Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Room 029 State Capitol, Denver, CO 80203-1784
Phone: (303) 866-3521 • Fax: (303) 866-3855
lcs.ga@state.co.us • leg.colorado.gov/lcs

Memorandum

February 26, 2019

TO: Capital Development Committee

FROM: Bo Pogue, Senior Research Analyst, 303-866-5390

SUBJECT: Colorado Mesa University Intercept Project Approval

Summary

This memorandum summarizes the approval process for projects financed through the state's Higher Education Revenue Bond Intercept Program and details one intercept project submitted by Colorado Mesa University (CMU), which is pending approval by the Capital Development Committee (CDC).

Borrowing under the State Intercept Program

The Higher Education Revenue Bond Intercept Program allows the state to make necessary payments of principal and interest on revenue bonds, if needed, on behalf of a participating state-supported higher education institution. Under the program, an institution is permitted to bond for projects using the state's credit rating, which typically results in cost savings for the institution.

In order to participate in the program, an institution must meet certain requirements regarding its credit rating and its debt service coverage ratio. An institution must have a credit rating in one of the three highest categories from a nationally recognized statistical rating organization, without regard to modifiers within a category. If more than one organization has rated an institution, none of the ratings can be in a category below the three highest categories. An institution must also have a debt service coverage ratio of 1.5, measured by dividing net revenue available for annual debt service by the total amount of annual debt service plus the annual debt service to be issued.

The requirements to participate in the intercept program are established in law and verified by the Office of the State Treasurer in a report published by September 1 of each year. An excerpt of relevant sections of the 2018 report is included as Attachment A. The report itemizes the following for each state-supported higher education institution:

- the most recent credit rating or ratings;
- the debt service coverage ratio;

- the total amount of intercept bonds issued, including the anticipated payment schedule; and
- the total amount of revenue bonds issued, including the anticipated payment schedule.

Based on this report, the State Treasurer issues an annual preapproval certificate to each governing board that meets the statutory requirements to participate in the intercept program. The preapproval certificate includes the total amount of intercept bonds that a governing board may issue in the next year. For FY 2018-19, CMU's preapproval amount is $51,244,219. The institution is required to receive certification from the State Treasurer that it qualifies to participate in the intercept program prior to submitting a proposal to the CDC for review and approval. Any proposed new borrowing under the state intercept program is subject to approval by the CDC and the Joint Budget Committee (JBC), regardless of the cost of individual projects.

Other approval requirements. Intercept projects exceeding $2 million for new projects or $10 million for renovation projects must also be reviewed as part of an institution's two-year projection of cash need. In addition, the Colorado Commission on Higher Education must review and approve program plans for any new project costing more than $2 million that will be financed under the intercept program. Once an institution is prepared to issue intercept-backed bonds, it submits the proposed borrowing for separate review and approval by the CDC and the JBC.

Colorado Mesa University Intercept Project

CMU has submitted one project to the CDC for review and approval in February 2019 under the intercept program. A description of the project is detailed on the university's most recent two-year cash list, which is included as Attachment B. In addition to the preapproval requirements verified by the State Treasurer, current law specifies that a request for intercept project approval to the CDC must also include:

- the maximum amount of intercept bonds the governing board seeks to issue;
- the anticipated terms of the issuance, including the maximum annual debt service; and
- if available, a copy of the governing board's resolutions authorizing the issuance.

The maximum amount of intercept bonds CMU seeks to issue for the projects is $18.0 million. The total amount of cash funds spending authority requested by CMU for the project is the same amount. CMU anticipates that the intercept bonds will be issued for a term of 15 to 20 years at an interest rate of lower than 4.0 percent. The maximum debt service payment is anticipated to be $1.3 million per year.

CDC Action Required

Approve the use of the intercept program for the following Colorado Mesa University project:

- Student Housing Wingate West ($18,000,000 CF).

