

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 247 (House Committee Substitute Favorable 8/23/01)

SHORT TITLE: Reallocate Clean Water Bonds/Defer Bond Issue

FISCAL IMPACT (\$MILLION)					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
EXPENDITURES					
State General Fund	-0-	\$2.5	\$5.1	\$7.6	\$7.5
PRINCIPAL DEPARTMENT AFFECTED: The Department of Natural and Economic Resources and the Rural Economic Development Center administer the loans and grants affected. The enactment of the bill will not affect the budget requirements of either entity.					
EFFECTIVE DATE: When the bill becomes law.					

BILL SUMMARY: The 1998 Clean Water Bond Act allocated \$300 million to pass-through loans to local government units whose debt service would be fully repaid by the units applying for the loans. The General Assembly reallocated \$200 million of the remaining \$285.2 million of the uncommitted loans to grants during the 2000 session.

SB 247 makes the following changes to the authorized bonds: (1) shifts \$71.4 million of the loan portion of the bonds to grants; (2) allocates \$35.6 million of the new grant funds to Unsewered Community Grants, \$35.6 million to Supplemental Grants and \$.2 million to administrative costs of the Rural Economic Development Center; (3) authorizes alternative payments of up to \$50 million from the state General Fund to local government units or to match federal funds, upon approval of Director of the Budget, to be repaid from bond proceeds; and (4) provides that no Clean Water Bonds for Unsewered Community Grants and Supplemental Grants may be issued between the date the bill becomes law and January 2, 2002.

ASSUMPTIONS AND METHODOLOGY: The State's debt service on the clean water loans would be offset by loan repayments from local units under the 1998 authorization. The Office of State Budget Planning and Management, in theory, should schedule the loan repayments so that they would completely offset the State's debt service requirements for a particular year. By converting the loans to grants, the local government repayment would

be eliminated and the State's net debt service would increase in the same fashion as \$71.4 million of new bonds issued by the State.

The starting point for the calculation was a May 8, 2001 debt service simulation of the Office of State Treasurer. This schedule showed the annual principal and interest requirements under the planned issuance schedule for the remaining \$695 million of Clean Water Bonds and the remaining public school and higher education bonds. Interest rate assumptions ranged from 5.75% for the near-term issues and 6.25% for the issuance dates that are farther out.

It was assumed for the purpose of analysis that the \$71.4 million of converted Clean Water loan bonds would have been sold over the next three years as part of the \$695 million of total Clean Water Bonds. The provision in the bill that prohibits the Fall 2001 sale would likely move the \$250 million issuance of planned Clean Water Bonds from September 1, 2001, to March 1, 2002. Under the revised planning schedule, the next \$250 million of Clean Water Bonds would be sold on March 1, 2003 and the final \$195 million would be issued on March 1, 2004.

The effect of this scheduling assumption is that \$25.67 million of the converted bonds would be included in the March 1, 2002 sale of bonds, \$25.67 million would be part of the March 1, 2003 sale, and the remaining \$20.06 million would be part of the March 1, 2004 sale.

The annual debt service requirements for these issues were then calculated by prorating the debt service requirements for the general obligation bonds that are to be sold on these planned issuance dates.

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