



SENATE BILL 129: Limit State Facilities Finance Act Debt

2013-2014 General Assembly

Committee:	Senate Finance	Date:	April 16, 2013
Introduced by:	Sen. Tucker	Prepared by:	Cindy Avrette
Analysis of:	PCS to First Edition S129-CSRB-7		Committee Counsel

SUMMARY: *Senate Bill 129 would limit the amount of special indebtedness the General Assembly could authorize to 25% of the amount of general obligation bond indebtedness supported by the General Fund. The proposed committee substitute applies the limit to all indebtedness supported by the General Fund that was authorized pursuant to legislation enacted after January 1, 2013.*

CURRENT LAW: The State issues two kinds of tax-supported debt¹:

- **General Obligation Bonds.** – GO bonds are secured by the full faith, credit, and taxing power of the State. GO bonds are considered to be the highest quality of all the various types of debt and usually carry the highest credit rating because of the legal protections inherent in constitutionally permitted debt. GO bonds are generally the most transparent of the various types of State debt obligations and typically carry the lowest interest rate. The costs of holding a GO bond referendum are modest. As of June 30, 2012, the State has \$4,062.4 billion of General Fund supported GO debt.
- **Special Indebtedness.** – Special indebtedness may also be known as non-GO debt or appropriation-supported debt. This form of indebtedness includes financing contract indebtedness, such as a lease-purchase contract, an installment-purchase contract, and certificates of participation. It also includes bonded indebtedness that may be issued on an unsecured basis or secured by a specific stream of revenues, a lease payment or financing agreement, or a security interest in the project being financed. All special indebtedness obligations are paid from annual appropriated amounts for debt service. Special indebtedness is rated lower than GO bonds and typically carries a higher interest rate. As of June 30, 2012, the State has \$2,430.8 billion of appropriation-supported debt.

The State Capital Facilities Finance Act establishes the legal framework providing for the issuance of special indebtedness; it does not authorize debt. Only the General Assembly may authorize debt. Under the Act, the General Assembly must enact legislation that describes the capital facility to be financed and authorizing its financing through the issuance of special indebtedness up to a specific maximum amount or legislation that authorizes the issuance of special indebtedness up to a specific maximum amount for a specific category of capital facilities.

In addition to the General Assembly enactment of legislation authorizing the special indebtedness, the agency wishing to use special indebtedness to finance a capital project must receive concurrence or approval from the Department of Administration, the State Treasurer, and the Council of State. The State Treasurer must report to the Joint Legislative Commission on Governmental Operations at least five days before the issuance or incurrence of any debt.

¹ The summary relied extensively on the information in the 2013 Debt Affordability Study.



Senate PCS 129

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BILL ANALYSIS: Senate Bill 129 would limit the amount of appropriation-supported debt the General Assembly could authorize, beginning July 1, 2013, to 25% of the total amount of outstanding debt supported by the General Fund. As of June 30, 2012, the amount of General Fund supported debt authorized is approximately \$6,493.2 billion outstanding plus \$206 million authorized but unissued. Of this amount, approximately 40% is special indebtedness.

The PCS clarifies that the calculation of General Fund supported debt includes both GO bond indebtedness and special obligation indebtedness since both are supported by the General Fund. It also modifies the restriction to apply it prospectively. Under the PCS the amount of special indebtedness authorized by the General Assembly could not exceed 25% of the General Fund supported debt authorized pursuant to legislation enacted after January 1, 2013. The PCS effectively restricts the issuance of any special indebtedness on or after January 1, 2013, until the General Assembly authorizes GO bonds.

EFFECTIVE DATE: The bill would become effective when it becomes law and apply to special indebtedness authorized on or after January 1, 2013.

BACKGROUND: Prior to 2001, the State only issued GO bonded indebtedness. Most states have diversified their debt portfolios and utilize one or more of the various types of appropriation-supported debt structures. However, the State of North Carolina has relied extensively on appropriation-supported debt structures since 2000. In affirming the State's rating in 2013, Fitch noted that "Over time the state has become more reliant on appropriation debt." Currently, the State's percentage of appropriation-supported debt obligation exceeds the medians reported for the "AAA" and "AA" rated states. In 2008, 18.5% of the State's outstanding debt was appropriation-supported debt; in 2013 it is 40.4%. By the year 2017 it is projected to be 46.3%.²

The Debt Affordability Advisory Committee recommended in its 2013 Debt Affordability Study that the State consider the authorization of GO debt as the preferred, but not necessarily exclusive, method to provide debt financing.

² The percentage of total outstanding debt includes debt funded by the Highway and Highway Trust Fund.