State Treasurers Office

Presentation to the Joint Budget Committee

Higher Education Revenue Bond Intercept Program Discussion

January 14, 2014

State Financial Management:
Who Manages the State's Financial Obligations?

Before SB 12-150: the State's financial obligations were scattered and decentralized:

- Colorado was an outlier compared to other states with no entity who organized and managed debt or financial obligations.
- Ratings agencies had no centralized point of contact for the State's finances
- State's debt and financial obligations were not managed as a "whole" portfolio,
- Colorado lacked any oversight to ensure SEC and IRS-required post-issuance requirements

After SB 12-150: The State established a centralized point of contact for the issuance and management of its financial obligations:

- Stability: Market and credit agencies view State as an organized financial issuer
- Savings opportunities: Oversight creates opportunities for savings through refinancings and identifying efficiencies in the financial management process
- Global Management: State's debt and financial obligations were not managed as a "whole" portfolio,
- Compliance: Colorado now in 100% compliance with annual SEC and IRS-required post-issuance requirements

Debt Consolidation Successes: SB 12-150

Highlights of successes after consolidating the State's financial management:

- *Policies and Procedures:* The Treasurers Office promulgated the State's first State Public Financing Policy (or "debt" policy)
- *Compliance:* The Treasurers office organized an organizational overhaul of the State's post-issuance compliance procedures
  - Hired DAC Bond, a company to help facilitate transparency of financial issuance and post-compliance activities to financial markets and the Municipal Securities Rulemaking Board
  - For first time, the State is 100% in compliance with post-issuance requirements
- *Savings:* Over the last 18 months, the Treasurer's office has identified several refinancing opportunities that saved the State over $8 million
  - CU Fitzsimons COP Refunding, Series 2013 ($4.67m in savings)
  - CDOT TRANS Refunding, Series 2013 ($2.04m in savings)
  - CSP II Refinancing/Restructuring, Series 2013 ($1.5 million in cash flow savings, restructured to help find new tenant)
- *Efficiencies:* In process of streamlining document process and establishing qualified pools of financial services for the State

State Treasurer's Scope of Financial Management

Who is in? Who is out?

The State Treasurer manages any financial obligation that is a direct State obligation, paid by pledged State revenues, generally subject to annual appropriation (ask yourself: is the State seal on this transaction?):

In:

- FML Higher Ed COPs
- CDOT TRANS
- Judicial/History COPs
- BEST COPs
- ETRAN/GTRAN Short Term Notes
- Agriculture COPs

Out:

- Higher Ed Revenue Bonds (Intercept and non-Intercept)
- CDOT Bridge Enterprise Revenue Bonds
- School District Moral Obligation Bonds
- Charter School Moral Obligation Intercept Program

Higher Education Revenue Bond Intercept Program

What is the Higher Ed Revenue Bond Intercept Program?:

- •The Intercept program is a credit enhancement program for Higher Education institutions
- •Primary benefit to Higher Ed institutions is substantial interest rate savings based on the State's credit rating
- •Estimated interest rate savings of the Intercept program: *Roughly $63 million*

What if a Higher Ed institution cannot pay their debt service?:

- •Paying agent or institution notifies State Treasurer
- •State Treasurer sends paying agent "immediately available funds" sufficient to pay principal and interest amounts owed
- •State Treasurer recovers that amount through withholding the institution's fee-for-service allocation

Higher Education Revenue Bond Intercept Program

Recent Improvements – SB 13-199

SB 13-199: Modifying the formula for qualifying Higher Education Intercept Program participants

- Sponsored by the Capital Development Committee, this bill helped re-define debt capacity along the lines of an industry standard.
- Original formula was based on fee-for-service – a line item with no correlation to an institution's overall financial health.

Modified formula for Intercept Program is now a two-pronged test to emphasize financial health:

1. Debt capacity is defined as 150% "coverage" of available revenue versus annual debt service
2. Requires any Higher Ed institution to have a rating of at least single-A by a nationally recognized rating organization.

Higher Education Revenue Bond Intercept Program
TABOR Compliance

The Higher Education Intercept Program is viewed as TABOR-compliant for the following reasons:

- Intercept program is not viewed as an obligation; rather an *advance* of funds already allocated through fee-for-service line item
- The State Treasurer would essentially withhold money already allocated and in its possession which would otherwise have been paid to the institution.
- Intercept payments by the State Treasurer on behalf of an institution does not constitute a multi-fiscal year obligation, and is contingent on "*immediately available funds"* and reimbursed by that institution's fee-for-service line item.