

# MEMORANDUM

**TO:** Joint Budget Committee

**FROM:** Amanda Bickel, JBC Staff

**SUBJECT:** University of Northern Colorado Intercept Program Request

**DATE:** March 16, 2016

## INTERCEPT BONDS AUTHORIZATION – UNIVERSITY OF NORTHERN COLORADO

	Request	Recommendation
<b>Total – Cash Funds Intercept Bonding Authorization</b>	<b>\$35,533,668</b>	<b>\$35,533,668</b>

**Request:** The University of Northern Colorado (UNC) has requested, and the Capital Development Committee has approved, intercept bond authorization for its "campus commons" project. The overall project cost is \$73.5 million, including \$38.0 million requested in state Capital Construction Funds and \$35.5 million from cash funds. UNC anticipates that the remainder will be supported by bonds and donations. **UNC currently expects to receive \$12.0 million in donations, leaving \$23.5 million that would need to be financed with bonds. However, as indicated below, the CDC has authorized bonding under the intercept program of up to \$35.5 million.**

### PRIOR APPROPRIATION AND REQUEST INFORMATION

Fund Source	Prior Approp.	FY 2016-17	FY 2017-18	Future Requests	Total Cost
CCF	\$23,000,000	\$15,000,000	\$0	\$0	\$38,000,000
CF	\$21,030,739	\$14,502,929	\$0	\$0	\$35,533,668
<b>Total</b>	<b>\$44,030,739</b>	<b>\$29,502,929</b>	<b>\$0</b>	<b>\$0</b>	<b>\$73,533,668</b>

Project Title	Summary of Request	Amount
Campus Commons	The campus commons project constructs a 114,220 GSF addition to the south of the existing campus commons building. It includes an academic case management office, one-stop student services, student orientation and career services, and various performance spaces, including a 500 seat performance hall and 400 seat auditorium, among other functions.	<i>Up to \$35,533,668</i>

Annual payments associated with the new debt are roughly estimated at \$1,561,234 (based on a 5.0% rate on a 30 year bond for \$24.0 million).

The source of the cash funds for bond repayment is \$160 per student from an existing capital fee of \$450 per student per academic year. UNC's Chief Financial Officer indicates that UNC expects to increase its capital fee each year, reaching \$910 per FTE by FY 2018-19. However, most of this increase will be directed to address deferred maintenance on the campus.

**Staff Recommendation:** *Staff recommends that the Committee approve the request but notes ongoing concerns about UNC's financial situation.* 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. A letter from the JBC to the CCHE, if approved, would enable UNC to proceed with the project.

**Staff Analysis:** The CDC has approved these cash funded projects, and UNC's bond rating and 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.

***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
- 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 reported to the CDC on the project's coverage ratio. The Treasurer indicates that UNC is in compliance with the minimum statutory requirements

*Current ratings:*

Moody's had assigned the following ratings:

Non-intercept: Moody's: A1

Intercept (state-backed/ "enhanced"): Moody: Aa2

The Treasurer indicated that if UNC were to issue a full \$36 million, they would still meet the minimum coverage threshold of 1.5x and would be closer to 2.2x coverage. Thus, **the request complies with the statutory minimum requirement of 1.5x.**

