NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1264 (Third Edition)

SHORT TITLE: Finance Health and Research Buildings

FISCAL IMPACT

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

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
EXPENDITURES					
State General Fund					
Debt Service*	1.3	4.8	7.9	14.6	20.7
Operating and Maint. Exp.		(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 $28.3 million in FY 2010-11. The total interest on the $273.3 million of debt is $182.3 million.

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, 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. $10 million for land acquisition, site preparation, and planning for a Bioinformatics Center at the University of North Carolina at Charlotte.
4. $10 million for land acquisition, site preparation, and planning 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. $10 million for land acquisition, site preparation, and planning for a North Carolina Center for Health and Aging to be operated as a consortium among UNC-A, WCU, and the Mountain Area Health Education Consortium to be located in Western North Carolina.
6. $3.3 million for renovations and an addition to an existing building to house the Pharmacy School at Elizabeth City State University.

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.

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 of 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.

ASSUMPTIONS AND METHODOLOGY:

Debt Service. 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.

	($Mil.)	CASH FLOW NEEDS ($Mil.)					
	Total Project Cost	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	10.00	10.00					
ECSU Pharmacy School	10.00	10.00					
UNC-A	10.00	10.00					
ECSU Pharmacy School	3.30	3.30					
TOTAL	273.30	41.60	13.64	61.38	61.11	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 and project scope. 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
UNC HEALTH CARE SYSTEM					
North Carolina Cancer Hospital	$180,000,000	2009	4,480,790	4,999,783	1,000,000
GRAND TOTALS	240,000,000		7,021,013	8,620,634	3,540,223

*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.

FISCAL RESEARCH DIVISION: (919) 733-4910
PREPARED BY: David Crotts

APPROVED BY: James D. Johnson, Director
Fiscal Research Division

DATE: July 8, 2004

Official
Fiscal Research Division
Publication

Signed Copy Located in the NCGA Principal Clerk's Offices