



NORTH CAROLINA GENERAL ASSEMBLY

2021 Session

Legislative Fiscal Note

Short Title: UNC Non-Appropriated Capital Projects.
Bill Number: House Bill 1068 (Second Edition)
Sponsor(s): Rep. Hardister, Rep. Pickett, Rep. Hawkins, and Rep. Hunter

SUMMARY TABLE

FISCAL IMPACT OF H.B. 1068, V.2 (\$ in millions)

	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>
State Impact					
General Fund Revenue	-	-	-	-	-
<u>Less Expenditures</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
General Fund Impact	No Fiscal Impact				

NET STATE IMPACT

No Fiscal Impact

FISCAL IMPACT SUMMARY

House Bill 1068 (Second Edition) authorizes the campuses of the University of North Carolina (UNC) to finance and construct capital improvement projects utilizing obligated resources. This Bill does not require the need for additional General Fund Appropriations, however there is a fiscal impact that is funded with other sources of University receipts.

FISCAL ANALYSIS

The bill authorizes the campuses of the University of North Carolina (UNC) to finance and construct capital improvement projects utilizing obligated resources. The projects are discussed below.

The statutory framework to authorize and issue debt lies within Article 3 of G.S. 116D. Under this Article, obligated resources refer to: rents, charges, or fees; earnings on investments of endowment funds, overhead receipts, and other resources that do not include appropriations from the General Assembly or tuition. UNC is authorized to change, with approval of the Director of the Budget, the means of finance for the projects authorized in the bill and increase or decrease the cost of the project. UNC is allowed to issue debt up to 5% above the total cost of the project, including any increase authorized by the Director of the Budget, to cover various costs of issuance of the debt. The proposed indebtedness authorized under this bill is not a debt of the State.

Table 1 provides information on the projects within Section 2 of the bill and provides the proposed sources of funding. Article 3 of G.S. 116D authorizes all obligated resources to be used as means of repayment and does not limit the source of funding to those presented in the table below. If an existing fee or receipt is to be used, the table identifies the fee and any annual increase associated with the fee.

Table 1: Campus Project Information

Campus	Project	Amount	Revenue Source
ASU	Holmes Convocation Center Parking Deck	\$20.0 m	Parking receipts
ECSU	New Residence Hall	\$5.0 m	Housing receipts
NCSU	Integrated Sciences (S.T.E.M.) Building	\$90.0 m	Facilities & administrative receipts, donations, gifts
NCAT	Bluford Street Residence Hall	\$58.0 m	Housing receipts
UNCW	Acquisition of P3 Housing Project	\$167.0 m	Housing receipts
WCU	Acquisition of P3 Housing Project	\$28.5 m	Housing receipts

In addition to this new debt, these campuses have existing debt that has been authorized under Article 3 of G.S. 116D and Part 4 of G.S. 116 (Revenue Bonds). Table 2 summarizes this outstanding debt, along with annual debt service payment information and revenue available to support debt service, estimated for FY 2021-22, for the campuses impacted by this bill. The source of information of all debt related information is the FY 2021 University of North Carolina Debt Capacity Study, as required by Article 5 of G.S. 116D.

Table 2: Existing Debt Information: FY 2021-22

Campus	Outstanding Debt	Debt Service Payment	Obligated Resources
ASU	\$336.1 m	\$26.1 m	\$284.0 m
ECSU	\$33.7 m	\$1.6 m	\$24.0 m
NCSU	\$484.1 m	\$37.3 m	\$667.9 m
NCAT	\$87.7 m	\$6.1 m	\$195.3 m
UNCW	\$199.4 m	\$17.7 m	\$188.3 m
WCU	\$189.9 m	\$10.7 m	\$162.0 m

Each campus receives a bond rating from the various bond rating agencies, and these ratings are summarized in Table 3. The most widely used agencies are Moody’s Investor Services (Moody’s), Standard and Poor’s Global Ratings (S&P), and Fitch Ratings (Fitch). A bond rating reflects the credit quality of an entity, or its ability to make timely principal and interest (i.e., debt service) payments. The rating agency also gives an “Outlook” with the rating. This factor is the agency’s estimate of how the rate will change in the future. A positive outlook means that the rating is likely to be upgraded in the future. A negative outlook means that the rating is likely to be downgraded in the future. A stable rating means the agency anticipates no change to the rating in the future.

