



Joint Budget Committee Staff

Memorandum

To: Members of the Joint Budget Committee
From: Name, JBC Staff (303-866-4960)
Date: 1/24/2024
Department: Department of Higher Education
Subject: Staff Comeback – Colorado Mesa University Revenue Bond Intercept request

CMU Revenue Bond Intercept

The JBC delayed action on Colorado Mesa University's proposal to expand its use of the Revenue Bond Intercept Program pending some additional information on the bond underwriting process.

New Information

In response to the Vice-chair's questions, the University provided the following additional information about the process.

- CMU will issue debt under a bond resolution approved by the Board of Trustees that defines the parameters of the bonds (maximum rate, maximum amount, etc.) and the revenues pledged to cover the debt service.
- The revenues pledged to both existing and new debt service under our bond resolution include the net revenues of all of our auxiliary activities collectively
- As part of the issuance process, CMU will undergo a ratings review with Moody's that includes:
 - A comprehensive ratio analysis by Moody's of our audited financial statements
 - Review of our enrollment and housing trends by Moody's, including leading indicators for Fall 2025 enrollment such as applications, admissions, and housing contracts
- In addition, there will be a Preliminary Official Statement filed with an investor repository and an Official Statement filed with the Electronic Municipal Market Access depository in compliance with the Securities and Exchange Commission Rule 15c2-12. Both the Preliminary and final Official Statement will be reviewed and approved by
 - CMU's Independent Registered Municipal Advisor, North Slope Capital
 - CMU's bond counsel, Kutak Rock
 - The bond underwriter, Jeffries
 - Underwriter bond counsel, Hogan Lovells US LLP

JANUARY 23, 2025

- The Moody's ratings process and Preliminary Official Statement filing will be completed before the underwriter (Jeffries) offers bonds for sale to investors

Original Recommendation

→ CMU Expanded Use of Revenue Bond Intercept Program

Request

On December 17, 2024, the Capital Development Committee (CDC) considered and approved a request from Colorado Mesa University (CMU) to expand its debt under the Higher Education Revenue Bond Intercept Program (Section 23-5-139, C.R.S.) by \$80.0 million to finance two projects. Statutory provisions require approval from both the CDC and JBC.

Recommendation

JBC staff recommends that the JBC approve the request.

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:

- 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)
- A debt service coverage ratio of at least 1.5x (net revenue available for debt service/annual debt service) applied to all debt.
- 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.
- 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).
- Pre-approval from the State Treasurer and approval from the CDC and JBC.¹

¹ Pre-approval to a specified amount is included as part of annual reports from the Treasurer on the institutions of higher education.

JANUARY 23, 2025

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. Senate Bill 22-121 reduced restrictions on institutional indebtedness by increasing the amount of tuition revenue to be pledged from 10 percent to 100 percent. This greatly increased institutions’ debt service coverage ratios for the intercept program, making bonds more marketable and improving rates. However, the change also facilitates expanded use of the intercept program, since meeting the 1.5x coverage ratio for new issuances presents less of an obstacle. It thus makes other program constraints—including the JBC’s approval—particularly important.

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. Based on data provided by the Treasurer’s Office for the 2024 report, *state institutions have outstanding principal and interest obligations of \$6.1 billion. This includes \$2.3 billion in obligations issued under the higher education revenue bond intercept program, which are issued based on the State’s Aa2 rating, rather than the underlying bond rating of the institution. 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 Mesa University Request: *CMU seeks expanded use of the intercept program by up to \$80.0 million for issuances for the two projects shown below, based on the attached letter dated January 13, 2025, from the CDC. The JBC must also review the request and approve it for CMU to expand its use of the intercept program.*

Project	Location	Amount
Centennial Village Student Housing	Grand Junction	\$53,600,000
Formation District Dining Hall	Grand Junction	22,500,000
Total		\$76,100,000

The additional information below is from project plans submitted to the CDC and additional information provided to staff by CMU.

