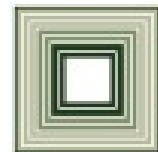


# Capital & Debt Overview

March 2, 2021



**FISCAL RESEARCH DIVISION**  
A Staff Agency of the North Carolina General Assembly

# Capital and R&R

- Capital improvement defined as real property acquisition, new construction or rehabilitation, and repairs and renovations (R&R) over \$100,000 in value.
- State owns properties of both State agencies and UNC System. LEA and Community College properties are locally owned.
- Properties can vary in purpose, from office buildings in downtown Raleigh to classroom buildings on UNC System campuses to small research stations or local offices scattered throughout the state; but are all owned and maintained by the State.
- The General Assembly funds capital and R&R for General Fund-supported buildings, both new and existing, through appropriations from the General Fund or with debt (e.g. Connect NC Bond) serviced by the General Fund.
- Direct General Fund Capital Appropriations FY 2009-10 through FY 2019-20
  - New Capital - \$323.3 million
  - Repairs & Renovations - \$752.4 million

# Capital and R&R – Contd.

- In the 2017 long session, the General Assembly established the State Capital and Infrastructure Fund (SCIF), effective July 1, 2019.
- The General Assembly's intention was to change the State's established practice of funding capital by either:
  - 1) Funding 100% of a capital project up front; or
  - 2) Issuing debt for the project.
- The SCIF implements a “pay-as-you-go” capital funding policy to cash flow capital projects, where projects would be paid for over several years as funds are needed.
  - Ex. Project A has a total construction cost = \$100M
    - FY 2021-22 Appropriation = \$15M
    - FY 2022-23 Appropriation = \$30M
    - FY 2023-24 Appropriation = \$30M
    - FY 2024-25 Appropriation = \$25M

