

Department of Planning and Budget 2010 Fiscal Impact Statement

1. Bill Number: HB1205

House of Origin X Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: Morgan

3. Committee: Appropriations

4. Title: **Private institutions of higher education; credit enhancements**

5. Summary: Allows the Virginia College Building Authority (VCBA) to provide credit enhancements to secure payment of bonds issued by the Authority. Credit enhancements include, without limitation, surety bonds, insurance policies, letters of credit, guarantees and other forms of collateral or security as well as capital reserve funds for private institutions of higher education.

6. Fiscal impact estimates are indeterminate. See item 8, below.

7. Budget Amendment Necessary: No.

8. Fiscal Implications: The fiscal impact of the bill is indeterminate.

VCBA currently provides financing for private non-profit institutions, but it does not enhance or improve an institution's credit rating. VCBA serves only as a conduit for such financing. Under the provisions of the bill, VCBA could enhance their bonds with a capital reserve fund. The capital reserve fund would carry the moral obligation of the Commonwealth. Such a fund could be used to secure up to a total of \$200 million in bonds.

The bill provides for funding the capital reserve fund from four sources: (1) fees charged to participating institutions; (2) state funds that may be appropriated for this purpose; (3) proceeds from the sale of bonds; and, (4) any other funds made available for this purpose. Providing state funds for the establishment or replenishment of the capital reserve fund would constitute part of the Commonwealth's moral obligation debt and would be considered tax-support debt. The bill does not provide a mechanism for the private institution to repay the Commonwealth if a payment default causes the capital reserve fund to be drawn upon. According to the bill, the Authority would repay those funds from operating revenues; VCBA does not have operating revenues. Personnel within the Department of the Treasury provide staff support to the VCBA and there are no funds appropriated to the Authority in the Appropriation Act. Funds are appropriated in Treasury Board for debt service on the Commonwealth's debt obligations issued through VCBA.

Also, the bill may have an indeterminate fiscal impact on the Department of the Treasury. The program proposed in the bill is a new program and Treasury would need to develop guidelines, as well as standards for the financial and operating requirements institutions must

meet in order to participate in the program. Item 266 D of HB30/SB30 authorizes the State Treasurer to charge institutions of higher education participating in VCBA's private college financing program an administrative fee of up to 10 basis points of the amount financed for each project. This revenue is used to offset Treasury's costs incurred in administering the program.

- 9. Specific Agency or Political Subdivisions Affected:** Private institutions of higher education, the Virginia College Building Authority, Department of the Treasury.
- 10. Technical Amendment Necessary:** Line 63 strike the sentence, "In addition, no bonds issued by the Authority to finance a professional sports facility shall be secured by a capital reserve fund". VCBA bonds cannot be used to fund non-higher education projects.
- 11. Other Comments:** Using the Commonwealth's credit through the moral obligation mechanism to benefit private institutions of higher education is a departure from current policy. Currently, only the Virginia Resources Authority issues moral obligation debt.

Article VIII, Section 10 of the Constitution of Virginia provides that the Commonwealth shall not be liable for any debt created by a VCBA borrowing assisting private nonprofit colleges.

Date: 1/27/2010 tmw

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