MEMORANDUM

JOINT BUDGET COMMITTEE

TO	Joint Budget Committee
FROM	Amanda Bickel, JBC Staff
DATE	February 14, 2024
SUBJECT	Colorado School of Mines Revenue Bond Intercept Request

REQUEST AND RECOMMENDATION: On January 11, 2024, the Capital Development Committee (CDC) considered and approved a request from the Colorado School of Mines to expand its debt under the Higher Education Revenue Bond Intercept Program (Section 23-5-139, C.R.S.) by $221.5 million to finance its Residence Hall 7 project.[1] Statutory provisions require approval from both the CDC and JBC. **JBC staff does not recommend approving this request based on the risk/reward profile for the State, but staff recognizes that approval would offer benefits for the Colorado School of Mines and its students by facilitating housing for sophomore students on campus at a lower interest rate than would otherwise be available. If the JBC does not approve use of the intercept program, staff anticipates that the Colorado School of Mines would proceed with the project at a debt service cost that would be $100,000-$200,000 per year greater.** This could drive an additional cost per resident of $125-$250 per semester (an increase of 3.5 to 7 percent) or less profit from the combination of housing/dining for the institution.

Once the Committee has taken a vote on this matter, staff will draft a letter reflecting the decision for the Chair's signature to the Colorado School of Mines and the Treasurer, with copies to the Colorado Commission on Higher Education, OSPB, and the CDC.

BACKGROUND ON THE INTERCEPT PROGRAM: The Higher Education Revenue Bond Intercept Program, first authorized in 2008 and most recently modified in 2022, enables the governing boards of higher education institutions to issue debt under the state's credit rating rather than their own. This reduces the cost of debt for governing boards but also makes the State responsible for making timely payments on the debt if the governing board is not able to do so. If this occurs, the State is authorized to recoup its expenditures from the affected governing board.

Pursuant to Section 23-5-139, C.R.S., 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 (i.e., a rating in the A or higher category)
2. A debt service coverage ratio of at least 1.5x (net revenue available for debt service/annual debt service) applied to all debt.
3. Pledged revenues for the issue of not less than: the net revenues of auxiliaries; 100% of tuition if an enterprise; indirect cost recovery revenues; facility construction fees designated for bond repayment; and student fees and revenues pledged to bondholders.[2]

---

[2] S.B. 22-121 loosened restrictions on institutional indebtedness by increasing the amount of tuition revenue to be pledged from 10 percent to 100 percent and thus increasing institutions' debt service coverage ratio.

4 Debt service payments for intercept bonds that do not exceed 75 percent of the governing board's most recent fiscal year state General Fund appropriation (amounts reappropriated to the Board).
5 Pre-approval from the State Treasurer and approval from the CDC and JBC.

Senate Bill 16-206 (a JBC bill) modified Section 23-5-139, C.R.S., to tighten the program and ensure that the legislature and the Treasurer's Office have better oversight and information on use of the intercept program, given that the State serves as the financial backstop for this debt. An annual report from the Treasurer's Office, received September 1 each year, provides each governing board's debt profile and outlines whether, at the time of the report, the governing board is qualified to participate in the program. Total outstanding obligations for state institutions under the intercept program, including future year principal and interest payments, total approximately $2.0 billion. Total institutional liabilities are approximately $5.8 billion once all debt is included. All of the governing boards participate in the intercept program, except the University of Colorado, which has had a credit rating higher than or equal to the State's.

COLORADO SCHOOL OF MINES REQUEST – SOPHOMORE HOUSING PROJECT: As reflected in a letter to the JBC dated January 16, 2024, the CDC supports the Colorado School of Mines expanded use of the intercept program for the following project.

Project Name	Location	Amount of Issuance
Residence Hall 7	Golden	$221,500,000
	Total	$221,500,000

The additional information below is from project plans submitted to the CDC and additional information provided to staff by the Colorado School of Mines.

