



DRAFT: 9-17-13

STATE AUDIT COMMITTEE PRESENTATION

September 23, 2013



OBM



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I. State Debt Overview



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State Debt Authorizations

- The incurrence or assumption of debt by the State without a popular vote is, with limited exceptions, prohibited by the Ohio Constitution.
 - Article VIII Section 3 provides that “except for debt above specified in sections one and two of this article, no debt whatever shall hereafter be created by or on behalf of the state.”
 - There are recognized exceptions for self-supporting revenue bonds (e.g., Ohio Turnpike).
- By 19 constitutional amendments to Article VIII Section 2, Ohio voters have authorized the incurrence of state general obligation (G.O.) debt and the pledge of taxes to its payment.
 - G.O. debt is currently authorized for the following 10 purposes: K-12 school facilities, higher education school facilities, local infrastructure, highways, natural resources, conservation, coal development, third frontier R&D, site development, and veterans compensation.
- State special obligation debt, the payment of which does not carry the pledge of taxes, is authorized for certain purposes (like housing branches and agencies of state government) under Section 2i.
- Debt for programs related to economic development, such as the former private business loan programs that enabled investment in facilities and equipment that were backed by net liquor profits, are authorized under Section 13.



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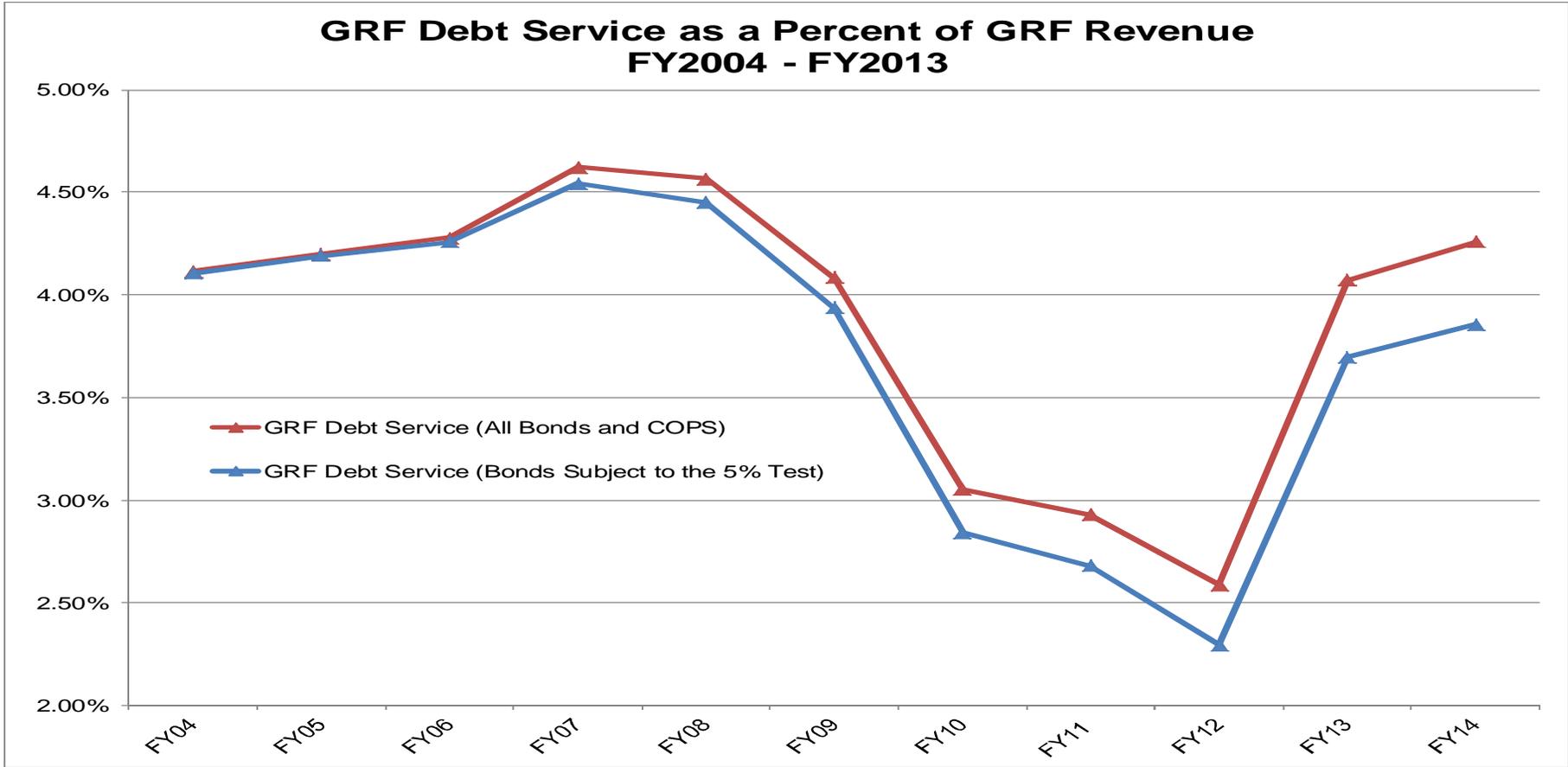
State Debt Limitations

