Higher Educational Facility Commission

Senate Finance and Financial Institutions Committee

Mary Morris, Budget Analyst
Legislative Service Commission

May 9, 2007

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LSC Redbook

for the

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May 9, 2007

Higher Educational Facility Commission

- A continuation budget
- Non-GRF agency; funding is entirely provided by fee revenue
- The Commission issued $294.5 million in tax-exempt bonds in FY 2006 for projects at 13 of Ohio's private institutions

INTRODUCTION

The Legislative Service Commission prepares an analysis of the executive budget proposal for each agency. These analyses are commonly called "Redbooks." This brief introduction is intended to help readers navigate the Redbook for the Higher Educational Facility Commission, which includes the following four sections.

(1) **Overview:** Provides a brief description of the Commission and summarizes the executive budget recommendations for the Commission, including a discussion of the potential impact of issuing loans to nonprofit hospital and health care systems.

(2) **Analysis of the Executive Proposal:** Provides a detailed analysis of the executive budget recommendations for the Commission, including funding and the program supported by the recommended funding.

(3) **Requests Not Funded:** Compares the Commission's budget request with the executive budget recommendations and summarizes the major differences, if any.

(4) **Attachments:** Includes the catalog of budget line items (COBLI) for the Commission, which briefly describes the Commission's line item and the LSC budget spreadsheet for the Commission.

OVERVIEW

Agency Overview

The Higher Educational Facility Commission was established in 1968 to help independent nonprofit colleges and universities obtain construction capital at lower costs than otherwise might be available to them. Sub. H.B. 239 of the 125th General Assembly (effective April 29, 2005) included nonprofit hospitals and health care systems among the entities that are eligible for receiving assistance from the Commission. 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. The members of the Commission are not compensated 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; it is supported entirely by fee revenue.

By issuing tax-exempt bonds, the Commission assists eligible independent nonprofit colleges and universities as well as nonprofit hospitals and health care systems in financing the construction, renovation, and rehabilitation of their educational and medical facilities. Because it is an agency of the state of Ohio, interests paid by the Commission to the bondholders are 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 and hospitals 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 1.5% to 2% per year for colleges and universities and is likely to be more for hospitals and health care systems. The Commission also offers access to lenders that might not otherwise be available to small, independent nonprofit colleges and universities, and allows for 100% financing of projects. In FY 2006, the Commission issued $294.5 million worth of tax-exempt bonds on behalf of 13 different colleges and universities. As of June 30, 2006, the total principal amount of debt outstanding was $2,147.6 million.

The bonds issued by the Commission are held by the state. However, the colleges, universities, or hospitals for which the bonds are issued make all of the principal and interest payments, and the state disclaims any liability in case of default. Default is the responsibility of the entities on whose behalf the bonds are issued. When the Commission approves a capital loan for an eligible entity, it enters into an agreement under which the entity leases the assisted facility from the Commission and pays rent in amounts needed to retire the bonds.

In addition to issuing bonds for projects at individual institutions, the Commission also issues bonds for the financing of smaller capital projects at multiple institutions. This pooling method allows an institution that needs a small loan to save some bond fees. It also enables these small projects to be financed at rates lower than they might otherwise be if each of them had to be financed individually on the bond market.

Funding for the Commission's operations is obtained from fees charged to institutions and hospitals for the issuance of the bonds. Currently, 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 also paid. In no case is the total amount of fees paid for a loan less than $1,000 or greater than $3,000. This fee structure has remained unchanged since 1991 but is likely to change in the near future to accommodate increased workload due to the complexity of hospital and health care system financing.

Although the Commission is a state agency with general administrative powers, it currently operates without a separate staff or permanent offices. Instead it has elected to rely upon bond counsel, paid by the entities for which the bonds are issued, and the day-to-day administrative support of the Board of Regents, including accounting and record keeping, scheduling and coordinating Commission meetings and project applications, and preparing the Commission's annual report. The Commission reimburses the Board of Regents for the costs of these services.

