



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Fiscal Note

Short Title: UNCW Self-Liquidating Capital Project.
Bill Number: Senate Bill 367 (First Edition)
Sponsor(s): Senator Lee

SUMMARY TABLE

FISCAL IMPACT OF S.B. 367, V.1 (\$ in millions)

	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</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

Senate Bill 367 (First 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

Senate Bill 367 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
UNCW	Walton Drive Student Village - Recreation Fields and Facilities	\$9.75 m	Debt Service Fees

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 2020-21, for the campuses impacted by this bill. The source of information of all debt related information is the FY 2019 University of North Carolina Debt Capacity Study, as required by Article 5 of G.S. 116D.

Table 2: Existing Debt Information: FY 2020-21

Campus	Outstanding Debt	Debt Service Payment	Expendable Resources
UNCW	\$192 m	\$17.4 m	\$182.6 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), Fitch Ratings (Fitch), and Standard and Poor’s Global Ratings (S&P). 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. Moody’s is the only agency that rates UNCW.

Table 3: Selected Campus Bond Rating Information

Campus	Moody’s	
	Rating	Outlook
UNCW	Aa3	Stable

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 2019-20 to FY 2022-23. 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 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
UNCW	1.75	\$161.1 m	\$177.6 m	\$194.5 m	\$210.9 m

University of North Carolina at Wilmington

The bill allows UNCW to issue \$9.75 million in debt to construct a new student recreation complex consisting of a natural turf field; a smaller flex field; basketball, sand volleyball, tennis courts; an outdoor gym/yoga area; and a building for student recreation center staff and equipment storage. The project will also include a portion of Hawk Walk through the site, an important pedestrian connection allowing students to traverse from the Student Village to the academic corridor, Chancellor's Walk.

Table 5: UNCW Student Recreation Complex*

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Expense					
New Debt Service	\$0	\$0.40 m	\$0.40 m	\$0.40 m	\$0.40 m
<i>Total Expenses</i>	<i>\$0</i>	<i>\$0.40 m</i>	<i>\$0.40 m</i>	<i>\$0.40 m</i>	<i>\$0.40 m</i>
Revenue					
Recreation Field Debt Fee	\$0	\$0.64 m	\$0.65 m	\$0.65 m	\$0.65 m
<i>Total Revenue</i>	<i>\$0</i>	<i>\$0.64 m</i>	<i>\$0.65 m</i>	<i>\$0.65 m</i>	<i>\$0.65 m</i>
Change in Campus Fund Balance	\$0	\$0.24 m	\$0.25 m	\$0.25 m	\$0.25 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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