

MEMORANDUM

TO: Joint Budget Committee
FROM: Amanda Bickel, JBC Staff
SUBJECT: CSU Intercept Program Request
DATE: April 14, 2015

INTERCEPT BONDS AUTHORIZATION – COLORADO STATE UNIVERSITY (4 PROJECTS)

	Request	Recommendation
Total – Cash Funds Intercept Bonding Authorization	\$183,499,983	\$183,499,983

Request: Colorado State University (CSU) has requested, and the Capital Development Committee has approved, authority to proceed with bonds for four cash-funded CSU projects subject to the Higher Education Revenue Bond Intercept Program. The four projects are on the Fort Collins campus. They include:

- Biology Building - \$81,596,432
- Medical Center project - \$58,981,491
- University Square Parking Garage - \$37,522,060
- South Campus Parking Lot - \$5,400,000

CSU anticipates that \$13 to \$15 million of the total will be supported through donations, but the entire amount shown above has been requested under the intercept program.

Staff Recommendation: *Staff recommends that the Committee approve these requests, based on the analysis below. Staff is, however, concerned about CSU's overall level of debt, and staff believes CSU may be approaching the maximum that should be approved under the intercept program.* Higher education projects that are cash funded no longer require an appropriation by the General Assembly. However, pursuant to Section 23-1-106 (10) (b), C.R.S., any higher education cash funded project costing \$2.0 million or more which is subject to the Higher Education Revenue Bond Intercept Program must be reviewed and approved by the Colorado Commission on Higher Education (CCHE) and the Capital Development Committee (CDC). The CDC is then required to make a recommendation regarding the project to the JBC, which is required to refer its recommendations, with written comments to the CCHE. The CDC has already approved the requested projects. The attached draft letter from the JBC to the CCHE, if approved, would enable CSU to proceed with the projects and the associated bonding.

Staff Analysis: The CDC has approved these cash funded projects, and CSU available revenues are sufficient to comply with the statutory limits and guidelines for use of the intercept program. On this basis, staff recommends the requests. However, staff has provided some additional information below related to the projects and the statutory requirements for using the intercept program and CSU's current revenue and bonding capacity to provide additional context for the recommendation.

Project Information:

Biology Building: (\$81.6 million) The project constructs a five-story, 147,700 GSF biology teaching and research building on the main campus to address a growing deficiency in available space for biology laboratories, support spaces, and new faculty. This will enable an increase in the number of biology faculty from 31 to 40 FTE. The facility will include teaching and research labs, a large auditorium and classrooms, computer labs, student study spaces, and an academic advising center. The university expects to receive \$3.0 to \$5.0 million in donor funds and to support the rest with university funds and a student fee for capital improvements approved in May 2014 of \$5.51 per credit hour.

Medical Center Project: (\$59.0 million) 113,300 GSF new four-story medical center to house student health functions including exam rooms, office space, counseling, mental health services, pharmacy, and radiology. The center will also house a primary care clinic operated by UC Health and a Center for Healthy Aging, which is a new multidisciplinary program for research, outreach and education related to the biology of aging. CSU expects that about \$10 million of the total \$59.0 million will be raised from donations. The balance will be raised through bonds, which will be paid based on projected annual revenue of approximately \$460,000 from lease payments (UC Health and Center for Healthy Aging) and \$2.8 million in student health services revenue (student fees for health services and insurance payments).

University Square Parking Lot: (\$37.5 million) Four-story 1,555-space parking garage in the southeast section of the main campus to replace surface parking lost to recent construction projects. The cash funds project would be financed by bonds repaid through parking service fees.

South Campus Parking Lot: (\$5.4 million) Funds to construct surface parking on vacant land on the south campus to meet the needs of the Veterinary Medicine Center and growth on the South campus. Many parking lots on the main campus are targeted for demolition, with parking shifted to outer areas. The cash funds project would be financed by bonds repaid through parking service fees.

Statutory Guidance:

Pursuant to Section 23-11-106 (10) (b), C.R.S. (most recently modified in S.B. 13-099), to qualify for the Revenue Bond Intercept Program, an institution must have:

- (1) A credit rating in one of the three highest categories from a nationally recognized statistical rating organization

- (2) A debt service coverage ratio of at least 1.5x (net revenue available for debt service/annual debt service subject to this article)
- (3) Pledged revenues for the issue of not less than the net revenues of auxiliaries; 10% of tuition if an enterprise; indirect cost recovery revenues; facility construction fees designated for bond repayment; and student fees and revenues pledged to bondholders.

If it meets these requirements and participates in the Program, and if the institution indicates that it will fail to meet the required payment, the State Treasurer makes the payment, and the amount owed is then withheld from the institution's fee-for-service contract, from any other state support for the institution, and from any unpledged tuition moneys collected by the institution.

