

**COLORADO GENERAL ASSEMBLY  
JOINT BUDGET COMMITTEE**



**INTERIM SUPPLEMENTAL and HIGHER EDUCATION  
REVENUE BOND INTERCEPT PROGRAM REQUESTS  
FOR FY 2014-15**

**CAPITAL CONSTRUCTION**

**JBC Working Document - Subject to Change  
Staff Recommendation Does Not Represent Committee Decision**

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## **Interim Supplemental Requests**

### **INTERIM SUPPLEMENTAL REQUEST #1 DEPARTMENT OF AGRICULTURE, DEPARTMENT OFFICE CONSOLIDATION (COP PAYMENTS)**

	<b>Request</b>	<b>Recommendation</b>
<b>Total</b>	<b><u>\$528,063</u></b>	<b><u>\$528,063</u></b>
FTE	0.0	0.0
General Fund	0	0
Cash Funds	528,063	528,063
Federal Funds	0	0

<b>Does JBC staff believe the request satisfies the interim supplemental criteria of Section 24-75-111, C.R.S.?</b> [The Controller may authorize an overexpenditure of the existing appropriation if it: (1) Is approved in whole or in part by the JBC; (2) Is necessary due to unforeseen circumstances arising while the General Assembly is not in session; (3) Is approved by the Office of State Planning and Budgeting (except for State, Law, Treasury, Judicial, and Legislative Departments); (4) Is approved by the Capital Development Committee, if a capital request; (5) Is consistent with all statutory provisions applicable to the program, function or purpose for which the overexpenditure is made; and (6) Does not exceed the unencumbered balance of the fund from which the overexpenditure is to be made.]	<b>YES</b>
<b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b> [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]	<b>YES</b>
JBC staff and the Department agree that (1) this request meets the interim supplemental criteria of Section 24-75-111, C.R.S., and (2) this request is the result of a technical error.	

**Department Request:** The Department of Agriculture requests \$528,063 cash funds spending authority to pay the second year of 21 annual lease payments for its Department Office Consolidation request.

**Staff Recommendation:** Staff recommends that the Committee approve this request.

*The rules governing interim supplementals in Section 24-75-111 (5), C.R.S., require the Committee to introduce all interim supplementals that it approves.*

**Staff Analysis:** The Department of Agriculture's COP issuance was authorized in H.B. 13-1234 for the purchase of a new building that consolidated the Department's Denver metro offices in a single facility located in Broomfield. The Department failed to request spending authority during the FY 2014-15 capital budget process for the second year of COP payments. All items funded in the capital construction budget, unlike operating budgets, require an annual request. The Department plans to seek FY 2015-16 spending authority through the upcoming budget process. The Department's semiannual COP payments for FY 2014-15 are due on November 15,

2014, and May 15, 2015. Due to the payment scheduled in November, staff recommends that the Committee approve the Department's request as an interim supplemental.

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## **Higher Education Revenue Bond Intercept Program Requests**

### **RED ROCKS COMMUNITY COLLEGE – STUDENT RECREATION CENTER**

**Department Request:** The Department of Higher Education has requested, and the Capital Development Committee has approved, spending authority under the Revenue Bond Intercept Program for a Red Rocks Community College (RRCC) project to construct a 42,000 GSF student recreation center on the Lakewood campus, renovate 3,000 GSF of existing recreational space to create a multipurpose meeting room, and enlarge and improve an existing outdoor recreation field.

The project cost and anticipated bond principal is \$15,809,437. The payment is to be from a student fee approved in spring 2014. The bonds will be issued for a period of 30 years at an anticipated rate of 4.75 percent, with an average anticipated bond payment of \$1.0 million per year.

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 regarding the project, with written comments,” to the CCHE. The CDC has approved the requested project.

**Staff Recommendation:** Based entirely on the Higher Education Revenue Bond Intercept Program analysis, staff recommends that the Committee approve the request.

