

## Lottery Bonds and Capital Infrastructure Funding Universities Program Summary

Statute allows the state's public universities to issue bonds to fund new construction, building repairs and maintenance, and other capital projects, which universities make annual debt service payments for. In addition, statute outlines university debt ratios, limiting annual debt payments to no more than 8% of its total expenditures in a given fiscal year. In general, debt service for university bonds is paid from university "system revenues," which mostly consist of tuition/fees and other auxiliary revenue. However, to assist universities with these bond payments, the state provides funding to universities as part of two different programs.

### University Lottery Bonds

Beginning in FY 2010, statutory provisions began distributing a portion of lottery funds to the Arizona Board of Regents (ABOR) for Stimulus Plan for Economic and Educational Development (SPEED) bonds, also referred to as university lottery bonds, which is deposited to each university's Capital Improvement Fund after all lottery revenue beneficiaries receive their distribution. Under the program, statute authorizes universities to enter into bond transactions up to a maximum of \$800,000,000 to pay for construction and building renewal projects. Annual debt payments are made with 80% lottery revenue and 20% with other revenue generated by the university. Debt service payments made on bonds issued under the SPEED program are excluded from each university's statutory debt ratio. Any projects funded with SPEED bonds must be reviewed by the Joint Committee on Capital Review (JCCR).

ABOR allocated \$424,000,000 for ASU's School of Construction (\$16,000,000) and building renewal or new construction projects (\$136,000,000 to each university). Prior to FY 2022, ABOR was also required to allocate \$376,000,000 of the \$800,000,000 for projects on the Phoenix Biomedical Campus (PBC). All 3 public universities have a presence on the PBC, and ABOR further distributed the PBC allocation among the 3 universities. A total of \$274,420,000 of the allocation was committed (see *Table 1*).

The FY 2022 Higher Education Budget Reconciliation Bill eliminated the requirement that \$376,000,000 be used specifically for the PBC, allowing the \$101,580,000 in remaining authority to be used at any campus. The remaining authority has been added to the ASU allocation for building renewal and new construction projects in *Table 1*.

As of FY 2023, \$12,290,000 SPEED bond authority remains. *Table 1* displays distribution amounts, reviewed issuances, and the remaining bonding authority by university.

### 2017 University Capital Infrastructure Funding

In FY 2019, a second university bonding program was established to provide General Fund appropriations for new university research facilities, building renewal, or other capital construction projects. The law appropriated \$27,000,000 to the universities in FY 2019 and increases the appropriation each year thereafter by 2.0% or the rate of inflation, whichever is less, through FY 2043.

The universities may use these monies to pay debt service on bond issuances or to pay the costs of cash funded construction projects. New debt issued under the program may not exceed \$1,000,000,000 and debt service payments are paid 50% from the General Fund and 50% from other revenue generated by the university. The General Fund appropriations and university matching monies are deposited to each university's Capital Infrastructure Fund (CIF). Debt service payments made on bonds issued under the program are included in each university's statutory debt ratio.

Any cash-based capital projects funded with CIF monies must be reviewed by the Joint Committee on Capital Review (JCCR), and any debt-financed projects funded with CIF monies must be approved by JCCR. *Table 2* illustrates each university's reviewed and approved CIF projects.

**Table 1****University Lottery Bond Issuances**

<b><u>Purpose</u></b>	<b><u>University</u></b>	<b><u>Distribution</u></b>	<b><u>Reviewed Issuance</u></b>	<b><u>Actual Issuance</u></b>	<b><u>Remaining Authority</u></b>
Phoenix Biomedical Campus <sup>1/</sup>	ASU	\$0	0	0	\$0
	UA	266,945,000	\$283,445,000	\$266,945,000	0
	NAU	<u>7,475,000</u>	<u>8,200,000</u>	<u>7,475,000</u>	<u>0</u>
<i>Subtotal</i>		<i>\$274,420,000</i>	<i>\$291,645,000</i>	<i>\$274,420,000</i>	<i>\$0</i>
School of Construction	ASU	\$16,000,000	\$16,000,000	\$14,520,000	\$1,480,000
Building Renewal/New Construction	ASU	\$237,580,000 <sup>2/</sup>	\$241,253,000 <sup>3/</sup>	\$231,435,000 <sup>4/</sup>	\$6,145,000
	NAU	136,000,000	136,015,000 <sup>3/</sup>	132,500,000	3,500,000
	UA	<u>136,000,000</u>	<u>145,050,000</u> <sup>3/</sup>	<u>134,835,000</u>	<u>1,165,000</u>
<i>Subtotal</i>		<i>\$509,580,000</i>	<i>\$625,918,000</i>	<i>\$498,770,000</i>	<i>\$10,810,000</i>
<b>Total</b>		<b>\$800,000,000</b>	<b>\$933,563,000</b>	<b>\$787,710,000</b>	<b>\$12,290,000</b>

<sup>1/</sup> Prior to FY 2022, \$376.0 million of the total \$800.0 million in bonding authority was required to be used on the Phoenix Biomedical Campus (PBC). The FY 2022 Higher Education BRB eliminates this requirement. The remaining \$101.6 million in PBC authority was reallocated to ASU building renewal/new construction projects.

