Higher Educational Facility Commission

House Higher Education Subcommittee

Zak Talarek, Budget Analyst

Legislative Service Commission

February 23, 2005

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for the

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TABLE OF CONTENTS

February 23, 2005

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- A continuation budget for the Commission plus additional funding provided for the Board of Regents to hire one staff person to manage the administrative duties of the Commission, which is to be entirely supported by fee revenue
- The Commission issued $592.5 million in tax-exempt revenue bonds in FY 2004 for projects at 14 of Ohio's private institutions

OVERVIEW

The Higher Educational Facility Commission was established in 1968 to help Ohio's approximately 55 eligible independent nonprofit colleges and universities obtain construction capital at lower costs than might otherwise be available to them. The Commission is comprised of nine members, including the Chancellor of the Board of Regents, who serves permanently, and eight others who are appointed by the Governor and serve eight-year terms. Its activities are governed by Chapter 3377. of the Revised Code. The members of the Commission receive no compensation for their services, but are reimbursed for their actual expenses related to the Commission's official business. The Commission receives no General Revenue Fund money, and is supported entirely by fee revenue.

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, the institutions for which the bonds are issued make all of the principal and interest payments. As with Air Quality bonds, the state disclaims any liability in case of default. Default is the responsibility of the institutions, on whose behalf 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 taxes. 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. According to estimates from the Commission's bond counsel, the current savings in bond interest and costs is approximately 2% per year. In addition to the lower interest rate, the Commission offers access to lenders that might not be available to colleges, as well as allowing for 100% financing of projects.

In addition to issuing bonds for projects at a specific institution, the Commission, beginning in FY 1997, has also established a pool of construction capital for the financing of smaller capital projects at multiple institutions. This pooling enables each project to be financed at rates lower than they otherwise might be if each project had to be financed individually on the capital market.

Although the Commission is a state agency with general administrative powers, it has operated 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. These services include accounting and record keeping, scheduling and coordinating commission meetings and project applications, and preparing the Commission's annual report.

A 2004 audit conducted by the Auditor of State has recommended that the Board of Regents employ and maintain one staff person to manage the administrative duties of the Commission. The executive budget for the Board of Regents contains a provision transferring up to $55,000 in each fiscal year of the FY 2006-2007 biennium from the Commission's fee revenue to cover the costs of this employee.

The revenues to support the Commission are obtained from fees charged to the colleges and universities for the issuance of the bonds. A $500 fee is paid to the Commission upon application for a capital loan, and once the bonds are issued, a fee equal to 0.02% of the principal is paid to the Commission. In no case is the total amount of fees paid less than $1,000, or greater than $3,000. The fee structure has remained unchanged since 1991. The Commission indicates that, by this method it can help sustain the independent colleges and universities at no cost to the state.

Summary of FYs 2006-2007 Budget Issues

The executive budget has recommended $16,819 in each fiscal year, none of which will come from the General Revenue Fund. The funding in FY 2006 and FY 2007 is at the same level of funding estimated for FY 2005. The appropriations will be used to reimburse the direct expenses incurred by the members of the Commission, including personal travel, parking, lunches, and incidental state fees, as well as reimbursing administrative and staffing costs incurred by the Board of Regents. The Commission members receive no compensation for their services.

In addition, a provision in the Board of Regents section of the executive budget authorizes a transfer of up to $55,000 in each fiscal year from the Commission's agency fund (Fund 461) to the HEFC Administration fund (Fund 4E8), which is a state special revenue fund within the Board of Regents. These funds will be used by the Board of Regents to hire one staff person to manage the administrative duties of the Commission.

Staffing Levels

- The Higher Educational Facility Commission currently has no offices or staff. The staff of the Board of Regents and the Commission's bond counsel perform the Commission's financing and administrative functions.

- A 2004 audit conducted by the Auditor of State has recommended that the Board of Regents employ and maintain one staff person to manage the administrative duties of the Commission. The executive budget for the Board of Regents contains a provision transferring up to $55,000 in each fiscal year of the FY 2006-2007 biennium to cover the costs of this employee.

Facts and Figures

Projects Financed

- In FY 2004, the Commission issued $593,840,000 worth of bonds on behalf of 14 different institutions, of which $592,540,000 was tax exempt and $1,300,000 was taxable. As of June 30, 2004, the total principal amount of debt outstanding was $1,848,528,614.

- The table below presents a list of projects that were financed in FY 2004 with bonds issued by the Commission.

Institution	Types of Project	Issue Date	Original Principal Amount
John Carroll	Refunding of 1993A & 1993B Bonds	8/26/03	$24,110,000
Oberlin	Student housing, academic buildings, new telephone system; and refunding of 1993 Bonds	9/24/03	$40,000,000
Columbus College of Art and Design (Series A&B)	Integrated design center, Student Center Administration Building, Kinney Hall, Canzani Center, and residential facilities	9/23/03	$11,000,000*
Lake Erie	Athletic facility and refunding of 2000-C Bonds	9/30/03	$12,665,000
Kenyon	Refunding of 1993 Bonds	10/15/03	$6,345,000
Dayton	Student residence hall, ArtStreet project, baseball facility, student houses, various athletic facilities, completion of science building and Arena parking facility; and refunding a portion of 1994 Bonds	10/29/03	$55,850,000
Pooled	Various projects at Ohio Dominican and Findlay	11/13/03	$15,715,000
Ashland	Kettering Science Center, sport/recreational center, and educational building	03/04/04	$44,600,000
Case Western Reserve University (Series A&B)	North Residential Village, addition to West Quad, Cleveland Center for Structural Biology, Animal Resource Center, Medical Sciences Learning Center, and other capital improvements	3/16/04	$285,775,000
Mt. St. Joseph	Athletic training complex, Seton Hall, Administration offices, and parking deck	04/01/04	$22,860,000
Cedarville	Brock Hall, Willets-South, Willets-North, McKinley/McChesney/Miter, Green/St. Clair/Johnson, and Younger/Rickard/Murphy residence halls	04/07/04	$14,370,000
Denison	Residence halls, Higley Hall, Knapp Hall, Cleveland Hall, Ebaugh Lab, Slayter Hall, Doan Administration Building, computer network, and advance refunding of 1996 Bonds	04/15/04	$41,965,000
Baldwin-Wallace	Science Building, conservatory, residence hall, recreation center, and advance refunding of 1998 Bonds	6/02/04	$18,585,000

