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Ohio Treasury May Extend New Debt Support to Public Universities, Hospitals

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Ohio would offer a boost to some forms of hospital and public university financings under legislation being promoted by Treasurer Robert Sprague.

The Ohio Gains Initiative would provide support for variable-rate demand obligation debt issued by hospitals and health systems through a state backstop in the event of a failed remarketing.

Public universities would benefit from the proposal by being able to leverage their share of aid known as State Share of Instruction funding when issuing debt that is sold to the Ohio Treasury. Under existing law, the state Treasury is able to purchase the debt of four-year public universities.

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"By tapping into our office's financial expertise and unlocking the power of the Treasury, we can create significant cost-savings opportunities for our homegrown businesses and institutions," Sprague said of his proposal, which would also lift caps on and expand access to a borrowing program for the state's agricultural industry.

Senators Michael Rulli and Jerry Cirino and Representatives D.J. Swearingen and Andrea White are sponsoring the legislation laid out Senate Bill 241 and House Bill 440.

Under the VRDO change, hospital systems would still utilize the private market to issue debt with the added feature of the treasurer's office serving as liquidity provider as opposed to a financial institution like a bank that provides a letter of credit or standby purchase agreement.

The Treasury can provide that backstop at a lower cost and so that should translate into savings for the hospitals, backers say.

The change extends a role the Treasury has served in on state VRDO issuance for the last two decades.

“This was developed at the Treasurer’s office as a means of utilizing the state’s strong liquidity position and extensive experience providing liquidity,” the office said.

The proposal has already received a test run. Last year, the state stepped into that role as a liquidity provider for the Cleveland Clinic, which was already classified as an eligible entity for state investment under existing state law. The legislation would make more hospitals and systems eligible for the assistance.

“Since October of last year, the Cleveland Clinic has witnessed first-hand the positive impact the treasurer’s liquidity support has had on the Clinic’s VRDOs,” Steve Glass, Cleveland Clinic’s chief financial officer, said in a statement. “This initiative has helped the clinic achieve more favorable liquidity pricing and terms, and diversify its liquidity providers.”

The clinic’s bonds supported by the state have also continued to reprice at yields at or below the clinic’s other VRDOs resulting in a lower cost of capital, Glass said.

The change for universities would provide a mechanism for the Treasury to intercept a university’s SSI payments. Allowing the treasury access to an additional security would enhance the university’s credit allowing the treasury to offer a lower interest rate while also providing a more sound investment for the state.

“The idea was developed internally as a way to allow state SSI dollars to go further for public universities, while at the same time enabling the state treasury to make a meaningful investment in state higher education without taking on undue credit risk,” the treasurer’s office said.

The proposals were not inspired in response to the COVID-19 pandemic but they will help sectors hard hit by the coronavirus.

“Having another source of liquidity available to us where we can leverage the benefits of longer-term capital at lower short-term rates is invaluable in a normal environment, but becomes exponentially more powerful when faced with the economic uncertainties of the current environment brought on by the pandemic,” Brad Bond, vice president of finance and treasurer at University Hospitals Health System, said in a statement from Sprague’s office.

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