

# Redbook

## LBO Analysis of Executive Budget Proposal

### Board of Commissioners of the Sinking Fund

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February 2021

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Attachment:

Appropriation Spreadsheet

# LBO Redbook

## Board of Commissioners of the Sinking Fund

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### Quick look...

- Members of the Board of Commissioners of the Sinking Fund (CSF) include the Governor, the Treasurer of State, the Auditor of State, the Secretary of State, and the Attorney General.
- All moneys appropriated to the Board are used to make principal and interest payments on general obligation (G.O.) bonds issued by the state.
  - All but one debt service fund appropriation item included in the Board’s budget has a corresponding GRF debt service appropriation item.
  - One line item is paid via transfer from the Gasoline Excise Tax Fund.
- The Board is not currently active and has no authority to issue debt. It met on March 19, 2008 for the last time.
  - The Board was responsible for issuing and “sinking” (i.e., paying off) G.O. bonds for various purposes and producing semiannual activity reports.
  - H.B. 640 of the 123<sup>rd</sup> General Assembly transferred the authority to issue G.O. debt, effective January 1, 2001, from the Board to the Ohio Public Facilities Commission (OPFC) and the Treasurer of State (TOS).
  - The Office of Debt Management within TOS currently administers debt payments for the state and reports its activities semiannually to the Governor and the General Assembly; funding for these functions is provided under the TOS budget.

Fund Group	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
Debt Service	\$1,288,685,339	\$1,345,191,900	\$1,326,580,000	\$1,263,305,000
% change	--	4.4%	-1.4%	-4.8%

### Agency overview

The Board of Commissioners of the Sinking Fund (CSF) 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 Governor, the Treasurer of State, and the Attorney General are the remaining three members. The Sinking Fund has no employees and receives its operating funds through a GRF line item in the Treasurer of State’s operating budget (ALI 090401).

CSF administer debt service payments and other expenses related to the state’s general obligation debt; G.O. debt can be issued for the following purposes: acquisition of land or land use rights, construction of and capital improvements for buildings and structures, renovations of existing structures, furniture to bring a building to its intended use, information technology hardware and certain software.

When debt is authorized by legislative action, the authorizing act will establish the particular fund to which bond sale proceeds are to be deposited, depending on the usage of funds as specified in Article VIII of the Ohio Constitution. The Board tracks debt balances and payment schedules, and manages the G.O. debt load in the long-term interest of the state. In most cases, CSF certify the amounts necessary to pay debt service to the Director of the Office of Budget and Management (OBM), then receive transfers of a certified amount with which to pay debt service. The Board is also required under the Ohio Constitution and Revised Code to prepare and publish a semiannual report, which includes financial statements of the state's G.O. bonds and debt service requirements.

The Board is no longer authorized to issue debt. Currently, only the Treasurer of State and the Ohio Public Facilities Commission have the authority to issue state debt. OBM also performs various debt management functions pursuant to section 126.11 of the Revised Code, including managing proposed issuances of new state debt.

## **Analysis of FY 2022-FY 2023 budget proposal**

The recommended total of appropriations for FY 2022 is \$1.33 billion, a 1.4% reduction from currently anticipated FY 2021 expenditures. Total recommended appropriations in FY 2023 amount to \$1.26 billion. Of the total, 100% of appropriations are used to make debt service payments. Uncodified language in the current budget bill specifies that amounts over and above these dollar amounts are appropriated if needed to pay required debt service on the bonds.

The remainder of this section briefly discusses the executive recommendations for each appropriation item in the Board's budget. Recommended funding to pay debt service by purpose is provided in the following tables. Nine of the ten line items in the CSF budget have corresponding GRF line items which serve as the ultimate source of funding for the debt service payments; the GRF line items are found in the budgets of various other state agencies. In each table, the bottom line presents the GRF line item from which funds are transferred, and the top line presents the non-GRF, CSF account utilized to pay debt service on the bonds. Amounts listed in the CSF line items are very close to the amounts in the GRF line items that correspond to them, and often are identical, but there are differences. Most such differences are small and due to balances carried over in the CSF fund. But large differences may arise. Several of the GRF line items in FY 2021 had reduced amounts due to a debt restructuring involving the bonds for which those line items serve as the source of debt service. In total, required GRF debt service expenditures were \$363.6 million below their originally planned level during FY 2021, due to the debt restructuring agreement led by OBM. This savings is reflected in the FY 2021 GRF line items below, and accounts for high growth rates in those line items from FY 2021 to FY 2022. The narrative explains which line items were so affected.

