Legislative Council Staff

Research Note

Version: Final

Date: 9/22/2016

Bill Number

Senate Bill 16-204

Sponsors

Senator Lambert
Representative Rankin

Short Title

Higher Education Revenue Bond Intercept Program

Research Analyst

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Status

This research note reflects the final version of the bill. The bill was signed into law by the Governor and took effect on June 6, 2016.

Summary

The bill, ***recommended by the Joint Budget Committee (JBC)***, 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), the 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.

The bill is not anticipated to change whether any currently qualifying governing board can participate in the intercept program unless there is a future change in an institution's overall financial well being.

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:

- 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

- 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.

Senate Action

Senate Appropriations Committee (May 3, 2016). A representative of the Office of the State Treasurer testified in support of the bill. The committee adopted amendment L.002, which makes technical changes, clarifies that the bill only applies to borrowing under the intercept program and not to other debt issued by higher education institutions, and expands the circumstances under which certain institutions may refinance existing bonds under the intercept program. The bill was referred, as amended, to the Senate Committee of the Whole.

Senate second reading (May 3, 2016). The Senate adopted the Senate Finance Committee report and passed the bill on second reading with no additional amendments.

Senate third reading (May 4, 2016). The Senate passed the bill on third reading.

House Action

House Appropriations Committee (May 9, 2016). A representative of the Office of the State Treasurer responded to questions about the bill. The bill was referred to the House Committee of the Whole.

House second reading (May 9, 2016). The House passed the bill on second reading with no amendments.

House third reading (May 10, 2016). The House passed the bill on third reading with no amendments.