

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1264 (Conference Report)

SHORT TITLE: Finance Vital Projects/Studies.

FISCAL IMPACT (\$Million)					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
EXPENDITURES					
University/Youth Facility					
Debt Service					
University	1.89	6.94	11.91	23.63	32.95
Youth Facility	0	1.53	3.87	3.76	3.65
Total Debt Service	1.89	8.47	15.78	27.39	36.60
Less: Earmark*	-1.89	-8.47	-15.78	-27.39	-36.60
Net General Fund Cost	0	0	0	0	0
Parks/BRAC:					
Total Debt Service	3.49	4.84	4.71	4.57	4.44
Less: Earmarking	-3.49	-4.84	-4.71	-4.57	-4.44
Net General Fund Cost	0	0	0	0	0
Total of General Fund Cost	0	0	0	0	0
Operating and Maintenance Expenses (See "Assumptions and Methodology")					
PRINCIPAL DEPARTMENT AFFECTED: The oversight and issuance of the debt instruments will be issued by the Department of State Treasurer. The cost of issuing the instruments is financed from the proceeds of the sale of debt instruments.					
EFFECTIVE DATE: When the bill becomes law.					
*The maximum annual debt service is \$47.4 million in FY 2010-11. The total interest on the \$468.0 million of debt is \$310.2 million. The annual debt service amounts are affected by the cash flow needs of each project as well as the \$310 million limit on the amount of debt that may be issued during the 2004-05 fiscal year.					

BILL SUMMARY

Special Indebtedness: University Projects. Authorizes the State to use special indebtedness to finance the following facilities:

- 1) \$180 million for a new cancer rehabilitation and treatment center, an adjacent physicians' office building, and a walkway between the two facilities to be located at the University of North Carolina Hospitals at Chapel Hill.
- 2) \$60 million for the North Carolina Cardiovascular Diseases Institute at East Carolina University.
- 3) \$35 million for a Bioinformatics Center at the University of North Carolina at Charlotte.
- 4) \$28 million for a facility to house the new Pharmacy School program to be located at Elizabeth City State University, and interim temporary facilities to house the program during construction of the stand-alone facility.
- 5) \$35 million Center for Health Promotion and Partnerships at the University of North Carolina-Asheville.
- 6) \$10 million for planning of Center for Excellence of Teaching and Nursing at Fayetteville State University.
- 7) \$10 for planning for the joint Millennial Campus of North Carolina Agricultural and Technical State University and the University of North Carolina at Greensboro.
- 8) \$10 million for planning for an Optometry School facility at the University of North Carolina at Pembroke.
- 9) \$10 million for planning for the North Carolina Center for Health and Aging to be operated as a consortium between the Western Carolina University and the Mountain Area Health Education Consortium.
- 10) \$10 million for property acquisition in Piedmont-Triad Research Park for Winston-Salem State University programming related to biotechnology education and research; and planning for a Center for Design Innovation to be operated jointly by Winston-Salem State University and the North Carolina School of the Arts.

The bill limits the amount of the total authorization that can be issued during the 2004-05 fiscal year as follows:

	Total Authorization (\$mil.)	2004-05 Issuance Limit (\$mil.)
Cancer Center	\$ 180.00	\$ 110.00
Cardio Institute	\$ 60.00	\$ 30.00
Bioinformatics	\$ 35.00	\$ 25.00
Pharmacy School	\$ 28.00	\$ 25.00
UNC-A Health Center	\$ 35.00	\$ 25.00
FSU - Teaching and Nursing A&T and UNC-G	\$ 10.00	\$ 10.00
UNC-Pembroke - Optometry	\$ 10.00	\$ 10.00
WCU - Health & Aging Ctr.	\$ 10.00	\$ 10.00
WSSU & NC School of Arts	\$ 10.00	\$ 10.00
TOTAL	\$388.00	\$265.00

Special Indebtedness: Parks/BRAC. Authorizes the state to enter into special indebtedness to finance capital projects for:

- 1) State parks system.
- 2) Parks, recreation, and the preservation of natural heritage.
- 3) Clean water conservation.

The amount of debt that may be incurred is limited to the lesser of the amount allocated to each of the following categories below, or the amount that can be supported by the funds set aside from three trust funds for annual debt service payments. The allocation of the \$45 million maximum debt authorization is:

\$20 million	Acquire property near military bases to prevent encroachment.
\$25 million	Land acquisition for existing and new State parks and capital projects for an existing State park.

The timing for the issuance of the debt for these purposes is limited so that no more than \$32 million in debt can be issued before July 1, 2005.

The debt service support would come from the Parks and Recreation Trust Fund, the Natural Heritage Trust Fund, and the Clean Water Management Trust Fund. The first two trust funds draw most of their proceeds from an earmarking of the State's share of the real estate conveyance tax. Under current budgetary law, the Clean Water Management Trust Fund is supposed to receive \$100 million of General Fund appropriations each year.

