# NORTH CAROLINA GENERAL ASSEMBLY
# LEGISLATIVE FISCAL NOTE

**BILL NUMBER**: SB 912 (Second Edition) Bonds for Higher Education

**SHORT TITLE**: Bonds for Higher Education

## FISCAL IMPACT

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

| | FY 1999-00 | FY 2000-01 | FY 2001-02 | FY 2002-03 | FY 2003-04 |
|---|---|---|---|---|---|
| **EXPENDITURES*** | | $ 33.0 | $ 91.5 | $172.6 | $244.8 |

**(See "Assumptions and Methodology" for additional costs**

**PRINCIPAL DEPARTMENTS & PROGRAMS AFFECTED**: Department of State Treasurer, Board of Governors of the University of North Carolina.

**EFFECTIVE DATE**: When the bill becomes law.

*Debt service costs for the State General Fund. The expenditures end with the 2023-24 fiscal year. The maximum annual debt service in actual dollars is $314.9 million for the 2004-05 fiscal year.

**BILL SUMMARY**: (1**) Security Interest Bonds**. Authorizes the State to issue up to $2.7 billion of university improvement security bonds secured by a lien on or security interest in university property acquired, constructed, or improved with the bond proceeds. The debt service on the bonds would be paid from the State General Fund. The maximum amount of these bonds that could be issued per state fiscal year is:

| | |
|---|---|
| 1999-00 | $240,000,000 |
| 2000-01 | 480,000,000 |
| 2001-02 | 700,000,000 |
| 2002-03 | 640,000,000 |
| 2003-04 | 640,000,000 |

In addition, this part of the bill authorizes $300 million of community college security interest bonds secured by a lien on or security interest in community college property acquired, constructed, or improved with the bond proceeds. The debt service on the bonds would be paid from the State General Fund. The bond proceeds could be used for new construction and repairs or renovations.

The proposed security interest bonds do not pledge the full faith and credit or the taxing power of the State. Thus, they do not require a vote of the people. The maximum maturity on the bonds would be 25 years.

The bill lists $2.418 billion of university projects to be funded by the bonds. In addition, the bill calls for financing a $282 million reserve for university campus projects to be funded jointly from the bonds and private donations. For these projects, the Board of Governors shall employ a private consultant to develop a list of capital projects to be funded in this manner. The Board shall submit this list, including the proposed matching requirements by the university system, to the General Assembly by April 1, 2000. The matching requirements would be based on an analysis of the fund raising potential for each institution.

The bill also lists the $300 million of community college projects to be funded by the bonds.

2**. UNC Special Obligation Bonds**. Authorizes the UNC Board of Governors to issue special obligation bonds payable with any source of income or receipts of the Board of Governors or a constituent institution with the exception of tuition payments or General Fund appropriations. The bond proceeds could be used for construction, improvement, and acquisition of any building or facilities located at UNC constituent and affiliated institutions. The maximum maturity on the bonds would be 25 years. The bonds can be issued only for projects specifically authorized by the General Assembly.

The special obligation bonds do not pledge the full faith and credit or taxing power of the State. Thus, they do not require a vote of the people. The bonds would be secured by the Board of Governors' pledge of income or receipts to serve as security for the bonds. Property may not be pledged as security. Language in the bill authorizes and requires the Board to increase the underlying fees or charges as necessary to generate sufficient revenues to pay the bonds. In addition, the Board must set aside a sufficient amount of resources on a regular basis into a sinking fund pledged to pay the debt service on the bonds. Finally the State pledges and contracts that it will not limit or alter the rights vested in the Board of Governors with respect to the bonds as long as any bonds are outstanding.

The amount of special obligation bonds that may be issued is limited only by the extent to which the Board finds that sufficient obligated resources are "reasonably expected" to be available to pay the debt service.

**ASSUMPTIONS AND METHODOLOGY**:

**Debt Service on Security Interest Bonds**.
The starting point for calculating the estimated debt service amount for each fiscal year was a debt service schedule provided by the Office of State Treasurer for $2.0 billion of bonds issued in 5 equal installments on February 1 of each year. The Treasurer's schedule was based on a maximum bond maturity of 19 years for each bond issuance and an average interest rate of 6%. The FRD adjustment simply increased (or reduced) the Treasurer's annual debt service amounts proportionately to reflect the FRD assumption that the amount of university bonds issued on February 1 of each year was equal to the maximum allowed for that fiscal year. In addition, the adjustment assumed that the $300 million of community college bonds would be issued in five equal installments on the same dates as the university bonds.

**Debt Service on UNC Special Obligation Bonds.**
This analysis does not address the debt service on these bonds since the requirements are not a General Fund responsibility.

**Operation and Maintenance Costs of University Facilities.**
The Finance Division of UNC General Administration has estimated that the operation costs for the $2.4 billion of named projects in the bill ranges from $25.0 million to $33.9 million in current dollars. This level of expenses will occur once all of the bonds are sold and all of the construction and renovation activity financed by the bonds has been completed. There are no numbers for the $283 million of undesignated projects and the repairs/renovations projects.

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**DATE**: June 30, 1999

**Official Fiscal Research Division Publication**

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