MEMORANDUM

TO: Joint Budget Committee

FROM: Amanda Bickel, JBC Staff

SUBJECT: Colorado Mesa University Intercept Program Request

DATE: January 12, 2016

INTERCEPT BONDS AUTHORIZATION – COLORADO MESA UNIVERSITY

	Request	Recommendation
Total – Cash Funds Intercept Bonding Authorization	**$22,647,543**	**$22,647,543**

Request: Colorado Mesa University (CMU) has requested, and the Capital Development Committee has approved, intercept bond authorization for two projects described below.

Project Title	Summary of Request	Amount
Kinesiology Expansion	Replaces the current Maverick Pavilion with a new 32,893 GSF two-story pavilion. This will house four gymnasiums, a running track, a climbing wall, support facilities, student gathering spaces and instrument storage space for the CMU marching band. The facilities will be used by the Kinesiology Department, intramural sports, and athletic programs, and the marching band. (The Kinesiology Department provides baccalaureate degrees with concentrations in Adapted Physical Education, K-12 Physical Education and Fitness, and Health Promotion.)	$9,997,913
Student Housing, Phase VII	The project constructs a 43,330 GSF residence hall that will house 149 student beds	12,649,630
	TOTAL	$22,647,543

Debt Payment: Annual payments associated with the new debt are estimated at $978,025 per year starting in FY 2017-18, increasing to $1.5 to $2.1 million per year for the years from FY 2023-24 to FY 2044-45. (Interest will be capitalized for the first two years.)

The source of the cash funds for bond repayment is auxiliary revenue. Student housing, representing more than half of the issuance, is typically supported through the auxiliary revenue from the housing itself. The kinesiology expansion will also be supported by auxiliary revenue, which staff understands in this case to mean general student fees. CMU's Chief Financial Officer indicates that there will be no new student fees associated with the building. For FY 2015-16, CMU's charges included $823 in mandatory student fees for 30 credit hours, of which $644 was for a student facilities debt fee and a general student fee. CMU's financial disclosures for the bond indicate that CMU received $4.1 million from these fees to support the University Center and Recreation Center in FY 2014-15.

Staff Recommendation: S***taff recommends that the Committee approve the request*** *but notes that CMU appears to be approaching the limit of what may be approved under the intercept program, based on debt coverage ratios.* 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 CMU to proceed with the project.

Staff Analysis: The CDC has approved these cash funded projects, and CMU'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 **t**o the CDC on the project's coverage ratio. Based on additional data provided by CMU, the Deputy Treasurer has prepared a revised version of the coverage analysis (attached). **The Treasurer's analysis indicates that the CMU request will comply with the statutory limitations on the intercept program.**

Current ratings:
As of 2013, Moody's had assigned the following ratings:
Non-intercept: Moody's: A2
Intercept (state-backed/ "enhanced"): Moody: Aa2

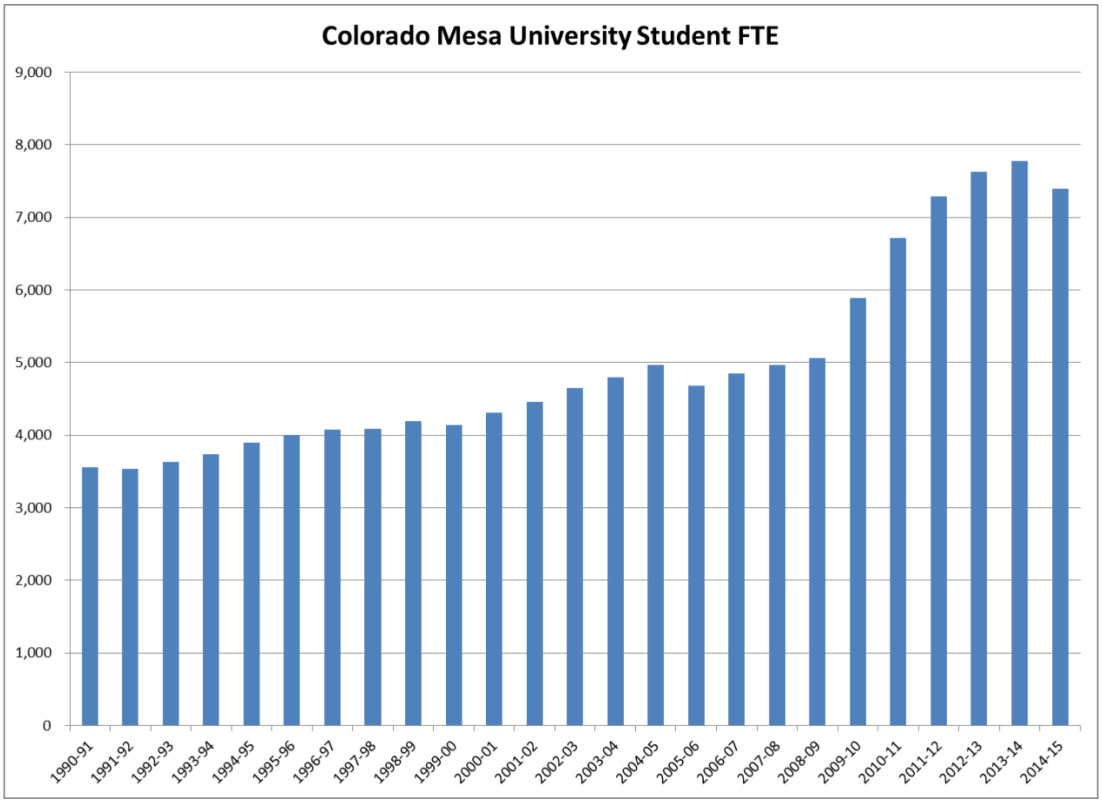
As of 2013, the outlook for both the underlying and enhanced rating was stable. Staff understands from CMU that a new rating will be released shortly. **Assuming the new rating keeps the institution in one of the top three ratings categories, it will be in compliance with the statutory minimum.**

