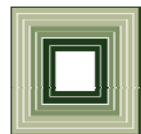


Overview of State Capital

**Joint Appropriations
Committee**

May 14, 2008

**Jim Klingler
Senior Fiscal Analyst
Fiscal Research Division**



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Preview

- State Capital Assets
- Capital Improvements Planning
- Methods of Financing Capital
- Capital Funding History
- Capital Appropriations Process and Issues for 2008
- Questions

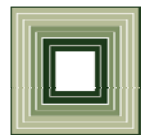
What is a Capital Improvement?

Definitions

- Capital Improvements - real property acquisition, new construction or rehabilitation of existing facilities, and repairs and renovations (G.S. 143C-1-1)
- Allocated to State agencies including the Board of Governors of the University of North Carolina

State Capital Assets

**Overview of State Capital
Joint Appropriations Committee
May 14, 2008**



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State Assets – The Overall Points

1. The great size of the State's construction and property management program
2. Diversity of the types of assets managed by the State

Property Management Context

In November 2006:

- The Blackstone Group acquired Equity Office Properties Trust
- Blackstone consolidated Equity Office with other real estate holdings
- Equity Office is the largest publicly traded office management firm in the US

Property Management Context

- Under Blackstone, Equity Office owns:
 - 300 office buildings
 - 50 million gross square feet
- By Comparison the State owns:
 - 11,804 buildings
 - 107.8 million gross square feet

Overall State Assets

11,804 buildings
107.8 million gross square feet

Which Agencies have the most building space?

Agency	Gross Square Footage	Number of Buildings
UNC	62.7 million	2,982
DOC	11 million	1,894
DHHS	8.3 million	870
DOT	6.2 million	2,252

Overall State Assets

8,500 parcels of land
803,691 acres of land

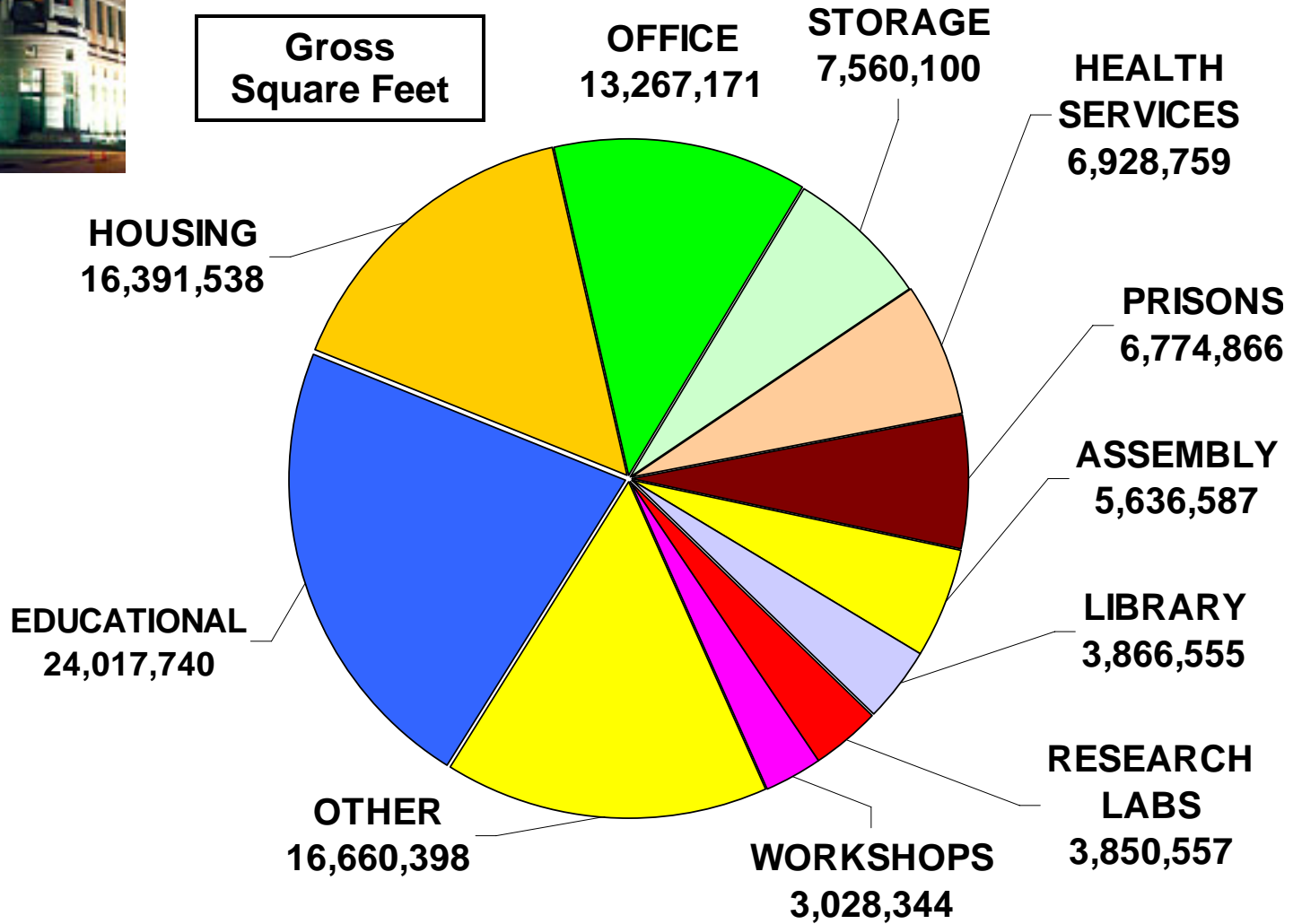
Which Agencies have the most land?

