



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Fiscal Note

Short Title: UNC Capital Projects/Grace for CCRC.
Bill Number: Senate Bill 733 (Second Edition)
Sponsor(s): Senator Newton; Senator Gunn

SUMMARY TABLE

FISCAL IMPACT OF PCS to S.B. 733, V.1

	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>
State Impact					
UNC Capital Projects	No fiscal impact from UNC Capital Projects.				
CCRC Tax Relief	Unknown revenue loss, potentially significant. See fiscal analysis section.				
General Fund Impact					

NET STATE IMPACT	-	-	-	-	-
-------------------------	---	---	---	---	---

Local Impact					
UNC Capital Projects	No fiscal impact from UNC Capital Projects.				
CCRC Tax Relief	Unknown revenue loss, potentially significant. See fiscal analysis section.				

NET LOCAL IMPACT	-	-	-	-	-
-------------------------	---	---	---	---	---

FISCAL IMPACT SUMMARY

Section 1 authorizes Western Carolina University (WCU) and the University of North Carolina at Chapel Hill (UNC-CH) to finance and construct capital improvement projects using obligated resources. This section does not require additional General Fund Appropriations; however, there is a fiscal impact that will be funded with University receipts.

Section 2 allows the Department of Revenue to forgive sales and use tax assessments imposed on continuing care retirement communities for failure to collect and remit sales tax on taxable transactions. This forgiveness would result in lost tax revenue for the State and local governments.

FISCAL ANALYSIS

SECTION 1: UNC CAPITAL PROJECTS

This section authorizes Western Carolina University (WCU) and the University of North Carolina at Chapel Hill (UNCCH) to finance and construct capital improvement projects to be funded with obligated resources. The projects are discussed later in this document.

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,
- other resources that exclude appropriations from the General Assembly and tuition.

With approval of the Director of the Budget, UNC is authorized to change the means of finance for the projects authorized in the bill and to increase or decrease the projects' costs. UNC may 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 debt issuance. The proposed indebtedness authorized under this bill is not a debt of the State.

Table 1 summarizes the projects within Section 1.(b) of the bill. 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.

Table 1: Campus Project Information

Campus	Project	Amount	Revenue Source
UNC-CH	Morehead Chemistry Laboratory HVAC Upgrades	\$22 m	Existing institutional trust fund – no fee increase.
UNC-CH	Campus-Wide Life Safety Upgrades – Phase 1	\$6.5 m	Existing institutional trust fund – no fee increase.
WCU	Lower Campus Residence Halls – Phase 2	\$20 m	Existing housing fees – no fee increase.

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 2019-20.

Table 2: Existing Debt Information: FY 2019-20

Campus	Outstanding Debt	Debt Service Payment	Expendable Resources
UNC-CH	\$1.28 b	\$74.1 m	\$3.09 b
WCU	\$149.7 m	\$10.2 m	\$157.7 m

Each campus receives a bond rating from bond rating agencies, and Table 3 summarizes these ratings. The most widely used agencies are Moody’s Investor Services (Moody’s), Fitch Ratings (Fitch), and Standard and Poor’s Global Ratings (S&P). 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
UNC-CH	Aaa	Stable	AAA	Stable	AAA	Stable
WCU*	Aa3	Stable	-	-	-	-

* Moody’s is the only agency that rates WCU.

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 2020-21 to FY 2023-24. Debt capacity is a measure of the campus’s debt to obligated resources ratio. The UNC Debt Affordability Study recommends a ratio of no higher than 2.00. If a campus has a ratio of debt to obligated resources that is above 2.00, the debt capacity in the table below will show a negative value. 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. The debt capacity shown in each year assumes no additional debt is issued prior to that year.

Table 4: Campus Debt Capacity Information

Campus	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
UNC-CH	\$1.21 b	\$1.29 b	\$1.37 b	\$1.45 b
WCU	\$105.7 m	\$119.2 m	\$133.2 m	\$147.5 m

University of North Carolina at Chapel Hill

The bill allows UNC-CH to issue \$28.5 million in debt for two emergency repair and renovation projects.