- Many of the Constitutional debt authorizations contain specific limitations on the amount of debt for the purpose that can be issued or outstanding.
 - The recent renewal for local infrastructure projects (Section 2p) authorized a total of \$1.35 billion in debt over ten fiscal years, with no more than \$120 million in each of the first five fiscal years and no more than \$150 million over the next five fiscal years.
 - For conservation project debt, no more than \$50 million may be issued in a fiscal year and no more than \$400 million may be outstanding at any one time.
- A few of the debt authorizations do not set limitations on the amount that may be issued or outstanding and, thus, essentially leave that control to the General Assembly.
- The 5% Constitutional Debt Service Limitation (Article VIII Section 17) prohibits the issuance of new debt obligations if the debt service for any future fiscal year on the new and then outstanding debt would exceed 5% of the estimated current year total of GRF revenue plus net State lottery proceeds.
 - The '5% Test' as it is commonly known applies to all GRF backed debt with the notable exceptions of obligations for Third Frontier R&D, Site Development, and Veterans Bonus that were expressly excluded from the 5% Test under their Constitutional authorizations.



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GRF Debt Service Percent of GRF Revenue and Net Lottery Profit



5% Debt Service Certification



CONSTITUTION ARTICLE VIII, SECTION 17 DETERMINATION AND CERTIFICATION BY GOVERNOR'S DESIGNEE

I, as Director of the Office of Budget and Management (OBM), have been designated by the Governor as his designee for the purpose of making the determinations and certifications stated below; all as contemplated and required by Section 17 of Article VIII of the Ohio Constitution and Section 126.16 of the Ohio Revised Code.

This Determination and Certification is made in connection with the following direct obligation (the New Issue) of the State of Ohio dated, issued and delivered as of May 2, 2013:

\$10,000,000 Higher Education G.O. Bonds, Series 2013B

I determine and certify as follows:

1. The following categories of outstanding bonds constitute direct obligations of the State (the Outstanding Obligations), as defined in division (E) of Section 17 of Article VIII of the Ohio Constitution. The annual Fiscal Year debt service on the Outstanding Obligations and debt service on the New Issue is included in the computations below.

General Obligations: Infrastructure Improvement Bonds
Natural Resources Capital Facilities Bonds
Coal Development Bonds
Common Schools Capital Facilities Bonds
Higher Education Capital Facilities Bonds
Conservation Projects Bonds

Special Obligations: Higher Education Capital Facilities Bonds
Capital Facilities Lease-Appropriation Bonds (Departments of Rehabilitation and Correction, Youth Services, Administrative Services, Mental Health Facilities, Parks and Recreation Facilities and Cultural and Sports Facilities)

There are no other direct obligations of the State, as defined in that Section 17, the debt service on which is anticipated to be paid from the General Revenue Fund or net State lottery proceeds. There are no outstanding bond anticipation notes anticipating bonds that would be such direct obligations of the State.