### Third Frontier Research and Development Bond Retirement Fund (ALI 155905)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 7070 ALI 155905, Third Frontier Research and Development Bond Retirement Fund</b>					
\$84,494,910	\$89,108,907	\$81,410,672	\$87,403,000	\$69,000,000	\$76,000,000
% change	5.5%	-8.6%	7.4%	-21.1%	10.1%
<b>Corresponding GRF ALI 195905, Third Frontier Research and Development General Obligation Bond Debt Service</b>					
\$84,471,878	\$89,088,160	\$81,377,687	\$87,403,000	\$69,000,000	\$76,000,000
% change	5.5%	-8.7%	7.4%	-21.1%	10.1%

This line item pays debt service on bonds issued to provide funding for research and development projects in support of Ohio industry, commerce, and business. The bonds are issued under the authority of Section 2p, Article VIII of the Ohio Constitution. Bond maturity cannot exceed 25 years. Funds to pay the debt service are transferred to this non-GRF account from GRF line item 195905, Third Frontier Research and Development General Obligation Bond Debt Service, in the Development Services Agency's budget.

### Highway Capital Improvement Bond Retirement Fund (ALI 155902)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 7072 ALI 155902, Highway Capital Improvement Bond Retirement Fund</b>					
\$114,657,860	\$137,169,658	\$152,717,637	\$164,693,700	\$164,700,000	\$164,700,000
% change	19.6%	11.3%	7.8%	0.0%	0.0%

This line item finances the retirement of debt that has been issued for the purpose of paying the costs of construction, reconstruction, or other improvements for 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. Funds to pay the debt service are transferred to this account from the Gasoline Excise Tax Fund (Fund 7060), under the State Revenue Distributions budget items, though funds are derived through taxes and fees paid in connection with use of Ohio's public transportation infrastructure.

## Natural Resources Bond Retirement Fund (ALI 155903)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 7073 ALI 155903, Natural Resources Bond Retirement Fund</b>					
\$25,152,897	\$19,138,186	\$19,606,278	\$20,420,700	\$20,600,000	\$23,000,000
% change	-23.9%	2.4%	4.2%	0.9%	11.7%
<b>Corresponding GRF ALI 725903, Natural Resources General Obligation Bond Debt Service</b>					
\$25,145,886	\$19,135,345	\$19,600,844	\$20,314,570	\$20,600,000	\$23,000,000
% change	-23.9%	2.4%	3.6%	1.4%	11.7%

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. The bonds are issued under the authority of Section 2I, Article VIII of the Ohio Constitution, and cannot exceed a maturity of 25 years. 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 GRF line item 725903, Natural Resources General Obligation Bond Debt Service, in the Department of Natural Resources' budget.

## Conservation Projects Bond Retirement Fund (ALI 155904)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 7074 ALI 155904, Conservation Projects Bond Retirement Fund</b>					
\$37,705,270	\$42,702,603	\$43,701,923	\$44,394,800	\$50,500,000	\$53,500,000
% change	13.3%	2.3%	1.6%	13.8%	5.9%
<b>Corresponding GRF ALI 150904, Conservation General Obligation Bond Debt Service</b>					
\$34,718,550	\$40,209,415	\$43,681,474	\$43,576,674	\$50,500,000	\$53,500,000
% change	15.8%	8.6%	-0.2%	15.9%	5.9%

This line item pays debt service on bonds issued to provide moneys for conservation purposes. The bonds are issued under the authority of Section 2o, Article VIII of the Ohio Constitution, and are to finance conservation and land revitalization projects. Not more than \$50 million in bonds may be issued within any single calendar year, and no more than \$400 million may be outstanding at any one time.<sup>1</sup> Funds to pay the debt service are

<sup>1</sup> \$200 million limit for conservation projects, and \$200 million limit for revitalization projects

transferred to this non-GRF account from GRF line item 150904, Conservation General Obligation Bond Debt Service, in the Public Works Commission's budget.