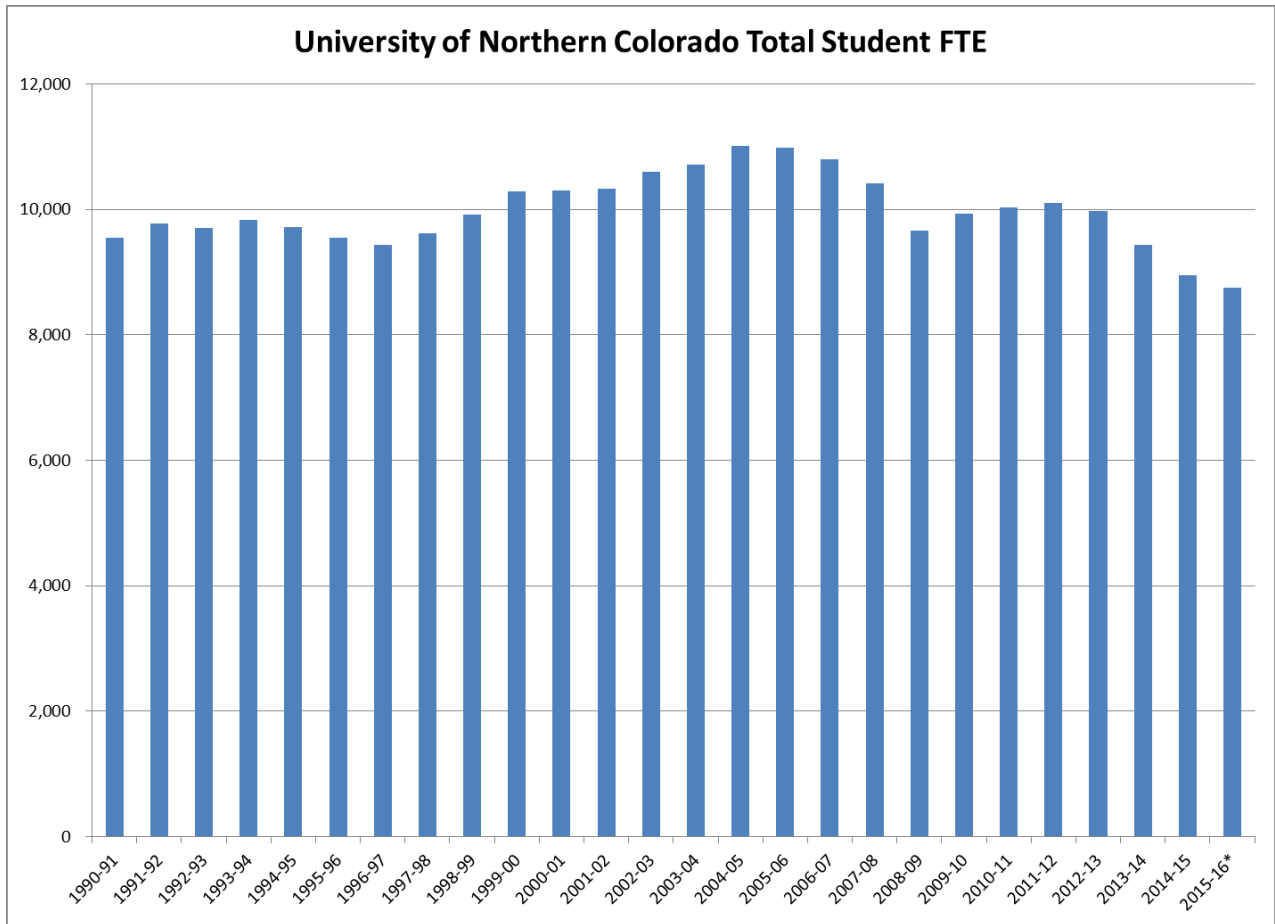
*The Treasurer has also noted that Moody's just downgraded their outlook for UNC from stable to negative citing the university's declining liquidity and rising fixed costs associated with an aggressive plan to grow enrollment by 25 percent by fall 2018.*

***Composite Financial Index (CFI)/Institutional Health:***

As of FY 2015-16, UNC's total capital debt (bonds, notes, and capital leases including foundation debt, including interest obligations) was \$151.9 million or about \$17,000 per student for 8,748 students. For comparison, in FY 2014-15, operating revenue for the institution (including foundations) was \$213.4 million.