Summary of FYs 2008-2009 Budget Issues

Member Reimbursements and Administrative Support Expenses

The executive budget recommends $16,819 in each fiscal year for the Commission, the same level of funding as FY 2007. These funds will be used to reimburse the actual expenses incurred by the members of the Commission including travel, parking, meals, and some other incidental expenses. As indicated earlier, the Commission members receive no compensation for their services.

The executive budget also allows a transfer of up to $50,000 in FY 2008 and up to $45,000 in FY 2009 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 transferred funds will be used by the Board of Regents to pay for the cost of maintaining one staff person to manage the administrative duties of the Commission. A 2004 audit by the Auditor of State recommended the hiring of such an administrative staff person. Since FY 2006 the Board of Regents has employed a staff person who devotes approximately 50% of daily work to Commission administration.

Revenues and Expenditures of the Commission

The table below presents the Commission's actual revenues and expenditures from FY 2004 to FY 2006 and the estimates for FY 2007 through FY 2009. In FY 2006 the Commission collected more than $40,000 in past due fee payments in addition to the normal annual fee revenue. This is why the revenue for FY 2006 was much higher. The higher expenditures since FY 2006 reflect the Board of Regents' effort to maintain one staff person to manage the Commission's administrative duties. Note that estimates for FY 2008 and FY 2009 revenues and expenditures shown in the table below do not include the effect of potential loans for eligible hospitals and health care systems.

Revenues and Expenditures of the Commission, FY 2004-FY 2009						
	Actual			Estimated		
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008*	FY 2009*
Revenues	$54,553	$22,245	$73,898	$56,819	$56,819	$56,819
Expenditures	$7,633	$14,641	$69,846	$71,819	$66,819	$61,819
Difference	$46,920	$7,604	$4,052	($15,000)	($10,000)	($5,000)
Fund Balance	*$93,984*	*$101,588*	*$105,639*	*$90,639*	*$80,639*	*$75,639*

* Estimates include only estimated revenues and expenditures from college and university loans.

Hospital and Health Care System Loans and Implications for the Commission

In March 2007 the Commission approved and issued its first capital loan on behalf of a nonprofit hospital system, in the amount of $442 million. Section 3377.01 of the Revised Code specifies the types of educational facilities that are eligible for assistance by the Commission, including infirmary, hospital, medical, and health facilities that are used for or in connection with the operations of an eligible college or university. Sub. H.B. 239 of the 125th General Assembly expanded the Commission's lending capacity to include issuing bonds to certain nonprofit hospitals and health care systems that may not be affiliated with an institution of higher education. In late 2006 the Commission began its first bond issuance process with the University Hospitals Health System, a system of 11 hospitals associated with Case Western University's medical school. The Commission recently issued approximately $442 million in bonds for the University Hospitals Health System.

Issuing bonds to hospitals and health care systems could have a significant impact on the Commission's operations. Traditionally hospitals receive bonds from port authorities that generally charge fees higher than those charged by the Commission. The inclusion of nonprofit hospitals and health care systems could amount to significant additions to the Commission's administrative duties. Because these loans tend to be larger and more complex, they may require additional upkeep. The Commission indicates that it may request an additional full-time employee during FY 2008 to accommodate higher workload. The new employee would also be funded through revenues transferred from the Commission's Agency Fund (Fund 461) to BOR's HEFC Administration Fund (Fund 4E8).

The Commission will likely alter the current fee structure to accommodate hospitals' significantly larger financial demands by establishing a tiered fee structure that charges more for loans above certain thresholds (e.g. $2.0 million). The Commission indicates that any new fee structure will continue to enable the Commission to help nonprofit colleges and universities and hospitals with their facilities needs at no cost to the state.

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ANALYSIS OF EXECUTIVE PROPOSAL

Higher Educational Facility Commission

Purpose: To administer the program that assists Ohio's independent nonprofit colleges and universities as well as eligible hospitals and health care systems in acquiring tax exempt financing for their capital improvement needs.

