

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0153-12
Bill No.: HCS #2 for HJR 14
Subject: Bonds - General Obligation and Revenue; Constitutional Amendments
Type: Original
Date: April 29, 2013

Bill Summary: This legislation proposes a constitutional amendment to secure bonds for state infrastructure projects.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	\$0 or (More than \$86,197,428)	\$0 or (More than \$78,857,428)	\$0 or (More than \$78,857,428)
Total Estimated Net Effect on General Revenue Fund	\$0 or (More than \$86,197,428)	\$0 or (More than \$78,857,428)	\$0 or (More than \$78,857,428)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 16 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Fifth State Building*	\$0	\$0	\$0
Mental Health Facilities Capital Improvement Fund*	\$0	\$0	\$0
Public Elementary and Secondary Education Revolving Fund*	\$0	\$0	\$0
State Building and Infrastructure Revolving Fund*	\$0	\$0	\$0
Universities	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

*(Offsetting entries: Fifth State Building Fund - \$0 or Up to \$1,279,007,428 for FY 14 and \$0 or Up to \$78,857,428 in FY 15 and FY 16; Mental Health Facilities Capital Improvement Fund - Up to \$200,000,000 in FY 14; Public Elementary and Secondary Education Revolving Fund - Up to \$20,000,000 in FY 14; State Building and Infrastructure Revolving Fund - Could exceed \$240,000,000 in FY 14)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	0 or 4 FTE	0 or 4 FTE	0 or 4 FTE
Total Estimated Net Effect on FTE	0 or 4 FTE	0 or 4 FTE	0 or 4 FTE

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

According to officials from the **Office of Administration - Division of Budget and Planning (BAP)**, the proposed legislation should not result in additional costs or savings to BAP. This proposal amends Article III of the Missouri Constitution to provide the authority for a Fifth State Building Bond issuance of \$1.2 billion. Resulting debt service payments will cost general revenue and/or other state funds. BAP defers to the Office of Administration - Division of Accounting for an estimate of cost associated with this proposal.

Also, this proposal creates the Taxpayer Protection Commission to oversee the issuance of debt, appropriation of bond funds, and inspection of facilities upon which bond proceeds are expended. If salaries are paid to the commission director or staff, as allowed by the section, those salaries will have an unknown cost to the state treasury.

Additionally, this proposal creates a revolving loan program for public elementary and secondary education capital costs funded from bond proceeds.

According to officials from the **Office of Administration - Facilities Management, Design and**

ASSUMPTION (continued)

Construction (FMDC), the fiscal impact on FMDC will vary greatly depending on the number of projects included for purposes other than Higher Education. FMDC may require additional staff and/or contract costs, which are dependent upon the number and complexity of projects ultimately funded. These costs would have to be appropriated by the General Assembly.

FMDC assumes savings may be realized from decreased deferred maintenance. Depending on the construction projects approved, renovations, rehabilitations, and maintenance projects may provide cost savings in utilities with energy efficiency projects and materials and labor associated with taking care of old infrastructure and inefficient facilities.

Officials from the **Office of Administration - Division of Accounting (COA)** are assuming passage of this legislation and issuance of bonds would occur in the spring of FY 2014.

Principal Issued: \$1,200,000,000
Interest Rate 4.25%
Number of Years: 25

COA staff will initiate the general revenue transfer to the appropriate debt service fund, reconcile all paying agent transactions for principal and interest, and monitor all fees due the paying agent. Approximately \$63,937 in salaries/benefits would be absorbed by current staff for each bond issue.

The cost for FY2014 includes \$150,000 one time cost of issuance fees which consist primarily of bond counsel and financial advisors. The first transfer from the General Revenue fund to the debt service fund would take place in FY 2014 for payments in FY 2015.

FY 2014 Costs:

GR transfer to debt service fund for FY 2015 principal and interest:	\$78,857,428
One time Cost of Issuance fees:	<u>\$ 150,000</u>
	\$79,007,428

FY 2015 Costs:

GR transfer to debt service fund for FY 2016 principal and interest:	\$78,857,428
Annual issuance fees:	<u>\$ 2,000</u>
	\$78,859,428

FY 2016 Costs:

GR transfer to debt service fund for FY 2017 principal and interest:	\$78,857,428
Annual issuance fees:	<u>\$ 2,000</u>
	\$78,859,428

ASSUMPTION (continued)

There will be FTE costs associated with implementing the duties of the Commission. COA anticipates a minimum of four FTE including auditors and inspectors, however, it is unclear under which agency the FTE will report.

Oversight assumes the timing shown above could only happen if a special election occurs in FY 2014 and the voters approve the authorization to issue the bonds. If a special election does not occur, the election would not take place until November 2014 (FY 2015).

