



**JOSH MANDEL**  
STATE TREASURER OF OHIO

**Ohio House of Representatives  
State and Local Government Committee  
House Bill 54 Proponent Testimony  
Deputy Treasurer Seth Metcalf  
February 28, 2017**

Chair Anielski, Vice Chair Hambley, Ranking Member Bishoff, and Members of the State and Local Government Committee – good afternoon. It is a pleasure to appear before you. Thank you for the opportunity to testify on behalf of Treasurer Josh Mandel to express his support and to ask for your thoughtful consideration of House Bill 54. This bill would create a state bond bank administered by the office of the Ohio Treasurer of State.

This bill is similar to Amended House Bill 435 from the previous General Assembly. Amended House Bill 435 passed unanimously out the House Financial Institutions, Housing, and Urban Development Committee and subsequently passed the House 95-1. Unfortunately, amended House Bill 435 did not pass the Senate before the General Assembly ended. The difference between HB 435 and HB 54 are two technical changes that were made at the suggestion of the Office of Budget and Management.

A bond bank is a financing vehicle for local governments to borrow money for permanent improvements, with the goal that they could borrow at a lower cost than they could achieve on their own. Rather than directly issuing bonds in the municipal market, a local government obtains a loan from the bond bank secured by a loan agreement. The bond bank, in turn, takes a pool of local government loans and issues bonds to fund those loans. The bill generally requires the Treasurer to create groups for pooled issuances so that similarly rated entities are grouped together. The Treasurer's office will handle the issuance of the bonds, including the preparation of the necessary legal disclosures and the marketing. After the sale is complete, the bond bank then loans the money to the local governments included in those bond proceedings. At that time the local government can utilize the funds for their intended purpose. As the local governments make their periodic payments to repay their loan, the bond bank then uses those funds to make the necessary payments to bondholders until the bonds mature. Under House Bill 54, the bonds must mature within 35 years.

This program is entirely optional for local governments and they are not required to participate. An eligible local government can request a loan for any project that is considered a permanent improvement according to ORC 133.01(CC) which could be, any property, asset, or improvement certified by the fiscal officer that has an estimated life or period of usefulness of five years or more. This includes, but is not limited to, real estate, buildings, personal property, and interests in real estate, buildings, and personal property, equipment, furnishings, site improvements, reconstruction, rehabilitation, renovation, installation, improvement, enlargement, extension of property, or assets. A permanent improvement for parking, highway, road, and street purposes includes resurfacing, but does not include ordinary repairs or maintenance.

The bond bank can potentially provide significant cost savings to local government issuers through reduced interest rates and reduced costs of issuance through economies of scale. In addition to those



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savings, the bond bank can benefit local governments by handling or assisting with post issuance compliance matters. For example, staff overhead, attorney's fees, ongoing post-issuance disclosure required by the Municipal Securities Rulemaking Board, and rating surveillance are all expenses that the bond bank would absorb or reduce to allow local governments to focus on their duties. Additionally, House Bill 54 anticipates the availability of state-payment intercept provisions that could potentially reduce interest costs without obligating the State of Ohio. Ohio's bond bank will also utilize the sophisticated and experienced staff of the Debt Management Department which is involved in the issuance and debt service payment on billions of dollars of obligations.

It is important to note that the state would be issuing revenue obligations to fund the bond bank. Each bond obligation will be paid from the revenue or special funds pledged during the bond proceedings, which are the local government loan repayments. The bond holders will not have the right or ability to levy a tax on the state or local government for the repayment of the obligations. A local government's failure to make timely payments would generally be treated the same if the local government issued the debt directly. Any default would be governed by the Uniform Public Securities Law, Chapter 133 of the Ohio Revised Code, and the bond proceedings for that issuance.

The Treasurer's office is already managing another program aimed at reducing borrowing costs for local governments. The Ohio Market Access Program (OMAP) is a nationally recognized credit enhancement program that is designed to lower borrowing costs on short-term notes that mature in less than one year, issued by certain Ohio local governments. From 2014 to January 2017, OMAP completed 42 deals for over \$240 million of Ohio municipal debt, saving taxpayers over \$1 million in debt service expense.

Additionally, the Treasurer's office offers The State Treasury Asset Reserve of Ohio (STAR Ohio) and STAR Plus as options to local governments. STAR Ohio is an investment fund that allows local governments to invest funds in a highly-rated public investment pool. Since 1995, it has maintained Standard & Poor's highest rating and given local governments greater returns on their invested funds. The STAR Program provides Ohio local governments the ability to invest in high-grade, short-term securities and offers shareholders safety, penalty free liquidity and comparatively higher yields. STAR Plus program is an additional deposit option for cash reserves. STAR Plus offers the security of FDIC insurance, a competitive yield, and next-day liquidity. STAR Plus enables Ohio's local governments to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account.

Thank you for allowing me the opportunity to provide proponent testimony on House Bill 54. I would be happy to answer any questions.