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OHIO TREASURER

Senate Financial Institutions and Technology Committee

Proponent Testimony for Senate Bill 241

Ohio Treasurer Robert Sprague

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Chairman Wilson, Vice-Chair Hottinger, Ranking Member Maharath, and members of the committee, thank you for allowing me to testify today in support of S.B. 241.

In the Treasurer's office, we pride ourselves on being trusted stewards and wise investors of our public dollars. But to make good on that promise, we must continuously look for new and innovative ways to strengthen our investments and secure a more prosperous future for the state. The Ohio Gains initiative – as outlined in S.B. 241 – aims to do just that by putting the state's balance sheet to work for Ohioans and our institutions.

The goals of the legislation are threefold. First, the bill would bring much-needed updates to Ag-LINK – a program that has a long history of supporting our farmers and agriculture community. Second, the bill includes provisions to allow our office to leverage the Treasury's strong liquidity position to reduce borrowing costs for several Ohio hospital systems. And finally, the proposal presents a new and innovative way to reduce borrowing costs for Ohio's public universities while generating a meaningful return on investment for the State of Ohio.

Ag-LINK

For more than three decades, the Treasurer's office has helped farmers and agribusinesses to lower borrowing costs through the administration of the Ag-LINK linked deposit program. Linked deposits are an investment tool used by office. Under this particular model, we place a certificate of deposit (CD) at a qualifying financial institution at a below-market rate. This is currently done on the condition that the reduction in the interest earned on the CD due to the below-market rate is passed onto the borrower in the form of an interest rate reduction.

Our proposal to modernize Ag-LINK through the Ohio Gains initiative is a direct result of the feedback we have received from farmers and lenders who interface with the program. Ag-LINK is our most popular linked deposit program, however, current law caps the individual loan amount at \$150,000. Too often this has deterred farmers and agribusinesses from using the program, especially as costs have risen over the years.

We are proposing to eliminate the loan cap and to allow the Treasurer's office to determine individual loan amounts consistent with the needs of the market. Additionally, the bill would eliminate an overall programmatic cap, bringing Ag-LINK into uniformity with the rest of the office's linked deposit programs, which are all subject to a total cap of 12% of the Treasury. Lastly, we are proposing to add agricultural co-ops as an eligible Ag-LINK borrower.

Reducing costs for Ohio hospitals

The second proposal in the bill focuses on Ohio's hospitals.

A Variable Rate Demand Obligation (or "VRDO" for short) is a debt instrument commonly used by large, highly rated institutions – including some of Ohio's largest hospital systems and the State of Ohio itself. VRDOs are often used by these organizations to finance capital projects. Using a VRDO for debt issuance requires an entity to act as a liquidity provider or "buyer of last resort," effectively agreeing to purchase the debt if the market yields no investors. By leveraging our strong liquidity position, the treasury can step into this role on behalf of Ohio's hospital systems and consequently help to lower their overall borrowing costs.

Last year, our office entered such a partnership with the Cleveland Clinic because the debt issued by the Clinic already qualified as an eligible investment of the treasury. The Clinic has witnessed savings first hand-and has deemed the partnership a success. The Cleveland Clinic has come out in support of our proposal to expand this model to other qualifying hospital systems that utilize VRDOs.

It's worth noting that for the past twenty years, the State of Ohio has issued VRDOs and the Treasurer's office has played the role of a liquidity provider for this debt. So, we are well-experienced and very familiar with this type of debt structure, and are well-positioned to partner with more entities in this fashion.

Lowering borrowing costs for our public universities

The third and final component of the legislation involves Ohio's public four-year universities. Under current law, the debt of state universities is an eligible investment for the Ohio Treasury. However, we have identified a new way to bolster such an investment – making it a more beneficial and attractive agreement for all parties involved.

We are proposing that public four-year institutions should be able to leverage their State Share of Instruction (SSI) when issuing debt to the Ohio Treasury only. Doing so would not only be safe for both the Treasury and the university, but it would automatically provide a participating university with a significant credit enhancement and result in a more attractive and secure investment for the State of Ohio.

This new option will maximize the value of state funds like never before and provide public universities with another tool to consider when making wise investment decisions for their instituton.

We are confident that the three proposals presented in this legislation will significantly modernize and enhance our investment strategies in a safe and effective way. Moreover, the reforms before you will play a critical role in strengthening our state's financial foundation for the years ahead.

Chairman Wilson and members of the committee, thank you again for allowing me to testify in support of this important legislation. I would be happy to answer any questions at this time.