**STATE OF COLORADO**
**OFFICE OF THE TREASURER**
**Walker R. Stapleton**

# COLORADO TREASURER'S 1ST ANNUAL REPORT
## STATE INSTITUTIONS OF HIGHER EDUCATION
## FISCAL YEAR 2016/2017

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# INTRODUCTION

In response to Colorado Revised Statutes 23-5-139, as amended, the Colorado Treasurer's Office is required to submit an annual report to the Capital Development Committee, the Joint Budget Committee, the Colorado Commission on Higher Education and the Office of State Planning and Budgeting no later than September 1 of each year. The purpose of the report is to better understand the financial needs and limitations of our institutions of higher education. In addition to reporting on various financial technical data for each institution, the Treasurer's Office will provide commentary on an institution's financial strengths and weaknesses. It is the intent of this document to ***generally*** inform the aforementioned committees on the financial health of the State's institutions of higher education. It is important to note that no institution of higher education participating in the State's Higher Education Intercept Program have ever had to rely on the intercept to meet debt service payments on outstanding debt.

This report is a publication of the Colorado Treasurer's Office. Information presented is believed to be factual and up-to-date, but we do not guarantee its accuracy and it should not be regarded as a complete analysis of the subjects discussed. All expressions of opinion reflect the judgment of the authors as of the date of publication and are subject to change.

### TRAFFIC LIGHT KEY

A Red Light is an indication that an institution has fallen below one or more of the minimum requirements to qualify for the State's Intercept Program. Furthermore, a Red Light should indicate to lawmakers that further oversight of the institution is needed.

A Yellow Light is an indication that, while the institution currently meets all the minimum requirements of the State's Intercept Program, the institution has been experiencing recent financial difficulties and lawmakers should begin to monitor the institution more closely as new data comes in.

A Green Light is an indication that an institution currently meets all the minimum requirements of the State's Intercept Program. In addition, a Green Light indicates that an institution's ratings outlook is stable to positive with no material financial disturbances on the horizon.

# ADAMS STATE UNIVERSITY

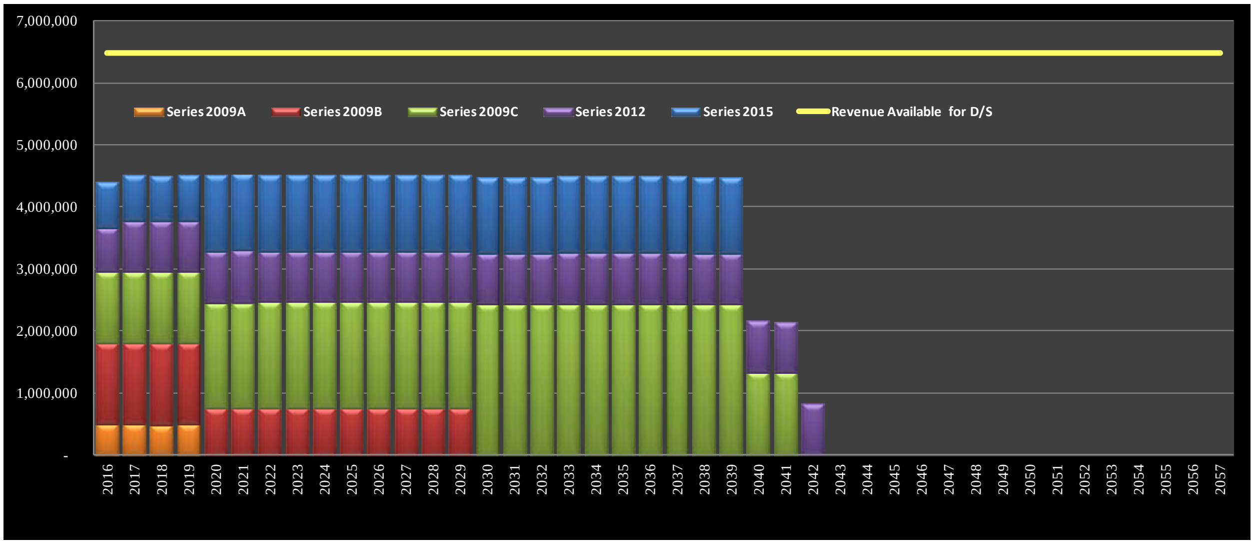
Underlying Credit Ratings **Moody's** **A3**

## TREASURER'S COMMENTARY

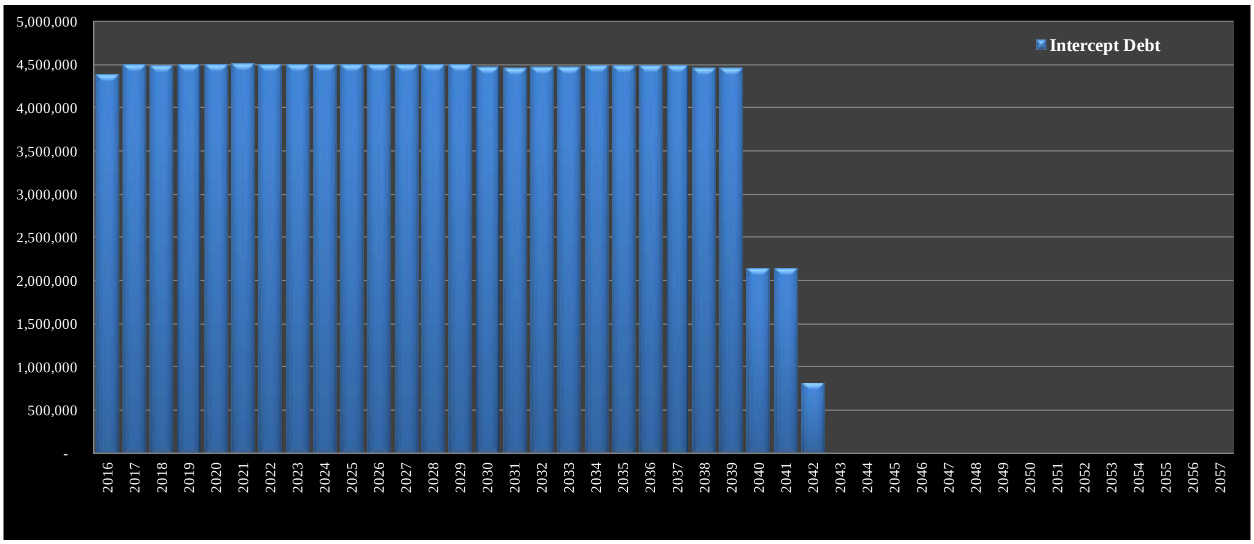
Adam's State University last issued State Intercept debt in March of 2015. The University uses the State's Intercept provisions in order to achieve a higher credit rating than if they issued the bonds on a ***stand-alone*** basis. Moody's, on January 22, 2016, downgraded Adams State University from A2 to A3 with a negative outlook. Coverage is challenging as enrollment has actually declined from 2013 to 2015 by 2.43% while expenses have accelerated faster than anticipated. Revenues grew at a rate of 11% from 2011 to 2015, while expenses grew at a rate of 27% over a similar period. Current debt service coverage is at 1.46x which falls short of the required 1.50x required to use the State's Intercept program for future issuances outside of refunding bonds that provide cash flow savings in every year.

***Maximum Annual Intercept Debt Service as a percentage of State Aid*** **32%**

## AGGREGATE DEBT SERVICE




## INTERCEPT DEBT SERVICE VS. STAND-ALONE DEBT SERVICE



# COLORADO COMMUNITY COLLEGE SYSTEM

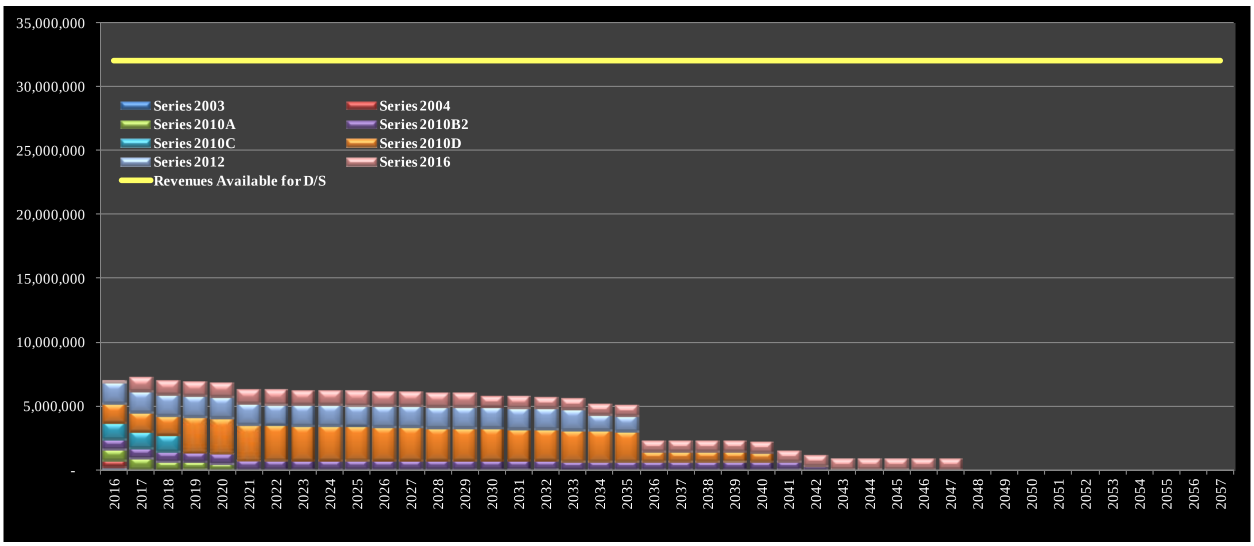
Underlying Credit Ratings **Moody's** **Aa3**

### TREASURER'S COMMENTARY

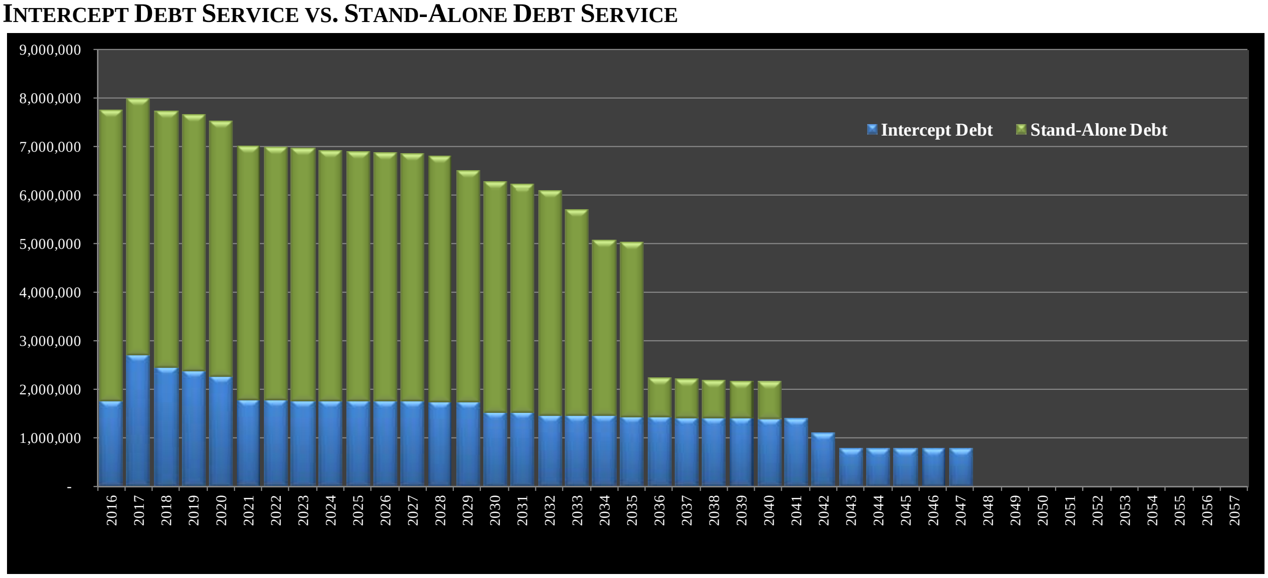
The Colorado Community College System last issued State Intercept debt in February of 2015. The System uses the State's Intercept provisions on selected series of bonds in order to achieve a higher credit rating than if they issued the bonds on a ***stand-alone*** basis. Moody's, on January 7, 2016, affirmed the System's Aa3 underlying rating with a stable outlook. Debt service coverage is sufficient at 4.01x which more than meets the 1.50x coverage requirement to use the State's Intercept program. The Colorado Community College System should be considered a strong candidate for the State's Higher Education Intercept Program.

***Maximum Annual Intercept Debt Service as a percentage of State Aid*** **2%**

### AGGREGATE DEBT SERVICE




### INTERCEPT DEBT SERVICE VS. STAND-ALONE DEBT SERVICE



# COLORADO STATE UNIVERSITY

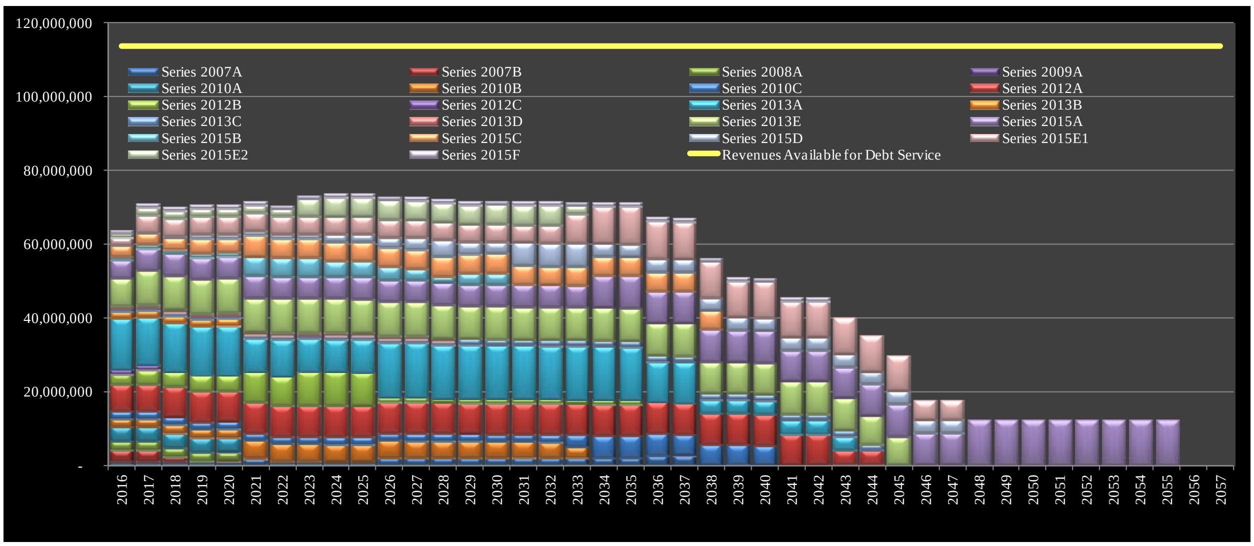
Underlying Credit Ratings **Moody's** **Aa3**

## TREASURER'S COMMENTARY

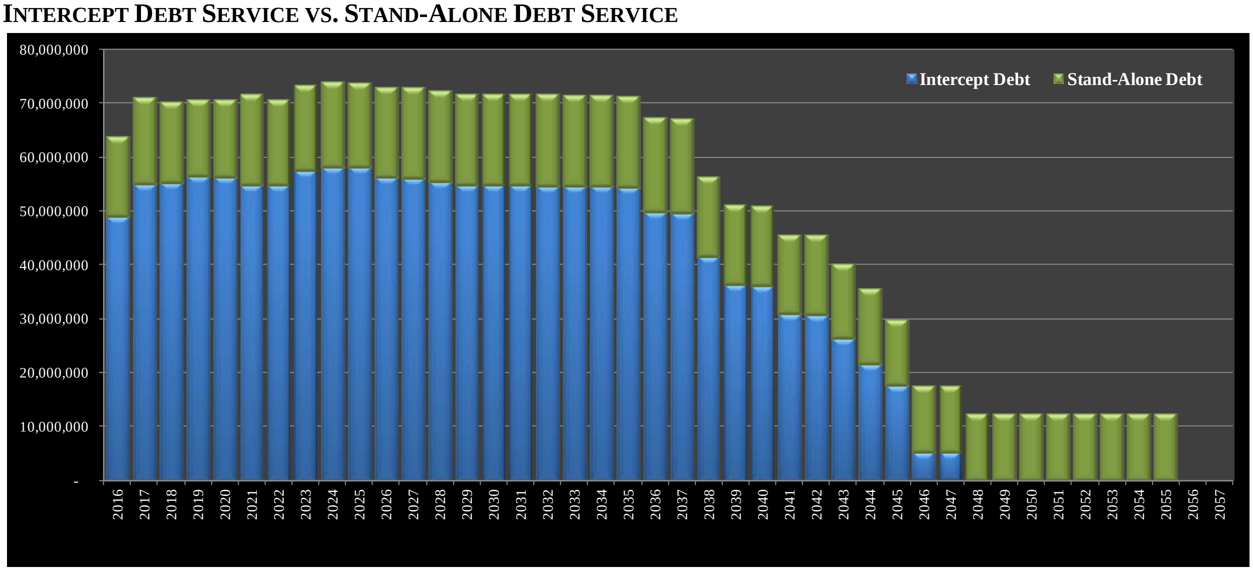
Colorado State University last issued State Intercept debt in September of 2015. The University uses the State's Intercept provisions on selected series of bonds in order to achieve a higher credit rating than if they issued the bonds on a ***stand-alone*** basis. Moody's, on July 29, 2015, affirmed the University's Aa3 underlying rating with a stable outlook. Debt service coverage is sufficient at 1.76x which more than meets the 1.50x coverage requirement to use the State's Intercept program. Colorado State University should be considered a strong candidate for the State's Higher Education Intercept Program.