<sup>2/</sup> The ASU distribution consists of the original \$136.0 million distributed to all universities, and the remaining \$101.6 million reallocated from the original PBC distribution.

<sup>3/</sup> Actual issuances will not exceed statutory distribution.

<sup>4/</sup> This amount includes \$127,835,000 in actual issuances and \$103,600,000 in assumed issuances from an ASU construction project reviewed by the Joint Committee on Capital Review on June 13, 2023. The actual issuance may be lower than assumed.

Table 2

## University Capital Infrastructure Funding (CIF) Projects

	<u>Reviewed Cash Amount</u>	<u>Approved Issuance Amount</u>	<u>Total Debt</u>	<u>50% General Fund Portion</u>	<u>Average Annual Debt Payment 1/</u>
<b><u>Arizona State University</u></b>					
Hayden Library Renovation <u>2/</u>	-	\$ 35,000,000	\$ 57,600,000	\$ 28,800,000	\$ 2,362,200
Health Futures Center (Mayo)	-	80,000,000	130,600,000	65,300,000	5,354,600
Building Infrastructure/Utility Mapping	-	32,000,000	51,700,000	25,850,000	2,115,400
Durham Language & Literature Building Renovation	-	65,000,000	102,600,000	51,300,000	4,459,100
Interdisciplinary Science/Technology Building (ISTB) 7	-	192,000,000	293,111,200	146,555,600	11,742,400
Bateman Physical Sciences Center <u>3/</u>	-	51,000,000	71,413,300	35,706,700	3,964,500
Interdisciplinary Science/Technology Building (ISTB) 12 <u>4/</u>	-	52,400,000	96,400,200	48,200,100	3,213,300
<i>ASU Subtotal</i>	-	\$ 507,400,000	\$ 803,424,700	\$ 401,712,400	\$ 33,211,500
<b><u>Northern Arizona University</u></b>					
Science Annex Renovation <u>5/</u>	\$ 13,792,900	-	-	-	-
North Science Corridor Renovation Projects	4,750,600	-	-	-	-
Deferred Maintenance	4,845,600	-	-	-	-
<i>NAU Subtotal</i>	\$ 23,389,100	\$ -	\$ -	\$ -	\$ -
<b><u>University of Arizona</u></b>					
Animal/Biomedical Sciences Building 90 Renovation	-	\$ 18,000,000	\$ 29,400,000	\$ 14,700,000	\$ 1,214,100
Steward Observatory Renovation	\$ 11,000,000	-	-	-	-
Campus-wide Deferred Maintenance Projects	15,000,000	-	-	-	-
Applied Research Building	8,500,000	92,500,000	122,039,000	61,019,500	5,547,200
Grand Challenges Building	7,800,000	91,200,000	120,444,400	60,222,200	5,474,700
Chemistry Building Renovation	-	42,000,000	55,100,000	27,550,000	2,505,300
Deferred Maintenance – Fire Alarms	600,000	-	-	-	-
<i>UA Subtotal</i>	\$ 42,900,000	\$ 243,700,000	\$ 326,983,400	\$ 163,491,700	\$ 14,741,300
<b>Universities Total</b>	<b>\$ 66,289,100</b>	<b>\$ 751,100,000</b>	<b>\$ 1,130,408,100</b>	<b>\$ 565,204,100</b>	<b>\$ 47,952,800</b>

1/ Debt payments vary each fiscal year. The amounts in this table represent average annual debt service payments over the financing period. The General Fund and other university financing sources will split the debt service payments evenly.

2/ CIF monies will pay the debt service on \$35 million of the \$90 million of bonds issued for the ASU Hayden Library project.

3/ CIF monies will pay the debt service on \$51 million of the \$60 million of bonds issued for the ASU Bateman Physical Sciences Center project.

4/ CIF monies will pay the debt service on \$52.4 million of the \$156 million of bonds issued for the ASU ISTB 12 project.

5/ CIF monies will pay \$13.8 million of the total \$25.4 million is cash expenditures for the NAU Science Annex project.

Prepared by Cameron Mortensen, Fiscal Analyst