Agency	Acreage	Number of Parcels
DENR	640,924	3,927
UNC	39,071	2,095
DACS	37,754	145
DHHS	30,004	304



State Assets by Function

Gross Square Feet

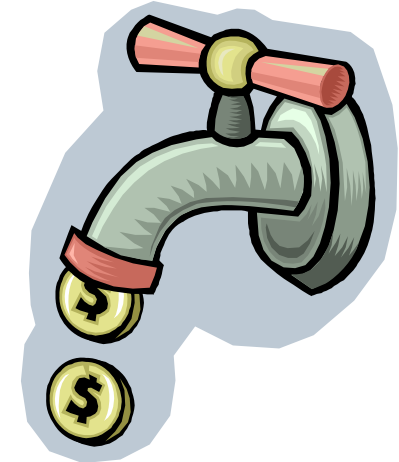


- OTHER USES:**
- AGRICULTURAL
 - ARMORY
 - FOOD SERVICE
 - STUDENT UNION
 - RETAIL SALES
 - MUSEUM
 - UTILITIES
 - RECREATIONAL
 - HISTORICAL
 - ANIMAL HOUSING
 - TV STUDIO/COMM.
 - WELCOME CENTERS
 - RELIGIOUS

The State's Dependence on Leasing

As of February 2008:

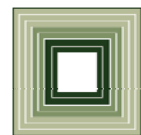
- The State was leasing 5,783,770 net square feet
- Annual rent was \$70.9 million
- Average cost per square foot was \$12.26
- Annual growth rate of leased space:



2004	2005	2006	2007
3.6%	6.3%	8.7%	1.8%

Capital Improvements Planning

**Overview of State Capital
Joint Appropriations Committee
May 14, 2008**



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Capital Planning and the State Budget Act

Policy of the State (G.S. 143C-8-1):

- Capital Plan and Capital Budget integrated with financial and debt management
- The Office of State Budget and Management is responsible for (G.S. 143C-8-1):
 - The State's Capital Plan
 - Overall Capital Improvement Program

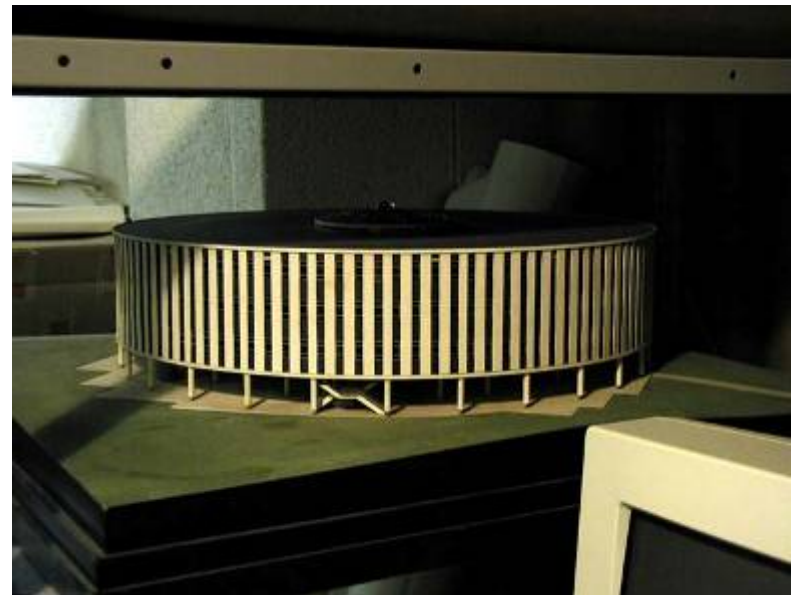
Capital Needs Estimates (G.S. 143-8-4)

- State agencies submit a capital needs estimate
- OSBM and Fiscal Research Division
- Six-Year Horizon
- Includes Repairs and Renovations
- Board of Governors criteria for UNC Projects



Capital Improvement Plan (G.S. 143C-8-5)

