JOSH MANDEL
STATE TREASURER OF OHIO

Ohio House of Representatives
Senate Finance Committee
House Bill 54 Proponent Testimony
Lizz Lewis, Director of Legislative, Policy, and Constituent Affairs
September 12, 2017

Chairman Oelslager, Vice Chair Manning, Ranking Member Skindell, and Members of the Senate Finance 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. The difference between House Bill 435 and House Bill 54 are two technical changes that were made at the suggestion of the Office of Budget and Management. House Bill 54 passed unanimously out of the House State and Local Government Committee and subsequently passed the House 93-1.

A bond bank is a financing vehicle for local governments to borrow money for permanent improvements, with the goal that they could collectively 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 market education. 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.

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 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 other priorities. 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 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 initiative aimed at reducing borrowing costs for local governments. The Ohio Market Access Program (OMAP) is a nationally recognized credit enhancement tool that is designed to lower borrowing costs on short-term notes that mature in less than one year, issued by certain Ohio local governments. To date, OMAP has completed more than 60 deals for over $350 million of Ohio municipal debt, saving taxpayers over $1.6 million in debt service expense.

Several questions were asked by committee members during sponsor testimony and our office provided a memo to the Chairman regarding those questions. I have also included a copy of the memo with my testimony today.

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

TO: **Ohio Senate Finance Committee Chairman, Senator Scott Oelslager**

FROM: **Office of the Ohio Treasurer of State**

DATE: **September 12, 2017**

RE: **House Bill 54 Committee Questions and Answers**

Chairman Oelslager,

Per your request, please see the following questions and answers pertaining to the September 6, 2017 meeting of the Ohio Senate Finance Committee.

1. **Does the borrowing have any limitations for capital projects or can they be used for operational expenses?**

Funds can be used on "permanent improvement projects." Permanent improvements projects are defined as any property, asset, or improvement certified by the fiscal officer, which certification is conclusive, as having 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.

2. **Many other states that have a bond bank have an independent entity that runs the program. Why would the Treasurer's Office administer the program in Ohio?**

The Treasurer's Office has a highly-skilled Debt Management Department that would administer the Bond Bank without the unnecessary and cost-prohibitive step of creating an entirely new government agency.

3. **Would the bond bank be taken into account when looking at the overall State credit rating?**

No. The Bond Bank would be a separate legal entity. Like the Ohio Water Development Authority or Ohio Housing Finance Agency, the Bond Bank would be rated separately and not considered part of the State's overall credit rating.

4. **Should one of the local governments in the pool default, will the state end up being on the hook for a local government?**

Obligations issued by the Bond Bank are revenue bonds and do not carry the "Full Faith and Credit" of the State of Ohio. The State is not pledging any resources towards the repayment of Bond Bank obligations and would not be on the hook for a local government default. Bondholders would only have a claim against the revenue the Bond Bank has collected from the local governments in connection with those specific bonds.

5. **Is there a mandatory requirement for bond insurance?**

No. Bond insurance, like any other form of credit enhancement, would be analyzed and considered on a deal-by-deal basis. Because the Bond Bank would be an available vehicle for a wide range of local governments, a one-size-fits-all approach pre-determining the use of bond insurance may not be in the best interest of local governments participating in the Bond Bank.

6. **A provision of the bill allows the Treasurer's Office to write rules to charge administrative costs to participants in the Bond Bank. Are there limits to how much can be charged?**

Per Section 158.02 (B) of the bill, the Bond Bank could charge fees to recover any administrative costs. Any fees would be included in the bond proceedings and agreed to by the Bond Bank and local government.

7. **What vehicle or mechanism does the Treasurer's Office have currently to help local governments make loans and borrow money?**

The Treasurer's Office currently helps Ohio local governments decrease their borrowing costs through the Ohio Market Access Program (OMAP). Through OMAP, local governments can apply to have the Treasurer's Office enhance their short-term notes (one year or less). If approved, the Treasurer's Office enters into a standby note purchase agreement with the local government, whereby the State agrees to purchase the note at maturity in the event that the local government cannot either refinance or retire the note. This enhancement by the State allows local governments to borrow at lower rates and generate interest from large national investors who might otherwise not purchase the local government's debt. To date, through OMAP, the State has enhance more than 60 local government borrowers totaling more than $350 million, generating more than $1.6 million in interest cost savings for Ohio local governments.

The Treasurer's Office also administers STAR Ohio and STAR Plus – two innovative investment options for local governments. STAR Ohio is an investment fund that allows government subdivisions—from municipalities to school districts—to invest funds in a highly rated public investment pool. Since 1995, it has maintained Standard & Poor's highest rating and given government subdivisions greater returns on their invested funds.

STAR Plus is an additional deposit option for cash reserves. STAR Plus offers security, competitive yield and weekly liquidity. STAR Plus enables Ohio's political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account.