Colorado Legislative Council Staff

SB16-121

FISCAL NOTE

FISCAL IMPACT: ☒ State ☐ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 16-0872	**Date:**	February 9, 2016
Prime Sponsor(s):	Sen. Tate Rep. Garnett	**Bill Status:**	Senate Finance
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BILL TOPIC: HIGHER EDUCATION TUITION PLEDGED FOR BONDING

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue		
State Expenditures		
Cash funds	Potential decrease.	
Appropriation Required: None.		
Future Year Impacts: Potential ongoing decrease in cash funds.		

Summary of Legislation

The bill allows the governing board of a higher education institution or institutions to pledge up to 100 percent of tuition revenues, excluding any General Fund appropriations, when it issues bonds to pay the costs of a capital project. Institutions that participate in the Higher Education Revenue Bond Intercept Program (intercept program) are only allowed to pledge up to 10 percent of tuition revenues, which is the amount permitted in current law. A higher education institution is only permitted to issue bonds if it has been granted enterprise status.

Background

State enterprises. State agencies that have been granted enterprise status, including higher education institutions, are permitted to issue revenue bonds. Additionally, state enterprises are exempt from the requirement in TABOR to seek voter approval prior to issuing multi-year fiscal debt. Enterprise status is statutorily granted to government-owned businesses so long as they receive less than 10 percent of their annual revenues from state and local government sources combined. Although entities with enterprise status may bond for projects without a prior vote of the people, many of these transactions still require some level of legislative approval. In recent years, higher education institutions have used revenue bonds to finance a growing number of capital projects.

Higher Education Revenue Bond Intercept Program. When a higher education institution issues bonds for a project, it may do so using the state's credit rating through the intercept program, provided certain criteria are met, including: (1) the institution must have a credit rating or ratings from one or more nationally recognized statistical rating agencies in one of the three highest rating categories; and (2) the institution must have a debt service coverage ratio of greater than 1.5 percent, which is calculated by dividing the net revenue available for debt service by the total amount of new and existing debt subject to the intercept program. The intercept program directs the State Treasurer to make payments of principal 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, unless the institution adopts a resolution stating that it will not accept such payment prior to the issuance of the bonds for a project. With the exception of the University of Colorado System, every state higher education governing board is currently participating or plans to participate in the intercept program.

State Expenditures

The bill may decrease the cost of debt service payments for future bond issuances for the University of Colorado System. Increasing the amount that an institution can pledge when it borrows money could result in a higher credit rating and thus a more favorable interest rate and a lower total cost of repayment. Increasing the allowable pledge amount does not increase the amount borrowed. However, lower rates and repayment costs increase an institution's overall borrowing capacity, which could lead to a decision to finance additional projects.

If another state institution of higher education retires or refinances debt subject to the intercept program in the future, it may opt to borrow under the provisions of Senate Bill 16-121 if it determines more favorable rates and repayment costs are possible. This fiscal note does not estimate saving under the bill because the amount of debt that may be issued by the CU System or other, newly eligible institutions is unknown.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Higher Education Personnel Treasury