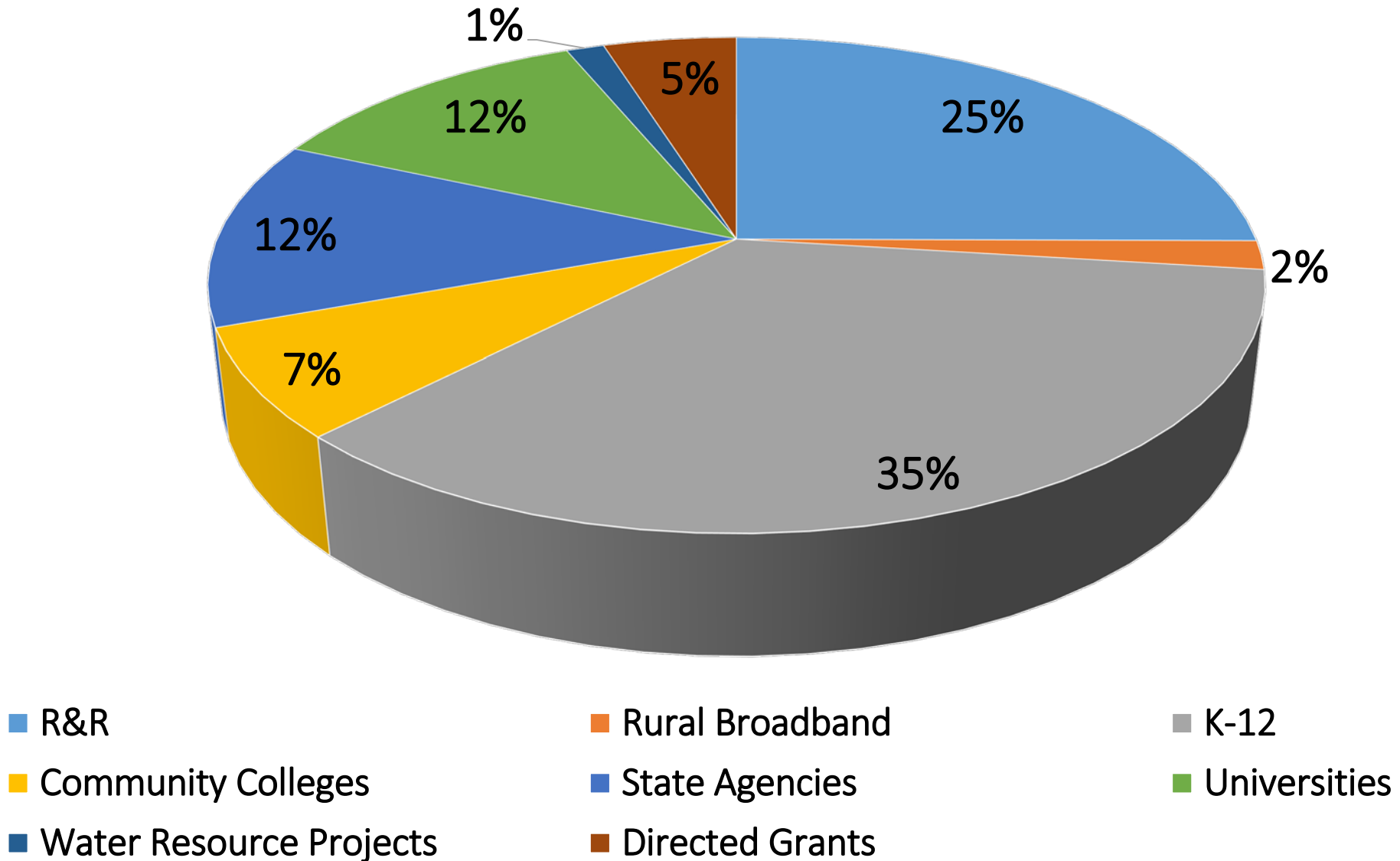
# Capital - SCIF

- The General Assembly directed the following funding sources to the fund:
  - 4% of net General Fund tax revenue
  - $\frac{1}{4}$  of the unreserved fund balance
  - Other appropriated funds
- Fund availability after satisfying existing debt service (FY 2020-21 debt service= \$720,940,153) may be used for the following purposes:
  - New State and The University of North Carolina capital projects
  - Repair and renovation of existing capital assets
  - Broadband infrastructure projects funded through appropriations to the GREAT program
  - Projects and grants identified in the Current Operations Appropriations Act or that have been authorized and funded by an act of the General Assembly

# House Bill 966

- HB 966 included the official beginning of the SCIF
- HB 966 included additional uses of the SCIF for capital projects in Local Education Agencies (LEAs), community colleges, non-profits, and local governments.
- HB 966 was vetoed by Gov. Cooper and not overridden
- Only the \$15 million each fiscal year transferred from the General Fund to the SCIF and appropriated to the Growing Rural Economies with Access to Technology (GREAT) program was passed by the General Assembly during 2019 (in SL 2019-230).

# HB 966 FY 2019-20 Appropriations - \$797M



# Capital – FY 2020-21 Enaction

- The General Assembly passed the following bills appropriating funds to capital projects:
  - [S.L. 2020-15 \(HB 1187\)](#): appropriated \$10,440,000 for capital improvements at Department of Public Safety facilities for implementation of Raise the Age.
  - [S.L. 2020-33 \(SB 806\)](#): appropriated \$16,500,000 for the steam plant project at Western Carolina University.
  - [S.L. 2020-57 \(SB 750\)](#): appropriated \$6,000,000 for the following capital improvement projects at Elizabeth City State University:
    - \$2,000,000 for a chiller
    - \$4,000,000 for an HVAC system
  - [S.L. 2020-79 \(HB 1087\)](#): Appropriated \$35,209,286 for water resources development projects.

# Capital – FY 2020-21 Enaction – Contd.

- [S.L 2020-81 \(SB 212\)](#): Appropriated \$104,000,000 to the following capital improvement projects:
  - Freedom Park Project - \$1,500,000
  - Repairs & Renovations - \$85,250,000
  - UNC Chapel Hill Business School - \$7,000,000
  - UNC Chapel Hill Nursing School – 2,500,000
  - NC State STEM Building - \$7,000,000
  - FSU Dormitory Demolition and Removal - \$2,500,000 (earmarked from R&R allocation)
  - UNC Asheville Woods Residence Hall Occupancy Requirements - \$750,000
- [S.L. 2020-88 \(SB 808\)](#): appropriated \$15,000,000 for the Dorothea Dix campus relocation project with the Department of Health and Human Services.



# State Agencies, UNC System & Community College Capital

- Both UNC and OSBM would argue for mostly funding R&R and major renovations. Estimated needs:
  - State agencies: \$2.2 billion (DOA FCAP, does not include new construction)
  - UNC: \$4.4 billion (DOA FCAP, does not include new construction)
- Recent informal survey conducted State-wide of all Community College campuses for their top 2 new construction projects and their top 3 R&R projects
  - New Construction : \$1.7 billion
  - Repairs & Renovation: \$582.8 million

# Public School Capital

- Capital can be funded from four State sources:
  - **Needs-Based Public School Capital** –Grants to Tier 1 and Tier 2 Counties for new public school construction (Lottery)
  - **Public School Building Capital** -allocated to counties based on student headcount (ADM) (Lottery)
  - **Debt** –General Obligation or Special Indebtedness used to finance public purposes (usually capital) (Appropriated)
  - **State Capital and Infrastructure Fund** –new fund effective July 1, 2019 to cover the State’s debt service and State capital projects (i.e. State agencies and universities) (Appropriated)