When analyzing requests under the intercept program, staff considers:

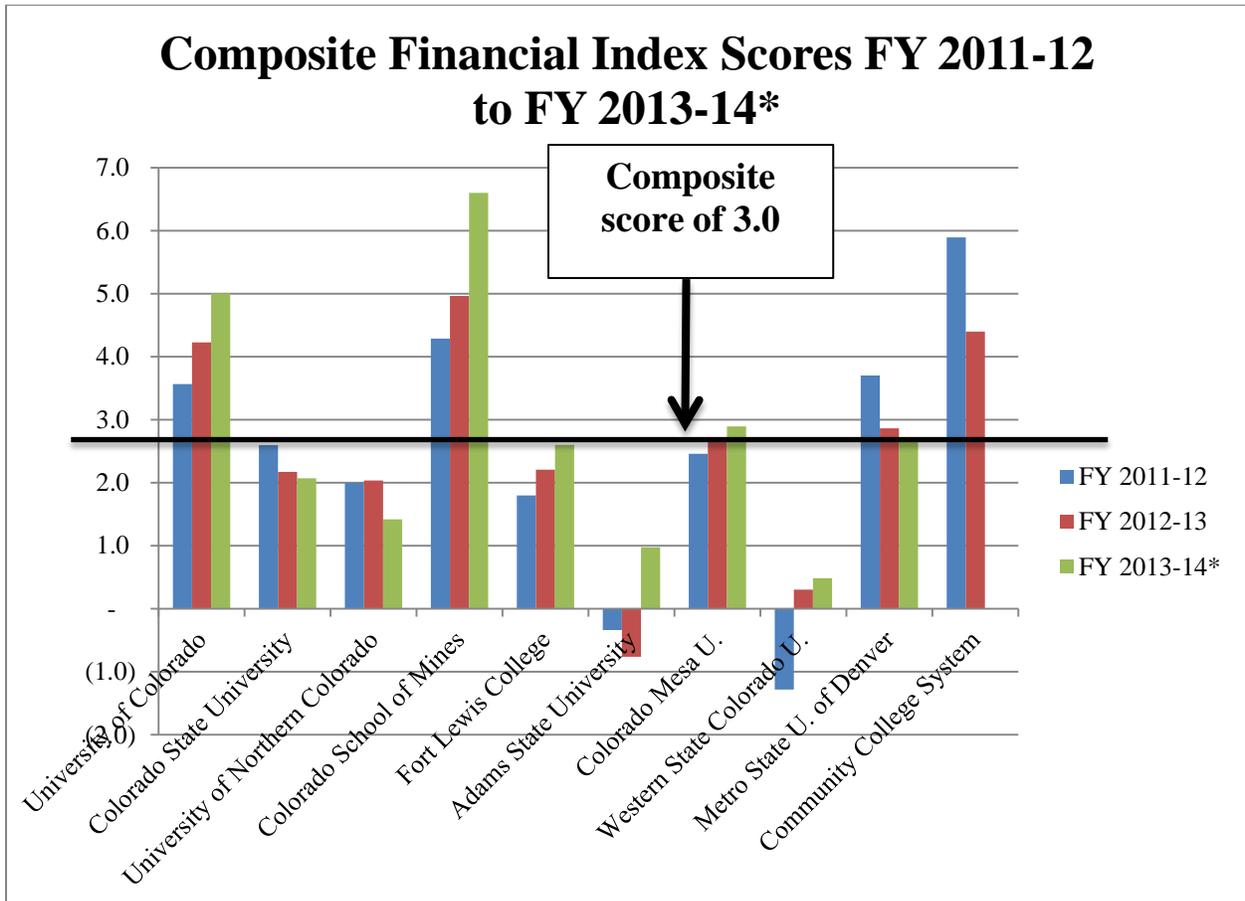
- **The Treasurer's analysis of the proposed issue and compliance with Section 23-5-139, C.R.S. (Revenue Bond Intercept Program)**
- **The institution's Composite Financial Index for FY 2012-13 and 2013-14, as a measure of its general financial health.**
- **The projected impact of the new bond and the associated payment on the CFI analysis.**
- **A comparison between the institution's most recent General Fund appropriation (FY 2015-16) and the existing and proposed annual payment obligations under the revenue bond intercept program.**

Treasurer's Statutory Analysis:

*The Treasurer has confirmed that CSU exceeds the minimum statutory requirements for the intercept program (1.5x coverage for bond payments and no lower than an "A" credit rating). According to CSU, its current coverage ratio (prior to this request) is (\$116,473,831 in pledged revenues)/(\$63,890,632 in annual debt service) = total coverage of 1.82. **Assuming an increase in debt of \$183.5 million (the maximum new amount that would be permitted under this request) and no change in pledged revenues from the figure above, it appears that total debt coverage under this request might fall to 1.58x. This does not exceed the threshold for the intercept program but appears to be coming very close to the limit.***

Composite Financial Index (CFI):

