

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Members of the Joint Budget Committee
FROM Amanda Bickel, JBC Staff (303-866-4960)
DATE February 4, 2021
SUBJECT Auraria Higher Education Center Bond Payments

On October 29, 2020, the Auraria Higher Education Center (AHEC) sent a letter to the Joint Budget Committee members to make the Committee aware of the financial hardships it faced. The letter indicated that AHEC expected to face significant difficulties making required debt service obligations and asked for assistance from the General Assembly. This week, staff requested updated data from AHEC. *The highlights below reflect the key points from AHEC's letter with amounts and data updated to be as current as possible.*

- AHEC has bond payments and other debt obligations due on April 1 and May 1, 2021 which it will not be able to meet from existing revenue streams. As a result of further negotiation with Commerce Bank, the total has been reduced from the previous figure. Revised figures are below.

UPCOMING DEBT SERVICE PAYMENTS	
	<u>4/1/2021</u>
Parking Enterprise Revenue Bonds, Series 2004B	\$1,605,000.00
Parking Enterprise Revenue Bonds, Series 2013A	\$401,050.00
Parking Enterprise Revenue Refunding Bonds, Series 2015	\$127,825.00
Parking Enterprise Revenue Refunding Bonds, Series 2016	\$34,605.00
	\$2,168,480.00
	<u>5/1/2021</u>
State of Colorado Certificates of Participation (COP), Series 2008	\$258,971.13
Student Fee Revenue Refunding Bonds, Series 2013	\$987,375.00
Student Fee Revenue Bonds, Series 2015A (Tax-Exempt)	\$52,668.00
Refunding Certificates of Participation (COP), Series 2015	\$86,735.00
Student Fee Revenue Bonds, Series 2016	\$1,535,675.00
Refunding Certificates of Participation (COP), Series 2017	\$123,554.25
	\$3,044,978.38
TOTAL	\$5,213,458.38

- The Auraria campus is supported by a combination of annual operating assistance from its three constituent institutions (University of Colorado at Denver, Metropolitan State University of Denver, and the Community College of Denver) and revenue from auxiliary operations (the Tivoli Student Union, Campus Bookstore, Tivoli Starbucks, Auraria Early Learning Center, and Parking Operations).
- For the fiscal year ending June 30, 2019, auxiliary revenues comprised 44.0 percent of AHEC's total operating revenue.

- As AHEC entered the second quarter of the fiscal year, the Auraria campus was only welcoming about 1,000 students a day or about 5% of the typical on campus student population. This had a dramatic impact on auxiliary revenues. AHEC has provided updated revenue and expenditure estimates. As also shown, AHEC has dramatically reduced expenditures to align with its 35.9 percent revenue decline, but it still projects a \$4.9 million gap between available revenue and expenditure obligations.

