



Ohio Legislative Service Commission

Ruhaiza Ridzwan

Fiscal Note & Local Impact Statement

Bill: H.B. 435 of the 131st G.A. (LSC 131 1974-2) **Date:** February 23, 2016
Status: In House Financial Institutions, Housing, and Urban Development **Sponsor:** Rep. McClain

Local Impact Statement Procedure Required: No

Contents: To authorize the Treasurer of State to issue revenue obligations of the state for the purpose of making loans to qualifying public entities for their acquisition of permanent improvements through the Treasurer of State's purchase of public obligations of those qualifying entities

State Fiscal Highlights

- The bill establishes the State Bond Bank, which will be administered by the Treasurer of State. The bill authorizes the Treasurer to issue revenue bonds, the proceeds of which are to be used to purchase bonds issued by qualifying entities. Qualifying entities generally include the state itself and political subdivisions.
- The bill provides that any portion of revenues that is, by the bond proceedings, directed to be used to pay for administrative costs must be deposited into the Treasurer's Administrative Fund (Fund 6050). Thus, the Treasurer's administrative costs related to the requirements under this bill would be paid from Fund 6050. The bill does not provide any initial funding related to the establishment of the Bank; an official with the Treasurer's Office reports that any initial costs would be minimal and would be paid from the Treasurer's existing budget.
- The bill creates a new fund, the State Bond Bank Trust Fund, and new accounts within the fund. All funds, accounts, and subaccounts related to the State Bond Bank will be in the custody of the Treasurer of State, but not a part of the state treasury; because the funds will not be in the state treasury, expenditures from them would not require appropriations by the General Assembly.
- The bill specifies that all moneys received by the state and required by the applicable bond proceedings to be deposited in the State Bond Bank Trust Fund and all other moneys transferred or allocated to or received for the purposes of the fund, must be deposited with the Treasurer and credited to the fund, subject to applicable provisions of the bond proceedings. The bill also specifies limitations and uses of moneys in the accounts.

Local Fiscal Highlights

- The establishment of the State Bond Bank would provide an alternative financing opportunity for certain political subdivisions. Some political subdivisions may be benefited from borrowing through the State Bond Bank, if the borrowing costs through the State Bond Bank are lower than their other borrowing options.
-

Detailed Fiscal Analysis

The State Bond Bank

The bill establishes a state bond bank, the State Bond Bank, within the Office of the State Treasurer and requires the Treasurer to administer the Bank. The bill creates a new fund, the State Bond Bank Trust Fund, including all funds, accounts, and subaccounts within the fund. The bill also authorizes the Treasurer of State to issue and sell revenue obligations of the state for the purpose of paying costs of acquisition of public obligations of qualifying entities and financing costs in connection with the issuance of such revenue obligations. The bill specifies procedures for the refunding of revenue obligations, and authorizes the Treasurer to issue bond anticipation notes to further the purpose of this bill.

The bill specifies that each issue of obligations (i.e., revenue bonds) under the bill must be authorized by an order of the Treasurer. The bill specifies certain requirements regarding bond proceedings related to obligations issued under this bill, including the maximum maturity of such obligations. The bill specifies that each issue of obligations must be payable solely from the revenues and special funds pledged to that purpose pursuant to the bond proceedings. As revenue bonds, not general obligation bonds, bondholders who purchase obligations permitted by the bill 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 allows the Treasurer to adopt reasonable rules and enter into agreements to secure payment of bond service charges. The bill defines a "qualifying entity" as a "public issuer" as defined in section 133.01 of the Revised Code (section 133.01 is not in the bill). That section defines public issuers as any of the following that is authorized by law to issue securities or enter into public obligations: (1) the state, including an agency, commission, officer, institution, board, authority, or other instrumentality of the state, (2) a taxing authority, subdivision, district, or other local public or governmental entity, and any combination or consortium, or public division, district, commission, authority, department, board, officer, or institution, thereof, or (3) any other body corporate and politic, or other public entity.

State Bond Bank Trust Fund

The State Bond Bank Trust Fund will be in the custody of the Treasurer, but not a part of the state treasury. Because the fund would not be in the state treasury, expenditures would not require appropriations of the General Assembly. The bill generally provides that proceeds of the bonds issued be deposited in the fund, subject to applicable provisions of the bond proceedings. The bill specifies that any portion of the revenues that are, by the bond proceedings, directed to be used to pay for administrative expenses of the Treasurer must be deposited into the Treasurer's Administrative Fund (Fund 6050).

The bill creates the Improvements Account, the Reserve Account, and the Bond Service Account within the fund. Net proceeds of obligations issued under the bill must be deposited into the Improvements Account, unless the bond proceedings specify otherwise, and disbursed for the purpose of making loans to qualifying entities for the acquisition of permanent improvements and the payment of financing costs. The loans must be made through the Treasurer's purchase of public obligations of such qualifying entities. The Reserve Account will consist of all moneys appropriated by the state for the purpose of the Reserve Account, and the proceeds of obligations required to be deposited into the Reserve Account by terms of the bond proceedings or any order of the Treasurer.¹ The bill provides that moneys in the Reserve Account must be held and applied solely to the payment of the interest on and principal of presently outstanding obligations payable from the trust fund as they become due and payable and for the retirement of obligations. The bill specifies that the Bond Service Account must be used to pledge the payment of bond service charges on the obligations issued under the bill to the extent provided in the applicable bond proceedings. Payments of bond service charges must be made or provided for by the Treasurer in accordance with the bond proceedings without necessity for any act of appropriation.

Other provisions

The bill specifies that obligations issued under this bill are lawful investments for the following persons and entities: (1) banks, (2) savings and loan associations, (3) credit union share guaranty corporations, (4) trust companies, (5) trustees, (6) fiduciaries, (7) insurance companies, (8) trustees or other officers having charge of sinking and bond retirement or other special funds of Ohio and political subdivisions and taxing districts of Ohio, (9) the Sinking Fund, (10) the Administrator of Workers' Compensation subject to the approval of the Workers' Compensation Board, and (11) the four state retirement systems.² The exemptions from taxation under continuing law, including under the Ohio Constitution, apply to the obligations.

¹ Any other funds that the Treasurer determines to deposit into such Account must also be deposited into the Reserve Account.

² Specifically, the State Teachers Retirement System, the Public Employees Retirement System, the School Employees Retirement System, and the Ohio Police and Fire Pension Fund.

Fiscal effect

The bill would increase the Treasurer of State's administrative costs to establish and administer the State Bond Bank, but provides that any portion of the revenues that is, by the bond proceedings, directed to be used to pay for such administrative expenses 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 Bank. An official with the Treasurer's Office reports that any initial costs would be minimal, and would be paid from the Treasurer's existing budget.

The establishment of the State Bond Bank would provide an alternative financing opportunity for certain political subdivisions. Some political subdivisions may be benefited from borrowing through the State Bond Bank, if the borrowing costs through the State Bond Bank are lower than their other borrowing options.

Synopsis of Fiscal Effect Changes

The substitute bill (LSC 131 1974-2) modifies language related to the rules the Treasurer's Office is permitted to issue, and requires the Treasurer to create groups for the pooled issuances authorized by the bill. The bill specifies that upon the sale and delivery of a public obligation to the State Bond Bank, the qualified entity is considered to have agreed to waive all defenses to nonpayment for failure to pay interest or principal on the public obligation owned, held by, or arising from an agreement with the State Bond Bank. The fiscal effects remain unchanged under the substitute bill.