## Coal Research and Development Bond Retirement Fund (ALI 155906)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 7076 ALI 155906, Coal Research and Development Bond Retirement Fund</b>					
\$6,319,436	\$7,816,711	\$7,819,605	\$7,682,600	\$7,300,000	\$8,500,000
% change	23.7%	0.0%	-1.8%	-5.0%	16.4%
<b>Corresponding GRF ALI 195901, Coal Research and Development General Obligation Bond Debt Service</b>					
\$6,318,124	\$7,809,736	\$7,813,234	\$7,682,600	\$7,300,000	\$8,500,000
% change	23.6%	0.0%	-1.7%	-5.0%	16.4%

This line item pays debt service on bonds issued to provide financial assistance for the research and development of coal technology that will encourage 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, and cannot exceed a maturity of 40 years. Funds to pay the debt service are transferred to this non-GRF account from GRF line item 195901, Coal Research and Development General Obligation Bond Debt Service, in the Development Services Agency's budget.

## State Capital Improvement Bond Retirement Fund (ALI 155907)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 7077 ALI 155907, State Capital Improvement Bond Retirement Fund</b>					
\$228,191,438	\$228,753,312	\$226,801,902	\$231,754,500	\$246,500,000	\$237,000,000
% change	0.2%	-0.9%	2.2%	6.4%	-3.9%
<b>Corresponding GRF ALI 150907, Infrastructure Improvement General Obligation Bond Debt Service</b>					
\$216,031,148	\$220,719,157	\$226,688,024	\$132,224,435	\$246,500,000	\$237,000,000
% change	2.2%	2.7%	-41.7%	86.4%	-3.9%

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 Section 2k, Article VIII of the Ohio Constitution. Bond proceeds are to be used for financing the costs of public infrastructure improvements within political subdivisions. Funding for this non-GRF account comes from GRF line item 150907, Infrastructure Improvement General Obligation Bond Debt Service, under the budget for the Public Works Commission. The significant drop in GRF funding during FY 2021 is due to a one-time debt restructuring arranged by OBM.

## Common Schools Bond Retirement Fund (ALI 155908)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 7078 ALI 155908, Common Schools Bond Retirement Fund</b>					
\$371,772,233	\$401,903,698	\$412,203,710	\$424,825,900	\$427,000,000	\$390,000,000
% change	8.1%	2.6%	3.1%	0.5%	-8.7%
<b>Corresponding GRF ALI 230908, Common Schools General Obligation Bond Debt Service</b>					
\$369,935,688	\$401,832,305	\$412,148,221	\$290,497,416	\$427,000,000	\$390,000,000
% change	8.6%	2.6%	-29.5%	47.0%	-8.7%

This line item pays debt service on bonds issued to provide moneys for common schools, and in particular the costs associated with land acquisition, construction, improvement, expansion, and planning. The bonds are issued under the authority of Section 2n, Article VIII of the Ohio Constitution, and cannot exceed a maturity of 25 years. Funding for this non-GRF account comes from GRF line item 230908, Common Schools General Obligation Bond Debt Service, in the Ohio Facilities Construction Commission's budget. At the discretion of the OBM Director, Fund 7078 can receive its necessary funding from the GRF and the Lottery Profits Education Fund. The significant drop in GRF funding during FY 2021 is due to a one-time debt restructuring arranged by OBM.

## Higher Education Bond Retirement Fund (ALI 155909)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 7079 ALI 155909, Higher Education Bond Retirement Fund</b>					
\$263,962,175	\$295,833,808	\$323,935,906	\$348,550,200	\$331,000,000	\$301,000,000
% change	12.1%	9.5%	7.6%	-5.0%	-9.1%
<b>Corresponding GRF ALI 235909, Higher Education General Obligation Bond Debt Service</b>					
\$248,856,204	\$295,773,404	\$323,841,676	\$204,048,136	\$331,000,000	\$301,000,000
% change	18.9%	9.5%	-37.0%	62.2%	-9.1%

This line item pays debt service on bonds issued to provide moneys for higher education, and in particular the costs associated with land acquisition, construction, improvement, expansion, and planning. The bonds are issued under the authority of Section 2n, Article VIII of the Ohio Constitution, and cannot exceed a maturity of 25 years. Funds to pay the debt service are transferred to this non-GRF account from GRF line item 235909, Higher Education General Obligation Bond Debt Service, in the budget for the Department of Higher Education. The significant drop in GRF funding during FY 2021 is due to a one-time debt restructuring arranged by OBM.