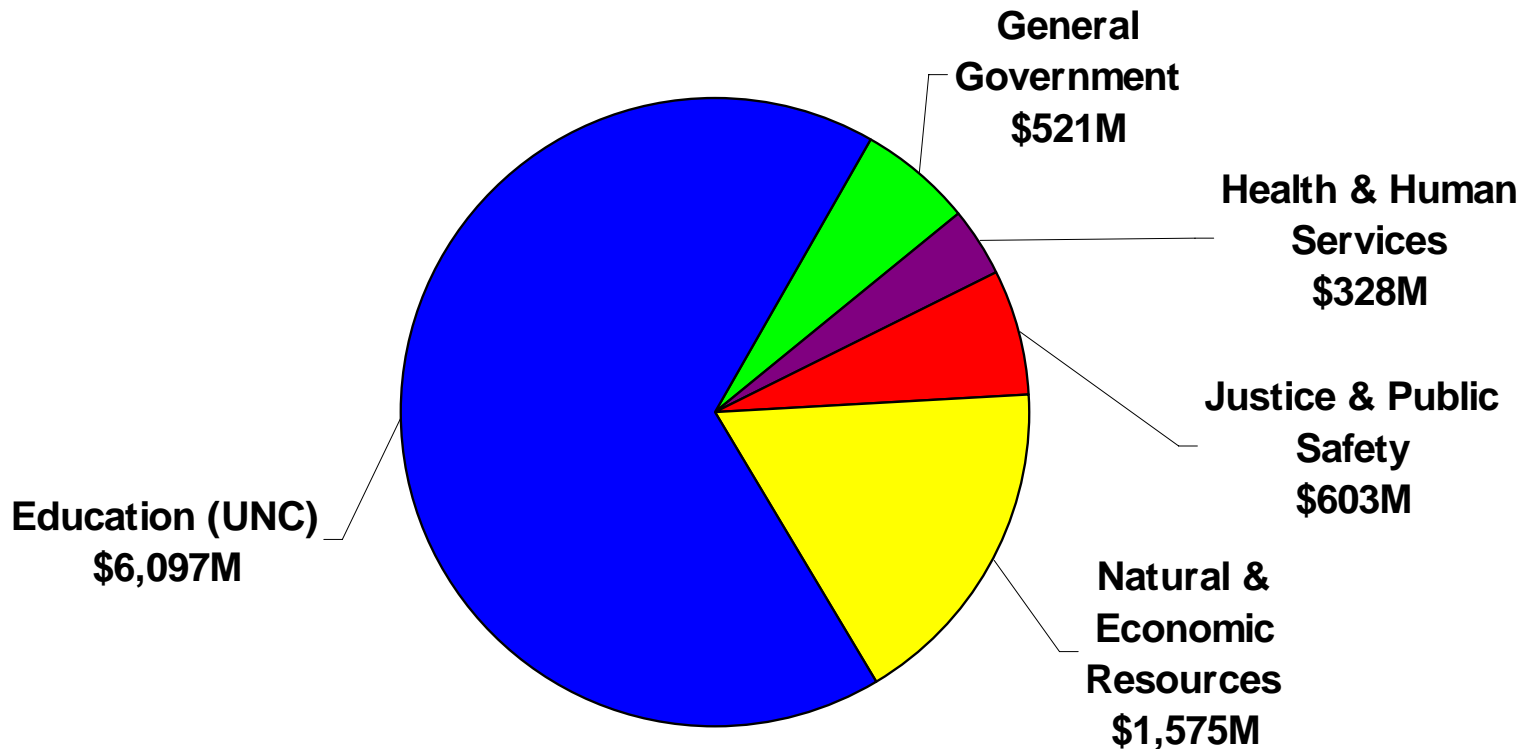
- The Governor submits the Plan biennially
- Six-Year Planning Horizon
- All capital projects, regardless of source of funding
- Projects must be prioritized
- Initial years are converted into the Governor's Capital Budget

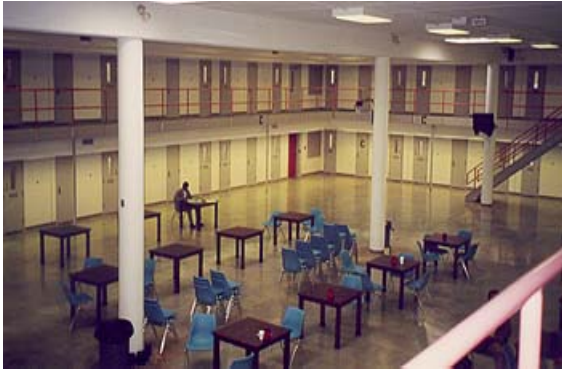




2007-13 Capital Needs Schedule

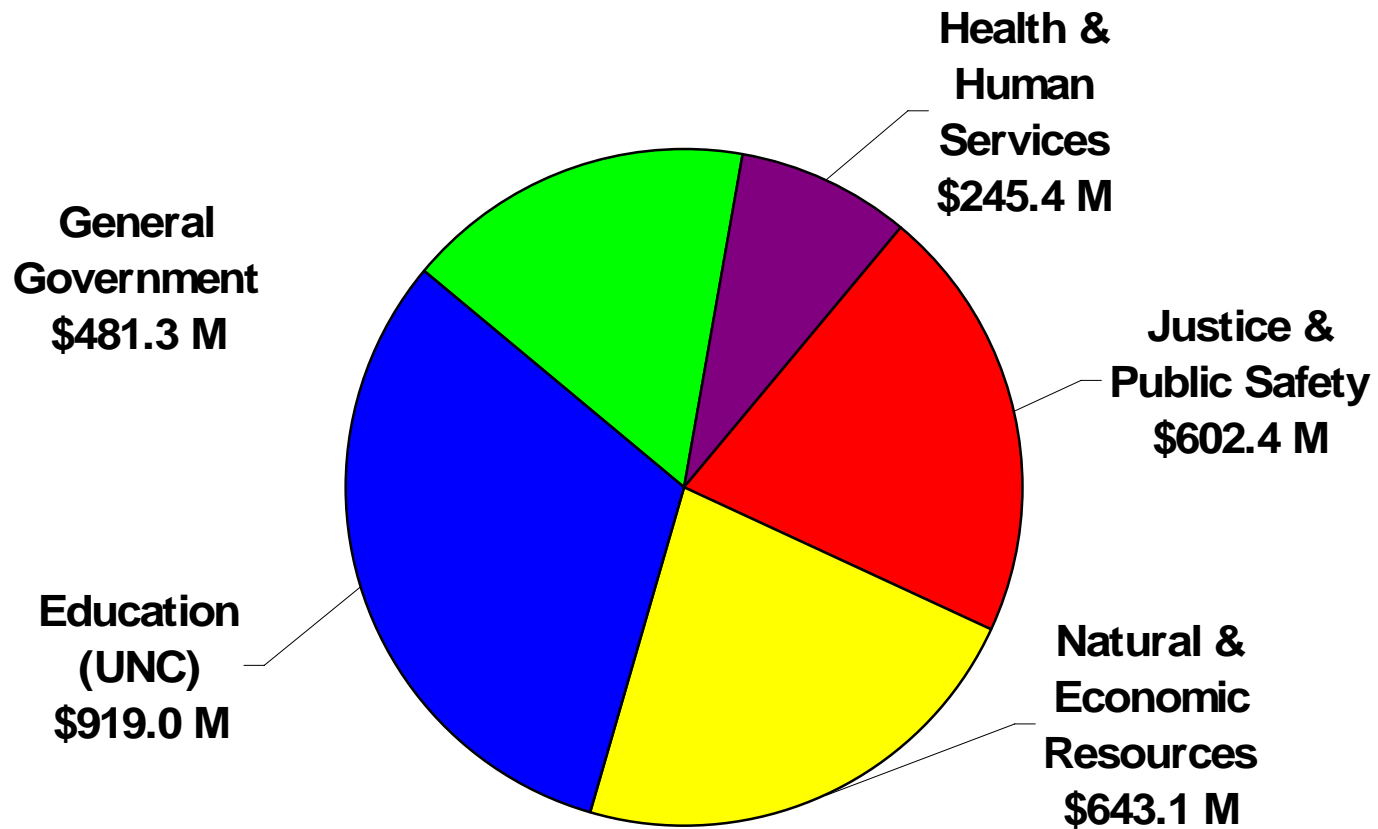
- \$7.8 billion for New Construction
- \$1.3 billion for Repairs and Renov.
- \$9.1 billion = Total





