

MEMORANDUM

TO: Joint Budget Committee

FROM: Amanda Bickel, JBC Staff

SUBJECT: Higher Education Revenue Bond Intercept Request – Colorado Mesa University

DATE: April 23, 2014

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 two Colorado Mesa University (CMU) projects.

- Authority to spend \$4,800,000 of revenue bond proceeds subject to the intercept program (from an earlier issuance) on CMU's recreation center expansion.
- Authority for issuance of \$13,039,765 under the intercept program for a student housing expansion project.

The bond revenue represents only a portion of the overall project cost for the recreation center expansion of \$19,665,549. The balance required for the project will come from university reserves from auxiliary operations and as-yet-unidentified sources. The student housing expansion will be covered from student housing fees (CMU requires freshmen and sophmores to live on campus, with some exceptions).

Staff Recommendation: Staff recommends that the Committee approve the request. 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, with written comments to the CCHE.

The CDC has already approved the requested projects. The attached draft letter from the JBC to the CCHE, if approved, would enable CMU to proceed with the projects and the associated bonding for the second project.

Staff Analysis:

Pursuant to Section 23-11-106 (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% 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 it meets these requirements and participates in the Program, and if the institution indicates that it will fail to meet the required payment, 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, even if anticipated donations were not forthcoming. Staff expects to use a similar approach to analyze all requests under the Intercept Program.

The analysis considers:

- **The Treasurer's analysis of the proposed issue and compliance with Section 23-5-139, C.R.S. (Revenue Bond Intercept Program)**
- **The institution's Composite Financial Index 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.**

Treasurer's Statutory Analysis

The Treasurer has confirmed that CMU exceeds the minimum statutory requirements for the intercept program (1.5x coverage for bond payments and an "A" credit rating). CMU currently has, according to the treasurer:

2.27x coverage (or 227%); coverage would remain above 2.0 after the issuance of the new debt.
A2 credit rating (Moody's and Fitch's)

Composite Financial Index (CFI)

As reviewed in staff's budget briefing, CMU had a Composite Financial Index (CFI) in FY 2011-12 of 2.5, placing it somewhat below the threshold for moderate financial health of 3.0, but in a considerably stronger position than four other governing boards. The school's CFI has increased to 2.7 for FY 2012-13. CMU's greatest weakness is in its viability ratio (expendable assets/debt), which largely reflects the institution's rapid growth and its need to leverage itself to build new facilities for its growing student population. Because of this ongoing population growth, staff does not consider this ratio a cause for concern.

Impact of New Bond on CFI

CMU reports that the requested increase in bonding for the new housing is expected to increase debt service by just under \$800,000 annually. The \$13.1 million new debt for housing represents an increase of about 7.1 percent in overall FY 2012-13 debt for CMU of \$185 million and the \$800,000 in increased payments would represent an increase of about 6.8 percent in projected minimum annual bond payments for CMU of \$11.8 million in 2014. **These adjustments would be expected to reduce CMU's overall composite financial index rating slightly, to 2.6, absent other changes; however student housing fee revenue and ongoing growth at CMU could offset this.** In FY 2012-13, CMU debt totaled \$185 million. In 2014, its annual bond payments and debt amortization was projected to be \$11.8 million.

Annual General Fund appropriation versus Intercept Obligations

In response to staff questions, CMU indicated that its current bond obligations authorized under the intercept program total \$153,593,714, representing the majority of its overall bond obligations. Annual payments on the intercept bonds are \$8.9 million in 2014. The request would increase this by 8.9 percent. The table shows the current 2014 projected payment, increased by \$800,000, and compares it to the FY 2014-15 appropriation for CMU. As shown, **with this addition, total annual intercept payment obligations would be 44 percent of the anticipated FY 2014-15 General Fund appropriation for CMU.** The *General Fund appropriation still appears more than adequate to cover any potential bond-payment shortfall in a worst-case scenario in which the intercept would be applied.*

Estimated current intercept payment for 2015	8,931,347
Additional projected payment, new bond	<u>800,000</u>
Total projected payment	9,731,347
General Fund appropriation FY 2014-15*	22,027,251
Projected payment as percentage GF approp.	44.18%

*Includes appropriations in H.B. 14-1336 and set-aside by the JBC for S.B. 14-001

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DRAFT

April 23, 2014

Lt. Gov. Joseph A. Garcia
Executive Director
Colorado Commission on Higher Education
1560 Broadway, Suite 1600
Denver, CO 80202

Dear Lieutenant Governor Garcia:

Pursuant to the provisions of Sections 24-75-303 (3) and 23-1-106 (9) and (10), C.R.S., the Joint Budget Committee has reviewed two higher education revenue bond intercept projects proposed by Colorado Mesa University. One project remodels the primary campus recreation facility, with \$4,800,000 of the total \$19.7 million project to be paid from bonds previously issued under the revenue intercept program. The second project constructs a two-wing four-story, 234 bed dormitory using a revenue bond of \$13,039,765 to be paid from student housing fees. These projects were previously approved by the Capital Development Committee and the Colorado Commission on Higher Education.

After considering the information submitted by the Colorado Commission on Higher Education and the Capital Development Committee, as well as additional data assembled by our staff, the Joint Budget Committee approved this request.

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If you have any questions or concerns, please contact Amanda Bickel of our staff at 303-866-4960.

Sincerely,

Representative Crisanta Duran
Chair
Joint Budget Committee

cc: Senator Gail Schwartz, Capital Development Committee
Kori Donaldson, Capital Development Committee Staff
Mark Cavanaugh, Department of Higher Education
Tonya Covarrubias, Department of Higher Education
Pat Doyle, Colorado Mesa University
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