

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: Senate Bill 1354 (4th edition with Aug. 4 amendment)

SHORT TITLE: Rural Infrastructure Bonds

FISCAL IMPACT					
	Yes (x)	No ()	No Estimate Available ()		
	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
EXPENDITURES (State General Fund)					
<u>Debt Service</u> *		\$37.4 m	\$73.7 m	\$71.7 m	\$69.6 m
<u>Administration</u>					
Department of Environment and Natural Resources	\$0	\$116,177	\$113,513	\$116,759	\$120,213
Rural Economic Development Center	\$0	\$108,059	\$110,951	\$113,764	\$116,759
Department of Commerce	\$0	\$108,600	\$100,739	\$103,794	\$107,046
Utilities Commission		No Significant Fiscal Impact			
POSITIONS: (state agency)	0.00	4.00	4.00	4.00	4.00
<p><i>*Represents the annual debt service requirements for the \$680 million of bonds where the debt service will not be reimbursed by local government units. The total debt service for the \$680 million portion of the \$1.0 billion of bond authorization is projected to be \$1.11 billion, or an average of \$52.8 million per year over a 21-year period. The maximum annual impact of this debt service is estimated to be \$73.7 million for the year 2000-01.</i></p>					
PRINCIPAL DEPARTMENTS &					
PROGRAMS AFFECTED: Department of State Treasurer, Local Government Commission (sale of bonds); Department of Environment and Natural Resources, Division of Water Quality, Division of Environmental Health (administration of \$675 million in water and sewer loans and grants); Department of Commerce, Commerce Finance Center (administration of \$60 million in economic development grants), Utilities Commission (administration of \$215 million in natural gas expansion funds); Rural Economic Development Center (a state funded nonprofit organization will administer \$50 million in water, sewer and capacity grants); Local Units of Government					
EFFECTIVE DATE: Section 14 (amendments to Clean Water Revolving Loan and Grant Fund) is effective upon voter approval in statewide referendum; all other sections are effective when the act becomes law.					

BILL SUMMARY:

Clean Water Provisions:

- Authorizes the issuance of \$785 million State general obligation bonds for local government water and sewer projects. Of the total, \$320 million of bonds will be for loans to local governments units who will repay the loans based on terms that would pay off the state's debt service requirements. Of the remaining \$465 million of bonds a total of \$430 million will be used for grants to local units and \$35 million would represent the State match that will go into the Revolving Loan and Grant Fund to draw down federal aid. The principal and interest on the \$465 million of bonds would be the responsibility of the state General Fund.

Natural Gas Provision:

- A total of \$215 million of bonds will be used to provide grants, loans, or other financing to natural gas local distribution companies, persons seeking natural gas distribution franchises, government agencies, or other entities for construction of natural gas facilities.

Bond Referendum:

- Both the Water/Sewer bonds and the Natural Gas bonds will be submitted to the voters for approval at the November, 1998 elections.

ASSUMPTIONS AND METHODOLOGY:

Debt Service

The debt service and state agency costs identified in this note will occur only if the voters approve the bond authorization. The estimated annual debt service requirements on the bonds are for the portion of the bonds that finances \$465 million of water/sewer grants and the \$215 million of natural gas service bonds. For this \$680 million of bonds there will be no reimbursement to the State by local government units for the debt service requirements. The remaining \$320 million of bonds are to be used for water/sewer loan to local government units. It is legislative intent and prior administrative practice for the local loan repayment schedule to attempt to match the State's debt service requirements for the particular bond issuance that finances the loan.

The debt service requirements for the \$680 million of bonds were based on a Fiscal Research Division adjustment of an Office of State Treasurer tabulation of the requirements on a \$485 million authorization in an earlier draft of the bill. The OST analysis assumed that the bonds would be issued in two equal increments in March, 1999 and March, 2000. The assumed interest rate was 6%. The FRD adjustment assumed that the increased size of the bond authorization would be spread equally over the two issues.

Administration of Bond Proceeds

- **Department of Environment and Natural Resources (DENR)**

Wastewater Projects

The Construction Loans and Grants Section of the Division of Water Quality will be responsible for administering \$330 million in bond proceeds for wastewater projects. This section currently administers federal wastewater assistance funds for municipal wastewater collection and treatment systems, as well as any state funds available through the North Carolina Clean Water Revolving Loan and Grant Fund for similar purposes. Federal funding for wastewater projects averages \$23 million each year, with \$24.3 million anticipated for the 1998-99 fiscal year. The state is required to provide a 20% match to receive these funds. In recent years funding through the Revolving Loan and Grant Fund has been limited to investment earnings and repayments of principal and interest.

According to the Division of Water Quality, one additional Environmental Engineer II position will be required for the Construction Loans and Grants Section to assist in allocating the bond proceeds over a five year period. The position will provide technical expertise required to process grant and loan applications, review wastewater facility plans, and evaluate project design specifications, costs, facility operations and maintenance. The additional position will need to be effective beginning with the 1999-2000 fiscal year, since the bond proceeds will not be available until sometime after the statewide referendum in November 1998, assuming approval of a majority of the voters. Until that time, the department can use existing staff to administer the program.

Water Supply Projects

The Public Water Supply Section of the Division of Environmental Health will be responsible for administering \$310 million in bond proceeds for water supply projects. This section currently administers federal water supply assistance funds for capital expenditures associated with drinking water regulations and compliance, as well as any state funds available through the North Carolina Clean Water Revolving Loan and Grant Fund for similar purposes. This is the first year federal funding has been available for water supply projects. The state received \$46.1 million for the 1997-98 fiscal year and anticipates receiving \$12.8 million for the 1998-99 fiscal year. The state is required to provide a 20% match to receive these funds. In recent years funding through the Revolving Loan and Grant Fund has been limited to investment earnings and repayments of principal and interest.