# School Capital – Contd.

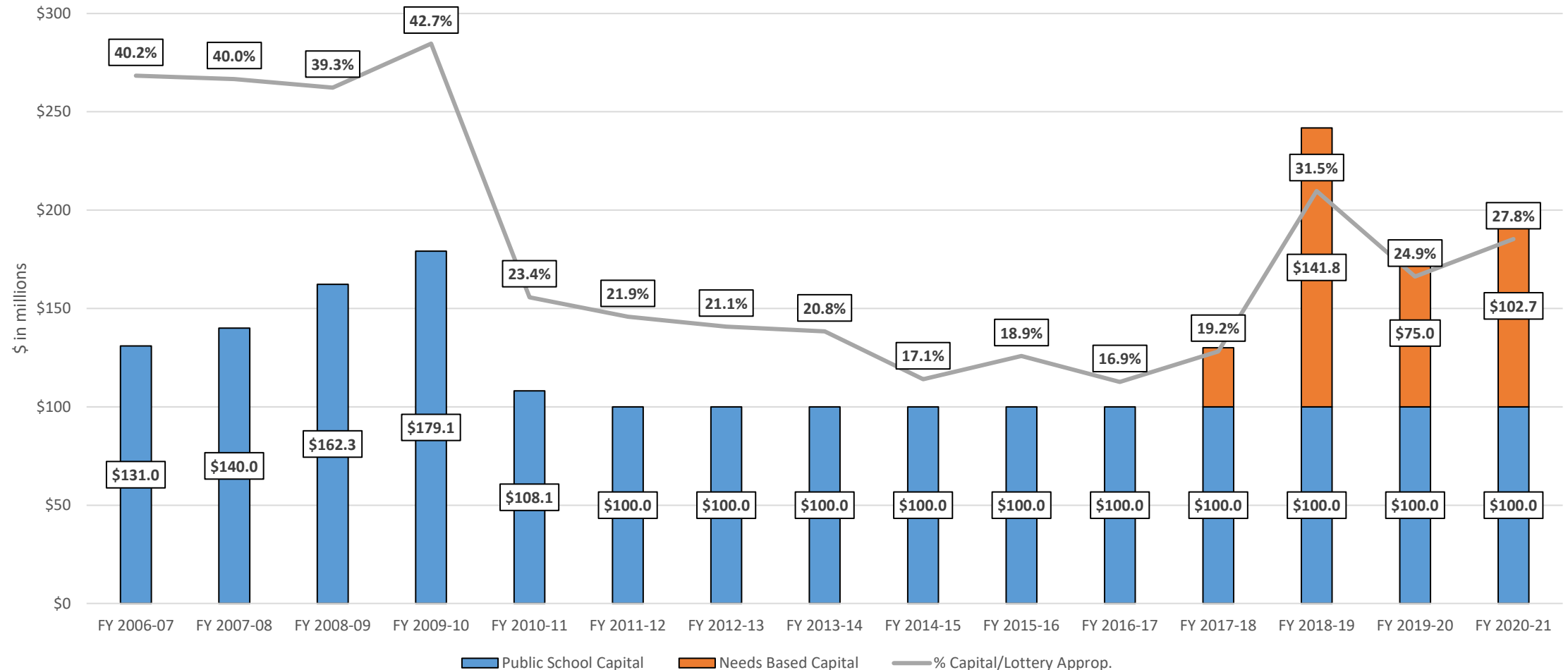
- School Facility Needs Survey:
- Survey of public schools every 5 years conducted by DPI
- \$8.1 billion in reported needs in 2016; 2020 survey due Jan. 8, 2021

Table 1: Comparison of Five-Year Needs			
5-Year Need	2010-11 Survey (2011 Dollars)	2015-16 Survey (2015 Dollars)	% Change
New Schools	2,814,328,286	2,787,390,899	-0.96%
Additions	1,684,746,985	1,632,766,326	-3.09%
Renovations	3,031,579,800	3,098,241,811	2.20%
Furnish / Equip	526,116,103	486,474,110	-7.53%
Land	112,538,602	57,883,543	-48.57%
Total	8,169,309,776	8,062,756,689	-1.30%
(The 2015-16 data do not include Alleghany County Schools)			
(The 2010-11 data do not include Henderson or Bladen County Schools)			