Attachment A

STATE OF COLORADO
OFFICE OF THE TREASURER
Walker R. Stapleton

COLORADO TREASURER'S 3RD ANNUAL REPORT
STATE INSTITUTIONS OF HIGHER EDUCATION
FISCAL YEAR 2018/2019

Introduction

STATE OF COLORADO
DEPARTMENT OF THE TREASURY

Walker R. Stapleton
State Treasurer

Ryan Parsell
Deputy Treasurer

August 31, 2018

Colorado Joint Budget Committee
The Honorable Millie Hamner, Chair
The Honorable Kent Lambert, Vice Chair
The Honorable Dominick Moreno
The Honorable Kevin Lundberg
The Honorable Bob Rankin
The Honorable Dave Young
200 East Colfax Ave
Denver, CO 80203

Dear Committee Members:

The Colorado Treasurer's Office submits this report to comply with Colorado Revised Statutes (C.R.S.) section 23-5-139. According to the statute, this report addresses the fiscal health of Colorado's Higher Education Institutions ("institution(s)") as it relates to outstanding debt and debt service costs. Specifically, this report will show:

1. The most recent credit rating of each institution that has issued either intercept or stand alone bonds
2. The debt service coverage ratio for each institution that has issued either intercept or stand alone bonds
3. The total amount of all intercept and stand alone bonds issued by each institution

Additionally, this report also serves as the pre-approval certificate to show which institutions qualify for pre-approval of the state of Colorado's intercept program.

Colorado law directs the Treasurer's Office to calculate a pre-approval amount for qualifying institutions one of two ways. The Treasurer's Office has calculated the amount using the two methods outlined in statute and using the "lesser of the two amounts". One of the methods states to use "the difference between seventy-five percent of the most recent fiscal year's general fund appropriations for stipends and fee-for-service contracts that are re-appropriated to such governing board and the total annual debt service payments for intercept bonds". The second method allows for "[t]he total amount of additional revenue bonds a governing board could issue while maintaining the requirements set forth in subparagraph (II) of paragraph (b) of this subsection (1)". Pre-approvals were then calculated assuming a thirty year amortization at a 4.25% interest rate.

This is the third such report the Treasurer's Office has submitted. The Treasurer's Office always solicits feedback regarding the previous report and makes changes in accordance with that feedback. This year's report better reflects some figures based on how institutions account for a federal subsidy that is received in conjunction to the Build America Bonds issued in the past.

However, one set of feedback could not be addressed in this report without a statutory change.

It was brought to Treasury's attention the timing of this report does not align with when the higher education institutions in question submit their audited financial statements. The result of this misalignment is this report communicates the outstanding debt profile from one year and debt service coverage from a different year. This could understate or overstate the debt coverage ratio for a higher education institution.

Treasury attempted to rectify this issue by asking institutions to submit more up-to-date figures if such figures were available. Only Colorado Mesa University could submit such figures. The figures submitted by Colorado Mesa University help to underscore why having a report due before audited financial statements are available is problematic. This year's report shows Colorado Mesa University's debt service coverage ratio for "all bonds" and "intercept bonds" to be 1.60 times and 1.79 times, respectively. If the more updated figures from Colorado Mesa University been included, the coverage ratio would have been 1.69 times and 1.89 times—a significant difference! Such a seemingly minor issue could be the difference between whether an institution can participate in the program under statute.

To rectify this issue going forward, the legislature could consider changing the due date of this report to a time after audited financial figures are available from each higher education institution.

The information presented in this report is believed to be accurate and up-to-date. However, aside from the issue listed above, some of the rating data for a few of institutions is older than that of other institutions. New ratings usually are updated when an institution is seeking new debt. Please use caution when comparing some datasets.

Finally, a report like this represents much time and effort among the contributors. The Treasurer's Office would like to thank Amanda Bickel of the Joint Budget Committee Staff, Stephanie Chichester and Nick Taylor of North Slope Capital, Lori Ann Knutson from the Attorney General's Office. We'd also like to thank the Chief Financial Officers, and their staff, from the higher education institutions who helped

edit and refine the figures used in this report. Specifically, we'd like to thank Laura Glatt, Brad Baca, Heather Heersink, Steve Schwartz, George Middlemist, Todd Saliman, Chad Marturano, Lynn Johnson, Bridget Mullen, Mark Superka, Patrick Brodhead, and Kirsten Volpi.