**AURARIA HIGHER EDUCATION CENTER
FY2020-21 REVISED BUDGET PROJECTIONS**

	2019-20 Budget	2020-21 Budget	Budget-to- Budget \$ Change	Budget-to- Budget % Change	2020-21 Estimate	Budget-to- Estimate \$ Change	Budget-to- Estimate % Change
Revenues:							
Student Bond Fee	\$5,177,361	\$4,599,000	-\$578,361	-11.2%	\$4,599,000	\$0	0.0%
Tivoli Quad/Student Spaces Fee	\$407,720	\$362,638	-\$45,082	-11.1%	\$362,638	\$0	0.0%
Tivoli Student Union Operations	\$3,746,447	\$3,121,584	-\$624,863	-16.7%	\$2,313,000	-\$808,584	-26.9%
Tivoli Station (Bookstore)	\$8,729,750	\$4,798,500	-\$3,931,250	-45.0%	\$3,437,000	-\$1,361,500	-28.4%
Tivoli Starbucks	\$1,380,336	\$841,800	-\$538,536	-39.0%	\$171,500	-\$870,300	-79.6%
Early Learning Center	\$2,832,844	\$2,126,000	-\$506,844	-19.3%	\$1,295,000	-\$831,000	-39.1%
Tivoli Bond Revenues	\$22,074,458	\$15,849,522	-\$6,224,936	-28.2%	\$12,178,138	-\$3,671,384	-23.2%
Parking Revenues	\$12,157,700	\$7,053,100	-\$5,104,600	-42.0%	\$2,013,900	-\$5,039,200	-71.4%
Total Auxiliary Revenues	\$34,232,158	\$22,902,622	-\$11,329,536	-33.1%	\$14,192,038	-\$8,710,584	-38.0%
MSU Denver Appropriation	\$10,868,839	\$10,868,839	\$0	0.0%	\$10,868,839	\$0	0.0%
CU Denver Appropriation	\$7,871,466	\$7,871,466	\$0	0.0%	\$7,871,466	\$0	0.0%
CCD Appropriation	\$2,974,156	\$2,974,156	\$0	0.0%	\$2,974,156	\$0	0.0%
Sub Total Institutions	\$21,514,461	\$21,514,461	\$0	0.0%	\$21,514,461	\$0	0.0%
Deferred Maintenance Funding	\$2,000,000	\$2,000,000	\$0	0.0%	\$2,000,000	\$0	0.0%
Auxiliary Overhead/Operating Support	\$5,549,502	\$2,872,849	-\$2,876,653	-51.8%	\$2,872,849	\$0	0.0%
Other Income	\$550,000	\$540,000	-\$10,000	-1.8%	\$540,000	\$0	0.0%
Total General Fund Revenues	\$29,613,963	\$26,727,310	-\$2,886,653	-9.7%	\$26,727,310	\$0	0.0%
Total Revenues	\$63,846,121	\$49,629,932	-\$14,216,189	-22.3%	\$40,919,348	-\$8,710,584	-17.6%
Total Estimated Revenue Loss from FY2019-20 to FY2020-21						-\$22,926,773	-35.9%
Expenses:							
Tivoli Student Union Operations	\$5,315,090	\$4,878,532	-\$436,558	-8.2%	\$4,583,850	-\$294,882	-6.0%
Tivoli Station (Bookstore)	\$8,706,172	\$5,153,879	-\$3,552,493	-40.8%	\$4,035,755	-\$1,117,924	-21.7%
Tivoli Starbucks	\$1,283,138	\$836,914	-\$446,224	-34.8%	\$367,319	-\$469,595	-58.1%
Early Learning Center	\$2,588,529	\$2,112,153	-\$476,376	-18.4%	\$1,864,589	-\$247,564	-11.7%
Student Bond Debt Service	\$3,169,303	\$2,864,486	-\$304,817	-9.6%	\$2,864,486	\$0	0.0%
Deferred Maint/Capital Improvements	\$1,000,000	\$0	-\$1,000,000	-100.0%	\$0	\$0	0.0%
Tivoli Bond Expenses	\$22,062,232	\$15,845,764	-\$6,216,468	-28.2%	\$13,715,999	-\$2,129,765	-13.4%
Parking Expenses	\$11,551,617	\$7,050,028	-\$4,501,589	-39.0%	\$5,814,172	-\$1,235,856	-17.5%
Total Auxiliary Expenses	\$33,613,849	\$22,895,792	-\$10,718,057	-31.9%	\$19,530,171	-\$3,365,621	-14.7%
Total General Fund Expenses	\$29,613,963	\$26,727,310	-\$2,886,653	-9.7%	\$25,709,166	-\$1,018,144	-3.8%
Total Expenses	\$63,227,812	\$49,623,102	-\$13,604,710	-21.5%	\$45,239,337	-\$4,383,765	-8.8%
Total Estimated Cost Reduction from FY2019-20 to FY2020-21						-\$17,988,475	-28.5%

- AHEC has worked diligently to reduce costs. It has negotiated deferral of \$1.755 million in debt payments for one year, reduced 57 FTE (17 percent of its workforce), reduced utility costs, and

suspended deferred maintenance. These together provide approximately \$7.4 million in savings but cannot fully compensate for \$20.0 million in lost auxiliary revenue.