# State vs. Local Responsibility

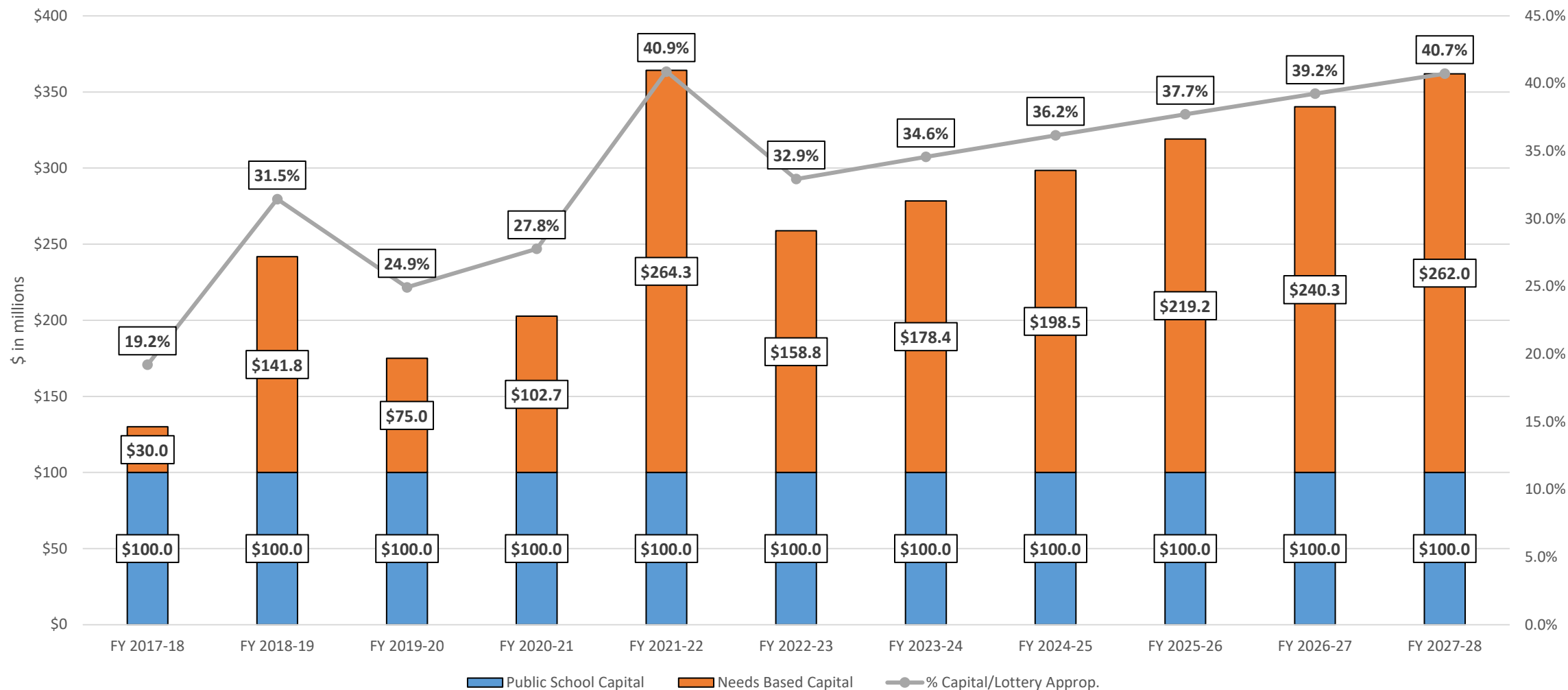
- School capital is generally a local government responsibility, but there are two exceptions:
  - State-wide issued bonds
  - Lottery funding
- The 1996 \$1.8 billion State Bond Referendum was exhausted prior to 2005, and there has been no issuance of state bonds for public schools since.
- Lottery – funds are allocated from two funds
  - Needs Based Public School Capital Fund - Tier 1 & Tier 2 Counties
  - Public School Building Capital Fund - \$100 million based on ADM
  - Total of \$1.7 billion in school capital funding from Lottery through FY 2018-19

# Historical % of Lottery Proceed Appropriations to School Capital



# Lottery Proceed Appropriations to School Capital -Projection

*(2.5% net proceed growth - under current law with certain assumptions)*



# State vs. Local Responsibility Cont.

- NC Constitution says General Assembly may assign some school funding responsibility to local governments
- G.S. 115C-408: “It is the policy of the State of North Carolina that the facilities requirements for a public education system will be met by county governments.”
- Constitution, statute, case law, and historical practice are ultimately unclear

# Current State Bonds and Debt Capacity

- **Connect NC:**

- \$2 billion voter approved bond in 2016 to fund the following entities: UNC System & affiliates, Community Colleges, State Agencies, State Parks, Water & Sewer, and National Guard.
- Of the \$2 billion to date there has been \$809,681,238, or 35%, spent on projects.

- **Build NC:**

- \$3 billion transportation package approved by the General Assembly in 2018.
- The state issued \$300 million of the bonds in the summer of 2019; \$700 million issued in the fall of 2020

- **State Debt Capacity**

- The amount of new tax-supported debt that could be authorized and issued by the State over the next 10 years is \$15 billion.