Project Information
Mines currently houses freshmen and some upper division students on campus. Its submission to the CDC states that this project directly impacts sophomore students living in existing campus housing facilities and those that live off campus but would like to live on campus. Enrollment at Mines is increasing and is projected to increase for the next several years. As a result, Mines continues to offer new on-campus housing options as exemplified by new apartment-style residential facilities. In additional conversations, Mines staff have noted that with the additional capacity that would be provided by this new building, they would be able to require sophomores to live on campus.

The proposed new residence hall will accommodate ~800 beds with assorted support programming including fitness, dining, study spaces, and multi-purpose meeting and gathering spaces. The site program will include all site utilities, landscape development and strategies for addressing current and future pedestrian crossing of 19th Street towards the new development. Total gross square footage is expected to be approximately 312,500.

The cost of the project is very high: *$276,875 per new bed* ($221.5 million divided by 800 beds). School of Mines staff state that this is because of the costs associated with preparing the site, which is essentially raw land on a slope and parking to which they must add water, sewer, electricity, internet cables, etc.

Issuance information per submission to the CDC

- The project budget is $200 million, but the additional $22.5 million is to accommodate capitalized interest for the first few years of the project and the cost of issuance, offset by project fund investment earnings.
- The debt will be repaid by student room rental revenues. As this is an auxiliary project, tuition and fee levels are not expected to be impacted.
- Expected debt service will level out at approximately $13.3M per year with an assumed interest rate of around 4.7%. The payments are expected to continue for 35 years. The total debt service over the life of the project is projected to be $428.1 million.
- The debt repayment schedule attached, with a comparison to the debt payment cap allowed under the intercept program. As shown in the attachment, the payments will remain under the cap, but will take up much of the space under the cap, even at current state funding levels which are as high as they have been in over 20 years (inflation adjusted).
- Mines' intercept debt cap, based on 75.0 percent of its FY 2022-23 operating appropriation, was $22.7 million per year in debt payments subject to intercept. **With this proposed issuance, it will have $2.2 million or less in intercept capacity "space" between FY 2027-28 and FY 2039-40, i.e., this is essentially as high as it is able to go, based on current state funding levels.**

Additional Data

- Mines estimates that the new sophomore student housing will cost $7,000 per semester for a single and $6,100 per person for a double, excluding meal service.
- Additional Housing Financials data provided to JBC Staff (attached) indicates that the debt payments associated with this project are currently expected to exceed project revenue, although Mines' housing overall will remain in the black due to high revenue and low debt on existing housing and revenue from more students dining on campus.
- Mines has issued considerable debt in recent years outside of the intercept program. This includes issuing over $132 million in regular enterprise bonds in early 2024 (series 2023C) to expand apartment style housing (Mines Park).

ADDITIONAL BACKGROUND ON MINES' DEBT AND FINANCIAL PROFILE: In October 2023, Moody's provided an updated credit opinion for Mines of A1 stable, while Standard and Poor's issued a similar rating of A+. Both were issued in preparation for new debt issuance.[3] The School's CFO notes that with the issuance of additional debt, Mines' underlying S&P rating could slip a notch to "A" (similar to a Moody's A2). For comparison, the State of Colorado is a AA2, and is thus two levels above an A1 or three levels above an A2.

