



State Representative D.J Swearingen

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**HB 440 – Sponsor Testimony
Financial Institutions Committee**

Chairman Jordan, Vice-Chair Ferguson, Ranking-member Crossman, and members of the Financial Institutions Committee, thank you for allowing me to give testimony on House Bill 440. This piece of legislation that I am sponsoring with Representative White makes changes to aspects of the state treasurer’s investment authority and to the Ag-Link program.

First, it enhances the Ag-LINK deposit program supporting our farming community. The Ohio Treasurer’s Office has been administering the Ag-LINK deposit program for decades. It has provided our farmers with interest rate reductions on new or existing loans. However, Ohio law currently restricts the amount of each loan to \$150,000 per year. Unfortunately, this keeps many from participating. This legislation will eliminate Ag-LINK’s current program caps, ensuring the agriculture community can access lower-cost capital when they need it most. In addition, agricultural co-ops which provide valuable contributions to Ohio’s economy will now be eligible for the program.

Second, this legislation will help hospitals throughout Ohio save money. Many of Ohio’s largest institutions, including major hospital systems, utilize a specific borrowing tool called a Variable Rate Demand Obligation (VRDO). VRDO debt issuance requires a separate entity to agree to purchase the debt if the market yields no investors by; therefore, serving as a “buyer of last resort.” Typically, banks serve in this capacity. However, the Ohio Treasury can step into this role by leveraging its strong liquidity position. This will help Ohio’s hospital systems lower their overall borrowing costs. The proposed bill will allow more Ohio hospital systems and other large entities that utilize VRDO’s to take advantage of this cost-saving opportunity through the Treasurer’s Office.

Third, the Ohio Gains initiative will work to reduce borrowing costs for public universities. Currently, the debt of State Universities in Ohio is viewed as a legitimate investment of the Treasury. The credit rating of our public four-year institutions would automatically be enhanced if they were permitted to leverage their State Share of Instruction (SSI) only when issuing debt to the Treasury. This provides a much more attractive and secure investment for the State of Ohio.

This reform aims to maximize the value of state dollars invested in our universities like never before. It will provide a unique cost-saving program for our four-year universities while also generating returns on the investments of the Treasury.

Ohioans expect their tax dollars to be invested wisely, with strong financial controls. And the Ohio Gains initiative aims to achieve just that. Through this legislation we will be able to keep more of Ohio's investment dollars working for Ohioans – generating higher investment returns while lowering the borrowing costs for our farmers, hospitals and universities.

As previously stated, this legislation will allow Ohio's Agricultural Community to save with interest rate reductions on loans, help our hospitals save more money when using innovative borrowing tools like Variable Rate Demand Obligation (VRDO), and reduce costs for Public Universities through leveraging their State Share of Instruction (SSI) when debt is issued to the State Treasury only. Let's take a look at how Ohioans will benefit from this program when implemented.

Ag-LINK:

This legislation will remove the current Ag-LINK program loan cap of \$150,000 while staying within the Treasury's 12% statutory limit. By lifting this cap and making Ag-LINK consistent with the rest of the linked deposit programs, it will allow for more flexibility by the Treasury and give farmers access to the size of financial loans they need for today's farming.

For example, a farmer will invest on average \$500 per acre in input costs heading into a growing season. As one of my farming colleagues shared, for example, in his county an average grain farm might be 800 to 1000 acres. We're talking \$400,000 right there of input cost investment. And we think used cars are expensive right now with the chip shortage. Consider the price of buying a middle of the road used tractor at \$250,000; or perhaps a new combine is needed. Purchased new, those can run you anywhere from \$250,000 to a few million dollars depending on the farm's needs.

The interest rate reduction available through the Ag-LINK program varies based on the given year's interest rate environment. Last year, the reduction was 1%. In 2007, it was as high as 4%. Let's say that for the 2023 borrowing cycle a farmer borrows \$1,000,000 through the program and is able to save 2% on interest. That would equate to \$20,000 in real interest savings over the one-year life of the borrowing. Larger farms with larger loans will save even more. As one of my local farmers told us, that could be the difference between operating in the red or the black.

Farmers can participate every year if they choose and what they choose to spend it on could be anything from fertilizer, seed, equipment or whatever their operation needs.

Higher Education

Under current law, the debt of Ohio's State Universities is an eligible investment of the Treasury. However, a public four-year institution's credit would automatically be enhanced if it were permitted to leverage its State Share of Instruction (SSI) when debt is issued to the State Treasury only. An interesting note, community colleges are already allowed to use their SSI as a secondary pledge on debt they issue.

The most common credit rating for Ohio's universities is a rating of A. The addition of the SSI pledge has the practical effect of enhancing the university's underlying credit rating to AA. This translates into significant interest savings for our universities.

For example, as of September 2021, a university borrowing \$50 million over 10 years would realize a total savings of \$525,000 by enhancing their credit rating from A → AA. Looking back at September 2020, this same credit rating enhancement would have saved them \$1.4 million. As interest rates rise, the cost savings increase significantly.

Hospitals (VRDO)

Let's look at hospitals next. Several of the state's largest health systems utilize a borrowing tool called a Variable Rate Demand Obligation (VRDO) when financing capital projects. A VRDO requires an entity to act as a "buyer of last resort," agreeing to purchase the debt if the market yields no other options. As Rep. Swearingen noted earlier, typically, large banks serve in this capacity; however, the Ohio Treasury can leverage its strong liquidity position and high credit rating to step into this role on behalf of Ohio's hospital systems.

The Ohio Treasurer piloted this aspect of the program last year with the Cleveland Clinic. To date, this partnership has generated approximately \$100,000 in annual savings for the Clinic. Again, as interest rates rise and the size of the program increases, the savings realized by our participating hospitals will increase.

Whether for our farmers who play such a vital role in our food supply and represent the largest industry in our state, or for our hospitals and universities, these savings will translate into benefits for all Ohioans as we help hold the line on increasing costs.

I would like to thank Treasurer Sprague for partnering with Representative Swearingen and I to bring this legislation forward. Chair Jordan, Vice-Chair Ferguson, Ranking Member Crossman, and members of the Financial Institutions Committee, thank you again for the opportunity to provide sponsor testimony on House Bill 440. We are ready for any questions you may have at this time or suggestions.