2007-13 Capital Improvements Plan

- \$2.3 billion for New Construction
- \$0.6 billion for Repairs and Renov.
- \$2.9 billion = Total



UNC Board of Governors Capital Plan

- Included in the State's six-year capital plan
- Independently submitted to the General Assembly
- Considered side-by-side with the State's overall capital plan
- Revised 2007-13 BOG Capital Plan:

\$7.7 Billion



The Capital Plan and Debt Affordability

- 2008 Debt Affordability Study
- Debt Affordability Advisory Committee (G.S. 142-101)
- Capacity for authorizing new **debt principal**

Debt Service at 4% of General Fund Tax Revenues(\$ in millions)

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Additional Debt Capacity	\$1,563.1	\$53.3	\$2.3	\$317.1	\$103.8
"Smoothed" Debt Capacity	\$479.7	\$479.7	\$479.7	\$479.7	\$479.7

Debt Service at 4.75% of General Fund Tax Revenues(\$ in millions)

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Additional Debt Capacity	\$3,976.8	\$0.0	\$0.0	\$247.6	\$169.9
"Smoothed" Debt Capacity	\$725.9	\$725.9	\$725.9	\$725.9	\$725.9

Bringing the Capital Program Together

- Agency submits six-year capital needs schedule
- OSBM analyzes:
 - Historical Expenditures / Revenue Projections
 - Operating Budget pressures
 - Debt Capacity
- OSBM produces the six-year Capital Improvement Program

Bringing the Capital Program Together

- OSBM submits the Capital Plan, and
- The Governor submits a Capital Budget
- The General Assembly assesses
 - Governor's Capital Budget
 - the State's Capital Plan
 - UNC's Capital Plan
 - Debt Affordability Study

Bringing the Capital Program Together

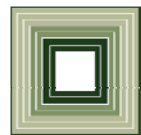
The General Assembly produces a Capital Budget that may include both cash and debt financed projects

Methods of Financing Capital

Overview of State Capital

Joint Appropriations Committee

May 14, 2008

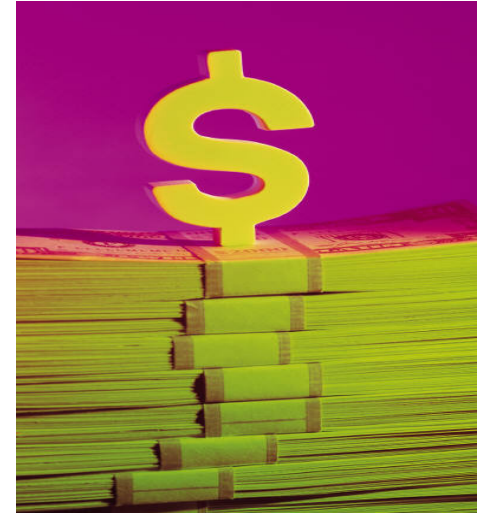


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Methods of Financing Capital

Pay-as-you-go (Cash)

- General Fund appropriations
- Dedicated revenues
- Statutory appropriations
- Gifts and Grants
- Receipts



Methods of Financing Capital

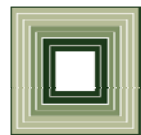
Debt Financing

- General Obligation Bonds
- Legislative Bonds (“Two-Thirds”)
- Special Indebtedness
- Revenue Bonds
- Special Obligation Bonds