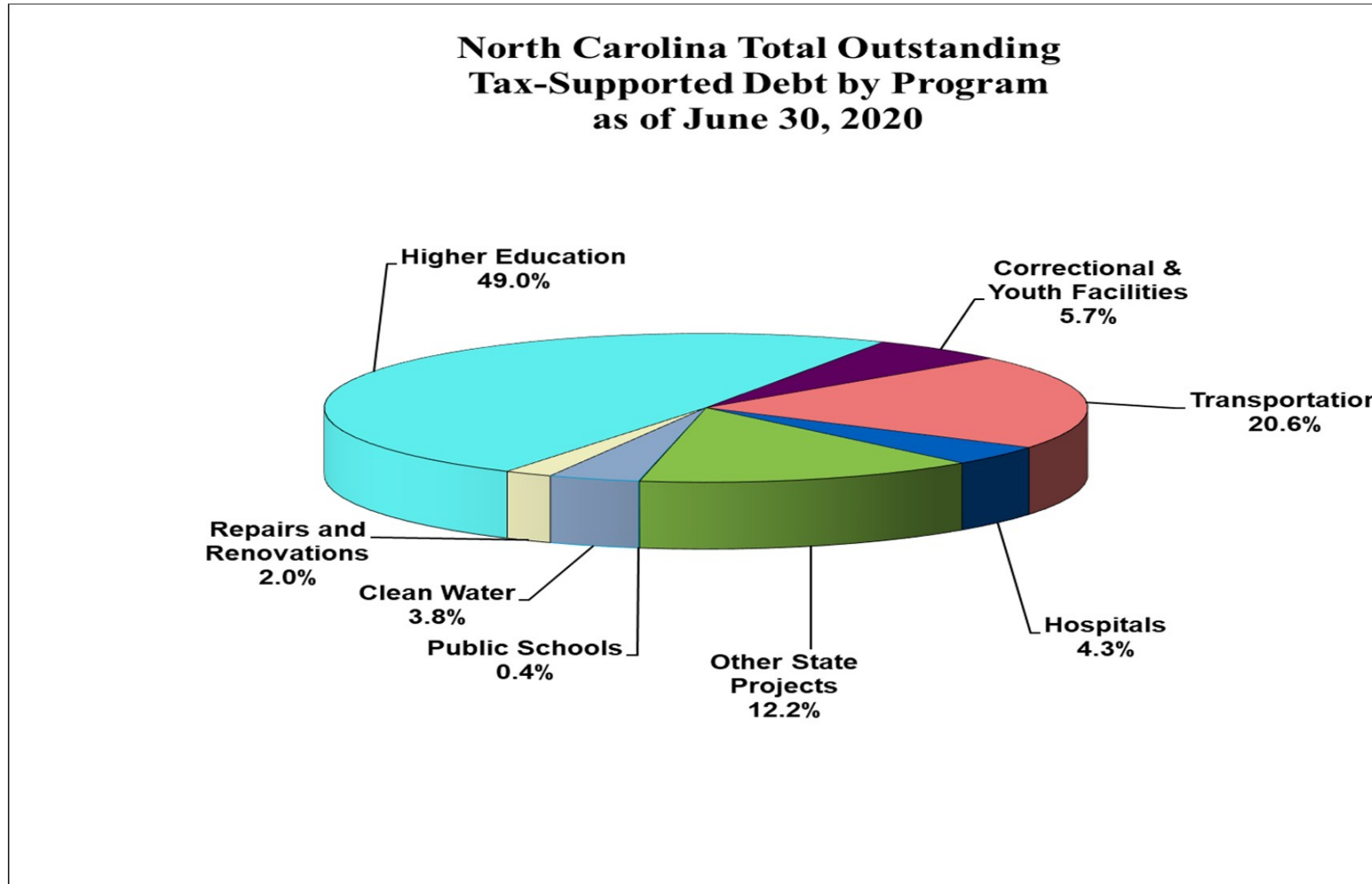
# Debt

## Outstanding Debt by Type (\$millions) 6/30/20

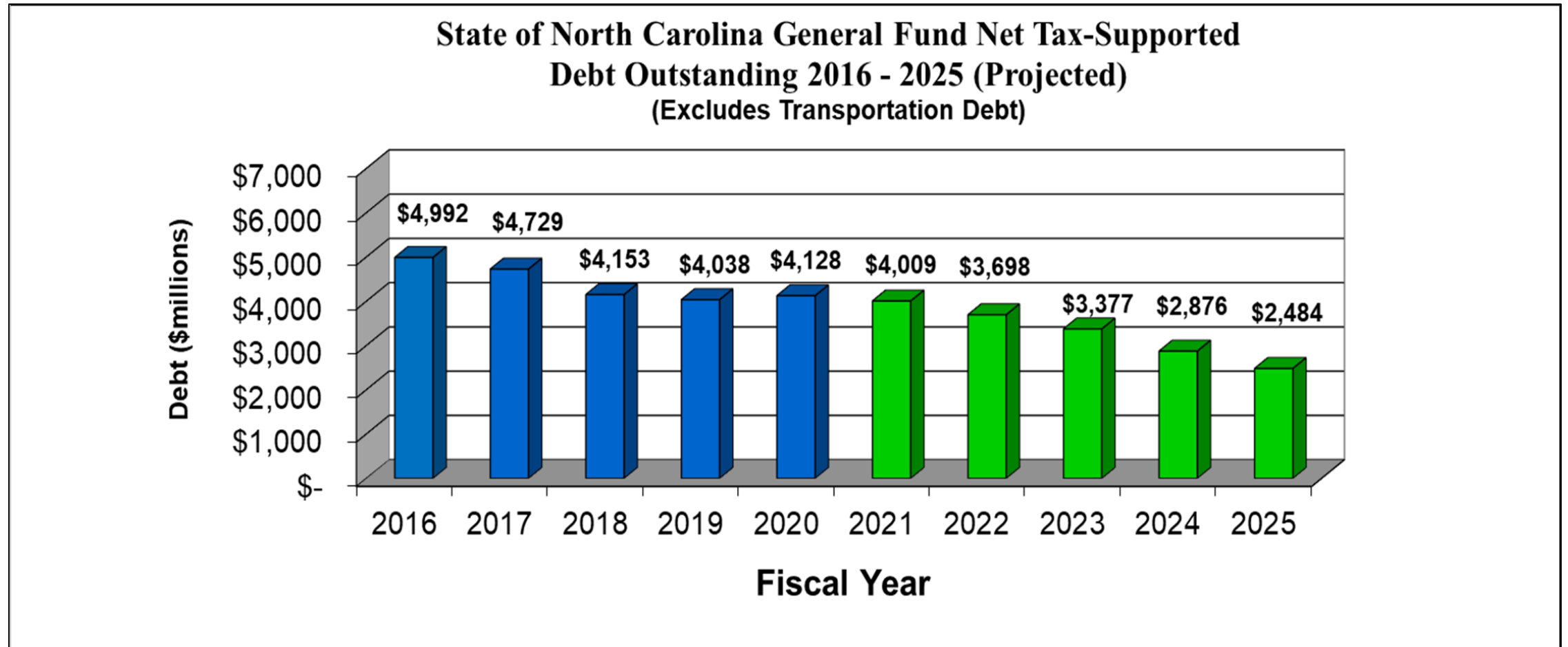
<u>Debt Type</u>	<u>Amounts</u>
General Obligation Bonds:	
• General Fund GO Bonds	\$2,605.4
• Highway GO Bonds	<u>0.0</u>
Total General Obligation Bonds	<u>\$2,605.4</u>
Net Tax-Supported Special Indebtedness: (Limited Obligation Bonds, COPs, Lease Revenue Bonds, Leases & Installment purchase contracts)	
	\$1,807.0
NCTA GAP-Funded Appropriation Bonds	\$785.5
<b>Total General Fund and Transportation Tax-Supported Debt</b>	<b><u>\$5,197.9</u></b>
Other Debt:	
• GARVEEs	\$959.5
• Guaranteed Energy Savings Contracts	\$167.0
• NC Turnpike Authority (includes TIFIA)	<u>\$1,797.7</u>
<b>Total Debt</b>	<b><u>\$8,122.1</u></b>

