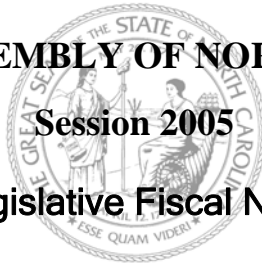


# GENERAL ASSEMBLY OF NORTH CAROLINA



**Session 2005**

## Legislative Fiscal Note

**BILL NUMBER:** Senate Bill 1892 (Second Edition)

**SHORT TITLE:** Special Indebtedness Projects.

**SPONSOR(S):** Senator Hoyle

	<b>FISCAL IMPACT</b>				
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2006-07</u></b>	<b><u>FY 2007-08</u></b>	<b><u>FY 2008-09</u></b>	<b><u>FY 2009-10</u></b>	<b><u>FY 2010-11</u></b>
<b>REVENUES:</b>					
Wildlife Resources Commission	3,063,543	2,153,862	2,296,568	2,033,756	1,788,986
SBMEAC	0	0	112,994	239,145	457,857
<b>EXPENDITURES:</b>					
<b><u>WRC</u></b>					
Debt Service	575,000	2,121,250	2,063,750	2,006,250	1,948,750
Operating & Capital	575,199	407,387	420,712	434,488	448,040
<b>WRC Total</b>	<b>1,150,199</b>	<b>2,528,637</b>	<b>2,484,462</b>	<b>2,440,738</b>	<b>2,396,790</b>
<b><u>SBMEAC</u></b>					
Debt Service	94,875	350,006	340,519	331,031	321,544
Operating & Maint.	0	0	139,529	215,827	313,310
<b>SBMEAC Total</b>	<b>94,875</b>	<b>350,006</b>	<b>480,048</b>	<b>546,858</b>	<b>634,854</b>
<b>POSITIONS (cumulative):</b>					
WRC Positions	8	8	8	8	8
SBMEAC Positions	0	0	1	2	3
<b>Note:</b> This note does not reflect the most recent certified cost estimate for construction of the two SBMEAC horse barns. The 6-19-06 cost estimate, certified by Office of State Construction, restates the construction cost from \$3.3 million to \$6,585,142.					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Wildlife Resources Commission; Department of Agriculture and Consumer Services					
<b>EFFECTIVE DATE:</b> This act is effective when it becomes law.					

**BILL SUMMARY:**

May 24, 2006

S 1892. WILDLIFE COMMISSION INDEBTEDNESS (=H 2485). Filed 5/24/06. TO AUTHORIZE THE ISSUANCE OF SPECIAL INDEBTEDNESS TO FINANCE THE CAPITAL FACILITIES COSTS OF A PURCHASE OF LAND BY THE WILDLIFE RESOURCES COMMISSION. Identical to H 2485, filed 5/23/06.

June 15, 2006

S 1892. SPECIAL INDEBTEDNESS PROJECTS (NEW). Filed 5/24/06. Senate committee substitute makes the following changes to 1st edition. Changes title to AN ACT TO AUTHORIZE THE ISSUANCE OF SPECIAL INDEBTEDNESS TO FINANCE THE CAPITAL FACILITIES COSTS OF A PURCHASE OF LAND BY THE WILDLIFE RESOURCES COMMISSION AND TO FINANCE THE CAPITAL FACILITY COSTS OF STALL BARN AT THE SENATOR BOB MARTIN EASTERN AGRICULTURAL CENTER. In addition to existing provisions, allows State of North Carolina, with the prior approval of the State Treasurer and the Council of State, to incur "special indebtedness" up to a maximum of \$3.3 million to finance capital facility costs of two stall barns at cited agricultural center. (Special indebtedness is a form of debt not requiring voter approval that is typically secured by an interest in the governmental property being acquired or improved.) Also, amends GS 143-64.05(a) to provide that a service charge that may be assessed by the Department of Administration for the transfer or sale of surplus or recyclable material by a State agency does not apply to the sale of timber on land owned by the Wildlife Resources Commission