Capital Funding History

**Overview of State Capital
Joint Appropriations Committee
May 14, 2008**



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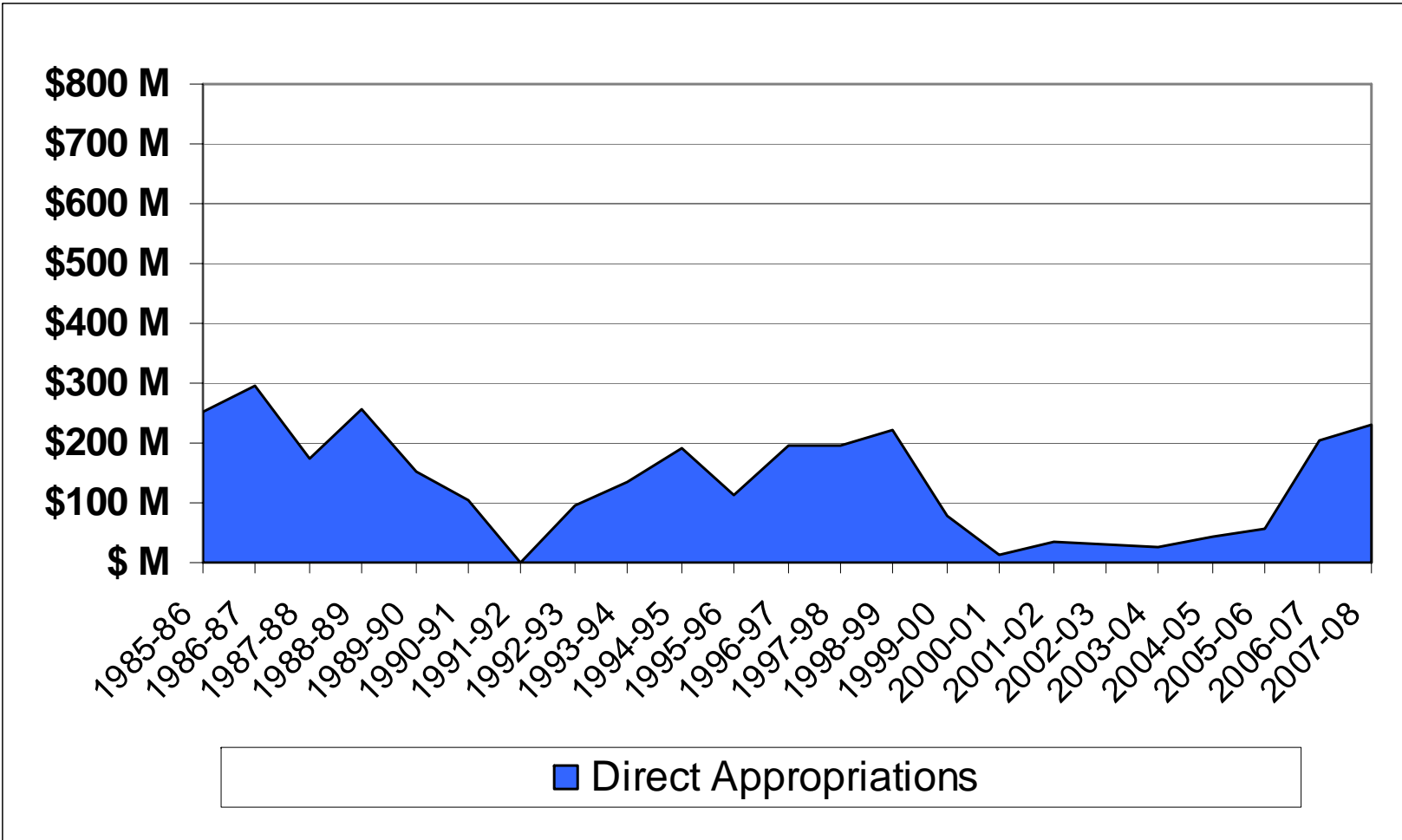
Capital Improvement Funding History

- Traditional Policy
 - Pay-as-you-go
 - Availability driven
- New Policy
 - Debt and Cash Mix
 - Last G.O bond (2000)
 - Recent reliance on special indebtedness
- Repairs and Renovations Reserve Account
 - 25% Unreserved Year-End Credit Balance
 - General Fund supported buildings