***Maximum Annual Intercept Debt Service as a percentage of State Aid*** **43%**

## AGGREGATE DEBT SERVICE




## INTERCEPT DEBT SERVICE VS. STAND-ALONE DEBT SERVICE



# UNIVERSITY OF COLORADO

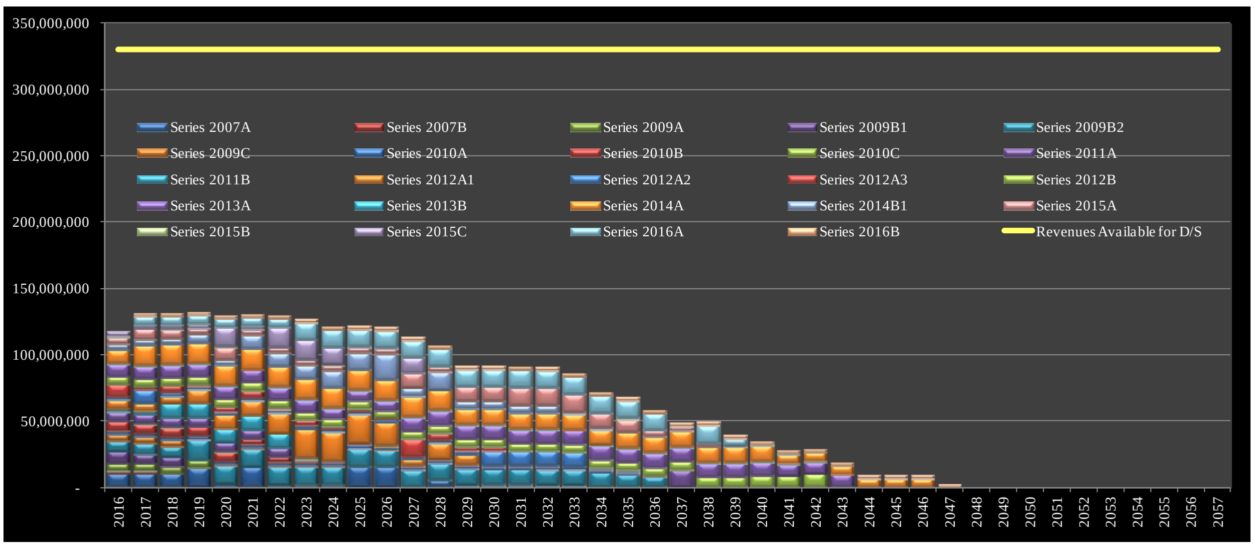
Underlying Credit Ratings **Moody's** **Aa1**

## TREASURER'S COMMENTARY

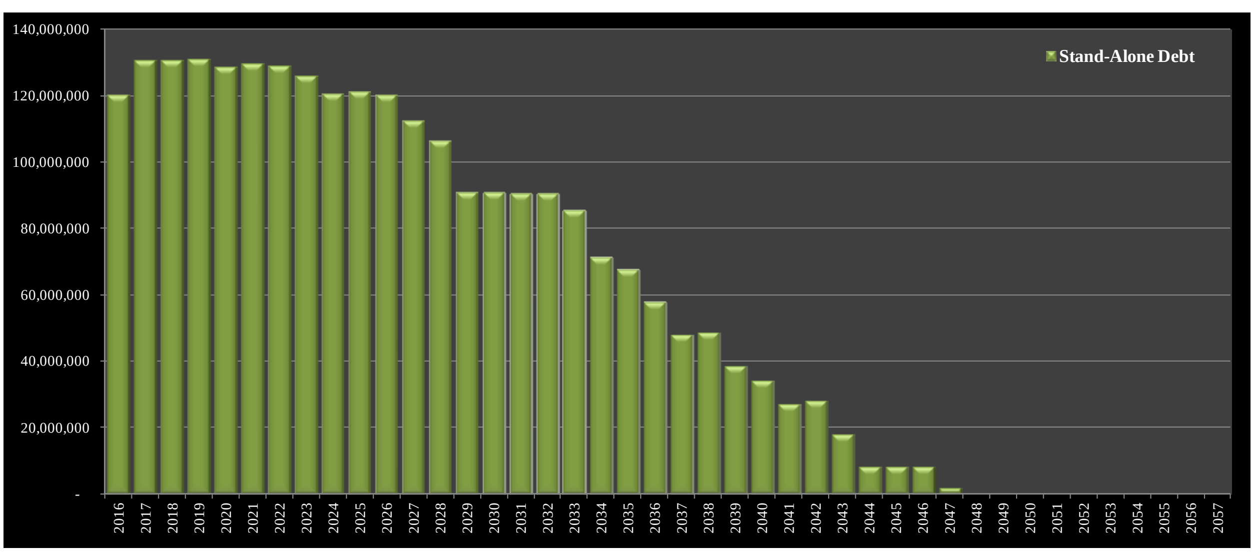
The University of Colorado last issued debt in March of 2016. The University has a credit rating that is currently higher than that of the State of Colorado's and as such achieves no advantage by using the State's Intercept Program. Moody's, on March 24, 2016, affirmed the University's Aa1 rating and upgraded the outlook from stable to positive. Debt service coverage is more than sufficient at 2.53x which more than meets the 1.50x coverage requirement to use the State's Intercept program. Note the University used a 100% tuition pledge for the first time, versus the 10% previously allowed. The University of Colorado is the only higher education institution that is able to take advantage of this additional pledge at present due to not having any State Intercept debt currently outstanding. The State should take comfort in the management practices of the University that has put them in such a healthy financial position.

***Maximum Annual Intercept Debt Service as a percentage of State Aid*** **0%**

## AGGREGATE DEBT SERVICE




## INTERCEPT DEBT SERVICE VS. STAND-ALONE DEBT SERVICE



# FORT LEWIS COLLEGE

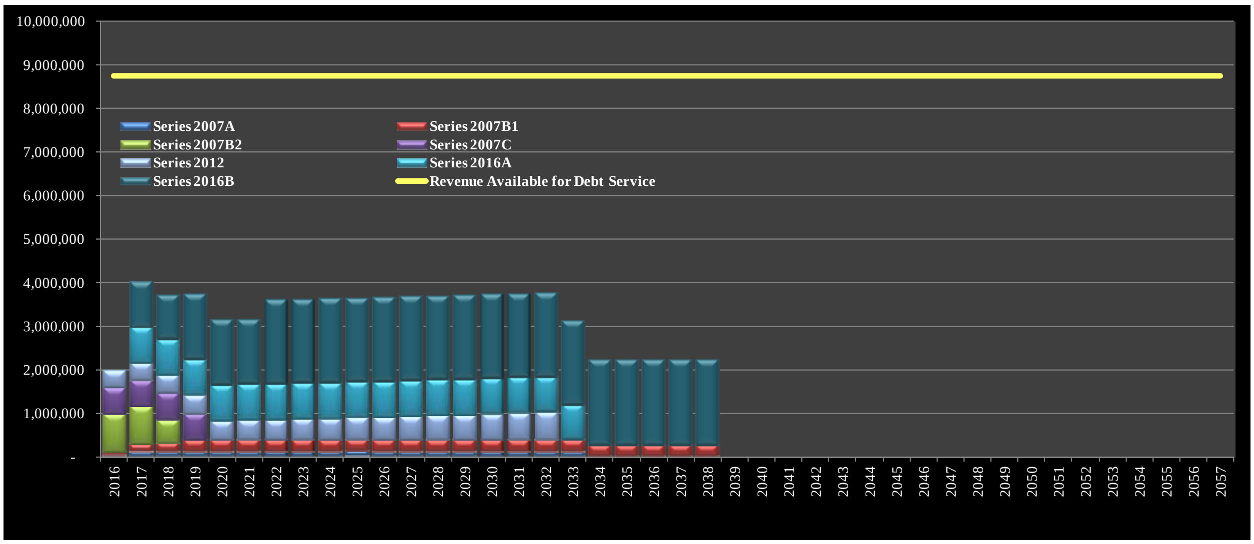
Underlying Credit Ratings **Moody's** **A2**

## TREASURER'S COMMENTARY

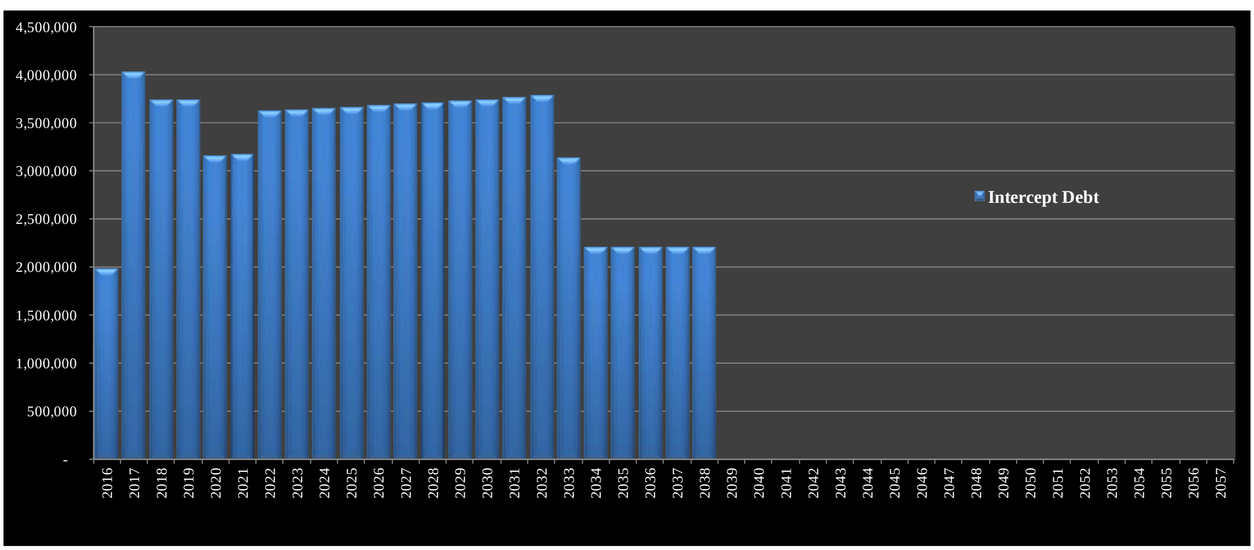
Fort Lewis College last issued State Intercept debt in March of 2016. The College uses the State's Intercept provisions on selected series of bonds in order to achieve a higher credit rating than if they issued the bonds on a ***stand-alone*** basis. Moody's, on February 11, 2016, affirmed the College's A2 underlying rating with a stable outlook. Debt service coverage is sufficient at 2.05x which more than meets the 1.50x coverage requirement to use the State's Intercept program. While coverage is strong, areas of concern include declining enrollment and limited pricing power in a competitive environment. Fort Lewis College should be considered a strong candidate for the State's Higher Education Intercept Program.

***Maximum Annual Intercept Debt Service as a percentage of State Aid*** **34%**

## AGGREGATE DEBT SERVICE




## INTERCEPT DEBT SERVICE VS. STAND-ALONE DEBT SERVICE



# METROPOLITAN STATE UNIVERSITY

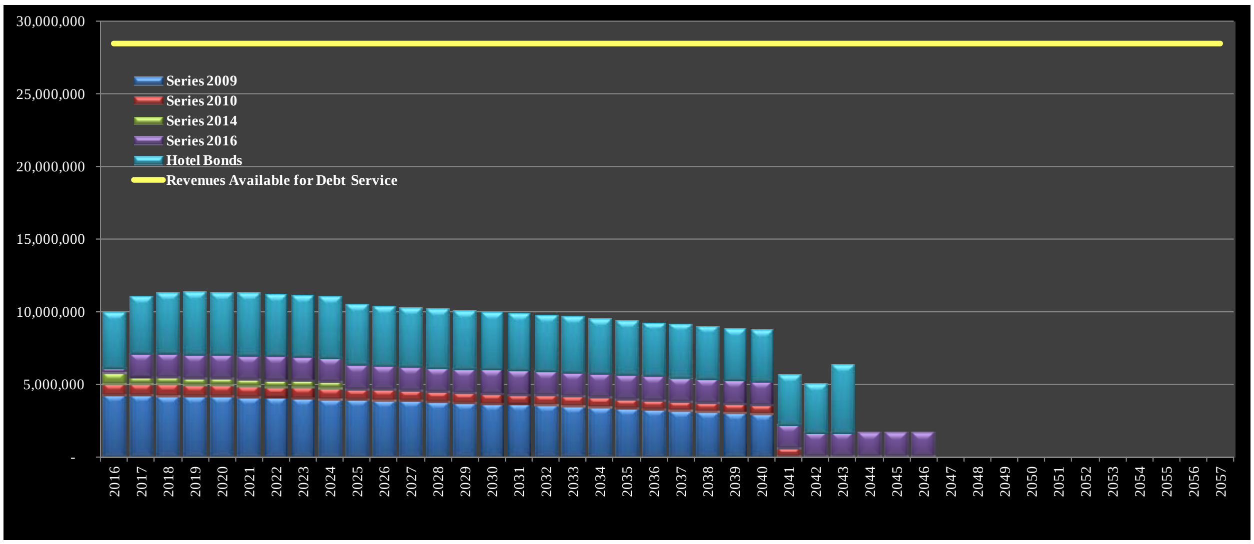
Underlying Credit Ratings **Moody's** **A1**

## TREASURER'S COMMENTARY

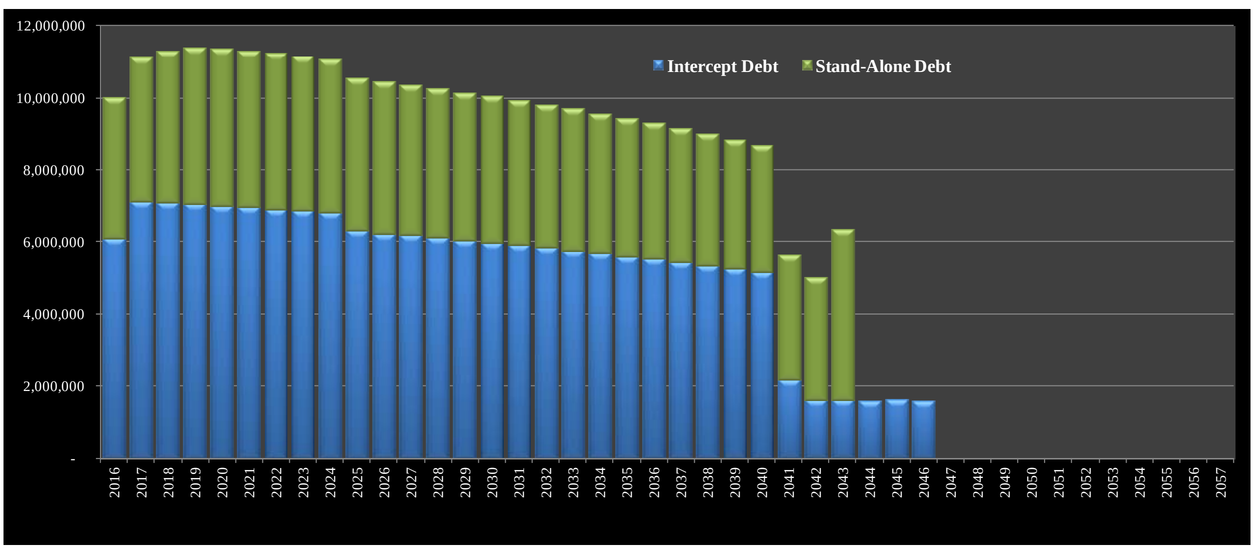
Metropolitan State University last issued State Intercept debt in February of 2016. The University uses the State's Intercept provisions on selected series of bonds in order to achieve a higher credit rating than if they issued the bonds on a ***stand-alone*** basis. Moody's, on January 6, 2016, affirmed the University's A1 underlying rating with a stable outlook. Debt service coverage is sufficient at 2.50x which more than meets the 1.50x coverage requirement to use the State's Intercept program. While coverage is strong, areas of concern include exposure to the volatile hospitality market with its guarantee of the Hotel Bonds debt service. Metropolitan State University should be considered a strong candidate for the State's Higher Education Intercept Program.

***Maximum Annual Intercept Debt Service as a percentage of State Aid*** **14%**

## AGGREGATE DEBT SERVICE




## INTERCEPT DEBT SERVICE VS. STAND-ALONE DEBT SERVICE



# COLORADO MESA UNIVERSITY

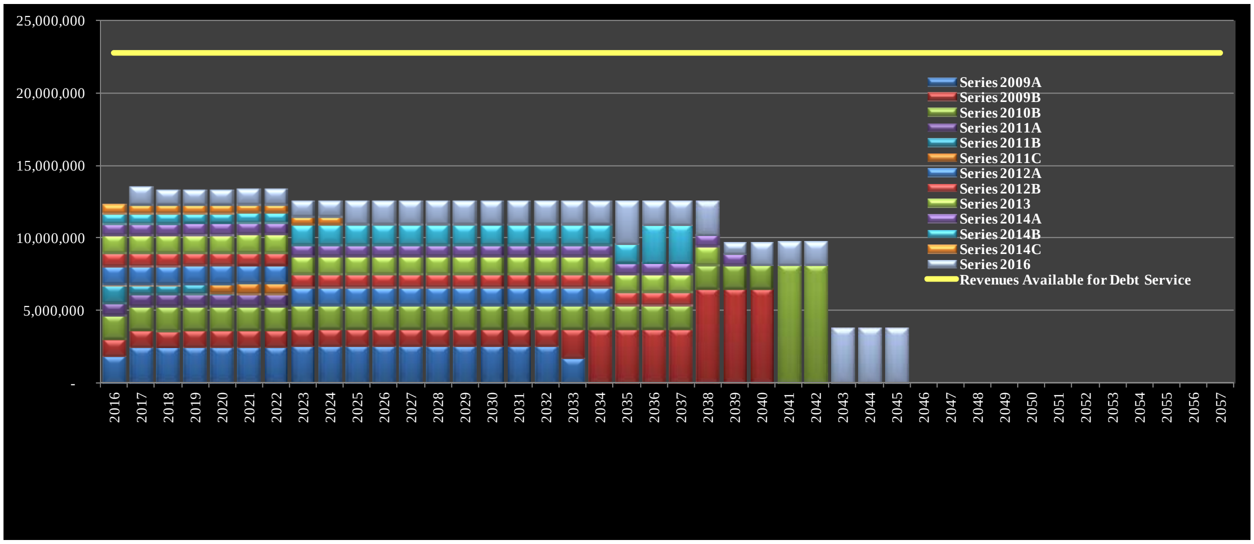
Underlying Credit Ratings **Moody's** **A2**

## TREASURER'S COMMENTARY

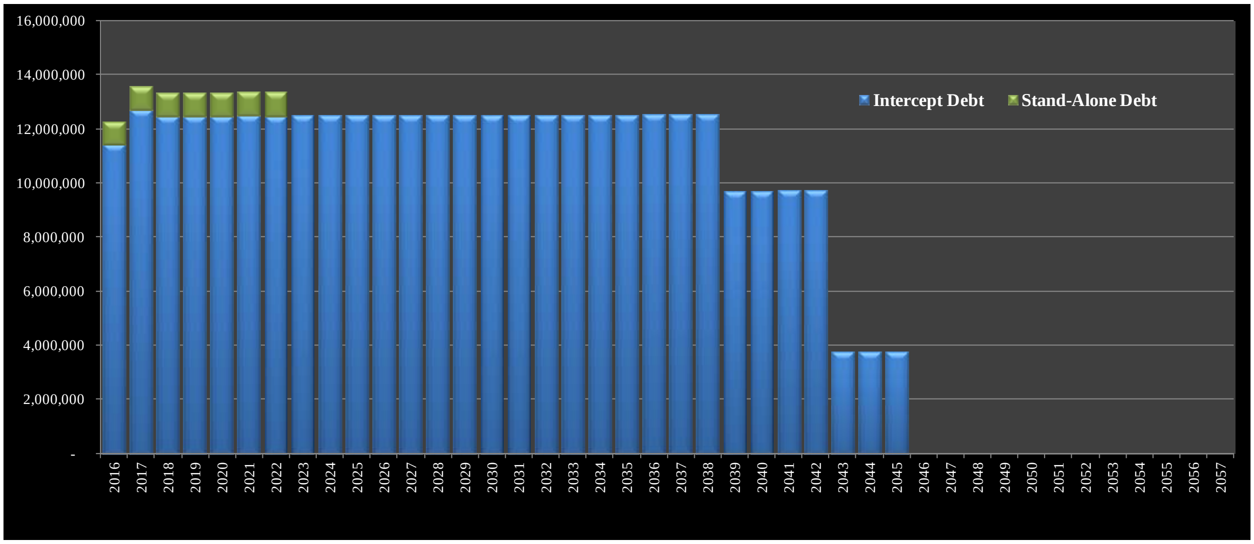
Colorado Mesa University last issued State Intercept debt in February of 2016. The University uses the State's Intercept provisions on selected series of bonds in order to achieve a higher credit rating than if they issued the bonds on a ***stand-alone*** basis. Moody's, on January 11, 2016, affirmed the University's A2 underlying rating with a stable outlook. Debt service coverage is sufficient at 1.68x which more than meets the 1.50x coverage requirement to use the State's Intercept program. The school's dominant student market given its role as the primary university in western Colorado coupled with its long-term growth in enrollment and net tuition revenue more than offsets the negative implications of higher leverage as pointed out by Moody's. Colorado Mesa University should be considered a strong candidate for the State's Higher Education Intercept Program.