*Source: Bill Digest S.B. 1892 (05/24/0200).*

## **ASSUMPTIONS AND METHODOLOGY:**

### **Wildlife Resources Commission Land Acquisition**

The proposed land acquisition involves a total of 77,090 acres currently owned by the International Paper Corporation and located in four separate tracts. The total estimated cost for purchasing the lands is \$80 million, and the Nature Conservancy has approached the State to fund the purchase in the following manner:

- \$45 million from the Clean Water Management Trust Fund
- \$10 million from the Natural Heritage Trust Fund
- \$5 million from the Parks and Recreation Trust Fund
- \$20 million from the Wildlife Resources Commission (WRC)

SB 1892 authorizes the Governor and the Council of State to issue special indebtedness in the amount of \$20 million for WRC. WRC would purchase roughly 66,000 acres of International Paper lands through a land deal brokered by the Nature Conservancy. The purchase of all 77,090 acres would occur over three years.

The four tracts available for purchase include:

- 22,009 acres along the Roanoke River
- 20,749 acres of the Upper Tar River watershed
- 18,341 acres along Juniper Creek
- 15,464 acres along the Chowan River

The lands proposed for allocation to WRC would be lands that are contiguous or approximate to existing game lands in the WRC system.

**Debt Service** - The debt service schedule in Chart 1 was developed by the Office of State Treasurer based on the following assumptions:

- Certificates of participation would be issued
- All \$20 million would be issued in Fall 2006
- 5.57% average interest rate
- 20-year term

<b>Chart 1 – Debt Service for Game Lands Acquisition</b>			
<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Debt Service Payment</b>
2006-07		575,000	575,000
2007-08	1,000,000	1,121,250	2,121,250
2008-09	1,000,000	1,063,750	2,063,750
2009-10	1,000,000	1,006,250	2,006,250
2010-11	1,000,000	948,750	1,948,750
2011-12	1,000,000	891,250	1,891,250
2012-13	1,000,000	833,750	1,833,750
2013-14	1,000,000	776,250	1,776,250
2014-15	1,000,000	718,750	1,718,750
2015-16	1,000,000	661,250	1,661,250
2016-17	1,000,000	603,750	1,603,750
2017-18	1,000,000	546,250	1,546,250
2018-19	1,000,000	488,750	1,488,750
2019-20	1,000,000	431,250	1,431,250
2020-21	1,000,000	373,750	1,373,750
2021-22	1,000,000	316,250	1,316,250
2022-23	1,000,000	258,750	1,258,750
2023-24	1,000,000	201,250	1,201,250
2024-25	1,000,000	143,750	1,143,750
2025-26	1,000,000	86,250	1,086,250
2026-27	1,000,000	28,750	1,028,750
<b>TOTALS</b>	<b>20,000,000</b>	<b>12,075,000</b>	<b>32,075,000</b>

**Revenue Estimate** - The WRC has proposed to pay for the debt service, operating, and capital costs from the sale of timber on land acquired through SB 1892 and other State lands allocated to WRC. Chart 2 presents the revenue estimate provided by WRC. The following assumptions were used to develop Chart 2:

- **IP Lands Projected Revenue** – Timber receipts estimate developed by WRC for the project's feasibility study.
- **WRC Lands Projected Revenue** – Timber receipts estimate developed by WRC for other State game lands to be included in the feasibility study.
- **Total Revised Revenue** – The sum of all projected receipts. These feasibility study estimates are revised based on WRC's experience with timber sales from FY 2000-01 to FY 2004-05. **The revenue estimate is revised up 1.5 times.**

