LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 1170** HLS 14RS 1493
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 14, 2014 11:17 AM
Author: BISHOP, WESLEY
Dept./Agy.: Higher Education/State Bond Commission
Subject: Southern University projects bonded outside of NSTSD
Analyst: Deborah Vivien

BONDS OR +$1,800,000 GF EX See Note

Provides relative to the issuance of bonds to finance capital improvements for the Southern University System

Proposed law directs that 3 specific Southern University construction projects are to be funded with $23,000,000 in appropriation dependent bonds (up to 30 years) issued through the Louisiana Local Government Environmental Facilities and Community Development Authority or other public trust with the approval of the State Bond Commission in the amounts specified in the bill. Before state funding is issued, the projects will require the availability of private matching funds (at least 12%). The project cost limitations are stated in the bill and can be increased by a 15% contingency allowance plus other costs of issuance and interest. The bill excludes these bonds from the calculation of Net State Tax Supported Debt. A nonprofit corporation will be established to manage construction projects. No money shall be appropriated for the projects until July 1, 2016 (fiscal year 16/17).

EXPENDITURES	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$1,800,000	$1,800,000	$1,800,000	**$5,400,000**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$1,800,000**	**$1,800,000**	**$1,800,000**	**$5,400,000**

REVENUES	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

Assuming a simple all-in cost of 5% interest at level debt over 20 years on $23M, annual debt service would be roughly $1.8M per year beginning in FY 17. However, the actual debt service requirements will depend on the structure of the bond issuance. Also, the principal is allowed to increase up to 15% within the parameters of the bill. Should the statutory increase be exercised, annual debt service may also increase, according to the structure of the associated debt.

The bonds will be issued with the assistance of the State Bond Commission operating within its current budget. Debt service on the bonds will be paid presumably from state general fund direct appropriation and will not be involved in the traditional capital outlay process. Capital outlay bonds for projects such as these are typically issued as a general obligation debt. In the bond market, appropriation dependent debt is rated lower than general obligation debt resulting in higher interest costs.

Additionally, this bill directs the debt to be excluded from the calculation of net state tax supported debt (NSTSD) which statutorily positions it outside of the state debt limit. However, rating agencies and the State Bond Commission Financial Advisor have indicated that all debt and pension obligations are considered when determining a state's debt management plan for use in establishing the relative financial position of the state. The bonds in this bill are comparable to the LCTCS bonds passed in a similar manner in 2013 and, when coupled with UAL obligations, debt outside of the state's limit can still negatively impact the state bond rating, which would further increase the cost of borrowing for all state debt.

A nonprofit corporation is to be established to manage the projects listed in the bill. Funding of the operating expenses of the nonprofit is not specified, but, if funded by the state, could increase the cost estimates of the bill.

REVENUE EXPLANATION

There is no anticipated direct material effect on governmental revenues as a result of this measure.

Senate | Dual Referral Rules | House

[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}

[ ] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

[ ] 6.8(F)(2) >= $500,000 State Rev. Reduc. {H & S}

[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Gregory V. Albrecht

Gregory V. Albrecht
Chief Economist