***Maximum Annual Intercept Debt Service as a percentage of State Aid*** **52%**

## AGGREGATE DEBT SERVICE




## INTERCEPT DEBT SERVICE VS. STAND-ALONE DEBT SERVICE



# COLORADO SCHOOL OF MINES

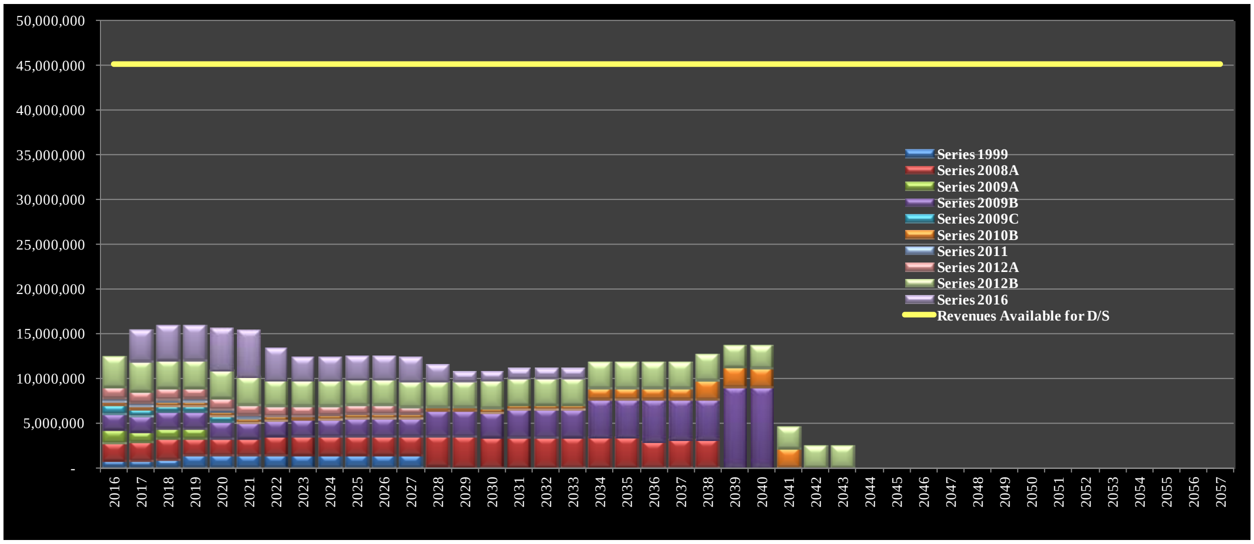
Underlying Credit Ratings **Moody's** **Aa3**

## TREASURER'S COMMENTARY

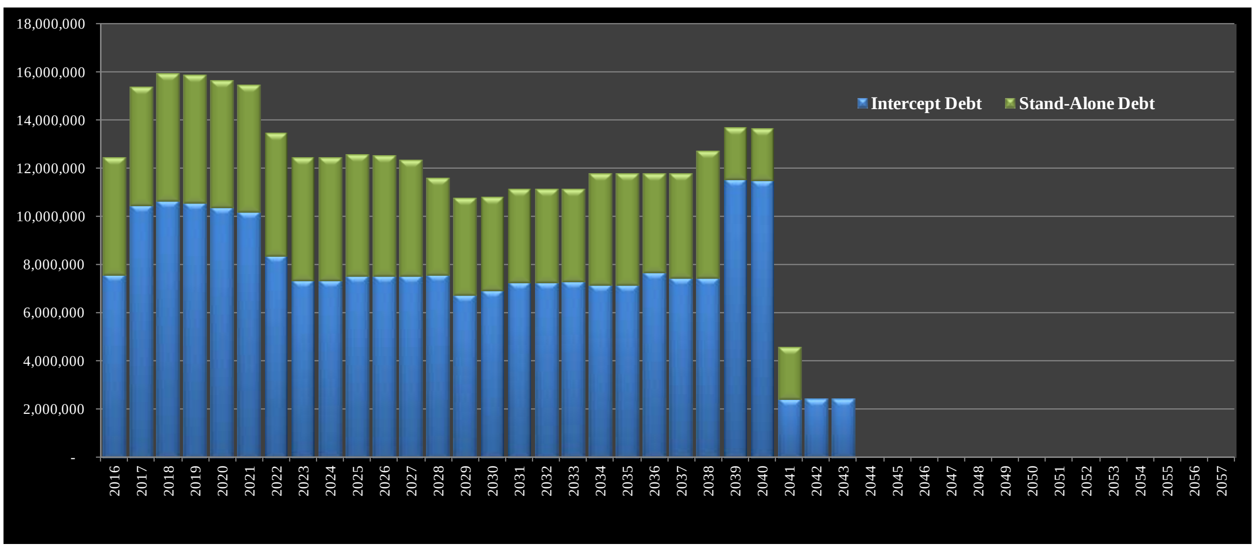
Colorado School of Mines last issued State Intercept debt in February of 2016. The School uses the State's Intercept provisions on selected series of bonds in order to achieve a higher credit rating than if they issued the bonds on a ***stand-alone*** basis. Moody's, on December 10, 2015, affirmed the School's Aa3 underlying rating with a stable outlook. Debt service coverage is sufficient at 2.83x which more than meets the 1.50x coverage requirement to use the State's Intercept program. "The Aa3 underlying rating is based on CSM's significant growth in financial resources, with total cash and investments doubling over the past five years and monthly days cash on hand growing to 251 days in fiscal year (FY) 2015 from 136 days in FY 2011". Colorado School of Mines should be considered a strong candidate for the State's Higher Education Intercept Program.

***Maximum Annual Intercept Debt Service as a percentage of State Aid*** **56%**

## AGGREGATE DEBT SERVICE




## INTERCEPT DEBT SERVICE VS. STAND-ALONE DEBT SERVICE



# UNIVERSITY OF NORTHERN COLORADO

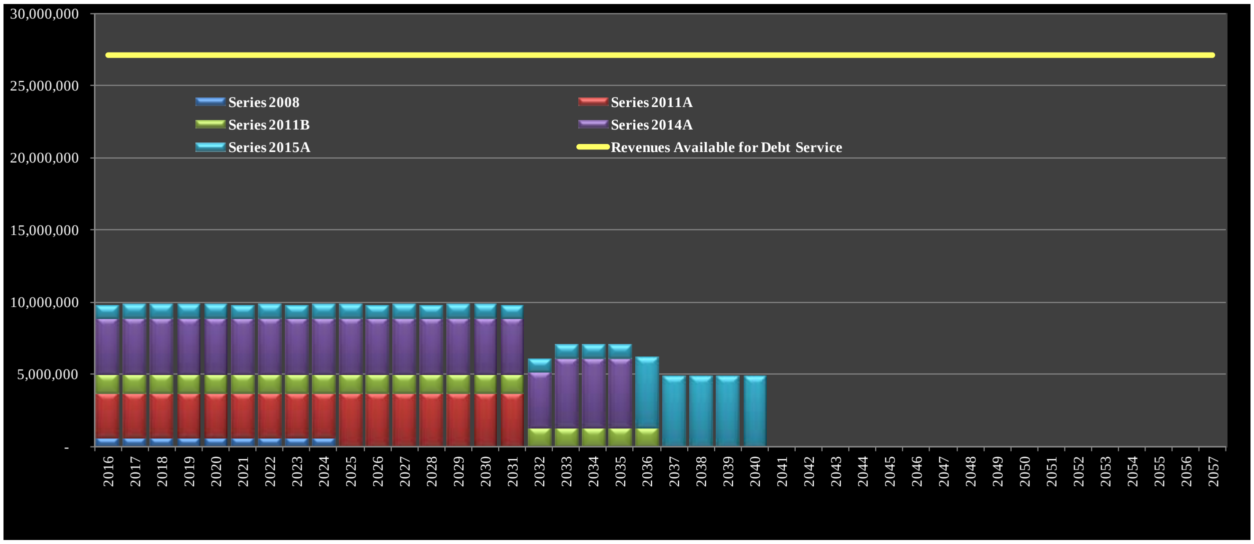
Underlying Credit Ratings **Moody's** **A1**

## TREASURER'S COMMENTARY

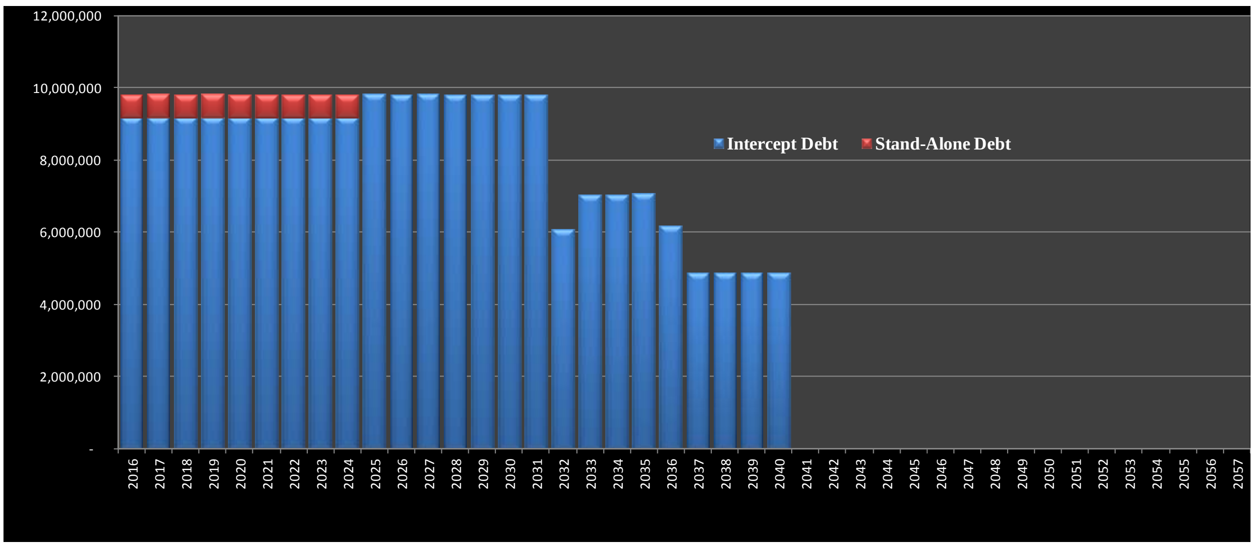
The University of Northern Colorado last issued State Intercept debt in June of 2015. The University uses the State's Intercept provisions on selected series of bonds in order to achieve a higher credit rating than if they issued the bonds on a ***stand-alone*** basis. Moody's, on April 30, 2016, lowered its outlook for the University from stable to negative. "The outlook revision to negative from stable reflects the university's declining liquidity and rising fixed costs associated with an aggressive plan to grow enrollment by 25% by fall 2018." Debt service coverage is sufficient at 2.76x which more than meets the 1.50x coverage requirement to use the State's Intercept program. The University of Northern Colorado should be considered a candidate for the State's Higher Education Intercept Program as it meets all of the requirements.

***Maximum Annual Debt Service as a percentage of State Aid*** **24%**

## AGGREGATE DEBT SERVICE




## INTERCEPT DEBT SERVICE VS. STAND-ALONE DEBT SERVICE



# WESTERN STATE UNIVERSITY

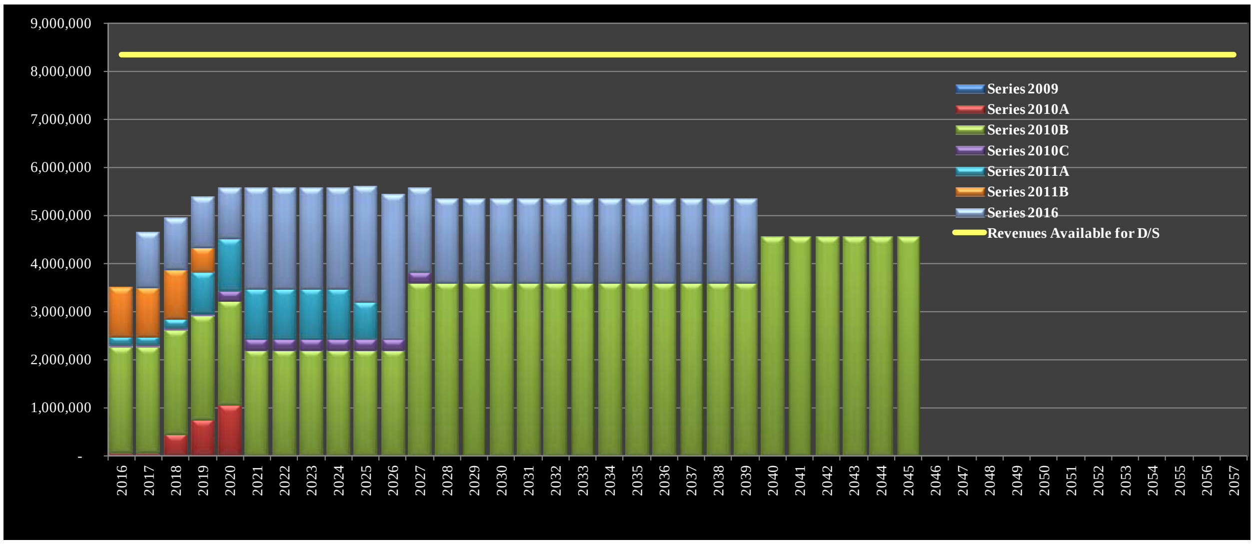
Underlying Credit Ratings **Moody's** **Baa1**

### TREASURER'S COMMENTARY

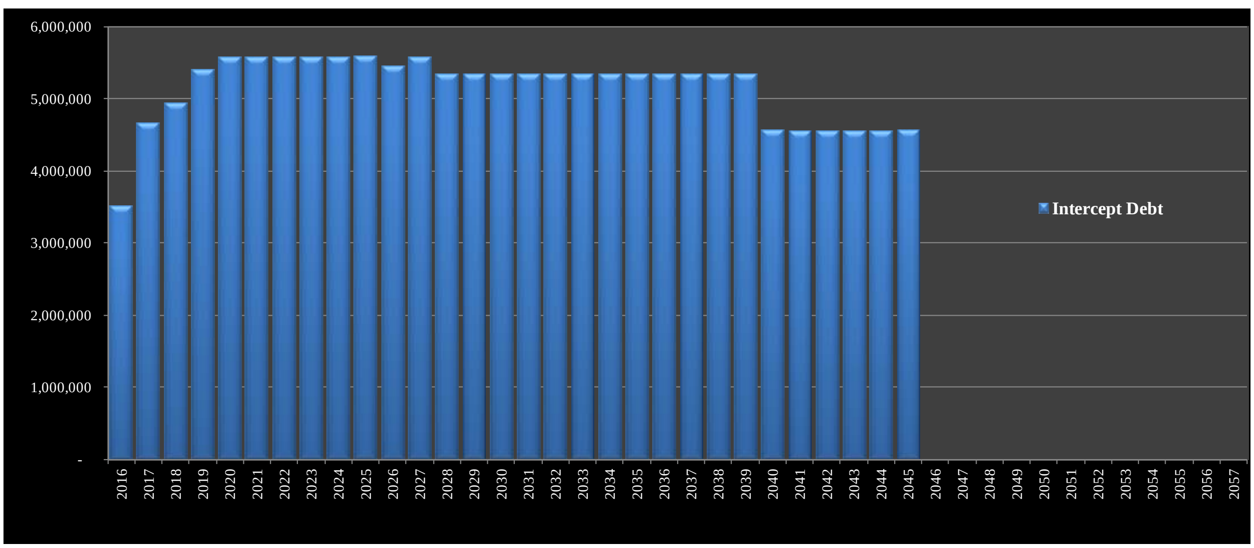
Western State University last issued State Intercept debt in August of 2016. The University uses the State's Intercept provisions in order to achieve a higher credit rating than if they issued the bonds on a ***stand-alone*** basis. Moody's, on August 5, 2016, affirmed the University's Baa1 rating with a stable outlook. Coverage is challenging as the University is highly leveraged with capital expenses equivalent to 23% of total expenses.. Current debt service coverage is at 1.48x which falls short of the required 1.50x required to use the State's Intercept program for future issuances outside of refunding bonds that provide cash flow savings in every year. The University also falls short of the underlying ratings requirement for the State's Intercept Program which requires a rating in one of the three highest categories.

***Maximum Annual Debt Service as a percentage of State Aid*** **59%**

### AGGREGATE DEBT SERVICE




### INTERCEPT DEBT SERVICE VS. STAND-ALONE DEBT SERVICE



# APPENDIX I MOODY'S CREDIT REPORTS

# Adams State University

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
26 January 2016

Update

Contacts

| | |
|---|---|
| Mary Kay Cooney<br>*AVP-Analyst*<br>marykay.cooney@moodys.com | 212-553-7815 |
| Eva Bogaty<br>*VP-Senior Analyst*<br>eva.bogaty@moodys.com | 415-274-1765 |
| Erin V. Ortiz<br>*AVP-Analyst*<br>erin.ortiz@moodys.com | 212-553-4603 |

CLIENT SERVICES

| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |


# Adams State University, CO

Update - Moody's downgrades Adams State University (CO)'s to A3; outlook negative

## Summary Rating Rationale

Moody's Investors Service has downgraded to A3 from A2 the rating on Adams State University's (ASU) $52 million of rated debt. We have also affirmed the university's Aa2 enhanced intercept ratings. The outlook on the underlying rating is negative and the enhanced rating is stable.

