

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Fiscal Note

BILL NUMBER: Senate Bill 480 (First Edition)

SHORT TITLE: UNC Capital Improvement Projects.

SPONSOR(S): Senator Apodaca

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
State Impact					
Special Fund Revenues:	See Assumptions and Methodology				
Special Fund Expenditures:	See Assumptions and Methodology				
State Positions:					
NET STATE IMPACT	#REF!	#REF!	#REF!	#REF!	#REF!

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:

University of North Carolina System

EFFECTIVE DATE: When the Bill becomes law

TECHNICAL CONSIDERATIONS:

None

BILL SUMMARY: Senate Bill 480 authorizes the campuses of the University of North Carolina (UNC) to finance and construct capital improvement projects utilizing obligated resources. The projects are discussed in the Assumptions and Methodology Section of this Note. The statutory framework to authorize and issue debt lies within Article 3 of G.S. 116D. Under this Article, obligated resources refers 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 over 5% of 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.

Winston Salem State University (WSSU) is granted an exemption in order to sell alcohol at the Bowman-Gray Stadium authorized for acquisition under this Bill. The requirement that the Bowman Gray Stadium be on the campus of WSSU is not withstood for the purposes of finance and acquisition.

ASSUMPTIONS AND METHODOLOGY: Each campus is presented discretely due to the varied nature of the projects under consideration and the information available to evaluate the projects. The table below provides information on the projects within Section 2 of this bill and provides the proposed sources of finance. Article 3 of G.S. 116D authorizes all obligated resources to be used as means of repayment and does not limit the means of finance to the sources 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. In some cases, the project will be financed by a new fee, and the amount is provided in the table. UNC and the campuses assume no General Fund impact from the projects proposed for authorization.

Table 1: Project Detail

Campus	Project	Amount	Source	Existing Fee/Receipt Increase	New Fee
ASU	Anne Belk Hall Renovation	4,000,000	Debt Service Fee	No	\$14.00
ASU	Soccer Field to Field Hockey	1,500,000	Debt Service Fee	No	\$10.00
ECU	Belk Hall Demolition and Reconstruction Supplement	16,000,000	Housing Receipts	2.00%	No
ECU	Women and Children's Clinic Facility	71,605,960	Hospital Receipts	No	No
NCAT	New Student Center	90,000,000	Debt Service Fee	No	\$450.00*
NCSU	Carmichael Locker Room Renovation	7,600,000	Debt Service Fee	No	\$27.50
UNC-CH	Rizzo Center Phase III Acquisition	36,000,000	Endowment	No	No
UNC-CH	South Road Bridge & Pedestrian Improvements	9,850,000	Trust Funds	No	No
UNC-CH	Odum Village Replacement	25,000,000	Housing Receipts	3.00%	No
UNC-CH	Craige Parking Deck Supplement	4,000,000	Parking Receipts	No	No
UNC-C	Holshouser Hall Renovation	16,000,000	Housing Receipts	6.50%	No
UNC-C	Oak Hall Renovation - Phase V	8,900,000	Housing Receipts	6.50%	No
UNC-C	Residence Hall - Phase XIII	34,750,000	Housing Receipts	6.50%	No
UNC-G	Spartan Village - Phase I Acquisition	67,000,000	Housing Receipts	3.50%	No
WCU	Upper Campus New Residence Hall	48,000,000	Housing Receipts	5.00%	No

WSSU	Bowman Gray Stadium and Civitan Park Acquisition	7,500,000	Debt Service Fee	No	\$110.00
WSSU	New Residence Hall - Freshman Living/Learning	20,800,000	Housing Receipts	5.00%	No
Total		468,505,960			

*NCAT's increase will be phased in over four years. The 2016-17 school year will experience the \$450 increase.

In addition to the debt to be authorized above, the campuses at the UNC system have existing debt that has been authorized under Article 3 of G.S. 116D and Part 4 of G.S. 116 (Revenue Bonds). The amount of outstanding debt, pledged revenue to support the debt, and annual debt service payment for FY 2012 at the UNC System campuses are presented in the table below:

Table 2: Outstanding Debt, Pledged Revenue, and Debt Service (FY 2012)

Campus	Outstanding Debt	Pledged Revenue	Debt Service Payment
ASU	255,172,062	162,051,341	19,193,840
ECU	162,935,971	434,385,998	24,801,854
ECSU	37,415,643	10,387,589	1,380,000
FSU	25,693,213	14,645,566	1,402,801
NCA&T	14,405,000	54,020,592	1,422,911
NCCU	93,958,436	27,659,078	7,581,205
NCSU	417,646,121	535,302,000	27,673,842
UNC-A	43,661,169	34,459,608	1,960,838
UNC-CH	1,362,772,538	1,747,511,000	82,199,626
UNC-C	360,679,486	223,012,923	9,298,837
UNC-G	231,355,524	136,916,527	13,008,432
UNC-P	79,261,189	24,688,846	5,430,066
UNC-W	246,855,063	107,556,200	17,542,016
UNC-SA	8,275,000	11,745,100	847,913
WCU	116,938,835	86,510,740	9,189,890
WSSU	70,887,358	9,603,943	5,519,091
Total	3,527,912,608	3,620,457,051	228,453,162

