MEMORANDUM

JOINT BUDGET COMMITTEE

To	Members of the Joint Budget Committee
From	Amanda Bickel, JBC Staff (303) 866-4960/ (303) 246-6874
Date	March 12, 2025
Subject	Colorado Western University Revenue Bond Intercept Request

Request and Recommendation: On January 30, 2025, the Capital Development Committee (CDC) considered and approved a request from Western Colorado University (WCU) to expand its debt under the Higher Education Revenue Bond Intercept Program (Section 23-5-139, C.R.S.) by $13.5 million to finance the construction of a faculty and staff housing project. 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 most recently modified in 2022, 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:

- 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)
- A debt service coverage ratio of at least 1.5x (net revenue available for debt service/annual debt service) applied to all debt.
- Pledged revenues for the issue of not less than: the net revenues of auxiliaries; 100% of tuition if an enterprise; indirect cost recovery revenues; facility construction fees designated for bond repayment; and student fees and revenues pledged to bondholders.
- 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).
- Pre-approval from the State Treasurer and approval from the CDC and JBC.[1]

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. Senate Bill 22-121 reduced restrictions on institutional indebtedness by increasing the amount

[1] Pre-approval to a specified amount is included as part of annual reports from the Treasurer on the institutions of higher education.

of tuition revenue to be pledged from 10 percent to 100 percent. This greatly increased institutions' debt service coverage ratios for the intercept program, making bonds more marketable and improving rates. However, the change also facilitates expanded use of the intercept program, since meeting the 1.5x coverage ratio for new issuances presents less of an obstacle. It thus makes other program constraints—including the JBC's approval—particularly important.

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. Based on data provided by the Treasurer's Office for the 2024 report, *state institutions have outstanding principal and interest obligations of $6.1 billion. This includes $2.3 billion in obligations issued under the higher education revenue bond intercept program*, which are issued based on the State's Aa2 rating, rather than the underlying bond rating of the institution. All of the governing boards participate in the intercept program, except the University of Colorado, which has had a credit rating higher than or equal to the State's.

Western Colorado University Request: *WCU seeks expanded use of the intercept program by up to $13.5 million* to issue debt for the project shown below, based on the attached letter dated January 30, 2025, from the CDC. The JBC must also review the request and approve it for WCU to expand its use of the intercept program.

Project	Location	Amount
Faculty and Staff Housing	Gunnison	$13,500,000

The additional information below is from project plans submitted to the CDC and additional information provided to staff by WCU.

The key driver of the housing project is the lack of available and affordable housing for faculty and staff in the Gunnison area. The request explains that employee housing is a major impediment to the hiring process due to high cost and a lack of housing inventory in Gunnison, and the project will help the university recruit and retain talented personnel. The project calls for 30 units comprised of 1, 2, and 3 bedrooms for a total of about 61 beds, with overall square footage to be determined through the request-for-proposal process.

The source of cash funds for the project is bonds, to be repaid with rental revenue from the new housing. Proceeds will cover $12.0 million for construction, $1.1 million in capitalized interest, and $0.4 million for bond issuance.

The project was approved by the CDC for the 2-year cash fund list in FY 2024-25 and for use of the intercept program on January 30, 2025.