The downgrade to A3 reflects ASU's ongoing operating deficits, thin debt service coverage and weakened liquidity. ASU's mission to remain sensitive to tuition and fee pricing restrains its ability contain expenses and to grow healthy reserves. The A3 rating acknowledges the university's good strategic positioning as a designated Hispanic Serving, public university in southern Colorado, with consistent growth in net tuition revenue, but with limited available resources for future strategic investment. Offsetting challenges include stiff competition for students, high reliance of potentially volatile net tuition revenue, limited state support, and a large unfunded pension liability.

The Aa2 enhanced rating and stable outlook are derived from the structure and mechanics of the Enhancement Program (the Colorado State Intercept Act), which is based on the State of Colorado's current rating and outlook.

## Credit Strengths

» Established market role in southern Colorado, with Hispanic Serving Institution (HSI) unique designation, with a diverse mix of programs

» Consistent annual growth of largest income source, net tuition revenue, averaging 12% annually over the last five years

» Rising student capital fee dedicated for debt service repayment

» Recent improvement in state operating and capital support

» Colorado intercept program benefits bondholders

## Credit Challenges

» Small public university experiencing volatile student enrollment

» Limited expense control, leading to weak operating cash flow and narrowing debt service coverage from pledged revenues

» Highly leveraged relative to peers (debt to operating revenues of 1.4 times)

» Weakening liquidity, with limited upside potential in the near term

## Rating Outlook

The negative outlook reflects uncertainty in the university's ability to successfully balance operating performance in the face of variable state operating support and declining enrollment. A high need student population and ongoing tuition increases, as well as a planned guaranteed tuition pricing program, could potentially hinder longer term enrollment growth and intensify top line pressure.

The stable outlook for the enhanced rating is based on the state's current stable long-term outlook.

## Factors that Could Lead to an Upgrade

Underlying rating:

» Sustained improvement in cash flow leading to strengthened debt service coverage

» Successful execution of enrollment and pricing strategy resulting in stabilized enrollment and consecutive years of revenue growth outpacing expenditure growth

» Material improvements in available reserves and liquidity

Enhanced rating:

» Upgrade of the State of Colorado rating

## Factors that Could Lead to a Downgrade

Underlying rating:

» Material ongoing declines in enrollment, further pressuring operating performance

» Weaker than expected operating performance requiring use of available reserves and material decline in liquidity

Enhanced rating:

» Deterioration in credit quality of the State of Colorado rating

## Key Indicators

Exhibit 1

| ADAMS STATE UNIVERSITY CO | | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Total FTE Enrollment* | 4,203 | 4,007 | 3,901 | 3,966 | 3,799 |
| Operating Revenue ($000) | 46,702 | 46,451 | 48,427 | 51,160 | 53,220 |
| Annual Change in Operating Revenue (%) | 8.5 | -0.5 | 4.3 | 5.6 | 4.0 |
| Total Cash & Investments ($000) | 37,705 | 32,784 | 32,079 | 33,267 | 36,089 |
| Total Debt ($000) | 59,478 | 73,639 | 72,476 | 71,280 | 72,713 |
| Spendable Cash & Investments to Total Debt (x) | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Spendable Cash & Investments to Operating Expenses (x) | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 |
| Monthly Days Cash on Hand (x) | 153 | 125 | 110 | 112 | 107 |
| Operating Cash Flow Margin (%) | 14.7 | 9.1 | 11.6 | 13.7 | 6.0 |
| Total Debt to Cash Flow (x) | 8.6 | 17.4 | 12.9 | 10.2 | 22.6 |

*Total FTE enrollment for the fall period.
*Source: Moody's Investors Service*

## Recent Developments

Recent developments are incorporated in the Detailed Rating Considerations.

## Detailed Rating Considerations

### Market Profile: Unique Student Niche With Weakened Enrollment and Mission for Tuition Affordability

Adams State's enrollment will likely remain depressed over the medium term due to its limited regional draw, highly price sensitive student market, and very competitive market for Colorado's growing high school population. Full-time equivalent (FTE) students of 3,799 in fall 2015 has declined 10% since fall 2011 (4,203). To address this softening of student demand, the university is implementing a multi-pronged strategy for enrollment stability. It recently hired a new enrollment manager and is implementing a guaranteed four-year tuition pricing strategy for fall 2016. Maintenance of steady enrollment is vitally important as a large portion of support for debt service derives from a student-based capital fee. Details of the anticipated tuition increase for the guaranteed tuition program are in preliminary discussions.

The university's commitment to affordable tuition is demonstrated by its FY 2015 net tuition per student of $7,054, which is one of the lowest in the state. ASU's low 52% retention rate indicates that many students transfer to other universities or return to the workforce, demonstrating its multiple competitive challenges.

### Operating Performance: Narrowing Cash Flow and Coverage; Limited State Operating and Capital Support Mitigated by Tuition Pricing Flexibility

The university's narrow operations will continue through FY 2016 and will likely for the near term as it implements a new tuition pricing plan. ASU expenses have outpaced revenue growth, leading to weakened cash flow margins of a slim 6% in FY 2015 from 15% in FY 2011. Management has made some modest expense adjustments in light of enrollment declines, demonstrated by holding back on a 2.5% salary increase to be implemented in January 2016. However, expense flexibility remains weak. Rising debt service burden associated with multiple years of new project financings, coupled with lower margin, narrowed debt service coverage to under 1.0 times in FY 2015 from 1.7 times in FY 2012.

Consistent net tuition revenue growth over the last five years has been credit positive, but will likely slow in the future with the new pricing plan and high competition. Net tuition revenue rose 41% over the FY 2011-15 period, and net tuition revenue per student rose a significant 47% over the same period.

Improved state funding has added some operating stability, with total operating funding from the state rising 27% from FY 2012-16. This includes both the College Opportunity Fund, a stipend granted to undergraduate students which we include in net tuition revenue, and the annual fee for service (FFS) contracts which covers graduate students and other designated programs. A new state funding model implemented for FY 2016 provided ASU with an additional $1.3 million, brought FFS funding to $11.2 million. Total COF and FFS funding comprised a modest 24% of operating revenues.

## Wealth and Liquidity: Modest Reserves and Liquidity Cushion

Adams State has a sound reserve cushion for the A3 rating, but its ability to grow reserves is constrained by the university's narrowing cash flow margin, low fundraising and planned tuition pricing change. Adams State's total cash and investments of $36 million rose just 10% over the FY 2012-15 period due to heavy capital investment. Spendable cash and investments of $23 million at FYE 2015 provide a modest 0.4 times coverage of operating expenses.

### LIQUIDITY

The university's monthly liquidity will continue to diminish relative to its growing operating base, and represents a key credit challenge given weak cash flow. Monthly liquidity was $15.8 million at FYE 2015, translating to a solid 107 monthly days cash on hand. Though the current liquidity is stronger than the A3 median 72 days, rising expenses has brought this down from its strong 152 days in FY 2011.

## Leverage: High Leverage Reflects Multi-Year Campus Improvements; No Near Term New Direct Debt Plans

ASU's leverage is very weak, at 1.4 times debt to operating revenue and low debt affordability, with over 20 times direct debt to cash flow. No new debt has been issued since 2012, when ASU issued roughly $13 million for a number of campus improvements. Prior bonds in 2009 were also used for a number of improvements, which is evidenced by an average 2.3 times capital spending ratio over the FY 2011-15 period. Recent state capital funding of roughly $28 million for renovation of ASU's Richardson Hall will further enhance the campus infrastructure. Though the university is not planning additional debt at this time, modest revenue growth will limit debt capacity in the near term.

### DEBT STRUCTURE

All of the university's debt is fixed rate and fully amortizes through 2042.

In February 2015, the university issued its Series 2015 bonds through a private placement with a bank to refund all but portions of the FY 2015-19 maturities of the Series 2009A bonds. The new fixed rate issue has matched maturities and with a lower interest rated cost provides annual debt service savings to ASU. The issue fully amortizes until 2039 and has no tender features.

### DEBT-RELATED DERIVATIVES

Adams State has no debt-related derivatives.

### PENSIONS AND OPEB

Adams State has significant debt-like obligations and operating pressure through its participation in state pension and retirement health plans. Pension reforms confirmed by the Colorado Supreme Court in 2014 provide some relief in total liability exposure, but actual contributions lag actuarial recommendations. Given the ongoing funding needs of the multiple-employer pension plan in which the university participates along with growing OPEB requirements, ASU will face inflationary cost pressures for these fringe benefits. Certain of the university's employees (100% of classified and approximately 30% of faculty and non-classified) participate in Colorado's Public Employees' Retirement Association (PERA) defined benefit (DB) cost-sharing, multiple-employer plan administered by the state. PERA also administers a voluntary tax-deferred retirement plan. The university fully funded its required contributions to all plans in FY 2015. Moody's three-year average adjusted net pension liability is $110 million. Added to direct debt of $73 million, total adjusted debt is a sizeable 3.4 times FY 2015 operating revenue.

OPEB expenses comprised a low 0.2% of operating expenses in FY 2015. Health care for retirees is provided through PERA's Health Care Program or through the Colorado Higher Education Insurance Benefits Alliance (CHEIBA) Trust, a cost-sharing multiple-employer insurance pool that covers health insurance from retirement until Medicare eligibility.

## Governance and Management: Leadership Transition in Multiple Areas

Adams State is undergoing leadership transition on multiple fronts. A new president arrived in July 2015, under whom a revitalized strategic plan is focused on tuition affordability, with added program draw and retention. New senior management in enrollment and institutional research are anticipated to strategically add to this endeavor. An interim CFO is in place following the retirement of his predecessor.

## Legal Security

ASU's parity outstanding bonds, which include the Series 2009A, 2009B, 2009C, 2012 and 2015 (2015 not rated) bonds are on parity and payable from the Net Revenues (Gross Revenue less Maintenance and Operation Expenses) from facilities, including substantially all auxiliary facilities. The pledge also includes 10% of the university's tuition revenues. The bonds are further secured by a pledge of a portion of the College Service Fee, a mandatory student fee of $420 per full time student per academic term. There is also a pledge of Capital Construction Debt Service Fee that is scheduled to increase annually until it is capped at $97 per student per credit hour in calendar year 2018. In FY 2015, together the college service fee and capital construction fee totaled $4.1 million.

The FY 2015 pledged revenues of $6.5 million cover parity debt service of $4.4 million by 1.5 times. ASU has a 1.0 times rate covenant.

All of ASU's revenue bonds benefit from the presence of the Colorado Higher Education Enhancement Program (intercept) rating, which is categorized as an unlimited advance. If the university fails to provide sufficient funds, the paying agent is required to notify the state treasurer on the business day immediately prior to the debt service payment date. The treasurer is then required to remit funds to the paying agent, in immediately available funds of the state, the amount necessary to make the debt service payment. Please see our report dated October 22, 2008 for more detail on this program rating.

## Use of Proceeds

Not applicable.

## Obligor Profile

Adams State University is a small regional public university located in Alamosa, Colorado, serving students of the San Luis Valley and designated as a Hispanic Serving Institution. ASU was founded in 1921 as a normal school and has grown to serve a mix of undergraduate, graduate and distance learning programs, with an enrollment of 3,799 FTE for the first half of FY 2016. Fiscal year 2015 operating revenue totaled $53 million.

## Methodology

The principal methodology used in the underlying rating was Global Higher Education published in November 2015. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REPORT NUMBER 1014575

# COLORADO COMMUNITY COLLEGE SYSTEM

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
7 January 2016

New Issue

**Contacts**

**Mary Kay Cooney** 212-553-7815
*AVP-Analyst* MIS
marykay.cooney@moodys.com

**David Schlachter** 212-553-4453
*Associate Analyst* MIS
david.schlachter@moodys.com

**Edith Behr** 212-553-0566
*VP-Sr Credit Officer/ Manager*
edith.behr@moodys.com

# Colorado Community College System

New Issue - Moody's assigns CO Community College System's Ser 2016 Rev Bds Aa3 underlying & Aa2 enhanced; outlook stable

## Summary Rating Rationale

Moody's Investors Service has assigned Aa3 underlying and Aa2 enhanced ratings to Colorado Community College System's (CCCS) Series 2016 Revenue Bonds. The Aa3 underlying rating reflects the large scope of the system's operations, demonstrated ability to produce positive cash flow through different economic cycles, and strong liquidity. These characteristics are offset by pressure on enrollment and revenue growth due to an improving economy and participation in an underfunded pension plan.

The Aa2 enhanced rating and stable outlook are based on the structure and mechanics of the Enhancement Program (the Colorado State Intercept Act), which is derived from the State of Colorado's current rating and outlook.

We have also affirmed the Aa3 underlying rating on CCCS' outstanding revenue bonds and Aa2 enhanced ratings for CCCS's outstanding Series 2010A and 2010 B-2 revenue bonds.

## Credit Strengths

» Large scale, with 13 colleges and full-time equivalent (FTE) enrollment of 23,714 students in fall 2015 provides accessibility and allows for cost efficiencies.

» State commitment to system evidenced by 8% increase of combined College Opportunity Fund (COF) and Fee For Service (FFS) to $138 million in fiscal year (FY) 2015 from $127 million in FY 2011

» Low direct debt measured by FY 2015 debt to operating revenues of 0.2 times and no debt plans beyond the current offering

» Colorado intercept enhancement program for bonds benefits bondholders

## Credit Challenges

» Counter cyclicality results in enrollment pressure during economic recoveries (11% decline in FTE enrollment from fall 2011 to fall 2015)

» Exposure to very large unfunded liabilities in state-administered pension plan

## Rating Outlook

The stable outlook on the underlying rating is based on the expectation that enrollment will remain fairly flat during the continued economic recovery, that management will take steps to reduce expenses as warranted to maintain cash flow margins above 7%, and that the system will not issue any debt beyond the current offering.

The stable outlook for the enhanced rating is based on the State of Colorado's current stable outlook.

## Factors that Could Lead to an Upgrade

» Sustained improvement in operating performance

» Improved student market position with consistent net tuition revenue growth

» Substantial increase in cash and investments relative to debt and operations

» For the enhanced rating, upgrade of the Colorado Higher Education Enhancement Program rating

## Factors that Could Lead to a Downgrade

» Deterioration in operating cash flow resulting in weakened debt service coverage

» Material increase in leverage or reduction of liquidity

» Downgrade of Colorado Higher Education Enhancement Program rating

## Key Indicators

COLORADO COMMUNITY COLLEGE SYSTEM

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2015 Sensitivity + Series 2016 ($17M |
|---|---|---|---|---|---|---|
| Total FTE Enrollment | 26,777 | 25,925 | 24,656 | 23,625 | 23,714 | 23,714 |
| Operating Revenue ($000) | 573,253 | 566,107 | 580,093 | 591,113 | 608,411 | 608,411 |
| Annual Change in Operating Revenue (%) | 9.8 | -1.2 | 2.5 | 1.9 | 2.9 | 2.9 |
| Total Cash & Investments ($000) | 366,182 | 382,917 | 385,509 | 401,011 | 318,642 | 318,642 |
| Total Debt ($000) | 90,266 | 86,715 | 80,935 | 104,727 | 98,636 | 132,316 |
| Spendable Cash & Investments to Total Debt (x) | 4.0 | 4.3 | 4.6 | 3.7 | 3.1 | 2.3 |
| Spendable Cash & Investments to Operating Expenses (x) | 0.7 | 0.7 | 0.6 | 0.7 | 0.5 | 0.5 |
| Monthly Days Cash on Hand (x) | 240 | 246 | 232 | 218 | 222 | 222 |
| Operating Cash Flow Margin (%) | 14.5 | 10.6 | 7.8 | 7.1 | 8.7 | 8.7 |
| Total Debt to Cash Flow (x) | 1.1 | 1.4 | 1.8 | 2.5 | 1.9 | 2.5 |

Note: Total FTE enrollment refers to fall figures.
*Source: Moody's Investors Service*

## Recent Developments

Recent developments are incorporated in Detailed Rating Considerations.

## Detailed Rating Considerations

### Market Profile: System Serves Important Role as the Largest Provider of Education in Colorado

The Colorado Community College System plays an important role in providing higher education throughout the state. The system's large scope of operations and geographic reach allow it to make a broad range of coursework easily accessible. The 13 colleges within the system provide college-level courses for high school students, have developed work force training partnerships and various pathway programs, and will introduce two 4-year degrees in high demand programs, which will help to stabilize enrollment during the continued economic recovery. The system also offers online courses. Overall enrollment at the system increased slightly to 23,714 FTEs in 2015 from 23,625 FTEs in fall 2014. Management attributes previous years' declines to improved economic conditions of the state, as enrollment at community colleges tends to be countercyclical to the economy.

### Operating Performance: Operations Return to Historic Norms, Healthy Liquidity, and Limited Future Debt Plans

Operations will stabilize at historic norms through FY 2016. The system maintains a reasonable five-year average operating cash flow margin of 9.7% with cash flow providing a comfortable 6.4 times coverage of debt service for FY 2015. Increased operating expenses reflect an increase in instructional salaries to be on par with national averages, as well as the new reporting standards for pensions.

Future support in the State of Colorado (Aa1 stable issuer rating) funding remains a key credit consideration given a history of volatile state funding. The university receives state operating support in the form of the College Opportunity Fund (COF, a stipend granted to undergraduate students and included in the Moody's calculation of net tuition revenue) and the annual fee for service (FFS) contracts, which together amounted to a comparatively moderate 25% ($46 million) of operating revenue in FY 2015. A new state funding model implemented for FY 2016 provided an additional $13 million in FFS funding for CCCS.

### Wealth and Liquidity: Very Good Monthly Days Cash, with Strong Cash and Investments

The level of CCCS' liquid reserves is a positive credit attribute. We anticipate that CCCS will maintain a strong cushion of liquidity relative to expenses as the system does not indicate any plans to use a material amount of reserves and it will continue to diligently manage expense growth.

#### LIQUIDITY

Liquidity is a credit strength for the Colorado Community College System. The system had $340 million in monthly liquidity as of June 30, 2015, providing 222 days cash on hand well above the FY 2014 median of 133 days for community colleges. Liquidity is expected to remain flat as operations are break even.

### Leverage: No Borrowing Plans After Current Issuance

Direct debt is modest, with debt to operating revenue of 0.2 times and pro-forma spendable cash and investments to debt of 3.5 times. Beyond the Series 2016 bonds, there are no further debt plans.

#### DEBT STRUCTURE

All of the system's debt is fixed rate.

#### DEBT-RELATED DERIVATIVES

None

#### PENSIONS AND OPEB

CCCS has significant debt-like obligations through its participation in pension and retirement health plans. Pension reforms confirmed by the Colorado Supreme Court in 2014 provide some relief in total liability exposure, but actual contributions lag actuarial recommendations. Given the ongoing funding needs of the pension plan in which the system participates along with growing OPEB requirements, CCCS will face growing cost pressures for these fringe benefits.

The Colorado Community College System's principal employee pension plan is the Public Employees' Retirement Association of Colorado ("PERA"). PERA is a cost-sharing multiple-employer public employee retirement fund created in 1931. Substantially all full-time employees of the system are covered by PERA. Employer and employee obligations to contribute to PERA are established under Colorado state law.