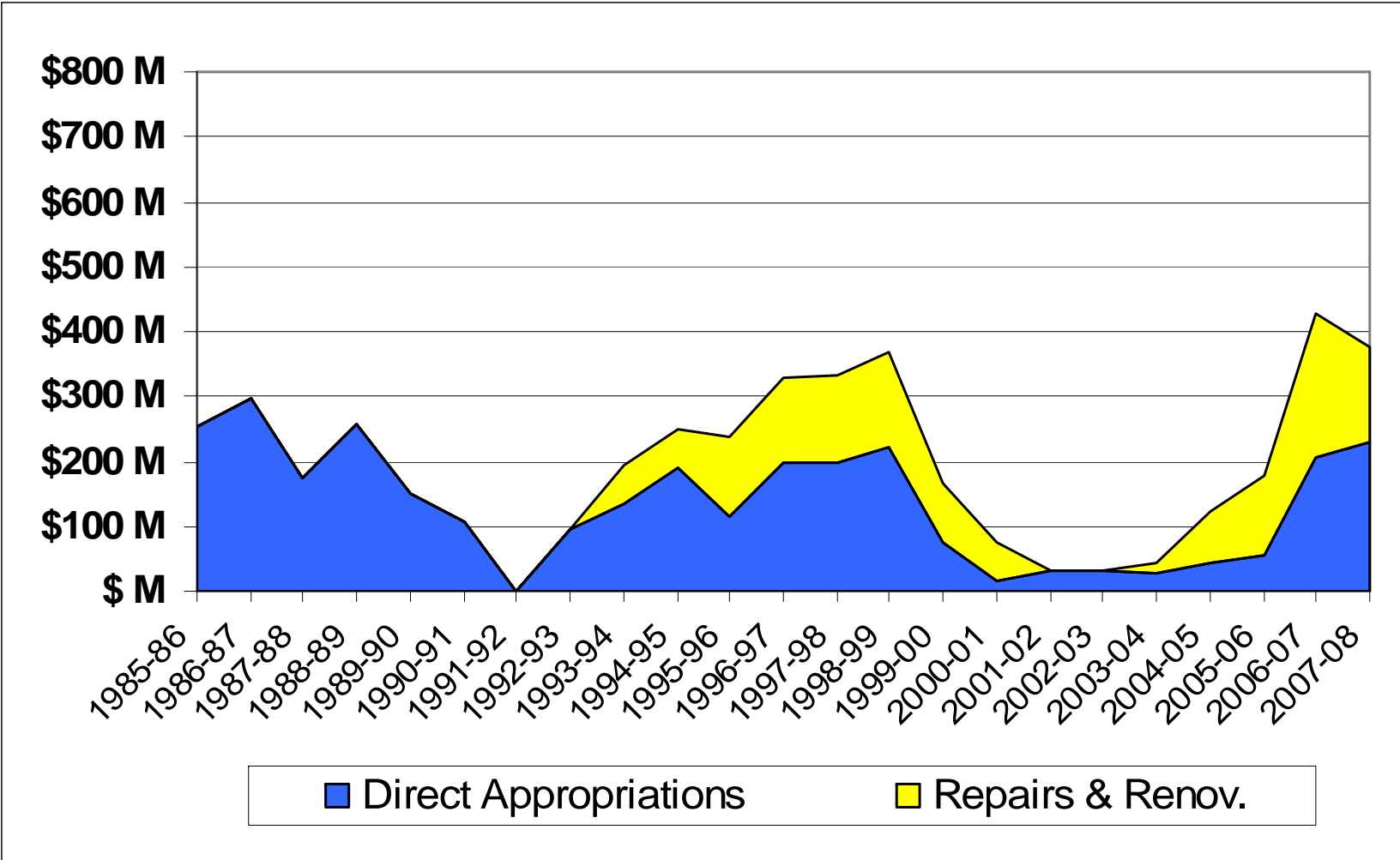
General Fund Appropriations

State Facilities Including UNC Capital



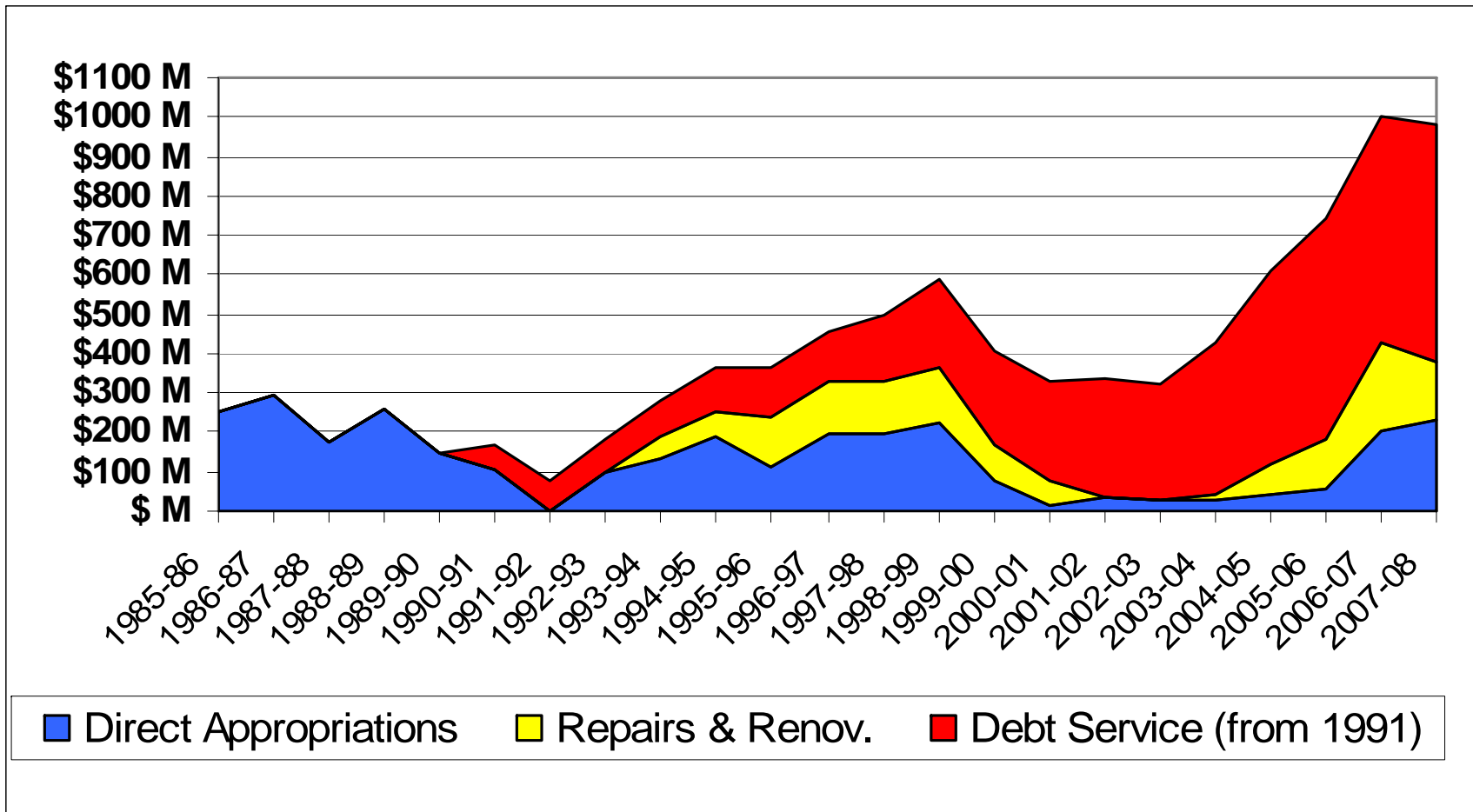
General Fund Appropriations

State Facilities Including UNC Capital



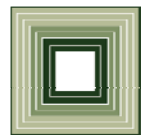
General Fund Appropriations

State Facilities, UNC, State-supported Debt Service



Capital Appropriations Process and Issues for 2008

**Overview of State Capital
Joint Appropriations Committee
May 14, 2008**



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Capital Appropriations Process