# Debt

## NC Tax-Supported Debt by Use

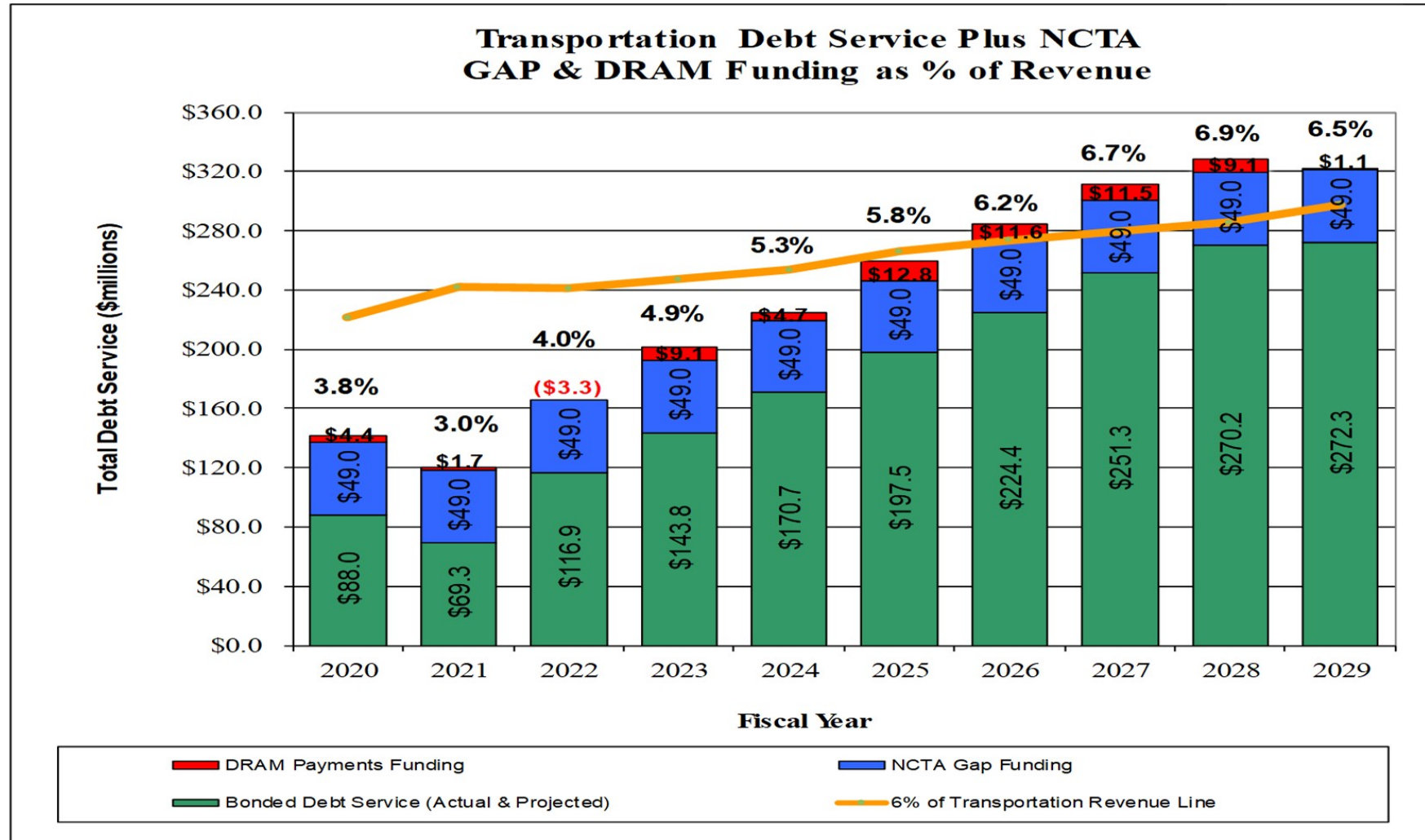


# NC Outstanding GF Debt Past & Future



General Fund debt is steady or declining as existing bonds mature, i.e. debt is paid off.

# NC Outstanding Transportation Debt



# Impact of Transportation Debt on Capacity

- The rating agencies compare the State to its peers utilizing a broad measure of Transportation and General Fund debt.
- However, NC has a long history of viewing debt supported by the General Fund separately from Transportation Debt.
- Therefore, the growth in Transportation Debt does not impact the General Fund debt capacity in the Debt Affordability Advisory Committee (DAAC) framework.

# Debt Affordability

## Review: What is Debt Affordability?

- The amount of debt that may be prudently authorized and issued in a given period *without* negatively affecting the credit position or impairing the budget flexibility of the issuer.
  - The amount of debt that is affordable (“capacity”) is finite
  - Capacity can be measured and compared
  - Issuance beyond a prescribed level can erode credit ratings
  - The State measures its available capacity using tax-supported debt: self-supporting debt is excluded

# Debt Affordability

## GF Model Results

<b>General Fund</b>					
<b>Debt Capacity using 4.0% debt service/revenues target ratio</b>					
<b>\$100 million per year to be used to address unfunded liabilities</b>					
<b>(In millions of dollars)</b>					
<b>Fiscal Year</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>\$ to Unfunded Liabilities</b>	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0
<b>Total Additional Debt Capacity per Year*</b>	\$3,220.8	\$437.4	\$1,035.1	\$2,113.9	\$1,593.9
<b>Debt Capacity Available each and every Year</b>	\$1,457.8	\$1,457.8	\$1,457.8	\$1,457.8	\$1,457.8

\* In addition to that already authorized but unissued. Assumes additional debt capacity is authorized and issued in stated fiscal year.