The bill would authorize the governing body of the Parks and Recreation Trust Fund and the Natural Heritage Trust Fund to allocate a portion of their respective streams of income for debt service on financing incurred. In the case of the Parks and Recreation Trust Fund, the maximum amount that may be so allocated is 50% of the 65% share of earmarked receipts designated for repairs and renovations of park facilities and capital projects and land acquisition for the State Parks System. The Authority may not allocate any of the income currently designated for local government grants or for beach access. In the case of the Natural Heritage Trust Fund, up to 50% of the annual receipts may be so allocated.

After the debt has been issued or incurred, the Trustees of the Parks and Recreation Trust Fund, the Natural Heritage Trust Fund, and the Clean Water Management Trust Fund must direct the State Treasurer to credit to the General Fund each year the lesser of the annual amount they identified in their application for debt issuance or the debt service for that year on the financing.

Special Indebtedness: Youth Facilities. Authorizes the State to use special indebtedness to finance the construction of up to five new Youth Development Centers totaling up to 224 beds. Authorized debt amount is \$35 million. No more than \$13 million in debt can be issued or incurred before July 1, 2005. The current plan is to issue debt of \$13 million in April 2005 for up to 96 beds and to issue the balance of \$22 million in the fall of 2005 to finance construction of up to 128 beds.

Health and Wellness Trust Fund and Tobacco Trust Fund. The bill provides that a portion of the funds available to the Health and Wellness Trust Fund and the Tobacco Trust Fund would be used to reimburse the General Fund each year for debt service on the UNC and youth facility debt. Each trust fund would be required to transfer to the General Fund annually one-half of the debt service amount certified by the Treasurer. The required transfer from each trust fund is capped, however, at a percentage of current year receipts. The percentage is 30% through 2006-2007 and then increases to 65% in 2007-2008. (The bill eliminates the requirement that 50% of the Health and Wellness Trust Fund's annual receipts be reserved.) These provisions become effective July 1, 2004.

The Health and Wellness Trust Fund receives annual tobacco settlement payments to be used to improve the health and wellness of North Carolinians. In order to build up a fund reserve for future projects, the governing body of the Trust Fund has been required to reserve 50% of each annual payment since 2001. The Commission may spend unreserved funds and investment earnings in the reserve to award grants to state and local agencies and to nonprofit corporations. The Tobacco Trust fund receives annual tobacco settlement payments to be used to assist tobacco producers, tobacco allotment holders, and persons engaged in tobacco related businesses.

Debt Affordability Advisory Committee. Creates a Debt Affordability Advisory Committee to annually advise the Governor and the General Assembly on the estimated debt capacity of the State for the upcoming 10 fiscal years. The Committee would undertake an annual debt affordability study and establish guidelines for evaluating the State's debt burden.

The Committee would consist of the State Treasurer, the Secretary of Revenue, the State Budget Officer, the State Auditor, the State Controller, and four members of the public – two appointed by the President Pro Tempore of the Senate and two appointed by the Speaker of the House of Representatives. The State Treasurer would serve as the chair of the Committee and the Committee would meet upon the call of the chair. The Committee would report its findings and recommendations to the Governor, the General Assembly, and the Fiscal Research Division by February 1 of each year.

Higher Education Study. Directs the UNC Board of Governors, in collaboration with the State Board of Community Colleges, to contract with a consultant to conduct a comprehensive study of the mission and programming needs for the UNC System and the Community Colleges System, and to study facility needs related to the identified program needs. The bill specifically states that the historically black colleges and universities and UNC-Pembroke are valuable and indispensable assets of the UNC system and should not be diminished or eliminated. The consultant would be required to make periodic reports to a subcommittee created by the Joint Legislative Education Oversight Committee and submit to the Committee and the General Assembly a preliminary report by April 15, 2005, and a final report by December 31, 2005.

RECOP Indebtedness. Establishes the statutory framework for Real Estate Certificates of Participation (RECOP) indebtedness. RECOP financing is a form of special indebtedness that is intended to be structured so that the principal and some of the interest are not paid in installments over the term of the debt. The deferred interest compounds and is payable, along with the principal, at maturity or an earlier redemption.

RECOP debt may be incurred only if the amount and specific purposes have been authorized in an act of the General Assembly. This form of debt may be incurred to retire existing State debt as well as for capital projects. RECOP debt may be secured by the capital facilities being constructed, renovated, or repaired with the proceeds of the debt, as well as any other State property. The property to serve as collateral would be selected by the Governor after first consulting with the Joint Governmental Commission on Governmental Operations. The choice of collateral must be approved by the Council of State. With RECOP indebtedness, there is an additional exemption from State property law for transfers when the proceeds are used first to pay RECOP indebtedness, even if there is no default.

The bill sets out findings of the General Assembly and requires the State Treasurer to conduct a study of RECOP indebtedness. The findings indicate that there may be circumstances in which the State would benefit from taking advantage of flexible financing tools such as RECOPs, but that more information is needed for the General Assembly to consider such a policy decision. The bill directs the State Treasurer to study the effects of using RECOPs, either for new projects or refunding outstanding debt and to report the results of the study and any recommendations by February 1, 2005, to the Joint Legislative Commission on Governmental Operations.