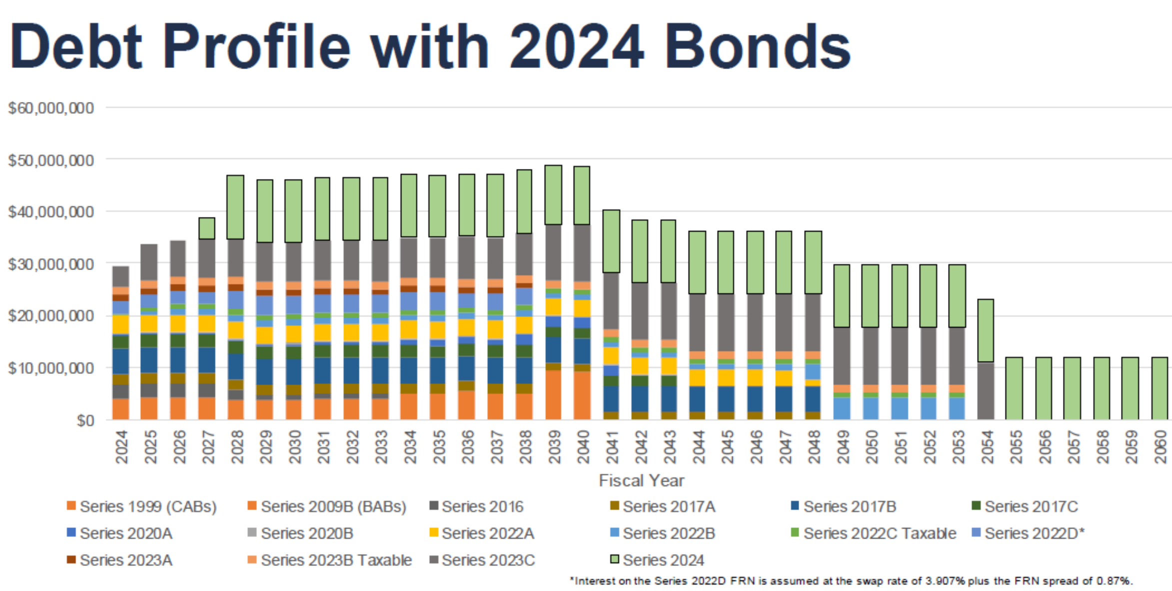
As noted in the Standard and Poor's Ratings Report dated October 13, 2023:

[3] Moody's rating system, highest to lowest, starts at AA1 and descends to AA2, AA3, A1, A2, A3, BB, etc. Standard and Poor's, highest to lowest, starts at AAA+ and descends to AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB, etc.

> "We assess Mines' enterprise risk profile as very strong, with excellent selectivity, solid growth in full-time enrollment, and sound governance and management. We assess the school's financial risk profile as strong, with healthy operating performance in recent years and robust research funding, and growing financial resources, **offset by a very high debt load and pro forma maximum annual debt service (MADS).**" [emphasis added]

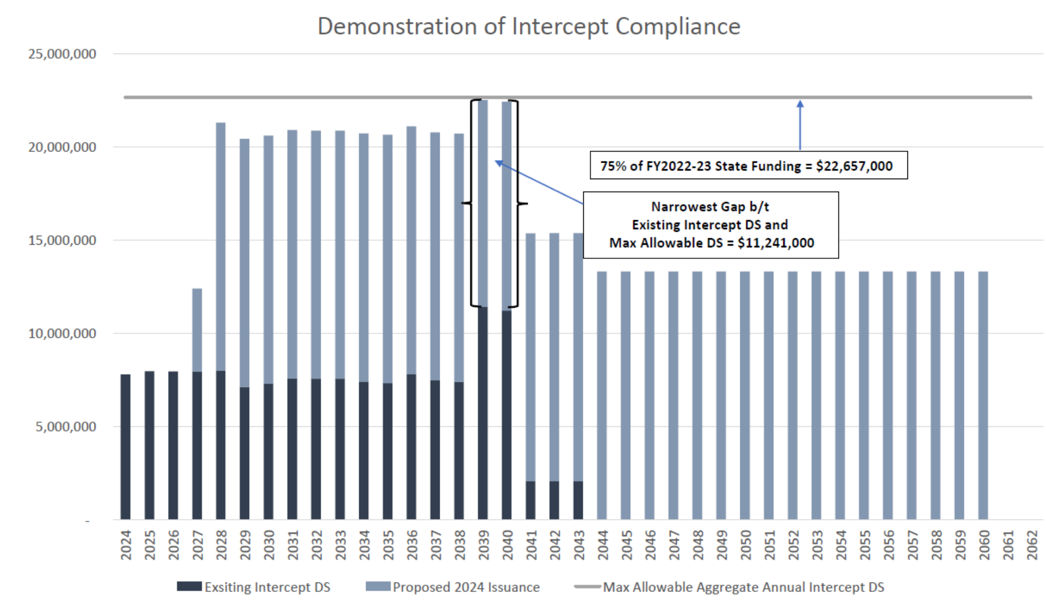
Data included in the Treasurer's September 1, 2023 report on the fiscal health and indebtedness of higher education institutions identified stand-alone debt of $447.5 million ad intercept debt of $131.6 million, with annual payments in the $25.0-$28.0 million per year range in most years.[4] But this is out of date, because of debt issued in late 2023, which would further expand with this proposed 2024 issuance.