The key driver of both the housing and dining projects is the need for additional on-campus housing and dining at CMU. Current housing demand is outstripping supply to such an extent that the campus is housing students in hotels this year. CMU’s freshman class grew over 30 percent above prior years, leading the administration to double-up 80 single rooms and house 88 upper-class students in hotels off-campus.

Data submitted to the CDC indicates that CMU currently has 2,928 beds in on-campus housing with total undergraduate headcount enrollment of 8,140 on opening day in 2024, i.e., the school houses about 36.0 percent of its undergraduate student population, including an estimated 64.0 percent of incoming freshmen, 51.0 percent of second year students, and 9.0 percent of other students. Even assuming relatively conservative growth from here on, with 72

JANUARY 23, 2025

percent freshman to sophomore retention and 1% annual ongoing growth in new freshmen and transfers, CMU anticipates that its undergraduate headcount will grow to 9,539 by 2028.²

Centennial Village Student Housing

This project was originally approved by the CDC for the 2-year cash fund list and for use of the intercept program on October 29, 2024. However, the intercept request was then withdrawn by CMU in letters to the CDC and the JBC dated November 21, 2024, so that the project could be bundled with the Formation District Dining Hall project, discussed below, for intercept consideration.

The project constructs a 104,000-GSF, 316-bed student housing project.³ The preliminary project plan is for a four-story building that includes apartments of various sizes, each with a common kitchen and living area. The preliminary plan includes: 30 6-bed apartments (each with two double bedrooms, two single bedrooms, and two bathrooms); 10 4-bed apartments (each with one double bedroom, two single bedrooms, and two bathrooms); 32 3-bed apartments (one single, one double, one bath), plus a two-bedroom apartment for a resident director and three studios for resident assistants.

The project proforma reflects per-bed student charges of \$14,719 in the first year, which does not include dining charges.⁴ Assuming a \$50.0 million construction cost and interest at 4.5 percent on 30-year bonds, the project proforma provided by CMU suggests that the project will be able to cover costs, though net profits will be modest. CMU is hoping to complete the project by August 2025, though that seems ambitious.

² Excluding high school students and “golden” scholars.

³ Excludes resident director apartment and three resident assistant rooms, which bring the total to 320 beds.

⁴ Students will be required to enroll in a minimum 7 meal per week plan.

Proforma - Centennial Housing Project				
	Year 1 Projection	Year 3 Projection	Year 5 Projection	Year 10 Projection
Revenue				
Housing Cost per bed	14,719	15,921	17,220	20,950
Meal Plan	-	-	-	-
Expected Anticipated Beds	294	294	294	294
Total Revenue (less tech fee)	\$ 4,327,523	\$ 4,680,649	\$ 5,062,590	\$ 6,159,415
Expenditures				
Staff Compensation	41,600	44,995	48,666	59,210
Student Wages	51,000	55,162	59,663	72,589
Student Stipends	3,000	3,245	3,510	4,270
Other Operating	7,575	8,193	8,862	10,782
Utilities	151,067	163,394	176,727	215,015
Cable	12,000	12,979	14,038	17,080
Insurance	20,600	22,281	24,099	29,320
Financial Aid	51,500	55,702	60,248	73,301
Admin Recharge	18,399	19,900	21,524	26,187
Maint Recharge	132,600	143,420	155,123	188,731
Telecom	2,000	2,163	2,340	2,847
Foodservice	446,250	482,664	522,049	635,153
Total Expenditures	\$ 937,590	\$ 1,014,098	\$ 1,096,848	\$ 1,334,484
Net before Debt	\$ 3,389,933	\$ 3,666,551	\$ 3,965,742	\$ 4,824,931
Annual Debt Service	\$ 3,283,321	\$ 3,283,321	\$ 3,283,321	\$ 3,283,321
Net after Debt	\$ 106,612	\$ 383,230	\$ 682,421	\$ 1,541,611

Analysis - Assumptions		
Adjuster	Select	Insert Value
Housing Rate	Orchard Single	
Lease Length	12 Month Lease Rate	
Number of Beds	300	
Occupancy Rate	98%	
Meal Plan	No Meal Plan	

