



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Fiscal Note

Short Title: 2024 UNC Self-Liquidating Capital Projects.
Bill Number: House Bill 912 (First Edition)
Sponsor(s): Rep. Pickett, Rep. Hastings, and Rep. Hawkins

SUMMARY TABLE

FISCAL IMPACT OF H.B. 912, V.1 (\$ in millions)

	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>
State Impact					
General Fund Revenue	-	-	-	-	-
<u>Less Expenditures</u>	-	-	-	-	-
General Fund Impact	No Fiscal Impact				

NET STATE IMPACT

No Fiscal Impact

FISCAL IMPACT SUMMARY

House Bill 912 (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

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 1 of the bill and identifies 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
ECU	Jones Hall/Legacy Hall – Comprehensive Renovation	\$60.0 m	Housing receipts
FSU	Dormitories	\$6.0 m	Housing receipts
UNCCH	Chilled Water Infrastructure Expansion – Phase 1	\$102.6 m	Utility receipts
UNCCH	Translational Research Building	\$205.6 m	Facilities & administrative receipts
UNCW	Seahawk Housing Complex Acquisition	\$97.4 m	Housing & parking 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 2023-24, for the campuses impacted by this bill. The source of information of all debt related information is the FY 2022 University of North Carolina Debt Capacity Study, as required by Article 5 of G.S. 116D.

Table 2: Existing Debt Information: FY 2023-24

Campus	Outstanding Debt	Debt Service Payment	Obligated Resources
ECU	\$320.9 m	\$26.5 m	\$571.5 m
FSU	\$36.1 m	\$3.0 m	\$38.3 m
UNCCH	\$1,198.6 m	\$76.5 m	\$2,992.4 m
UNCW	\$179.3 m	\$17.0 m	\$217.5 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
ECU	Aa3	Stable	AA-	Negative	-	-
FSU	-	-	A-	Stable	A	Stable
UNCCH	Aaa	Stable	AAA	Stable	AAA	Stable
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 2023-24 to FY 2026-27. 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. 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 and assumes no additional debt is issued prior to that year.

Table 4: Selected Campus Debt Capacity Information

Campus	Debt Ratio Ceiling	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
ECU	1.25	\$393.6 m	\$435.6 m	\$479.4 m	\$523.7 m
FSU	2.10	\$44.5 m	\$48.9 m	\$53.6 m	\$58.4 m
UNC-CH	0.50	\$205.0 m	\$61.2 m	\$168.9 m	\$280.7 m
UNCW	1.75	\$201.3 m	\$226.0 m	\$251.7 m	\$277.5 m

East Carolina University

The bill allows ECU to issue \$60.0 million in debt for the comprehensive renovation of Jones Hall and Legacy Hall. The project scope for both buildings included roof and window replacements, abatement, bathroom renovation and reconfiguration, and replacement of original radiators. The electrical distribution within both buildings will also be brought up to the current code. The scope for Legacy Hall also includes a small addition on the front of the building to create a ground-level entry and accommodate the building's first elevator. ECU intends to fund the debt service with housing receipts and planned increases of at least 3% every other year over the next several years to fulfill the debt payment.

Table 5: Jones Hall/Legacy Hall – Comprehensive Renovation

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Expense					
New Debt Service	\$0	\$0	\$0	\$1.0 m	\$3.2 m
Operating Expense	\$23.0 m	\$23.1 m	\$23.6 m	\$23.7 m	\$23.7 m
<i>Total Expenses</i>	<i>\$23.0 m</i>	<i>\$23.1 m</i>	<i>\$23.6 m</i>	<i>\$24.7 m</i>	<i>\$26.9 m</i>
Revenue					
Housing Receipts	\$32.0 m	\$34.0 m	\$32.0 m	\$33.0 m	\$35.1 m
Other Revenues	\$2.7 m	\$2.6 m	\$2.6 m	\$2.6 m	\$2.6 m
Add. Room Rate	\$0	\$0	\$0	\$0.3 m	\$0.5 m
<i>Total Revenue</i>	<i>\$34.7 m</i>	<i>\$36.6 m</i>	<i>\$34.6 m</i>	<i>\$35.9 m</i>	<i>\$38.2 m</i>
Change in Campus Fund Balance	\$11.7 m	\$13.5 m	\$11.0 m	\$11.2 m	\$11.3 m

** Totals may not add due to rounding.*

Fayetteville State University

The bill allows FSU to issue \$6.0 million in debt to complete construction of a new residence hall which was authorized in S.L. 2021-180. Once completed the project will be a four story, 336 bed residence hall constructed on FSU's east campus with an anticipated opening for the Fall semester of 2025. Debt service will be funded with housing fees collected from the new residence hall.



Table 6: FSU New Residence Hall*

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Expense					
New Debt Service	\$0	\$0	\$1.0 m	\$1.1 m	\$1.1 m
Operating Expense	\$7.1 m	\$7.3 m	\$8.3 m	\$8.5 m	\$8.8 m
<i>Total Expenses</i>	<i>\$7.1 m</i>	<i>\$7.3 m</i>	<i>\$9.3 m</i>	<i>\$9.6 m</i>	<i>\$9.9 m</i>
Revenue					
Housing Fees- existing	\$9.1 m	\$9.5 m	\$9.8 m	\$10.1 m	\$10.4 m
Housing Fees - new	\$0	\$0	\$2.4 m	\$2.5 m	\$2.5 m
<i>Total Revenue</i>	<i>\$9.1 m</i>	<i>\$9.5 m</i>	<i>\$12.2 m</i>	<i>\$12.6 m</i>	<i>\$12.9 m</i>
Change in Campus Fund Balance	\$2.0 m	\$2.2 m	\$2.9 m	\$3.0 m	\$3.0 m

* Totals may not add due to rounding.