2. The following table sets forth the amounts required to be applied in each State Fiscal Year for payment of debt service (principal and interest and other accreted amounts) on the Outstanding Obligations and the New Issue. The highest future Fiscal Year debt service amount is \$1,132,975,393 in Fiscal Year 2014 (the Highest Future Debt Service).

DEBT SERVICE REQUIREMENTS ON DIRECT OBLIGATIONS OF THE STATE

Fiscal Year	Outstanding Obligations(a)	New Issue	Net Fiscal Year Debt Service
2013	\$1,123,049,554	-0-	\$1,123,049,554
2014	1,131,813,804	\$1,161,588	1,132,975,393
2015	1,112,106,064	1,147,950	1,113,254,014
2016	1,064,007,259	1,128,650	1,065,135,909
2017	1,000,821,663	1,114,350	1,001,936,013
2018	946,404,770	1,104,950	947,509,720
2019	901,349,554	1,100,350	902,449,904
2020	853,394,103	1,093,450	854,487,553
2021	812,918,002	1,095,250	814,013,252
2022	746,123,054	1,094,650	747,217,704
2023	662,485,614	1,098,650	663,584,264
2024	524,389,996	1,161,588	524,389,996
2025	438,296,718	1,147,950	438,296,718
2026	297,119,206	1,128,650	297,119,206
2027	216,656,734	-0-	216,656,734
2028	183,219,018	-0-	183,219,018
2029	173,571,655	-0-	173,571,655
2030	146,466,825	-0-	146,466,825
2031	143,017,093	-0-	143,017,093
2032	89,568,138	-0-	89,568,138
2033	10,816,000	-0-	10,816,000

- (a) For purposes of this certification, conservative assumptions have been made with respect to debt service relating to various Adjustable Rate Bonds and Interest Hedge Agreements whose imputed interest rates range from 3.00% to 4.63%.
3. Based on the latest official OBM estimate, the total estimated revenues of the State for the General Revenue Fund and from net State lottery proceeds during the current Fiscal Year are \$29,214,350,000 and \$680,500,000 respectively, aggregating \$29,894,850,000 (the Total Estimated Revenues).
4. The Highest Future Debt Service (from paragraph 2 above) represents 3.79% of the Total Estimated Revenues (from paragraph 3 above). The Highest Future Debt Service does not exceed 5% of the Total Estimated Revenues.
5. The permitted latest maturity for the New Issue is December 31, 2038, determined for each pursuant to Section 2n of Article VIII, Ohio Constitution.
6. In my judgment, no other financial data is necessary or appropriate to be determined or certified for the purposes of the computations referred to in this Determination and Certification under division (A) of Section 17 of Article VIII of the Ohio Constitution.

Signed copies of this Determination and Certification shall be filed with the Director of Budget and Management and the Ohio Public Facilities Commission (the issuing authority) at or prior to the time the New Issue is initially issued and delivered to the original purchaser.

Date of Signing: May 2, 2013

Timothy S. Keen
Director of Budget and Management



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II. OBM Debt Management Responsibilities



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OBM Responsible for State Debt Management

- ORC Section 126.11 sets forth OBM's responsibilities with respect to managing existing state debt and proposed issuances of new state debt.
 - Review and approve bond issuances backed by state revenue, including the amount, security, source of payment, structure and maturity schedule.
 - Develop and distribute a coordinated bond sale schedule. The bond sale schedule is published at least monthly and includes projected sales for: i) Ohio Public Facilities Commission; ii) Treasurer of State; iii) Ohio Housing Finance Agency; iv) Ohio Water Development Authority; and v) Ohio Turnpike and Infrastructure Commission.
 - OBM designated as the provider of official historic or current information on the State's demographic, economic, financial/budget and debt information to the financial markets (credit rating agencies, credit enhancement providers, investors, etc.).
 - OBM designated as responsible for compliance with continuing disclosure agreements required pursuant to SEC regulations (SEC Rule 15c2-12).
- OBM also works with state bond issuers to coordinate post-bond issuance compliance with federal tax law primarily through education of policy makers and agency capital program administrators.