*$1,300,000 of the $11,000,000 in bonds issued for the Columbus College of Art & Design is taxable

Analysis of Executive Proposal

Higher Educational Facility Commission

Purpose: To administer the program that assists Ohio's independent colleges and universities in acquiring tax exempt financing for the construction of education facilities.

The following table shows the line item that is used to fund the Commission's operations, as well as the executive budget's recommended funding levels.

Fund	ALI	Title	FY 2006	FY 2007
Agency Fund Group				
AGY: 461	372-601	Operating Expenses	$16,819	$16,819
		Agency Fund Group Subtotal	$16,819	$16,819
Total Funding: Higher Educational Facility Commission			**$16,819**	**$16,819**

Program Management

The only program of the Commission is Program Management. For FY 2006 and FY 2007, the executive budget completely funds the budget request made by the Commission, and has recommended $16,819 in each fiscal year, which is at the same level of funding estimated for FY 2005. The appropriations will be used to reimburse the direct expenses incurred by the members of the Commission, including personal travel, parking, lunches, and incidental state fees, as well as reimbursing administrative and staffing costs incurred by the Board of Regents. The Commission members receive no compensation for their services. It is estimated that the expenses will fall under two object classes, with $6,900 in each fiscal year to be used for maintenance, and $9,919 in each fiscal year to be used for personal services.

The table below presents the revenue received and disbursements since FY 2002. It should be noted that in FY 2001 and FY 2002, the amount of fee revenue reported is below the actual amount that should have been assessed. It has been found through an audit performed by the Auditor of State in 2004 that during those years, the 0.02% of principal fee was not collected. The Commission is currently in the process of collecting these fees, and has corrected this problem by automatically including the fee as part of the bond issuing process.

Fee Revenue Collected and Disbursements Made by the HEFC						
	Actual			Estimated		
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Fee Revenue	$13,528	$15,744	$54,553	$16,819	$66,819	$16,819
Disbursements	$9,196	$14,247	$7,633	$33,638	$71,819	$71,819
Difference	**$4,332**	**$1,503**	**$46,920**	**$3,181**	**($5,000)**	**($55,000)**
Fund Balance	***$45,567***	***$47,064***	***$93,984***	***$77,165***	***$72,165***	***$17,165***

The collection of prior fees also explains why the amount of fee revenue increased dramatically in FY 2004. The audit has also recommended that the Board of Regents hire a staff person to manage the administrative duties of the Commission and ensure the timely collection of all Commission-related fees. In order to implement this recommendation, up to $55,000 in each fiscal year will be transferred to the Board of Regents in the FY 2006-2007 biennium, which explains the projected increase in disbursements for FY 2006 and FY 2007.

Temporary and Permanent Law Provisions: The executive budget includes a provision making an exception to the Open Meetings Law by allowing members of the Commission to attend meetings and vote by teleconference, so long as public attendance is allowed at the remote location. Because travel expenses of the Commission members are reimbursed, this provision could lead to a decrease in the Commission's expenditures.

In addition, a provision in the Board of Regents section of the executive budget authorizes a transfer of $55,000 in each fiscal year from the Commission's agency fund (Fund 461) to the HEFC Administration fund (Fund 4E8), which is a state special revenue fund within the Board of Regents. These funds will be used to hire a staff person to manage the administrative duties of the Commission.

REQUESTS NOT FUNDED

The executive proposal completely funds the requests made by the Higher Educational Facility Commission for the FY 2006-2007 biennium.

Agency Fund Group

461 372-601 Operating Expenses

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
$9,196	$9,567	$2,953	$16,819	**$16,819**	**$16,819**
	4.0%	-69.1%	469.6%	**0.0%**	**0.0%**

Source: AGY: Revenues obtained through charges assessed to Ohio's private colleges and universities assisted by the Commission, for the issuance of tax-exempt revenue bonds.

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

Purpose: The funds from this line item are used to reimburse the Ohio Board of Regents for the support it provides for the Higher Educational Facility Commission (HEFC). These include accounting and record keeping, scheduling and coordinating Commission meetings and project applications, and preparing the Commission's annual report. Funds are also used to reimburse the Commission members for their actual expenses related to the Commission's official business.

LSC Budget Spreadsheet by Line Item, FY 2006 - FY 2007

Fund	ALI	ALI Title	2004	Estimated 2005	Executive 2006	% Change 2005 to 2006	Executive 2007	% Change 2006 to 2007
HEF	**Higher Educational Facility Commission, Ohio**							
461	372-601	Operating Expenses	$ 2,953	$16,819	$ 16,819	0.0%	$ 16,819	0.0%
Agency Fund Group Total			**$ 2,953**	**$ 16,819**	**$ 16,819**	**0.0%**	**$ 16,819**	**0.0%**
Total All Budget Fund Groups			***$ 2,953***	***$ 16,819***	***$ 16,819***	***0.0%***	***$ 16,819***	***0.0%***