Total Debt		
Construction Only		\$ 50,000,000
Capitalized Interest & Closing Cost		\$ 4,000,000
(less) Cash		
Total Financed Amount		\$ 54,000,000
Interest Rate		4.50%
Period		360
Annual Debt Service Payment		\$ 3,283,321

Annual Debt Service Sensitivity		Change
Project Cost	\$ 500,000	30,401
Per Rate Change	0.25%	331,681

All-In Cost per Bed	
Beds as Built	300
Total Cost	\$ 54,000,000
Price per Bed	\$ 180,000

Formation District Dining Hall

Until now, CMU has had a single dining hall that serves the entire campus. However, overall growth at the campus, including new freshmen and sophomores living in on campus housing that requires associated meal plans, is exceeding the capacity of the single dining hall to meet demand. As noted in the request to the CDC, “CMU’s Food Services resources are strained by demand to fulfill meal plans and provide timely meals for students, faculty, staff, and guests, leading to long lines, extended wait times, and challenging seating capacities during peak hours. Additionally, significant back-of-house issues, such as the need for increased dry storage, refrigeration, and freezer capacities, have resulted in shortages and delivery challenges, among other related concerns.”

The project constructs a new, 20,000-GSF dining hall on the west side of campus in an evolving, mixed-used area called the Formation District. The university expects the meal plan program to expand by 400-600 students, faculty, and staff over the next two years. The dining hall will be located adjacent to the Centennial Village student housing project.

The source of cash funds for the project is bonding backed by the Higher Education Revenue Bond Intercept Program, with an expected 30-year interest rate of 4.5 percent, to be repaid through meal plans and cash sales in the dining hall. As reflected in the proforma information below, dining services overall are generally a profit center, and CMU anticipates that additional sales will be sufficient to cover additional debt service costs, even in the first year the dining hall opens (projected to be FY 2025-26).

Proforma Estimate Summary - Total Campus Dining							
	Actuals FY 24	Inflationary Factors	Year 1 Projection FY 26	Year 3 Projection FY 28	Year 5 Projection FY 30	Year 10 Projection FY 35	
Revenue							
Gross Meal Plan Charges	11,147,827	5%	14,392,304	15,867,515	17,493,935	22,327,187	
Cash Sales							
Total Cash Sales	503,944		655,843	965,175	1,064,105	1,358,098	
<small>*Cash Sales are split between Sodexo; net of Sodexo fees and Franchise royalties</small>							
Total Revenue	\$ 11,651,771		\$ 15,048,147	\$ 16,832,690	\$ 18,558,040	\$ 23,685,285	
Expenditures							
Sodexo Contract [Food and Labor Cost]	5,854,608		8,309,148	9,597,066	10,580,765	13,504,035	
Facility Operating and Maintenance Expenses							
Professional Cleaning Costs	85,129	3%	100,000	204,000	212,242	234,332	
Utilities	257,755	3%	809,000	858,268	910,537	1,055,562	
Insurance Cost	4,881	10%	18,000	21,780	26,354	42,443	
Replacement/Upgrade Cost	7,324	30%	60,000	123,600	131,127	152,012	
Software and Hardware Contracts	98,857	3%	180,000	180,000	180,000	180,000	
CMU Administration	51,589		158,100	164,487	171,133	188,944	
Total Expenditures	\$ 6,360,145		\$ 9,634,248	\$ 11,149,201	\$ 12,212,157	\$ 15,357,328	
Net before Debt	\$ 5,291,626		\$ 5,413,899	\$ 5,683,489	\$ 6,345,884	\$ 8,327,957	
Annual Debt Service	\$ 2,369,810		\$ 4,730,022	\$ 4,730,022	\$ 4,730,022	\$ 4,730,022	
Net after Debt	\$ 2,921,816		\$ 683,877	\$ 953,467	\$ 1,615,862	\$ 3,597,935	

This Proforma Accounts for CMU Campus Dining as a whole. Currently, dining is beyond capacity with the single dining hall. The addition of the new facility will allow for extension of current dining as well as allow for additional meal plans and cash sales. This split dining proforma provides a holistic view at the costs associated with total campus dining.