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 2008	FY 2009
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 2008 and FY 2009, the executive budget completely funds the budget request made by the Commission and recommends flat funding in each fiscal year. The appropriations will be used to reimburse the actual expenses incurred by the members of the Commission, including personal travel, parking, lunches, and incidental fees. The Commission usually meets once a month; its members receive no compensation for their services.

As indicated earlier, the executive budget also authorizes a transfer of up to $50,000 in FY 2008 and up to $45,000 in FY 2009 from the Commission to the Board of Regents to pay for the cost of maintaining one staff person to manage the administrative duties of the Commission. The total cost of the Commission's operation for FY 2008 and FY 2009 is currently estimated at $66,819 and $61,819, respectively; however, it may be higher if the number of requests to authorize bonds for hospitals increases.

In FY 2006 the Commission issued $294.5 million worth of new bonds, and received payments on existing bonds amounting to $94.3 million. The table below presents a sample of projects that were financed in FY 2006 with bonds issued by the Commission.

Institution	Type of Project	Issue Date	Original Principal Amount
Ohio Northern	Construction & equipping Affinity Housing Village and a student apartment complex, renovating and improving student residential facilities	8/04/05	$22,530,000
Pool – Ohio Wesleyan, and Walsh	Ohio Wesleyan – upgrading telephone and data communication systems, acquiring real property Walsh – renovating and improving student residential facilities	9/15/05	$10,130,000
Otterbein	New Residence Hall	11/09/05	$13,010,000
Oberlin	Advance refunding of a portion of 1999 Bonds (Series A) Renovation of residence halls (Series B)	12/14/05 01/12/06	$50,115,000 $25,170,000
Wooster	Improvements to Beall Ave. streetscape, improvements to power plant; replacement of steam distribution system, installation of security system and computer management system, upgrading student residences, acquisition of meeting center and guest house	12/28/05	$15,400,000
Antioch	Constructing new campus building, refunding a portion of the 1997 and 2000 Pool bonds	02/22/06	$13,795,000
John Carroll	Advance refunding of 1997 and 1999 Bonds, current refunded 2001B Bonds	03/16/06	$38,790,000
Northwestern Ohio	Construction of motor sports building complex, purchase of land and advanced refunding of 2001 Bonds	04/24/06	$25,000,000
Xavier	Property acquisition and technology initiative, advanced refunding of 1997 bonds	05/04/06	$44,500,000
Pool – Findlay, OCPM, Urbana, and Walsh	Various Findlay – refunded portion of 1996 Bonds	06/29/06	$36,080,000

REQUESTS NOT FUNDED

The executive proposal completely funds the requests made by the Higher Educational Facility Commission for the FY 2008-2009 biennium.

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Agency Fund Group

461 372-601 Operating Expenses

2004	2005	2006	2007 Estimate	2008 House Passed	2009 House Passed
$2,953	$14,641	$14,846	$16,819	**$16,819**	**$16,819**
	395.8%	1.4%	13.3%	**0.0%**	**0.0%**

Source: AGY: Fees received from Ohio's independent non-profit colleges and universities and non-profit hospitals for which the Commission has issued 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. 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 2008 - FY 2009

Fund	ALI	ALI Title	Estimated 2007	As Introduced 2008	House Passed 2008	% Change Est. 2007 to House 2008	As Introduced 2009	House Passed 2009	% Change House 2008 to House 2009
HEF	**Higher Educational Facility Commission, Ohio**								
461	372-601	Operating Expenses	$16,819	$ 16,819	$ 16,819	0.0%	$ 16,819	$ 16,819	0.0%
		Agency Fund Group Total	**$ 16,819**	**$ 16,819**	**$ 16,819**	**0.0%**	**$ 16,819**	**$ 16,819**	**0.0%**
Total All Budget Fund Groups			***$ 16,819***	***$ 16,819***	***$ 16,819***	***0.0%***	***$ 16,819***	***$ 16,819***	***0.0%***