

Higher Educational Facility Commission

- Annual budget appropriation remains the same
- No significant increase in bond applications
- Maintain current operations

OVERVIEW

Summary of Executive Budget recommendation: The Executive Budget recommends the same annual levels of appropriations for fiscal years 2002 and 2003 that were appropriated for the FY 2002-FY 2003 biennium, namely, \$12,000 for each fiscal year.

The following table indicates the only line item in the Executive Budget for the Higher Educational Facility Commission (HEF):

Higher Educational Facility Commission: Major Budget Items					
Fund	ALI	Description	FY 2001	FY 2002	FY 2003
AGY	372-601	Operating Expenses	\$5,000	\$12,000	\$12,000
Total budget			\$5,000	\$12,000	\$12,000
Change from prior year			167.7%	140.0%	0.0%

Budget issues: The budget would maintain the commission’s essential operations. No major initiatives are planned and no significant change in the number of bond issues is anticipated for the biennium.

Description of agency: The Higher Educational Facility Commission was established in 1968 to help Ohio’s approximately 55 eligible independent non-profit colleges and universities obtain construction capital at lower costs than might otherwise be available to them. Its activities are governed by Chapter 3377. of the Revised Code.

In FY 2000 the commission issued \$156,470,000 worth of bonds. By the close of that fiscal year, the cumulative amount of approved bond issues outstanding had risen to \$992,918,692. According to estimates, the savings in bond interest and costs has ranged up to two percent per year.

The commission is governed by a board of nine members, of whom eight are appointed by the governor and serve eight-year terms. The ninth member is the chancellor of the Board of Regents, who serves permanently. The commission meets on the fourth Wednesday of each month except July and December; at these meetings the applications of the individual independent institutions are submitted for approval. The commission members receive no compensation for their services.

The commission assists the independent institutions by issuing revenue bonds to finance the acquisition, construction, and renovation of their facilities. Although the bonds are state bonds, all principal and interest payments are made by the institutions for which the bonds are issued. The commission in each case enters into an agreement under which the university or college leases the constructed facility from the commission and pays rent to the commission in amounts needed to retire the bonds.

Since the commission is an agency of the State of Ohio, the interest paid by the commission to the bondholders is exempt from state and federal income tax. Accordingly, the bonds can be issued at lower interest rates, effectively enabling the commission to charge the institutions capital financing rates that are lower than commercial market rates.

The commission indicates that, by this method it can help sustain the independent colleges and universities at no cost to the state.

In FY 1997 the commission also established a pool of construction capital for the use of small institutions and for the financing of aggregated small capital projects. This pooling enables each project to be financed at rates lower than they could be if each project had to be financed individually on the capital markets. The pool normally comprises roughly one-third of a fiscal year's bond issue amount, although the actual proportion can fluctuate from year to year. The amount of capital raised in pools is included in the reported total amount of bonds issued.

Although the commission is a state agency with general administrative powers, it has been able to operate without a separate staff or permanent offices. Instead, it has elected to rely upon bond counsel and the support of the Board of Regents, whose staff provides the day-to-day administration of the commission. Thus, the commission has almost no operating costs and does not need a General Revenue Fund budget.

The appropriation for the commission's small Agency Fund line item (372-601, Operating Expenses) enables the commission to reimburse the Board of Regents for the costs of the services provided to the commission by the Regents' administrative staff, including part of the staff salaries. The payments to Regents constitute the only uses of funds under this line item. Revenues to support the appropriation are obtained from the colleges and universities, each of which pays a small fee to the commission upon application for, and again upon approval of, a capital loan. These revenues are deposited into Agency Fund 461 and are then transferred to the Board of Regents as needed. In the Regents' budget, the line item is 235-602, HEFC Administration, and the commission's payments to Regents are contained in fund 4E8 for that line item.

Specific services provided to the commission by the Board of Regents include the following:

1. Accounting, record-keeping, storage and financial services: Files are maintained in the Board of Regents' offices; the Regents' staff performs the necessary accounting and keeps accounting records for the expenses incurred by the commission.
2. Meeting and project scheduling and coordination: The Regents' offices receive all project applications; its staff coordinates among institutions, bond counsel and the commission.
3. Annual report: The Regents' staff prepares the commission's annual report.

Staffing: The commission has no offices or staff. Its administrative duties are performed by the staff of the Board of Regents.

Goals and challenges: Since no significant changes in the number of bond applications or issue amounts are anticipated for the biennium, the commission will continue to operate as it has.