Table 3: Campus Bond Rating Information

Campus	Moody’s		S&P		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
ASU*	Aa3	Stable	-	-	-	-
ECSU*	Baa2	Stable	-	-	-	-
NCSU	Aa1	Stable	AA	Stable	-	-
NCAT	A1	Stable	-	-	AA-	Stable
UNCW*	Aa3	Stable	-	-	-	-
WCU*	Aa3	Stable	-	-	-	-

* Moody’s is the only agency that rates ASU, ECSU, UNCW, and WCU.

G.S. 116D-56 requires UNC to study each constituent institution’s debt and ability to incur debt over the next five fiscal years. Table 4 presents the debt capacity for each constituent institution for FY 2021-22 to FY 2024-25. Each institution’s debt capacity reflects the amount of debt each institution could issue during the Study Period without exceeding its ceiling ratio for debt to obligated resources. Each institution has developed its own target policy for each ratio in consultation with the UNC System to ensure the ratio is tailored and meaningful for that institution’s size, mission, resources, and average age of plant. If a campus has a ratio of debt to obligated resources that is above the ceiling ratio, the debt capacity in the table below will show a negative value. Debt capacity is a limited metric and does not equate to debt affordability. Debt capacity is a general indicator of the school’s ability to take on more debt. Table 4 does not reflect debt proposed in this bill or associated revenue to support debt service. The debt capacity shown in each year assumes no additional debt is issued prior to that year.

Table 4: Selected Campus Debt Capacity Information

Campus	Debt Ratio Ceiling	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
ASU	1.50	\$89.9 m	\$120.9 m	\$152.6 m	\$183.4 m
ECSU	2.25	\$20.3 m	\$22.3 m	\$24.9 m	\$27.5 m
NCSU	1.25	\$350.9 m	\$394.7 m	\$439.8 m	\$485.9 m
NCAT	1.75	\$254.1 m	\$266.0 m	\$278.2 m	\$290.8 m
UNCW	1.75	\$130.2 m	\$149.5 m	\$168.4 m	\$188.0 m
WCU	2.00	\$134.1 m	\$149.7 m	\$164.2 m	\$179.2 m

Appalachian State University

The bill allows ASU to issue \$20.0 million in debt to construct a new 600-space parking deck to support the Holmes Convocation Center. The project scope includes the demolition of 110 existing surface parking spaces; relocation of the main underground electrical feeds to the campus; improvements to the intersections at Rivers Street, Hill Street, Faculty Street, and Blowing Rock Road for both vehicular and pedestrian traffic; construction of a 600-space multi-level parking deck; and the potential construction of a new pedestrian bridge or plaza from the parking deck to the Holmes Convocation Center. Debt service will be funded by increasing parking fees for the 2022-2022 Fiscal Year by 8%, and an increase of 40% for the 2023-2024 Fiscal Year.

Table 5: ASU Holmes Convocation Parking Deck*

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expense					
New Debt Service	\$0	\$0	\$0.5 m	\$1.1 m	\$1.1 m
Operating Expense	\$1.6 m	\$2.3 m	\$2.5 m	\$2.6 m	\$2.4 m
<i>Total Expenses</i>	<i>\$1.6 m</i>	<i>\$2.3 m</i>	<i>\$3.0 m</i>	<i>\$3.7 m</i>	<i>\$3.5 m</i>
Revenue					
Parking Receipts	\$3.0 m	\$3.3 m	\$4.6 m	\$4.7 m	\$4.9 m
<i>Total Revenue</i>	<i>\$3.0 m</i>	<i>\$3.3 m</i>	<i>\$4.6 m</i>	<i>\$4.7 m</i>	<i>\$4.9 m</i>
Change in Campus Fund Balance	\$1.4 m	\$1.0 m	\$1.6 m	\$1.1 m	\$1.4 m

* Totals may not add due to rounding.