- House Appropriations Subcommittee on Capital
 - Meets regularly
 - Recommends Capital Budget to Full Committee
- No Senate Capital Subcommittee
 - Chairs of Senate Appropriations deliberate
 - Recommend Capital Budget to Full Committee
- Debt Authorizations approved by the Finance and Appropriations Committee of both chambers

Capital Appropriations Process

Taking up Capital Projects

1. Projects that received planning and partial construction funding in the past
2. Projects that received planning funding in the past
3. Governor's Budget, State's Capital Plan, or the UNC Capital Plan

Partially Funded Capital Projects

Changes in Budgeting Practice (2006):

- More Advanced Planning
- Funding partial Construction
 - (Genomic Science Bldg. at UNC-CH)
- No legal obligation to complete projects
- Great Pressure to Complete

2007 Capital Planning Funds

Dept	Project	2007 Planning Funds	Funds Needed to Complete
UNC	ECSU - School of Education Building Planning	\$2,000,000	\$18,000,000
UNC	ECSU - Aviation Capital Planning	\$500,000	\$14,500,000
UNC	NCCU - School of Nursing Planning	\$2,500,000	\$21,500,000
UNC	UNCCH BRIC Building	\$8,000,000	\$127,000,000
UNC	UNCG - Education Building Planning	\$2,500,000	\$42,667,000
UNC	WSSU - Science & General Office Bldg Planning	\$3,312,000	\$24,900,000
UNC	NCSSM - Discovery Center Planning	\$3,337,000	\$66,663,000
DOC	Scotland CI Minimum Security Addition	\$1,033,088	\$12,158,212
DOC	Bertie CI Medium Security Addition	\$1,551,950	\$18,264,550
DOC	Lanesboro CI Medium Security Addition	\$547,839	\$19,268,661
DOC	Tabor CI Minimum Security Addition	\$364,680	\$12,826,620
DJJDP	5 New Youth Development Centers Planning	\$1,500,000	\$36,000,000
DOA	State Visitors' Center	\$627,281	\$27,372,719
	Capital Planning Subtotal	\$27,773,838	\$441,120,762

Note: "Funds Needed to Complete" based on 2007 cost estimates

2007 Capital Planning and Partial Construction

Dept	Project	2007 Planning & Site Work Funds	Funds Needed to Complete
UNC	ECU - Dental School	\$25,000,000	\$62,000,000
UNC	NC A&T - General Classroom Building	\$5,300,000	\$20,487,000
UNC	NCSU - Centennial Library	\$17,000,000	\$97,000,000
UNC	UNCCH - School of Dentistry	\$25,000,000	\$71,000,000
UNC	UNCC - Energy Production Infr. Center (EPIC)	\$19,000,000	\$57,218,000
UNC	4-H Campuses Statewide	\$7,500,000	\$26,500,000
DOC	NCCIW Healthcare Facility	\$5,000,000	\$34,763,100
DENR	Green Square	\$25,000,000	\$77,750,000
	Partial Construction Subtotal	\$128,800,000	\$446,718,100

Note: "Funds Needed to Complete" based on 2007 cost estimates

$$\begin{array}{rcl}
 \text{Planned Projects} & \text{Planned \& Partial Constr.} & \\
 \$441.1 \text{ million} & + & \$446.7 \text{ million} & = & \$887.8 \text{ million}
 \end{array}$$

Repairs and Renovations

- Averaging \$110 million in appropriations per year
- Identified R&R Needs:
 - State Capital Improvements Program = \$1.2 Billion
 - Facilities Condition & Assessment Program = \$1.9 Billion
- General Assembly's adding an average of \$446 million in new General Fund supported construction per year

In Closing

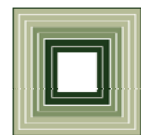
- Few organizations public or private have building programs as large or complex as the State
- The State has a Capital Improvements Program with a Six-Year Capital Plan and processes for capital decision-making
- Funding of the State's building program has increased, but has shifted from pay-as-you-go to debt financing

In Closing

- The State has increasingly relied on non-voted debt
- Previously funded plans and site work will press the General Assembly to fund at least \$887 million in capital in 2008
- The State has consistently funded a fraction of a growing repairs and renovation needs

Questions?

**Overview of State Capital
Joint Appropriations Committee
May 14, 2008**



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Overall State Assets

11,804 buildings
107.8 million gross square feet
\$14.9 billion replacement value

	Gross Square Footage	Insurance Value	Number of Buildings	Acreage	Number of Land Parcels
UNC	62,763,542	\$3,887,262,773	2,982	39,071	2,095
DOC	11,015,934	\$419,055,399	1,894	25,836	259
DHHS	8,322,991	\$555,293,251	870	30,004	304
DOT	6,222,873	\$185,525,981	2,253	9,203	764
DOA	4,180,820	\$508,734,382	123	5,051	342
DACS	3,383,003	\$103,304,299	696	37,754	145
Commerce	3,242,144	\$125,326,781	112	1,491	92
DENR	2,745,420	\$89,956,002	1,929	640,924	3,927
DCCPS	2,314,622	\$102,652,936	326	6,393	204
DCR	1,236,380	\$74,351,655	341	4,194	282
DJJDP	1,067,495	\$43,905,013	177	3,534	70
Other	1,487,391	\$65,851,201	101	235	16
Total	107,982,615	\$6,161,219,672	11,804	803,691	8,500