According to COA, it is possible for an election to be held in November, 2013 and bonds to be sold (provided appropriations are in place) and debt service transfers to begin in FY 2014. For fiscal note purposes, Oversight will assume all the above activities could take place in FY 2014.

COA also noted that the \$2,000 annual issuance fees in FY 2015 and FY 2016 are already included in COA budget.

Officials from the **Department of Elementary and Secondary Education (DESE)** state that while the issuance of bonds and subsequent payment of principal and interest does increase costs to the state of Missouri, there does not appear to be any additional cost to the operation of DESE.

Officials from the Department of **Mental Health (DMH)** state that the construction of a new mental health facility would be beneficial to individuals DMH serves; however, the fiscal impact of this bill is unknown to DMH. It is unclear how much revenue the proposed bonds would generate for the Mental Health Facilities Capital Improvement Fund for specific future years. Additionally, it is unknown how much the fund may receive from other resources.

The current estimated cost to build a new Fulton State Hospital is \$211 million

According to the **Office of Secretary of State - Division of Elections (SOS)**, each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2, RSMo, requires the state to pay the costs. The cost of the special election has been estimated to be \$7.1 million based on the cost of the

ASSUMPTION (continued)

2012 Presidential Preference Primary.

The SOS is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Sections 116.230 - 116.290, RSMo. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.3 million historically appropriated in odd numbered fiscal years and \$100,000 appropriated in even numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2013, at the August and November elections, there were five statewide Constitutional Amendments or ballot propositions that cost \$2.17 million to publish (an average of \$434,000 per issue). Therefore, the SOS assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because these requirements are mandatory, SOS reserves the right to request funding to meet the cost of publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of the SOS appropriation.

Officials from the **Platte County Board of Election Commissioners** assume there would be no direct costs to their board. However, there would be costs for the election for the County conducting an election. Costs per General election would range from \$25,000 to \$70,000, depending upon the number of other participants involved in the election, as costs would be pro-rated based upon the number of registered voters within each district.

Officials from the **Kansas City Election Board** assume that a special election for the State as the only participant would cost approximately \$400,000. If other entities participate in the election, the cost would decrease. The range for this election would be \$200,000 to \$400,000.

Officials from **St. Louis County** assumed minimal costs to conduct an election.

Oversight has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2014. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled general election is in November 2014 (FY 2015); however, it could also be on a special election called for by the Governor.

ASSUMPTION (continued)

Officials from the following colleges and universities provided these responses to the prior House Committee Substitute:

Officials from the **University of Central Missouri (UCM)** estimated that, absent traditional state capital funding, this bonding initiative might bring funding for needed capital projects. In the event a project was funded, UCM would incur increased costs in the amount of the required match of the project cost.

Officials from **Missouri State University** anticipated additional costs equal to the match required of the cost of the projects funded. Indirectly, costs may be incurred with regard to the facilities constructed (e.g., maintenance, utilities, etc.).

Officials from **Northwest Missouri State University** indicated three capital priorities: (1) \$86.1 million of a new Center for Communication, Fine and Performing Arts, (2) \$50 million in deferred maintenance, and (3) \$13.5 million renovation of Martindale Hall. The matching local funds requirement would place a heavy financial burden on Northwest.

Officials from **Linn State Technical College** state the proposal could have a negative impact due to a potential hardship of producing the match.

Officials from **University of Missouri System** and **Kansas City Metropolitan Community College** each assume an unknown, positive fiscal impact on their respective institutions.

Officials from the **Department of Higher Education, Department of Revenue, Department of Natural Resources, Missouri House of Representatives, Missouri Senate, Office of the Governor, Office of State Treasurer,** and the **Parkway School District** each assume the proposal would not fiscally impact their respective agencies and institutions.

Oversight assumes that although institutions of higher education will be required to provide fifteen percent matching funds, they will benefit from the bond proceeds issued for purposes outlined in the proposal.

Oversight assumes the state will not have to levy a tax upon the taxable tangible property in the state to pay the debt service of the bonds (as allowed in subsection 4). Of the 10 cents available to the state to levy a tax, only 3 cents is currently being used (for the Blind Pension Trust Fund).

The total debt service on \$1.2 billion of bond sales is expected to total \$1,971.4 million (\$771.4

ASSUMPTION (continued)

million in interest) over the 25 years of the bonds as estimated by COA. **Oversight** will range the fiscal impact from \$0 (the resolution is not approved by voters) to the estimates provided by COA.

