

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: SB 232 (Comm. Sub. No.2, 3rd ed.)
SHORT TITLE: Clean Water Bonds

FISCAL IMPACT					
Yes (X)	No ()	No Estimate Available ()			
	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
EXPENDITURES (\$Mill.)*					
State General Fund		\$3.0	\$17.2	\$16.9	\$16.9
<p>*The total debt service requirements are projected to be \$339.1 million, or an average of \$17.8 million per year over a 19-year period. The maximum annual impact of this debt service is estimated to be \$22.8M.</p> <p>PRINCIPAL DEPARTMENT AFFECTED: The bonds will be sold by the Local Government of the Department of State Treasurer. The loans and grants will be administered by the Department of Environment, Health and Natural Resources (DEHNR).</p> <p>EFFECTIVE DATE: When the bill becomes law.</p>					

BILL SUMMARY:

- Authorizes the issuance of \$1 billion State general obligation bonds for local government water and sewer projects. Of the total, \$800 million of bonds would be for loans to local governments units who would repay the loans based on terms that would pay off the state's debt service requirements. The remaining \$200 million of bonds would be used for revolving loans and grants to local units. The principal and interest on these bonds would be the responsibility of the state General Fund.
- The bond proceeds will be used by local governments for water supply systems, wastewater collection systems, wastewater treatment works, and water conservation projects. The bonds would be submitted to the voters for approval at the next Statewide election, either November 1997 or May 1998.
- \$200 million of bonds would be used for revolving loans and grants under the Clean Water Revolving Loan and Grant Fund and for matching funds for federal wastewater or water supply assistance funds for the 1998-99 and 1999-2000 fiscal years. The Clean Water Revolving Loan and Grant Fund is an existing fund that helps communities, particularly smaller, poorer communities, obtain low-interest loans and grants to fund clean water projects. The bill amends the Clean Water Revolving Loan and Grant Fund to increase the percentage of money used for grants to poorer units of local governments and to authorize

funds for regional planning and planning by small towns. Finally, the bill permits the Department of Environment, Health, and Natural Resources to establish maximum principal amounts for revolving loans and grants made to the same local unit in a fiscal year (now there is a \$3 million cap on loans and \$1 million limits on grants).

- The remaining \$800 million of the bonds would be used for loans to local governments. The loans would be allocated 69% for wastewater projects and 31% for water supply systems and water conservation projects. These percentages are based on the allocations in the existing revolving fund. Local government units that may apply for loans include counties, cities, towns, sanitary districts, and water and sewer districts, as well as two or more of these units acting jointly. Priorities for the loans would be determined by the Department of Environment, Health, and Natural Resources, based on the priority factors for the existing revolving fund, on achieving reductions in nutrient levels and overall effluent volume discharged into the State's waters, regional systems, and on adoption by the local unit of a comprehensive land use plan. The Department of Environment, Health, and Natural Resources will administer the loans, and the State Treasurer will determine the interest rate and maturity of the loans at rates such that repayments will be sufficient to cover the State's debt service and costs of issuing and administering the bonds. The Department of Environment, Health, and Natural Resources is required to report annually in detail on this loan program to the Joint Legislative Commission on Governmental Operations. To be eligible for a loan, a local government unit must demonstrate that it has the financial capacity to repay the loan. In addition, in its loan agreement, the unit must authorize the State Treasurer to intercept any of its State funds distributions if it fails to make timely payments on a loan.
- The bill provide for investment earnings on the bonds to be credited to any of the funds authorized by the act, the payment of debt service on the bonds, federal compliance requirements, or transferred to the General Fund.

ASSUMPTIONS AND METHODOLOGY: The estimated annual debt service requirements on the bonds assume that the vote is actually held in May of 1998 since there are no plans for a vote of the people this Fall. The analysis assumes that \$100 million of the revolving loan and grant bonds are issued in September, 1998 and the remaining \$100 million are sold on March 1, 1999. The assumed interest rate is 6.0% (current rate is 5.0%). Also, the analysis assumes that the timing of the payback on the \$800 million of clean water loans to local units is such that the payback fully covers the state's debt service requirements each year.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION (733-4910) DATE: June 9, 1997

PREPARED BY: Dave Crotts

APPROVED BY: Tom Covington



Signed Copy Located in the NCGA Principal Clerk's Offices