# NORTH CAROLINA GENERAL ASSEMBLY

# LEGISLATIVE FISCAL NOTE

**BILL NUMBER**: Senate Bill 1098 (Fourth Edition)

**SHORT TITLE**: State Health and Biotechnology Financing.

**SPONSOR(S)**: Senators Kerr and Jenkins

## FISCAL IMPACT

**Yes (X)** **No ( )** **No Estimate Available ( )**

| | **FY 2004-05** | **FY 2005-06** | **FY 2006-07** | **FY 2007-08** | **FY 2008-09** |
|---|---|---|---|---|---|
| **EXPENDITURES** | | | | | |
| Debt Service* | .4 | 1.8 | 6.9 | 18.8 | 28.2 |
| Less Earmarking** | -.2 | -1.8 | -6.9 | -18.8 | -19.2 |
| Operating and Maint. Exp. | (See "Assumptions and Methodology") | | | | |
| **Net General Fund** | **.2** | **0** | **0** | **0** | **9.0** |

**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 sales.

**EFFECTIVE DATE**: When it becomes law.

*The maximum annual debt service is $35.42 million in FY 2010-11. The total interest on the $338.0 million of debt is $229.6 million.

**From Health and Wellness Trust Fund and Tobacco Trust Fund.

**BILL SUMMARY: Special Indebtedness.** Authorizes the State to use special indebtedness to finance the following facilities:

1. $180 million for a new cancer rehabilitation and treatment center and adjacent physicians' office building 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 stand-alone 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 for a Center for Health Promotion and Partnerships at the University of North Carolina at Asheville.

Special indebtedness is non-voted debt that is secured only by an interest in State property being acquired or improved. Before special indebtedness could be issued or incurred, the State Treasurer must certify that debt financing may be desirable for a specific project presented to it by the Department of Administration. Next, the Council of State must give preliminary approval. If preliminary approval is obtained, the Council of State must give final approval, setting out details such as the maximum amount to be financed, the maximum maturity, and the maximum interest rates. The maximum maturity may not exceed 40 years. The State Treasurer must approve the details of the financing, finding that the amount to be borrowed is adequate and not excessive and will not require an excessive increase in any State revenues to provide for repayment, and that the special indebtedness can be incurred or issued on terms favorable to the State. Finally, the State Treasurer must report to the Joint Legislative Commission on Governmental Operations at least five days before any special indebtedness is issued or incurred.

Requires the Health and Wellness Trust Fund and the Tobacco Trust fund each to transfer to the General Fund annually one-half the estimated debt service on the indebtedness authorized in this bill. The amount transferred each fiscal year is capped at 30% each fund's receipts for that year.

**RECOP Financing.** 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.** The starting point in the analysis is a projection of the construction cash flow needs of the two facilities. The needs estimates were provided by the fiscal officers of the affected campuses.

| | ($Mil.) Total Project Cost | CASH FLOW NEEDS ($Mil.) | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
| Cancer Center | 180.00 | 6.20 | 11.54 | 33.48 | 33.21 | 50.08 | 45.49 |
| Cardio Center | 60.00 | 2.10 | 2.10 | 27.90 | 27.90 | | |
| Bioformatics Center | 35.00 | 1.23 | 1.22 | 16.28 | 16.28 | | |
| ECSU Pharmacy School | 28.00 | .98 | .98 | 13.02 | 13.02 | | |
| UNC-A | 35.00 | 1.23 | 1.22 | 16.28 | 16.28 | | |
| TOTAL | 338.00 | 11.74 | 17.06 | 106.95 | 106.68 | 50.08 | 45.49 |

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. The modification used the State Treasurer's debt service calculation model. The key assumptions in the analysis include:

a. The construction cash flow needs for each fiscal year would be addressed by the issuance of debt instruments in August of that year.
b. The maximum maturity of each debt issuance is 20 years.
c. The average interest rate for the August 2004 issuance is 5.25%. For other debt, a 6.15% rate was used. The principal is repaid in equal installments on the anniversary date of the debt. For example, one-year instruments would be redeemed on August 1, 2005. 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

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