Project 1: Morehead Chemistry Laboratory Emergency HVAC Replacement (\$22 million)
 UNCCH plans to make upgrades to the building HVAC systems at the Morehead Chemistry Laboratory. The existing HVAC system is outdated, and equipment is unsuitable to maintain acceptable indoor environmental quality. Scope of the project includes additional conditioned make-up air to all laboratories, replacement of original, internally lined ductwork, removal of recirculated air systems, improvements to the chilled water infrastructure, requirements to comply with current high-rise code and replacement of teaching fume hoods to meet minimum air changes required by code. Debt service will be funded from an existing non-student revenue stream that supports outstanding indebtedness that will be retired in FY 2021. Of the planned \$22 million project budget, \$18.1 million is related to direct construction and \$3.9 million is for the design and contingencies.

Table 5: UNCCH Morehead Chemistry Lab HVAC Upgrade

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Expense					
New Debt Service	\$0	\$0	\$1.48 m	\$1.48 m	\$1.48 m
Operating Expense	\$0.2 m	\$0	\$0	\$0	\$0
<i>Total Expenses</i>	<i>\$0.2 m</i>	<i>\$0</i>	<i>\$1.48 m</i>	<i>\$1.48 m</i>	<i>\$1.48 m</i>
Revenue					
Transfer In Debt	\$1.48 m	\$1.48 m	\$1.48 m	\$1.48 m	\$1.48 m
Service Assessment					
<i>Total Revenue</i>	<i>\$1.48 m</i>	<i>\$1.48 m</i>	<i>\$1.48 m</i>	<i>\$1.48 m</i>	<i>\$1.48 m</i>
Change in Campus Fund Balance	\$1.28 m	\$1.48 m	\$0	\$0	\$0

** Totals may not add due to rounding.*

Project 2: Campus-wide Life Safety Infrastructure - Phase 1 (\$6.5 million)

The debt authorized in the bill also would allow UNCCH to implement Phase 1 of replacing UNC's Central Alarm Communicator System for University fire alarms with a radio-mesh network system. The project includes new transmitters from each building to a new receiving station at the UNC Public Safety and EHS Emergency Operations Center, as well as replacement of obsolete EMCS control systems that are no longer able to be supported or upgraded across campus. AT&T is no longer supporting critical life safety alarm systems, which requires the University to take an alternate approach.

Debt service will be funded from an existing non-student revenue stream that supports outstanding indebtedness that will be retired in FY 2020-21. Of the planned \$6.5 million project budget, \$5 million is related to direct construction and \$1.5 million is for the design and contingencies.

Table 6: UNCCH Campus-wide Life Safety Infrastructure

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Expense					
New Debt Service	\$0	\$0	\$0.4 m	\$0.4 m	\$0.4 m
Operating Expense	\$0.1 m	\$0	\$0	\$0	\$0
<i>Total Expenses</i>	<i>\$0.1 m</i>	<i>\$0</i>	<i>\$0.4 m</i>	<i>\$0.4 m</i>	<i>\$0.4 m</i>
Revenue					
Transfer In Debt	\$0.4 m	\$0.4 m	\$0.4 m	\$0.4 m	\$0.4 m
Service Assessment					
<i>Total Revenue</i>	<i>\$0.4 m</i>	<i>\$0.4 m</i>	<i>\$0.4 m</i>	<i>\$0.4 m</i>	<i>\$0.4 m</i>
Change in Campus Fund Balance	\$0.3 m	\$0.4 m	\$0	\$0	\$0

* Totals may not add due to rounding.

Western Carolina University

In 2019, the General Assembly passed S.L. 2019-124, UNC Capital Projects, authorizing Western Carolina University (WCU) to spend \$67 million for three (3) new residence halls located on the lower campus, totaling up to 800 beds with approximately 200,400 square feet. The amount to be debt financed was \$60 million.