As reflected in the attachment, the Treasurer projects that the overall coverage ratio for CMU's debt will be 1.84 in 2016, falling to 1.70 by 2018**.** (Coverage ratio is based on moneys available for debt service divided by the annual debt service payment.) If the analysis is restricted to intercept program loans (the statutory measure) the coverage ratio would be 1.84 by 2018. T**he coverage ratio for both intercept and non-intercept loans is higher than the statutory minimum of 1.50.**

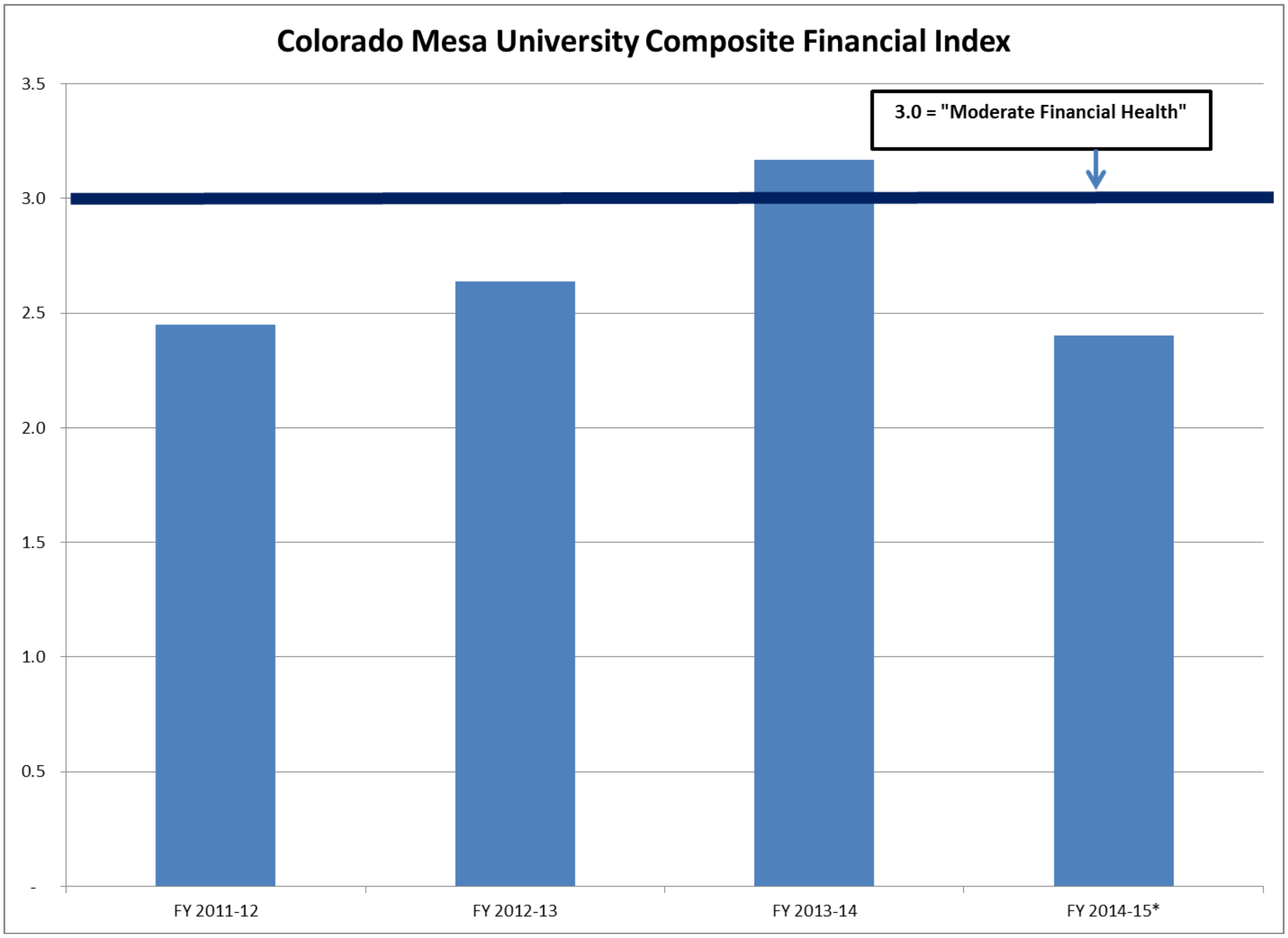
Composite Financial Index (CFI)/Institutional Health:

As of FY 2014-15, CMU's total capital debt (bonds, notes, and capital leases including foundation debt) was $197.4 million (principal only) or about $26,700 per student for 7,399 students. In FY 2014-15, net operating revenue for the institution (including foundations) was $124.0 million.

Disclosures for the bond issuance reflect $21.65 million in new debt. As reflected in the schedule from the Treasurer, *total debt service with the new issuance is projected to be $13,355,624 by 2018 or 10.8 percent of FY 2014-15 revenue.* While the debt to income ratio seems somewhat high, the additional housing will result in additional revenue, and staff presumes the overall payments will not present a problem if the institution continues to grow.



CMU's financial health as reflected by the Composite Financial Index (CFI) was lower in FY 2014-15 based on higher debt loads and lower enrollment in that year, as reflected in the chart below.



*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 CMU Composite Financial Index, based on staff's analysis. The FY 2014-15 CFI of 2.4 might fall to 2.3 assuming no changes other than increased debt and debt payments; in practice, additional revenue from housing will help offset additional costs.

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 requested for the College Opportunity Fund Program to be reappropriated to CMU. As shown, **with this addition, total annual intercept payment obligations are anticipated to be 52.9 percent of the 2016-17 state funding requested for CMU.** 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*.

Intercept bond payment for 2016	$11,537,183
Additional projected payment for this bond as of 2018 per preliminary bond issuance documents (2016 & 2017 payments are capitalized)	$978,025
Estimated maximum payment 2018	12,515,208
Reappropriated operating request for CMU (amount originating as General Fund) FY 2016-17	23,653,558
Projected 2018 payment as percentage FY 2016-17 state funds request	52.91%

BOARD OF TRUSTEES FOR COLORADO MESA UNIVERSITY
Debt Service Coverage - Intercept Only

Aggregate debt capacity is roughly $43mm based on Net Revenue Available for Debt Service of $21.8mm - To the extent this number is actually lower, debt capacity will be negatively impacted - Net Revenues Available for Debt Service must be at least $19.8mm in order to maintain a 1.50x Debt Service Coverage Ratio assuming the issuance

Fiscal Year	Intercept D/S Only	Net Revenues Available for D/S	2016 Proposed Bond Issuance	Capitalized Interest	Total D/S	D/S Coverage
2015						
2016	12,376,873	22,762,931	239,073	(239,073)	12,376,873	1.84
2017	12,364,009	22,762,931	978,025	(489,013)	12,853,021	1.77
2018	12,377,599	22,762,931	978,025		13,355,624	1.70
2019	12,383,913	22,762,931	978,025		13,361,938	1.70
2020	12,392,405	22,762,931	978,025		13,370,430	1.70
2021	12,405,874	22,762,931	978,025		13,383,899	1.70
2022	12,409,452	22,762,931	978,025		13,387,477	1.70
2023	11,558,581	22,762,931	978,025		12,536,606	1.82
2024	11,556,815	22,762,931	978,025		12,534,840	1.82
2025	10,976,726	22,762,931	1,558,025		12,534,751	1.82
2026	10,971,627	22,762,931	1,559,825		12,531,452	1.82
2027	10,969,071	22,762,931	1,565,625		12,534,696	1.82
2028	10,978,215	22,762,931	1,553,875		12,532,090	1.82
2029	10,969,175	22,762,931	1,561,125		12,530,300	1.82
2030	10,962,661	22,762,931	1,571,375		12,534,036	1.82
2031	10,976,923	22,762,931	1,554,375		12,531,298	1.82
2032	10,977,062	22,762,931	1,556,375		12,533,437	1.82
2033	10,970,370	22,762,931	1,560,875		12,531,245	1.82
2034	10,964,526	22,762,931	1,570,525		12,535,051	1.82
2035	9,713,461	22,762,931	2,819,125		12,532,586	1.82
2036	10,991,498	22,762,931	1,541,781		12,533,279	1.82
2037	10,986,714	22,762,931	1,547,250		12,533,964	1.82
2038	10,260,517	22,762,931	2,273,250		12,533,767	1.82
2039	8,988,462	22,762,931	510,500		9,498,962	2.40
2040	8,190,150	22,762,931	1,306,500		9,496,650	2.40
2041	8,176,805	22,762,931	1,317,500		9,494,305	2.40
2042	8,165,922	22,762,931	1,330,750		9,496,672	2.40
2043	-	22,762,931	2,101,000		2,101,000	10.83
2044	-	22,762,931	2,100,250		2,100,250	10.84
2045	-	22,762,931	2,100,000		2,100,000	10.84

