

LSC Redbook

Analysis of the Executive Budget Proposal

Ohio Higher Educational Facility Commission

Mary Turocy, Senior Budget Analyst
Legislative Service Commission

March 2013

TABLE OF CONTENTS

OVERVIEW	1
Agency Overview	1
Commission Fees	2
Commission Administration.....	2
Nonprofit Hospitals.....	2
Appropriation Overview	3
Transfers to Board of Regents	3
Revenues and Expenditures of the Commission.....	3
ANALYSIS OF EXECUTIVE PROPOSAL	4
Commission Expenses (372601)	4

ATTACHMENTS:

- Catalog of Budget Line Items
- Budget Spreadsheet By Line Item

Ohio Higher Educational Facility Commission

- Non-GRF agency; funding is entirely provided by fee revenue
- Issued \$1,108.2 million in bonds in FY 2012

OVERVIEW

Agency Overview

The Higher Educational Facility Commission (HEFC) was established in 1968 to help independent nonprofit colleges and universities obtain construction capital. In 2007, the Commission began issuing bonds on behalf of nonprofit hospitals and health care systems as well. 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 hospitals and institutions of higher education 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 is approximately 2.0% per year. 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 2012, the Commission issued \$932.2 million in tax-exempt bonds on behalf of two colleges and two hospital systems, \$171.0 million in taxable bonds on behalf of the Cleveland Clinic Hospital System, and a \$5.0 million lease for Cedarville University. As of June 30, 2012, the total principal amount of debt outstanding was \$6,008.9 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.

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 (BOR). This administrative support includes accounting and recordkeeping, scheduling and coordinating Commission meetings and project applications, and preparing the Commission's annual report. The Commission reimburses BOR for the cost of these services.

Nonprofit Hospitals

The Commission approved and issued its first bond on behalf of a nonprofit hospital system in FY 2007, in the amount of \$442.5 million. Since then, the Commission issued bonds for the University Hospitals Health System in every year, including \$182.4 million in FY 2012. The Commission also issued approximately \$880.6 million for the Cleveland Clinic Health System in FY 2012. In total, hospital system bonds made up 95.9% of bond funds issued in FY 2012. 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.

Appropriation Overview

The executive budget recommends flat funding of \$12,500 for the Commission in each fiscal year. These funds are used to reimburse the actual expenses incurred by the members of the Commission including travel, parking, and some other incidental expenses. Funds also support the Commission's membership in 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.

Transfers to Board of Regents

The executive budget also allows a transfer of up to \$29,100 in FY 2014 and FY 2015 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 30% 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 2010 to FY 2012 and estimates for FY 2013 through FY 2015. In FY 2010 the Commission saw a large increase in fee revenue. A representative for the Commission indicates that the large number of financings and subsequent revenue increase in FY 2010 was due to an economic and legal climate that was favorable for refinancing bonds. Expenditures include both the appropriations in the Commission's budget and transfers to the Board of Regents. In FY 2012 and FY 2013, the Commission transferred \$21,900 in each year to BOR; the full amount authorized in H.B. 153 of the 129th G.A. As of February 4, 2013, Fund 4610, used by the Commission, had a balance of about \$369,611 and Fund 4E80, used by BOR, had a balance of about \$29,832.

Revenues and Expenditures of the Commission (Fund 4610), FY 2010-FY 2015						
	Actual			Estimated		
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	\$131,041	\$54,553	\$63,120	\$67,000	\$52,000	\$52,000
Expenditures	\$6,586	\$11,064	\$9,196	\$12,500	\$12,500	\$12,500
Transfers out	\$30,000	\$0	\$29,100	\$29,100	\$29,100	\$29,100
Difference	\$94,455	\$43,489	24,824	\$25,400	\$10,400	\$10,400
Fund Balance	\$302,198	\$345,687	\$370,511	\$395,911	\$406,311	\$416,711

ANALYSIS OF EXECUTIVE PROPOSAL

Governor's Recommended Amounts for the Higher Educational Facility Commission				
Fund		ALI and Name	FY 2014	FY 2015
Agency Fund Group				
4610	372601	Operating Expenses	\$12,500	\$12,500
Agency Fund Group Subtotal			\$12,500	\$12,500
Total Funding: Higher Educational Facility Commission			\$12,500	\$12,500

Commission Expenses (372601)

The executive proposal provides flat funding in FY 2014 and FY 2015. These funds will be used 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 and Commission members receive no compensation for their services. Some funds may also be used to support a state audit in FY 2015.

As indicated earlier, the executive budget also authorizes a transfer of up to \$29,100 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 2014 and FY 2015 is currently estimated at \$41,600 in each fiscal year.

In FY 2012, the Commission issued \$1,108.2 million worth of new bonds, and received payments on existing bonds amounting to \$229.0 million. The table on the following page lists the projects that were financed with bonds issued by the Commission in FY 2012.

Institution	Type of Project	Issue Date	Original Principal Amount
Cleveland Clinic Health System	Refund of outstanding bonds	11/02/2011	\$236,825,000
Cleveland Clinic Health System	Refund of outstanding bonds	11/23/2011	\$170,995,000 (taxable)
Cedarville	Health Science Center	12/30/2011	\$5,000,000 (lease)
Cleveland Clinic Health System	Refund of outstanding bonds and various renovation and construction projects	05/09/2012	\$472,820,000
Denison	Refund of outstanding bonds, construction of athletic facility, renovation of residence and dining halls, and improvement of buildings and grounds	05/22/2012	\$31,105,000
Wooster	Refund of outstanding bonds and improving HVAC system and upgrade of campus buildings	05/30/2012	\$9,055,000
University Hospitals Health System	Refund of outstanding bonds	06/21/2012	\$182,380,000

HEF.docx/th

Ohio Higher Educational Facility Commission

Agency Fund Group

4610 372601 Operating Expenses

FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimate	FY 2014 Introduced	FY 2015 Introduced
\$6,586	\$11,064	\$9,196	\$12,500	\$12,500	\$12,500
	68.0%	-16.9%	35.9%	0.0%	0.0%

Source: Agency Fund Group: 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 and to pay for state audits.

FY 2014 - FY 2015 Introduced Appropriation Amounts

All Fund Groups

Line Item Detail by Agency			FY 2012	Estimate FY 2013	Introduced FY 2014	FY 2013 to FY 2014 % Change	Introduced FY 2015	FY 2014 to FY 2015 % Change
Report For Main Operating Appropriations Bill			Version: As Introduced					
HEF Ohio Higher Educational Facility Commission								
4610	372601	Operating Expenses	\$ 9,196	\$ 12,500	\$ 12,500	0.00%	\$ 12,500	0.00%
Agency Fund Group Total			\$ 9,196	\$ 12,500	\$ 12,500	0.00%	\$ 12,500	0.00%
Ohio Higher Educational Facility Commission Total			\$ 9,196	\$ 12,500	\$ 12,500	0.00%	\$ 12,500	0.00%