

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 1098 (Second Edition)

SHORT TITLE: State Health and Biotechnology Financing.

SPONSOR(S): Senators Kerr and Jenkins

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
EXPENDITURES					
Debt Service*	.4	1.8	6.9	18.8	28.2
HWTF Trust Fund Earmark.	-.4	-1.8	-6.9	-18.8	-28.2
Net General Fund	.0	.0	.0	.0	.0
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 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 million of debt is \$229.6 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 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.

The bill provides that the Health and Wellness Trust Fund must transfer to the General Fund each fiscal year the estimated debt service on the indebtedness authorized in this bill. The amount transferred each year is capped at 60% of the Trust Fund's receipts for the year. If the debt service exceeds the cap, the Tobacco Trust Fund must transfer the balance.

The bill requires the State Treasurer to conduct a study of proposed real estate certificates of participation (RECOP) indebtedness 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. RECOP indebtedness would be a form of special indebtedness structured so that the principal and a portion of the interest are not paid in installments over the term of the debt. This portion of the interest would compound and be payable, along with the principal, only at maturity or earlier redemption.

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 <u>Project Cost</u>	CASH FLOW NEEDS (\$Mil.)					
		<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
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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Signed Copy Located in the NCGA Principal Clerk's Offices