

GENERAL ASSEMBLY OF NORTH CAROLINA



Legislative Fiscal Note

BILL NUMBER: Senate Bill 1892 (Third Edition)

SHORT TITLE: Special Indebtedness Projects.

SPONSOR(S): Senator Hoyle

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>
REVENUES:					
SBMEAC			114,129	170,471	175,085
EXPENDITURES:					
<u>WRC</u>					
Debt Service	575,000	2,121,250	2,063,750	2,006,250	1,948,750
Operating & Capital	575,199	407,387	420,712	434,488	448,040
WRC Total	1,150,199	2,528,637	2,484,462	2,440,738	2,396,790
<u>SBMEAC</u>					
Debt Service	94,875	350,006	340,519	331,031	321,544
Operating & Maint.			120,492	170,616	178,798
SBMEAC Total	94,875	350,006	461,011	501,647	500,333
POSITIONS					
(cumulative):					
WRC Positions	8	8	8	8	8
SBMEAC Positions			1	2	2
Note 1: This note reflects the most recent certified cost estimate for construction of the two SBMEAC horse barns. The 6-19-06 cost estimate, certified by Office of State Construction, restates the construction cost from \$3.3 million to \$6,585,142. This note now assumes the construction of only one 80-stall horse barn.					
Note 2: This note revises the revenue and operating expenditure data for SBMEAC from the information included in the fiscal note for SB 1892 v2.					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Wildlife Resources Commission; Department of Agriculture and Consumer Services					
EFFECTIVE DATE: This act is effective when it becomes law.					

BILL SUMMARY:

May 24, 2006

S 1892. WILDLIFE COMMISSION INDEBTEDNESS (H 2485). Filed 5/24/06. TO AUTHORIZE THE ISSUANCE OF SPECIAL INDEBTEDNESS TO FINANCE THE CAPITAL FACILITIES COSTS OF A PURCHASE OF LAND BY THE WILDLIFE RESOURCES COMMISSION. Identical to H 2485, filed 5/23/06.

June 15, 2006

S 1892. SPECIAL INDEBTEDNESS PROJECTS (NEW). Filed 5/24/06. Senate committee substitute makes the following changes to 1st edition. Changes title to AN ACT TO AUTHORIZE THE ISSUANCE OF SPECIAL INDEBTEDNESS TO FINANCE THE CAPITAL FACILITIES COSTS OF A PURCHASE OF LAND BY THE WILDLIFE RESOURCES COMMISSION AND TO FINANCE THE CAPITAL FACILITY COSTS OF STALL BARNs AT THE SENATOR BOB MARTIN EASTERN AGRICULTURAL CENTER. In addition to existing provisions, allows State of North Carolina, with the prior approval of the State Treasurer and the Council of State, to incur “special indebtedness” up to a maximum of \$3.3 million to finance capital facility costs of two stall barns at cited agricultural center. (Special indebtedness is a form of debt not requiring voter approval that is typically secured by an interest in the governmental property being acquired or improved.) Also, amends GS 143-64.05(a) to provide that a service charge that may be assessed by the Department of Administration for the transfer or sale of surplus or recyclable material by a State agency does not apply to the sale of timber on land owned by the Wildlife Resources Commission

Source: Bill Digest S.B. 1892 (05/24/2006).

ASSUMPTIONS AND METHODOLOGY:

Wildlife Resources Commission Land Acquisition

The proposed land acquisition involves a total of 77,090 acres currently owned by the International Paper Corporation and located in four separate tracts. The total estimated cost for purchasing the lands is \$80 million, and the Nature Conservancy has approached the State to fund the purchase in the following manner:

- \$45 million from the Clean Water Management Trust Fund
- \$10 million from the Natural Heritage Trust Fund
- \$5 million from the Parks and Recreation Trust Fund
- \$20 million from the Wildlife Resources Commission (WRC)

SB 1892 authorizes the Governor and the Council of State to issue special indebtedness in the amount of \$20 million for WRC. WRC would purchase roughly 66,000 acres of International Paper lands through a land deal brokered by the Nature Conservancy. The purchase of all 77,090 acres would occur over three years.

The four tracts available for purchase include:

- 22,009 acres along the Roanoke River
- 20,749 acres of the Upper Tar River watershed
- 18,341 acres along Juniper Creek
- 15,464 acres along the Chowan River

The lands proposed for allocation to WRC would be lands that are contiguous or approximate to existing game lands in the WRC system.

