LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

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

Date: June 3, 2024 3:03 PM **Author:** TURNER
Dept./Agy.: University Systems/Division of Administration/Treasury
Subject: Appropriation debt authority for HIED capital projects **Analyst:** Deborah Vivien

BONDS EN 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 $2B 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 authorization is subject to State Bond Commission approval. The projects will not be subject to the Capital Outlay priority process but will require DOA then JLCB approval prior to CEA execution and be appropriated from the College and University Deferred Maintenance and Capital Improvement Fund created in the bill. The bill contains no identified revenue source for debt service. Debt may not be issued until July 1, 2026, and must have an appropriation, presumably of either debt service or bond proceeds. Lease agreements within the financing structure and debt terms may not exceed 30 years. Bond proceeds will be appropriated through the College and University Deferred Maintenance and Capital Improvement Fund created in the bill, which can accept cash for the same purpose. Nonprofit corporations, members of which are not specified, may be established for financing. Facility Planning & Control will manage the projects and may retain 1% of project costs. Public bid law will be followed. The Division will approve any CEAs between the corporation, boards and the state. Projects under $1M may be approved solely by the board.

EXPENDITURES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	$0	$0	$0	$0	$0	$0
Ded./Other	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Federal Funds	$0	$0	$0	$0	$0	$0
Local Funds	$0	$0	$0	$0	$0	$0
Annual Total						

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, after an appropriation is adopted, though it is not clear if this appropriation is for debt service or bond proceeds. It appears that the bill allows authorization of a bond sale without a specified revenue stream, which indicates SGF will pay the debt service beginning as early as FY 25 (no debt to be issued after FY 36 with payment as late as FY 66) should debt be issued. No source of cash funding is identified in the bill. The projects will forego the Capital Outlay priority process and require the approval of the Commissioner and then JLCB. The timing of the bond sales is uncertain. It is presumed that the nonprofit corporation(s), which can be an LLC with one non-profit member, will determine timing and magnitude of bond sales for each board. The fiscal note assumes that at least $100,000 in debt service will be due in FY 27, which is the basis for a dual referral recommendation.

Facility Planning and Control (FP&C) will administer the projects and will require additional staffing and related equipment totaling about $650,000 in SGF annually beginning as early as FY 27 since the first issuance of bonds may be authorized upon appropriation. The bill has no identified revenue source but, once funded, allows FP&C to retain 1% of project costs (assumed to be statutory dedication through the newly created fund) for administrative efforts. Certain administrative costs are not typically an eligible expense for tax-exempt bond proceeds. Estimated administrative costs include related personnel expenses for the following new positions (with a slight increase in year 1 for equipment and supplies): two project managers ($150,000), two fiscal analysts ($115,000) and one Administrative Program Manager ($95,000) per FP&C.

Capital outlay bonds for deferred maintenance projects have historically been issued as general obligation debt, debt service of 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 Schedule 20-930 of the state operating budget. The proposed legislation does not contain a project list but allows each system a specified amount of bonding authority for a total of $2.0 B: LSU System = $1,071 M, Southern University System = $153 M, University of Louisiana System = $523 M, and LA Community and Technical College System = $253 M.

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

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CONTINUED EXPLANATION from page one:

EXPENDITURE EXPLANATION CONTINUED FROM PAGE ONE

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 $2.0 B, debt service would require roughly $150 M per year in SGF once all bonds are sold. With the bill in its current form without a dedicated revenue stream, it is anticipated that the bonds would be paid with SGF should State Bond Commission approve the authorization to sell the bonds.** The bill disallows bond sales until an appropriation is in place, though the required appropriation is not specific to debt service or bond proceeds. The bill creates the College and University Deferred Maintenance and Capital Improvement Fund which contains bond proceeds and can accept other deposits. Issuing debt will require an appropriation, presumably within HB 2 for proceeds and/or HB 1 for debt service. The actual debt service requirements will depend on the structure and timing of the bond issuance(s) and a revenue source other than SGF may be identified.

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 likely that bond sales, and corresponding debt service, will occur over time instead of as one $2.0 B issuance. Further, since 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 State Bond Commission estimates that bond issuances of $350-500M annually up to $2.0B can be accommodated under the current debt limit assuming the REC forecast does not change.

Creating a new statutory dedication within the state treasury will result in a marginal workload increase for the Department of Treasury, which can generally be absorbed within existing resources. However, to the extent other legislative instruments create new statutory dedications, there may be additional costs associated with the aggregate effort to administer these funds.

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.

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. This bill appropriates bond proceeds annually, presumably in the operating budget through the fund created in the bill. Unless the appropriation is the total of available bond proceeds, project delays could be possible.

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}

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