

# **LSC Greenbook**

**Analysis of the Enacted Budget**

**Commissioners  
of the Sinking Fund**

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### **ATTACHMENT:**

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 budget 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 of State's Greenbook 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, highways, and bonus compensation for veterans who served during the Persian Gulf, Afghanistan, and Iraq conflicts.

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.

The budget appropriates \$597.8 million for FY 2012. This amount is \$35.5 million, or 5.6%, lower than actual expenditures for FY 2011. The budget appropriates \$1,059.4 million for FY 2013. This amount is \$461.5 million higher than FY 2012 appropriations, a 77.2% increase. The increase in the appropriations from FY 2012 to FY 2013 is due to a plan to restructure the state's existing debt, which allows a reduction in FY 2012 appropriations. (See **Major Initiatives** for details.)

## Appropriation Overview

The following table provides the appropriations by fund group for the Commissioners of the Sinking Fund for the FY 2012-FY 2013 biennium.

<b>Table 1. Agency Appropriations by Fund Group, FY 2012-FY 2013 (Am. Sub. H.B. 153)</b>					
<b>Fund Group</b>	<b>FY 2011*</b>	<b>FY 2012</b>	<b>% change, FY 2011-FY 2012</b>	<b>FY 2013</b>	<b>% change, FY 2012-FY 2013</b>
Debt Service Fund	\$633,273,648	\$597,823,400	-5.6%	\$1,059,351,800	77.2%
<b>TOTAL</b>	<b>\$633,273,648</b>	<b>\$597,823,400</b>	<b>-5.6%</b>	<b>\$1,059,351,800</b>	<b>77.2%</b>

\*FY 2011 figures represent actual expenditures.

The budget appropriates a total of \$1.6 billion for FY 2012-FY 2013. This amount is \$445.7 million, or 36.8%, above actual expenditures for the FY 2010-FY 2011 biennium. Actual expenditures in FY 2010-FY 2011 were \$1.2 billion.

## Major Initiatives

The appropriations for debt service funding include the necessary amounts for debt service payment in the upcoming biennium. The appropriations take into consideration a plan to restructure a portion of the state's debt in the next biennium, which is intended to free up GRF resources for other funding purposes. Under the plan, new refunding bonds will be issued in the upcoming biennium by the Ohio Public Facilities Commission (OPFC) and the Ohio Building Authority (OBA). The bond proceeds from the refunding bonds would be used in place of GRF funding to defray current costs of debt service. The plan would repay the new debt service from newly issued refunding bonds on a proportional basis in FY 2012 through FY 2025. Interest payments will begin in FY 2012 and principal will be amortized starting in FY 2015.

The restructuring is estimated to reduce the GRF cash flow used to pay debt service in FY 2012 by approximately \$440 million and increase the debt service paid in FY 2013 by approximately \$20 million, saving about \$420 million for the biennium. Of the estimated savings, \$321.7 million is to come from refunding bonds issued by OPFC and the remaining \$118.3 million is to come from refunding bonds issued by OBA. As of August 9, 2011, the state has realized GRF debt service payment reductions totaling \$338.5 million for FY 2012. The amount came from refunding bonds issued by OPFC. The remaining savings would come from refunding bonds that will be issued by OBA at the end of August 2011.

Table 2 presents the projected impact by fiscal year of the debt restructuring plan on total GRF debt service payments for FY 2012 through FY 2025. The negative numbers in the table represent higher debt service payments in future years. As shown in the table, the state would pay \$137 million more in interest payments due to the

delay in repaying existing debt, though the extra interest paid in the future might be equivalent to \$1.9 million in present value terms.

<b>Fiscal Year</b>	<b>Debt Service (Prior to the Restructuring Plan)</b>	<b>Debt Service (After Restructuring)</b>	<b>Estimated Effect on GRF Cash Flow</b>	<b>Present Value of the Effect on GRF Cash Flow*</b>
2012	\$451,939,506	\$11,983,197	\$439,956,308	\$435,064,906
2013		\$20,030,550	(\$20,030,550)	(\$19,052,476)
2014		\$20,030,550	(\$20,030,550)	(\$18,358,056)
2015		\$51,024,050	(\$51,024,050)	(\$45,318,159)
2016		\$48,706,900	(\$48,706,900)	(\$41,678,398)
2017		\$48,711,775	(\$48,711,775)	(\$40,172,318)
2018		\$48,705,950	(\$48,705,950)	(\$38,712,766)
2019		\$48,709,325	(\$48,709,325)	(\$37,313,942)
2020		\$48,693,400	(\$48,693,400)	(\$35,952,027)
2021		\$48,513,750	(\$48,513,750)	(\$34,523,595)
2022		\$48,457,500	(\$48,457,500)	(\$33,237,354)
2023		\$48,451,000	(\$48,451,000)	(\$32,032,853)
2024		\$48,452,625	(\$48,452,625)	(\$30,877,815)
2025		\$48,451,750	(\$48,451,750)	(\$29,763,584)
<b>TOTAL</b>	<b>\$451,939,506</b>	<b>\$588,922,322</b>	<b>(\$136,982,817)</b>	<b>(\$1,928,436)</b>

\*Cash-Flow Impact discounted by the All-In Cost of Borrowing (of approximately 4.0%).

Source: Blue Book – Executive Budget proposed for FY 2012-FY 2013, pgs. C-36 and C-37.

The plan indicates that only existing noncallable general obligation bonds issued primarily for the purposes of common schools, higher education, and local infrastructure and state lease rental bonds issued for the purposes of correctional facilities 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, 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 may 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 ENACTED BUDGET**

### **Introduction**

This section provides an analysis of the appropriations for each line item in the Commissioners of the Sinking Fund (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.