<b>Chart 2 – Revenue Estimate from Timber Receipts</b>			
<b>Fiscal Year</b>	<b>IP Lands Projected Revenue</b>	<b>WRC Lands Projected Revenue</b>	<b>Total Revised Revenue</b>
2006-07	\$263,047	\$1,779,315	\$3,063,543
2007-08	\$263,047	\$1,172,861	\$2,153,862
2008-09	\$263,047	\$1,267,998	\$2,296,568
2009-10	\$263,047	\$1,092,790	\$2,033,756
2010-11	\$263,047	\$929,610	\$1,788,986
2011-12	\$500,000	\$928,915	\$2,143,373
2012-13	\$822,700	\$796,418	\$2,428,677
2013-14	\$822,700	\$706,553	\$2,293,880
2014-15	\$822,700	\$809,188	\$2,447,832
2015-16	\$822,700	\$818,609	\$2,461,964
2016-17	\$822,700	\$690,121	\$2,269,232
2017-18	\$1,225,000	\$832,315	\$3,085,973
2018-19	\$1,225,000	\$784,000	\$3,013,500
2019-20	\$1,280,000	\$993,715	\$3,410,573
2020-21	\$1,280,000	\$700,565	\$2,970,848
2021-22	\$1,300,000	\$641,000	\$2,911,500
2022-23	\$1,300,000	\$787,315	\$3,130,973
2023-24	\$1,300,000	\$598,000	\$2,847,000
2024-25	\$1,534,868	\$944,715	\$3,719,375
2025-26	\$1,534,868	\$711,565	\$3,369,650
2026-27	\$1,534,868	\$851,000	\$3,578,802
<b>Totals</b>	<b>\$19,443,339</b>	<b>\$18,836,568</b>	<b>\$57,419,861</b>

**Operating and Capital Improvements Costs** - According to WRC, the purchase of this land will result in operating cost increases associated with managing the new game lands. WRC anticipates needing eight new positions to manage the new game lands and associated equipment. WRC also anticipates the construction of new depots on the lands to serve as workspace for the new personnel. Please see Chart 3 for a five year estimate of new personnel costs, equipment and capital costs. Operating and capital costs are proposed to be 100% receipt supported from the sale of timber on State game lands.

<b>Chart 3 – 5-year Operating and Capital Improvements Impact</b>		
<b>Fiscal Year</b>	<b>Personnel Costs</b>	<b>Capital / Equipment / Maintenance</b>
2006-07	\$311,999	\$263,200
2007-08	\$323,543	\$83,844
2008-09	\$335,191	\$85,521
2009-10	\$347,257	\$87,231

<b>Fiscal Year</b>	<b>Personnel Costs</b>	<b>Capital / Equipment / Maintenance</b>
2010-11	\$359,064	\$88,976
<b>Total</b>	<b>\$1,677,054</b>	<b>\$608,772</b>

**Cash Flow** - WRC proposes to service the special indebtedness authorized in SB 1892 through receipts generated by the sale of timber on State game lands. WRC also proposes funding all operating expenditures and capital improvements through the same revenue sources. **When estimate receipts are compared with proposed expenditure impacts, WRC is projected to have insufficient timber receipts for fiscal years 2011-12 through 2016-17.** In each of those years, WRC would produce enough timber receipts to service the debt, but not cover all projected operating and capital expenditures. WRC would need to use other receipts available to the Commission or seek assistance from the General Fund. Please see Chart 4 for details.

<b>Chart 4 – Cash Flow Projection</b>				
<b>Fiscal Year</b>	<b>Projected Revenue</b>	<b>Existing &amp; New Operating &amp; Capital Costs</b>	<b>Debt Service</b>	<b>Projected Cumulative Year-end Cash Balance</b>
2005-06		\$631,192		<b>\$3,109,096</b>
2006-07	\$3,063,543	\$1,215,859	\$575,000	<b>\$4,381,780</b>
2007-08	\$2,153,862	\$1,057,657	\$2,121,250	<b>\$3,356,736</b>
2008-09	\$2,296,568	\$1,080,735	\$2,063,750	<b>\$2,508,818</b>
2009-10	\$2,033,756	\$1,104,413	\$2,006,250	<b>\$1,431,910</b>
2010-11	\$1,788,986	\$1,128,013	\$1,948,750	<b>\$144,133</b>
2011-12	\$2,143,373	\$1,342,200	\$1,891,250	<b>(\$945,945)</b>
2012-13	\$2,428,677	\$1,176,991	\$1,833,750	<b>(\$582,064)</b>
2013-14	\$2,293,880	\$1,202,403	\$1,776,250	<b>(\$684,774)</b>
2014-15	\$2,447,832	\$1,228,453	\$1,718,750	<b>(\$499,371)</b>
2015-16	\$2,461,964	\$1,255,160	\$1,661,250	<b>(\$454,447)</b>
2016-17	\$2,269,232	\$1,482,542	\$1,603,750	<b>(\$817,061)</b>
2017-18	\$3,085,973	\$1,310,619	\$1,546,250	<b>\$229,103</b>
2018-19	\$3,013,500	\$1,339,411	\$1,488,750	<b>\$414,443</b>
2019-20	\$3,410,573	\$1,368,937	\$1,431,250	<b>\$1,024,828</b>
2020-21	\$2,970,848	\$1,399,221	\$1,373,750	<b>\$1,222,705</b>
2021-22	\$2,911,500	\$1,640,282	\$1,316,250	<b>\$1,177,673</b>
2022-23	\$3,130,973	\$1,462,144	\$1,258,750	<b>\$1,587,751</b>
2023-24	\$2,847,000	\$1,494,831	\$1,201,250	<b>\$1,738,670</b>
2024-25	\$3,719,375	\$1,528,365	\$1,143,750	<b>\$2,785,930</b>
2025-26	\$3,369,650	\$1,562,772	\$1,086,250	<b>\$3,506,557</b>
2026-07	\$3,578,802	\$1,598,078	\$1,028,750	<b>\$4,458,532</b>
<b>Total</b>	<b>\$57,419,861</b>	<b>\$28,610,278</b>	<b>\$32,075,000</b>	