ADDITIONAL FACTS AND FIGURES

Expense history: The commission disburses funds by transfer to the Board of Regents in reimbursement of Regents' administrative expenses on behalf of the commission. A recent history of these payments is provided by the following table:

Higher Educational Facility Commission: Disbursement History		
Fiscal Year	Disbursements	Cumulative Disbursements since FY 1987
1988	\$1,112	\$1,112
1989	1,025	2,137
1990	582	2,719
1991	1,210	3,929
1992	1,102	5,031
1993	2,092	7,123
1994	2,388	9,511
1995	2,749	12,260
1996	1,296	13,556
1997	2,264	15,820
1998	2,017	17,837
1999	2,744	20,581
2000	2,982	23,563
2001 est.	5,000	28,563
2002 bud.	12,000	40,563
2003 bud.	\$12,000	\$52,563

Federal funding: The commission receives no federal funds.

Staffing levels: The Higher Educational Facility Commission has no offices or staff. The commission's financing and administrative functions are performed by bond counsel and the staff of the Board of Regents.

ANALYSIS OF EXECUTIVE PROPOSAL

HIGHER EDUCATIONAL FACILITY COMMISSION

(Single-program agency)

Purpose Reduce the cost of acquisition, construction and renovation capital for independent colleges and universities

The following table shows the line item that is used to fund this commission's operations, as well as the Executive Budget's recommended funding levels:

Fund	ALI	Title	FY 2002	FY 2003
AGY: 461	372-601	Operating Expenses	\$12,000	\$12,000
Total funding: HIGHER EDUCATIONAL FACILITY COMMISSION				

HIGHER EDUCATIONAL FACILITY COMMISSION (a single-program agency)

Program Description: For a description of the commission's' single-program operations, see the Overview section.

Funding Source: No GRF funds are used. The commission's operations budget is supported by the Agency Fund 461, which has a current balance of approximately \$45,000. The commission receives small application fees from those institutions applying to the commission for construction financing. The fees are described in the section Catalog of Budget Line Items.

Line Items: The commission's budget has only one line item, ALI 372-601, Operating Expenses, funded by the Agency Fund Group fund 461. The line item's appropriation is divided approximately equally between two object classes: personal services and maintenance. The Executive's recommendation is to continue the commission's annual appropriations at the same level as in FY 2001. There are no plans to increase the fees charged for the bond issues.

Implication of the Executive Recommendation: Since the commission does not anticipate significant increases in the number of bond applications in the upcoming biennium, the recommended appropriation for line item 372-601, Operating Expenses, is appropriate.

PERMANENT AND TEMPORARY LAW

This section describes permanent and temporary law provisions contained in the executive budget that will affect the department's activities and spending decisions during the next biennium.

Provisions for fiscal years 2002 and 2003: There are no recommended changes in permanent or temporary laws.

LSC Budget Spreadsheet by Line Item, FY 2002 - FY 2003

<i>Fund ALI ALI Title</i>	<i>Revised Estimated 2001</i>	<i>As Introduced 2002</i>	<i>House Passed 2002</i>	<i>% Change Est. 2001 to House 2002</i>	<i>As Introduced 2003</i>	<i>House Passed 2003</i>	<i>% Change House 2002 to House 2003</i>
<i>HEF Higher Educational Facility Commission, Ohio</i>							
461 372-601 Operating Expenses	\$12,000	\$ 12,000	\$ 12,000	0.0%	\$ 12,000	\$ 12,000	0.0%
Agency Fund Group Total	\$ 12,000	\$ 12,000	\$ 12,000	0.0%	\$ 12,000	\$ 12,000	0.0%
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Total All Budget Fund Groups	\$ 12,000	\$ 12,000	\$ 12,000	0.0%	\$ 12,000	\$ 12,000	0.0%

Agency Fund Group

461 372-601 Operating Expenses

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$2,017	\$2,744	\$2,982	\$12,000	\$12,000	\$12,000
	36.0%	8.7%	302.4%	0.0%	0.0%

Source: AGY: Revenues are obtained through charges assessed to institutions assisted by the commission. The current fee structure consists of a \$500 flat fee due upon each application; and a fee of .02 percent of the principal amount of the bonds issued, provided that the total is no less than \$1,000 and no greater than \$3,000. The initial \$500 fee is credited against the final total fee.

Legal Basis: ORC 3377 (Originally established in 1968 by Am. S.B. 453 of the 107th G.A.)

Purpose: This commission issues revenue bonds that finance capital acquisition, construction or renovation of higher education facilities at Ohio's independent non-profit colleges and universities. These bonds are amortized by the institutions for which they were issued. The commission's bonds carry the full faith and credit of the State of Ohio; and the Interest paid on the bonds is tax exempt. Therefore, the bonds can be marketed at lower rates of interest than taxable bonds.

The Ohio Board of Regents provides staff support for the commission and is reimbursed for travel and other expenses. This appropriation line item provides funds for those reimbursements.