LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 940** HLS 24RS 1912
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 10, 2024 2:08 PM
Author: TURNER
Dept./Agy.: University Systems/Division of Administration/Treasury
Subject: Appropriation debt authority for HIED capital projects
Analyst: Deborah Vivien

BONDS OR INCREASE GF EX See Note

Authorizes the issuance of bonds to finance deferred maintenance projects included in the College and University Deferred Maintenance and Capital Improvement Program

Proposed law creates the College and University Deferred Maintenance and Capital Improvement Program that authorizes $1.68 B in appropriation dependent debt for deferred maintenance and other capital improvement needs on higher education campuses, with each system receiving a specific portion (no specified projects). Each bond sale is subject to State Bond Commission approval, which is the sole legislative point of authority as the projects will not appear in the Capital Outlay bill. A nonprofit corporation, members of which are not specified, may be established to manage and administer the projects, including notice of progress. Any project in excess of $250,000 total installed costs will require a public meeting and a stated procurement process with the corporation making the final selection (nonexclusive selection criteria is in the bill). The Commissioner of Administration will approve Cooperative Endeavor Agreements. Lease agreements within the financing structure and bond terms may not exceed 30 years.
The earliest date of appropriation of debt service is July 1, 2026, with no debt issued after July 1, 2036, to be paid by 2066.

EXPENDITURES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**$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**

REVENUES	2024-25	2025-26	2026-27	2027-28	2028-29	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

Proposed law authorizes bonds to be issued after approval of the State Bond Commission, which will also be the only legislative input to the program. Debt service on the bonds will be paid by appropriation, presumably from a state general fund appropriation, beginning as early as FY 27 (no debt to be issued after FY 36) and will not be included in the traditional capital outlay process. The timing of the bond sales is uncertain but it is presumed that coordination through the nonprofit corporation will determine timing and magnitude of bond sales for each board and result in a list of specific projects to be funded in the bond sale. The fiscal note assumes that at least $100,000 in debt service will be due in FY 27 as bonds can be sold prior to that date, which is the basis for a dual referral.

Capital outlay bonds for deferred maintenance projects have historically been issued as general obligation debt, which is not appropriated. However, Act 360 of 2013RS and Act 391 of 07RS each specified certain LCTCS projects that were funded with appropriation dependent debt, in a manner similar to this bill. Act 360 debt service is currently paid with SGF in the state operating budget originating as HB 1 in Schedule 20-930. This bill does not contain specific projects but allows each system an aggregate amount of bonding authority:

LSU	$752 M
SU	$153 M
UL	$523 M
LCTCS	$253 M
TOTAL	$1,681 M

In the bond market, appropriation dependent debt is rated lower than general obligation debt, typically resulting in higher interest costs. According to State Bond Commission (SBC), **assuming a simple all-in cost of 5% interest at level debt over 20 years issuing $350-500 M per year up to $1.68 B, debt service would require roughly $130 M per year in SGF once all bonds are sold.** However, the actual debt service requirements will depend on the structure and timing of the bond issuance(s). **CONTINUED ON PAGE TWO**

REVENUE EXPLANATION

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

Senate — Dual Referral Rules

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

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

House

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

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

Alan M. Boxberger

Alan M. Boxberger
Legislative Fiscal Officer

EXPENDITURE EXPLANATION CONTINUED FROM PAGE ONE

The bonds will be issued through the Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) or the Louisiana Public Facilities Authority (LPFA), which typically issue tax-exempt bonds. Since tax-exempt bond proceeds must be spent within about 3 years of issuance, and these projects entail extensive renovations given the authorized amounts, it is possible that bond sales may occur over time instead of one $1.7 B issuance. Further, since Facility Planning and Control (FP&C) is administering ongoing higher education deferred maintenance projects, site coordination may be required to accommodate campus disruptions, which could also impact bond sale timing.

As bonds are sold, the funds required to service the debt will be added to net state tax supported debt (NSTSD) and included under the debt capacity calculation (debt service is limited to 6% of gross state general fund revenue as adopted by the Revenue Estimating Conference). NSTSD is backed by the full faith and credit of the state and includes appropriation dependent debt. The SBC estimates that bond issuances of $350-500M annually up to $1.7B can be accommodated under the current debt limit assuming the REC forecast does not change.

A nonprofit corporation may be established to administer the projects, and is already in place as a result of Acts 360 and 391 of 2013RS. Funding of the operating expenses of the nonprofit is not specified, but, if needed, is assumed to be an expense payable through bond proceeds. The corporation must follow certain procurement processes specified in the bill for any project in excess of $250,000, though it is not clear exactly how this procurement standard differs from that currently required for projects administered through FP&C, which may also change the timing of bond sales.

As a note, any tax reforms or other circumstances that reduce the SGF forecast could lower the debt limit and may constrain future bond sales if debt service on all state debt, which may be higher due to this bill, exceeds the limit. Further, the debt service obligation resulting from this bill will count against the state expenditure limit since the debt service is appropriated.

Act 360 bond proceeds (not debt service) are deposited with a trustee for use by the corporation in administering the projects named in law and remain off-budget for state budgeting purposes. It is expected, though not specified in the bill, that the arrangement for this bill will be similar with potentially $1.7 B in bond proceeds remaining off-budget without legislative approval of projects.