- AHEC was not eligible to receive any federal CARES Act funding as its structure does not meet the definition of a higher education institution. AHEC has not received any other state or federal funding related to the pandemic.
- The higher education institutions on the campus have maintained their operating payments at a flat level of \$21.5 million. In addition, in response to questions, AHEC indicated that the student facilities bond fee (\$71.40 per semester) and the Tivoli Park/Student Spaces fee (\$5.63/semester) have continued to be remitted by the institutions to AHEC each semester, although AHEC is uncertain how these fees were attained. Finally, the institutions have continued to pay almost \$1.5 million in institutional revenue for space in the Tivoli Student Union they lease, even though the space has been vacant most of the year.

The table below shows the FY 2019-20 actual funds received from the institutions, including the break-out by institution. Most of this funding remains flat for FY 2020-21.

	Fiscal Year 2019-20			
	MSU Denver	CU Denver	CCD	TOTAL
Institutional Support	13,059,327	9,160,060	3,390,865	25,610,252
Student Fees	2,829,333	2,143,417	865,900	5,838,650
	15,888,660	11,303,477	4,256,765	31,448,902
	50.52%	35.94%	13.54%	100.00%

JBC Staff spoke with AHEC after the October 2020 letter was received to discuss the procedures and timing for a supplemental request. Staff encouraged AHEC to reach out to the Department of Higher Education and the Governor’s Office if it wished to have a supplemental considered through the regular supplemental process. **Staff understands that AHEC pursued a supplemental through Executive Branch process, but that its request for funding through the regular supplemental process was not successful.** On January 11, 2021, staff received an email from the Governor’s Office that described the position of the Governor’s Office at that time.

“As you of course know, the Governor's supplemental package did not include a request for AHEC, indicating that we are not supportive of a General Fund appropriation at this time. We did work with AHEC and Treasury to reduce the amount owed in FY21 by about \$0.5M via debt restructuring with Commerce Bank. In addition, the new HEERF distributions under H.R. 133 will significantly increase available federal funds to all institutions, including the AHEC partners, which raises government support well above its FY20 level for all governing boards/IHEs and makes a big dent in the total revenue loss for both Community Colleges and CU.

Accordingly, [OSPB] shared with AHEC that the two options we support going forward are that they continue to manage their debt by working with financial partners,

FEBRUARY 4, 2021

e.g., by securing flexibility that allows them to use debt service reserves to cover payments, and that IHEs contribute out of institution/federal funds.”

Staff observations:

- The decline in auxiliary revenue on the AHEC campus is dramatic, and funds for bond payments will need to come from somewhere. Staff believes it is reasonable for the General Assembly to provide assistance in this extraordinary situation to pick up some related costs.
- As noted by AHEC, the institutions on the AHEC campus have at least kept their payments to AHEC flat, even though they have also faced revenue declines. That said, staff also concurs with the Governor’s Office that higher education institutions that operate on the AHEC campus should contribute to keep AHEC solvent, given the significant additional federal support they have received that is intended to address precisely this type of situation. Institutions that operate their own auxiliaries have had to use their own resources, including federal stimulus funds, to address shortfalls in auxiliary revenue.
- There are likely to be implications for the state’s bond rating, as well as the bond ratings of the governing boards on the AHEC campus (University of Colorado System, the Community College System, and Metropolitan State University of Denver) if AHEC defaults on its bonds. AHEC indicates that its bond rating has fallen to Baa and will fall to junk status if it defaults.
- The institutions of higher education have received significant additional federal bail-out funds in the last round of federal stimulus (H.R. 133). The new funding is both greater and more flexible than the funding originally provided through the CARES Act. Total allocations, and the portion that may be used for institutional support are shown in the table below. The highlighted rows are the institutions on the Auraria campus.

