

MEMORANDUM



JOINT BUDGET COMMITTEE

TO JOINT BUDGET COMMITTEE
FROM Amanda Bickel, JBC Staff (303) 866-4960
DATE September 20, 2019
SUBJECT Colorado State University Revenue Bond Intercept Request

REQUEST AND RECOMMENDATION: On September 4, 2019, the Capital Development Committee (CDC) considered and approved a request from Colorado State University to expand its debt under the Higher Education Revenue Bond Intercept Program (Section 23-5-139, C.R.S.) by \$9.0 million to finance the Shepardson Building Renovation and Addition.¹ Statutory provisions require approval from both the CDC and JBC. **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 last modified in 2016, 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:

- 1 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)
- 2 A debt service coverage ratio of at least 1.5x (net revenue available for debt service/annual debt service) applied to all debt.
- 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.
- 4 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).
- 5 Pre-approval from the State Treasurer and approval from the CDC and JBC.

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. 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. At the end of FY 2017-18, total obligations for state institutions under the intercept program, including future year principal and interest payments, totaled approximately \$2.6 billion. (Total institutional liabilities approached \$6.1 billion once all debt was included.) All of the governing

¹ This follows a September 2018 approval to expand CSU's intercept authority by \$44.3 million to finance five projects, and an April 2019 approval to expand CSU's intercept authority by \$22.9 million to finance three projects.

boards participate in the intercept program, except the University of Colorado, which has a credit rating higher than the State's. Western State Colorado University holds debt under the program but may not expand this debt due to a low credit rating (Baa1).

COLORADO STATE UNIVERSITY REQUEST: The CDC supports CSU's expanded use of the intercept program for the following project:

Approved Intercept Projects

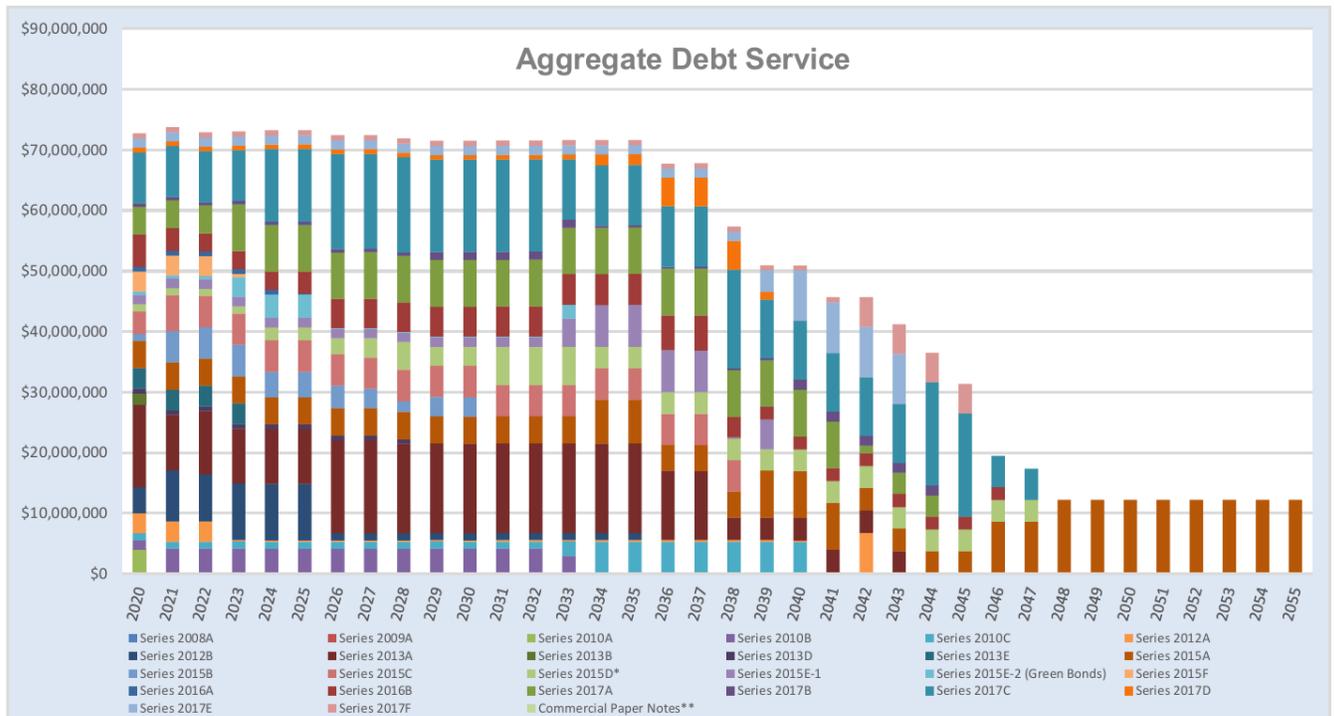
| Project Name | Location | Amount of Issuance |
|---|-----------------|---------------------------|
| Shepardson Building Renovation and Addition | Main Campus | \$9,000,000 |
| | Total | \$9,000,000 |

The Shepardson project received both a Capital Construction Fund appropriation and a matching cash funds appropriation in the FY 2019-20 Long Bill, as one of the projects approved for state funding. The project is the second phase of a project to renovate the existing 46,811-GSF Shepardson Building, which houses the Departments of Horticulture and Landscape Architecture, and to construct additions to the north and south of the building..

