

**STATE BOARD FOR COMMUNITY COLLEGES AND OCCUPATIONAL EDUCATION**  
May 10, 2023

**TOPIC:** SBCCOE Tuition Pledge

**PRESENTED BY:**

Mark Superka, Vice Chancellor for Finance and Administration

**RELATIONSHIP TO THE STRATEGIC PLAN:**

Redefine our value proposition through accessibility, affordability, quality, accountability, resource development, and operational excellence.

**EXPLANATION:**

In the 2022 legislative session, the General Assembly passed SB 22-121, which allows higher education governing boards the ability to pledge 100% of their tuition revenues as security to bondholders. Prior to the bill's passage, all governing boards in Colorado except the University of Colorado (which was granted 100% authority by statute in 2016) were limited to pledge up to 10% of tuition revenue. The majority of other states allow higher education institutions the ability to pledge 100% of their tuition revenues as security to bondholders.

In general, ratings agencies recognize that broader revenue pledges improve the credit strength of financings. Since the bill's passage, nearly all of the other Colorado governing boards have voted to increase their pledge to 100%. Increasing the SBCCOE's tuition pledge to 100% would:

- Bring SBCCOE in line with the rest of Colorado governing boards and the nation;
- Serve as a counterbalance to credit challenges facing higher education, which were exacerbated by Moody's recent collapsing of community colleges into a broader set of higher education credit scoring metrics; and
- Allow all our colleges to access the capital market at the highest possible credit ratings and reduce interest expenses—especially important in the current high interest rate environment.

How much of a difference could this increased pledge make financially? Under the current 10% pledge restriction, the interest rate for SBCCOE on a 20-year security that finances \$20 million would have an estimated interest rate of 3.65%, assuming market conditions as of April 17, 2023. Financing the same \$20 million under a 100% tuition pledge would yield an estimated interest rate of 3.45%, saving close to \$325,000 in interest expense over the life of the financing.

Will increasing the pledge create additional risk for SBCCOE or our colleges? By increasing the amount of tuition revenue pledged to replay, this does put additional tuition revenue at risk if a default or non-payment were to occur. However, staff believes the interest rate savings significantly outweigh this increased risk given our relatively low levels of debt, high coverage ratio, and strong system-wide reserves.

**RECOMMENDATION:**

Staff recommends that Board adopt the attached amendment to our master resolution, allowing SBCCOE to pledge 100% of tuition revenues as security to bondholders.

**ATTACHMENT:**

Amendment to Master Resolution