The system fully funded its required contributions in FY 2015, a modest 3% of operating revenues. Moody's three-year average adjusted net pension liability is $2.5 billion. Added to pro forma direct debt of $113 million, total adjusted debt is a sizeable 4.1 times FY 2015 operating revenue.

### Governance and Management: Very Good Planning Mitigates Impact of Improving Economy

Senior management at the system has demonstrated very good planning to counter the inevitable decline in enrollment from a recovering economy. They budget conservatively by assuming a 5% decline in enrollment and 5% to 7% cash flow margins. Budgets are created at the school level and submitted to the board for approval. All schools have a common chart of accounts and the system has a central internal audit office.

In recent years, management has worked with component colleges to mitigate some of the challenges from decentralization. The system has provided training to staff in the financial management and financial aid offices at various colleges.

## Legal Security

The Series 2016 bonds are on parity with the Series 2010A,B-2,C&D, 2012A, and 2013 bonds, and are secured by net revenues, which include gross revenues less debt service for prior obligations (Series 2003 bonds) and operations and maintenance expenses not paid as part of prior obligations. Net revenues include 10% of tuition revenues, revenues derived from facilities construction fees, special fees (assessed to students with respect to any facility) and any other fee assessed to employees or other persons for use of any facility, all mandatory student and faculty services fees, federal direct payments and any other incomes, and any fees and revenues that the board may determine to include in gross revenues.

There are no debt service reserve funds. The board covenants to impose fees and charges to ensure gross revenues sufficient to pay debt service on all prior obligations, to pay operations and maintenance expenses, and to pay debt service on the Series 2016 and parity obligations.

## Use of Proceeds

Proceeds of the Series 2016 Bonds will be used to: construct and equip a new student recreation/fitness facility to be located on the Red Rocks Community College - Lakewood Campus and certain other capital improvements to the system; refund all the Series 2003 bonds; and pay costs of issuance.

## Obligor Profile

The Colorado Community College System is the largest higher education provider in the State of Colorado serving over 151,000 students in fall 2015 and recording over $600 million in operating revenue for FY 2015. The university offers comprehensive educational options towards its goal of educating the regional population. The system consists of 13 colleges throughout the State of Colorado.

## Methodology

The principal methodology used in the underlying rating was Moody's Approach for Evaluating Community Colleges published in December 1999. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

## Ratings

Exhibit 3

### COLORADO STATE BOARD FOR COMMUNITY COLLEGE & OCCUPATIONAL EDUCATION SYSTEM

| Issue | Rating |
|---|---|
| Revenue Bonds (Red Rocks Community College Project), Series 2016 | Aa3 |
| Rating Type | Underlying LT |
| Sale Amount | $16,965,000 |
| Expected Sale Date | 01/19/2016 |
| Rating Description | Revenue: Public University Broad Pledge |
| Revenue Bonds (Red Rocks Community College Project), Series 2016 | Aa2 |
| Rating Type | Enhanced LT |
| Sale Amount | $16,965,000 |
| Expected Sale Date | 01/19/2016 |
| Rating Description | Revenue: Public University Broad Pledge |

*Source: Moody's Investors Service*

REPORT NUMBER 1012129

## Contacts

**David Schlachter** 212-553-4453
*Associate Analyst*
david.schlachter@moodys.com

**Mary Kay Cooney** 212-553-7815
*AVP-Analyst*
marykay.cooney@moodys.com

**Edith Behr** 212-553-0566
*VP-Sr Credit Officer/ Manager*
edith.behr@moodys.com

## CLIENT SERVICES

| | |
|---|---|
| Americas | 1-212-553-1653 |
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COLORADO STATE UNIVERSITY

MOODY'S
INVESTORS SERVICE

# Rating Action: Moody's assigns Aa3 underlying to Colorado State Univ. System's Ser. 2015A,B,C & D and Aa2 enhanced to Ser. 2015C&D; outlook stable

Global Credit Research - 11 Mar 2015

**$902M rated pro-forma debt**

New York, March 11, 2015 --

Moody's Rating

Issue: System Enterprise Revenue Bonds, Series 2015A; Rating: Aa3; Sale Amount: $126,890,000; Expected Sale Date: 03/23/2015; Rating Description: Revenue: Public University Broad Pledge

Issue: Taxable System Enterprise Revenue Bonds, Series 2015B; Rating: Aa3; Sale Amount: $32,985,000; Expected Sale Date: 03/23/2015; Rating Description: Revenue: Public University Broad Pledge

Issue: System Enteprise Revenue Refunding Bonds, Series 2015C; Underlying Rating: Aa3; Enhanced Rating: Aa2; Sale Amount: $70,720,000; Expected Sale Date: 03/23/2015; Rating Description: Revenue: Public University Broad Pledge

Issue: Taxable System Enterprise Revenue Refunding Bonds, Series 2015D; Underlying Rating: Aa3; Enhanced Rating: Aa2; Sale Amount: $21,715,000; Expected Sale Date: 03/23/2015; Rating Description: Revenue: Public University Broad Pledge

Opinion

Moody's Investors Service assigns Aa3 ratings to Colorado State University System's (CSUS or the system) $159.9 million of fixed rate System Enterprise Revenue Bonds Series 2015A (Tax-Exempt, maturing in 2055) and Series 2015B (Taxable, maturing in 2030). We are also assigning Aa2 enhanced and Aa3 underlying ratings to $92.4 million of fixed rate System Enterprise Revenue Refunding Bonds, Series 2015C (Tax-Exempt, maturing in 2039) and Series 2015D (Taxable, maturing in 2037). At the same time, we are affirming the Aa2 enhanced on certain outstanding bonds and Aa3 underlying ratings on the system's outstanding bonds. The outlook on the underlying and enhanced ratings is stable.

Concurrently with the issuance of the Series 2015A and 2015B bonds, the system expects to issue $70 million variable rate System Enterprise Revenue Bonds Series 2015E, which will not be rated by Moody's. The Series 2015E bonds are expected to be a direct bank placement, with no financial covenants or acceleration provisions, amortizing through 2047, and up for bank renewal in FY 2020.

SUMMARY RATINGS RATIONALE

The assignment of the Aa3 reflects the system's ability to absorb the current and the summer 2015 planned increase in leverage based on current cash flow. While the stadium and other financed projects are expected to generate additional revenue, we have incorporated the possibility that projections may fall moderately short. Nonetheless, the system's demonstrated operational flexibility, achieving positive financial performance and enrollment gains while facing state funding cuts through FY2013, highlights its long term financial strength.

Further supporting the Aa3 rating is the system's status as a large land grant institution for the State of Colorado (issuer rating Aa1 stable) with three campuses and significant federally-funded research activity, with a sizeable $1 billion scope of operations. A 13% increase in enrollment over the past five years has contributed to ongoing revenue growth and balanced operating performance at the same time as the system has achieved momentum in philanthropic support.

Offsetting these positives are risks introduced in successfully achieving highly ambitious strategic goals, as demonstrated by the inability to meet original fundraising targets for the stadium currently being financed. With growing leverage, significant cost overruns necessitating additional borrowing or use of reserves, or material failure to meet revenue projections, could pressure the rating.

The Aa2 enhanced rating and stable outlook are derived from the structure and mechanics of the Enhancement Program (the Colorado State Intercept Act), which is based on the State of Colorado's current rating and outlook.

OUTLOOK

The stable outlook on the Aa3 underlying rating reflects our expectation that the university will successfully manage the construction risk of the multiple projects underway. The stable outlook further reflects our expectation of a stable student demand and ongoing operational adjustments and strategic prioritizations to sustain balanced operating performance.

The stable outlook for the enhanced rating is based on the state's current stable long-term outlook.

WHAT COULD MAKE THE RATING GO UP

Underlying rating:

• Sizeable improvement in flexible financial resources, with limited debt increases

• Sustained and stronger cash flow margins

• Further strengthening of brand, as indicated by increased student demand, growing research and enhanced philanthropy

Enhanced rating:

• Upgrade in the State of Colorado rating

WHAT COULD MAKE THE RATING GO DOWN

Underlying rating:

• Weakening of operating cash flow as the university will need to absorb rising debt service costs

• Substantial decline in liquidity

• Significant additional leverage given substantial recent growth in debt levels

Enhanced rating:

• Deterioration in credit quality of the State of Colorado rating

OBLIGOR PROFILE

The Colorado State University System includes the CSUS system administration, which oversees three component institutions: the state's land grant institution, Colorado State University (CSU) in Fort Collins; Colorado State University-Pueblo; and Colorado State University-Global Campus, a fully online public university. CSU also manages Extension offices in 60 of the 64 counties in Colorado. In FY 2014, the system recorded operating revenues of $1 billion and served a headcount enrollment of over 40,600 students.

LEGAL SECURITY

The system enterprise revenue bonds are secured by a broad pledge of revenues at both CSU and CSU-Pueblo which include: net revenues of certain auxiliary enterprise facilities (housing, dining, parking, and certain student recreational facilities), certain mandatory student fees collected at both campuses, indirect cost recoveries (overhead received for research grants and contracts), as well as 10% of net tuition revenue. In addition, the federal subsidies expected to be received in connection with the Series 2010B and 2010C bonds are pledged to the payment of the Enterprise System Revenue Bonds. The revenue pledge is net of operating and maintenance expenses of auxiliary facilities. Revenues from the Global Campus are not pledged to the system's enterprise revenue bonds.

Fiscal year 2014 pledged net revenues totaled $116.5 million, representing approximately 12% of the university's operating revenues (Moody's calculated) of $1.0 billion, respectively. Pro-forma maximum annual debt service coverage is estimated at 1.7 times for FY 2014. Revenue coverage is narrower compared to debt of rated peers due to the limited pledged tuition monies.

The Series 2015A, 2015B, 2015C and 2015D bonds are not expected to have a debt service reserve fund.

Certain of the system enterprise revenue bonds also benefit from the presence of the Colorado Higher Education Revenue Bond Intercept Program rating, which is categorized as an unlimited advance. If the system fails to provide sufficient funds, the paying agent is required to notify the state treasurer on the business day immediately prior to the debt service payment date. The treasurer is then required to remit funds to the paying agent, in immediately available funds of the state, the amount necessary to make the debt service payment. Please see our report dated October 22, 2008 for more detail on this program rating.

Moody's believes that the system will qualify for the intercept program, with an underlying rating of Aa3 and with debt service coverage (as calculated by the system) of an estimated 2.7 times following the current issuance.

The intercept remains in place for the Series 2009A, 2010A 2010B, 2010C, 2012A, 2012B, 2012C, 2013A, 2013B and 2013E bonds. The intercept is expected to apply to the Series 2015C and 2015D bonds.

USE OF PROCEEDS

Proceeds of the Series 2015A, 2015B, 2015C, and 2015D system enterprise revenue bonds are expected to be used to: (1) construct a multi-purpose stadium on the CSU campus; (2) refinance all or portions of the Series 2007B, 2008A, and 2009A bonds; (3) pay capitalized interest on the Series 2015A and 2015B bonds; and (4) pay costs of issuance.

PRINCIPAL METHODOLOGY

The principal methodology used in the underlying rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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Mary Cooney
Asst Vice President - Analyst
Public Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Susan I Fitzgerald
Senior Vice President
Public Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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UNIVERSITY OF COLORADO

MOODY'S
INVESTORS SERVICE

**Rating Action: Moody's Revises University of Colorado's Outlook to Positive; Assigns Aa2 to Series 2016A&B-1 Bonds**

Global Credit Research - 24 Mar 2016

New York, March 24, 2016 -- Issue: Tax-Exempt University Enterprise Refunding Revenue Bonds Series 2016B-1; Rating: Aa2; Rating Type: Underlying LT; Sale Amount: $125,710,000; Expected Sale Date: 04/04/2016; Rating Description: Revenue: Public University Broad Pledge;

Issue: Tax-Exempt University Enterprise Revenue Bonds Series 2016A; Rating: Aa2; Rating Type: Underlying LT; Sale Amount: $41,500,000; Expected Sale Date: 04/04/2016; Rating Description: Revenue: Public University Broad Pledge;

Summary Rating Rationale

Moody's Investors Service has assigned Aa2 ratings to the University of Colorado's (CU) planned Series 2016A ($41.5 million) and 2016B-1 ($125.7 million) Enterprise Revenue and Refunding Bonds. We have also affirmed the Aa2 ratings on parity bonds. The outlook has been revised to positive from stable.

The Aa2 rating reflects CU's role as the State of Colorado's (Aa1 stable issuer rating) flagship institution, with a significant research enterprise and an important role in the provision of medical education for Colorado, recording a substantial $3.3 billion scope of operations and consistently strong operating performance. CU's robust gift support and prudent financial stewardship have led to strong growth in cash and investments and manageable leverage. The currently proposed broadening of pledged revenues is also credit positive. Offsetting challenges include very limited state support for operations and capital, ongoing need for capital investment, and exposure to potentially volatile healthcare operations.

Rating Outlook

The positive outlook reflects our expectations that the university's financial profile will continue to strengthen despite a challenging state funding environment, with growing cash and investments and limited debt plans. Further credit strength will be derived from solid momentum in student demand and research activity that translates to strong operating performance.

Factors that Could Lead to an Upgrade

Further improvement in cash and investments relative to debt and operations

Sustained strong operating performance

Factors that Could Lead to a Downgrade

Sustained weakening of liquidity

Material deterioration in enrollment or research leading to weaker operations

Legal Security

CU's University Enterprise Revenue Bonds are secured by a pledge of net revenues (gross revenue less maintenance and operation expenses) of certain auxiliary enterprise facilities, including income derived from housing, dining, parking, rent of research facilities, and particular student fees. The bonds are also secured by a pledge of tuition revenues (currently at 10%, but expected to increase to 100% with the Governor's approval of the recent legislative change) as well as mandatory facilities construction fees.

Fiscal year 2015 pledged net revenues totaled $330 million, representing approximately 10% of the university's operating revenues (Moody's calculated) of $3.2 billion. Pro forma maximum annual debt service coverage is estimated at 3.1 times for FY 2015 with the 10% of tuition revenues, and at 8.1 times inclusive of 100% of tuition revenue. Pledged revenue coverage at 10% of tuition revenue is narrower compared to debt of rated peers due largely to the limited pledged tuition monies.

The Series 2016A and 2016B-1 bonds are not expected to have a debt service reserve fund.

Use of Proceeds

Proceeds of the Series 2016A bonds will be used for construction and equipping of a Wellness Center at the UC Denver Downtown campus ($33.7 million), two projects at UCCS ($4 million surface parking and $4 million toward the Visual and Performing Arts Center), and to pay costs of issuance. Proceeds of the Series 2016B-1 bonds will be used to refund all or portions of the Series 2011A bonds, based on market conditions, as well as pay costs of issuance.

Obligor Profile

The University of Colorado is the flagship public higher education institution for the state of Colorado, as well providing a significant healthcare presence. The main campus is located in Boulder, with additional campuses in Denver (Anschutz Medical campus and Downtown) and Colorado Springs. CU is a member of the Association of American Universities. In FY 2015, the university recorded operating revenues of $3.3 billion and for fall 2015 served roughly 49,000 FTE students.

Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Regulatory Disclosures

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Mary Cooney
Lead Analyst
Higher Education
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Eva Bogaty
Additional Contact
Higher Education
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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CREDIT OPINION
11 February 2016

New Issue

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**Contacts**

David Schlachter 212-553-4453
*Associate Analyst*
david.schlachter@moodys.com

Edith Behr 212-553-0566
*VP-Sr Credit Officer/ Manager*
edith.behr@moodys.com

Mary Kay Cooney 212-553-7815
*AVP-Analyst*
marykay.cooney@moodys.com

# Fort Lewis College, Colorado

## New Issue - Moody's assigns A2 to Fort Lewis College's (CO) Series 2016 A&B; outlook is stable

### Summary Rating Rationale

Moody's Investors Service has assigned A2 underlying and Aa2 enhanced ratings to Fort Lewis College's (CO) proposed $39 million Series 2016 A & B Enterprise Revenue Refunding Bonds. We have also affirmed the A2 underlying rating on the college's outstanding Series 2007 bonds. The outlook for both the underlying rating and the enhanced rating is stable.

The A2 rating reflects the college's unique role in the State of Colorado, which subsidizes the college for enrolling Native American students. Manageable financial leverage and good liquidity further support the rating. These factors are offset by recent declining enrollment, projections of narrow growth in state operating support, and limited pricing power in a competitive student market.

The Aa2 enhanced rating and stable outlook are derived from the structure and mechanics of the Colorado Higher Education Enhancement Program as well as the availability of money in the state treasury to pay debt service if the college is not otherwise able to do so.

### Credit Strengths

» Good liquidity, providing 178 days cash on hand, offers a cushion to the college in times of stressed operations

» Low leverage in comparison to peers, with debt to operating revenue of 0.74 times

» Full tuition paid by Aa1-rated State of Colorado for all Native American students (23% of total operating revenue in FY 2015)

» Colorado intercept program benefits bondholders

### Credit Challenges

» Small public university experiencing student enrollment volatility

» Historical inconsistency of state funding requires sufficient liquidity to cushion against unexpected reduction in state support

» Expense pressure, leading to unbalanced operations

## Rating Outlook

The stable outlook incorporates our expectation that the college will be able to absorb growing expenses over the short term with savings from the refunding and that operations will remain break-even or modestly positive as the college strives to increase enrollment and tuition revenue. Debt service coverage by operating cash flow will remain solid and liquidity will remain good.

The stable outlook for the enhanced rating is derived from the state's current stable outlook.

## Factors that Could Lead to an Upgrade

» Material increase in total cash and investments

» Consistently stronger operating margins realized through increased net tuition revenue growth in excess of expense growth

» For the enhanced rating, upgrade of the State of Colorado rating

## Factors that Could Lead to a Downgrade

» Ongoing declines in enrollment, causing continuing pressure on operating performance

» Weaker than expected operating performance requiring use of available reserves

» Sustained declines in state appropriations or reduction in support for the Native American tuition waiver

» For the enhanced rating, deterioration in credit quality of the State of Colorado rating

## Key Indicators

FORT LEWIS COLLEGE, CO

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Total FTE Enrollment | 3,482 | 3,551 | 3,797 | 3,565 | 3,498 |
| Operating Revenue ($000) | 61,476 | 62,045 | 66,516 | 70,757 | 70,873 |
| Annual Change in Operating Revenue (%) | 0.8 | 0.9 | 7.2 | 6.4 | 0.2 |
| Total Cash & Investments ($000) | 46,398 | 48,124 | 49,055 | 51,852 | 50,619 |
| Total Debt ($000) | 52,466 | 57,593 | 56,957 | 55,117 | 52,288 |
| Spendable Cash & Investments to Total Debt (x) | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 |
| Spendable Cash & Investments to Operating Expenses (x) | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| Monthly Days Cash on Hand (x) | 196 | 194 | 193 | 193 | 178 |
| Operating Cash Flow Margin (%) | 16.3 | 13.2 | 16.5 | 16.0 | 10.1 |
| Total Debt to Cash Flow (x) | 5.2 | 7.0 | 5.2 | 4.9 | 7.3 |

*Source: Moody's Investors Service*

## Recent Developments

Recent developments are incorporated in Detailed Rating Considerations.

