



**Colorado  
Legislative  
Council  
Staff**

**SB16-204**

**FINAL  
FISCAL NOTE**

**FISCAL IMPACT:**  State  Local  Statutory Public Entity  Conditional  No Fiscal Impact

**Drafting Number:** LLS 16-1183  
**Prime Sponsor(s):** Sen. Lambert  
Rep. Rankin

**Date:** August 8, 2016  
**Bill Status:** Signed into Law  
**Fiscal Analyst:** Kori Donaldson (303-866-4976)

**BILL TOPIC:** HIGHER EDUCATION REVENUE BOND INTERCEPT PROGRAM

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue		
State Expenditures	Workload increase and potential impact on institutional cash fund expenditures.	
<b>Appropriation Required:</b> None.		
<b>Future Year Impacts:</b> Ongoing workload increase and potential expenditure impact.		

**Summary of Legislation**

This bill, **recommended by the Joint Budget Committee**, modifies the legislative and executive branch review and conditions of participation in the higher education revenue bond intercept program (intercept program). Specifically, the bill:

- limits participation in the intercept program to governing boards with total debt service payments — for all revenue bonds issued and anticipated to be requested under the program — of less than 75 percent of the most recent General Fund appropriation for stipends and fee-for-services contracts reappropriated to the board;
- changes how the debt service coverage ratio is calculated when determining whether a governing board qualifies to participate in the intercept program;
- clarifies an existing exception related to refunding debt that allows non-qualifying governing boards to participate in the intercept program;
- requires the State Treasurer to prepare an annual report to the Capital Development Committee (CDC), JBC, the Colorado Commission on Higher Education, and the Governor's Office of State Planning and Budgeting detailing each governing board's standing regarding various qualifying factors that must be met in order to participate in the program;
- requires the State Treasurer to issue an annual preapproval certificate to each governing board that meets the qualifying factors to participate in the intercept program. The preapproval certificate must include the total amount a governing board may borrow under the intercept program for a period of time specified in the report; and

- clarifies the role and timing of review and approval by the CDC and JBC for participation in the intercept program.

For the forecast period, the bill is not anticipated to change whether any currently qualifying governing board can participate in the intercept program.

## **Background**

A higher education institution may issue revenue bonds to finance a cash-funded capital construction project that has been approved by the CDC as part of a two-year projection of cash need. The bonds may be backed by the institution's credit rating, or the institution may opt to participate in the intercept program, which allows an institution of higher education to bond for capital projects using the state's credit rating. The intercept program directs the state treasurer to make payments of principal and/or interest on bonds on behalf of a state-supported institution of higher education in the event a higher education institution does not make a scheduled payment. Participation in the intercept program requires separate review and approval by the CDC and the JBC. Under current law, in order to qualify for participation in the intercept program, an institution must:

1. have a credit rating from one or more nationally recognized statistical rating organizations in one of the three highest categories, without regard to modifiers, and no credit rating below one of the three highest categories; and
2. have a debt service coverage ratio of not less than 150 percent. The debt service coverage ratio is calculated by dividing the net revenue available for annual debt service by the total amount of debt service subject to the intercept program, including any new debt proposed under the program.

## **State Expenditures**

The bill is anticipated to increase workload for several agencies, but this workload increase can be absorbed within existing appropriations. The bill may also affect cash fund expenditures for some higher education institutions.

**State Treasurer.** The additional reporting requirement created by the bill to issue preapproval certificates to institutions that qualify to participate in the intercept program will increase workload in the State Treasurer's Office. The office currently responds to requests from legislative staff to verify an institution's eligibility to participate in the intercept program before CDC and JBC review. Therefore, this fiscal note assumes that the workload increase will be minimal and can be absorbed within existing appropriations.

**Legislative staff.** The bill expands legislative review of higher education borrowing under the intercept program to include all new debt issuances, including financing the cash-funded portion of a state-funded project, refinancing existing debt that was issued outside the intercept program, and larger issuances comprised of many small projects. This additional review may increase workload for CDC and JBC staff. Any increase in workload can be absorbed within existing appropriations.

***Higher education institutions.*** The change in the legislative review process may cause some institutions to make different decisions about whether to borrow under the intercept program. For instance, an institution may opt to borrow using its own credit in order to expedite the issuance of new debt and take advantage of more favorable interest rates. This fiscal note assumes that an institution will choose to participate in the intercept program so long as it is determined to be fiscally advantageous to the institution.

**Effective Date**

The bill was signed into law by the Governor and took effect on June 6, 2016.

**State and Local Government Contacts**

Higher Education      Treasury