<u>FISCAL IMPACT - State Government</u>	FY 2014	FY 2015	FY 2016
GENERAL REVENUE			
<u>Costs - Office of Administration (OA) - Personal Services and duties associated with Taxpayer Protection Commission - §37(i)7</u>	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
FTE Change - OA	0 or 4 FTE	0 or 4 FTE	0 or 4 FTE
<u>Transfer Out - Office of the Secretary of State - Reimbursement of local election authorities for election costs if a special election is called</u>	\$0 or (More than \$7,100,000)	\$0	\$0
<u>Transfer Out - Fifth State Building Fund - Cost of bond issuance fees</u>	\$0 or (\$150,000)	\$0	\$0
<u>Transfer Out - Fifth State Building Fund - Debt Service</u>	\$0 or (Up to <u>\$78,857,428</u>)	\$0 or (Up to <u>\$78,857,428</u>)	\$0 or (Up to <u>\$78,857,428</u>)
ESTIMATED NET EFFECT TO GENERAL REVENUE	\$0 or (More than <u>\$86,197,428</u>)	\$0 or (More than <u>\$78,857,428</u>)	\$0 or (More than <u>\$78,857,428</u>)
Estimated Net FTE Change for General Revenue	0 or 4 FTE	0 or 4 FTE	0 or 4 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2014	FY 2015	FY 2016
UNIVERSITIES			
<u>Costs</u> - Universities - Fifteen percent project match §37(i)1	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT ON UNIVERSITIES	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
FIFTH STATE BUILDING FUND			
<u>Income</u> - Bond proceeds	\$0 or Up to \$1,200,000,000	\$0	\$0
<u>Transfer In</u> - From General Revenue - Bond issuance fees	\$0 or \$150,000	\$0	\$0
<u>Transfer In</u> - From General Revenue - Debt service	\$0 or Up to \$78,857,428	\$0 or Up to \$78,857,428	\$0 or Up to \$78,857,428
<u>Disbursements</u> - Funds, Agencies, Colleges and Universities - Designated projects	\$0 or (Up to \$1,200,000,000)	\$0	\$0
<u>Cost</u> - Bond issuance fees	\$0 or (\$150,000)	\$0	\$0
<u>Cost</u> - Debt service to bondholders	\$0 or (Up to \$78,857,428)	\$0 or (Up to \$78,857,428)	\$0 or (Up to \$78,857,428)
ESTIMATED NET EFFECT ON FIFTH STATE BUILDING FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2014	FY 2015	FY 2016
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**MENTAL HEALTH FACILITIES
CAPITAL IMPROVEMENT FUND**

<u>Transfer In</u> - Fifth State Building Fund - Bond Proceeds	\$0 or Up to \$200,000,000	\$0	\$0
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<u>Disbursements</u> - Construction of mental health facility in Callaway County	\$0 or (Up to <u>\$200,000,000</u>)	<u>\$0</u>	<u>\$0</u>
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ESTIMATED NET EFFECT ON MENTAL HEALTH FACILITIES CAPITAL IMPROVEMENT FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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**PUBLIC ELEMENTARY AND
SECONDARY EDUCATION
REVOLVING FUND**

<u>Transfer In</u> - Fifth State Building Fund - Bond Proceeds	\$0 or Up to \$20,000,000	\$0	\$0
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<u>Income</u> - Bond payments	\$0	\$0 or Unknown	\$0 or Unknown
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<u>Disbursements</u> - School Districts - Capital projects	\$0 or (Up to <u>\$20,000,000</u>)	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
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ESTIMATED NET EFFECT ON PUBLIC ELEMENTARY AND SECONDARY EDUCATION REVOLVING FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - State Government FY 2014 FY 2015 FY 2016
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**STATE BUILDING AND
 INFRASTRUCTURE REVOLVING**

<u>Transfer In</u> - Fifth State Building Fund - Bond Proceeds	\$0 or Could exceed \$240,000,000	\$0	\$0
<u>Income</u> - Bond payments	\$0	\$0 or Unknown	\$0 or Unknown
<u>Disbursements</u> - Capital projects	\$0 or (Could exceed \$240,000,000)	\$0 or (Unknown)	\$0 or (Unknown)

**ESTIMATE NET EFFECT ON
 STATE BUILDING AND
 INFRASTRUCTURE REVOLVING
 FUND**

\$0 \$0 \$0

FISCAL IMPACT - Local Government FY 2014 FY 2015 FY 2016

LOCAL POLITICAL SUBDIVISIONS

<u>Transfer In</u> - Local Election Authorities - Cost reimbursement from the State for special election	\$0 or More than \$7,100,000	\$0	\$0
<u>Expense</u> - Cost for special election	\$0 or (More than \$7,100,000)	\$0	\$0
<u>Costs</u> - Colleges - Fifteen percent project match §37(i)1	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

**ESTIMATED NET EFFECT TO
 LOCAL POLITICAL SUBDIVISIONS**

**\$0 or \$0 or \$0 or
(Unknown) (Unknown) (Unknown)**

FISCAL IMPACT - Small Business

This proposal could have a positive fiscal impact for many small businesses, such as architects, engineers and other professional consulting firms, contractors, suppliers, and other peripheral companies related to the construction industry.