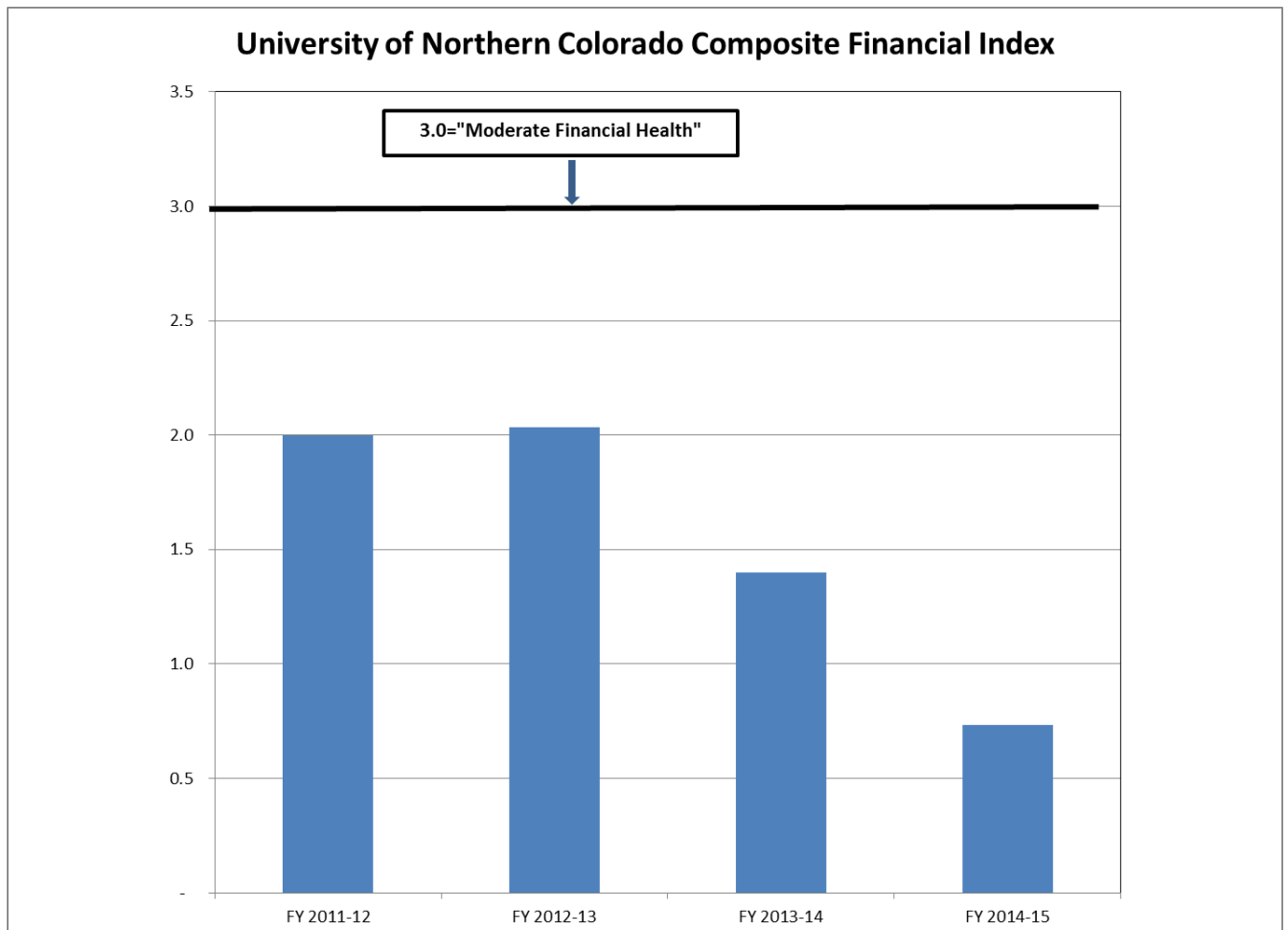
With an anticipated issuance of \$24 million, debt service is expected to increase from \$9.82 million to approximately 11.4 million. Thus, with the new issuance, staff anticipates that debt service will comprise about 5.3 percent of annual revenue, which does not seem excessive.

*The more significant question is whether UNC can successfully turn around its declining enrollment. It has been spending from reserves as part of its turnaround plans, but this obviously represents a risk if the hoped-for turn-around does not occur. UNC reports that its entering class for FY 2015-16 was larger, and Legislative Council Staff currently projects that enrollment will increase by 1.0 percent in FY 2016-17, rather than declining further.*



\*LCS Forecast

UNC's financial health as reflected by the Composite Financial Index (CFI) fell significantly in FY 2014-15 based on the declining enrollment and financial losses for the year.



\*FY 2014-15 excludes GASB 68 pension liabilities

The additional liabilities associated with the proposed new issuance are expected to have a minimal impact on the UNC's Composite Financial Index.

***Annual General Fund Appropriation versus Intercept Obligations:***

The table shows the 2018 projected payment under the intercept program and compares it to the FY 2016-17 General Fund recommended for the College Opportunity Fund Program to be reappropriated to UNC. As shown, **with this addition, total annual intercept payment obligations are anticipated to be 29.9 percent of the 2016-17 state funding approved thus far for UNC.** The *anticipated 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.*

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Intercept bond payment for 2017	\$9,817,950
Additional projected payment for this bond based on UNC estimate of \$24.0 million in debt at 5.0 percent rate	<u>\$1,561,234</u>
Estimated maximum payment with new debt	11,379,184
Reappropriated operating recommendation for UNC (amount originating as General Fund) FY 2016-17 JBC action as of 9/9/16	38,038,234
Projected 2018 payment as percentage FY 2016-17 state funding based on JBC 9-9-16 action.	29.9%