## Detailed Rating Considerations

### Market Profile: Indications That Enrollment Will Improve

Fort Lewis College has a distinct market niche as one of two colleges in the United States offering full tuition waivers to Native American students. As a result, 32% of all students as of Fall 2015 are Native American. The college waives tuition for all Native American students upfront and receives reimbursement for these students from the state in the subsequent fiscal year.

Fort Lewis College enrollment will likely grow despite its limited regional draw, highly price sensitive students, and very competitive market for Colorado's growing high school population. The college hired an enrollment consultant in 2015 and has seen a 4.5%

increase in freshman enrollment in Fall 2015. However, overall enrollment declined due to a smaller number of transfer students and typical loss of students from the unusually large Fall 2013 entering class. Deposits for Fall 2016 are 65% ahead of last year at this time, a leading indication that the Fall 2016 class may be even larger than the Fall 2015 class. Efforts to improve retention will also help bolster enrollment.

### Operating Performance: Operations will Stabilize with Revenue Growth

Operations will return to break-even or slightly positive as enrollment and net tuition revenue grow over the next couple of years and recent expense growth is matched by the savings from the proposed refunding. However, over the medium term, the college will have to increase revenue and contain expense growth in order to maintain structural balance.

We expect enrollment and net tuition revenue to grow over the next couple of years. While total enrollment was down slightly in Fall 2015, there are indications that the freshman class could rise again in Fall 2016, boding well for the future. At the same time, the state has authorized the college to increase tuition.

Improved state funding has added some operating stability, with total operating funding from the state rising 27% from FY 2012-16 to a still modest 15% of total operating revenue. This includes both the College Opportunity Fund, a stipend granted to undergraduate students which is included in net tuition revenue, and the annual fee for service (FFS) contracts.

Expense growth will moderate in FY 2016 due to savings from the proposed refunding. However, expenses outpaced revenue growth from FY 2011 to FY 2015, leading to weakened cash flow margins of 10% in FY 2015 from 16% in FY 2011. Expense growth was elevated in 2015 after the college increased faculty and exempt staff salaries up to comparable salary levels as peer institutions, hired temporary staff to support a student success initiative, and upgraded technological infrastructure to support growing enrollment. Expense control will be an important component of returning to and maintaining structural balance over the medium term.

### Wealth and Liquidity: Growing Reserves with Good Liquidity

Total cash and investments, which grew an average of 2% annually to a moderate $51 million from FY 2011 to FY 2015, will remain in line with other A2-rated public universities for the foreseeable future. Cash flow will remain positive and, together with receipts from a $30 million comprehensive campaign, the college should have sufficient funds to provide a cushion for unexpected shortfalls in operations. Spendable cash and investments were equivalent to 0.57 times operations in FY 2015.

#### LIQUIDITY

The university has good liquidity for its size of operations. As of June 30, 2015, the college had $32 million in monthly liquidity, representing 178 monthly days cash on hand. Though the current liquidity is stronger than the A2 median 137 days, rising expenses have brought this down from its stronger 196 days in FY 2011.

### Leverage: Manageable Financial Leverage with Limited Additional Debt Plans

The college will continue to be moderately leveraged, with debt to operating revenue of 0.74 times and pro forma spendable cash and investments to debt of 0.74 times, below the median rate of approximately 0.98 times.

Alongside the refunding, the college is also issuing a bond for certain capital improvements to the college campus, including various housing renovations at a cost of roughly $4 million. The college is currently marketing a fixed rate, direct placement bond for this new money project. The proposed direct placement will not have covenants/reporting requirements that are more onerous than the college's general revenue bondholders. The direct placement will not be rated.

The college has no further debt plans over the next three years.

### Debt Structure

The refunding provides FLC with budget relief of approximately $3 million spread over three years and matches the final maturity of the refunded 2007 series bonds. After the budget relief proposed by the 2016 refunding, debt service will range between $3.7 and $3.9 million until 2033 and decline thereafter. All of the college's debt is fixed rate.

#### DEBT-RELATED DERIVATIVES

None

#### PENSIONS AND OPEB

Pension liabilities result in additional leverage for the college. Pension reforms confirmed by the Colorado Supreme Court in 2014 provide some relief in total liability exposure. However, given the ongoing funding needs of the pension plan in which the FLC participates along with growing OPEB requirements, FLC will face continuing cost pressures for these fringe benefits.

Fort Lewis College participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension fund administered by Public Employees' Retirement Association of Colorado ("PERA"). Substantially all full-time classified employees of the system are covered by PERA. Employer and employee obligations to contribute to PERA are established under Colorado state law.

Moody's three-year average adjusted net pension liability is $82 million. Added to pro forma direct debt of $56 million, total adjusted debt is 2 times FY 2015 operating revenue compared to the preliminary median for 4-year colleges of approximately 1.5 times.

### Governance and Management: Cautious Budgeting Will Continue to Bolster Reserves

The college's cautious budgeting and planning in addition to their mission to serve Native American students factor into good strategic positioning. The college's management incorporates contingencies into its annual budget. This practice will help to mitigate any unexpected revenue deficiencies. The State Department of Higher Education required all Colorado colleges and universities who wish to increase tuition by more than 9% to submit a five-year Financial Accountability Plan for the period FY 2011- FY 2016.

## Legal Security

The Series 2016 Enterprise Revenue Refunding Bonds are payable from net revenues defined by the bond resolution to be gross revenues less any operation and maintenance expenses. These revenues are income and revenues derived by the college from the facilities, all revenues derived from student fees, and all revenues accruing to the college from overhead charges on research contracts performed within the college facilities. The pledge also includes 10% of the tuition revenues received by the college, all revenues derived from Facility Construction Fees, all earnings on all funds and accounts created under the bond resolution (except the Rebate Account) and all other income, fees and revenues that the board determines, without further consideration from the owners of Series 2016 bonds, to include in revenues. The outstanding bonds are secured with a lien on net revenues on a parity with the Series 2016 Bonds.

In the State of Colorado an institution of higher education may be designated as an enterprise for the purposes of Tax Payer Bill of Rights (TABOR) so long as the institution's governing board retains authority to issue revenue bonds on its behalf and the institution receives less than ten percent of its total annual revenues in grants from all Colorado State and local governments combined. Due to construction spending on the Geosciences, Physics and Engineering Building funded by the state, the college lost Enterprise Status during Fiscal Year 2016. As a result, tuition revenue cannot be pledged to the anticipated direct placement.

## Use of Proceeds

Advance refunding of Series 2007A and 2007B-1 bonds to realize upfront savings.

## Obligor Profile

Fort Lewis College is a public four-year liberal arts college in Colorado, located in the southwest Colorado City of Durango. The college continues to honor its historic commitment to Native Americans by offering full tuition scholarships to all qualified Native Americans who meet admission requirements. A member of the Council of Public Liberal Arts Colleges (COPLAC), Fort Lewis College had FY 2015 operating revenues of $68 million and enrolled 3,498 FTE students in Fall 2015.

## Methodology

The principal methodology used for the underlying rating was Global Higher Education published in November 2015. The principal methodology used for the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

## Ratings

Exhibit 2

### FORT LEWIS COLLEGE BOARD OF TRUSTEES, CO

| Issue | Rating |
|---|---|
| Enterprise Revenue Refunding Bonds Series 2016B | A2 |
| Rating Type | Underlying LT |
| Sale Amount | $28,075,000 |
| Expected Sale Date | 03/01/2016 |
| Rating Description | Revenue: Public University Broad Pledge |
| Enterprise Revenue Refunding Bonds Series 2016B | Aa2 |
| Rating Type | Enhanced LT |
| Sale Amount | $28,075,000 |
| Expected Sale Date | 03/01/2016 |
| Rating Description | Revenue: Public University Broad Pledge |
| Enterprise Revenue Refunding Bonds, Series 2016A | A2 |
| Rating Type | Underlying LT |
| Sale Amount | $11,140,000 |
| Expected Sale Date | 03/01/2016 |
| Rating Description | Revenue: Public University Broad Pledge |
| Enterprise Revenue Refunding Bonds, Series 2016A | Aa2 |
| Rating Type | Enhanced LT |
| Sale Amount | $11,140,000 |
| Expected Sale Date | 03/01/2016 |
| Rating Description | Revenue: Public University Broad Pledge |

*Source: Moody's Investors Service*

REPORT NUMBER 1014279

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CREDIT OPINION
6 January 2016

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Contacts

| | |
|---|---|
| Mary Kay Cooney<br>*AVP-Analyst*<br>marykay.cooney@moodys.com | 212-553-7815 |
| Erin V. Ortiz<br>*AVP-Analyst*<br>erin.ortiz@moodys.com | 212-553-4603 |
| Susan I Fitzgerald<br>*Associate Managing Director*<br>susan.fitzgerald@moodys.com | 212-553-6832 |

CLIENT SERVICES

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|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |


# Metropolitan State University, CO

## New Issue - Moody's assigns Metropolitan State University's A1 underlying, Aa2 enh. to Ser. 2016; outlook stable

### Summary Rating Rationale

Moody's Investors Service has assigned A1 underlying and Aa2 enhanced ratings to Metropolitan State University of Denver, CO's (MSU Denver) Institutional Enterprise Revenue Bonds (IERBs) Series 2016.

We have also affirmed the A1 underlying ratings on parity and related debt, and the Aa2 enhanced ratings on the Series 2009 and 2010 bonds. The A1 underlying rating reflects MSU Denver's location in economically vibrant downtown Denver (Aaa stable), as one of three complementary institutions on the Auraria Higher Education Center (AHEC, A1 stable) and the third largest university in Colorado (issuer rating Aa1 stable). Favorably, MSU Denver has growing net tuition per student and improved state funding, with consistently positive operating performance. Challenges include relatively high leverage that is rising further with the current issue, historically weak state funding and gift support, and declining enrollment. The rating also reflects exposure to the volatile hospitality industry as the university guarantees the debt service for its HLC@Metro component unit's 150-bed hotel.

The Aa2 enhanced rating and stable outlook are derived from the structure and mechanics of the Enhancement Program (the Colorado State Intercept Act), which is based on the State of Colorado's current rating and outlook.

### Credit Strengths

» Large public university located in vibrant downtown Denver, co-located with two complementary institutions at the Auraria Higher Education Center

» Consistently positive operating cash flow margins (8.4% in fiscal year, FY, 2015) and good debt service coverage (average FY 2013-15 coverage of 2.3 times)

» Demonstrated ability to advantageously use partnerships to further curriculum goals

» Tuition flexibility provides net tuition per student growth to offset weak state funding; FY 2011-15 period total growth of 15%

» Colorado intercept enhancement program for certain bonds benefits bondholders

### Credit Challenges

» High and rising leverage relative to peers (FY 2015 spendable cash and investments to pro forma debt of 0.5 times), including debt service guarantee of hotel project

- Low state funding per student and for operations (25% of revenues), and limited state capital support
- Track record of weak philanthropy pressures plan to fund 17% of current building project with new gifts
- Multiple years of declining enrollment coupled with weak retention
- High reliance on student charges (74%) in highly competitive student market

## Rating Outlook

The stable outlook on the A1 underlying rating reflects our expectation of continued positive operating cash flow to meet good debt service coverage, stable hotel operations, and limited use of reserves. It also incorporates recent additions to state funding, management's current plans to stabilize enrollment trends, and no additional debt plans.

The stable outlook for the enhanced rating is based on the state's current stable long-term outlook.

## Factors that Could Lead to an Upgrade

Underlying rating:

- Sustained improvement in cash flow leading to liquidity growth and improved leverage
- Successful execution of enrollment strategy resulting in stabilized enrollment and revenue diversity
- Continued successful occupancy rates at the HLC hotel, with self-sustaining cash flow

Enhanced rating:

- Upgrade in the State of Colorado rating

## Factors that Could Lead to a Downgrade

Underlying rating:

- Material ongoing declines in enrollment, pressuring operating performance
- Weaker than expected operating performance at the HLC hotel requiring a draw on the university's guarantee

Enhanced rating:

- Deterioration in credit quality of the State of Colorado rating

## Key Indicators

Exhibit 1

| | 2011 | 2012 | 2013 | 2014 | 2015 | + $26.4M Series 2016 |
|---|---|---|---|---|---|---|
| Total FTE Enrollment | 16,321 | 16,118 | 15,976 | 15,470 | 14,834 | 14,834 |
| Operating Revenue ($000) | 156,515 | 159,795 | 167,358 | 172,424 | 181,817 | 181,817 |
| Annual Change in Operating Revenue (%) | 6.1 | 2.1 | 4.7 | 3.0 | 5.4 | 5.4 |
| Total Cash & Investments ($000) | 73,245 | 79,175 | 79,920 | 74,271 | 71,717 | 71,717 |
| Total Debt ($000) | 128,808 | 126,963 | 125,085 | 122,831 | 124,085 | 150,480 |
| Spendable Cash & Investments to Total Debt (x) | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 |
| Spendable Cash & Investments to Operating Expenses (x) | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| Monthly Days Cash on Hand (x) | 91 | 102 | 109 | 110 | 125 | 125 |
| Operating Cash Flow Margin (%) | 10.5 | 8.8 | 8.1 | 6.6 | 8.4 | 8.4 |
| Total Debt to Cash Flow (x) | 7.8 | 9.0 | 9.2 | 10.8 | 8.1 | 9.9 |

Sensitivity reflects FY 2015 with planned Series 2016 bonds
*Source: Moody's Investors Service*

## Recent Developments

In August 2015, MSU Denver signed a letter of intent (LOI) with Colorado Heights University (CHU), a non-profit subsidiary of the for-profit Japan-based Teikyo University Group, to evaluate ownership of CHU's properties located in south Denver. Should MSU Denver accept ownership following its due diligence process, CHU would transfer 50 of its 75 acres and 16 buildings. MSU Denver anticipates making a decision in February 2016. While this could provide the university with the ability to expand its geographic presence in the Denver metro area, the transfer would likely result in some necessary capital and programmatic investments. The financial details are not yet fully fleshed out. With current cash flow and liquidity, the university would have very modest capacity at the current rating level to assume any debt necessary for capital improvements at the campus.

## Detailed Rating Considerations

### Market Profile: University benefits from urban location and partnerships

MSU Denver's strategic positioning is expected to remain very good, based on its location in downtown Denver, co-location and partnerships with other universities, and ability to adjust programs to meet employer needs. However, the university faces a highly competitive market and the improved economic environment has led to declining enrollment over the last five years. The ability to stabilize enrollment through improved advising, retention, and programmatic investments are key to the university's future credit outlook.

The university is the third largest four year university in Colorado with fall 2015 full-time equivalent (FTE) enrollment of nearly 15,000. Serving a larger proportion of adult learners, the university's enrollment can be volatile and countercyclical to the economy, reflected in the nearly 9% enrollment decline since fall 2011. Recognizing the diversity of its service areas, the university is moving to a Hispanic Serving Institution (HSI) 25% enrollment target (currently at 20%), which will distinguish it in the market. Unique learning opportunities such as the hotel and hospitality learning center and workforce oriented aerospace and engineering programs also enhance the university's strategic positioning. The current bond issue will finance the construction of a new aerospace and engineer sciences building, fostering additional collaboration with area employers.

MSU Denver benefits from its location on the Auraria Higher Education Center campus with two other public higher education institutions, University of Colorado – Denver (member of the University of Colorado rated Aa2 stable) and the Community College of Denver (member of the Colorado Community College System rated Aa3 stable). Transfer students account for over half of MSU Denver's new students, highlighting the importance of transfer and articulation agreements.

Tuition affordability remains a priority for MSU Denver and the university aims to be the lowest cost of the state's four-year public universities, which will limit future tuition revenue growth to inflationary levels. A significant 19% of student charges include the state funding for the College Opportunity Fund (COF), with another 25% attributable to federal Pell grants.

### Operating Performance: Consistent operating cash flow supported by improved state support

The university's ongoing ability to budget for and attain positive operating cash flow performance despite enrollment challenges is important for maintaining the stable outlook. Operating cash flow margins should remain in the 7-9% range over the outlook period based on current expectations for moderating enrollment and state funding.

Improved state funding has added to operating stability, with total operating funding from the state doubling between FY 2011 to projected FY 2016. This includes both the College Opportunity Fund, a stipend granted to undergraduate students which we include in net tuition revenue, and the annual fee for service (FFS) contracts which covers graduate students and other designated programs. A new state funding model implemented for FY 2016 benefited MSU Denver, with an additional $6.5 million (20%) in FFS funding for MSU Denver.

Management reports that the HLC@Metro hotel operations became self-sustaining in FY 2015, two years earlier than projected, which is favorable given the university's guarantee of project debt service. Occupancy rates averaged 81% over the last two years. The hotel project is owned by MSU Denver's component unit, but is operated through a partnership with Sage Hospitality and Marriott's Spring Hill Suites.

### Wealth and Liquidity: Moderate liquidity with limited growth anticipated

Current reserves are adequate at the A1 level given comparatively stable cash flow and are expected to remain steady. The university's operating model is not based on significant fundraising or growth in reserves. In addition to its $58 million of unrestricted cash and investments, the university has a growing, now $11 million, fund of retained and segregated student-approved fees to support current debt as well as the proposed bond issue.

#### LIQUIDITY

The university's monthly liquidity position as of June 30, 2015 of $58 million, translates to 125 monthly days cash on hand, moderately below the A1-median of 139 days.

### Leverage: Weak leverage to be pressured with Series 2016 bonds; Above average pension liability

MSU Denver's leverage is comparatively high and total adjusted debt climbs further with an above average pension liability. Total debt at FY-end 2015 of $124 million included $117 million in institution enterprise revenue bonds and $7 million in capital leases related to an AHEC Series 2008 bond issue.

#### DEBT STRUCTURE

All of the university's debt is amortizing debt, with the final maturity in 2045. Virtually of the debt is fixed rate, though 3% or $4 million associated with the Series 2014 IERBs is set at variable rate, though this debt is fully amortizing though FY 2025.

#### DEBT-RELATED DERIVATIVES

None.

#### PENSIONS AND OPEB

MSU Denver has significant debt-like obligations through its participation in pension and retirement health plans. Pension reforms confirmed by the Colorado Supreme Court in 2014 provide some relief in total liability exposure, but actual contributions lag actuarial recommendations. Given the ongoing funding needs of the multiple-employer pension plan in which the university participates along with growing OPEB requirements, MSU Denver will face inflationary cost pressures for these fringe benefits.

Certain of the university's employees (100% of classified and approximately 30% of faculty and non-classified) participate in Colorado's Public Employees' Retirement Association (PERA) defined benefit (DB) cost-sharing, multi-employer plan administered by the state. PERA also administers a voluntary tax-deferred retirement plan. The university fully funded its required contributions to all plans ($7.2 million in FY 2015), though this was less than the recognized pension expense of 10.8 million in FY 2015. Moody's three-year average adjusted net pension liability is $555 million. Added to pro forma direct debt of $150 million, total adjusted debt is a sizeable 3.0 times FY 2015 operating revenue.