<b>Agency Appropriations for General Obligation Debt Retirement Funds</b>				
<b>Fund</b>	<b>ALI and Name</b>		<b>FY 2012</b>	<b>FY 2013</b>
<b>Debt Service Fund Group</b>				
7070	155905	Third Frontier Research and Development Bond Retirement Fund	\$29,323,300	\$63,640,300
7072	155902	Highway Capital Improvement Bond Retirement Fund	\$143,176,000	\$150,789,300
7073	155903	Natural Resources Bond Retirement Fund	\$5,375,300	\$25,209,100
7074	155904	Conservation Projects Bond Retirement Fund	\$24,556,800	\$29,297,300
7076	155906	Coal Research and Development Bond Retirement Fund	\$7,861,100	\$5,577,700
7077	155907	State Capital Improvement Bond Retirement Fund	\$113,306,600	\$215,571,100
7078	155908	Common Schools Bond Retirement Fund	\$150,604,900	\$341,919,400
7079	155909	Higher Education Bond Retirement Fund	\$108,262,500	\$201,555,000
7080	155901	Persian Gulf, Afghanistan, and Iraq Conflicts Bond Retirement Fund	\$5,497,700	\$10,112,100
7090	155912	Job Ready Site Development Bond Retirement Fund	\$9,859,200	\$15,680,500
<b>Debt Service Fund Group Subtotal</b>			<b>\$597,823,400</b>	<b>\$1,059,351,800</b>
<b>Total Funding: General Obligation Debt Retirement Funds</b>			<b>\$597,823,400</b>	<b>\$1,059,351,800</b>

The budget provides 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 GRF line item 725903, Natural Resources General Obligation Debt Service, in the Department of Natural Resources' budget.

#### **Conservation Projects Bond Retirement 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 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 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 GRF line item 195901, Coal Research and Development General Obligation Debt Service, in the Ohio Department of Development's (ODOD) budget. Prior to FY 2012, funding for the debt service was transferred to this non-GRF account from GRF line item 898901, Coal Research and Development General Obligation Debt Service, in the Ohio Air Quality Development Authority's (OAQDA) budget. The budget moves funding for the debt service on Coal Research and Development General Obligation bonds from OAQDA to ODOD.

**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 GRF line item 235909, Higher Education General Obligation Debt Service, in the budget for the Board of Regents.

**Persian Gulf, Afghanistan, and Iraq Conflicts Bond Retirement Fund (155901)**

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. Funds to pay the debt service are transferred to this non-GRF account from GRF line item 900901, Persian Gulf, Afghanistan, and Iraq Compensation Debt Service, in the budget for the Department of Veterans Services.



**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 GRF line item 195912, Job Ready Site Development General Obligation Debt Service, in the Department of Development's budget.

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# FY 2012 - FY 2013 Final Appropriation Amounts

# All Fund Groups

Line Item Detail by Agency			FY 2010	FY 2011	Appropriations FY 2012	FY 2011 to FY 2012 % Change	Appropriations FY 2013	FY 2012 to FY 2013 % Change
<b>Report For Main Operating Appropriations Bill</b>			<b>Version: Enacted</b>					
<b>CSF</b>	<b>Commissioners of Sinking Fund</b>							
7070	155905	Third Frontier Research and Development Bond Retirement Fund	\$ 21,002,434	\$ 29,965,985	\$ 29,323,300	-2.14%	\$ 63,640,300	117.03%
7072	155902	Highway Capital Improvement Bond Retirement Fund	\$ 170,371,415	\$ 149,417,025	\$ 143,176,000	-4.18%	\$ 150,789,300	5.32%
7073	155903	Natural Resources Bond Retirement Fund	\$ 25,750,509	\$ 25,217,330	\$ 5,375,300	-78.68%	\$ 25,209,100	368.98%
7074	155904	Conservation Projects Bond Retirement Fund	\$ 19,029,687	\$ 21,415,776	\$ 24,556,800	14.67%	\$ 29,297,300	19.30%
7076	155906	Coal Research and Development Bond Retirement Fund	\$ 8,744,095	\$ 6,857,831	\$ 7,861,100	14.63%	\$ 5,577,700	-29.05%
7077	155907	State Capital Improvement Bond Retirement Fund	\$ 109,095,949	\$ 145,654,599	\$ 113,306,600	-22.21%	\$ 215,571,100	90.25%
7078	155908	Common Schools Bond Retirement Fund	\$ 148,402,112	\$ 163,469,788	\$ 150,604,900	-7.87%	\$ 341,919,400	127.03%
7079	155909	Higher Education Bond Retirement Fund	\$ 71,449,695	\$ 83,952,951	\$ 108,262,500	28.96%	\$ 201,555,000	86.17%
7080	155901	Persian Gulf, Afghanistan, and Iraq Conflicts Bond Retirement Fund	\$0	\$0	\$ 5,497,700	N/A	\$ 10,112,100	83.93%
7090	155912	Job Ready Site Development Bond Retirement Fund	\$ 4,372,045	\$ 7,322,363	\$ 9,859,200	34.65%	\$ 15,680,500	59.04%
<b>Debt Service Fund Group Total</b>			<b>\$ 578,217,940</b>	<b>\$ 633,273,648</b>	<b>\$ 597,823,400</b>	<b>-5.60%</b>	<b>\$ 1,059,351,800</b>	<b>77.20%</b>
<b>Commissioners of Sinking Fund Total</b>			<b>\$ 578,217,940</b>	<b>\$ 633,273,648</b>	<b>\$ 597,823,400</b>	<b>-5.60%</b>	<b>\$ 1,059,351,800</b>	<b>77.20%</b>