According to the Division of Environmental Health, one additional Environmental Engineer II position will be required for the Public Water Supply Section to assist in allocating the bond proceeds over a five year period. The position will provide technical expertise required to process grant and loan applications, review water supply facility plans, and evaluate project design specifications, costs, facility operations and maintenance. The additional position will need to be effective beginning with the 1999-2000 fiscal year, since the bond proceeds will not be available until sometime after the statewide referendum in November 1998, assuming approval of a majority of the voters. Until that time, the department can use existing staff to administer the program.

The total estimated budget requirements for the Department of Environment and Natural Resources to administer \$640 million in bond proceeds for wastewater and water supply loans and grants are outlined in the following table:

	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03
Personnel					
(2) Environmental Engineer II		99,837	103,173	106,419	109,873
Total Salaries & Benefits *	-	99,837	103,173	106,419	109,873
Positions		2.00	2.00	2.00	2.00
Operating Expenses	-	16,340	10,340	10,340	10,340
Total Requirements	\$0	\$116,177	\$113,513	\$116,759	\$120,213

**Salaries are adjusted to reflect the projected growth estimated for average hourly earnings in manufacturing. The inflation rates are based on forecasts by Data Resources, Inc.*

- **Rural Economic Development Center**

The Rural Economic Development Center (the "Rural Center") is a non-profit organization which supports economic development activities in the state's 85 rural counties. Primarily supported with state funds, the Rural Center operates several grants and loan programs to build economic strength in distressed communities. Included among these programs are the Supplemental and Capacity Building Grants Programs.

The Supplemental Grants Program provides units of local government with funds for economic development projects, principally water and sewer, to improve the physical infrastructure of a community. The Capacity Building Grants Program assists local government units with the costs associated with the planning and writing of grants/loan applications that support economic development in rural communities. Both programs have been funded at varying levels since 1993.

From an available fiscal year 1997-98 general fund appropriation of \$4.1 million for Supplemental Grants, the Rural Center received 84 applications requesting over \$12.6 million in funds. No funds were appropriated to support the Capacity Building Grants Program. The Center expects both the number of applications and level of support requested to continue to rise as a result of the popularity of the program and increased financial support from bond proceeds.

The Supplemental and Capacity Building Grants Programs are currently supported by a full time Program Director. Funding for the Director and associated administrative/fiscal support is budgeted in the Governor's Continuation Budget for the 1997-99 biennium. Additionally, the Supplemental Funding Program is included in the Continuation Budget for \$950,000. Based on the Center's projected rise in applications due to bond proceeds, it will require an extra 2.00 positions in addition to the current Program Director position to administer grants for the Supplemental and Capacity Building Grants Programs.

The total estimated budget requirements to implement the section on Supplemental and Capacity Building Grants Programs is outlined in the following table:

		FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03
Personnel	FTE					
Program Engineer	0.50	-	31,264	32,267	33,244	34,284
Program Accountant	0.50	-	19,453	20,055	20,641	21,265
Program Assistant	1.00	-	39,531	40,816	42,067	43,398
Total Salaries & Benefits *		-	90,247	93,139	95,952	98,947
Positions			2.00	2.00	2.00	2.00
Operating Expenses			17,812	17,812	17,812	17,812
Total Requirements		\$0	\$108,059	\$110,951	\$113,764	\$116,759

**Salaries are adjusted to reflect the projected growth estimated for average hourly earnings in manufacturing. The inflation rates are based on forecasts by Data Resources, Inc.*

- **Commerce Finance Center - Department of Commerce**

The Commerce Finance Center assists both private enterprises and local governments through a number of programs and activities, including the Industrial Development Fund and the Utility Account. The Industrial Development Fund provides incentives for jobs creation in the State's most economically distressed counties, identified as Tier 1, 2, and 3 areas. Funds may be used for equipment, repair, renovation and modification activities, as well as infrastructure to building sites, including water, sewer, gas and electric lines. Within the Industrial Development Fund, a special Utility Account provides grants to assist local units of government in Tier 1 areas in creating jobs in manufacturing and processing, warehousing and distribution, and data processing. Utility Account funds are used only for construction of or improvements to new or existing water, sewer, gas, or electrical lines.

General Fund support for the Industrial Development Fund for 1997-98 fiscal year totals approximately \$3 million (\$1.95 million recurring and \$1 million nonrecurring); nonrecurring support for the Utility Account for FY 1997-98 totals \$2 million.

Based on existing staff support to administer current years' funding for both the Industrial Development Fund and Utility Account, it is anticipated that 2 additional positions and operating support will be necessary to administer the additional \$60 million in bond proceeds proposed by the bill for deposit to the Industrial Development Fund.

Please note that bond proceeds allocated to the Industrial Development Fund will be limited to water and sewer infrastructure grants only.

The total estimated budget requirements to implement the section for the Industrial Development Fund is outlined in the following table:

	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03
Personnel					
Industrial Development Rep II		62,582	64,651	66,664	68,807
Processing Asst V		33,218	34,288	35,330	36,439
Total Salaries & Benefits *	-	95,800	98,939	101,994	105,246
Positions		2.00	2.00	2.00	2.00
Operating Expenses	-	12,800	1,800	1,800	1,800
Total Requirements	\$0	\$108,600	\$100,739	\$103,794	\$107,046

**Salaries are adjusted to reflect the projected growth estimated for average hourly earnings in manufacturing. The inflation rates are based on forecasts by Data Resources, Inc.*

- **Utilities Commission**

The Utilities Commission anticipates that any additional administrative costs associated with allocating the bond proceeds may be absorbed from existing resources of the Commission and would not require additional funds.

FISCAL RESEARCH DIVISION (733-4910)

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