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Nonpartisan Services for Colorado’s Legislature

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TO: Capital Development Committee

FROM: Kori Donaldson, Principal Research Analyst, 303-866-4976

SUBJECT: Adams State University Intercept Program Refunding

April 5, 2019

Summary

Adams State University is seeking authority to refund debt issued through the state Higher Education Revenue Bond Intercept Program (intercept program). This memorandum summarizes the request and the approvals required under the intercept program.

Borrowing and Refunding Debt Under the Intercept Program

Intercept program description. The 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.

Eligibility to participate in the intercept program. 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.

Refunding debt under the intercept program. The type and level of review required to participate in the intercept program depends on several sets of circumstances, including whether a governing board is qualified to participate in the program, whether an issuance involves a refunding or new debt, and the terms of a refunding. If a qualified governing board seeks to refund intercept bonds in a manner that will result in cost savings and will not extend the number of years of repayment, then
the State Treasurer has the sole authority to approve the refunding. If a qualified governing board seeks to refund intercept bonds in a manner that will result in cost savings and will extend the number of years of repayment, then review and approval is required by the Capital Development Committee (CDC) and the Joint Budget Committee.

**Adams State University Refunding**

Adams State University (ASU) is seeking authority to refund two debt issuances. Both issuances were made under the intercept program in 2009. The refunding will extend the number of years of repayment for one of the two issuances. The refunding will result in cost savings in the early years, but is not anticipated to change the total repayment amount.

The original issuance financed eight projects. A brief description of each of the projects, including the principal cost, is detailed below. Pursuant to the $2.0 million monetary threshold that triggered CDC review of cash-funded projects in 2009, three of the projects listed below received CDC review in December 2009 (see Attachment A).

1. **Campus Student Housing Improvements ($4.1 million).** The project remodeled two residence halls.

2. **Education and Social Sciences Building Remodel ($12.0 million).** The project addressed deferred maintenance issues, and replaced the roof, HVAC, and electrical systems. It also retrofitted the space to meet the needs of eight programs housed in the building.

3. **Energy Performance Contract Retrofits ($1.4 million).** The project initiated campus-wide energy performance enhancements.

4. **Landscaping Upgrades ($1.5 million).** The project constructed the north campus green, including pedestrian walkways.

5. **Music Building Remodel ($6.3 million).** The project replaced the roof and made upgrades to the interior for safety and to improve the acoustics.

6. **Parking and Street Improvements ($1.8 million).** The project constructed a new parking lot and replaced an existing road with a pedestrian walkway.

7. **Rex Field Resident Hall Community Rooms ($0.7 million).** The project constructed a multi-use community room.

8. **Soccer Field ($0.7 million).** The project constructed a synthetic soccer field.

**How ASU meets the intercept program eligibility and review requirements.** In addition to the preapproval requirements verified by the State Treasurer in the September 1 report, the State Treasurer also provided comment in support of the proposed refunding (see Attachment B).
Additionally, current law specifies that a request for intercept program review and approval to the CDC must also include:

- the maximum amount of intercept bonds the governing board seeks to issue; 
  *ASU seeks to refund $34.1 million.*

- the anticipated terms of the issuance, including the maximum annual debt service; and
  *ASU anticipates that the intercept bonds will be refunded at an interest rate of approximately 4.0 percent and the debt will be retired in 2042. The maximum debt service payment is anticipated to be between $1.5 million and $2.6 million per year. The debt will be repaid through student fees, auxiliary revenues, and tuition. These are the sources of repayment for the current issuances.*

- if available, a copy of the governing board’s resolutions authorizing the issuance.

**CDC Action Required**

Approve and recommend to the Joint Budget Committee the proposed refunding of up to $34 million of existing intercept debt for Adams State University.
### FY 2010-11 Two-Year Projection of Cash Need

**Adams State College**

<table>
<thead>
<tr>
<th>Project Name</th>
<th>LEED Certification</th>
<th>Amount</th>
<th>Fund Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and Social Studies Building Renovation</td>
<td>Gold</td>
<td>$12,150,727</td>
<td>CF</td>
</tr>
<tr>
<td>2006-082</td>
<td></td>
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<tr>
<td>The project renovates 70,696 GSF in the Education and Social Studies (E.S.) Building to make life-safety upgrades and to renovate classroom space. The building renovation will realign program spaces to create a more suitable learning environment, and will also address controlled maintenance needs and code deficiencies, including replacing the roof, upgrading the building envelope for increased energy efficiency, installing a fire suppression system, correcting plumbing deficiencies, and replacing the HVAC and electrical systems. The source of cash funds for the project is Build America Bonds, to be repaid from revenue generated by a fee assessed to students for capital projects, approved by the students in March 2008. The current fee is $29 per credit hour. The bonds will be issued in December 2009, and will carry annual payments of approximately $800,000.</td>
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</tbody>
</table>

**Higher Education Revenue Bond Intercept Program.** This project is subject to the Higher Education Revenue Bond Intercept Program, which directs the 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.