The community college system is financially strong and has little debt overall so risk to the State is minimal. Issuing debt under the intercept program reduces the institution's borrowing cost. If the JBC were to reject this request, the community college system would still be able to issue the debt but would do so at a higher cost.

Staff has also included additional analysis regarding the increase in student fees which will be used for repayment of this capital project. The higher education analyst will provide additional background on institutional fees during the FY 2015-16 higher education briefing but notes, with respect to this request, that the General Assembly no longer has a mechanism for restricting

institutional fees through the appropriations process. The JBC could express concerns about the fees, but rejecting this request would not eliminate the fees.

## **Staff Analysis:**

### **Higher Education Revenue Bond Intercept Program Analysis**

Pursuant to Section 23-1-106 (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 percent 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 the institution fails or indicates that it will fail to meet a bond payment for a bond issued under the intercept program, 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.

*Staff has recommended that the JBC scrutinize revenue bond intercept program requests more closely than in the past, in light of the financial challenges facing some institutions. Thus, the analysis below examines the institution's financial position and ability to pay the bond. Staff expects to use a similar approach to analyze all requests under the Intercept Program.*

#### **The analysis considers:**

- **A credit rating and debt service coverage ratio analysis of the proposed issue pursuant to Section 23-5-139, C.R.S. (Revenue Bond Intercept Program).**
- **The institution's Composite Financial Index (as defined by the Higher Education JBC staff analyst) for FY 2011-12 and 2012-13, 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 2014-15) and the existing and proposed annual payment obligations under the revenue bond intercept program.**

### **Credit Rating and Debt Service Coverage Ratio (Statutory) Analysis**

Based on the \$21.0 million systemwide revenue bonds issuance in 2013, the community college system (CCCOES) was rated an Aa3 with stable outlook by Moody's. The bonds issuance identified a debt service coverage ratio of 8.72x as of the end of FY 2012.

### **Higher Education Composite Financial Index (CFI)**

The higher education staff analyst reports that CCCOES had a Composite Financial Index (CFI) in FY 2011-12 of 5.9, the strongest of all of the institutions and well above the threshold for moderate financial health of 3.0. The school's CFI has fallen to 4.4 for FY 2012-13, but remains very solid. Its greatest strength is in its debt management (expendable assets/debt), which reflects the very conservative management of the system with respect to taking on debt.

### **Impact of New Bond on CFI**

CCCOES reports that the requested increase in bonding for RRCC is expected to increase debt service by about \$1,000,000 annually. The \$15.8 million new debt for the proposed facility reflects an increase of about 19 percent in overall FY 2012-13 capital debt for the community college system of \$85 million and the \$1,000,000 in increased payments would represent an increase of about 25.6 percent over the 2013 bond payments of \$3.9 million. **These adjustments would be expected to reduce the system's overall composite financial index rating slightly, to 3.9, absent other changes; however fee revenue could help to offset this.**

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

CCCOES indicates that its current bond obligations authorized under the intercept program total \$13.9 million, representing 16.4 percent of its overall bond obligations. Annual payments on the intercept bonds are \$1.7 million in 2014. The request would increase this by 59.8 percent. The following table shows the actual FY 2013-14 payment, increased by \$1,000,000, and compares it to the FY 2014-15 General Fund appropriation for the system. As shown, **with this addition, total annual intercept payment obligations would be 1.9 percent of the anticipated FY 2014-15 General Fund appropriation for the community college system.** *The General Fund appropriation is clearly more than adequate to cover any potential bond-payment shortfall in a worst-case scenario in which the intercept would be applied.*

Actual intercept payment for FY 2013-14	\$1,671,055
Additional projected payment, new bond	<u>1,000,000</u>
Total projected payment	2,671,055
General Fund appropriation FY 2014-15	\$137,465,925
Projected payment as percentage GF approp.	1.9%

### **Additional Considerations:**

#### **Student Fees**

In a June 11, 2014 presentation to the State Board for Community Colleges and Occupational Education, RRCC identified the following specifics related to student fees proposed to be used for repayment of this capital project:

- Student Fees for Capital Construction - \$70 per fall and spring semester (\$42 summer)
- Student Fees for Project Operating - \$45 per fall and spring semester (\$27 summer)

Additionally:

- The construction fee is expected to start spring semester 2016 and continue through 2044.
- The operating fee is expected to start spring semester 2017, continue permanently, and may increase annually at the rate of inflation.
- RRCC also reported that students approved the new fee for the project in a vote taken between April 28<sup>th</sup> and May 4<sup>th</sup>, 2014. Ballots were cast by 441 students (approximately 5% of the RRCC headcount), and the measure passed with 309 (70%) voting yes and 132 (30%) voting no.

The following tables outline the proposed fee increases, the comparison with current fees, and a survey of student fees across the community college system.

<b>Proposed Student Fees for Capital Construction and Project Operating</b>				
	<b>Fall</b>	<b>Spring</b>	<b>Summer</b>	<b>Total</b>
Capital Project Fee	\$70	\$70	\$42	\$182
Project Operating Fee	45	45	27	117
<b>Total for 30 Credit Hours</b>	<b>\$115</b>	<b>\$115</b>		<b>\$230</b>

<b>Capital Project Fees comparison with Current Student Fees (30 Credit Hours per Academic Year)</b>						
	<b>FY12-13</b>	<b>FY13-14</b>	<b>FY14-15</b>	<b>FY15-16</b>	<b>FY16-17</b>	<b>FY17-18</b>
Current <sup>/1</sup>	\$285	\$286	\$286	\$286	\$286	\$286
With Capital Project <sup>/2</sup>	285	286	286	356	471	516
Additional Fees	\$0	\$0	\$0	\$70	\$185	\$230
Percentage Increase	0.0%	0.0%	0.0%	24.5%	64.7%	80.4%

<sup>/1</sup> Fees are shown remaining at FY13-14 level for purposes of comparison.

<sup>/2</sup> Includes operating fee beginning Spring 2017.

<b>Community College Student Fees FY 2013-14 (30 Credit Hours per Academic Year)</b>	
<b>Institution</b>	<b>Student Fees</b>
Arapahoe Community College	\$174
Colorado Northwestern Community College	280
Community College of Aurora	189
Community College of Denver	800
Front Range Community College	282
Lamar Community College	405
Morgan Community College	177

*JBC Staff Interim Supplemental Recommendations: FY 2012-13*  
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Northeastern Junior College	599
Otero Junior College	292
Pikes Peak Community College	288
Pueblo Community College	537
Red Rocks Community College	286
Trinidad State Junior College	434
<b>Average Student Fees</b>	<b>\$365</b>
<b>Median Student Fees</b>	<b>\$288</b>

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	FY 2013-14	FY 2014-15	Fiscal Year 2014-15 Interim Supplemental		
	Appropriation	Appropriation	Requested Change	Recommended Change	New Total with Recommendation

## CAPITAL CONSTRUCTION

### Interim Supplemental #1 - Department of Agriculture, Department Office Consolidation (COP Payments)

#### (1) Department of Agriculture

Department Office Consolidation	2,800,000	N.A.	528,063	528,063	528,063
FTE	<u>0.0</u>		<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Capital Construction Fund	0		0	0	0
Cash Funds	2,800,000		528,063	528,063	528,063
Reappropriated Funds	0		0	0	0
Federal Funds	0		0	0	0

<b>Totals</b>					
CAPITAL CONSTRUCTION					
TOTALS for ALL Departmental line items	283,748,966	492,833,491	528,063	528,063	493,361,554
FTE	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Capital Construction Fund	188,069,493	364,420,213	0	0	364,420,213
Cash Funds	86,298,813	116,124,738	528,063	528,063	116,652,801
Reappropriated Funds	7,113,670	8,566,515	0	0	8,566,515
Federal Funds	2,266,990	3,722,025	0	0	3,722,025

Key:

"N.A." = Not Applicable or Not Available