The charts below, provided by the School of Mines, update this data to include the impact of additional bonds issued in late 2023 and the impact of the proposed new 2024 issuance.



---

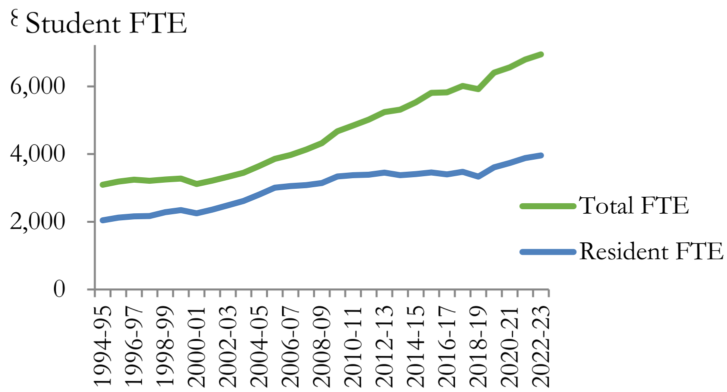
[4] State of Colorado, Office of the Treasurer, *Colorado Treasurer's 7th Annual Report, State Institutions of Higher Education*, FY 2022-23.
https://treasury.colorado.gov/sites/treasury/files/State%20of%20Colorado%20-%20Higher%20Education%20Annual%20Report%20North%20Slope%20Proposal%20-%207-5-2022vFINAL.pdf