## Persian Gulf, Afghanistan, and Iraq Conflict Bond Retirement Fund (ALI 155901)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 7080 ALI 155901, Persian Gulf, Afghanistan, and Iraq Conflict Bond Retirement Fund</b>					
\$7,118,278	\$5,089,974	\$4,973,459	\$5,586,600	\$5,375,000	\$5,000,000
% change	-28.5%	-2.3%	12.3%	-3.8%	-7.0%
<b>Corresponding GRF ALI 900901, Veterans Compensation General Obligation Bond Debt Service</b>					
\$7,118,278	\$5,089,974	\$4,973,459	\$5,470,142	\$5,375,000	\$5,000,000
% change	-28.5%	-2.3%	10.0%	-1.7%	-7.0%

This line item pays debt service on bonds issued to provide compensation for veterans of the Persian Gulf, Afghanistan, and Iraq conflicts. The bonds are issued under the authority of Section 2r, Article VIII of the Ohio Constitution, and cannot exceed a maturity of 15 years. Funds to pay the debt service are transferred to this non-GRF account from GRF line item 900901, Veterans Compensation General Obligation Bond Debt Service, in the budget for the Department of Veterans Services.

## Job Ready Site Development Bond Retirement Fund (ALI 155912)

FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Estimate	FY 2022 Introduced	FY 2023 Introduced
<b>Fund 7090 ALI 155912, Job Ready Site Development Bond Retirement Fund</b>					
\$15,657,097	\$15,587,870	\$15,514,247	\$9,879,900	\$4,605,000	\$4,605,000
% change	-0.4%	-0.5%	-36.3%	-53.4%	0.0%
<b>Corresponding GRF ALI 195912, Job Ready Site Development General Obligation Bond Debt Service</b>					
\$11,085,946	\$12,103,189	\$15,498,967	\$9,879,900	\$4,605,000	\$4,605,000
% change	9.2%	28.1%	-36.3%	-53.4%	0.0%

This line item pays debt service on bonds issued to provide moneys for the Third Frontier Job Ready Site Development Program. The program provides funding to improve local government infrastructure, support research and development applicable to high-tech businesses, and enhance business site development. The bonds are issued under the authority of Section 2p, Article VIII of the Ohio Constitution, and cannot exceed a maturity of 25 years. Funds to pay the debt service are transferred to this non-GRF account from GRF line item 195912, Job Ready Site Development General Obligation Bond Debt Service, in the Development Services Agency's budget.



## Debt Service Limitation

The Commissioners of the Sinking Fund oversee payments made on debt backed by the GRF. Article VIII of the Ohio Constitution establishes a 5% “cap” on the amount of GRF-backed debt the state may incur in a given fiscal year. In particular, the state cannot issue additional GRF-backed debt if total debt service payments in any future fiscal year are expected to exceed 5% of the total estimated GRF and net lottery profits revenue in the year of issuance. The 5% “cap” can be waived by voters or by a three-fifths majority vote in each house of the General Assembly.

The debt service ratio is calculated by dividing debt service payable from the GRF by total combined revenue to the GRF and net lottery profits. At the end of FY 2020, Ohio’s debt service ratio was 4.09%, an increase over the debt service ratio in the five previous fiscal years but lower than the debt service ratio in FY 2014. Since FY 2013, the debt service ratio level has been fairly close to the levels seen between FY 1997 and FY 2006. The ratio has fluctuated significantly over the years, having been raised by infrastructure investment initiatives and lowered by counterbalancing debt restructuring and securitization initiatives.

Debt Service Ratio, FY 1997-FY 2020