Elizabeth City State University

The bill allows ECSU to issue \$5.0 million in debt to construct a new 400-bed residence hall, replacing 200 existing beds in University Towers residence hall and adding 200 new beds. The total cost of the project is \$40.0 million, with \$35.0 million having been appropriated through the State Capital and Infrastructure Fund (SCIF) in the 2021 Appropriations Act (S.L. 2021-180). The project is expected to be completed and online by Fall 2024, with a net increase of 180-200 beds as University Tower will be taken offline. No fee increase is expected as the new housing will be priced based on market conditions.

Table 6: ECSU New Residence Hall*

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expense					
New Debt Service	\$0	\$0	\$0	\$0.5 m	\$0.5 m
Operating Expense	\$8.1 m	\$8.1 m	\$8.1 m	\$9.1 m	\$9.1 m
<i>Total Expenses</i>	<i>\$8.1 m</i>	<i>\$8.1 m</i>	<i>\$8.1 m</i>	<i>\$9.6 m</i>	<i>\$9.6 m</i>
Revenue					
Housing Receipts	\$6.9 m	\$6.9 m	\$6.9 m	\$8.7 m	\$8.7 m
Dining Receipts	\$3.2 m	\$3.2 m	\$3.2 m	\$3.3 m	\$3.3 m
<i>Total Revenue</i>	<i>\$10.1 m</i>	<i>\$10.1 m</i>	<i>\$10.1 m</i>	<i>\$12.0 m</i>	<i>\$12.0 m</i>
Change in Campus Fund Balance	\$2.0 m	\$2.0 m	\$2.0 m	\$2.4 m	\$2.4 m

* Totals may not add due to rounding.

North Carolina State University

The bill allows NCSU to issue \$90.0 million in debt to meet the requirement in the 2021 Appropriations Act (S.L. 2021-180) for NCSU to commit to providing funding of at least \$90.0 million from non-State sources by June 30, 2022, for the new Integrative Sciences (S.T.E.M.) Building. The Integrative Sciences Building will further the mission of NCSU by providing much-

needed science, technology, engineering, and mathematics (S.T.E.M) teaching and research space. The building will be located in the heart of North Campus and will be approximately 145,000 gross square feet (GSF) comprised of classrooms, teaching labs, research labs, research core facilities, collaboration/study space, and office space.

The table below assumes NCSU will fund their match with \$50.0 million in fundraising donations, and issue debt once the project is complete in the amount of \$40.0 million. During construction Commercial Paper will cover the \$90.0 million in matching funds for construction costs, and at the end of construction the University pledges to repay Commercial Paper. University requires authorization now to begin construction.

Table 7: NCSU S.T.E.M Building*

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expense					
New Debt Service	\$0	\$0	\$0	\$0	\$0
Operating Expense	\$0	\$0	\$0	\$0	\$0
<i>Total Expenses</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>
Revenue					
Fundraising	\$4.0 m	\$6.0 m	\$7.0 m	\$12.0 m	\$21.0 m
<i>Total Revenue</i>	<i>\$4.0 m</i>	<i>\$6.0 m</i>	<i>\$7.0 m</i>	<i>\$12.0 m</i>	<i>\$21.0 m</i>
Change in Campus Fund Balance	4.0 m	\$6.0 m	\$7.0 m	\$12.0 m	\$21.0 m

* Totals may not add due to rounding.