23-year Capital Authorizations – General Fund

Fiscal Year	Direct Appropriation	Repairs and Renovations	G.O. Bonds State Projects	Legislative Bonds / COPs	Grand Total
1986-87	\$297.7 M				\$297.7 M
1987-88	\$173. M				\$173. M
1988-89	\$258.7 M			\$20.5 M	\$279.2 M
1989-90	\$150.1 M		\$200. M	\$. M	\$350.1 M
1990-91	\$106.4 M			\$75. M	\$181.4 M
1991-92	\$. M			\$45. M	\$45. M
1992-93	\$95.2 M				\$95.2 M
1993-94	\$135.4 M	\$57. M	\$740. M		\$932.4 M
1994-95	\$189.4 M	\$60. M			\$249.4 M
1995-96	\$113.5 M	\$125. M	\$345. M		\$583.5 M
1996-97	\$196.8 M	\$130. M			\$326.8 M
1997-98	\$197.3 M	\$135. M			\$332.3 M
1998-99	\$222.2 M	\$145. M	\$1000. M		\$1367.2 M
1999-00	\$77.1 M	\$90. M			\$167.1 M
2000-01	\$15. M	\$60.5 M			\$75.5 M
2001-02	\$32.9 M		\$2500. M	\$17.5 M	\$2550.4 M
2002-03	\$31.2 M			\$50. M	\$81.2 M
2003-04	\$27.6 M	\$15. M		\$651.6 M	\$694.2 M
2004-05	\$45.2 M	\$76.8 M		\$558. M	\$680. M
2005-06	\$55. M	\$125. M			\$180. M
2006-07	\$206.3 M	\$222.2 M		\$185.9 M	\$614.4 M
2007-08	\$230.7 M	\$145. M		\$451.6 M	\$827.3 M
2008-09				\$371.5 M	\$371.5 M
2009-10				\$339.4 M	\$339.4 M

Total UNC Authorizations – Since 2000

Campus	General Fund Appropriation	2000 GO Bonds	2003 R&R COPs	2004, 2006 & 2007 COPs	Self Liquidating	Total Capital
Appalachian State	\$1.8 M	\$88.3 M	\$7.7 M	\$34.0 M	\$138.4 M	\$270.2 M
East Carolina	\$25.0 M	\$190.6 M	\$12.1 M	\$60.0 M	\$168.6 M	\$456.3 M
Elizabeth City State	\$2.5 M	\$46.8 M	\$3.3 M	\$28.0 M	\$16.2 M	\$96.8 M
Fayetteville State	\$1.0 M	\$46.5 M	\$3.2 M	\$32.6 M	\$2.8 M	\$86.0 M
NC A&T	\$12.8 M	\$163.4 M	\$7.7 M	\$26.5 M	\$17.7 M	\$228.1 M
NC Central	\$2.5 M	\$122.0 M	\$5.6 M		\$63.5 M	\$193.6 M
School of the Arts	\$1.0 M	\$42.5 M	\$3.0 M	\$24.9 M	\$1.0 M	\$72.5 M
NC State	\$86.7 M	\$472.7 M	\$24.2 M	\$72.0 M	\$527.1 M	\$1,182.8 M
UNC-Asheville		\$50.5 M	\$3.7 M	\$43.7 M	\$16.4 M	\$114.3 M
UNC-Chapel Hill	\$63.9 M	\$515.2 M	\$27.9 M	\$299.6 M	\$1,314.1 M	\$2,220.7 M
UNC-Charlotte	\$23.0 M	\$190.7 M	\$7.1 M	\$80.8 M	\$190.4 M	\$492.0 M
UNC-Greensboro	\$9.3 M	\$166.9 M	\$10.5 M	\$36.5 M	\$93.8 M	\$316.9 M
UNC-Pembroke	\$1.0 M	\$56.9 M	\$3.5 M	\$29.0 M	\$12.2 M	\$102.6 M
UNC-Wilmington	\$30.1 M	\$110.3 M	\$4.6 M	\$34.5 M	\$78.8 M	\$258.3 M
Western Carolina	\$7.4 M	\$100.3 M	\$5.1 M	\$51.6 M	\$129.9 M	\$294.4 M
Winston-Salem State	\$8.8 M	\$47.2 M	\$3.4 M	\$28.7 M	\$12.1 M	\$100.1 M
Other	\$28.1 M	\$89.2 M	\$24.4 M	\$32.5 M		\$174.2 M
Subtotal	\$305.0 M	\$2,500.0 M	\$157.1 M	\$915.0 M	\$2,782.7 M	\$6,659.8 M
R&R	\$296.5 M					
Grand Total	\$398.8 M	\$2,500.0 M	\$157.1 M	\$915.0 M	\$2,782.7 M	\$6,753.6 M

General Obligation Bonds since 1971

Year	Authorization	Description	State Projects	Local Projects
1971	Chapter 909	Clean Water Bonds		150,000,000
1971	Chapter 953	NC Zoological Park Facilities	2,000,000	
1973	Chapter 657	Public School Facilities		300,000,000
1975	Chapter 854	UNC System	43,250,000	
1977	Chapter 677	Clean Water Bonds		230,000,000
1990	Chapter 935	Prison and Youth Services Facilities		
		Authorized for use in 1991	112,500,000	
		Authorized for use in 1993	87,500,000	
1993	Chapter 542	Education, Clean Water and Parks		
		UNC System	310,000,000	
		State Parks	35,000,000	
		Community Colleges		250,000,000
		Clean Water		145,000,000
1996	Chapter 631	Public School Facilities		1,800,000,000
1998	SL 1998-132	Clean Water and Natural Gas		
		Clean Water	800,000,000	
		Extension of Natural Gas Service	200,000,000	
2000	SL 2000-3	Higher Education Bonds		
		UNC System	2,500,000,000	
		Community Colleges		600,000,000