

Redbook

LBO Analysis of Executive Budget Proposal

Ohio Higher Educational Facility Commission

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March 2019

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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: 52% for supplies and maintenance and 48% for purchased personal services.
- The executive budget transfers up to \$50,000 in FY 2020 and FY 2021 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 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Estimate	FY 2020 Introduced	FY 2021 Introduced
Fund 4610 ALI 372601, Operating Expenses					
\$10,989	\$7,554	\$12,159	\$12,500	\$12,500	\$12,500
% change	-31.3%	61.0%	2.8%	0.0%	0.0%

Analysis of FY 2020-FY 2021 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 2016 through FY 2018, the appropriation for FY 2019, and the recommended appropriations for FY 2020 and FY 2021. As seen in the table, the executive budget recommends flat funding of \$12,500 each year for item 372601. These funds are mainly used to reimburse Commission members for their actual expenses related to HEFC's official business. Reimbursable expenses include cost of travel, such as mileage, parking, and lodging and the cost of professional development

opportunities. Commission members are not compensated for their services. Funds are also used to pay membership fees for 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.

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 transfers of up to \$50,000 in each fiscal year, the same amounts authorized in both FY 2018 and FY 2019, to fund DHE's administrative costs on behalf of HEFC. It also appropriates \$53,239 and \$60,000 in FY 2020 and FY 2021, respectively, from Fund 4E80 line item 235602, Higher Educational Facility Commission Administration, in the DHE budget for the above-mentioned support. The combined appropriations under HEFC and DHE provide a total of \$65,739 in FY 2020 and \$72,500 in FY 2021 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 2016 to FY 2018 and estimates for FY 2019 through FY 2021. As of March 21, 2019, Fund 4610, used by the Commission, had a balance of about \$544,000 and Fund 4E80, used by DHE, had a balance of about \$51,500.

	Actual			Estimate		
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue	\$70,029	\$58,455	\$64,553	\$70,000	\$70,000	\$70,000
Expenses	\$10,989	\$7,554	\$12,159	\$12,500	\$12,500	\$12,500
Transfers out	\$29,100	\$29,100	\$50,000	\$50,000	\$50,000	\$50,000
Difference	\$29,940	\$21,801	\$2,394	\$7,500	\$7,500	\$7,500
Fund Balance	\$504,903	\$526,704	\$529,098	\$536,598	\$544,098	\$551,598

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 six to ten bond issues per year. In FY 2017, the Commission issued over \$441.5 million worth of new bonds, and received payments on existing bonds amounting to \$346.4 million. The table below lists the projects that were financed with bonds issued by the Commission in FY 2017. As of June 30, 2017, the total principal amount of debt outstanding was \$6,100.4 million.

Table 2. Commission Bond Issuances, FY 2017

Institution	Type of Project	Issue Date	Original Principal Amount
Case Western Reserve University	Refunded 2006, 2008A, 2008C, and 2013	11/30/2016	\$166,450,000
Kenyon College	Refunded 2006 Bonds	11/29/2016	\$53,330,000
University Hospitals Health System	Improvement of Hospital Facilities Northeast	03/24/2017	\$50,000,000
Oberlin College	Wellness Facilities and Refunded 2009 Bonds	04/12/2017	\$39,765,000
Denison University	Performing Arts and Other Facilities	05/23/2017	\$27,015,000

Table 2. Commission Bond Issuances, FY 2017

Institution	Type of Project	Issue Date	Original Principal Amount
Xavier University	Alter Hall and Other Improvements	12/15/2016	\$25,000,000
Franciscan University of Steubenville	Refunded 2006 Bonds and Campus Infrastructure	12/15/2016	\$23,000,000
University of Dayton	Refunded 2006 Bonds	09/07/2016	\$20,870,000
Otterbein College	Refunded 2007 and 2008 Series A Bonds	11/09/2016	\$18,325,000
Mount Union College	Refunded 2006 Bonds	02/14/2017	\$12,025,000
Otterbein University	Refunded 2008 Series B Bonds	05/25/2017	\$5,692,000
Total FY 2017			\$441,472,000