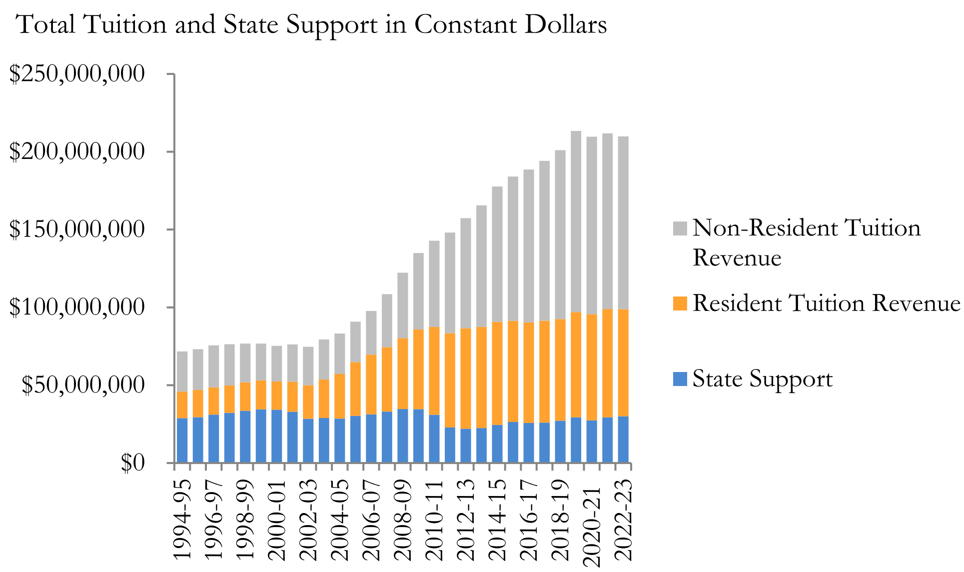


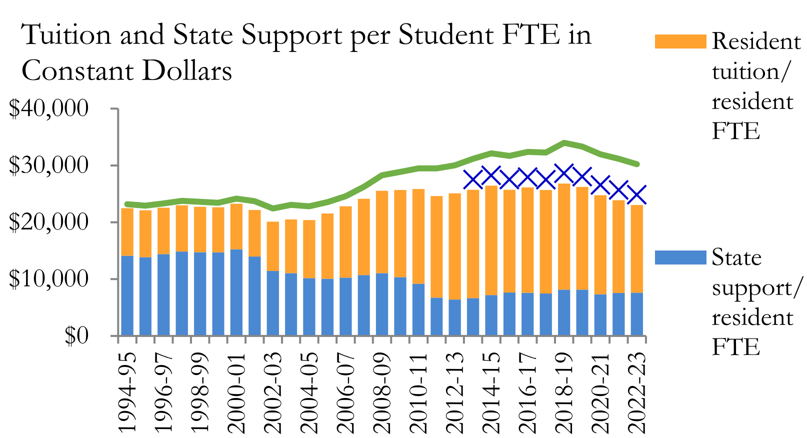
- As shown in the debt profile chart, with the proposed new debt issuance, debt payments are over $35 million without this new request and would **increase by a further $13.3 million per year or over 35.0 percent for total debt payments, while intercept debt would increase by over 175.0 percent.**

- The scale of overall payment is important to put in context. According to data submitted for constructing the composite financial index, Mines had revenues in FY 2022-23 of $416.6 million. Thus, **debt service payments in the range of $48.0 million per year will be significant—nearly 12 percent of FY 2022-23 annual revenue reported by the school of Mines' from** school operations, auxiliaries, and foundation revenue**.**

While this debt profile is concerning, as noted by credit reports, Mines is a strong operation and continues to grow, which both explains its highly leveraged position and mitigates related financial risks from a credit perspective. Much of this growth is among nonresident students. It is almost at the 6,000 undergraduate/8,000 total students where it currently expect to top out. Related to this growth, Mines' overall revenue has grown sharply, while per student operating costs have been declining.







STAFF RECOMMENDATION: Staff does not recommend the request. Staff recognizes the benefits of the construction project, which will provide student housing for sophomores and

has been approved by the CDC on the Colorado School of Mines "cash list", but staff recommends financing outside of the intercept program.

- The benefit of the intercept program for the institution is that it reduces interest rates for an institution because the State is acting as a financial "backstop". Mines' CFO projects that the difference for this project would be 5-10 basis points in cost or $100,000 to $200,000 in annual payments.

- The risk of the intercept program for the State lies in whether it will have challenges facing required payments if a higher education institution is unable to make them. Staff anticipates that this is most likely to occur in extraordinary situations, e.g., a natural disaster that causes an institution to close on a temporary or ongoing basis. However, if this were to occur, the State would be obligated to make payments. Current law restricts access to the intercept program to 75.0 percent of the General Fund reappropriated to the governing board in the most recent fiscal year from student stipends and fee-for-service contracts. This is intended to make it possible for the State to divert state operating support from the institution to make payments if necessary, but *this is a very high bar*. Further, the bar is set based on the appropriation at the time of issuance. Once a bond is issued the state obligation does not change.