Debt Service - The debt service schedule in Chart 1 was developed by the Office of State Treasurer based on the following assumptions:

- Certificates of participation would be issued
- All \$20 million would be issued in Fall 2006
- 5.57% average interest rate
- 20-year term

Chart 1 – Debt Service for Game Lands Acquisition			
Fiscal Year	Principal	Interest	Debt Service Payment
2006-07		575,000	575,000
2007-08	1,000,000	1,121,250	2,121,250
2008-09	1,000,000	1,063,750	2,063,750
2009-10	1,000,000	1,006,250	2,006,250
2010-11	1,000,000	948,750	1,948,750
2011-12	1,000,000	891,250	1,891,250
2012-13	1,000,000	833,750	1,833,750
2013-14	1,000,000	776,250	1,776,250
2014-15	1,000,000	718,750	1,718,750
2015-16	1,000,000	661,250	1,661,250
2016-17	1,000,000	603,750	1,603,750
2017-18	1,000,000	546,250	1,546,250
2018-19	1,000,000	488,750	1,488,750
2019-20	1,000,000	431,250	1,431,250
2020-21	1,000,000	373,750	1,373,750
2021-22	1,000,000	316,250	1,316,250
2022-23	1,000,000	258,750	1,258,750
2023-24	1,000,000	201,250	1,201,250
2024-25	1,000,000	143,750	1,143,750
2025-26	1,000,000	86,250	1,086,250
2026-27	1,000,000	28,750	1,028,750
TOTALS	20,000,000	12,075,000	32,075,000

Revenue Estimate - The WRC has proposed to pay for the debt service, operating, and capital costs from the sale of timber on land acquired through SB 1892 and other State lands allocated to WRC. Chart 2 presents the revenue estimate provided by WRC. The following assumptions were used to develop Chart 2:

- **IP Lands Projected Revenue** – Timber receipts estimate developed by WRC for the project's feasibility study.
- **WRC Lands Projected Revenue** – Timber receipts estimate developed by WRC for other State game lands to be included in the feasibility study.
- **Total Revised Revenue** – The sum of all projected receipts. These feasibility study estimates are revised based on WRC's experience with timber sales from FY 2000-01 to FY 2004-05. **The revenue estimate is revised up 1.5 times.**

Chart 2 – Revenue Estimate from Timber Receipts			
Fiscal Year	IP Lands Projected Revenue	WRC Lands Projected Revenue	Total Revised Revenue
2006-07	\$263,047	\$1,779,315	\$3,063,543
2007-08	\$263,047	\$1,172,861	\$2,153,862
2008-09	\$263,047	\$1,267,998	\$2,296,568
2009-10	\$263,047	\$1,092,790	\$2,033,756
2010-11	\$263,047	\$929,610	\$1,788,986
2011-12	\$500,000	\$928,915	\$2,143,373
2012-13	\$822,700	\$796,418	\$2,428,677
2013-14	\$822,700	\$706,553	\$2,293,880
2014-15	\$822,700	\$809,188	\$2,447,832
2015-16	\$822,700	\$818,609	\$2,461,964
2016-17	\$822,700	\$690,121	\$2,269,232
2017-18	\$1,225,000	\$832,315	\$3,085,973
2018-19	\$1,225,000	\$784,000	\$3,013,500
2019-20	\$1,280,000	\$993,715	\$3,410,573
2020-21	\$1,280,000	\$700,565	\$2,970,848
2021-22	\$1,300,000	\$641,000	\$2,911,500
2022-23	\$1,300,000	\$787,315	\$3,130,973
2023-24	\$1,300,000	\$598,000	\$2,847,000
2024-25	\$1,534,868	\$944,715	\$3,719,375
2025-26	\$1,534,868	\$711,565	\$3,369,650
2026-27	\$1,534,868	\$851,000	\$3,578,802
Totals	\$19,443,339	\$18,836,568	\$57,419,861

Operating and Capital Improvements Costs - According to WRC, the purchase of this land will result in operating cost increases associated with managing the new game lands. WRC anticipates needing eight new positions to manage the new game lands and associated equipment. WRC also anticipates the construction of new depots on the lands to serve as workspace for the new personnel. Please see Chart 3 for a five year estimate of new personnel costs, equipment and capital costs. Expenditures are proposed to be 100% receipt supported from the sale of timber.