**Senator Bob Martin Eastern Agricultural Center**

The Senator Bob Martin Eastern Agricultural Center (SBMEAC) is a State facility operated and maintained by the Department of Agriculture and Consumer Services (DA&CS). SB 1892 authorizes the issuance of special indebtedness for the construction of two 80-stall horse barns at the Center. This expansion would complete phase III of the Center's master plan expansion and bring the Center's hosting capacity to four barns totaling 320 stalls.

**Debt Service** – The debt service schedule in Chart 5 was developed by the Fiscal Research Division with certain assumptions and methodology provided by the Office of State Treasurer. The schedule contains that following assumptions:

- Certificates of participation would be issued
- All \$3.3 million would be issued in Fall 2006
- Does not assume the restated certified cost estimate of \$6,585,142 dated 6-19-06
- 5.57% average interest rate
- 20-year term

<b>Chart 5 - Debt Service for the SBMEAC</b>			
<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Debt Service Payment</b>
2006-07		94,875	94,875
2007-08	165,000	185,006	350,006
2008-09	165,000	175,519	340,519
2009-10	165,000	166,031	331,031
2010-11	165,000	156,544	321,544
2011-12	165,000	147,056	312,056
2012-13	165,000	137,569	302,569
2013-14	165,000	128,081	293,081
2014-15	165,000	118,594	283,594
2015-16	165,000	109,106	274,106
2016-17	165,000	99,619	264,619
2017-18	165,000	90,131	255,131
2018-19	165,000	80,644	245,644
2019-20	165,000	71,156	236,156
2020-21	165,000	61,669	226,669
2021-22	165,000	52,181	217,181
2022-23	165,000	42,694	207,694
2023-24	165,000	33,206	198,206
2024-25	165,000	23,719	188,719
2025-26	165,000	14,231	179,231

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Debt Service Payment</b>
2026-27	165,000	4,744	169,744
<b>TOTALS</b>	<b>\$3,300,000</b>	<b>\$1,992,375</b>	<b>\$5,292,375</b>

**Revenue Estimate** – DA&CS provided the revenue estimate for the first three years of operation. In order to establish the estimate, DA&CS assumed the following:

- The two barns would be occupied and operating by July 1, 2008
- Assumes full operation by FY 2010-2011
- 6 shows currently booked would expand in future years with additional capacity. The additional capacity would result in an increase of 20% revenue in FY 2008-09 (\$20,514) and 10% revenue in each of FY 2009-2010 and FY 2010-11 (\$10,257 each year)
- 4 new shows will be booked for FY 2008-09, 5 additional shows in FY 2009-2010, and 7 additional shows in FY 2010-11. The cumulative total would be 16 new shows by FY 2010-11
- Revenue per new show in FY 2008-09 would be \$18,620 and would grow by 10% in each of the two following years

In order to provide a 20-year revenue estimate for comparison with debt service requirements, DA&CS revenue estimates were inflated by 2.3% after FY 2010-11.