Sincerely,

Walker R. Stapleton
State Treasurer

Ryan Parsell
Deputy Treasurer

Executive Summary

The following institutions are measured as to whether they met the statutory requirements to participate in the intercept program. If all requirements are met, the pre-approval amount is included as well.

Institution:	Adams State College	Colorado Community College System	Colorado Mesa University	Colorado School of Mines	Colorado State
Ratings Requirement Met	✓	✓	✓	✓	✓
Ratio Requirement Met	✓	✓	✓	✓	✓
Percentage Requirement Met	✓	✓	✓	✓	✓
Pre Approval Amount	$3,242,660	$529,745,658	$51,244,219	$92,277,888	$994,996,403

Institution:	Fort Lewis College	MSU Denver	CU	University of Northern Colorado	Western Colorado University
Ratings Requirement Met	✓	✓	✓	✓	✗
Ratio Requirement Met	✓	✓	✓	✓	✓
Percentage Requirement Met	✓	✓	✓	✓	✓
Pre Approval Amount	$59,390,306	$463,499,728	$2,764,003,762	$346,021,933	N/A

Ratings

C.R.S. section 23-5-139 requires the Treasurer's Office to communicate an institution's "credit rating in one of the three highest categories, without regard to modifiers with a category, from at least one nationally recognized statistical rating organization".

There are three nationally recognized statistical rating organizations from which a credit rating can be obtained: Moody's, Standard and Poors, and Fitch. Below are the most recent ratings available for each institution. **However, not each institution has been rated recently and their financial situation may have changed since their last rating.** Please reference "Institution Profiles" for the last date an institution was rated. The three highest categories for Moody's, S&P, and Fitch are Aaa/Aa/A, AAA/AA/A, and AAA/AA/A, respectively.

Key Takeaway: Two institutions (Colorado School of Mines and Fort Lewis College) experienced a credit rating downgrade since the last report. Those reports can be found in the appendix section.

Institution	Moody's	S&P	Fitch
Adams State College	A3 (Negative)	N/A	N/A
Colorado Community College System	Aa3 (Stable)	N/A	N/A
Colorado Mesa University	A2 (Stable)	N/A	N/A
Colorado School of Mines	A1 (Stable)	A+ (Stable)	N/A
Colorado State University	Aa3 (Stable)	A+ (Stable)	N/A
Fort Lewis College	A2 (Negative)	A (Stable)	N/A
Metropolitan State University	A1 (Stable)	A (Negative)	N/A
University of Colorado	Aa1 (Stable)	Withdrawn	AA+ (Stable)
University of Northern Colorado	A3 (Stable)	A- (Stable)	N/A
Western State Colorado University	Baa1 (Stable)	Withdrawn	N/A

Institutions Meeting the Rating Requirement	Institutions Not Meeting the Rating Requirement

Debt Service Coverage Ratio and Outstanding Debt

The debt service coverage ratio is measured by "dividing the governing board's net revenue available for annual debt service over such governing board's total amount of annual debt service". Colorado statute requires a ratio of "at least one and one-half to one" to be eligible for the intercept program.

The following is the calculated outstanding debt, service coverage, and their respective ratios.

Institution	Adams State University	Colorado Community College System	Colorado Mesa University	Colorado School of Mines	Colorado State University
FY2018 Debt Service-All Outstanding Bonds	$3,549,097	$7,685,177	$15,419,237	$16,054,760	$66,112,248
FY2018 Debt Service-Intercept Bonds	3,256,128	2,569,589	13,771,297	11,363,921	47,192,541
Debt Service Coverage Ratio: FY 2017 Net Pledged Revenues	5,419,775	27,232,170	24,648,000	45,224,000	154,858,072
DSCR-All	**1.53x**	**3.54x**	**1.60x**	**2.82x**	**2.34x**
DSCR-Inter.	**1.66x**	**10.60x**	**1.79x**	**3.98x**	**3.28x**