Chart 3 – 5-year Operating and Capital Improvements Impact		
Fiscal Year	Personnel Costs	Capital / Equipment / Maintenance
2006-07	\$311,999	\$263,200
2007-08	\$323,543	\$83,844
2008-09	\$335,191	\$85,521
2009-10	\$347,257	\$87,231
2010-11	\$359,064	\$88,976
Total	\$1,677,054	\$608,772

Cash Flow - WRC proposes to service the special indebtedness authorized in SB 1892 through receipts generated by the sale of timber on State game lands. WRC also proposes funding all operating expenditures and capital improvements through the same revenue sources. **When estimated receipts are compared with proposed expenditure impacts, WRC is projected to have insufficient timber receipts for fiscal years 2011-12 through 2016-17.** In each of those years, WRC would produce enough timber receipts to service the debt, but not cover all projected operating and capital expenditures. WRC would need to use other receipts available to the Commission or seek assistance from the General Fund. Please see Chart 4 for details.

Chart 4 – Cash Flow Projection				
Fiscal Year	Projected Revenue	Existing & New Operating & Capital Costs	Debt Service	Projected Cumulative Year-end Cash Balance
2005-06		\$631,192		\$3,109,096
2006-07	\$3,063,543	\$1,215,859	\$575,000	\$4,381,780
2007-08	\$2,153,862	\$1,057,657	\$2,121,250	\$3,356,736
2008-09	\$2,296,568	\$1,080,735	\$2,063,750	\$2,508,818
2009-10	\$2,033,756	\$1,104,413	\$2,006,250	\$1,431,910
2010-11	\$1,788,986	\$1,128,013	\$1,948,750	\$144,133
2011-12	\$2,143,373	\$1,342,200	\$1,891,250	(\$945,945)
2012-13	\$2,428,677	\$1,176,991	\$1,833,750	(\$582,064)
2013-14	\$2,293,880	\$1,202,403	\$1,776,250	(\$684,774)
2014-15	\$2,447,832	\$1,228,453	\$1,718,750	(\$499,371)
2015-16	\$2,461,964	\$1,255,160	\$1,661,250	(\$454,447)
2016-17	\$2,269,232	\$1,482,542	\$1,603,750	(\$817,061)
2017-18	\$3,085,973	\$1,310,619	\$1,546,250	\$229,103
2018-19	\$3,013,500	\$1,339,411	\$1,488,750	\$414,443
2019-20	\$3,410,573	\$1,368,937	\$1,431,250	\$1,024,828
2020-21	\$2,970,848	\$1,399,221	\$1,373,750	\$1,222,705
2021-22	\$2,911,500	\$1,640,282	\$1,316,250	\$1,177,673
2022-23	\$3,130,973	\$1,462,144	\$1,258,750	\$1,587,751
2023-24	\$2,847,000	\$1,494,831	\$1,201,250	\$1,738,670
2024-25	\$3,719,375	\$1,528,365	\$1,143,750	\$2,785,930
2025-26	\$3,369,650	\$1,562,772	\$1,086,250	\$3,506,557
2026-07	\$3,578,802	\$1,598,078	\$1,028,750	\$4,458,532
Total	\$57,419,861	\$28,610,278	\$32,075,000	

Senator Bob Martin Eastern Agricultural Center

The Senator Bob Martin Eastern Agricultural Center (SBMEAC) is a State facility operated and maintained by the Department of Agriculture and Consumer Services (DA&CS). SB 1892 authorizes the issuance of special indebtedness for the construction of two 80-stall horse barns at the Center. As indicated in a June 19, 2006 certified cost estimate from the DA&CS, two barns will cost \$6,585,142 to construct. Therefore, this analysis assumes the construction of one 80-stall horse barn within the authorized indebtedness amount of \$3.3 million. This expansion would begin phase III of the Center's master plan expansion and bring the Center's hosting capacity to three barns totaling 240 stalls. SBMEAC's master plan includes a fourth 80-stall horse barn to complete phase III of the plan.

