

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** SB 289 (First Edition)

**SHORT TITLE:** Raise HFA Bond Limit/AB

**SPONSOR(S):** Senator Hoyle

**FISCAL IMPACT**

Yes ( )      No (X)      No Estimate Available ( )

FY 1997-98   FY 1998-99   FY 1999-00   FY 2000-01   FY 2001-02

**REVENUES**

**EXPENDITURES**

**PRINCIPAL DEPARTMENT(S) &**

**PROGRAM(S) AFFECTED:** North Carolina Housing Finance Agency

**EFFECTIVE DATE:** Upon ratification

**BILL SUMMARY:** The law currently allows the N. C. Housing Finance Agency (HFA) to issue \$1.5 billion in bonds. Section 1 of the bill will remove this limitation and instead allow the Agency to have \$1.5 billion in bonds outstanding at any time. Section 2 of the bill will allow insurance companies, financial services companies, and domestic subsidiaries of foreign banks to bid on HFA investment agreements. (Investment agreements are used to hold bond proceeds until they are used to buy mortgages or pay bondholders.) To be eligible for bidding, these firms must have a AA long term credit rating. The law now restricts bidders to major investment banks and domestic banks.

**ASSUMPTIONS AND METHODOLOGY:**

As of February 1997, the HFA had issued \$1.35 billion in new money bonds and thus is only \$150 million away from the issuance cap. However the HFA had only \$865 million in outstanding bond debt. This change will allow the issuance of \$635 million in housing bonds at no cost to the state. According to an official in Office of State Treasurer, the General Assembly has allowed other entities such as the Medical Care Commission and Electricities N. C., Inc. to have caps only on their outstanding bonds.

According to officials at both the Housing Finance Agency and the Office of State Treasurer, HFA investment agreements receive few bids from the banking community. By expanding the list of firms that are able to buy HFA investment agreements, the Agency hopes to receive more bids in the future. The Agency believes that the lack of competition cost them \$50,000 to \$75,000 per bond issue. The greater the competition for HFA offerings, the higher the interest paid. Any additional earnings will stay in the bond fund.

**TECHNICAL CONSIDERATIONS:** This bill has been reviewed by the Office of State Treasurer. The changes recommended by the State Treasurer were incorporated into the bill.

**FISCAL RESEARCH DIVISION**

**733-4910**

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**APPROVED BY:** Tom Covington

**DATE:** March 24, 1997



**Signed Copy Located in the NCGA Principal Clerk's Offices**