OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: H.B. 740 of the 132nd G.A. **Status:** As Introduced

Sponsor: Reps. Arndt and Miller **Local Impact Statement Procedure Required:** No

Subject: To authorize the Treasurer of State to issue revenue obligations of the state for the purpose of making loans to port authorities, community improvement corporations, or community development corporations

State & Local Fiscal Highlights

- The bill creates the Economic Development Bond Bank, to be administered by the Treasurer of State and used for the purpose of making loans to qualifying port authorities, community improvement corporations, and community development corporations through the Treasurer's purchase of their revenue bonds.
- The bill authorizes the Treasurer to issue revenue obligations of the state and use the proceeds of such issuances to make the loans described above. The revenue obligations would be backed by payments from the entities that receive loans; they would not be backed by the full faith and credit of the state.
- The bill creates a new fund, the Economic Development Bond Bank Trust Fund, and other accounts within the fund, which will be in the custody of the Treasurer, but not a part of the state treasury. Money received by the state from issuance of revenue obligations generally would be credited to the Trust Fund. Expenditures from the Trust Fund and accounts would not require appropriations by the General Assembly because the Trust Fund is not created in the state treasury.
- The bill would increase the Treasurer's administrative costs. Such incremental costs may be paid by proceeds from the issuance of revenue obligations if the bond proceedings allow. Such proceeds may be deposited into the Treasurer's Administrative Fund (Fund 6050), which would pay administrative costs of the program.
- The bill would provide an alternative financing option through the Economic Development Bond Bank for certain port authorities, designated community improvement corporations, and community development corporations that would otherwise have difficulty accessing capital to fund their economic development projects. Additionally, certain authorities and corporations could benefit from lower borrowing costs through the Economic Development Bond Bank than their other borrowing options, if the borrowing costs through the Bond Bank are lower than those other options.

Detailed Fiscal Analysis

The bill would establish a state bond bank, the Economic Development Bond Bank, to be administered by the Treasurer of State. The bill allows the Treasurer to issue and sell revenue obligations of the state for the purpose of purchasing revenue bonds of port authorities, designated community improvement corporations, and community development corporations; the revenue obligations may also provide financing costs in connection with the issuance of the revenue obligations.[1] The bill specifies that any port authority established under state law, and community improvement corporations and community development corporations created under state law that meet certain conditions are eligible to participate in the bond bank financing.

The bill specifies that each issue of revenue obligations must be payable solely from the revenues and special funds pledged to that purpose pursuant to the bond proceedings, i.e., the obligations are backed by payments from the loan recipients rather than other state revenues. Holders of the obligations would have no right to the levy or imposition of any tax or excise by the state or any political subdivision of the state for the payment of bond service charges on the obligations. The bill provides that the principal maturity of such obligations must not exceed 45 years. And the bill specifies procedures for the issuing and refunding of revenue obligations authorized by the bill.

The Economic Development Bond Bank Trust Fund

The bill creates a new fund, the Economic Development Bond Bank Trust Fund, which will be in the custody of the Treasurer, but not a part of the state treasury. Money received by the state from the issuance of revenue obligations is to be deposited into the fund in accordance with the applicable bond proceedings. Such money, and all other money received for the purposes of the Trust Fund, would be credited to the Trust Fund without appropriation by the General Assembly. Because the Trust Fund is not part of the state treasury, expenditures from the Trust Fund also would not require appropriations. The bill specifies that any revenues that are provided by the bond proceedings for funding the Treasurer's administrative expenses in connection with the Trust Fund must be deposited into the Treasurer's Administrative Fund (Fund 6050).

The bill also creates the following accounts within the Trust Fund:

1. The Improvements Account, which will be used to deposit net proceeds of obligations issued for the bond bank and to make loans to port authorities, designated community improvement corporations, and community development corporations by purchasing their revenue bonds;
2. The Reserve Account, which will be used to pay interest on and principal of presently outstanding obligations payable from the Trust Fund; and
3. The Bond Service Account, which will be used to pay bond service charges on the obligations issued by the Treasurer.

[1] The bill also allows the Treasurer to issue bond anticipation notes for the purposes of the bill.

Other provisions

The bill allows the Treasurer to adopt reasonable rules in accordance with Chapter 119. of the Revised Code and enter into agreements to secure payment of bond service charges on obligations. Such agreements may include (1) withholding amounts payable by the state to a port authority, designated community improvement corporation, or community development corporation, or (2) directing a department, agency, or instrumentality of the state, or a political subdivision that is a custodian of money payable to such entities to withhold such money.

The bill specifies that revenue obligations issued under the provisions of the bill are lawful investments for banks, savings and loan associations, credit union share guaranty corporations, trust companies, trustees, fiduciaries, insurance companies, trustees or other officers having charge of sinking and bond retirement or other special funds of the state and political subdivisions and taxing districts of the state, the Sinking Fund, the Administrator of Workers' Compensation (subject to the approval of the Workers' Compensation Board), and the five state retirement systems.[2] Obligations are also acceptable as security for the repayment of the deposit of public money. Also, obligations authorized under the bill are exempt from state taxes as provided for in the Ohio Constitution and section 5709.76 of the Revised Code.

Fiscal effect

The bill would increase the Treasurer of State's administrative costs to establish and administer the Economic Development Bond Bank. Some or all of the cost increase may be paid with the proceeds of the issuance of revenue obligations, as the bill permits some of those proceeds to be deposited into the Treasurer's Administrative Fund (Fund 6050). Any increase in the Treasurer's administrative costs would be paid from Fund 6050. The bill does not provide any initial funding related to the establishment of the Bond Bank. LSC staff assume that such funding would be paid from the Treasurer's existing budget.

The establishment of the Economic Development Bond Bank would provide an alternative financing opportunity for certain port authorities, designated community improvement corporations, and community development corporations that would otherwise have difficulty accessing capital to fund their economic development projects. Some of those political subdivisions may be benefited from lower borrowing costs through the Economic Development Bond Bank if the borrowing costs through the Bond Bank are lower than their other borrowing options. Revenue obligations issued by the Treasurer of State under the terms of the bill would presumably allow greater diversification for investors than revenue bonds issued by a single political subdivision,

[2] The five state retirement systems are the State Teachers Retirement System, the Public Employees Retirement System, the School Employees Retirement System, the Ohio Police and Fire Pension Fund, and the State Highway Patrol Retirement System.

so investors may require a lower yield from obligations issued under the Bond Bank program.