- This is an expensive project which substantially increases indebtedness for the Colorado School of Mines. Because of the scale of the project and annual debt service, if approved, the State will be serving as a backstop for indebtedness that approaches 75 percent of the Colorado School of Mines current annual funding from the State of Colorado. **While the proposal is within the statutory cap for annual intercept debt payments (75.0 percent of the most recent annual appropriation of state funds), if state funding for higher education were to be cut (as has happened in the past) the obligation could exceed the state's annual operating appropriation for the Colorado School of Mines in future years.**

- **Staff is not convinced that the additional benefits associated with this request (reducing the cost of constructing student dorms) is worth the additional risk to the State.** Staff anticipates that this project will provide benefits for Colorado resident students, as well as the 43.0 percent of students at the School who are not Colorado residents.[5] However, students attending the Colorado School of Mines typically have more economic resources than most students, and this lodging will not be inexpensive.[6] Given this, staff is not convinced that this project should be prioritized for funding under the revenue bond intercept program.

Staff is not suggesting that this project itself is hugely risky or that that the Colorado School of Mines is not worth supporting. Mines is an impressive institution that benefits the state in many ways, including by serving as a center for technological innovation. It has grown steadily in recent years—even during the pandemic—and is able to bring in substantial student tuition from both

[5] FY 2022-23 enrollment data.

[6] Mines indicates that its lodging costs are typically lower than apartments in the surrounding areas, but dining costs add to student costs. On-campus housing and food at the Colorado School of Mines, as at most other institutions, is typically reported as more expensive than off-campus housing and food. When calculated in the cost of attendance at the School of Mines, the FY 2023-24 cost for a double dorm room and average meal plan (which is more modest housing than the new units to be built) is $16,820, compared to $14,679 calculated as the average amount for the 9 month school year for a student living off campus.

Colorado resident and non-resident students. Housing is in short supply in the Front Range, and staff has no real doubts that the proposed dorms will be occupied. However, the differential in interest rates under the intercept program versus if Mines' uses its underlying credit rating speaks to the benefit that the State provides as a "backstop" for bonds issued under the intercept program. In this particular situation, staff is not convinced that the reward is great enough for the additional risk to the State.

Housing *and Dining* Financials

Revenue	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Existing Housing	$18.6	$18.9	$19.5	$20.1	$20.7	$21.3	$21.9	$22.6	$23.3	$23.9	$24.7
Mines Park	4.1	3.0	3.5	13.9	14.5	14.9	15.4	15.9	16.3	16.8	17.3
New Sophomore Housing					9.7	10.0	10.3	10.6	10.9	11.2	11.6
Dining	10.5	10.9	11.4	11.8	12.3	12.8	13.3	13.8	14.4	15.0	15.6
Total Revenue	**$33.2**	**$32.8**	**$34.4**	**$45.8**	**$57.1**	**$59.0**	**$60.9**	**$62.8**	**$64.9**	**$66.9**	**$69.1**
Operating Expenses / R&R*	**$17.0**	**$17.2**	**$17.6**	**$20.8**	**$24.0**	**$24.8**	**$25.6**	**$26.5**	**$27.4**	**$28.3**	**$29.3**
Debt Service											
Existing Housing	$9.8	$9.9	$10.0	$10.0	$10.5	$10.2	$10.1	$10.3	$10.5	$10.5	$10.5
Mines Park	1.6	6.7	9.7	9.9	10.3	10.6	10.9	10.9	10.9	11.0	11.0
New Sophomore Housing					4.0	12.1	12.1	12.1	12.1	12.1	12.1
Dining	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Total Debt Service	**$12.1**	**$17.3**	**$20.4**	**$20.6**	**$25.6**	**$33.6**	**$33.8**	**$34.0**	**$34.2**	**$34.2**	**$34.3**
Surplus/(Deficit)	**$4.1**	**($1.7)**	**($3.7)**	**$4.4**	**$7.6**	**$0.5**	**$1.4**	**$2.3**	**$3.2**	**$4.3**	**$5.5**
Ending Fund Balance	**11.8**	**10.2**	**6.5**	**11.0**	**18.5**	**19.1**	**20.5**	**22.8**	**26.0**	**30.4**	**35.9**