For the projects UNC estimates that increased expenditures will be required to service the debt and to operate and maintain the constructed facilities. Additionally, increased revenue will be generated by any new fee or increase to existing fee. The discussion below provides estimates for each campus, utilizing information provided by each campus and UNC.

Appalachian State University:

Appalachian State University (ASU) has two planned projects under consideration. The Anne Belk Hall Renovation project would repurpose approximately 30,000 square feet of underutilized

library space on the campus. The second project converts a soccer field to a field hockey field. Both projects are financed by a new per student annual debt service fee. Both UNC and ASU estimate that enrollment will remain relatively flat over the long term at the university. The projects involve existing facilities, thus no additional operating impact is expected. UNC provided debt service estimates assuming a 20-year repayment term with an interest rate of 6%. These should be considered high end estimates. The debt service fee revenue does not generate enough revenue to cover the debt service costs under UNC's scenario. ASU acknowledges this and has informed Fiscal Research that they believe that a combination of lower actual interest rates (3%); a longer bond repayment term (25-year); additional State-appropriated Repair and Renovation funding (not yet appropriated); and, additional receipts and donations for the athletic project should adequately fund the projects. Additional information was not provided for these claims. From 2003 to 2012 ASU has issued bonds with an average interest rate of 4.84% - 2.84%, respectively. In 2012, ASU issued two different refunding bonds with an average interest rate of 3.80% and 3.98%.

Table 3: ASU Consolidated Project Information

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Debt Service Fee Revenue	368,592	368,592	368,592	368,592	368,592
Operating Expense	0	0	0	0	0
Debt Service Expense	(550,000)	(550,000)	(550,000)	(550,000)	(550,000)
Total	(181,408)	(181,408)	(181,408)	(181,408)	(181,408)

East Carolina University:

East Carolina University (ECU) has two planned projects under consideration. The projects are to increase the amount authorized in 2012 for the reconstruction of Belk Residence Hall. The total project authorization would rise to \$56 million. The source of repayment is housing receipts for this project, which are to increase by approximately two percent annually per tenant to cover increased costs. The second project would construct a 140,000 square foot medical facility and 900 space parking facility. The sources of repayment are parking fees for the garage and physician receipts for the clinic. For the residence hall, the cash balance from the Housing Fund is expected to cover the cost overrun identified below. In FY 2012-13 the Fund has a projected final cash balance of \$15.7 million. In addition, all housing receipts will support debt service. The debt

coverage ratio is expected to be 1.41 after this project is fully online.¹ ECU expects to issue the debt with a term of 30 years with an interest rate of 3.5%.

The Women and Children’s Clinic and Parking Garage will include a onetime transfer from the parking fund of \$5.5 million to lower the debt financed portion of the project. Once the parking facility is running, ECU estimates the facility to generate an additional \$500,000 for debt service. According to ECU, the parking related enterprises currently generate in excess of \$1 million per year in net revenues. For the Women and Children’s Clinic, the ECU Physicians Practice Plan will be the source of receipts to support debt service. The Plan currently generates excess revenue. The Plan has generated approximately \$42.9 million in excess revenues for the last two complete fiscal years and for the current fiscal year. The Plan is generating less in revenue for the current fiscal year due to lower reimbursement rates and timing of payments (FY 2012-13 excess revenues are estimated to be \$5.5 million). ECU expects additional savings from foregone lease expenses (\$1 million in savings); a reduction in administrative expenses from moving it a single location (\$450,000 per year); and, additional profits related to increased facility utilization (\$1 million). ECU expects to issue the debt with a term of 30 years with an interest rate of 4.5%.

The projects are presented separately due to the different nature of the projects.