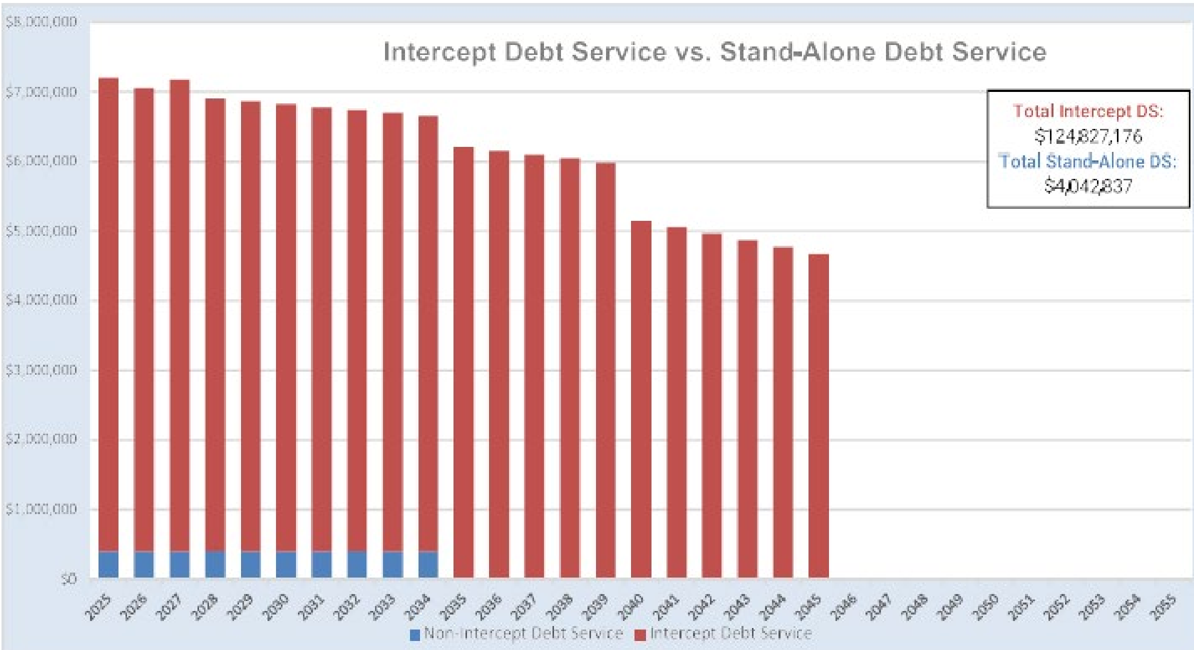
The university has been leasing units to be subleased to faculty and staff since 2023. WCU is currently leasing 16 units which are used as temporary housing, primarily for new employees. The university has found that having housing available in a competitive market where quantity is low and prices are high has been very beneficial when recruiting faculty and staff for new positions.

In response to JBC Staff questions, WCU provided an operating cost proforma and projected debt service payment information for the project. **The data provided indicates that the project should "pencil out"**, i.e., rent revenue should exceed annual operating costs and debt service payments, with the first year's payments capitalized. In the second year of operations there should be modest profits of $37,823 projected in FY 2026-27, increasing to $$77,763 in FY 2032 (year 8) and over $200,000 after 30 years, assuming 3.0 percent inflation and the current estimated bond payment schedule. Monthly rents in the first year are estimated at between $1,000 for a one-bedroom to $3,000 for a three-bedroom/two-bath unit.

Other Approvals/Requirements:

- As of the Colorado Treasurer's 8th Annual Report on State Institutions of Higher Education Fiscal Year 2023/2024 (August 30, 2024), WCU was qualified to participate in the intercept program and had "pre-approval" from the Treasurer's Office, based on various factors including its A3 credit rating from Moody's.
- Based on the data provided by WCU, escalating debt service payments ranging from $0.6 to $1.3 million ($26.2 million over 30 years), when added to the current intercept obligation of $124.8 million, remains within the "pre-approval" of $184.9 million in additional intercept debt service reflected in the Treasurer's report.
- If WCU's total annual intercept debt service payment increases to $6.2 million, as would be anticipated with the addition of this issuance, staff anticipates that annual payments will remain within 75 percent of annual state operating appropriations at the time of issuance, as required by statute. WCU received $24.9 million in appropriations for student stipends and fee-for-service contracts in FY 2024-25. Even if this figure falls in FY 2025-26, staff anticipates that this will not be a bar to the issuance.

Additional Background on WCU Debt and Financial Profile: The chart below, from the Treasurer's September 1, 2024 report on the program, shows WCU's debt service obligations, most of which use state-backed intercept debt.



*Ratings are displayed in order of Moody's, S&P, and Fitch

As shown, WCU's annual net debt service payments are currently over $7.0 million, of which $5.5 million in annual payments (after a federal subsidy) are backed by the intercept program. This is a large amount of debt for an institution of this size. Initial debt service on the new project is projected to be $625,750 beginning in FY 2026-27, escalating to $1,296,750 by the 30th year (2055).

