LSC Redbook

Analysis of the Executive Budget Proposal

Ohio Higher Educational Facility Commission

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Ohio Higher Educational Facility Commission

- Non-GRF agency; funding is entirely provided by fee revenue
- Issued $726.1 million in bonds in FY 2008

OVERVIEW

Agency Overview

The Higher Educational Facility Commission (HEFC) was established in 1968 to help independent nonprofit colleges and universities obtain construction capital at lower costs than otherwise might be available to them. In FY 2005, Sub. H.B. 239 of the 125th General Assembly added nonprofit hospitals and health care systems to the entities that are eligible to receive 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, 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 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 potentially even 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 addition to tax-exempt bonds, the Commission sometimes issues taxable bonds for facilities that may have partial private, for-profit use, such as conference spaces or university-operated inns. In FY 2008, the Commission issued $670.9 million in tax-exempt bonds and $55.2 million in taxable bonds on behalf of 13 different colleges and universities, and one hospital system. As of June 30, 2008, the total principal amount of debt outstanding was $2,761.0 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. In addition, the state is not liable in case of default; the entities on whose behalf the bonds are issued are liable. 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 on 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.

Addition of nonprofit hospitals

In February 2007 the Commission approved and issued its first bond on behalf of a nonprofit hospital system in the amount of $442.5 million. This was made possible by Sub. H.B.239 of the 125th General Assembly, which expanded the Commission's lending capacity to include issuing bonds for certain nonprofit hospitals and health care systems. The Commission issued bonds in FY 2007 and FY 2008 for the University Hospitals Health System. The Commission also issued approximately $1,125.0 million for the Cleveland Clinic health system in early FY 2009. Issuing bonds to hospitals and health care systems has not yet had a significant impact on the Commission's operations; however, the Commission indicates that a large influx of applications from hospitals and health systems may lead to additional workload and expenditures.

Commission fees

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 0.01% of the principal is also paid. In no case is the total amount of fees paid for a loan less than $3,000 or greater than $25,000. The fee structure was revised in FY 2008 to accommodate the much larger loans requested by the hospital systems.

Commission administration

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. This administrative support includes 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 cost of these services.

Appropriation Overview

The executive budget recommends $40,000 in each fiscal year for the Commission, an increase of about $23,000 over the adjusted appropriation of about $17,000 in FY 2009. These funds are used to reimburse the actual expenses incurred by the members of the Commission including travel, parking, and some other incidental expenses. According to a spokesperson for the Commission, the additional funds in the upcoming biennium will be used primarily for additional professional development and travel expenses for Commission members. The need for more professional development has arisen due to the increased complexity of the new hospital loans. In FY 2009, the Commission became a member of the National Association of Health and Educational Facilities Finance Authorities. This organization provides professional development opportunities and periodic state and national policy conferences and seminars which Commission members may attend. The Commission also hopes to provide members with periodic seminars updating them on market conditions that may impact the loans they approve. The increase in travel expenses is due to changes in the availability of Board of Regents conference space and a desire to see proposed projects firsthand. Commission members may travel to campuses and hospitals for as many as six of their monthly meetings.

Transfers to Board of Regents

The executive budget also allows a transfer of up to $45,000 in FY 2010 and FY 2011 from the Commission's Agency Fund (Fund 4610) to the HEFC Administration Fund (Fund 4E80). These transferred funds are appropriated to the Board of Regents to pay for the cost of managing the administrative duties of the Commission. The Board of Regents employs one staff person who devotes approximately 25% of daily work to Commission administration. In addition, the Commission pays approximately 5% of one fiscal specialist salary and one administrative assistant salary in order to reimburse the Board of Regents for clerical support.

Revenues and Expenditures of the Commission

The table below presents the Commission's actual revenues and expenditures from FY 2006 to FY 2008 and estimates for FY 2009 through FY 2011. 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 is higher than FY 2007. Higher revenues in FY 2008 are due to the higher fee structure and are estimated to continue into future years. Expenditures include both the appropriations in the Commission's budget and transfers to the Board of Regents. In FY 2008, no funds were transferred to the Board as there was a sufficient balance in Fund 4E80 to pay the Board's expenses related to the Commission without additional transfers in that year. As of February 10, 2009, there had not been a transfer yet for FY 2009. As of that date, Fund 4610, used by the Commission, had a balance of about $179,000 and Fund 4E80, used by the Board, had a balance of about $40,000.

