

LSC Redbook

Analysis of the Executive Budget Proposal

Ohio Higher Educational Facility Commission

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TABLE OF CONTENTS

OVERVIEW	1
Agency Overview	1
Commission Fees	2
Commission Administration.....	2
Nonprofit Hospitals.....	2
Appropriation Overview	3
Transfers to Department of Higher Education.....	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 \$627.8 million in bonds in FY 2013

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 Director of Higher Education,¹ 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. As of June 30, 2013, the total principal amount of debt outstanding was \$6,310.1 million.

¹ The executive proposal renames the Board of Regents as the Department of Higher Education (DHE) and the Chancellor of the Board of Regents as the Director of Higher Education.

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 Department of Higher Education (DHE). 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 DHE for the cost of these services.

Nonprofit Hospitals

The Commission approved and issued its first bond, in the amount of \$442.5 million, on behalf of a nonprofit hospital system in FY 2007. Since then, the Commission has issued bonds for the University Hospitals Health System in every year, including \$120.1 million in FY 2013. The Commission also issued approximately \$306.6 million for the Cleveland Clinic Health System in FY 2013. In total, hospital system bonds made up nearly 68.0% of bond funds issued in FY 2013. According to a Commission spokesperson, issuing bonds to hospitals and health care systems has not had a significant impact on the Commission's operations. Even though hospital bond funded project amounts are generally

significantly higher than those for higher education institutions, the total number of bond issuances for the Commission remains consistent.

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 that Commission members may attend.

Transfers to Department of Higher Education

The executive budget also allows a transfer of up to \$29,100 in FY 2016 and FY 2017 from the Commission's Agency Fund (Fund 4610) to the HEFC Administration Fund (Fund 4E80), used by DHE. These transferred funds are appropriated to DHE to pay for the cost of managing the administrative duties of the Commission. DHE employs one staff person who devotes approximately 35% 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 2012 to FY 2014 and estimates for FY 2015 through FY 2017. In FY 2014, the Commission transferred \$29,100 to DHE; the full amount authorized in H.B. 59 of the 130th General Assembly. As of February 6, 2015, Fund 4610, used by the Commission, had a balance of about \$461,073 and Fund 4E80, used by DHE, had a balance of about \$8,359. According to a Commission representative, DHE will make the FY 2015 transfer request for \$29,100 from Fund 4610 in late February or early March.

	Actual			Estimated		
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	\$63,120	\$89,582	\$52,450	\$55,000	\$55,000	\$55,000
Expenditures	\$9,196	\$14,663	\$11,923	\$12,500	\$12,500	\$12,500
Transfers out	\$29,100	\$29,100	\$29,100	\$29,100	\$29,100	\$29,100
Difference	\$24,824	\$45,819	\$11,427	\$42,500	\$13,400	\$13,400
Fund Balance	\$370,511	\$416,330	\$427,758	\$441,158	\$512,758	\$555,258

ANALYSIS OF EXECUTIVE PROPOSAL

Governor's Recommended Amounts for the Higher Educational Facility Commission				
Fund	ALI and Name		FY 2016	FY 2017
Dedicated Purpose Fund Group				
4610	372601	Operating Expenses	\$12,500	\$12,500
<i>Dedicated Purpose Fund Group Subtotal</i>			\$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 2016 and FY 2017. 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.

As indicated earlier, the executive budget also authorizes a transfer of up to \$29,100 in each fiscal year from the Commission to the Department of Higher Education to pay for the administrative costs of the Commission. The total cost of the Commission's operations for FY 2016 and FY 2017 is currently estimated at \$41,600 in each fiscal year.

In FY 2013, the Commission issued over \$627.8 million worth of new bonds, and received payments on existing bonds amounting to \$282.3 million. The table below lists the projects that were financed with bonds issued by the Commission in FY 2013.

Institution	Type of Project	Issue Date	Original Principal Amount
University Hospitals Health System	Refund of outstanding bonds	09/11/12	\$40,710,000
University Hospitals Health System	Refund of outstanding bonds; Draw-down bond to be used for refund	10/23/12	\$79,360,000
Case Western Reserve University	Refund of outstanding bonds	11/28/12	\$28,345,000
Baldwin Wallace University	Refund of outstanding bonds	11/29/12	\$16,025,000
University of Dayton	Refund of outstanding bonds and various renovation and construction projects	02/12/13	\$57,510,000
Case Western Reserve University	Refund of outstanding bonds and various renovation and construction projects	02/15/13	\$30,000,000
Wooster College	Refund of outstanding bonds	04/09/13	\$5,770,000
Denison University	Refund of outstanding bonds	04/18/13	\$18,145,000
Capital University	Refund bank loan for student apartments	04/26/13	\$3,970,000
Cleveland Clinic Health System	Refund of outstanding bonds	05/29/13	\$306,605,000
Cedarville University	Refund of outstanding bonds and various renovation and construction projects	06/28/13	\$9,850,000
Tiffin University	Refund of outstanding bonds and student residencies	06/28/13	\$31,518,190
TOTAL FY 2013			\$627,808,190

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Ohio Higher Educational Facility Commission

Dedicated Purpose Fund Group

4610 372601 Operating Expenses

FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Introduced	FY 2017 Introduced
\$9,196	\$14,663	\$11,923	\$12,500	\$12,500	\$12,500
	59.5%	-18.7%	4.8%	0.0%	0.0%

Source: Dedicated Purpose 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; Section 287.10 of Am. Sub. H.B. 59 of the 130th G.A. (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.

FY 2016 - FY 2017 Introduced Appropriation Amounts

All Fund Groups

Line Item Detail by Agency

			Estimate	Introduced	FY 2015 to FY 2016	Introduced	FY 2016 to FY 2017	
			FY 2014	FY 2015	FY 2016	FY 2017	% Change	
					% Change		% Change	
Report For Main Operating Appropriations Bill			Version: As Introduced					
HEF Ohio Higher Educational Facility Commission								
4610	372601	Operating Expenses	\$ 11,923	\$ 12,500	\$ 12,500	0.00%	\$ 12,500	0.00%
Dedicated Purpose Fund Group Total			\$ 11,923	\$ 12,500	\$ 12,500	0.00%	\$ 12,500	0.00%
Ohio Higher Educational Facility Commission Total			\$ 11,923	\$ 12,500	\$ 12,500	0.00%	\$ 12,500	0.00%