6%	5.4%

These two line items pay for the operating costs of OAQDA. Together they provide approximately \$1.9 million in FY 2024 and \$2.0 million in FY 2025 to cover payroll and administrative expenses. This compares to the estimated combined spending of about \$1.2 million between the two line items in FY 2023. Most of the combined increase of \$744,651 proposed for FY 2024 will be used for personnel costs associated with five additional full-time positions that are expected to be filled in the next biennium and cost-of-living increases. The additional employees will allow OAQDA to expand program capacity to meet rising demands associated with new project applications and new bond issuances. OAQDA experienced a 300% increase in the number of inquiries associated with its bond financing from FY 2021 to FY 2023. In the FY 2024-FY 2025 biennium, OAQDA anticipates leveraging more than \$1 billion in capital from private lenders and investors for air quality projects. The budget also allows OAQDA to enter into an agreement with local municipalities, townships, or special improvement districts to fund property assessed clean energy (PACE) projects. Thus, it may increase the amount of revenue bonds or notes that may be issued by OAQDA for the purpose of funding these projects.

Line item 898601 provides funding for the administrative costs of the Authority's air quality financing assistance programs. The funding is supported by various sources of revenue, including fees associated with project revenue bonds issued under the authority of OAQDA on behalf of firms, government entities, or not-for-profit entities wanting to finance eligible projects such as pollution control and prevention, solid waste disposal, energy efficiency, and clean generation projects.² The financing assistance comes in two typical forms of bond support. Primarily, the Authority assists large scale manufacturing and public utility companies by offering low-cost financing alternatives for investment in pollution control and prevention measures. The other form of assistance is Qualified Energy Conservation Bonds, which help public entities, such as local governments or universities, to install heating and lighting systems to conserve energy. Currently, OAQDA administers about \$3.0 billion in total outstanding debt, issued for hundreds of commercial and industrial projects. The duties involved with these project financing programs include 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 last as long as 40 years. The table below shows OAQDA total bond issuances, by type of project, in calendar year (CY) 2018 through CY 2022.

² Debt service on the revenue bonds is not paid either directly or indirectly from state tax revenue, but solely by the benefited business or entity; the Authority simply acts as a conduit for the flow of funds. This arrangement allows the Authority to grant the company certain tax exemptions authorized by the Revised Code.

OAQDA Bond Issuances, by Type of Project, 2018 through 2022 (\$ in millions)					
CY	Private Entity	Public Entity	Small Business	Utility	Total
2018	\$14.3	\$10.8	\$1.6		\$26.7
2019	\$333.4	\$15.5	\$2.1	\$100.0	\$451.0
2020	\$13.2		\$0.9		\$14.1
2021	\$152.5		\$1.9		\$154.4
2022	\$243.1		\$0.8	\$402.0	\$645.9
Total	\$756.4	\$26.4	\$7.3	\$502.0	\$1,292.1

OAQDA also administers payments to qualifying electric utilities that generate power through solar energy³ from the Solar Generation Fund, a custodial fund (i.e., not in the state treasury). OAQDA is allowed to use a portion of the fund's receipts, up to \$300,000 per fiscal year, to pay for the program's administrative costs.⁴ The fund is supported by the proceeds of a monthly surcharge on residential, commercial, and industrial customers' electricity bills which were scheduled to begin January 1, 2021, and run through 2027. The customer surcharges are to be calculated such that the Solar Generation Fund collects \$20 million annually. Though scheduled to begin in January 2021, the charges were on hold until a court decision on December 7, 2022.

Line item 898602 supports the Office of Small Business Ombudsman, commonly referred to as the Clean Air Resource Center. The Center is funded by transfers of a portion of the pollution control permit fees collected by the Ohio Environmental Protection Agency (EPA) and deposited into the Small Business Ombudsman Fund (Fund 4Z90). The Clean Air Resource Center fulfills Ohio's mandate under the Clean Air Act amendments of 1990, and authorized under section 3706.19 of the Revised Code, to offer business assistance as part of the state's efforts in attaining and maintaining national ambient air quality standards. The Center provides small business assistance including: (1) onsite 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.

³ The payments, referred to as "solar energy credits," each worth up to \$9.00 per megawatt hour of electricity generated from solar sources, are to be made to owners or operators of qualifying electric utilities from April 2021 to January 2028 to support their operations.

⁴ The fund and program were initially established by H.B. 6 of the 133rd General Assembly, but H.B. 6 was amended in H.B. 128 of the 134th General Assembly. H.B. 128 also authorized OAQDA, subject to Controlling Board approval, to use fund receipts for program administrative costs, beginning in FY 2022, and ending June 30, 2029 (FY 2029).

Grant assistance for eligible small businesses

Small Business Assistance (ALI 898603)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
Fund 5A00 ALI 898603, Small Business Assistance					
\$490,618	\$178,533	\$161,775	\$300,000	\$100,000	\$100,000
% change	-63.6%	-9.4%	85.4%	-66.7%	0.0%

These appropriations support the Small Business Assistance Grant Program to assist small businesses in purchasing pollution clean air equipment. The reductions in recommended funding in FY 2024 and FY 2025 are due to an expected decrease in transfer amounts from Title V permit fees received by Ohio EPA. Multiple factors affect the amount of fees generated in a particular year; generally, the fees are based on the annual actual air emissions reported by Title V permit holders.

Under the program, OAQDA offers grants of up to 20% for small businesses to purchase clean air equipment, or up to a \$20,000 maximum per grant. However, the executive budget would increase the grant amount to up to 50% or \$50,000 of the financing cost of an eligible project. To qualify, the business must have 100 or fewer employees, emit less than 75 tons per year of all regulated pollutants, and 50 tons or less per year of any regulated pollutant, and comply with federal Clean Air Act requirements. Once a small business moves forward with a project, the grant awards may either be used to (1) cover closing costs or (2) support principal payments on equipment after the equipment has been installed and operational for at least six months. Small businesses working on energy efficiency and conservation projects are not eligible under the grant program, but may be eligible for tax benefits. As noted above, the program is funded by a portion of Title V permit fees collected by Ohio EPA, which are deposited into the Small Business Assistance Fund (Fund 5A00).

Small Business Relief Acceleration (ALI 898500)

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
GRF ALI 898500, Small Business Relief Acceleration					
N/A	N/A	N/A	N/A	\$1,000,000	\$1,000,000
% change	N/A	N/A	N/A	N/A	0.0%

The budget recommends a new GRF line item, ALI 898500, Small Business Relief Acceleration, be created and funded with \$1.0 million each for FY 2024 and FY 2025. Funding in this new line item will be used to make grants for small business owners or operators of dry cleaning facilities or other eligible facilities residing in the state's [priority investment areas](#) that

have experienced negative economic impacts.⁵ Funding in this line item will supplement grants funding paid from Fund 5A00 ALI 898603, Small Business Assistance. Under the current program the maximum grant amount is up to 20% of the total compliance cost or \$20,000, as mentioned above, but the executive budget would increase the grant amount to up to 50% or up to \$50,000 of the financing cost of an eligible project.

AIR/lb

⁵ Effective December 31, 2020, a new federal rule requires dry cleaners located in the same building as residential units to fully eliminate specific harmful chemical solvents in their process.