



OFFICE OF THE STATE AUDITOR



February 11, 2016

DIANNE E. RAY, CPA

STATE AUDITOR

2015 Annual Report from the Colorado Educational and Cultural Facilities Authority on the Moral Obligation Bond Program

Members of the Legislative Audit Committee:

Please find attached the Colorado Educational and Cultural Facilities Authority's (CECFA) 2015 annual report on the Moral Obligation Bond program for charter schools authorized under Section 22-30.5-407 and 408, C.R.S. Section 22-30.5-409, C.R.S., requires that, prior to January 30th of each year, CECFA submit a report to the State Auditor containing specific information on bonds issued during the most recently completed calendar year on behalf of charter schools. The State Auditor is required to examine this report and report any findings no later than March 1st of each year, to the Legislative Audit Committee, the Education Committees of the Senate and the House of Representatives, the Capital Development Committee, the Joint Budget Committee, and the Department of Education.

We have received and reviewed CECFA's 2015 report dated January 13, 2016, and we have verified that the required data has been accurately compiled in this report from the Official Statements related to the bonds issued during Calendar Year 2015. CECFA reports that it issued three bonds under this program in 2015. Our review did not identify any findings related to CECFA's 2015 annual report on the Moral Obligation Bond program.

The total aggregate principal amount of bonds outstanding at December 31, 2015 was \$352,208,514 which was under the statutory limit of \$500 million per Section 22-30.5-408(2)(a), C.R.S.

enc.

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CECFA

Colorado Educational and Cultural Facilities Authority

February 10, 2016

Legislative Audit Committee
1525 Sherman St., 7th Floor
Denver, CO 80203

Dear Ladies and Gentlemen:

We are pleased to provide to you the report regarding Colorado charter school moral obligation bonds issued during calendar year 2015, as required by C.R.S. 22-30.5-409(1). Three transactions were completed during the year with a combined par amount of \$25,270,000.00. Two of the three were refundings of prior issues motivated by savings made possible by low interest rates, and did not involve any new construction projects.

The total principal amount of moral obligation bonds outstanding as of December 31, 2015, was \$352,208,514.00, which is within the statutory limit of \$500 million outstanding at any one time.

We appreciate your review of this information. Please let me know if you have any questions or need any additional information.

Sincerely,

Mark Heller
Executive Director

cc: Jon Forbes, Deputy State Treasurer
Claire Jozwiak, State Treasurer's Office

**COLORADO EDUCATIONAL AND CULTURAL
FACILITIES AUTHORITY**

**Report to the State Auditor
Issuance of Qualified Charter School Bonds
Required by C.R.S. 22-30.5-407 and 408**

January 2016

This report provides information concerning the issuance of qualified charter school bonds, as defined in C.R.S. Section 22-30.5-408 (1)(c), 22-30.5-407 (2) (a) and 22-30.5-408 (2)(a). This report is required by C.R.S. Section 22-30.5-409.

- a) The total amount of qualified charter school bonds issued during the 2015 calendar year was \$25,270,000.
- b) The charter schools on whose behalf such qualified charter school bonds were issued was as follows:
- The Classical Academy, El Paso County SD 20
 - North Star Academy, Douglas County SD
 - Liberty Common, Poudre R-1
- c) The proceeds of the bond issues were used as follows:

Charter School	Amount of the Issue	Total Cost of New Charter School Facilities	Percentage of Project Paid by Bond Proceeds	Refunding of a Prior Bond Issue for Savings
The Classical Academy	\$13,315,000	\$0	-	Yes
North Star Academy	\$8,830,000	\$0	-	Yes
Liberty Common	\$3,125,000	\$3,482,073	90.0%*	No

* The School also contributed \$750,000 of equity to fund the project.

- d) The investment ratings of the issues are summarized below:

Charter School	Moral Obligation Program Rating	Underlying Credit Rating
The Classical Academy	"A" by S&P	"BBB" by S&P
North Star Academy	"A" by S&P	"BBB-" by S&P
Liberty Common	"A" by S&P	"BBB-" by S&P

- e) The total amount of net and gross proceeds obtained from the issuance of such qualified charter school bonds during the most recently completed calendar year was:

Aggregate Gross Proceeds in CY 2015	\$25,270,000
Aggregate Net Proceeds in CY 2015	\$24,557,631

- f) The total principal amount outstanding of qualified charter school bonds as of December 31, 2015 was \$352,208,514.
- g) The total amount of annual installments of principal and interest on all outstanding qualified charter school bonds scheduled for payment during the 2015 calendar year was \$29,722,553.

The total amount of such annual installments actually paid during the 2015 calendar year was \$25,936,421 (different than the amount above due to refundings closed during the calendar year). The total amount of annual installments due in the 2016 calendar year is \$25,250,069 and the annual installments due in the calendar years 2016 through 2046 total \$590,149,664.

- h) The total amount of moneys expended from the charter schools' own debt service reserve funds or accounts during the 2015 calendar year for the purpose of paying principal and interest on such qualified charter school bonds was \$0.
- i) The total amount of moneys expended from the state charter school debt reserve fund during the 2015 calendar year for the purpose of paying principal and interest on such qualified charter school bonds was \$0.

Two schools, The Classical Academy and North Star, achieved significant interest rate savings of \$3.2 million and \$2.5 million over the life of each bond, respectively, by refunding outstanding moral obligation debt with new moral obligation bonds. Five schools: American Academy, Bromley East, James Irwin, Stargate and University Lab, refunded issues totaling \$70,050,000 out of the moral obligation program due primarily to their inability to secure an investment grade rating. S&P is currently the only ratings agency for charter schools in Colorado and it has been tightening its ratings criteria, making it more difficult for our best schools to earn or retain investment grade ratings. Fortunately, due to historically-low interest rates, these five schools have been able to achieve refunding savings without the moral obligation program support. CECFA and others in the charter school facility financing sector have communicated this issue to S&P as well as to Moody's, which appears poised to enter the Colorado market.