FISCAL DESCRIPTION

This constitutional amendment, if approved by the voters, states that the General Assembly may authorize the contracting of an indebtedness on behalf of the state of Missouri not exceeding in the aggregate the sum of \$1.2 billion dollars.

The bonds shall be used to provide funds for:

(1) The construction, renovation, and rebuilding of buildings of institutions of higher education in an amount of no more than \$600 million dollars, including no less than twenty percent of the proceeds to be allocated to public community colleges, providing additions or additional buildings where necessary, for land acquisition, for construction or purchase of buildings, and for planning, furnishing, equipping and landscaping such improvements and buildings.

No amount of the proceeds shall be allocated to institutions of higher education or for any non-state project unless such institution or non-state project matches at least fifteen percent of the amount allocated for the project;

(2) The Missouri state capitol building project in an amount of no more than \$100 million dollars;

(3) The maintenance of public state parks and public state park facilities in an amount no less than \$40 million dollars;

(4) The creation in the state treasury of a dedicated fund known as the "Mental Health Facilities Capital Improvement Fund" for the purposes of constructing a new mental health facility. The fund will be allocated an amount of no more than \$200 million dollars unless funded by any other legislation, in which case such amount will remain in the state building and infrastructure revolving fund;

(5) Creation in the state treasury of the "Public Elementary and Secondary Education Revolving Fund", which shall consist of bond funds in an amount of no more than \$20 million dollars. The fund shall be a dedicated fund and, upon appropriation, money in the fund shall be used solely for the purpose of providing for public elementary and secondary education capital costs.

FISCAL DESCRIPTION (continued)

Schools receiving the funds would be required to repay the funds plus administrative costs over a set period of time or through an offset to the school's foundation formula or proposition C payment; and

(6) Creation in the state treasury of the "State Building and Infrastructure Revolving Fund", which shall consist of the excess balance of bond funds collected under this proposal. The fund shall be a dedicated fund and, upon appropriation, money in the fund shall be used solely for the purpose of the construction of state buildings, ports, facilities, infrastructure, projects for rural water consortia, State Historical Society, existing surface lake projects, utilities infrastructure, and projects for purposes other than higher education.

Nothing in this fund shall be used for any purpose or contingency relating or pertaining to the construction and maintenance of the state highway system. The use of bond funds for any construction or energy efficiency practices required under general law, or allowed by executive order or agency rule, order, or decision, is authorized.

The bonds and the interest thereon shall be paid out of the "Fifth State Building Fund", which is created in the proposal.

The proposal also creates the "Taxpayer Protection Commission". No member of the commission shall hold any elected office of this state or any political subdivision of the state while serving as a member of the commission.

Included in the powers and duties of the commission are the following:

- 1) The commission may regularly employ and fix the compensation of an executive director and may also employ other persons as it deems necessary;
- 2) Oversee and approve any funds appropriated from the Fifth State Building Fund or any project undertaken as a result of such appropriation;
- 3) Review and approve any bonds authorized to be issued;
- 4) To inspect any state buildings, facilities, land acquisition, transportation infrastructure, equipment, and landscaping upon which funds are expended;
- 5) To review any expenditure of funds and contracts entered into under any expenditure of such funds for compliance; and,

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FISCAL DESCRIPTION (continued)

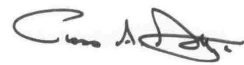
6) To submit an annual report to the Governor, Attorney General, State Auditor, and the General Assembly. Such report shall assess, review, and analyze each project financed with any bonds issued under this section.

After all funds in the Fifth State Building Fund have been appropriated and all projects undertaken with such appropriated funds have been completed, the commission shall be dissolved.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office Administration
 Division of Budget and Planning
 Division of Accounting
 Division of Facilities Management, Design and Construction
Department of Elementary and Secondary Education
Department of Natural Resources
Department of Higher Education
Missouri House of Representatives
Missouri Senate
Office of the Governor
Office of the State Treasurer
Department of Revenue
Department of Mental Health
Office of Secretary of State
 Division of Elections
Election Boards
 Platte County Board of Election Commissioners
 Kansas City Election Board
St. Louis County
Colleges and Universities
 University of Central Missouri
 Missouri State University
 Northwest Missouri State University
 Kansas City Metropolitan Community College
 University of Missouri System
 Linn State Technical College
School Districts
 Parkway



Ross Strope

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