This bill allows WCU to issue an additional \$20 million in debt, increasing the project's debt financing from \$60 million to \$80 million. As planned in S.L. 2019-124, \$7 million of the project costs will be paid using the University's housing reserves, resulting in a total project cost of \$87 million.

WCU intends to increase the total number of beds from 800 up to a maximum of 932, increasing the building size to approximately 235,000 square feet. This additional residence capacity will accommodate WCU's future growth as well as provide inventory for swing space to allow student relocations to the new facility for renovation/replacement of existing, aged residence halls. Of the planned \$87 million, \$3.8 million is for site work, \$72.4 million is related to direct construction costs, \$9 million for the design and contingencies, and \$1.8 million for project escalation costs.

Table 7: WCU New Lower Campus Residence Hall*

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Expense					
New Debt Service	\$0	\$0	\$2.8 m	\$4.3 m	\$4.3 m
Operating Expense	\$15.0 m	\$14.2 m	\$14.4 m	\$14.0 m	\$14.3 m
<i>Total Expenses</i>	<i>\$15.0 m</i>	<i>\$14.2 m</i>	<i>\$17.2 m</i>	<i>\$17.3 m</i>	<i>\$17.6 m</i>
Revenue					
Housing Receipts	\$23.5 m	\$20.9 m	\$21.3 m	\$24.3 m	\$25.0 m
Miscellaneous	\$0.2 m	\$0.2 m	\$0.2 m	\$0.2 m	\$0.2 m
<i>Total Revenue</i>	<i>\$23.7 m</i>	<i>\$21.1 m</i>	<i>\$21.5 m</i>	<i>\$24.5 m</i>	<i>\$25.2 m</i>



Change in Campus Fund Balance	\$8.7 m	\$6.9 m	\$4.3 m	\$7.2 m	\$7.6 m
--------------------------------------	----------------	----------------	----------------	----------------	----------------

** Totals may not add due to rounding.*

SECTION 2: CONTINUING CARE RETIREMENT COMMUNITIES

Background

Section 2 allows the Department of Revenue to forgive certain sales and use tax assessments related to Continuing Care Retirement Communities (CCRCs), which will reduce both State and local tax revenue.

Under North Carolina tax law, sales of all tangible personal property are subject to sales tax unless the items are specifically exempted from taxes. In addition, a fundamental principle in tax law is that taxable transactions should be treated the same regardless of how they are provided or by whom they are provided. CCRCs are retailers when they sell taxable items to independent living residents and have been considered as such by the Department of Revenue for many years.

However, audits conducted by the Department of Revenue indicate that at least two CCRCs have not accurately collected and remitted sales taxes on their taxable transactions -- that is, on transactions in which the CCRC is the retailer, such as when selling meals. The bill would forgive 100% of sales and use taxes owed by these two and any other CCRCs who receive tax assessments by the Department of Revenue as long as the CCRC meets conditions outlined in the bill.

Cost Estimates

The two assessments identified by the Department total approximately \$4.5 million. Using these two data points, the Department has estimated that granting 100% relief for all CCRCs could cost the State approximately \$129 million. While it is possible that the cost of forgiving all sales tax assessments for any qualifying CCRCs could total \$129 million, the Fiscal Research Division believes that we cannot confidently forecast the cost of the bill. Each taxpayer's circumstances are different, and each CCRC has a different financial picture, serving different numbers of clients and conducting differing numbers of potentially taxable transactions. It is impossible to know from two data points what the total cost could be for all 60 CCRCs. Thus, no estimate is available.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

UNC Debt Affordability Study; UNC General Administration; Department of Revenue.



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

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

ESTIMATE PREPARED BY

Denise Canada and Travis Allen

ESTIMATE APPROVED BY

Mark Trogdon, Director of Fiscal Research
Fiscal Research Division
June 18, 2020



Signed copy located in the NCGA Principal Clerk's Offices