Debt Service – The debt service schedule in Chart 5 was developed by the Fiscal Research Division with certain assumptions and methodology provided by the Office of State Treasurer. The schedule contains the following assumptions:

- Certificates of participation would be issued
- All \$3.3 million would be issued in Fall 2006
- The restated certified cost estimate of \$6,585,142 for two horse barns dated 6-19-06
- The construction of only one 80-stall horse barn at \$3.3 million
- 5.57% average interest rate
- 20-year term

Chart 5 - Debt Service for the SBMEAC			
Fiscal Year	Principal	Interest	Debt Service Payment
2006-07		94,875	94,875
2007-08	165,000	185,006	350,006
2008-09	165,000	175,519	340,519
2009-10	165,000	166,031	331,031
2010-11	165,000	156,544	321,544
2011-12	165,000	147,056	312,056
2012-13	165,000	137,569	302,569
2013-14	165,000	128,081	293,081
2014-15	165,000	118,594	283,594
2015-16	165,000	109,106	274,106
2016-17	165,000	99,619	264,619
2017-18	165,000	90,131	255,131
2018-19	165,000	80,644	245,644
2019-20	165,000	71,156	236,156
2020-21	165,000	61,669	226,669
2021-22	165,000	52,181	217,181
2022-23	165,000	42,694	207,694

Fiscal Year	Principal	Interest	Debt Service Payment
2023-24	165,000	33,206	198,206
2024-25	165,000	23,719	188,719
2025-26	165,000	14,231	179,231
2026-27	165,000	4,744	169,744
TOTALS	\$3,300,000	\$1,992,375	\$5,292,375

Revenue Estimate – DA&CS provided the revenue estimate for the first three years of operation. In order to establish the estimate, DA&CS assumed the following:

- Revenue estimates were updated as of July 10, 2006 to reflect the operation of one 80-stall horse barn
- The one barn would be occupied and operating by July 1, 2008
- Assumes full operation by FY 2010-2011
- 6 shows currently booked would expand in future years with additional capacity. DA&CS anticipates 6 additional shows booked and showing by July 1, 2008. The additional capacity from Barn 3 would result in an increase of 25% revenue in FY 2008-09 (\$76,889) and additional 5% in increased revenue for FY 2009-2010 (\$92,267) and FY 2010-11 (\$96,881)
- 2 new shows will be booked for FY 2008-09 and 2 additional shows will be booked in FY 2009-10, bringing the total number of shows to 16 annually.
- Revenue per new show is estimated to total \$19,551.

In order to provide a 20-year revenue estimate for comparison with debt service requirements, DA&CS revenue estimates were inflated by 2.3% after FY 2010-11.

Chart 6 - SBMEAC Estimated Revenue	
Fiscal Year	Revenue
2006-07	
2007-08	
2008-09	\$114,129
2009-10	\$170,471
2010-11	\$175,085
2011-12	\$179,112
2012-13	\$183,232
2013-14	\$187,446
2014-15	\$191,757
2015-16	\$196,168
2016-17	\$200,679
2017-18	\$205,295
2018-19	\$210,017

Fiscal Year	Revenue
2019-20	\$214,847
2020-21	\$219,789
2021-22	\$224,844
2022-23	\$230,015
2023-24	\$235,306
2024-25	\$240,718
2025-26	\$246,254
2026-27	\$251,918
TOTAL	\$3,877,080

Operating and Maintenance Costs – DA&CS provided expenditure estimates for the first three years of operation. Certain estimates were modified by the Fiscal Research Division to conform to standard fiscal note estimate assumptions. The following assumptions were used to calculate the cost estimate:

- Operating and maintenance estimates were revised by DA&CS on July 10, 2006 to reflect the construction of one 80-stall horse barn
- The one barn would be occupied and operating by July 1, 2008
- Assumes full operation in FY 2010-11
- 2 new positions will be created at an initial salary cost of \$53,000, plus benefits costing \$15,377
- The Center would use part-time and temporary labor totaling \$18,985 in FY 2008-09 and inflated by 5% in FY 2009-10 and FY 2010-11
- Salaries inflation – 3.6% (FY 2009-10), 3.4% subsequent fiscal years
- Non-Salary expenditures (including part-time and temporary labor) will inflated by 2.3% after FY 2010-11

Chart 7 - SBMEAC Estimated Operating and Maintenance Expenditures			
Fiscal Year	Salary & Benefits	Non-Salary Operating & Maint.	Total
2006-07			\$0
2007-08			\$0
2008-09	\$32,472	\$88,020	\$120,492
2009-10	\$69,546	\$101,070	\$170,616
2010-11	\$71,911	\$106,887	\$178,798
2011-12	\$74,356	\$109,345	\$183,701
2012-13	\$76,884	\$111,860	\$188,744
2013-14	\$79,498	\$114,433	\$193,931
2014-15	\$82,201	\$117,065	\$199,266
2015-16	\$84,995	\$119,758	\$204,753
2016-17	\$87,885	\$122,512	\$210,397