HEERF II Federal Funds Allocations to Public Institutions in Colorado for CY 2021		
Institution Name	Total Award (including student aid)	Institutional Support Portion Maximum
<i>U of CO System</i>		
Total CU	\$62,028,009	\$43,606,940
University of Colorado Boulder	28,660,299	19,294,095
University of Colorado Denver	19,226,923	14,134,881
University of Colorado Colorado Springs	14,140,787	10,177,964
<i>CSU System</i>		
Colorado State University	28,296,524	19,449,668
Colorado State University-Pueblo	7,745,423	5,765,492
<i>Independent Research Institutions</i>		
University of Northern Colorado	12,601,749	8,776,642
Colorado School of Mines	4,867,096	3,144,538
<i>Comprehensive 4 Year Institutions</i>		
Fort Lewis College	4,891,889	3,372,570
Adams State University	2,825,647	2,041,190
Colorado Mesa University	12,116,155	8,581,965

FEBRUARY 4, 2021

HEERF II Federal Funds Allocations to Public Institutions in Colorado for CY 2021		
Institution Name	Total Award (including student aid)	Institutional Support Portion Maximum
Western Colorado University	2,489,853	1,813,183
Metropolitan State University of Denver	26,366,088	19,171,046
<i>Community College System</i>		
Community College System (13 institutions)	61,647,022	61,647,022
CC of Denver (included above)	7,776,769	7,776,769
<i>Local District Colleges</i>		
Aims Community College	5,693,412	4,422,818
Colorado Mountain College	3,735,220	2,887,886
<i>Area Technical Colleges</i>		
Technical College of the Rockies	280,929	216,442
Emily Griffith Technical College	3,372,652	2,458,289
Pickens Technical College Public	1,623,436	1,203,477
Total Public Institutions	\$258,152,853	188,559,168
Portion to institutional support		73%

- For context, data on total governing board revenue changes is shown below. As reviewed during the staff budget briefing in December 2020, the governing boards have clearly been financially affected by the pandemic, although the impacts, as assessed in the fall, had not been as drastic as feared. These impacts have fallen more heavily on institutions that serve less affluent populations, including Metropolitan State University of Denver and the community college system, driving these institutions to increase tuition. These entities have also received greater federal support. *The table below summarizes the FY 2020-21 total revenue estimates from the governing boards operating on the Auraria campus as of the end of November 2020. This excludes the new federal funds shown above and staff anticipates that estimates will be revised in the next month.*

PROJECTED CHANGE IN REVENUE FROM ALL SOURCES - FY 2019-20 TO FY 2020-21 ESTIMATES AS OF LATE NOVEMBER 2020				
	FY 2019-20 TOTAL FUNDS	FY 2020-21 TOTAL FUNDS	CHANGE FY 2019- 20 TO FY 2020-21	TOTAL PERCENTAGE CHANGE FY 2019-20 TO FY 2020-21
<i>Entities Represented on Auraria Campus</i>				
University of Colorado System (4 Institutions)	4,969,020,000	4,889,496,065	(79,523,935)	(1.6%)
Metro. State University of Denver	280,311,113	284,459,363	4,148,250	1.5%
Community College System (13 Institutions)	780,286,144	720,746,313	(59,539,831)	(7.6%)

- Staff believes current law must be modified to address AHEC's situation.** Under current law, the only allowable source for making bond payments for AHEC auxiliary enterprises is auxiliary revenues. Specifically, Section 23-70-107 (2) and (3), C.R.S. concerning AHEC auxiliary facilities requires that:

"Bonds issued pursuant to this subsection [concerning AHEC authority to issue revenue bonds] shall be payable only from revenues generated by the auxiliary facility or group of auxiliary facilities on behalf of which such bonds are issued..."

Adequate revenue from this source is simply not available. **Staff therefor recommends that the JBC request a bill draft and sponsor legislation that would allow the AHEC auxiliary bonds to be paid from other sources on a temporary basis (FY 2020-21 and FY 2021-22). Such a bill would be the appropriate vehicle if the Committee wished to provide a General Fund appropriation to assist with AHEC bond payments.** Furthermore, even if the General Assembly did not provide General Fund support, such a bill would be required for bond payments to be made from any other source, including contributions from the governing boards.