# Debt Affordability

## Transportation Model Results

### Transportation

**Net Tax-Supported Debt Capacity using 6.0% debt service/revenues target ratio**

**(In millions of dollars)**

<b>Fiscal Year</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>Total Additional Debt Capacity per Year *</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Debt Capacity Available Each and Every Year</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

\* In addition to that already authorized but unissued. Assumes additional debt capacity is authorized and issued in stated fiscal year.

GAP Funding for North Carolina Turnpike Authority projects assumed to total \$49 million annually.



# State Credit Rating

North Carolina Net Tax-Supported Comparative Debt Ratios <sup>(1)</sup>

State	Ratings (Fitch/S&P/Moody's)	Debt to Personal Income % <sup>(1)</sup>	Debt per Capita <sup>(1)</sup>	Debt as % Of GDP <sup>(1)</sup>	Debt Service Ratio <sup>(2)</sup>
Iowa	AAA/AAA/Aaa <sup>(3)</sup>	0.3 %	\$150	0.24%	1.18 %
Indiana	AAA/AAA/Aaa <sup>(3)</sup>	0.5 %	251	0.45%	1.37 %
Tennessee	AAA/AAA/Aaa	0.6 %	292	0.52%	2.26 %
Texas	AAA/AAA/Aaa	0.7 %	379	0.58%	2.61 %
Missouri	AAA/AAA/Aaa	0.9 %	464	0.86%	3.18 %
South Dakota	AAA/AAA/Aaa <sup>(3)</sup>	0.9 %	493	0.82%	2.14 %
North Carolina	AAA/AAA/Aaa	1.2 %	586	1.04%	2.42 %
Florida	AAA/AAA/Aaa	1.5 %	780	1.53%	5.03 %
Utah	AAA/AAA/Aaa	1.5 %	720	1.22%	4.10 %
Georgia	AAA/AAA/Aaa	2.0 %	971	1.67%	5.85 %
Virginia	AAA/AAA/Aaa	2.8 %	1,677	2.58%	5.00 %
Maryland	AAA/AAA/Aaa	3.5 %	2,323	3.28%	6.05 %
Delaware	AAA/AAA/Aaa	6.1 %	3,289	4.25%	5.22 %
Peer Group Median		1.2 %	\$586	1.04%	3.18 %

Projected General Fund (GF) Tax-Supported Debt Ratios <sup>(4)</sup>

North Carolina	Debt to Personal Income %	Debt per Capita	GF Tax-Supported Debt Service as a % of DAA C Revenues
2020 (Actual)	0.8 %	\$391	3.09 %
2021	0.7 %	377	2.69 %
2022	0.7 %	344	2.58 %
2023	0.6 %	311	2.49 %

<sup>(1)</sup> Source: Moody's 2020 State Debt Medians.