Revenues and Expenditures of the Commission (Fund 4610), FY 2006-FY 2011						
	Actual			Estimated		
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	$73,898	$51,010	$72,770	$75,000	$75,000	$75,000
Expenditures	$69,846	$61,934	$1,535	$61,819	$85,000	$85,000
Difference	$4,052	-$10,924	$71,235	$13,181	-$10,000	-$10,000
Fund Balance	**$105,640**	**$94,716**	**$165,951**	**$179,132**	**$169,132**	**$159,132**

ANALYSIS OF EXECUTIVE PROPOSAL

Governor's Recommended Amounts for the Higher Educational Facility Commission				
Fund		ALI and Name	FY 2010	FY 2011
Agency Fund Group				
4610	372601	Operating Expenses	$40,000	$40,000
		Agency Fund Group Subtotal	***$40,000***	***$40,000***
Total Funding: Higher Educational Facility Commission			**$40,000**	**$40,000**

Commission Expenses (372601)

The executive proposal provides an increase of about $23,000 over the adjusted appropriation in FY 2009 of about $17,000 to reimburse the actual expenses incurred by the members of the Commission, including personal travel, parking, professional development, and incidental fees. The Commission usually meets once a month. Commission members receive no compensation for their services.

As indicated earlier, the executive budget also authorizes a transfer of up to $45,000 in each fiscal year from the Commission to the Board of Regents to pay for the administrative costs of the Commission. The total cost of the Commission's operations for FY 2010 and FY 2011 is currently estimated at $85,000 in each fiscal year.

In FY 2008 the Commission issued $726.1 million worth of new bonds, and received payments on existing bonds amounting to $535.7 million. The table on the following page lists the projects that were financed with bonds issued by the Commission in FY 2008.

Institution	Type of Project	Issue Date	Original Principal Amount
Ohio Dominican	Student Center and other campus improvements; refund of outstanding bonds and bank loan	7/12/2007	$45,095,000
Ohio Christian	New residence hall and leadership center, acquisition of real property, renovation of Moore and Johnson Halls and The Conley Ministry Center	7/16/2007	$8,400,000
Tiffin	Recreation Center, Gillmor Student Center, Craycraft Hall, Huggins Hall, the Main Classroom Building, Franks Hall and Pfeiffer Library; refund of outstanding bonds	8/1/2007	$14,200,000
Otterbein	Purchase and renovation of building for use as residence hall	8/23/2007	$11,270,000
Pool: Walsh, Heidelberg	Various	10/11/2007	$5,100,000
Pool: Malone, Hiram, Franklin	Various	12/20/2007	$43,215,000
Oberlin	New residence hall; renovation of existing residence hall; central heating plant; and Art Museum Green Project	4/18/2008	$40,000,000
Xavier	Refund of outstanding bonds	4/30/2008	$70,855,000*
University Hospitals Health System	Refinancing of bank line of credit; additional costs for 2007 projects; ambulatory clinics in Beachwood, Twinsburg, and Aurora; administrative offices in Shaker Heights; additional facilities at Geauga Medical Center; and renovation of existing facilities in Richmond Heights	5/8/2008	$275,000,000
Case Western Reserve	Refund of outstanding bonds	5/21/2008	$177,990,000
Ohio Northern	Construction of Mathile Center; renovation of Mayer Hall; construction of University Inn; partial renovation of Founders Hall; Affinity Village expansion	6/26/2008	$34,945,000*

*Issuances for Xavier and Ohio Northern included some taxable bonds. HEFC must issue taxable bonds for facilities that may have partial private, for-profit use.

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Agency Fund Group

4610 372601 Operating Expenses

2006	2007	2008	2009	2010 Executive Proposal	2011 Executive Proposal
$14,846	$6,934	$1,535	$16,819	**$40,000**	**$40,000**
	-53.3%	-77.9%	995.9%	**137.8%**	**0.0%**

Source: AGY: Fees received from Ohio's independent non-profit colleges and universities and non-profit hospitals and health care systems 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 mainly used to reimburse Commission members for their actual expenses related to the Commission's official business. Reimbursable expenses include cost of travel, such as mileage, parking, and lodging, and the cost of professional development activities. Funds are also used to pay membership fees for the National Association of Health and Educational Facilities Finance Authorities.

LSC Budget Spreadsheet by Line Item, FY 2010 - FY 2011

Fund	ALI	ALI Title	2008	2009	As Introduced 2010	% Change 2009 to 2010	As Introduced 2011	% Change 2010 to 2011
HEF Ohio Higher Educational Facility Commission								
4610	372601	Operating Expenses	$ 1,535	$ 16,819	$ 40,000	137.8%	$ 40,000	0.0%
Agency Fund Group Total			**$ 1,535**	**$ 16,819**	**$ 40,000**	**137.8%**	**$ 40,000**	**0.0%**
Total All Budget Fund Groups			***$ 1,535***	***$ 16,819***	***$ 40,000***	***137.8%***	***$ 40,000***	***0.0%***