Fiscal Year	Salary & Benefits	Non-Salary Operating & Maint.	Total
2017-18	\$90,873	\$125,330	\$216,203
2018-19	\$93,963	\$128,212	\$222,176
2019-20	\$97,158	\$131,161	\$228,319
2020-21	\$100,461	\$134,178	\$234,639
2021-22	\$103,877	\$137,264	\$241,141
2022-23	\$107,409	\$140,421	\$247,830
2023-24	\$111,061	\$143,651	\$254,711
2024-25	\$114,837	\$146,955	\$261,791
2025-26	\$118,741	\$150,335	\$269,076
2026-27	\$122,778	\$153,792	\$276,571
TOTAL	\$1,720,905	\$2,382,250	\$4,103,155

Cash Flow – The following assumptions were used to develop the cash flow analysis contained in Chart 8:

- Current & New Revenue includes the September 2006 completion of a barn currently under construction and the one barn proposed in SB 1892
- Current & New Operating Costs includes the costs associated with the new barn slated for completion in September 2006 and the one barn proposed in SB 1892
- Total Debt Service includes lease-purchase payments to the Martin County Economic Development Corporation and the proposed special indebtedness in SB 1892

The final analysis in the following cash flow projection is that **the Center is expected to produce sufficient revenue from all activities to cover the estimated debt service requirements for the Center.** When all sources of availability (receipts and General Fund appropriation) are measured against the estimated expenditures for the Center, **the Center falls short of being self-sufficient in each year of the projection.** The most significant shortfall would be in FY 2008-09 (\$353,585), **but General Fund impact would occur as early as FY 2006-07 at \$116,071.**

Chart 8 – SBMEAC Cash Flow Projection (\$ Thousands)						
Fiscal Year	Current & New Revenues	Current & New Operating Costs	Total Debt Service	Total Expenditures	Revenues/Debt Service Balance	Revenues/Total Expenditures Balance
2006-07	\$1,062	\$1,005	\$173	\$1,178	\$889	(\$116)
2007-08	\$1,113	\$1,031	\$428	\$1,459	\$685	(\$346)
2008-09	\$1,240	\$1,175	\$418	\$1,594	\$822	(\$354)
2009-10	\$1,310	\$1,250	\$409	\$1,658	\$901	(\$349)
2010-11	\$1,328	\$1,283	\$399	\$1,682	\$929	(\$354)

Fiscal Year	Current & New Revenues	Current & New Operating Costs	Total Debt Service	Total Expenditures	Revenues/Debt Service Balance	Revenues/Total Expenditures Balance
2011-12	\$1,346	\$1,313	\$390	\$1,703	\$956	(\$357)
2012-13	\$1,364	\$1,344	\$380	\$1,724	\$984	(\$360)
2013-14	\$1,383	\$1,376	\$371	\$1,747	\$1,012	(\$364)
2014-15	\$1,402	\$1,408	\$361	\$1,770	\$1,041	(\$368)
2015-16	\$1,422	\$1,442	\$352	\$1,793	\$1,070	(\$372)
2016-17	\$1,442	\$1,476	\$342	\$1,818	\$1,099	(\$376)
2017-18	\$1,462	\$1,511	\$333	\$1,843	\$1,129	(\$381)
2018-19	\$1,483	\$1,546	\$323	\$1,870	\$1,160	(\$386)
2019-20	\$1,505	\$1,583	\$314	\$1,897	\$1,191	(\$392)
2020-21	\$1,527	\$1,620	\$304	\$1,925	\$1,222	(\$398)
2021-22	\$1,549	\$1,659	\$217	\$1,876	\$1,332	(\$326)
2022-23	\$1,572	\$1,698	\$208	\$1,906	\$1,365	(\$333)
2023-24	\$1,596	\$1,738	\$198	\$1,936	\$1,398	(\$340)
2024-25	\$1,620	\$1,779	\$189	\$1,968	\$1,431	(\$348)
2025-26	\$1,645	\$1,822	\$179	\$2,001	\$1,466	(\$356)
2026-27	\$1,670	\$1,865	\$170	\$2,035	\$1,500	(\$365)
TOTALS	\$30,041	\$30,922	\$6,459	\$37,382		

SOURCES OF DATA: Office of State Treasurer, Wildlife Resources Commission, the Nature Conservancy, and the Department of Agriculture and Consumer Services.

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

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DATE: July 13, 2006



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