<sup>(2)</sup> Source: S&P Report dated June 16, 2020, defined as debt service as a % of general fund spending.

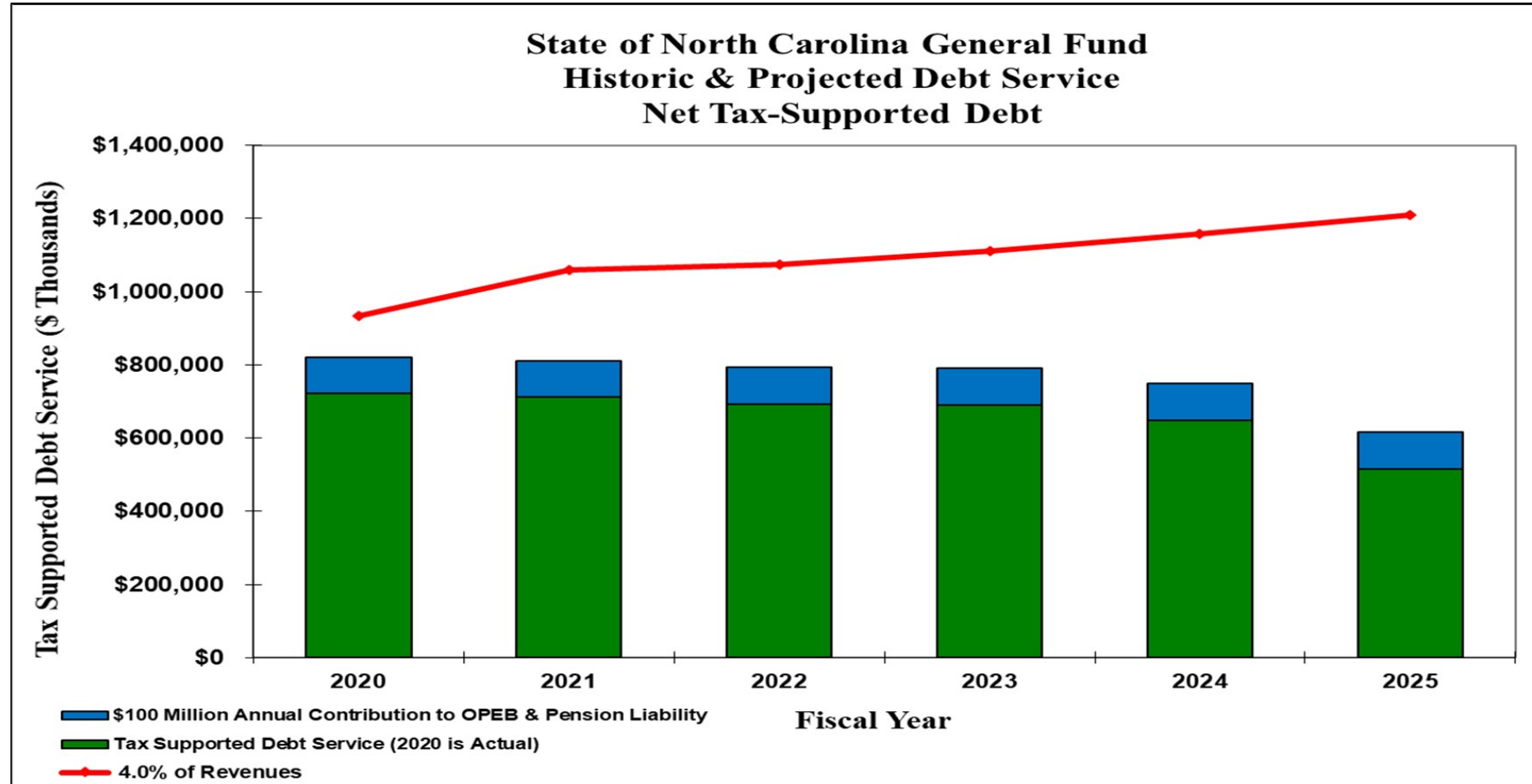
<sup>(3)</sup> Implied by all three rating agencies. Have not issued GO debt.

<sup>(4)</sup> North Carolina projections are based on March 1, 2021 DAAC Report. All other data reported 1 year in arrears.

- NC 1 of 13 States with AAA rating
- Rating agencies base their ratings on a wide variety of factors, not just debt levels
- DAAC recommendation aims to protect the AAA rating, but cannot guarantee that NC will not be downgraded.
- No hard limitation as to the amount of debt that would jeopardize our AAA credit rating

# Debt Levels and Taxes

GF Debt Service 2020-2025 vs. 4.0% (\$000)



# Historical Interest Rates

- The State received a record low True Interest Cost (TIC) of 1.468% on the Connect NC GO Bonds, Series 2020A



# Questions

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