Table 4: ECU Project Information

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Belk Residence Hall					
Increased Dorm Revenue	0	0	4,151,875	4,227,854	4,305,224
Additional Operating Expense	0	0	1,198,602	1,234,200	1,270,856
Debt Service Expense	0	0	3,238,485	3,238,485	3,238,485
Total	-	-	(285,212)	(244,831)	(204,117)
Additional FTE	0	0	9	9	9
Women and Children Clinic and Parking Garage					
Transfer from Parking Fund	\$5,500,000			500,000	500,000
Savings from ECU Own Space				2,450,000	2,450,000
Additional Operating Expense	0	0	0	(2,768,046)	(2,768,046)
Debt Service Expense	(4,021,146)	(4,021,146)	(4,021,146)	(4,021,146)	(4,021,146)
Total	1,478,854	(4,021,146)	(4,021,146)	(3,839,192)	(3,839,192)
Additional FTE	0	0	0	24	24

¹ A coverage ratio is the amount of revenue available to service debt against the expected amount of debt service

North Carolina Agriculture and Technical University:

North Carolina Agriculture and Technical University (NCAT) has a planned new 175,000 square foot student union building that will be financed by a new \$450 per student annual debt service fee. The new fee will be phased in over a four year period. NCAT expects a slight increase in student population over the five year period and thereafter. In addition, NCAT expects the facility to generate an additional \$2 million in revenue due to retail and dining operations once it is fully online. NCAT assumes that the debt will be issued with a term of 30 years at an interest rate of 5.00%.

Table 5: NCAT Project Information

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Debt Service Fee and Retail Revenue	554,400	1,675,500	2,817,500	7,142,600	7,226,750
Operating Expense	0	0	0	(526,320)	(526,320)
Debt Service Expense	0	0	(2,438,550)	(5,394,225)	(5,485,050)
Total	554,400	1,675,500	378,950	1,222,055	1,215,380

North Carolina State University:

North Carolina State University has a planned renovation to the Carmichael Recreation Center Locker Room. The project will be financed by a new \$27.50 per student annual debt service fee. Student population is assumed not to increase. UNC assumed an operating impact of \$79,752 per year; however this cost was not included in NCSU's response to Fiscal Research. NCSU assumed the debt to have a term of 15 years with an interest rate of 4.75%.

Table 6: NCSU Project Information

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Debt Service Fee Revenue	767,388	767,388	767,388	767,388	767,388
Operating Expense	0	0	0	0	0
Debt Service Expense	(720,000)	(720,000)	(720,000)	(720,000)	(720,000)
Total	47,388	47,388	47,388	47,388	47,388

University of North Carolina-Chapel Hill:

The University of North Carolina-Chapel Hill (UNC-CH) has three projects planned for construction. UNC-CH does not expect to construct the South Road Bridge and Improvements project and it is not included in this analysis. The Rizzo Center Phase III project is an expansion of a facility at the business school to add 72 guest beds, a 172 space parking deck, and additional

teaching space. The project is to be financed from gifts and \$6 million in cash. The Odum Village project will replace an existing housing facility. This project will be repaid from housing receipts. Housing receipts are expected to rise three percent per year, per tenant to provide sufficient revenue. The final project is a supplement to the Craige Parking Deck. This project was approved in 2005 and again in 2012. This supplement would provide an additional 500 spaces. Parking receipts would pay the debt service associated with the deck. UNC-CH provided information regarding the projects in total, save for the Odum Village project. UNC-CH did not provide information related to any increased costs or revenues resulting from the Rizzo Hall or Craige Parking Deck project, thus total amounts are presented below for these two projects.

Table 7: UNC-CH Project Information

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Rizzo Hall Phase III					
Existing Revenue Stream and Cash Transfer	16,797,920	10,797,920	10,797,920	10,797,920	10,797,920
Additional Operating Expense	(6,999,936)	(6,999,936)	(6,999,936)	(6,999,936)	(6,999,936)
New Debt Service Expense	(2,179,467)	(2,179,467)	(2,179,467)	(2,179,467)	(2,179,467)
Existing Debt Service	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)
Total	6,218,517	218,517	218,517	218,517	218,517
Additional FTE			10	10	10
Odum Village Replacement					
Additional Housing Revenue	0	0	0	3,200,000	3,200,000
Operating Expense	0	0	0	(1,400,000)	(1,400,000)
Debt Service Expense	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000
Total	(1,800,000)	(1,800,000)	(1,800,000)	0	0
Additional FTE	0	0	0	8	8
Craige Parking Deck Supplement					
Existing Revenue Stream	23,040,000	23,040,000	23,040,000	23,040,000	23,040,000
Additional Operating Expense	(15,269,603)	(15,269,603)	(15,269,603)	(15,269,603)	(15,269,603)
New Debt Service Expense	(290,596)	(290,596)	(290,596)	(290,596)	(290,596)
Existing Debt	(7,281,319)	(7,281,319)	(7,281,319)	(7,281,319)	(7,281,319)

Service					
Total	198,482	198,482	198,482	198,482	198,482

University of North Carolina – Charlotte

The University of North Carolina – Charlotte (UNCC) has three dormitory projects planned for renovation and construction. UNCC plans to renovate two existing dorms and construct a new 430 bed dormitory. Housing receipts would finance each project and are projected to be increased by 6.5% each year per tenant to provide the necessary revenue. The dorms are all assumed to come online in FY 2015-16 while the debt is assumed to be issued for a term of 30 years at an interest rate of 5.03%. UNCC expects the debt service coverage ratio to remain above 1.2 for housing receipts.