Institution	Fort Lewis College	Metropolitan State University	University of Colorado	University of Northern Colorado	Western State Colorado University
FY2018 Debt Service-All Outstanding Bonds	$3,972,032	$11,305,086	$128,539,264	$10,955,863	$6,185,741
FY2018 Debt Service-Intercept Bonds	2,274,306	7,077,363	N/A	10,314,556	6,185,741
Debt Service Coverage Ratio: FY 2017 Net Pledged Revenues	7,718,684	30,698,161	1,183,326,000	39,057,385	9,987,262
DSCR-All	**1.94x**	**2.72x**	**9.21x**	**3.56x**	**1.61x**
DSCR-Inter.	**3.39x**	**4.34x**	**N/A**	**3.79x**	**1.61x**

Institutions Meeting the Ratio Requirement	Institutions Not Meeting the Ratio Requirement
Adams State College Colorado; Colorado Community College System; Colorado Mesa University; Colorado Mines; Colorado State; Fort Lewis College; MSU Denver; CU; University of Northern Colorado; Western State Colorado University – Learning, Elevated.	

However, it should be noted the figures in this section come from two different fiscal years. The debt service requirements for both "all outstanding debt" and "intercept bonds" both come from fiscal year 2018 while the debt service net pledged revenues come from fiscal year 2017. This is because the submission date of this report does not align with a higher education institution's year-end reporting and the availability of audited financial statements. Because the due date of this report does not align with the availability of audited financial statements, the ratio calculations above could be artificially high or low.

The Treasury attempted to rectify this issue by asking institutions for this fiscal year's net pledged revenues. However, the timing of this report did not make it possible for almost all of the institutions to answer by the due date. A comparison of these figures helps to demonstrate why the misalignment may be problematic to policymakers.

The graph below illustrates the impact of the difference between net pledged revenues of two different fiscal years. The comparison uses Colorado Mesa University because Colorado Mesa University was the only institution that could provide fiscal year 2018-2019 figures for net pledged revenues.

(The chart is included on the next page.)

Institution	Colorado Mesa University	Institution	Colorado Mesa University
FY2018 Debt Service-All Outstanding Bonds	$15,419,237	FY2018 Debt Service-All Outstanding Bonds	$15,419,237
FY2018 Debt Service-Intercept Bonds	13,771,297	FY2018 Debt Service-Intercept Bonds	13,771,297
Debt Service Coverage Ratio: FY 2017 Net Pledged Revenues	24,648,000	Debt Service Coverage Ratio: **FY 2018 Net Pledged Revenues**	26,103,376
DSCR-All	**1.60x**	**DSCR-All**	**1.69x**
DSCR-Inter.	**1.79x**	**DSCR-Inter.**	**1.89x**

The above comparison shows a difference in figures of .09 and .10. Such a difference may seem small but it could have a large impact. Such a difference could mean an institution that could participate in the program may not qualify. The inverse is also true.

Additionally, this report does not align with how institutions of higher education may or may not account for their BABs subsidies. This too may also make institutions appear closer to the statutory threshold than is reflected in their CAFRs.

Debt Service as a Percentage of State Funding

The institutions in question receive funding through various mechanisms. The state supplies funding to institutions directly through the Colorado Opportunity Fund ("COF") and fee for service. The amount of intercept debt service owed by any institution in any year cannot be more than 75% of the combined amount of the COF and fee for service.

Below is each institution's intercept debt service amount as a percentage of state funding.

Institution	State Funding Amount	FY2018 Intercept Debt Service Amount	Percentage of Debt Service Amount to State Funding
Adams State College	$15,834,361	$3,256,128	21.29%
Colorado Community College System	172,072,046	2,569,589	1.49
Colorado Mesa University	29,474,193	13,771,297	34.92
Colorado School of Mines	22,873,493	11,363,921	49.68
Colorado State University	154,858,072	47,192,541	30.47
Fort Lewis College	13,053,096	2,274,306	18.17
Metropolitan State University	58,343,983	7,077,363	12.53
University of Colorado	218,505,019	N/A	N/A
University of Northern Colorado	42,492,726	10,314,556	26.05
Western State Colorado University	14,043,348	6,185,741	46.50

(Information continued on next page)

Institutions Meeting the Percentage Requirement	Institutions Not Meeting the Percentage Requirement
Adams State College Colorado Colorado Community College System Colorado Mesa University Colorado Mines Colorado State Fort Lewis College MSU Denver CU University of Northern Colorado Western State Colorado University Learning. Elevated.	

