

# Redbook

## LBO Analysis of Executive Budget Proposal

### Ohio Higher Educational Facility Commission

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# LBO Redbook

## Ohio Higher Educational Facility Commission

### Quick look...

- The Higher Educational Facility Commission (HEFC) assists independent, nonprofit hospitals and institutions of higher education in financing the construction, renovation, or rehabilitation of their educational and medical facilities by issuing tax-exempt bonds at below commercial market rates.
- HEFC's operations are funded through revenue generated from fees charged to eligible hospitals and institutions of higher education for the issuance of bonds; the Commission receives no GRF funding.
- The Commission is comprised of nine members, including the Chancellor of Higher Education, who serves permanently, and eight other members appointed by the Governor for eight-year terms.
  - Commission members are not compensated for their services, but are reimbursed for their actual expenses related to the Commission's official business.
- HEFC is a state agency with general administrative powers. However, it operates without a separate staff or permanent offices. Instead, it relies on bond counsel and the day-to-day administrative support of the Department of Higher Education (DHE) for its operations. HEFC reimburses DHE for the costs of the administrative support.
- The executive budget recommends flat funding of \$12,500 in each fiscal year, amounts that allow HEFC to maintain services over the biennium.
  - Uses of the budget: 59% for supplies and maintenance and 41% for purchased personal services.
- The executive budget transfers up to \$67,600 in each fiscal year from the HEFC Operating Expenses Fund (Fund 4610) to the HEFC Administration Fund (Fund 4E80), used by DHE, to fund the administrative duties performed on behalf of the Commission.

FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate	FY 2024 Introduced	FY 2025 Introduced
<b>Fund 4610 ALI 372601, Operating Expenses</b>					
\$5,939	\$11,443	\$6,634	\$12,500	\$12,500	\$12,500
% change	92.7%	-42.0%	88.4%	0.0%	0.0%

### Analysis of FY 2024-FY 2025 budget proposal

The preceding table shows the Higher Educational Facility Commission's (HEFC's) actual expenditures from Fund 4610 line item 372601, Operating Expenses, for FY 2020 through FY 2022, the appropriation for FY 2023, and the recommended appropriations for FY 2024 and FY 2025. As seen in the table, the executive budget recommends flat funding of \$12,500 each year for line item 372601. These funds are mainly used to pay membership fees for the National

Association of Health and Educational Facilities Finance Authorities, which provides professional development opportunities and periodic state and national policy conferences and seminars that Commission members may attend. Funds are also used to pay state audit costs and reimburse Commission members for their actual expenses related to HEFC's official business, including cost of travel, such as mileage, parking, and lodging, and the cost of professional development activities. The Commission usually meets once a month. Commission members receive no compensation for their services.

Although HEFC is a state agency with general administrative powers, it 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. HEFC reimburses DHE for the cost of these services through transfers from the HEFC Operating Expenses Fund (Fund 4610) to the HEFC Administration Fund (Fund 4E80) used by DHE. The executive budget permits the Director of Budget and Management, upon request of the Chancellor, to transfer cash in an amount up to the amount appropriated from GRF appropriation item 235602, Higher Educational Facility Commission Administration, in each fiscal year to fund DHE's administrative costs on behalf of HEFC. The executive budget's appropriations for line item 235602 are \$67,600 in each fiscal year. The combined appropriations under HEFC and DHE provide a total of \$80,100 in each fiscal year for HEFC operations.

## Fund 4610 revenues and cash balance

HEFC does not receive any GRF funding. The Commission's operations are supported by fees charged to institutions and hospitals for the issuance of bonds. These fees are deposited into Fund 4610. 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 table below presents Fund 4610's actual revenues, expenditures, transfers out, and ending cash balance from FY 2020 to FY 2022 and estimates for FY 2023 through FY 2025. As of February 1, 2023, Fund 4610, used by the Commission, had a balance of about \$612,000 and Fund 4E80, used by DHE, had a balance of about \$31,000.

	Actual			Estimate		
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue	\$75,651	\$53,138	\$98,518	\$50,000	\$50,000	\$70,000
Expenses	\$5,939	\$11,443	\$6,634	\$12,500	\$12,500	\$12,500
Transfers out	\$53,239	\$60,000	\$63,000	\$65,000	\$67,600	\$67,600
Difference	\$16,473	-\$18,305	\$28,884	-\$27,500	-\$30,100	-\$10,100
<b>Fund Balance</b>	<b>\$599,156</b>	<b>\$580,851</b>	<b>\$609,735</b>	<b>\$582,235</b>	<b>\$552,135</b>	<b>\$542,035</b>

## Commission bond issuances

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. 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.

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.

The Commission typically processes eight to 15 bond issues per year. In FY 2022, the Commission issued almost \$983.3 million worth of bonds, and received payments on existing bonds amounting to \$868.1 million. The table below lists the projects that were financed with bonds issued by the Commission in FY 2022. As of June 30, 2022, the total principal amount of debt outstanding was \$6.52 billion.

<b>Institution</b>	<b>Type of Project</b>	<b>Issue Date</b>	<b>Original Principal Amount</b>
University Hospitals Health System	Hospital Facilities and Refunded 2017 Bonds	10/13/2021	\$257,825,000
Cleveland Clinic	Refunded 2012 Bonds	10/5/2021	\$198,280,000
John Carroll University	Various Facilities and Refunded 2018 Bonds	2/3/2022	\$105,555,000
Cleveland Clinic	Hospital Facilities	7/28/2021	\$83,810,000
University Hospitals Health System	Refunded 2012 Bonds	11/10/2021	\$82,605,000
Ashtabula County Medical Center	Hospital Facilities	5/18/2022	\$71,805,000

Table 2. Commission Bond Issuances, FY 2022

Institution	Type of Project	Issue Date	Original Principal Amount
Case Western Reserve University	Refunded 2019 Bonds	12/1/2021	\$35,000,000
Cleveland Institute of Music	Various Facilities	6/8/2022	\$34,875,000
Case Western Reserve University	Refunded 2019 Bonds	12/1/2021	\$28,455,000
Otterbein Homes	Various Facilities and Refunded 2015 Bonds	12/2/2021	\$24,485,000
Otterbein University	Various Facilities and Refunded 2015 and 2017 Bonds	2/15/2022	\$16,185,000
Denison University	Refunded 2012 Bonds	2/10/2022	\$15,475,000
Otterbein University	Refunded 2016 Bonds	2/15/2022	\$10,465,000
Cedarville University	Student Housing Facility	3/25/2022	\$10,000,000
Otterbein Homes	Refunded Bonds	8/19/2021	\$8,520,000
<b>Total FY 2022</b>			<b>\$983,340,000</b>