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Bond Sale Schedule

- Following required review, OBM places approved bond issuances on the state's coordinated bond sale schedule.
- The bond sale schedule is updated at least monthly and published on the first business day of each month.



Office of Budget and Management
John R. Kasich, Governor | Timothy S. Keen, Director

September 3, 2013

MEMORANDUM

TO: Rick Hodges, Ohio Turnpike and Infrastructure Commission (OTIC)
Douglas Garver, Ohio Housing Financing Agency (OHFA)
Steve Grossman, Ohio Water Development Authority (OWDA)
Timothy S. Keen, Ohio Public Facilities Commission (OPFC)
Josh Mandel, Treasurer of State (TOS)
Starr Richmond, Petroleum Underground Storage Tank Release Compensation Board (PUST)
Todd Nein, Ohio Air Quality Development Authority (OAQDA)

FROM: Kurt Kaufman, OBM Debt Manager

SUBJECT: Bond Sale Schedule – September 2013

Pursuant to Section 126.11 of the Revised Code, OBM is required to coordinate the scheduling of initial sales of publicly offered securities of the state. State issuers of public obligations are required to submit projections of the sale dates, amounts, maturity schedules, and certain other information for each obligation proposed to be sold, and OBM is charged with developing and distributing a coordinated bond sale schedule. The following table provides the current coordinated bond sale schedule:

Sale Date	Issuer	Purpose and Security	Par Amount	First Principal	Sale Method
Sep 17, 2013	OPFC	Common Schools G.O.	\$300,000,000	Jun 15, 2014	Competitive
		Third Frontier R.&D Taxable G.O.	\$100,000,000	Nov 1, 2014	
Nov 2013	OPFC	Conservation G.O.	\$50,000,000	Mar 1, 2014	Competitive
		Site Development G.O.	\$35,000,000	May 1, 2014	
		Veterans' Compensation G.O.	\$12,000,000	Apr 1, 2014	
Jan 2014	OPFC	Infrastructure G.O.	\$150,000,000	Feb 1, 2015	t.b.d.
Feb-Mar 2014	TOS	Mental Health Facilities	\$30,000,000	Feb 1, 2015	Negotiated
Feb-Mar 2014	OWDA	WPCLF Water Quality	\$350,000,000	Jun 1, 2014	Negotiated

On or before the end of September 2013, please provide the above information for any bond sale you have planned through May 2014 (if accurate information for the sale is not already provided above). I can be reached via e-mail at kurt.kaufman@obm.state.oh.us or by phone at 466-0691. Please note that the web site address for the State's coordinated bond sale schedule is: <http://obm.ohio.gov/sectionpages/bondidebt/BondSaleSchedule.aspx>.