Institutional Profiles: An Explanation

The following pages include institutional profiles for each institution of higher education. It will show whether the institution currently qualifies to be in the intercept program and the amount pre-approved.

Each profile will include two graphs.

One graph will show each institution's debt service obligation by series (for example, "2009 B" or "2012") for each fiscal year.

The second graph will show the breakdown between debt in the intercept program and stand alone debt.

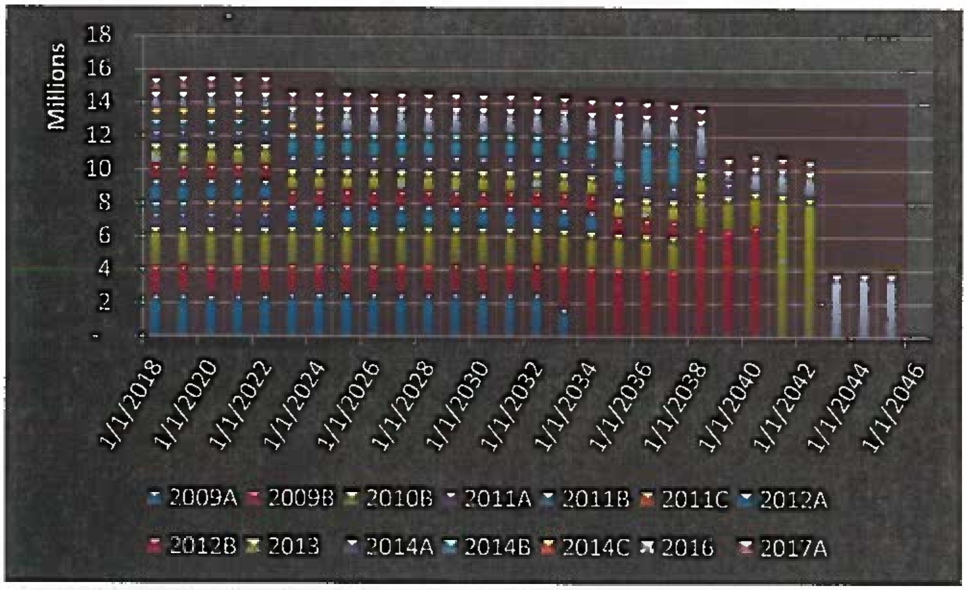
The profile also will show the recent ratings from rating agencies in the order of Moody's, S&P, and Fitch.

Colorado Mesa University

COLORADO MESA UNIVERSITY

Location: Grand Junction
Agency Ratings: A2, N/A, N/A
Last Rated by Agency: Jan 2016

Pre-Approved for Intercept? Yes
Pre-Approval Amount: $51,244,219



Colorado Mesa University

MOODY'S
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Rating Action: Moody's assigns A2 underlying & Aa2 enhanced to Colorado Mesa University's Ser 2016 Rev Bds; outlook stable

11 Jan 2016

New York, January 11, 2016 -- Issue: Enterprise Revenue Bonds, Series 2016; Underlying Rating: A2; Enhanced Rating: Aa2; Sale Amount: $22,000,000; Expected Sale Date: 1/21/2016; Rating Description: Revenue: Public University Broad Pledge

Summary Rating Rationale

Moody's Investors Service has assigned A2 underlying and Aa2 enhanced ratings to the planned $22 million Colorado Mesa University's Series 2016 Enterprise Revenue Bonds. The A2 underlying rating reflects the university's dominant regional student market; strong albeit declining operating cash flows and long-term growth of enrollment and net tuition revenue. This rating also considers the university's rapid increase in debt for investment in and expansion of campus facilities.

The Aa2 enhanced rating is based on the structure and mechanics of the Enhancement Program (the Colorado State Intercept Act), which is derived from the State of Colorado's current rating. The program outlook is stable.

We have also affirmed the A2 underlying and Aa2 enhanced ratings for the university's outstanding bonds.

