

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

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

**SHORT TITLE:** Finance Cancer Center & Cardio Institute.

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

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2004-05</u></b>	<b><u>FY 2005-06</u></b>	<b><u>FY 2006-07</u></b>	<b><u>FY 2007-08</u></b>	<b><u>FY 2008-09</u></b>
<b>EXPENDITURES</b>	<b>.8</b>	<b>5.0</b>	<b>12.4</b>	<b>18.6</b>	<b>22.7*</b>
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> 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.					
<b>EFFECTIVE DATE:</b> When it becomes law.					
*The maximum annual debt service is \$25.1 million in FY 2009-10. The total interest on the \$240 million of debt is \$161.4 million.					

**BILL SUMMARY:** 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.

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.

**ASSUMPTIONS AND METHODOLOGY:**

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.

	<b>CASH FLOW NEEDS (\$Mil.)</b>					
	<b>Total</b>					
	<b>Project Cost</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
Cancer Center	180.00	18.00	40.50	40.50	40.50	40.50
Cardio Center	60.00	6.79	26.62	26.59		
<b>TOTAL</b>	<b>240.00</b>	<b>24.79</b>	<b>67.12</b>	<b>67.09</b>	<b>40.50</b>	<b>40.50</b>

The Department of State Treasurer provided an analysis of debt service costs for the original size and construction cash flow needs schedule of the proposed certificates of participation. These estimates were modified to fit the revised cash flow needs by the Fiscal Research Division using the State Treasurer’s spreadsheet 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.

**FISCAL RESEARCH DIVISION: (919) 733-4910**

**PREPARED BY:** David Crotts

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

**DATE:** May 17, 2004



**Signed Copy Located in the NCGA Principal Clerk's Offices**