As reviewed in staff's budget briefing, CSU had a Composite Financial Index (CFI) in FY 2013-14 of 2.1, placing it below the threshold for moderate financial health of 3.0. CSU's financial health as reflected by the CFI has declined in recent years as it has become increasingly leveraged and has had somewhat negative net operating results based on modest enrollment declines. As of the close of FY 2013-14, the overall CSU system (including the foundation) reported annual revenues and expenditures about \$1.1 billion for services to 24,383 student FTE. *Although revenue to the system has continued to increase, in part based on an increasing proportion of out-of-state students, student enrollment has been flat or declining since FY 2011-12.*



*Reflected unaudited statements for FY 2013-14 for most institutions; CSU figures are now confirmed

Impact of New Bond on CFI:

The overall increase in debt represents an increase of over 20 percent on the FY 2013-14 base of \$828.2 million. CSU reports that the requested increase in bonding under the intercept program is expected to increase debt service by \$9.8 million annually. This represents an increase of over 40 percent compared to FY 2013-14 payments of \$24.0 million. Considering **solely the intercept projects requested and the system’s FY 2013-14 position, CSU’s CFI might decline from about 2.1 to 2.0, but this represents a rough estimate**, since it does not fully reflect other changes in CSU’s financials including new debt and new revenue since FY 2013-14.

More significantly, this new debt is in addition to debt for CSU’s new stadium (not requested under the intercept program) of \$220 million. Based on data provided by CSU, their current position (prior to this request) includes:

CSU System Bonds prior to this request	Annual payment	Debt total
Intercept Backed	\$46,207,652	\$676,135,000
Total bonds (FY15)	\$63,890,632	\$958,325,000

These figures are substantial when compared to the overall size of CSU’s operation of about \$1.1 billion in operating revenue and expenses in FY 2013-14.

Rating agency assessment:

In light of CSU’s \$220 million in additional bonds for the proposed new football stadium, **the rating agencies maintained CSU’s credit rating. However, Standard and Poor’s has revised CSU’s bond outlook to “negative”.** According to a recent news report, both ratings agencies have cautioned that CSU faces a bond rating downgrade in the future if it fails to meet certain financial objectives.¹

Current ratings:

Non-intercept: Moody’s: Aa3; S&P: A+
Intercept (state-backed): Moody: Aa2; S&P: AA-

Annual General Fund Appropriation versus Intercept Obligations:

Annual payments on the intercept bonds are \$46,207,653 in 2015 according to CSU. The table shows the 2016 projected payment, increased by \$9,800,000, and compares it to the FY 2015-16 appropriation for CSU as approved in both houses. As shown, **with this addition, total annual intercept payment obligations would be 41.6 percent of the anticipated FY 2015-16 General Fund appropriation for CSU.** The *General Fund appropriation still appears adequate to cover any potential bond-payment shortfall in a worst-case scenario in which the intercept would be applied.*

Estimated current intercept payment for 2015	\$46,207,653
Additional projected payment, new bonds	<u>9,800,000</u>
Total projected payment	56,007,653
General Fund appropriation FY 2015-16*	134,660,184
Projected payment as percentage GF approp.	41.6%

*Reflects amount in introduced Long Bill, which has been approved in both House and Senate

¹ Steve Lynn, “Rating agencies affirm CSU’s bond ratings, S&P changes outlook to negative, BizWest, March 19, 2015. <http://bizwest.com/moodys-sp-affirm-colorado-states-stadium-bond-rating/>

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DRAFT

April 14, 2015

Lt. Gov. Joseph A. Garcia
Executive Director
Colorado Commission on Higher Education
1560 Broadway, Suite 1600
Denver, CO 80202

Dear Lieutenant Governor Garcia:

Pursuant to the provisions of Sections 24-75-303 (3) and 23-1-106 (9) and (10), C.R.S., the Joint Budget Committee has reviewed the following higher education revenue bond intercept projects. All of these Colorado State University projects were previously approved by the Capital Development Committee and the Colorado Commission on Higher Education.

Biology Building: (\$81,596,432) The project constructs a five-story, 147,700 GSF biology teaching and research building on the main campus to address a growing deficiency in available space for biology laboratories, support spaces, and new faculty. The facility will include teaching and research labs, a large auditorium and classrooms, computer labs, student study spaces, and an academic advising center. The university expects to receive \$3.0 to \$5.0 million in donor funds and to support the rest with university funds and a student fee for capital improvements approved in May 2014 of \$5.51 per credit hour.

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In total, CSU expects to finance \$164 million of the total with bonds authorized under the intercept program with estimated annual payments of approximately \$9.8 million per year.

After considering the information submitted by the Colorado Commission on Higher Education and the Capital Development Committee, the Joint Budget Committee approved these requests.

If you have any questions or concerns, please contact Amanda Bickel of our staff at 303-866-4960.

Sincerely,

Senator Kent Lambert
Chair
Joint Budget Committee

cc: Representative Edward Vigil, Capital Development Committee
Kori Donaldson, Capital Development Committee Staff
Diane Duffy, Department of Higher Education
Andrew Rauch, Department of Higher Education
Richard Schweigert, Colorado State University System
Lynn Johnson, Colorado State University
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