Rating Outlook

The stable outlook assumes steady enrollment growth with modest growth in net tuition per student offset by escalating expenses resulting in narrowing operations.

The stable outlook for the enhanced rating is based on the state's current stable long-term outlook.

Factors that Could Lead to an Upgrade

Improvement in operating reserves with little to no additional debt leading to sustained spendable cash and investments to debt of over 0.5 times

Sustained improvement in operating funding from Aa1-rated State of Colorado providing more revenue diversity

For the enhanced rating, upgrade of the Colorado Higher Education Enhancement Program rating

Factors that Could Lead to a Downgrade

Weakening of operating performance leading to deterioration in debt service coverage or further contraction of financial resources

Further debt issuance resulting in sustained debt to revenue of greater than 2 times

Softening of student demand evidenced by continued decline in matriculation or reversal of recently improved retention rate

For the enhanced rating, downgrade of Colorado Higher Education Enhancement Program rating

Legal Security

The Series 2016 Enterprise Revenue Bonds are payable from Net System Revenues, which include net revenues of the auxiliary facility system (including housing, food and beverage sales and services, parking facilities, recreation center and bookstore) as well as mandatory student auxiliary fees and Federal Direct Payments (federal subsidy for issuing Build America Bonds). The pledge also includes 10% of the Tuition Revenues received by the university, all revenues derived from Facility Construction Fees, all earnings on all funds and accounts created under the Bond Resolution (except the Rebate Account) and all other income, fees and revenues that the Board determines, without further consideration from the owners of Series 2016 bonds, to include in Revenues. The Outstanding Bonds are secured with a lien on net revenues on a parity with the Series 2016 Bonds.

Use of Proceeds

Proceeds from the sale of the Series 2016 Bonds will be used to construct and equip a new residence hall on the University's campus, expand, renovate and equip the Maverick Center, and make such additional capital improvements to the campus as the Board of Trustees may designate. Proceeds from the bonds will also be used to pay capitalized interest through May 15, 2017 and costs of issuance.

Obligor Profile

The university is a regional, liberal arts university located in western Colorado with graduate programs in teacher education, business, nursing, and art. In addition to its undergraduate and graduate programs, the university owns and operates a community college. Annual operating revenue of the university is $113 million and there were close to 7,300 full-time equivalent students in fall 2015.

Methodology

The principal methodology used in the underlying rating was Global Higher Education published in November 2015. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Regulatory Disclosures

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David Schlachter
Lead Analyst
Higher Education
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Edith Behr
Additional Contact

Higher Education
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

Attachment B

Two-Year Projection of Cash Need

Colorado Mesa University

Thursday, February 28, 2019

SUGGESTED MOTION: *Approve the project listed on the Colorado Mesa University two-year projection of cash need.*

Revised, Resubmitted, Requires Approval

Project Name	LEED Certification	Amount	Fund Source
Student Housing Wingate West	Yes	$18,000,000	CF

2018-007

The project, also known as Wingate Hall Phase 1B, constructs a 120-bed, 55,000-GSF residence-hall addition. CMU says it does not have a sufficient amount of housing to meet its recent increases in enrollment and demand for on-campus accommodations. The project includes four-room, apartment-style suites for sophomores, with multiple units sharing a full-sized kitchen. The Wingate/Garfield Housing Complex includes four residence halls, two of which have been completed and one of which has been partially completed. Garfield Halls 1 and 2 were completed in 2013 and 2015, respectively. Wingate Hall Phase 1A was completed in August 2016; Wingate West is an addition to Phase 1A. An additional residence hall is planned immediately south of Wingate Hall, which will complete the Wingate/Garfield Housing Complex when constructed in the future. Once complete, the entire complex will house 1,000 students.

The source of cash funds is proceeds from the issuance of long-term debt under the Higher Education Revenue Bond Intercept Program. Revenues generated by the facility will be used to repay the debt. The university notes that it does not anticipate using any tuition or student fees for debt repayment.

Date Authorized Until: ***TBD***

Subtotal: Revised, Resubmitted, Requires Approval $18,000,000

Grand Total, All Projects: $18,000,000