Based on financial statements, WCU's gross revenue in FY 2023-24 was $79.8 million. The table below (data included in the staff budget briefing) provides additional context on the scale of the new debt compared to WCY's obligations. As shown, WCU is already quite leveraged and is paying a substantial share of its annual revenue in debt-service. The new project will add to this, although it should cover its costs.

Debt Profile and Credit Ratings (Fall 2024)					
	Credit Rating Moody's	Total Outstanding Principal and Interest (Obligations)	Percent Intercept Debt (state-backed)	Total Debt Obligations/Total Annual Revenue[2]	Annual Debt Payment/Total Annual Revenue[4]
Western CO U	A3 (stable)	$128,870,565	96.9%	161.4%	**9.0%**

In August 2024, Moody's maintained WCU's underlying **credit rating of A3 (stable)**. This is significantly lower than the State rating of Aa2 that WCU may use under the intercept program

[2] Revenue of $224.8 million is based on data submitted for the Composite Financial Index calculation and includes operating and non-operating revenue and unrestricted foundation income.

but the same as the underlying ratings for Adams, Western, Fort Lewis, and the University of Northern Colorado. (Moody's scale from highest to lowest: Aa1, Aa2, Aa3, A1, A2, A3, Baa1, etc.). The credit rating report noted WCU's "steady improvement in state operating funding" and "good fundraising" but also a "highly competitive student market, reflected by a 7% decline in first year enrollment", "small scale operations", "variable operating performance", and "elevated leverage". WCU was barred from the intercept program for multiple years when its credit rating fell to the Ba1 level, so the fact that it has improved its position back to a A3 in recent years is notable.

Staff Recommendation: Staff recommends the request, but notes some concerns.

- Staff—like the Committee—has reason to be concerned about WCU's ongoing finances. Enrollment this year is better, and the financial boost authorized last year has helped. **However, the General Assembly must be prepared that this college will not operate without substantial state support. Further, to the extent its debt is backed by intercept bonds, the General Assembly greatly reduces its ability to close the campus, as it would be on the hook for the debt service payments even after a closure.**
- Staff does not have serious concerns about the particular project proposed. Staff anticipates that WCU will have little difficulty filling this housing, given the housing shortage in its mountain location.
- The project is expected to cover costs and provide some net profits.
- The proposed project is consistent with plans approved by the CDC.
- Attracting high quality faculty is consistent with WCU's mission.

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
March 13, 2025

Mr. Brad Baca
President
Western Colorado University
1 Western Way
Gunnison, CO 81231

Hon. Dave Young
State Treasurer
State Capitol
200 E Colfax, Room 410
Denver, CO 80203

Dear President Baca and Treasurer Young,

Pursuant to the provisions of Sections 23-5-139 (1.5)(c), C.R.S., on March 12, 2025, the Joint Budget Committee reviewed a request from Western Colorado University to expand its borrowing under the Higher Education Revenue Bond Intercept Program by up to $13,500,000 for costs associated with the project below.

Project	Location	Estimated Amount
Centennial Village Student Housing	Grand Junction	$53,600,000
Formation District Dining Hall	Grand Junction	22,500,000
Total		**$76,100,000**

The Joint Budget Committee voted to approve this request. The amount requested falls within the pre-approval amount identified in the Colorado Treasurer's 8th Annual Report on State Institutions of Higher Education Fiscal Year 2023/2024 (August 30, 2024), and the Capital Development Committee approved the request January 30, 2025.

Western Colorado University 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,

Jeff Bridges
Chair

Cc:
Mark Ferrandino, Executive Director, Office of State Planning and Budgeting
Angie Paccione, Executive Director, Colorado Department of Higher Education
Jennifer Walmer, Chair, Colorado Commission on Higher Education
Senator Nick Hinrichsen, Chair, Capital Development Committee
Ian Higgins, Vice President for Finance and Administration, Western Colorado University