Total Debt	
Construction Only - New Debt	\$ 22,500,000
Interest Rate	4.50%
Period	144
Annual Debt Service Payment - New	\$ 2,430,022
Estimated Annual Debt Service Existing	\$ 2,300,000

Key: Assumptions that can be updated and adjusted for ALL dining facilities
Assumptions that can be updated and adjusted for NEW dining facility

Assumptions		
Assumption	Total Amount	Annual % Increase
Meal Plan Need		5%
Gross Meal Plan Cost Adjustment		5%
Sodexo Contract Annual Adjustment		5%
Professional Cleaning Costs	\$ 200,000	2%
Equipment Replacement and Upgrades	\$ 600,000	30%
Insurance Cost	\$ 18,000	10%
Utility Cost	\$ 809,000	3%
Software and Hardware Contracts	\$ 120,000	3%
CMU Administration Cost	\$ 155,000	2%
Vendors in New Dining Hall		
	Qty	
Sodexo Partners	3	
Sodexo Franchises	3	

Meal Plans		
Meal Plan	FY 25 Need	FY 25 Cost
Unlimited Plan	1,516	\$ 5,959
The 17	555	\$ 5,820
The 14	358	\$ 5,542
Aspen/Wingate 7 Swipe	163	\$ 2,618
Total	2,592	

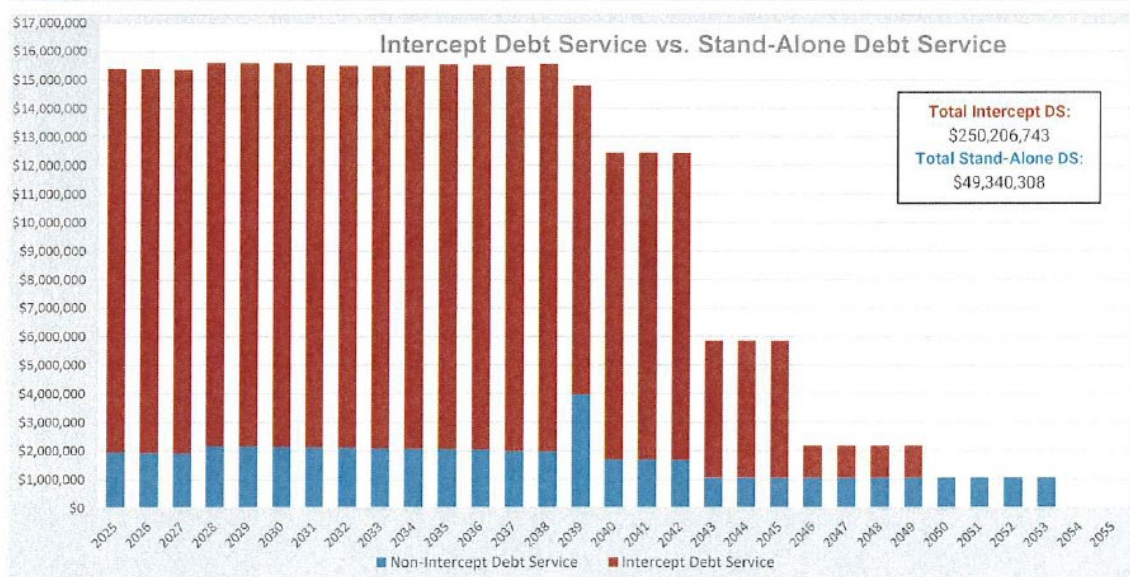
Sodexo Projected Cost Per Student	
Sodexo Estimated FY25 Cost	7,913,474
Food Estimated FY25 Sales	14,392,304
Cost Per Plan	\$ 5,553

Other Approvals/Requirements:

- As of the Colorado Treasurer’s 8th Annual Report on State Institutions of Higher Education Fiscal Year 2023/2024 (August 30, 2024), CMU was qualified to participate in the intercept program and had “pre-approval” from the Treasurer’s Office, based on various factors including its A2 credit rating from Moody’s.
- Based on the data provided by CMU, the increased debt service payments estimated at \$5.7 million for 30 years (approximately \$171 million) remains within the “pre-approval” of \$410.5 million in additional intercept debt reflected in the Treasurer’s report.
- If CMU’s total annual intercept debt payment increases to \$21.1 million, as would be anticipated with the addition of this issuance, staff anticipates that annual payments will remain within 75 percent of annual state operating appropriations at the time of issuance, as required by statute. CMU received \$49.2 million in appropriations for student stipends and fee-for-service contracts in FY 2024-25.
- The projects to be funded have been reviewed and approved by the Colorado Commission on Higher Education, as well as the CDC.

Additional Background on CMU Debt and Financial Profile: The chart below, from the Treasurer’s September 1, 2024 report on the program, shows CMU’s debt service obligations, most of which use state-backed intercept debt.

JANUARY 23, 2025



As shown, CMU’s annual net debt service payments are currently at \$15.4 million. As noted above, CMU’s proposal to increase its debt by up to \$80.0 million is expected to increase its annual debt service by approximately \$2.3 million for the new dining hall and \$3.4 million for the new dorm (\$5.7 million total), *representing a 37.0 percent increase*.

Based on financial statements, CMU’s gross revenue in FY 2023-24 was \$224.8 million. The table below (data included in the staff budget briefing) provides additional context on the scale of the new debt compared to CMU’s obligations. As shown, CMU is already quite leveraged, and these new projects will make it more so. However, this seems difficult to avoid given the school’s growth.

Debt Profile and Credit Ratings (Fall 2024)					
	Credit Rating Moody's	Total Outstanding Principal and Interest (Obligations)	Percent Intercept Debt (state- backed)	Total Debt Obligations/Total Annual Revenue ⁵	Annual Debt Payment/Total Annual Revenue ⁴
Colorado Mesa U	A2 (stable)	299,547,051	83.5%	133.3%	6.8%

In April 2024, Moody’s maintained CMU’s underlying **credit rating of A2**. This is significantly lower than the State rating of Aa2 that CMU may use under the intercept program but higher than the underlying ratings for Adams, Western, Fort Lewis, or the University of Northern Colorado. (Moody’s scale from highest to lowest: Aa1, Aa2, Aa3, A1, A2, A3, Baa1, etc.). The credit rating report noted CMU’s “solid market position and importance as a provider of higher

⁵ Revenue of \$224.8 million is based on data submitted for the Composite Financial Index calculation and includes operating and non-operating revenue and unrestricted foundation income.

JANUARY 23, 2025

education in the western portion of the state; consistently strong EBIDA margins⁶ averaging nearly 30% over the past 5 years; [and] continued growth of liquidity translating to a favorable 305 days cash on hand at 2023 fiscal year end.” Challenges include “high reliance on tuition and fees to fund operations; elevated financial leverage - total adjusted debt at nearly 2x operating revenue including a large net pension liability; and generally flat enrollment.”

Staff Recommendation: Staff recommends the request.

- As highlighted by Moody’s, CMU has been performing well as a business operation, with strong operating margins.
- There appears to be such large demand for housing at CMU that even if growth returns to the stable level seen prior to fall 2024 there should be sufficient demand for the new housing and dining.
- These projects are expected to cover costs and provide some net profits.
- Staff continues to be concerned about CMU’s degree of leverage, but this seems unavoidable given the growth in enrollment and housing demand.
- The proposed projects are consistent with plans approved by the Colorado Commission on Higher Education (CCHE) and the CDC.
- In general, housing students on campus corresponds to stronger student academic performance, and this has been CMU’s experience.

Staff has attached a draft letter to the Treasurer’s Office and the Colorado Commission on Higher Education for the Committee’s consideration.

⁶ A measure of profitability – revenue less expenses, excluding depreciation and amortization, divided by revenue.