OPEB expenses comprised a low 0.2% of operating expenses in FY 2015. Health care for retirees is provided through PERA's Health Care Program or through the Colorado Higher Education Insurance Benefits Alliance (CHEIBA) Trust, a cost-sharing multiple-employer insurance pool that covers health insurance from retirement until Medicare eligibility.

### Governance and Management: University partners to achieve strategic goals

The university has favorably taken appropriate steps to sustain fiscal stability despite enrollment challenges. Its ability to benefit from its partnerships with other universities, as well as to forge new initiatives with the private sector continue to enable it to invest in its strategic position despite relatively limited resources of its own.

External partnerships with established private entities such as Sage Hospitality and Marriott Spring Hill Suites provide mission-oriented student learning experiences, but add an element of risk in terms of more limited control and exposure to traditionally non-core investments, such as the hotel. MSU Denver is evaluating additional programs, including one with the for-profit Detroit Institute of Music Education. The AES building currently under construction is anticipated to include partnerships with Lockheed Martin Corporation (Baa1 stable) and Jetson Aerospace Corp, among others. As the university also contemplates the Colorado Heights University, ongoing management of the potential financial risks of these partnerships will be critical to sustaining credit quality.

MSU Denver is governed by an 11-member Board of Trustees, nine of which are state appointments. A new vice president for finance and administration joined in August 2013 following his predecessor's retirement and a new vice president for development began in October 2014. The president has been in place since 2004 and is currently evaluating plans to retire. The MSU Denver Board and senior leadership have ongoing succession planning for key university positions (including the president, trustee members, and senior leadership).

## Legal Security

The planned Series 2016 bonds are secured by pledged revenues and are on parity with the Series 2009, 2010 and 2014 institutional enterprise revenue bonds, as well as the Metropolitan State College of Denver Roadrunner Recovery and Reinvestment Act Finance Authority Series 2010A&B (HLC@Metro Project). Pledged revenues include: net revenues calculated as 10% of tuition revenues, net revenues derived from a student facilities construction fee, indirect cost recoveries, mandatory fees for student and faculty services, continuing education services, the federal interest subsidy on qualifying bonds, and all designated unrestricted net income of the university.

The FY 2015 pledged revenues of $27 million cover pro forma parity debt service, including the amount guaranteed on the HLC@Metro bonds, of $7.4 million by 3.6 times. There are no debt service reserve fund requirements on MSU Denver's enterprise revenue bonds, but there is 1.0 times rate covenant.

The HLC@Metro Series 2010A&B bonds, issued through a MSU Denver component unit, are payable from net hotel revenues, and federal direct payments received as a qualified Build America Bond. These bonds also have the absolute and unconditional guarantee of payment for gross debt service on parity with MSU's Series 2009 and 2010 enterprise revenue bonds. The bonds also have the pledge of certain reserve funds including a liquidity fund (25% of the maximum annual debt service on the outstanding bonds) and reserve fund (initially established as $600,000, and with the current reserve balance of $3.5 million).

Certain of MSU Denver's enterprise revenue bonds (Series 2009, 2010, 2014 and planned 2016) also benefit from the presence of the Colorado Higher Education Revenue Bond Intercept Program rating, which is categorized as an unlimited advance. If the university fails to provide sufficient funds, the paying agent is required to notify the state treasurer on the business day immediately prior to the debt service payment date. The treasurer is then required to remit funds to the paying agent, in immediately available funds of the state, the amount necessary to make the debt service payment. Please see our report dated October 22, 2008 for more detail on this program rating.

## Use of Proceeds

The proceeds from the sale of the Series 2016 Bonds will be used to finance the construction and equipping of the Aerospace and Engineering Sciences Building, make other capital improvements to the campus, and pay costs of issuance.

## Obligor Profile

Metropolitan State University is the third largest four-year public higher education institution in Colorado, located in downtown Denver at the Auraria Higher Education Center (AHEC). AHEC was established as an agency of Colorado to provide land, plant and facilities to house three institutions: MSU Denver, the University of Colorado Denver and the Community College of Denver. MSU Denver had FY 2015 operating revenues of $182 million and served a fall 2015 FTE of 14,834.

## Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

## Ratings

Exhibit 2

### BOARD OF TRUSTEES OF METROPOLITAN STATE COLLEGE OF DENVER, CO

| Issue | Rating |
|---|---|
| Institutional Enterprise Revenue Bonds (Aerospace and Engineering Sciences Building Project) Series 2016 | A1 |
| Rating Type | Underlying LT |
| Sale Amount | $26,395,000 |
| Expected Sale Date | 01/19/2016 |
| Rating Description | Revenue: Public University Broad Pledge |
| Institutional Enterprise Revenue Bonds (Aerospace and Engineering Sciences Building Project) Series 2016 | Aa2 |
| Rating Type | Enhanced LT |
| Sale Amount | $26,395,000 |
| Expected Sale Date | 01/19/2016 |
| Rating Description | Revenue: Public University Broad Pledge |

*Source: Moody's Investors Service*

REPORT NUMBER 1011596

MOODY'S INVESTORS SERVICE

Colorado Mesa University

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
11 January 2016

New Issue

**Contacts**

**Erin V. Ortiz** 212-553-4603
*AVP-Analyst*
erin.ortiz@moodys.com

**David Schlachter** 212-553-4453
*Associate Analyst*
david.schlachter@moodys.com

**Edith Behr** 212-553-0566
*VP-Sr Credit Officer/ Manager*
edith.behr@moodys.com

# Colorado Mesa University, CO

## New Issue - Moody's assigns A2 underlying & Aa2 enhanced to Colorado Mesa University's Ser 2016 Rev Bds; outlook stable

### Summary Rating Rationale

Moody's Investors Service has assigned A2 underlying and Aa2 enhanced ratings to the planned $22 million Colorado Mesa University's Series 2016 Enterprise Revenue Bonds. The A2 underlying rating reflects the university's dominant regional student market; strong albeit declining operating cash flows and long-term growth of enrollment and net tuition revenue. This rating also considers the university's rapid increase in debt for investment in and expansion of campus facilities.

The Aa2 enhanced rating is based on the structure and mechanics of the Enhancement Program (the Colorado State Intercept Act), which is derived from the State of Colorado's current rating. The program outlook is stable.

We have also affirmed the A2 underlying and Aa2 enhanced ratings for the university's outstanding bonds.

### Credit Strengths

» Dominant student market given the university's role as primary public university higher education provider in western Colorado with relatively low tuition

» Continued strategic investment potential from very good operating cash flow margin averaging 23% from fiscal year (FY) 2010 through FY 2015

» Revenue growth of almost 12% from FY 2011 to FY 2015 evidenced by net tuition per student growth including stipends from the College Opportunity Fund (COF)

» Planned investment in housing will promote future growth given high occupancy and demonstrated housing demand (existing housing is at 97% capacity)

» Colorado intercept enhancement program for bonds increases probability of full and timely debt service payments

## Credit Challenges

» Financial leverage (spendable cash and investments to pro forma total debt of only 0.20 times) will remain high as the university continues moderate debt issuance

» High reliance on student charges, including COF state subsidy, accounting for 87% of operating revenue

» Historical inconsistency of state funding requires sufficient liquidity to cushion against unexpected reduction in state support

## Rating Outlook

The stable outlook assumes steady enrollment growth with modest growth in net tuition per student offset by escalating expenses resulting in narrowing operations.

The stable outlook for the enhanced rating is based on the state's current stable long-term outlook.

## Factors that Could Lead to an Upgrade

» Improvement in operating reserves with little to no additional debt leading to sustained spendable cash and investments to debt of over 0.5 times

» Sustained improvement in operating funding from Aa1-rated State of Colorado providing more revenue diversity

» For the enhanced rating, upgrade of the Colorado Higher Education Enhancement Program rating

## Factors that Could Lead to a Downgrade

» Weakening of operating performance leading to deterioration in debt service coverage or further contraction of financial resources

» Further debt issuance resulting in sustained debt to revenue of greater than 2 times

» Softening of student demand evidenced by continued decline in matriculation or reversal of recently improved retention rate

» For the enhanced rating, downgrade of Colorado Higher Education Enhancement Program rating

## Key Indicators

| | 2011 | 2012 | 2013 | 2014 | 2015 | Pro forma 2015 + Series 2016 |
|---|---|---|---|---|---|---|
| Total FTE Enrollment | 7,092 | 7,093 | 7,417 | 7,609 | 7,261 | 7,261 |
| Operating Revenue ($000) | 90,864 | 96,455 | 102,079 | 108,622 | 113,266 | 113,266 |
| Annual Change in Operating Revenue (%) | 9.4 | 6.2 | 5.8 | 6.4 | 4.3 | 4.3 |
| Total Cash & Investments ($000) | 44,601 | 45,808 | 50,645 | 58,567 | 63,118 | 63,118 |
| Total Debt ($000) | 143,343 | 165,507 | 183,091 | 193,763 | 194,909 | 218,934 |
| Spendable Cash & Investments to Total Debt (x) | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Spendable Cash & Investments to Operating Expenses (x) | 0.4 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| Monthly Days Cash on Hand (x) | 140 | 124 | 126 | 130 | 134 | 134 |
| Operating Cash Flow Margin (%) | 26.0 | 25.0 | 24.7 | 21.4 | 18.7 | 18.7 |
| Total Debt to Cash Flow (x) | 6.1 | 6.9 | 7.3 | 8.3 | 9.2 | 10.4 |

Note: Total FTE enrollment refers to fall figures
*Source: Moody's Investors Service*

## Recent Developments

Recent developments are incorporated in Detailed Rating Considerations.

## Detailed Rating Considerations

### Market Profile: New Facilities, Low Tuition and Little Regional Competition Attract Students

Colorado Mesa University will continue to grow enrollment due to its location with little regional competition, its relatively low tuition, and its attractive campuses. The university is a regional public university with three campuses serving 14 counties in western Colorado. The City of Grand Junction and Mesa County recognize the university's important role as an economic driver and pledge $1.3 million per year to support operations and property purchases.

Students are attracted to campuses with new facilities where capital spending has averaged almost 3.5 times depreciation over the past five years and the average age of plant is only eight years. Fall 2015 FTE enrollment declined slightly to 7,261, resulting from a large graduating class of 2014, but total enrollment has grown approximately 40% in the last 10 years and will continue to grow. New student residences will help accommodate demand.

CMU is part of the Western Undergraduate Exchange (WUE) program and recruits heavily in western states. Management also attributes relative affordability to the increases in enrollment. Despite having tuition increase authority from the state of over 9% every year through the current FY 2016 for resident undergraduate students, CMU has implemented tuition rate increases below this level.

### Operating Performance: Continued Strategic Investment Reduces Cash Flow to Still High Level

Operation margins will continue to decline, but remain positive, as the university invests in facilities and programs while maintaining affordable student charges. Almost 90% of operating revenue is based on enrollment including tuition, auxiliary fees, and College Opportunity Funds from the state. These revenues have grown an average of 6.7% annually over the past five years while expenditure growth has averaged a higher 7.3% annually resulting in narrower margins. Cash flow margins have declined in each of the past five years to a robust 19% in FY 2015 down from 26% in FY 2011.

While the university is highly reliant on student charges, it does receive somewhat inconsistent state support in the form of COF and Fee for Service revenue. Together this operating support has ranged from 15% to 19% of operating revenue since the Great Recession. Fee for Service revenue from the state has slightly increased to $8.3 million in FY 2015 which is down 22% from FY 2011 levels of $10.7 million. The Fee for Service appropriation has increased in FY 2016 to $9.9 million. Greater reliability of support from Aa1 rated State of Colorado would be credit positive.

### Wealth and Liquidity: Modest, but Growing Balance Sheet Reserves with Good Liquidity

Total wealth, measured by total cash and investments, will remain in line with other A2 rated public universities. Total cash and investments grew an average of 8% annually to a moderate $68 million from FY 2011 to FY 2015 primarily from surplus operations. Spendable cash and investments were equivalent to 0.39 times operations in FY 2015.

#### LIQUIDITY

Liquidity is a credit strength for Colorado Mesa University. The system had $37 million in monthly liquidity as of June 30, 2015, providing 134 days cash on hand. Liquidity is expected to remain flat as surpluses from operations are reinvested in campus facilities and programs.

### Leverage: Expected to Remain High; Offset by Rental Income

Financial leverage evidenced by spendable cash and investments to total debt will remain high. After issuance of the Series 2016 bonds, financial leverage will be 0.2 times. Future plans include additional housing projects estimated to cost $14 million each, some of which may be financed by bond proceeds. Any additional leverage will be mitigated by rental income.

#### DEBT STRUCTURE

All of the university's debt is fixed rate.

#### DEBT-RELATED DERIVATIVES

None

#### PENSIONS AND OPEB

Pension liabilities result in elevated leverage for the university. Pension reforms confirmed by the Colorado Supreme Court in 2014 provide some relief in total liability exposure. However, given the ongoing funding needs of the pension plan in which the CMU participates along with growing OPEB requirements, CMU will face growing cost pressures for these fringe benefits.

The Colorado Mesa University's principal employee pension plan is the Public Employees' Retirement Association of Colorado ("PERA"). PERA is a cost-sharing multiple-employer public employee retirement fund created in 1931. Substantially all full-time classified employees of the system are covered by PERA. Employer and employee obligations to contribute to PERA are established under Colorado state law.

The university fully funded its required contributions in FY 2015, a modest 1% of operating revenue. Moody's three-year average adjusted net pension liability is $96.5 million. Added to pro forma direct debt of $219 million and operating leases of $1.4 million, total adjusted debt is an elevated 2.8 times FY 2015 operating revenue.

### Governance and Management: Long-Term Planning Leads to Operating Surpluses

Conservative budgeting and planning at the university factors into very good strategic positioning. University management incorporates a contingency in its annual budget. This practice will mitigate any revenue deficiencies resulting from a decline in enrollment.

The budget and resource allocation process is a multi-year activity which assures that funding from all sources is continuously consistent with long-range university policies, programmatic goals and specific campus roles and objectives. The State Department of Education required all Colorado colleges and universities to submit a five-year Financial Accountability Plan for the period FY 2011- FY 2016.

## Legal Security

The Series 2016 Enterprise Revenue Bonds are payable from Net System Revenues, which include net revenues of the auxiliary facility system (including housing, food and beverage sales and services, parking facilities, recreation center and bookstore) as well as mandatory student auxiliary fees and Federal Direct Payments (federal subsidy for issuing Build America Bonds). The pledge also includes 10% of the Tuition Revenues received by the university, all revenues derived from Facility Construction Fees, all earnings on all funds and accounts created under the Bond Resolution (except the Rebate Account) and all other income, fees and revenues that the Board determines, without further consideration from the owners of Series 2016 bonds, to include in Revenues. The Outstanding Bonds are secured with a lien on net revenues on a parity with the Series 2016 Bonds.

## Use of Proceeds

Proceeds from the sale of the Series 2016 Bonds will be used to construct and equip a new residence hall on the University's campus, expand, renovate and equip the Maverick Center, and make such additional capital improvements to the campus as the Board of Trustees may designate. Proceeds from the bonds will also be used to pay capitalized interest through May 15, 2017 and costs of issuance.

## Obligor Profile

The university is a regional, liberal arts university located in western Colorado with graduate programs in teacher education, business, nursing, and art. In addition to its undergraduate and graduate programs, the university owns and operates a community college. Annual operating revenue of the university is $113 million and there were close to 7,300 full-time equivalent students in fall 2015.

## Methodology

The principal methodology used in the underlying rating was Global Higher Education published in November 2015. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

## Ratings

Exhibit 2

### COLORADO MESA UNIVERSITY

| Issue | Rating |
|---|---|
| Enterprise Revenue Bonds, Series 2016 | A2 |
| Rating Type | Underlying LT |
| Sale Amount | $22,000,000 |
| Expected Sale Date | 01/21/2016 |
| Rating Description | Revenue: Public University Broad Pledge |
| Enterprise Revenue Bonds, Series 2016 | Aa2 |
| Rating Type | Enhanced LT |
| Sale Amount | $22,000,000 |
| Expected Sale Date | 01/21/2016 |
| Rating Description | Revenue: Public University Broad Pledge |

*Source: Moody's Investors Service*

REPORT NUMBER 1011484

Colorado School of Mines

MOODY'S
INVESTORS SERVICE

# New Issue: Moody's assigns Aa3 underlying and Aa2 enhanced to Colorado School of Mines' Series 2016A & B bonds; outlook stable

Global Credit Research - 10 Dec 2015

**$143M pro forma rated debt**

BOARD OF TRUSTEES OF THE COLORADO SCHOOL OF MINES, CO
Public Colleges & Universities
CO

**Moody's Rating**

| ISSUE | | UNDERLYING RATING | RATING |
|---|---|---|---|
| Institutional Enterprise Revenue Bonds Series 2016A | | Aa3 | Aa2 |
| **Sale Amount** | $13,090,000 | | |
| **Expected Sale Date** | 01/16/16 | | |
| **Rating Description** | Revenue: Public University Broad Pledge | | |
| Institutional Enterprise Revenue Refunding Bonds, Series 2016B | | Aa3 | Aa2 |
| **Sale Amount** | $10,880,000 | | |
| **Expected Sale Date** | 01/16/16 | | |
| **Rating Description** | Revenue: Public University Broad Pledge | | |

**Moody's Outlook** STA

NEW YORK, December 10, 2015 --Moody's Investors Service assigns a Aa3 underlying rating to Colorado School of Mines (CSM) $24 million of fixed rate Institutional Enterprise Revenue Bonds Series 2016A (maturing in 2022) and Refunding Series 2016B (maturing in 2028). An enhanced rating of Aa2 is also assigned to the Series 2016A and 2016B bonds. The outlook on the underlying and enhanced ratings is stable.

SUMMARY RATING RATIONALE

The Aa3 underlying rating is based on CSM's significant growth in financial resources, with total cash and investments doubling over the past five years and monthly days cash on hand growing to 251 days in fiscal year (FY) 2015 from 136 days in FY 2011. CSM's specialized focus in mineral engineering and earth sciences will generate very good student demand, with the school successfully executing on its enrollment growth strategy translating into growing net tuition revenue.

The rating also favorably incorporates CSM's increasing philanthropic support and grant revenue, including private sponsorship that enhances academic programs and capital investment. Further, operating performance is stable and consistently sound.

Challenges facing CSM include comparatively high leverage owing largely to modest state operating and capital support, high net tuition per student potentially limiting additional growth, and some interest rate and renewal risk related to variable rate debt. A recent leadership transition adds some uncertainty with the potential for strategic plan changes.

The Aa2 enhanced rating and stable outlook are derived from the structure and mechanics of the Enhancement Program (the Colorado State Intercept Act), which is based on the State of Colorado's current rating and outlook.

