

TOPIC: TWO - YEAR CASH FUNDED CAPITAL PROGRAM LISTS

PREPARED BY: ANDREW RAUCH, LEAD FINANCE ANALYST

I. SUMMARY

This consent item, required by state statute, C.R.S. 23-1-106(7), is the Colorado Commission on Higher Education (CCHE) annually prepared unified, two-year report for capital construction or capital renewal projects that: (1) exceed \$2 million, (2) are capital construction or renewals of either academic or auxiliary facilities; and (3) financed 100 percent with institutional cash funds or federal funds. Each state institution of higher education prepares such a report and DHE staff compiles the individual reports into a comprehensive Two-Year Cash-Funded Capital Programs report. This capital report is transmitted to the Office of State Planning and Budgeting (OSPB) and the General Assembly for informational purposes and any necessary review. Commission review and approval is necessary for these cash-funded projects to commence, with the exception of the University of Colorado System. Their cash projects may be submitted directly to the General Assembly for approval, and their inclusion on this list is for informational purposes.

The comprehensive Two-Year Cash Funded Capital Program list covering FY 2014-15 and FY 2015-16 contains 24 projects submitted by institutions. Of these 24 projects, one is an Intercept project for an auxiliary building, one is an Intercept project for an academic building, eight are Non-Intercept projects for auxiliary buildings, and 14 are Non-Intercept projects for academic buildings. Intercept projects are reviewed by CCHE. The two Intercept projects, CSU-FC's Biology Building and RRCC's Student Recreation Center, were approved by CCHE in November and July respectively. The total projected expenditures of the Two-Year Cash-Funded List are \$448.5 million.

II. BACKGROUND

Historically, Governing Boards submitted a single, unified capital construction plan that included state-funded and cash-funded projects. Senate Bill 09-290 granted institutions considerable flexibility in their capital construction planning and submissions. The legislation significantly amended C.R.S. §23-1-106(7) splitting Governing Board reporting requirements into a five-year capital projection for state funded requests and a two-year capital projection for entirely cash funded projects. The legislation went into place prior to the FY 2010-11 budget cycle. Governing Boards are permitted to amend their Two-Year Lists at any point during the fiscal year. Amendments are submitted to both the Commission and the CDC for re-approval.

It is important to note that institutions may use cash funds as part of state funded projects, but this list is reserved for projects that are 100% cash funded. No state money is requested for the planning, construction, or outfitting of the facility, though Controlled Maintenance funding may be available in the future for certain subsets of cash projects.

DHE and CDC staff have come to a mutual understanding and agreement on the implementation of SB09-290 that no Cash Funded project may commence until it has received either: approval from the Commission and the CDC on the Two-Year List (for non-Intercept projects); or Commission and CDC approval on the Two-Year Cash Funded Program list and Commission review and approval of a program plan (for Intercept projects).

III. STAFF ANALYSIS

Insufficient state funds will be available to meet projected capital needs for the foreseeable future. As a result, institutions will continue to fund projects through cash sources such as student fees, cash reserves, private donations, and bonds backed by institutional revenue.

Attachment A, the Two-Year List, contains the most current Governing Board cash submissions, and Table 1 below displays a projected grand total for all of the projects. The combined two-year plans show that institutions are committing \$448.5 million to meet their own capital needs. No federal funds are being used for projects on this list.

**Table 1:
Two-Year Cash Funded Capital Program
FY 2014 - FY2015**

| | |
|-----------|----------------------|
| CF | \$448,566,544 |
| TF | \$448,566,544 |

Institutions have reluctantly pursued student capital construction fees as an alternative capital funding source. Institutions have sought and received student support on these capital fees. Presently, students at the Adams State University, Colorado Mesa University, Colorado School of Mines, Colorado State University-Ft. Collins, Colorado State University-Pueblo, Fort Lewis College, Metropolitan State University of Denver, University of Colorado-Boulder, University of Northern Colorado, Western State Colorado University, Community College of Denver, Front Range Community College and Pueblo Community College have voted to implement stand alone capital fees for current and future campus needs.

Over the next five years, the total amount of capital funding across both the Five-Year State Funded List, and the Two-Year Cash Funded List is about \$2.26 billion. Of this amount, institutions are pledging over \$820 million, and their contributions comprise roughly 36.5% of the total funding needs. This is down from last year, where cash funds were 40.7% of the total five year need.

Institutions of higher education listed 24 cash funded projects on the Two-Year List for FY 2014-15 and FY 2015-16. Table 2 displays the breakdown between the type of project and if the project will be financed under the Higher Education Revenue Bond Intercept Program (C.R.S. 23-5-139). The Intercept program permits schools to issue bonds for capital construction and use either the state's credit rating (opt in), or use their own credit rating (opt out). Academic facilities are those that are considered core to the role and mission of the institution (e.g.

classrooms, student services, libraries), while auxiliary facilities are those that are not considered core to the role and mission, and exist for some other purpose (e.g. residence halls, recreation centers, parking facilities).

**Table 2:
Cash Funded Project Types**

| | Academic | Auxiliary | Total |
|----------------------|-----------------|------------------|--------------|
| Intercept | 1 | 1 | 2 |
| Non-Intercept | 14 | 8 | 22 |
| Total | 15 | 9 | 24 |

Academic facilities constructed with cash funds are eligible for state Controlled Maintenance Funds. Also due to new statutory provisions, Non-Intercept projects only have their cost projections reviewed in the Two-Year List, while Intercept projects require approval in the Two-Year List as well as program review. In accordance with the two step approval process for cash funded projects, the Department (acting with the power delegated by the Commission (CCHE Policy III.J)) will review all budget documents submitted for Intercept Act cash projects and submit all forms to the General Assembly's Capital Development Committee as they are approved.

III. STAFF RECOMMENDATION

Staff recommends the Commission approve the Two-Year Cash Funded Capital Program List for FY 2014-15 and FY 2015-16, and forward it to the Governor, the Office of State Planning and Budgeting, the Capital Development Committee, and the Joint Budget Committee.

IV. STATUTORY AUTHORITY

C.R.S. 23-1-106(7)

ATTACHMENT A: Two-Year Cash Funded Capital Program List FY 2014-15 to FY 2015-16