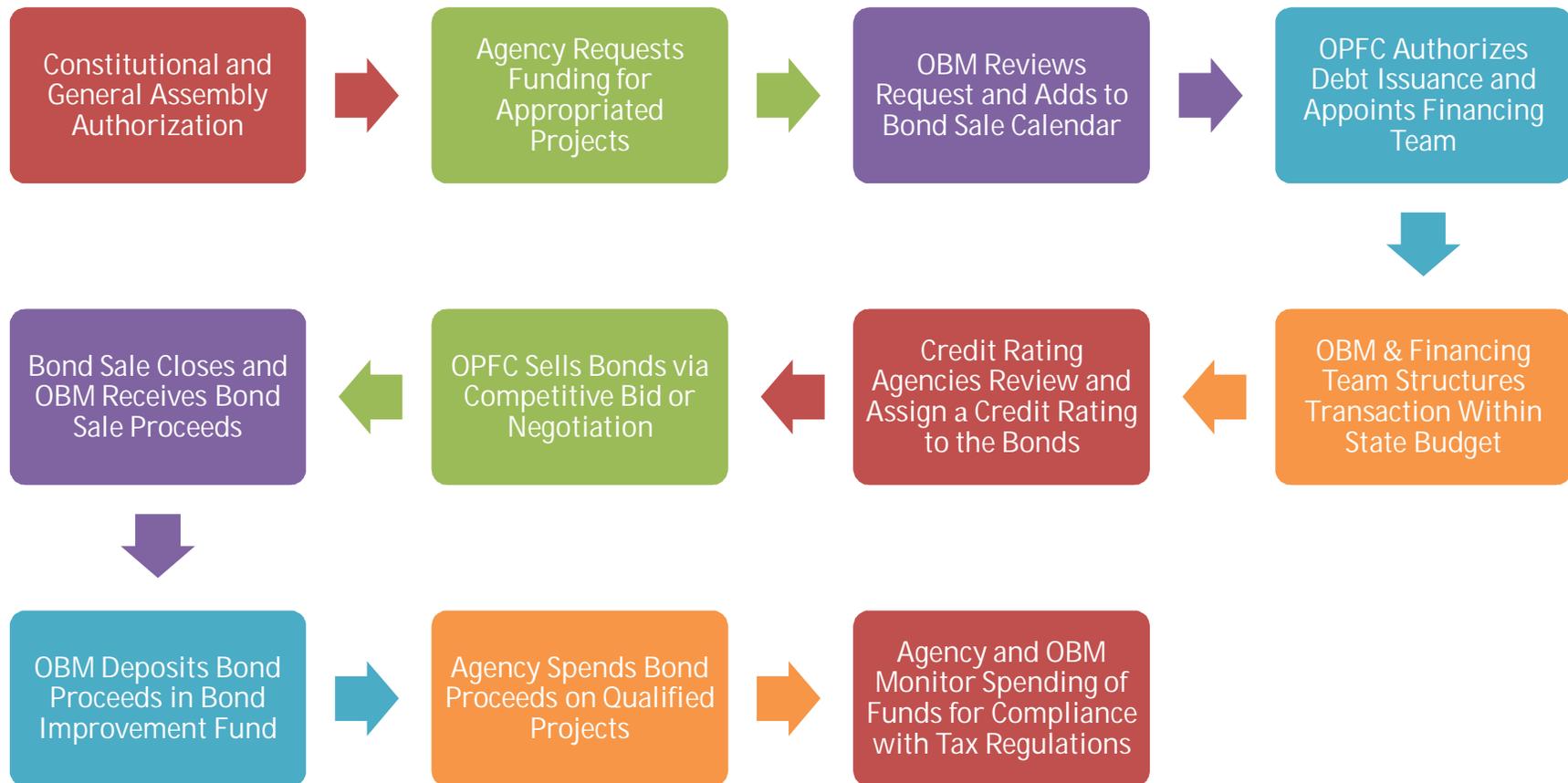
Cc: Wesley Ashby, DSA | Dawn Catterdam, BOR | Brenda Rinehart, AGO
Scott Bogrenzka, SOS | Michael Grodzins, GOV | Martin Ssekely, OTC
Adam Burns, DSA | Erin Jackson, OHFA | Veronica Sherman, SOS
Scott Campbell, OWDA | Tom Johnson, DNR | Wayne Struble, GOV
David Cannon, BOR | Matt Markey, OPWC | Gary Taylor, AGO
Jana Cassidy, ODOT | Mary Metz, AGO | Dana Wasserman, TOS
John Cunningham, DSA | Seth Metcalf, TOS | Don West, OHFA
Norm Chagnon, DSA | Kim Marmiska, AGO | Rich Winning, ODOT
Kim Eckhart, OAQDA | Mark Prater, ODOT