<b>Chart 6 – SBMEAC Estimated Revenue</b>	
<b>Fiscal Year</b>	<b>Revenue</b>
2006-07	
2007-08	
2008-09	\$112,994
2009-10	\$239,145
2010-11	\$457,857
2011-12	\$468,388
2012-13	\$479,161
2013-14	\$490,181
2014-15	\$501,455
2015-16	\$512,989
2016-17	\$524,788
2017-18	\$536,858
2018-19	\$549,206
2019-20	\$561,837
2020-21	\$574,760
2021-22	\$587,979

<b>Fiscal Year</b>	<b>Revenue</b>
2022-23	\$601,503
2023-24	\$615,337
2024-25	\$629,490
2025-26	\$643,968
2026-27	\$658,779
<b>TOTAL</b>	<b>\$9,746,674</b>

**Operating and Maintenance Costs** – DA&CS provided expenditure estimates for the first three years of operation for the two new horse barns. Certain estimates were modified by the Fiscal Research Division to conform to standard fiscal note estimate assumptions. The following assumptions were used to calculate the cost estimate:

- The two barns would be occupied and operating by July 1, 2008
- Assumes full operation in FY 2010-11
- 3 new positions will be created at an initial salary cost of \$75,000, plus benefits costing \$22,414
- The Center would use part-time and temporary labor totaling \$37,970 annually
- Salaries inflation – 3.7% (FY 2007-08), 3.6% (FY 2008-09), 3.4% subsequent fiscal years
- Non-Salary expenditures will be inflated by 2.3% after FY 2010-11

<b>Chart 7 - SBMEAC Estimated Operating and Maintenance Expenditures</b>			
<b>Fiscal Year</b>	<b>Personnel</b>	<b>Non-Salary Operating &amp; Maint.</b>	<b>Total</b>
2006-07			\$0
2007-08			\$0
2008-09	\$47,658	\$91,871	\$139,529
2009-10	\$110,171	\$105,656	\$215,827
2010-11	\$143,941	\$169,369	\$313,310
2011-12	\$148,835	\$173,264	\$322,100
2012-13	\$153,896	\$177,250	\$331,145
2013-14	\$159,128	\$181,326	\$340,455
2014-15	\$164,539	\$185,497	\$350,035
2015-16	\$170,133	\$189,763	\$359,896
2016-17	\$175,918	\$194,128	\$370,045
2017-18	\$181,899	\$198,593	\$380,491
2018-19	\$188,083	\$203,160	\$391,244
2019-20	\$194,478	\$207,833	\$402,311
2020-21	\$201,090	\$212,613	\$413,704



<b>Fiscal Year</b>	<b>Personnel</b>	<b>Non-Salary Operating &amp; Maint.</b>	<b>Total</b>
2021-22	\$207,927	\$217,503	\$425,431
2022-23	\$214,997	\$222,506	\$437,503
2023-24	\$222,307	\$227,624	\$449,930
2024-25	\$229,865	\$232,859	\$462,724
2025-26	\$237,681	\$238,215	\$475,895
2026-27	\$245,762	\$243,694	\$489,455
<b>TOTALS</b>	<b>\$3,398,309</b>	<b>\$3,672,723</b>	<b>\$7,071,032</b>

**Cash Flow** – The following assumptions were used to develop the cash flow analysis contained in Chart 8:

- Current & New Revenue includes the September 2006 completion of a barn currently under construction and the two barns proposed in SB 1892
- Current & New Operating Costs includes the costs associated with the new barn slated for completion in September 2006 and the two barns proposed in SB 1892
- Current Debt Service includes lease-purchase payments to the Martin County Economic Development Corporation and the proposed special indebtedness in SB 1892

The final analysis in the following cash flow projection is that **the Center is expected to produce sufficient revenue from all activities to cover the estimated debt service requirements for the Center.** When all sources of availability (receipts and General Fund appropriation) are measured against the estimated expenditures for the Center, **the Center falls short of being self-sufficient in each year of the projection.** The most significant shortfall would be in FY 2008-09 (\$373,758), **but General Fund impact would occur as early as FY 2006-07 at \$116,071.**

