OBM

John R. Kasich
Governor

Timothy S. Keen
Director

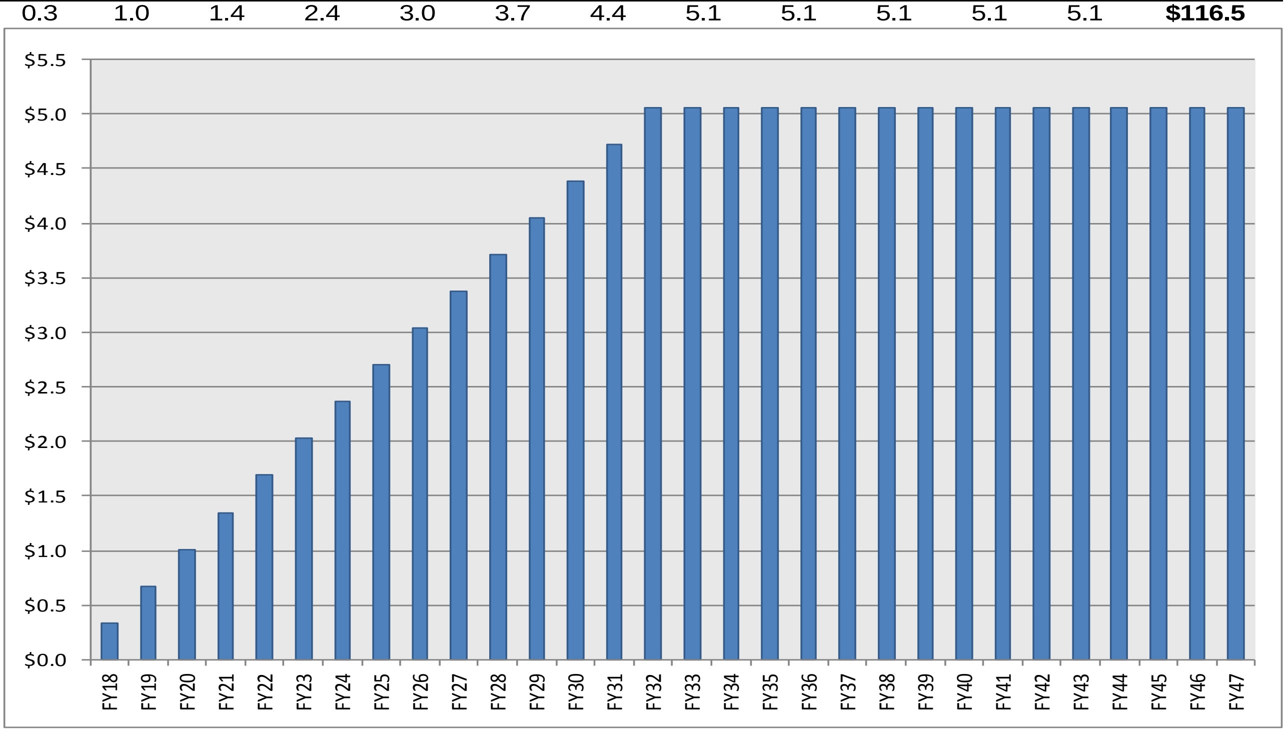
To:	Ohio Constitutional Modernization Commission, Committee on Finance, Taxation and Economic Development
From:	Kurt Kauffman, Capital Finance Director, Office of Budget and Management
Date:	May 9, 2016
Re:	Interest Cost Benefit of General Obligation Bonds

In follow-up to the Committee's April 14, 2016 discussion, OBM has prepared this estimate of the GRF interest cost savings that would result from issuing as general obligations the subject to appropriation lease-rental bonds currently issued under Section 2i of Article VIII to fund capital facilities for mental health and developmental disabilities, parks and recreation, and housing branches and agencies of state government. The State's general obligation debt carries the State's highest credit rating -- currently 'AA+' -- and prices extremely well in terms of achieving low interest rates in the municipal bond market. The subject-to-appropriation feature of the State's lease-rental bonds lowers the credit rating by one notch to 'AA' and, as a result, the State pays a higher rate of interest versus its general obligation counterpart. Based on historical credit spreads, OBM estimates this higher interest rate to fall within a range of 10-30 basis points and to average about 20 basis points (0.20%).

Capital appropriations for GRF subject to appropriation lease-rental bonds enacted in the prior two capital biennia have averaged $630 million or $315 million annually. As reflected in the below table, OBM estimates the GRF interest cost savings associated with issuing general obligation bonds in place of lease-rental bonds for the Section 2i purposes at $5.1 million per year (post phase-in) or $116.5 million over 30 years.

Estimate of Interest Cost Savings ($ in Millions)*

FY18	FY20	FY22	FY24	FY26	FY28	FY30	FY32	FY35	FY40	FY45	FY47	30-yr Total
0.3	1.0	1.4	2.4	3.0	3.7	4.4	5.1	5.1	5.1	5.1	5.1	**$116.5**



*Estimated interest savings associated with issuing general obligation bonds in lieu of subject-to-appropriation bonds. Assumes $315 million issued annually over 30 years beginning in FY17. Debt amortized over 15-years on level debt service basis assuming a 0.20% credit spread differential.