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OPFC G.O. Bond Issuance Process



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OPFC Bond Issuance Process Oversight

- Prior to issuing bonds, the OPFC approves a Series Resolution confirming the legal authority and setting forth general terms and conditions of the bond sale.
- Early in the process, the use of bond proceeds is vetted with bond and tax counsel with the agency program manager to ensure compliance with State law and federal tax law.
- In connection with each bond issuance, bond counsel and issuer's counsel issue opinions regarding the legality of the debt obligations.
- OPFC is annually subject to an agreed-upon procedures audit which tests compliance with debt issuance procedures.
- As part of the audit of the State's CAFR, the Auditor of State applies audit procedures to debt issuances and debt payments.



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Post Issuance Compliance

- Post Issuance Compliance can be separated into three distinct areas.
- Federal tax law enforced by the IRS imposes two independent requirements:
 - Qualified use of tax-exempt bond proceeds and bond funded facilities (OBM, Bond Issuer, and Capital Program Managers).
 - Arbitrage spend-down and rebate requirements (TOS and Bond Issuer).
- Securities law enforced by the SEC imposes Continuing Disclosure requirements (OBM).



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IRS Audits and SEC Oversight

- IRS actively audits tax-exempt bonds
 - Burden of proof is on the state/issuer – recordkeeping is key.
 - Increased auditing frequency (sometimes many years after the issuance date) and rigor.
 - Utilize information document request(s) and site visits.
- The bond issuer works with OBM and our respective bond and tax counsels to prepare responses to IRS audits and questionnaires.
- SEC has increased review and oversight of municipal securities, including a special unit looking into public pension disclosure.



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Post-Issuance Policies and Training

- OBM and TOS jointly developed and originally released in March 2010 a federal tax law post-issuance compliance policy that applies to tax-exempt State bond issues.
- Under that policy, OBM and TOS provide regular trainings for State policy makers and capital program managers.
- OBM also has developed continuing disclosure policies and procedures.
- OBM has engaged its Office of Internal Audit to review its post issuance compliance policies and procedures.



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III. State Credit Ratings



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Credit Rating Agencies

- Three public finance credit rating agencies: Moody's, Standard & Poor's, and Fitch Ratings.



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Credit Rating Factors

- Economy - Breadth and diversity of the state's economy and the direction of economic indicators
- Budget/Finance - Structural balance and the maintenance of adequate fund balances and reserves
- Debt Burden and Pensions - Debt burden measures and pension funding ratios and unfunded pension liabilities.
- Management/Governance - State's history of financial management, cooperation among the state's executive and legislative leadership, and use of best practices.



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Ohio's Current Credit Ratings

General Obligation (G.O.) Bond Rating

- The state's current general obligation, full faith and credit bond ratings:
 - Fitch: AA+ (stable outlook)
 - Moody's: Aa1 (stable outlook)
 - Standard & Poor's: AA+ (stable outlook)

Special Obligation Lease-Rental Bond Ratings

- The state's special obligation lease-rental debt is generally rated one notch below the general obligation debt (AA, Aa2, AA, respectively).

Below link to view the most recent credit report for the credit ratings that have been assigned by the three major credit rating agencies:

<http://obm.ohio.gov/SectionPages/BondsDebt/RatingsAndCreditReports.aspx>



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State of Ohio Bond and Investor Portal

- A wealth of information on State Debt, Bond Sales, Credit Reports and Ratings, Disclosure and other debt related topics can be found on OBM's website:

<http://obm.ohio.gov/SectionPages/BondsDebt/StateDebtOverview/Default.aspx>



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