<b>Chart 8 – SBMEAC Cash Flow Projection (\$ Thousands)</b>						
<b>Fiscal Year</b>	<b>Current &amp; New Revenues</b>	<b>Current &amp; New Operating Costs</b>	<b>Current &amp; New Debt Service</b>	<b>Total Expenditures</b>	<b>Revenues/ Debt Service Balance</b>	<b>Revenues/ Total Expenditures Balance</b>
2006-07	\$1,062	\$1,005	\$173	\$1,178	<b>\$889</b>	<b>(\$116)</b>
2007-08	\$1,113	\$1,031	\$428	\$1,459	<b>\$685</b>	<b>(\$346)</b>
2008-09	\$1,239	\$1,194	\$418	\$1,613	<b>\$821</b>	<b>(\$374)</b>
2009-10	\$1,378	\$1,295	\$409	\$1,704	<b>\$969</b>	<b>(\$325)</b>
2010-11	\$1,611	\$1,417	\$399	\$1,817	<b>\$1,211</b>	<b>(\$206)</b>
2011-12	\$1,635	\$1,451	\$390	\$1,841	<b>\$1,245</b>	<b>(\$206)</b>
2012-13	\$1,660	\$1,486	\$380	\$1,867	<b>\$1,280</b>	<b>(\$207)</b>

<b>Fiscal Year</b>	<b>Current &amp; New Revenues</b>	<b>Current &amp; New Operating Costs</b>	<b>Current &amp; New Debt Service</b>	<b>Total Expenditures</b>	<b>Revenues/ Debt Service Balance</b>	<b>Revenues/ Total Expenditures Balance</b>
2013-14	\$1,686	\$1,522	\$371	\$1,893	<b>\$1,315</b>	<b>(\$207)</b>
2014-15	\$1,712	\$1,559	\$361	\$1,920	<b>\$1,350</b>	<b>(\$209)</b>
2015-16	\$1,739	\$1,597	\$352	\$1,949	<b>\$1,387</b>	<b>(\$210)</b>
2016-17	\$1,766	\$1,635	\$342	\$1,978	<b>\$1,424</b>	<b>(\$212)</b>
2017-18	\$1,794	\$1,675	\$333	\$2,008	<b>\$1,461</b>	<b>(\$214)</b>
2018-19	\$1,823	\$1,715	\$323	\$2,039	<b>\$1,499</b>	<b>(\$216)</b>
2019-20	\$1,852	\$1,757	\$314	\$2,071	<b>\$1,538</b>	<b>(\$219)</b>
2020-21	\$1,882	\$1,799	\$304	\$2,104	<b>\$1,577</b>	<b>(\$222)</b>
2021-22	\$1,913	\$1,843	\$217	\$2,060	<b>\$1,695</b>	<b>(\$148)</b>
2022-23	\$1,944	\$1,888	\$208	\$2,095	<b>\$1,736</b>	<b>(\$151)</b>
2023-24	\$1,976	\$1,933	\$198	\$2,132	<b>\$1,778</b>	<b>(\$156)</b>
2024-25	\$2,009	\$1,980	\$189	\$2,169	<b>\$1,820</b>	<b>(\$160)</b>
2025-26	\$2,043	\$2,028	\$179	\$2,208	<b>\$1,863</b>	<b>(\$165)</b>
2026-27	\$2,077	\$2,078	\$170	\$2,247	<b>\$1,907</b>	<b>(\$171)</b>
<b>TOTALS</b>	<b>\$35,911</b>	<b>\$33,890</b>	<b>\$6,459</b>	<b>\$40,350</b>		

**SOURCES OF DATA:** Office of State Treasurer, Wildlife Resources Commission, the Nature Conservancy, and the Department of Agriculture and Consumer Services.

**TECHNICAL CONSIDERATIONS:** None

**FISCAL RESEARCH DIVISION:** (919) 733-4910

**PREPARED BY:** Jim Klingler

**APPROVED BY:** Lynn Muchmore, Director  
Fiscal Research Division

**DATE:** June 22, 2006



**Signed Copy Located in the NCGA Principal Clerk's Offices**