University of North Carolina at Chapel Hill

The bill allows UNCCH to issue \$308.2 million in debt for two capital improvements projects.

Project 1: Chilled Water Infrastructure Expansion – Phase 1 (\$102.6 million)

UNCCH received authorization in S.L. 2023-66 to issue \$15 million in debt for this project. This bill allows UNCCH to issue an additional \$102.6 million for a total of \$117.6 in issued debt. UNCCH's chilled water system is outdated and nearing capacity, requiring a multi-phase project to perform renovations while maintaining capacity to meet cooling demands. Phase 1 will renovate and upgrade the east chiller plant and replace the cooling towers at the north chiller plant. Debt service will be funded with utility receipts.

Table 7: UNCCH Chilled Water Infrastructure Expansion – Phase 1*

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Expense					
New Debt Service**	\$0	\$0	\$0	\$0	\$0
Operating Expense	\$18.9 m	\$19.9 m	\$20.8 m	\$21.9 m	\$23.0 m
<i>Total Expenses</i>	<i>\$18.9 m</i>	<i>\$19.9 m</i>	<i>\$20.8 m</i>	<i>\$21.9 m</i>	<i>\$23.0 m</i>
Revenue					
Utility Receipts	\$26.9 m	\$29.1 m	\$31.5 m	\$33.9 m	\$36.3 m
<i>Total Revenue</i>	<i>\$26.9 m</i>	<i>\$29.1 m</i>	<i>\$31.5 m</i>	<i>\$33.9 m</i>	<i>\$36.3 m</i>
Change in Campus Fund Balance	\$8.0 m	\$9.2 m	\$10.7 m	\$12.0 m	\$13.3 m

* Totals may not add due to rounding.

** Financing is not projected to occur until FY 2028-29.

Project 2: Translational Research Building (\$205.6 million)

UNCCH received authorization in S.L. 2018-35 to issue \$23.0 million for this project. This bill allows UNCCH to issue an additional \$205.6 million for a total of \$228.6 in issued debt. UNCCH intends to construct a state-of-the-art translational research building for the study of emerging diseases and treatment of cancers. Debt service will be funded with facilities & administrative (F&A) receipts.

Table 8: UNCCH Translational Research Building *

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Expense					
New Debt Service	\$0	\$1.5 m	\$19.1 m	\$19.1 m	\$19.1 m
Operating Expense	\$231.8	\$240.5	\$235.0	\$253.3	\$267.7
<i>Total Expenses</i>	<i>\$231.8</i>	<i>\$242.0</i>	<i>\$254.1 m</i>	<i>\$272.4 m</i>	<i>\$286.8 m</i>
Revenue					
F&A Revenue	\$254.1 m	\$264.3 m	\$274.9 m	\$285.8 m	\$297.3 m
Incremental F&A from project	\$0	\$0	\$1.5 m	\$3.5 m	\$6.5 m
<i>Total Revenue</i>	<i>\$254.1 m</i>	<i>\$264.3 m</i>	<i>\$276.4 m</i>	<i>\$289.3 m</i>	<i>\$303.8 m</i>
Change in Campus Fund Balance	\$22.3 m	\$22.3 m	\$22.3 m	\$16.9 m	\$17.0 m

** Totals may not add due to rounding.*

University of North Carolina at Wilmington

The bill allows UNCW to acquire Seahawk Village, Seahawk Landing, Seahawk Crossing and the adjacent parking facility for a total of \$97.4 million through the refinancing of 2015 and 2016 Limited Obligation Bonds (LOBs). Debt service will be funded with parking and housing fees.

Table 9: UNCW Seahawk Housing Complex Acquisition *

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Expense					
New Debt Service**	\$0	\$0	\$0	\$0	\$0
Operating Expense	\$6.1 m	\$4.3 m	\$4.5 m	\$4.6 m	\$4.7 m
<i>Total Expenses</i>	<i>\$6.1 m</i>	<i>\$4.3 m</i>	<i>\$4.5 m</i>	<i>\$4.6 m</i>	<i>\$4.7 m</i>
Revenue					
Housing Fees	\$15.2 m	\$16.1 m	\$16.6 m	\$17.1 m	\$17.6 m
Parking Fees	\$0.4 m	\$0.4 m	\$0.5 m	\$0.5 m	\$0.5 m
<i>Total Revenue</i>	<i>\$15.6 m</i>	<i>\$16.5 m</i>	<i>\$17.1 m</i>	<i>\$17.6 m</i>	<i>\$18.1 m</i>
Change in Campus Fund Balance	\$11.5 m	\$12.2 m	\$12.6 m	\$13.0 m	\$13.4 m



** Totals may not add due to rounding.*

***Debt service assumes refinancing of the LOBs is structured to achieve a level cash flow when factoring in both the refinanced debt service and cost savings from acquiring the property.*

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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