LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

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

Date: April 26, 2024 10:00 AM **Author:** TURNER

Dept./Agy.: University Systems/Division of Administration/Treasury

Subject: Appropriation debt authority for HIED capital projects **Analyst:** Deborah Vivien

BONDS RE 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 $1.68B in appropriation dependent debt for deferred maintenance and other capital improvement needs on higher education campuses, with each system receiving a specific amount (no specified projects). The bond sale(s) 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 (biannual progress reports will be submitted to Joint Capital Outlay and the Division). Nonprofit corporations, members of which are not specified, may be established to manage and administer the projects, including fund disbursement with alternative procurement allowed for projects in excess of $1 million in total installed costs. The Division will approve any Cooperative Endeavor Agreements between the corporation, boards and the state. Presumably, projects costing less than $1M will be handled solely by the corporation. Lease agreements within the financing structure 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 either as one approval or in increments, 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 since there is no identified revenue stream to securitize, 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. It is presumed that the nonprofit corporation(s) 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 recommendation.

Capital outlay bonds for deferred maintenance projects have historically been issued as general obligation debt, which is not appropriated. However, Act 360 of 13RS 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. The proposed legislation does not contain specific projects but allows each system a specified amount of bonding authority:

LSU System	$752 M
Southern University System	153 M
University of Louisiana System	523 M
LA Community and Technical College System	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 up to 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	House
[x]	13.5.1 >= $100,000 Annual Fiscal Cost {S & H}	[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[ ]	13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}	[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Alan M. Boxberger

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Legislative Fiscal Officer

EXPENDITURE EXPLANATION CONTINUED FROM PAGE ONE

The bill provides the authority for corporations to incur appropriation-dependent debt through a conduit issuer of tax-exempt bonds which may include the Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) or the Louisiana Public Facilities Authority (LPFA). 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, and corresponding debt service, 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 and debt service expenditures by fiscal year.

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 an obligation of the state and, by practice, appropriation dependent debt will be prioritized in the budget, even if subject to appropriation. 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(s) may be established to administer the projects, and some similar entities are already in place as a result of Acts 360/391 for LCTCS and with other campus systems. Funding of the operating expenses of any corporation is not specified, but, if needed, is assumed to be an expense payable through bond proceeds. Alternative competitive procurement processes are allowed by the corporation(s) which appear to be less restrictive than that currently required for projects administered through FP&C. It is not clear if FP&C will have any approvals in procurement. Less restrictive procurement may also change the timing of bond sales and debt service expenditures by fiscal year.

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.