SB13-199

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 13-0842	**Date:**	March 8, 2013
Prime Sponsor(s):	Sen. Giron Rep. Fischer	**Bill Status:**	Senate Finance
		Fiscal Analyst:	Kori Donaldson (303-866-4976)

TITLE: CONCERNING MODIFICATION OF THE STANDARD FOR DETERMINING WHETHER BONDS ISSUED BY A STATE-SUPPORTED INSTITUTION OF HIGHER EDUCATION QUALIFY FOR THE HIGHER EDUCATION REVENUE BOND INTERCEPT PROGRAM.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015
State Revenue		
State Expenditures Cash Funds	Potential impact.	Potential impact.
FTE Position Change		
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.		
Appropriation Summary for FY 2013-2014: None.		
Local Government Impact: None.		

Summary of Legislation

Recommended by the Capital Development Committee, this bill changes how the borrowing limit is determined for higher education institutions participating in the Higher Education Revenue Bond Intercept Program (intercept program). Under current law, the amount a participating school is permitted to borrow under the program is determined by its prior year College Opportunity Fund (COF) fee-for-service appropriation. The bill changes the borrowing limit to a credit and coverage test. To meet the coverage test, the governing board of a higher education institution must have at least one credit rating of A or better from a major credit rating agency (Moody's, Standard & Poors, or Fitch), and no credit rating less than A. To meet the credit test, the governing board of a higher education institution must have a debt service coverage ratio of 150 percent or more of the governing board's net revenues. In other words, a governing board will have to show that it has at least one and a half times the amount of revenue needed for current and future debt payments available and unobligated. Finally, the bill permits the State Treasurer to exempt a governing board from the credit and coverage test in order to refinance existing debt resulting in cost savings.

Background

State institutions of higher education that have been granted enterprise status are permitted under current law to issue revenue bonds. These bonds are typically repaid from cash funds sources such as tuition, student fees, auxiliary revenues, or indirect cost recoveries. 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 bond payments of principal or interest on behalf of a state-supported institution of higher education in the event a higher education institution does not make a scheduled payment, unless a higher education institution adopts a resolution stating that it will not accept such payment prior to the issuance of the bonds for a project. The annual debt service payment of any new issuance combined with all other issuances subject to the intercept program cannot exceed 100 percent of an institution's prior year COF fee-for-service contract amount. Fee-for-service contracts were established under the COF program to fund educational services that are not funded through COF stipends such as graduate programs or services in rural communities.

State Expenditures

Pursuant to the new credit and coverage test, one institution of higher education, Colorado Mesa University (CMU), will be newly eligible to borrow under the intercept program. CMU has indicated that upon passage of Senate Bill 13-199, it will refinance existing debt to realize up to $600,000 in cost savings. Other institutions of higher education indicate that the new credit and coverage test may decrease the cost of future planned debt.

For FY 2013-14, two institutions of higher education, Fort Lewis College and Western State Colorado University, will no longer be eligible to borrow under the intercept program. Neither school indicates that it plans to issue new debt within the next two fiscal years. However, to the extent a school plans to issue debt and does not qualify for the intercept program, the cost of this debt may be greater than debt issued using the state's credit rating and favorable interest rates.

Departments Contacted

Higher Education Personnel and Administration Treasury