Due to an oversight, the revenue bond intercept element of the request was not brought before the CDC or the JBC at the same time a number of other CSU revenue bond intercept items for cash funded projects were reviewed in April 2019.

The FY 2019-20 Long Bill appropriation for the Shepardson renovation includes \$13,482,700 from the Capital Construction Fund and \$9,000,000 cash funds for this project for FY 2019-20 (\$4,527,223 CCF was appropriated in the prior year). The letter note in the Long Bill indicates that cash funds will be from "donations and bonds issued under the Higher Education Revenue Bond Intercept Program..."

ADDITIONAL BACKGROUND ON CSU DEBT AND FINANCIAL PROFILE: The chart below, from the Treasurer's September 1, 2019 report on the program, shows CSU's debt service obligations. In 2019, CSU's aggregate gross debt service payments are anticipated to be \$75.8 million or \$74.5 million when offset with federal subsidies.



CSU’s proposal to increase its debt by \$9.0 million could increase its annual debt service by approximately \$600,000 (based on 30 year bonds at 5.0 percent interest).

According to CSU’s Treasurer, the source of revenue for debt payments for these projects is the unrestricted Education and General budget, *i.e.*, funding for the projects will come from annual state General Fund operating appropriations and student tuition. There will not be dedicated fees associated with these projects.

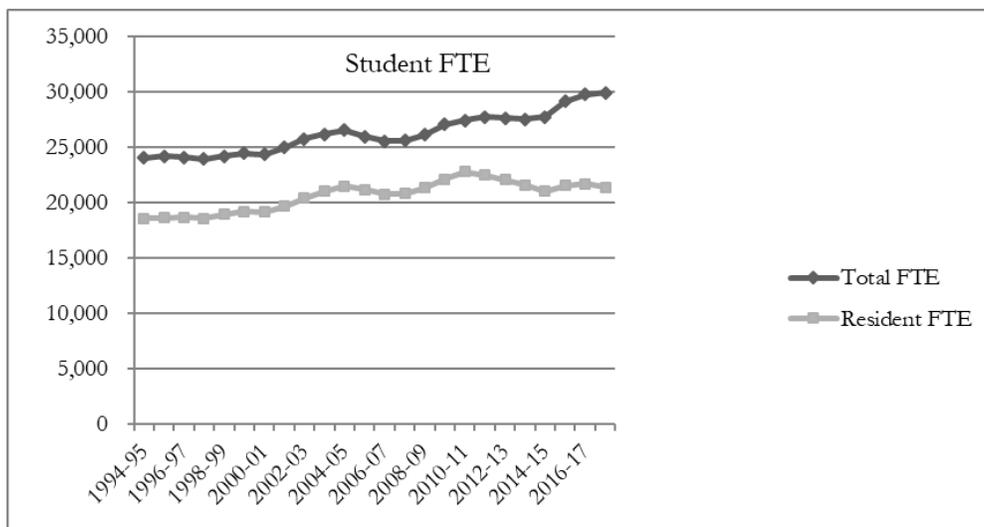
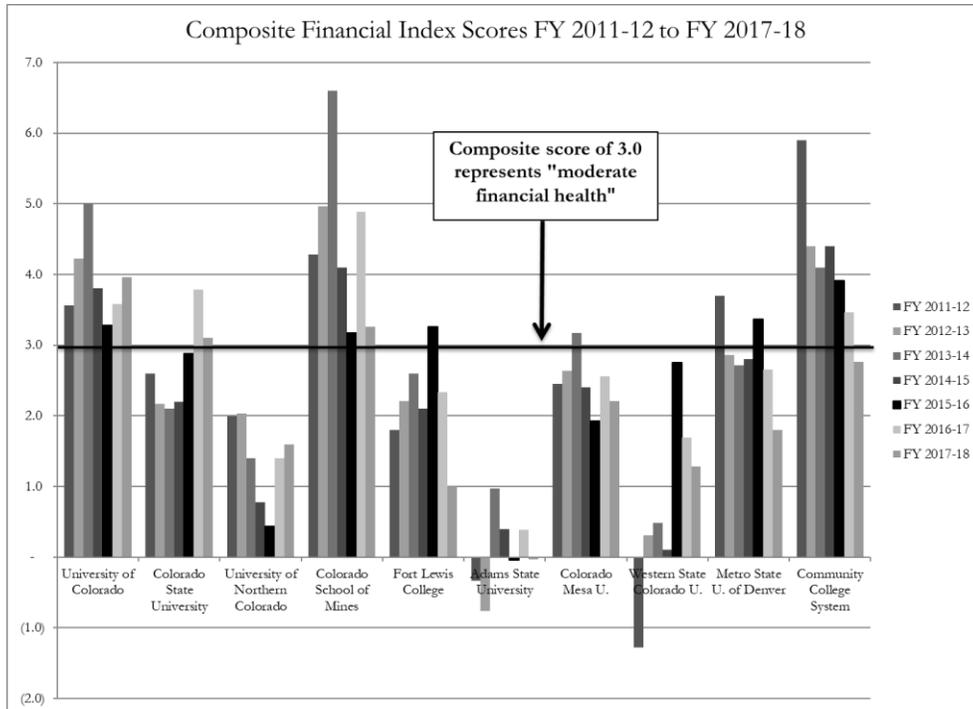
For context:

- CSU’s projected annual *debt service of \$74.5 million represents about 5.4 percent of the governing board’s 2018 revenue* of \$1.4 billion. The General Assembly approved a \$67.7 million increase in CSU intercept debt through action in October 2018 and April 2019. The additional \$9.0 million debt included in this request represents an increase of less than 1.0 percent in governing board’s \$1.3 billion in liabilities (2018 financial statements).
- The CSU system served 38,357 student FTE (including CSU Global) in 2017-18. The system’s total liabilities of \$1.3 billion divided by total student FTE enrolled--its *debt per student FTE--was \$35,869 in FY 2017-18.*

On September 11, 2019, Moody’s reaffirmed CSU an underlying **credit rating of Aa3 (stable), consistent with previous action.** This is lower than the State rating of Aa2 that CSU may use under the intercept program but is still relatively strong. (Moody’s scale from highest to lowest: Aa1, Aa2, Aa3, A1, A2, A3, Baa1, etc.) The credit report highlighted institutional strengths including “excellent strategic positioning” and “growing national brand,” along with strong financial stewardship reflected in 37 percent revenue growth between 2014 and 2018 and increased cash reserves. Financial strengths are tempered by high debt relative to reserves and low state support.

STAFF RECOMMENDATION: Staff recommends the request.

- As highlighted by Moody's, CSU is quite leveraged, but **the ratings agencies appear convinced that the overall dynamic growth of the governing board mitigates the related risk.** In addition, staff notes that the governing board's composite financial index (CFI)--a measure of financial health--has strengthened in recent years, and it has been growing total non-resident enrollment at a rapid clip, which should further improve its financial position.



- **The project to be funded has already been approved for state Capital Construction Fund support, as well as cash funds spending authority.**
- The additional debt service of approximately \$600,000 per year driven by this project, while meaningful, represents an increase of less than 1.0 percent for a governing board with annual debt service payments that exceed \$72 million per year and an annual budget of over \$1.4 billion.

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

STATE OF COLORADO

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DRAFT

Sept 20, 2019

Hon. David Young
Colorado State Treasurer

Ms. Lauren Larson
Director
Office of State Planning and Budgeting

Dr. Angie Paccione
Executive Director
Colorado Department of Higher Education

Dr. Tony Frank
Chancellor
Colorado State University System

Dear Treasurer Young, Director Larson, Director Paccione, and Chancellor Frank:

Pursuant to the provisions of Sections 23-5-139 (1.5)(c), C.R.S., on September 20, 2019, the Joint Budget Committee reviewed a request from the Colorado State University System to expand its borrowing under the Higher Education Revenue Bond Intercept Program for the project and amount below.

Approved Intercept Projects

| Project Name | Location | Amount of Issuance |
|---|--------------|--------------------|
| Shepardson Building Renovation and Addition | Main Campus | \$9,000,000 |
| | Total | \$9,000,000 |

The Joint Budget Committee voted to approve this request. As required by statute, the additional debt is within the amount specified in the State Treasurer's Office preapproval certificate (Treasurer's 3rd Annual Report on State Institutions of Higher Education, dated September 1, 2019), and the Capital Development Committee approved the request September 4, 2019.

The Colorado State University System may therefore proceed with issuing this additional debt under the Higher Education Revenue Bond Intercept Program, so long as the final bond issue complies with Section 23-5-139 (1)(b)(I),(II), and (III), C.R.S., and any other relevant provisions of law.

Please contact Amanda Bickel on our staff ((303) 866-4960) should you have any questions about this matter.

Sincerely,

Dominick Moreno
Chair

cc: Representative Dylan Roberts, Capital Development Committee
Kori Donaldson, Capital Development Committee Staff
Eric Rothaus, Deputy Treasurer
Jason Schrock, Department of Higher Education
Henry Sobanet, Colorado State University System
Lynn Johnson, Colorado State University
Spencer Rockwell, Office of State Planning and Budgeting
Bob Jaros, State Controller
Carolyn Kampman, Staff Director, Joint Budget Committee