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FOR IMMEDIATE RELEASE

October 19, 2005

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State Issue 1 changes the constitution to permit the public sector to make investments in or to partner with private businesses for purposes that fall within the Third Frontier or site development programs.

A new Issue Brief *The Third Frontier Revisited: Constitutional and Fiscal Implications of Issue 1* finds that the amendment would change the relationship between the public and private sectors in Ohio but notes that the legislature has improved the amendment over the version rejected by the voters in 2003.

The Issue Brief discusses some of the highlights of the proposed amendment and updates an earlier report issued in 2003. “Although much of the public attention has focused on the amount of the bond issuance, a closer relationship between public and private interests in economic development policy will be the enduring legacy of the amendment” said Jon Honeck, report author and Research Analyst with Policy Matters Ohio. “The amendment contains improved language that shows a heightened concern by the legislature for the accountability of public funds and the equitable distribution of program benefits,” he added, “but it’s up to the legislature to give these provisions real teeth if the amendment passes.”

The Issue Brief also notes that local governments and universities would receive expanded authority in the economic development arena, subject to implementing legislation. The Issue Brief recommends that the implementing legislation ensure the accountability of public funds used by all levels of government, universities, non-profits, and private entities involved in the Third Frontier. Major findings are:

- Issue 1 permits the state, state universities, and local governments to become stockholders in private companies and to share in any resulting financial gains, overturning constitutional prohibitions that have been in place for over 150 years.
- The issuance of general obligation bonds to provide direct aid to industry is a departure from the historical use of public sector bonding authority. In the past, general obligation bonds have not been used to finance research and development activities, except for state-financed projects to promote the use of Ohio coal.

- The General Assembly has improved the amendment as compared to the 2003 version by requiring implementing legislation to include the accountability of state funding, ensuring that all of Ohio's regions receive benefits, and providing for access to the program by economically and socially disadvantaged individuals and businesses.
- Debt service for the \$500 million in state obligations for the Third Frontier portion of State Issue 1, as estimated by the Ohio Office of Budget and Management, will be \$687 million over 17 years. Interest payments of \$187 million comprise over one-fourth of this total.
- The amendment requires the General Assembly to restrict or limit the use of eminent domain to take property for ultimate use by private businesses.
- Debt service for state obligations issued for the Third Frontier and site development programs are not counted in the five percent constitutional debt limit. If debt service amounts from these programs cause the state to exceed the five percent limit, they will not trigger the constitutional requirement that the legislature waive the limitation by a three-fifths vote of each house.
- State universities, local governments, and designated local economic development agencies will be permitted to issue bonds subject to authorizing legislation by the General Assembly. The General Assembly will determine what types of bonds may be issued (revenue or general obligation), in what amounts, and for which specific purposes.

“Approval of State Issue 1 will mark a watershed in Ohio’s economic development efforts,” said Honeck. “Given the state’s economic climate and the perception that the state is falling behind the rest of the nation, Ohioans may be ready to support this policy approach,” he added. “Whether the public sector uses its expanded authority successfully will depend on the vigilance of the legislature and the appropriate state agencies in defining and tracking the public interest in economic development policy.”

Policy Matters Ohio is a non-profit, non-partisan policy research institute with offices in Cleveland and Columbus. This report is available at http://www.policymattersohio.org/third_frontier_revisited.htm