ASSUMPTIONS AND METHODOLOGY

Debt Service: University Projects. The starting point in the analysis is a projection of the construction cash flow needs for the cancer center and cardiovascular institute. These estimates were provided by the fiscal officers of the affected campuses. For the other projects, it was assumed that all of the cash flow needs would occur in 2004-05.

	(\$Mil.) Total Financing	CASH FLOW NEEDS -Debt Issuance (\$Mil.)					
		<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Cancer Center	180.0	6.2	11.5	33.5	33.2	50.1	45.5
Cardio Center	60.0	2.1	2.1	27.9	27.9		
Bioformatics Center	35.0	1.2	1.3	16.3	16.2		
ECSU Pharmacy School	28.0	1.0	1.0	13.0	13.0		
UNC-A	35.0	1.2	1.3	16.3	16.2		
FSU	10.0	10.0					
A&T and UNC-G	10.0	10.0					
UNC-Pembroke	10.0	10.0					
WCU/MAHEC	10.0	10.0					
WSSU/School of Arts	10.0	10.0					
University Projects Total	388.0	61.7	17.2	107.0	106.5	50.1	45.5

The Department of State Treasurer provided an analysis of debt service costs for the original size and construction cash flow needs schedule of a proposed package of certificates of participation. These estimates were modified by Fiscal Research to fit the revised cash flow needs and project scope. The modification used the State Treasurer's debt service calculation model. The key assumptions in the analysis include:

- 1) The construction cash flow needs would be addressed by the issuance of debt instruments in August of that year.
- 2) The maximum maturity of each debt issuance is 20 years.
- 3) The average interest rate for the August 2004 issuance is 5.25%. For later debt issues, a 6.15% rate was used. The principal is repaid in equal installments on the anniversary date of the debt. Interest payments are made every six months.

Debt Service: Parks/BRAC. The Department of State Treasurer provided an analysis of debt service costs for the original size and construction cash flow needs schedule of a proposed package of certificates of participation. These estimates were modified by Fiscal Research to fit the revised cash flow needs and project scope. The modification used the State Treasurer's debt service calculation model. The key assumptions in the analysis include:

- 1) The cash flow needs would be addressed by the issuance of \$32 million of debt on May 1, 2005 and \$13 million on May 1, 2006.
- 2) The maximum maturity of each debt issuance is 20 years.
- 3) The average interest rate for the May 2005 issuance is 5.90%. For the May 2006 issue, a 6.15% rate was used. The principal is repaid in equal installments on the anniversary date of the debt. Interest payments are made every six months.

Debt Service: Youth Facilities. The Department of State Treasurer provided an analysis of debt service costs for the original size and construction cash flow needs schedule of a proposed package of certificates of participation. These estimates were modified by Fiscal Research to fit the revised cash flow needs and project scope. The modification used the State Treasurer's debt service calculation model. The key assumptions in the analysis include:

- 1) The construction cash flow needs would be addressed by the issuance of \$13 million of debt instruments on April 1, 2005 and \$22 million on November 1, 2005.
- 2) The maximum maturity of each debt issuance is 20 years.
- 3) The average interest rate for the April 2005 issuance is 5.90%. For the November 2005 issue, a 6.15% rate was used. The principal is repaid in equal installments on the anniversary date of the debt. Interest payments are made every six months.

Operations and Maintenance. General Administration of the University of North Carolina provided the following estimates on the operating costs for the proposed facilities.

2004 Non-Appropriated Capital Improvements - Operating Impact*					
Non-Appropriated Projects	Project Capital Cost	Estimated Year of Completion	Estimated Operating Impact First Full Year of Operation	Estimated Operating Impact Twenty-Year Average	Operating Impact on the General Fund**
EAST CAROLINA UNIVERSITY					
Eastern Carolina Cardiovascular Institute	\$60,000,000	2007	2,540,223	3,620,851	2,540,223
ELIZABETH CITY STATE UNIVERSITY					
School of Pharmacy	\$28,000,000	2007	546,846	773,527	546,846
UNC - ASHEVILLE					
Center for Health Promotion and Wellness	\$35,000,000	2008	806,043	1,029,156	806,043
UNC - CHARLOTTE					
Bioinformatics Center	\$35,000,000	2008	1,892,393	2,692,978	1,892,393
UNC HEALTH CARE SYSTEM					
North Carolina Cancer Hospital	\$180,000,000	2009	4,480,790	4,999,783	1,000,000
GRAND TOTALS	\$338,000,000		10,266,295	13,116,295	6,785,505
* Assumes 3% increase per year for salary/benefits and 5% increase for non-personnel/utilities.					
** Reflects the first full year operating costs of projects.					

Debt Affordability Advisory Committee. Under the bill, the expenses of the Committee for 2004-05 would be covered by the funds appropriated to the Department of State Treasurer for that year. Thus, there would be no additional General Fund budget requirements.

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Signed Copy Located in the NCGA Principal Clerk's Offices