North Carolina Agricultural and Technical State University

The bill allows NCAT to issue \$58.0 million in debt to construct a new 445-bed residence hall on Bluford Street to meet the increasing demand for on-campus housing. This project will be apartment style living with 90% single room occupancy with a shared common area. Additionally, there will be a student commons space on first floor and study rooms on each floor. The projected number of new beds are 445. The project is intended to be funded by existing housing fees with no new fees necessary.

Table 8: NCAT New Residence Hall*

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expense					
New Debt Service	\$0	\$0	\$3.6 m	\$3.6 m	\$3.6 m
Operating Expense	\$12.7 m	\$6.6 m	\$7.8 m	\$7.8 m	\$7.8 m
<i>Total Expenses</i>	<i>\$12.7 m</i>	<i>\$6.6 m</i>	<i>\$11.4 m</i>	<i>\$11.4 m</i>	<i>\$11.4 m</i>
Revenue					
Housing Receipts	\$12.7 m	\$11.1 m	\$11.1 m	\$11.1 m	\$11.1 m
New Construction	\$0	\$0	\$2.8 m	\$2.8 m	\$2.8 m
Misc. Revenue	\$0	\$0.1 m	\$0.1 m	\$0.1 m	\$0.1 m
<i>Total Revenue</i>	<i>\$12.7 m</i>	<i>\$11.2 m</i>	<i>\$13.9 m</i>	<i>\$13.9 m</i>	<i>\$13.9 m</i>
Change in Campus Fund Balance	\$0	\$4.5 m	\$2.5 m	\$2.5 m	\$2.5 m

* Totals may not add due to rounding.

University of North Carolina at Wilmington

The bill allows UNCW to issue \$167.0 million in debt for the acquisition of the 1800-bed student housing village constructed through a public-private partnership (P3). The project is currently supported through lease payments from housing receipts. The campus estimates that the purchase of the P3 project would provide significant cost savings.

UNCW is currently making lease payments to the P3 developer for the housing project and intends to convert the lease payments to debt service.

Table 9: UNCW P3 Housing*

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expense					
New Debt Service +Operational	\$0	\$3.6 m	\$7.9 m	\$8.1 m	\$8.4 m
Current Lease Payment	\$0	(\$4.5 m)	(\$8.7 m)	(\$9.0 m)	(\$9.2 m)
<i>Total Expenses</i>	<i>\$0</i>	<i>(\$0.9 m)</i>	<i>(\$0.9 m)</i>	<i>(\$0.9 m)</i>	<i>(\$0.9 m)</i>
Revenue					
Change in Student Fees	\$0	\$0	\$0	\$0	\$0
<i>Total Revenue</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>
Change in Campus Fund Balance	\$0	\$0.9 m	\$0.9 m	\$0.9 m	\$0.9 m

* Totals may not add due to rounding.

Western Carolina University

The bill allows WCU to issue \$28.5 million in debt for the acquisition of the P3 housing project (Noble Hall), which is currently supported through lease payments from housing receipts. The campus estimates that the purchase of the P3 project would provide significant cost savings. WCU is currently making lease payments to the P3 developer for the housing project and intends to convert the lease payments to debt service.

Table 10: WCU P3 Housing*

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expense					
New Debt Service	\$0	\$0.6 m	\$1.8 m	\$1.8 m	\$1.8 m
+Operational					
Current Lease Payment	\$0	(\$0.8 m)	(\$2.0 m)	(\$2.0 m)	(\$2.0 m)
<i>Total Expenses</i>	<i>\$0</i>	<i>(\$0.3 m)</i>	<i>(\$0.2 m)</i>	<i>(\$0.2 m)</i>	<i>(\$0.2 m)</i>
Revenue					
Change in Student Fees	\$0	\$0	\$0	\$0	\$0
<i>Total Revenue</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>
Change in Campus Fund Balance	\$0	\$0.3 m	\$0.2 m	\$0.2 m	\$0.2 m

* Totals may not add due to rounding.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

UNC Debt Affordability Study; UNC General Administration.

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

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Signed copy located in the NCGA Principal Clerk's Offices