

**Ohio School Facilities Commission
March 29, 2016 Meeting
Special Meeting
Rhodes Tower Hearing Room
1:00 PM**

MINUTES

Chairman Keen called the meeting to order at 1:02 PM.

Roll Call

Members present: Chairman Keen, Vice Chair Blair, Aaron Rausch for Dr. Lonny Rivera, and Gorin Babic for Senator Manning.

Lease-Purchase Local Share Study – Sara Freetage and Jon Walden

Resolution 16-11 and Resolution 16-12

Sara Freetage presented background information on the Lease-Purchase Local Share Study. In June 2015, Amended Substitute House Bill 64 of the 131st General Assembly directed the Ohio School Facilities Commission, in consultation with the Office of Budget and Management (OBM), to conduct a study of the benefits, risks and impacts associated with a school district funding its share of the basic project cost of a school facilities project under Chapter 3318 of the Ohio Revised Code with cash-on-hand resulting from a lease-purchase agreement or certificate of participation, also known as COPs. As a result of this directive, the Ohio Facilities Construction Commission (OFCC) and OBM have worked to conduct the study known as the OSFC Lease-Purchase Local Share Study.

Ms. Freetage further reported that OFCC and OBM staff approached the study with the goal to obtain maximum input from potential stakeholders to consider the benefits, risks, and impacts associated with a school districts use of lease-purchase proceeds to fund its local share of their OFCC project. Invitations to meet with OFCC and OBM staff were extended to a variety of interested parties including: legal and bond counsel typically representing school districts; financial organizations working in the school facility funding arena; several school district association groups (Ohio School Board Association, Ohio Association of School Business Officials, and the Buckeye Association of School Administrators) and The Buckeye Institute for Public Policy Solutions. Each of the groups were asked to provide input on the following 4 questions: What are the benefits to School Districts that use lease-purchase or COPs proceeds

for their portion of a local share of an OSFC project? What are the risks to School Districts that use lease-purchase or COPs proceeds for their portion of a local share of an OSFC project? What are the costs (both first cost and long term costs) for a School District using lease-purchase arrangement or COPs versus a more typical voted bond arrangement? If a lease-purchase or COPs arrangement is found an appropriate financing vehicle for a local share, should the ORC be revised to provide for it specifically? In addition to those meetings, a questionnaire was developed and sent to known school districts that have used lease-purchase financing; OFCC posted a link on its website requesting input; and it also reached out to the Auditor of State for input.

Ms. Freetage further explained lease-purchase and COPs financing. Lease-purchase financing is a mechanism for procuring facilities that are built through a lease arrangement requiring the school district to make payments to the lessor. COPs are a more complex subset of a lease-purchase arrangement where investors purchase shares of the lease revenue. At the end of the lease period, ownership of the leased facilities is transferred to the school district, without the district incurring traditional debt for the facilities. For non-OSFC projects, the General Assembly has already granted school districts authority for lease-purchase financing under revised code section 3313.375. This code section does not require school districts to obtain voter approval and is not subject to the school district's debt limits. Traditionally to participate in OSFC's programs school districts have issued voted bonds for their local share of the project. Districts have expressed increasing interest to use proceeds from a lease-purchase financing transaction as their local-share. While not prohibited, there is not clear authority in ORC Chapter 3318 for school districts to use the proceeds of lease-purchase arrangements as the local share of a co-funded OSFC project.

Jon Walden then presented the noted benefits, risks, and impacts from the study as well as Mr. Walden noted the primary noted benefit was the flexibility for a school district in having an additional option to fund its local share. Using lease-purchase proceeds also allows school districts to raise their local share without impacting their debt limitations or needing voter approval. Mr. Walden also noted potential risks including loss of the facility, reduced district liquidity, and possible subversion of voter intent. Potential impacts noted were higher costs to school districts due to higher interest rates, loss of district facility flexibility, and potentially pushing school districts to use other financing vehicles. School

Mr. Walden indicated that in examining all of the benefits, risks, and impact to a school district's use of lease purchase proceeds, almost all of those risks and impacts noted in the study exist regardless of whether or not a district is participating in OSFC's programs and the legislature already provided school districts lease-purchase authority even with those potential risks and impacts. For those reasons, the study recommends allowing school districts use of funding from lease-purchase financing arrangements so long as their exist adequate protections for the state's interest.

Mr. Walden further indicated that the study included a recommendation for the Commission to extend a moratorium on funding projects with lease-purchase agreement proceeds until the legislature had an opportunity to review and take action on the recommendation to change the definition of "cash-on-hand" in ORC section 3318.084. Mr. Walden then presented two resolutions for approval consistent with the recommendations; Resolution 16-11 approving the OSFC Lease-Purchase Local Share Study and Resolution 16-12 limiting a school district's use of

lease purchase and certificates of participation proceed until legislative response to the lease purchase Local Share Study for Commission approval.

Vice Chair Blair appreciated OSFC and OBM doing this study. He felt it was important to make it crystal clear that the State gets back the State portion if a school district building is sold before full payment has been made. Jon Walden responded State investments are protected on our projects. They are subject to payback, which is in our project agreement.

Chairman Keen commended the OFCC and OBM staff. This was done in a fair comprehensive manner. There was ample opportunity for consultation with outside parties interested in these matters. A policy question arose last year and the OSFC was faced with some school districts wanting to proceed through COPs. The fact that there is an explicit statutory authority that the General Assembly has granted to school districts to use COPs in projects that they finance themselves is a key determinant in review and findings. He personally was not excited about COPs for buildings and facilities. The General Assembly had decided school districts should have the authority to do this when they run their own projects. It is logical it then that this be allowed to be used for the match for the OSFC. The recommendation makes it very clear what is permissible and what is not. It also protects our interest. For that reason, he was supportive of the recommendation.

Chairman Keen provided opportunity for public comment on the two resolutions. Hearing none, the two resolutions were presented for the Commission's vote. Resolution 16-11 is for the purpose of approving the OSFC Lease Purchase Local Share Study. Resolution 16-12 limits the use of Lease Purchase and Certificates of Participation proceeds until legislative response to the Lease Purchase Local Shared Study. Chairman Keen will propose that language be included in the as introduced version of the State Capital Bill which he anticipated would be introduced in approximately 2 weeks.

Vice Chair Blair moved to approve Resolution 16-11.

Mr. Rausch seconded the motion.

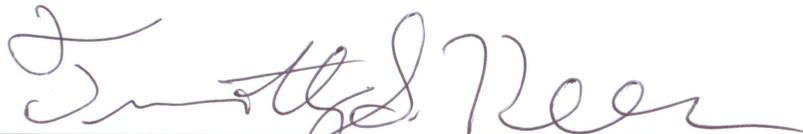
Approval: Vote 3-0.

Mr. Rausch moved to approve Resolution 16-12.

Vice Chair Blair seconded the motion.

Approval: Vote 3-0.

The meeting was adjourned at 2:32 PM.



Timothy S. Keen, Commission Chair



These meeting minutes were prepared by
Carolyn L. McClure, Secretary to the Commission