Table 8: UNCC Consolidated Project Information

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Housing Revenue	0	0	6,885,642	7,161,068	7,447,510
Operating Expense	0	0	(2,213,125)	(2,268,453)	(2,325,164)
Debt Service Expense	0	0	(3,872,960)	(3,872,960)	(3,872,960)
Total	0	0	1,019,655	1,019,655	1,019,655

University of North Carolina - Greensboro

The University of North Carolina at Greensboro (UNCG) has a project planned to acquire a dormitory, academic space, mixed-use space, and parking known collectively as Spartan Village Phase 1. The facility was constructed by the UNCG Capital Facilities Foundation. UNCG did not provide detail regarding the projects revenue stream, only that it is expected to generate \$13.9 million in net operating revenue per year. There is an expected increase of 3.5% in housing charges per tenant factored into UNCG’s analysis. UNCG expects the debt service coverage ratio to remain above 1.15 after debt associated with the project is issued.

Table 9: UNCG Project Information

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Operating Expense	0	0	(1,921,852)	(1,921,852)	(1,921,852)
Debt Service Expense	(6,700,000)	(6,700,000)	(6,700,000)	(6,700,000)	(6,700,000)
Operating Revenue	See Above Paragraph				
Additional FTE	0	0	23	23	23

Western Carolina University:

Western Carolina University (WCU) has a new 600-bed dormitory planned. The proposed project would demolish an existing structure to build the new facility. Housing charges are expected to increase 5% annually per tenant in order to pay for the facility and other costs. The debt coverage ratio is expected to be above 1.6 after the debt associated with this project is issued. The debt is assumed to be issued for a 20 year term at a 6% interest rate. UNC stated that there would be 23 new FTE's required by the facility. WCU did not provide any information regarding the number of FTE's. WCU did provide the expected operating cost, which may not be sufficient to cover the new employees assumed in UNC's analysis.

Table 10: WCU Project Information

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Housing Revenue	0	3,263,545	3,426,722	3,598,058	3,777,961
Operating Expense	0	(527,693)	(527,693)	(527,693)	(527,693)
Debt Service Expense	(4,800,000)	(4,800,000)	(4,800,000)	(4,800,000)	(4,800,000)
Total	(4,800,000)	(2,064,148)	(1,900,971)	(1,729,635)	(1,549,732)
Additional FTE	0	23	23	23	23

Winston Salem State University:

Winston Salem State University (WSSU) has two projects planned for acquisition. The first project is to acquire the Bowman Gray Stadium from the City of Winston Salem for \$7.1 million. WSSU currently utilizes the stadium for their motor sports management program and football team. The stadium is also used for race events in the community. WSSU assumes that race events will continue to be a source of revenue. The stadium acquisition will be financed by a new \$110 per student annual debt service fee. Student population is expected to remain flat the first five years and increase slightly thereafter. The second project is for a new 295 bed suite style residence hall. The project will be financed through housing receipts. Housing charges are expected to increase 5% in the opening year of occupancy. WSSU expects that the debt coverage ratio to remain above 1.15 after the debt has been issued. WSSU assumed debt to be issued at a 20 year term with a 5% interest rate for the Bowman Gray Stadium Project. The new residence hall is assumed to be financed with debt issued for 20 years at a 6% interest rate. Revenue from the new housing project has not been provided.

Table 11: WSSU Project Information

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Bowman Gray Stadium					
Operating Revenue	837,656	858,597	880,062	902,064	924,615
Debt Service Revenue	581,900	581,900	581,900	581,900	581,900

Operating Expense	(837,656)	(858,597)	(880,062)	(902,064)	(924,615)
Debt Service Expense	(593,960)	(593,960)	(593,960)	(593,960)	(593,960)
Total	(12,060)	(12,060)	(12,060)	(12,060)	(12,060)
Additional FTE	1.2	1.2	1.2	1.2	1.2
New Residence Hall					
Additional Housing Revenue	Not Provided				
Operating Expense			(685,218)	(685,218)	(685,218)
Debt Service Expense	(2,080,000)	(2,080,000)	(2,080,000)	(2,080,000)	(2,080,000)
Total	(1,800,000)	(1,800,000)	(1,800,000)	0	0
Additional FTE	0	0	10	10	10

SOURCES OF DATA: University of North Carolina General Administration, Constituent Campuses, Office of the State Auditor – Financial Audits

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Mark Bondo

APPROVED BY:

Mark Trogon, Director
Fiscal Research Division

DATE: June 26, 2013



Signed Copy Located in the NCGA Principal Clerk's Offices