Meets Minimum 1.50x Coverage Requirement

STATE OF COLORADO

JOINT BUDGET COMMITTEE
200 East 14th Avenue, 3rd Floor
LEGISLATIVE SERVICES BUILDING
Denver, CO 80203
Telephone 303-866-2061
www.tornado.state.co.us/gov_dir/leg_dir/jbc/jbchome.htm

DRAFT

January 12, 2016

Executive Director
Colorado Commission on Higher Education
1560 Broadway, Suite 1600
Denver, CO 80202

Dear Lieutenant Governor Garcia:

As you are aware, Colorado Mesa University (CMU) and Metropolitan State University of Denver (MSU) have lodged objections to the proposed higher education funding model "2.0" submitted for FY 2016-17. During its January 6, 2016 budget hearing, CMU also expressed concerns about the Department's proposed approach to tuition policy. The Joint Budget Committee is interested in further feedback from the Department about these issues.

Funding Allocation Model

We would prefer to receive a consensus funding allocation proposal, and we encourage you to continue to work toward that goal. Whether or not there is consensus, the JBC will consider if we wish to change the model components or settings for FY 2016-17 as part of our higher education figure setting process. To ensure we fully understand the advantages and disadvantages of making such changes, we would appreciate further input from you on the following points. Specifically, ***please explain the rationale for the funding model expert team and the Colorado Commission on Higher Education (CCHE) decisions on the following points.***

> **Weighted Credit Hours v. Mission Differentiation Factor:** Model version 2.0 removes the role and mission "weighted credit hour" factor and substitutes a new "mission differentiation" factor. This ties most role and mission funding to historic funding patterns, rather than actual services provided by an institution in any given year. CMU and MSU object that this change "locks in roughly 87 percent of the monies allocated to the role and mission category" and does not allow over $120 million of the total funding allocated to higher education to change based on growth in student populations and courses offered.

Other Role and Mission Components, such as number of campuses: Neither model version 2.0 nor 1.0 built in all of the factors outlined as components of role and mission in H.B. 14-1319. For example, no differential funding is provided related to numbers of campuses. CMU and MSU argue that this should be a factor in role and mission funding. Should numbers of campuses be included? What about other items listed under role and mission funding in the bill?

Prior Year versus Current Year Enrollment Data: Model version 2.0 uses prior year actual enrollment data to determine amounts that will be awarded for College Opportunity Fund (COF) stipends in the model, rather than using current year estimates. For example, FY 2014-15 data is used in the proposed funding allocation for FY 2016-17. CMU and MSU assert that it would be more appropriate to use current year (FY 2015-16) estimates.

Emphasis on Low-Income/Pell: Model version 2.0 provides a 10.0 percent add-on to the COF stipend for Pell-eligible students enrolled in an institution. It also provides a 60.0 percent add-on for graduations/transfers/retention of Pell-eligible students. CMU and MSU argue that the add-on for Pell-eligible student enrollment should be higher.

Tuition Authority

During the hearing, CMU President Foster indicated that the Department's proposed tuition policy approach reflects a new role for CCHE, *i.e.*, as he understands the proposal, CCHE will establish statewide tuition policy—a role that was previously reserved to the governing boards or the General Assembly. Our understanding is that CCHE wishes to submit an annual *proposal* on tuition policy that will be subject to further legislative action. Do you believe your approach reflects a new role for CCHE when compared to CCHE's role prior to S.B. 10-003? What is the same? Different?

Thank you for your assistance. We look forward to your response.

Sincerely,

Representative Millie Hamner
Chair