<table>
<thead>
<tr>
<th>High Altitude Training Facility</th>
<th>Gold</th>
<th>$3,500,000</th>
<th>CF</th>
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<tbody>
<tr>
<td>2011-035</td>
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<td>The project constructs a new indoor track and field facility for use by students and the community as a high-altitude training environment. The size and scope of the facility is yet to be determined, but the college says it wants to have the project appraised in line if an adequate funding source becomes available. Adams State College has not yet determined a cash fund source for the project, but says it will likely fund it through gifts and donations.</td>
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<tr>
<th>Housing Renovations</th>
<th>Gold</th>
<th>$10,000,000</th>
<th>CF</th>
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<tbody>
<tr>
<td>2011-034</td>
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<td>The project renovates 101,973 GSF in the three-story Coronado Hall, and 34,377 GSF in the two-story Girault Hall, both of which are student residence halls. The project will replace floors, ceilings, and interior finishes in the halls; perform safety upgrades to meet current codes; and upgrade insulation, windows, lighting components, and HVAC systems in the buildings for energy efficiency. The source of cash funds for the project is bonds, to be repaid from revenue generated by student housing rental fees, along with supplemental revenue from a fee assessed to students for capital projects, approved by the students in March 2008.</td>
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**Higher Education Revenue Bond Intercept Program.** This project is subject to the Higher Education Revenue Bond Intercept Program, which directs the 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.
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<th>LEED Certification</th>
<th>Amount</th>
<th>Fund Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Music Building Remodel</strong></td>
<td>Gold</td>
<td>$6,254,103</td>
<td>CF</td>
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</tbody>
</table>

The project renovates 17,449 GSF in the Music Building and 5,615 GSF in the Leon Memorial Building for the Music Department. The college says the Music Building requires upgrades for code compliance, including life-safety upgrades, improvements to finishes, ventilation upgrades, and application of acoustical treatments, while the Leon Memorial Building, a concert hall, requires seating and other finish upgrades.

The source of cash funds for the project is Build America Bonds, to be repaid from revenue generated by a fee assessed to students for capital projects, approved by the students in March 2008. The current fee is $29 per credit hour. The bonds will be issued in December 2009, and will carry annual payments of approximately $800,000.

**Higher Education Revenue Bond Intercept Program.** This project is subject to the Higher Education Revenue Bond Intercept Program, which directs the 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.

| Total Projection of Cash Need | $31,904,830 |

Page 2 of 2
STATE OF COLORADO  
DEPARTMENT OF THE TREASURY

Dave Young  
State Treasurer

Eric Rothaus  
Deputy Treasurer

March 27, 2019

Board of Trustees  
for  
ADAMS STATE UNIVERSITY  
Institutional Enterprise Revenue Refunding Bonds Series 2019

Dr. Cheryl D. Lovell  
President

Heather Heersink  
Chief Financial Officer

Adams State University  
208 Edgemont Boulevard, Suite 2180  
Alamosa, CO 81101

Dear President Lovell and Ms. Heersink:

Pursuant to Section 23-5-139(1)(c)(II), Colorado Revised Statutes, as amended, you are authorized to issue the above-captioned bonds under the Higher Education Revenue Bond Intercept Program (the "Program") under the following conditions (in order to refund all or a portion of the outstanding Board of Trustees of Adams State University ("ASU") Institutional Enterprise Revenue Refunding Bonds Series 2009B and Series 2009C):

1. The total debt service that is covered by the Program is less than or equal to 75% of ASU's most recent general fund appropriations for stipends and fee for service contracts;

2. ASU carries a credit rating in the three highest categories (A3) or better;

3. ASU has a debt service coverage of at least 1.50x; and

4. For this issuance, over the life of the bonds, the total debt service will not be increased.

Please note, pursuant to section 23-5-139(c)(II), C.R.S., the Treasurer is required to confirm that (a) the revenue bonds to be issued are refunding bonds that result in cost savings to the Board of Trustees of ASU based on a cash flow analysis by the Treasurer; (b) that refunding bonds will refund intercept bonds; and (c) the refunding bonds will not extend the number of years of repayment. Since the refunding bonds will extend the number of years of repayment by one additional year, the fourth condition above has been added.
If you agree to the conditions set forth above, please signify your agreement to the conditions by signing below. By my signature below, I hereby agree to the conditions of the Program set forth in this letter:

By: [Signature] Date: [Mar 29, 2019]

Title: [Signature]

If you agree to the conditions set forth above, the State Treasurer shall notify the Capital Development Committee, the Joint Budget Committee, the Colorado Commission on Higher Education, and the Office of State Planning and Budgeting that the Adams State University Board of Trustees has met the requirements of Section 23-5-139(1)(c)(II), Colorado Revised Statutes, as amended.

Please do not hesitate to contact me if I can be of further assistance.

Sincerely yours,

COLORADO STATE TREASURER

cc: Senator Dominick Moreno, Chair, JBC
    Representative Dylan Roberts, Chair, CDC
    Luis Colon, Chair, CCHE
    Lauren Larson, Director, OSPB