OUTLOOK

The stable outlook on the Aa3 underlying rating reflects our expectation of stable student demand and sustained strong cash flow operations to generate good debt service coverage. It also incorporates prospects for continued growth of spendable cash and investments and limited plans for additional debt.

The stable outlook for the enhanced rating is based on the state's current stable long-term outlook.

WHAT COULD MAKE THE RATING GO UP

Underlying rating:

-Substantial improvement in flexible financial resources, with limited debt increases

-Further strengthening of brand, as indicated by increased student demand and revenue growth

Enhanced rating:

-Upgrade in the State of Colorado rating

WHAT COULD MAKE THE RATING GO DOWN

Underlying rating:

-Sustained weakening of operating cash flow and debt service coverage

-Decline in philanthropic support and sponsored research

-Substantial decline in liquidity

Enhanced rating:

-Deterioration in credit quality of the State of Colorado rating

STRENGTHS

-Well established niche in mineral engineering and earth sciences with demonstrated strong demand and growing enrollment (5,555 full-time equivalent (FTE) students in fall 2015)

-Robust growth of net tuition revenue (up 16% for fiscal years, FYs, 2013-15) offsets flat state appropriations

-Historically strong philanthropic and corporate support with over $4,500 gifts per student in FY 2015

-Consistently stable and sound operating performance, with an average FY 2013-15 operating cash flow margin of 15%

-Limited additional borrowing plans following recent healthy pace of capital investment

-Bondholders benefit from Colorado intercept enhancement program for certain bonds

CHALLENGES

-Limited state funding for operations (6% of revenues) and limited state capital support

-High financial leverage ($37,285 per student and pro forma debt to revenue of 0.9 times)

-National competition for academically strong students will limit ability to grow tuition

RECENT DEVELOPMENTS

Incorporated into DETAILED RATING RATIONALE

DETAILED RATING RATIONALE

MARKET PROFILE: WELL ESTABLISHED STEM NICHE WITH RESEARCH COMPLEMENT

CSM's student demand will remain strong due to its primary offerings in highly sought science, technology, engineering and mathematics (STEM) programs. Consistent with its articulated enrollment growth strategy, full-time equivalent enrollment rose a measured 7% from fall 2012 (5,185) to fall 2015 (5,555), with roughly 80% undergraduates. The school does not plan to grow enrollment beyond its current nearly 5,700 headcount in order to further establish its high quality STEM mission. Though CSM boasts some of the highest admission standards in the state and tightened requirements further for fall 2015, entering freshman matriculation rates have been relatively low at 21%, highlighting the stiff competition for quality students. Fall 2015 new freshman and transfers were higher than budgeted at 1,132 new first time freshman enrollment (up 13% over fall 2014) and 159 transfer students. Very strong retention that rose to 94% in fall 2015 aids ongoing enrollment stability.

CSM's growing net tuition per student (16% over the FY 2013 to FY 2015 period) and high net tuition per student (nearly $21,500 in FY 2015), with limited financial aid (16% discount rate), is a key strength underpinning of the Aa3-rating. However, net tuition per student growth will moderate in FY 2016 due to CSM's measured enrollment growth and less than 3% annual tuition rate increase, in contrast to healthy increases of 6%-7.7% over the FY 2012 to FY 2014 period. The state legislature recently passed legislation that allows CSM to have more control over tuition increases beginning in FY 2017.

The school has a good, albeit concentrated, level of research activities, with grant and contract revenue of $57 million in FY 2015 comprising 24% of operating revenues. Federal funding is a meaningful component of research activity (nearly half in FY 2015), but private funds providing 45% of research awards is key to offset uncertain federal funding. Research-related expenses of $47 million comprised nearly 20% of total operations. CSM holds an aspirational goal to more than double its research activity and associated federal/private funding within 10 years.

OPERATING PERFORMANCE: SOLID FINANCIAL PERFORMANCE DRIVEN BY MULTIPLE REVENUE STREAMS

Operating performance will remain sound due to adept budgetary practices, solid student demand, positive philanthropic support, and focused research programs. The FY 2013 to FY 2015 operating cash flow margin averaged 15%, with debt service coverage over 2.0 times. FY 2015 increased expenses reflect additional faculty, a 3% salary adjustment, and recognition of $21 million in pension expense ($14 million actual contribution).

Future support in State of Colorado (Aa1 stable issuer rating) funding remains a key credit concern with a history of volatile state funding, though recent funding proposals may provide more higher education operating and capital support. The school receives state operating support in the form of the College Opportunity Fund (COF, a stipend granted to undergraduate students) and the annual fee for service contracts (graduate students), which together amounted to a comparatively modest 8.6% ($21 million) of operating revenues in FY 2015. The COF funds are included within net tuition revenue.

Favorably, the state increased operating support in FY 2015 and FY 2016 by roughly 11% each year, though due to state funding limitations, CSM may see a slight decline in funding for FY 2017. In December 2014, the Colorado Department of Higher Education (CDHE) and the Colorado Commission on Higher Education (CCHE) announced the development of a new funding allocation model, expected to be implemented beginning in FY 2017. The new model incorporates needs for the COF stipend, the role and mission of the individual institution, as well as performance outcome metrics.

The CSM foundation recorded its largest philanthropic support to date, raising $48 million in FY 2014 followed by $41 million in FY 2015, following two years of gift support of $32 million and $35 million. In FY 2011, the foundation launched the Transforming Lives Campaign, which is on target for its $350 million goal, expected to be reached by December 31, 2016.

WEALTH AND LIQUIDITY: GROWING RESERVES DUE TO CONSERVATIVE BUDGETING AND CAPITAL CAMPAIGN

The CSM foundation endowment was $273 million as of June 30, 2015, recording a negative 0.1% fiscal year return. Endowment funds are allocated among equities (47%), hedge funds (22%), private equity (16%), fixed income (10%), and cash (5%). The foundation's investments are internally managed with oversight by the foundation's investment committee. With the exception of one fund with an 8% concentration, the pool is generally well diversified with fund allocations of 3% or less.

Liquidity

Most of the school's unrestricted assets are invested in the state treasurer's pool ($132 million of cash and cash equivalents on deposit with the State Treasurer as of FY-end 2015), which translates to a strong 251 monthly days cash on hand.

## LEVERAGE: HIGHLY LEVERAGED; FAVORABLE IMPACT OF RECENT AUTHORIZED STATE CAPITAL APPRORIATIONS; LIMITED ADDITIONAL DEBT PLAN

CSM is more leveraged than other Aa3-rated public universities, reflecting historically weak state capital funding, rising capital investment, and recent use of reserves. Favorably, the state is providing capital funding for FY 2015 ($14.6 million) and FY 2016 ($6.5 million). CSM has kept up with infrastructure needs, demonstrated by a capital spending ratio that averaged 2.4 times over the FY 2012-14 period, and an average age of plant of roughly 11 years.

Recent and future capital projects will continue to be funded largely by gifts and internal reserves, with only periodic state capital appropriations. Housing renovations occurring over the next few years will be funded with internal cash flow reserves. CSM's current project is the CoorsTek Center for Applied Science and Engineering (total cost of $53 million), which will be funded with a $20 million CoorsTek and Coors family gift, $14.6 million in a state capital appropriation, and the remaining $18 million in additional gifts and reserves. The Series 2016A bonds will provide transitional funding until all gifts are received.

Spendable cash and investments of $310 million in FY 2015 are up 24% over FY 2013, due to CSM's strong budgeting and reflecting the success of the current capital campaign, though this pace of increase will slow going forward with the waning campaign and use of reserves for capital investment. Debt outstanding at FY-end 2015 of $200 million was reduced to $194 million at FY-end 2015 due to principal payments and prepayment of the Series 2009D bonds ($4.8 million in December 2014). The Series 2016A new money issue of $13 million will be repaid by gifts for the CoorsTek building. Spendable cash and investments cover pro-forma debt by a sufficient 1.5 times, but pro forma debt to operating revenues is weaker at 0.9 times versus the Aa3-median of 0.5 times.

### Debt Structure

The school's outstanding debt is 80% fixed rate, with 20% (Series 2010A bonds) as variable rate debt in an annual index rate mode held by Wells Fargo Bank, N.A. The Series 2012A bonds ($11 million) are privately placed and not demand debt. Under an agreement, $5.5 million of the Series 2012A bonds will be forgiven upon the death of one of two investors in the bonds. The risks related to the variable rate debt are partially mitigated by solid monthly liquidity to demand debt of 3 times.

### Debt-Related Derivatives

CSM has one floating-to-fixed interest rate swap agreement, which was originally for CSM's Series 2008A bonds. When the 2008 bonds were refinanced with the Series 2010A bonds, the swap was allocated to the Series 2010A bonds (unrated).The counterparty is Morgan Stanley Capital Services (with a guarantee provided by Morgan Stanley). Downgrade of Morgan Stanley or CSM below investment grade would constitute an additional termination event. The mark to market valuation of the swap was a liability of $10.4 million at December 4, 2015.

### Pensions and OPEB

CSM has significant debt-like obligations through its participation in pension and retirement health plans. Given the ongoing funding needs of the multiple-employer pension plan in which CSM participates along with growing OPEB requirements, the school will face inflationary cost pressures for these fringe benefits. Virtually all of CSM's employees participate in Colorado's Public Employees' Retirement Association (PERA) defined benefit (DB) cost-sharing, multi-employer plan administered by the state. PERA also administers a voluntary tax-deferred retirement plan. The CSM Foundation participates in a defined contribution plan. CSM fully funded its required contributions to all plans ($13.7 million om FY 2015), though this was less than the recognized pension expense of $20.7 million in FY 2015 (unaudited FY 2015 figures). Moody's three-year average adjusted net pension liability is $639 million. Added to direct debt of $207 million, total adjusted debt is 3.5 times FY 2015 (unaudited) operating revenue.

OPEB expenses comprised a low 0.3% of operating expenses in FY 2014. Health care for retirees is provided through PERA's Health Care Program, which subsidizes a portion of the monthly premium for health care coverage, with the benefitting recipient covering the balance of the premium. Retirees are also able to participate in the Colorado Higher Education Insurance Benefits Alliance (CHEIBA) Trust, a cost-sharing multiple-employer insurance pool that covers health insurance from retirement until Medicare eligibility.

## GOVERNANCE AND MANAGEMENT: PRESIDENTIAL TRANSITION

The school's recent financial and enrollment results favorably highlight management's ability to successfully execute fiscal and strategic plans. A new president was named on July 1, 2015, coming from Arizona State University where he was Dean of the Fulton School of Engineering. We expect new leadership will continue to build upon CSM's focused strategic direction, limiting transition risk.

Colorado School of Mines is governed by seven-voting members who are appointed by the governor and confirmed by the state senate, serving four year terms. There are two additional non-voting members: an annually elected member of the student body and a faculty member elected for a two-year term.

KEY STATISTICS (FY 2015 financial data)

-Operating Revenue: $240 million

-Annual Change in Operating Revenue: 7%

-Operating Cash Flow Margin: 14%

-Reliance on Tuition and Auxiliaries (% of Operating Revenue): 58%

-Total Cash & Investments: $483 million

-Spendable Cash and Investments to Operating Expenses: 1.3 times

-Monthly Days Cash on Hand: 251 days

-Spendable Cash and Investments to Total Debt: 1.5 times

-Total Debt to Cash Flow: 6.4 times

OBLIGOR PROFILE

The Colorado School of Mines, located west of Denver in Golden, was originally established in 1869. CSM offers undergraduate and graduate degrees, including doctoral, and has been dedicated to education in mineral engineering and earth sciences. In FY 2015, CSM recorded operating revenues of $240 million and recorded a fall 2015 headcount enrollment of 5,794 students.

LEGAL SECURITY

The planned Series 2016A and 2016B bonds are secured by net revenues calculated as the prior bond net pledged revenues less debt service, plus certain academic facility fees, indirect cost recoveries related to research contracts and grants received by the school and performed within the school's facilities, federal interest subsidies, and certain gifts, as well as 10% of net tuition revenue. The FY 2015 net revenues of $45 million covered debt service ($18.6 million) 2.4 times.

The planned Series 2016A and 2016B bonds will be on parity with the enterprise revenue bonds Series 2009A, 2009B, 2009C, 2010A, 2010B, 2011, and 2012B bonds, but are subordinate to a lien for prior bonds. The Series 1999 auxiliary facility bonds (prior bonds) have a superior lien on net pledged revenues of certain facilities and student fees (student center and recreation center). Net pledged revenues for the prior bonds totaled $13.3 million in FY 2015, providing coverage of 17.1 times.

There are no debt service reserve fund requirements. There is a rate maintenance covenant under which the board covenants to maintain fees and charges included in the gross revenues sufficient to pay debt service coverage on prior obligations; to pay operation and maintenance expenses; and annual debt service requirements on all obligations payable from net revenues.

The Series 2012A institutional enterprise revenue bonds are subordinate obligations.

Certain of the school's enterprise revenue bonds (Series 2009A, 2009B, 2009C, 2012B and planned 2016A and 2016B) also benefit from the presence of the Colorado Higher Education Revenue Bond Intercept Program rating, which is categorized as an unlimited advance. If the school fails to provide sufficient funds, the paying agent is required to notify the state treasurer on the business day immediately prior to the debt service payment date. The treasurer is then required to remit funds to the paying agent, in immediately available funds of the state, the amount necessary to make the debt service payment. Please see our report dated October 22, 2008 for more detail on this program rating.

USE OF PROCEEDS

Proceeds of the Series 2016A and 2016B will be used to: (1) provide bridge loan financing for the CoorsTek Center building to cover future donor receipts; (2) refund a portion of the Series 2009A bonds; and (3) pay costs of issuance.

PRINCIPAL METHODOLOGY

The principal methodology used in the underlying rating was Global Higher Education published in November 2015. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

**Analysts**

Mary Kay Cooney
Lead Analyst
Public Finance Group
Moody's Investors Service

Erin V. Ortiz
Backup Analyst
Public Finance Group
Moody's Investors Service

Dennis M. Gephardt
Additional Contact
Public Finance Group
Moody's Investors Service

**Contacts**

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

UNIVERSITY OF NORTHERN COLORADO

MOODY'S INVESTORS SERVICE

## New Issue: Moody's revises University of Northern Colorado's outlook to negative; assigns A1 underlying and Aa2 enhanced to $19M Ser. 2015A

Global Credit Research - 30 Apr 2015

**$117M rated debt**

BOARD OF TRUSTEES OF THE UNIVERSITY OF NORTHERN COLORADO
Public Colleges & Universities
CO

**Moody's Rating**

| ISSUE | UNDERLYING RATING | RATING |
|---|---|---|
| Institutional Enterprise Revenue Refunding Bonds, Series 2015A | A1 | Aa2 |
| **Sale Amount** $18,760,000 | | |
| **Expected Sale Date** 05/06/15 | | |
| **Rating Description** Revenue: Public University Broad Pledge | | |

**Moody's Outlook** NEG

NEW YORK, April 30, 2015 --Moody's Investors Service assigns an A1 underlying and Aa2 enhanced rating to the University of Northern Colorado's (UNC) $18.8 million of Series 2015A Institutional Enterprise Revenue Refunding Bonds (fixed rate, maturing in 2040). We also affirm the A1 underlying and Aa2 enhanced ratings on the university's outstanding rated debt. We revise the underlying rating to negative from stable. The enhanced rating outlook is stable.

SUMMARY RATING RATIONALE

The outlook revision to negative from stable reflects the university's declining liquidity and rising fixed costs associated with an aggressive plan to grow enrollment by 25% by fall 2018.

The underlying A1 rating reflects UNC's role as a mid-sized regional public university with relatively moderate leverage. UNC retains some pricing flexibility and a relatively low share of Pell eligible students.

The university faces elevated near-term risk as it attempts to alter its market profile by growing and diversifying enrollment. UNC will be challenged to achieve enrollment growth targets in light of two years of enrollment declines. Even with relatively optimistic enrollment assumptions, UNC's draw down of liquidity reduces its financial flexibility.

The Aa2 enhanced rating and stable outlook are derived from the structure and mechanics of the Colorado Higher Education Enhancement Program, which is based on the State of Colorado's current rating and outlook.

OUTLOOK

The university's negative outlook reflects expected declines in liquidity and operating performance in FY 2015. Inability of UNC to meet enrollment and revenue targets for fall 2015 or to alter plans accordingly would result in a downgrade.

The stable outlook for the enhanced rating is based on the state's outlook.

WHAT COULD MAKE THE RATING GO UP

Underlying rating:

- Sustained improvement in cash flow contributing to liquidity growth

- Successful execution of enrollment strategy resulting in greater enrollment and revenue diversity

Enhanced rating:

- Upgrade in the State of Colorado's issuer rating

WHAT COULD MAKE THE RATING GO DOWN

Underlying rating:

- Inability to meet enrollment targets without altering expenses or use of reserves

- Borrowing or using financial reserves to construct student center in advance of full state funding authorization

Enhanced rating:

- Deterioration in credit quality of the State of Colorado's issuer rating

STRENGTHS

- Bondholders benefit from Colorado intercept enhancement program

- Mid-sized regional public university located near the Denver Metropolitan Area

- Some tuition flexibility providing net tuition per student growth that offsets weak state funding

- Moderate balance sheet leverage, with limited new debt plans

CHALLENGES

- Ambitious enrollment growth plans are expected to result in annual declines in liquidity and weakened cash flow through FY 2018.

- Multiple years of declining enrollment coupled with weak retention

- Additional capital investment likely needed to remain competitive with four years of capital spending less than annual depreciation

RECENT DEVELOPMENTS

Incorporated in DETAILED RATING RATIONALE

DETAILED RATING RATIONALE

MARKET POSITION: AMBITIOUS ENROLLMENT GROWTH PLAN FOR MID-SIZED REGIONAL UNIVERSITY

UNC is in the midst of implementing a strategic plan to bolster headcount enrollment by a very ambitious 25% (3,000 students) over the next four years. Despite these plans, enrollment continued to decline for the second year, down 5% in fall 2014 from the prior year. Some improvement was recorded for fall 2014, with a slight increase in new freshman and transfers, as well as retention (management reported, to 70% from 66%). However, the fall 2014 overall full-time equivalent (FTE) enrollment of 10,502 was down 5% from the prior fall demonstrating the substantial challenge UNC faces to rapidly increase its enrollment on a trajectory that requires an increase of nearly 750 headcount students annually.

Tuition rates at UNC are the lowest among the Colorado comprehensive public universities, but higher than the regional universities and community colleges. Net tuition per student (including the state's College Opportunity Fund revenue) rose a modest 2.3% from FY 2013 ($9,270) to FY 2014 ($9,481). UNC implemented a 4.8% tuition increase for FY 2015 and is considering a slightly higher increase for FY 2016. A capital improvement fee has been implemented, from which the funds will be set aside for future capital improvements.

OPERATING PERFORMANCE, BALANCE SHEET, AND CAPITAL PLANS: ENROLLMENT STRATEGY INCLUDES PLANNED DEFICITS AND USE OF LIQUIDITY

UNC's financial performance will continue to deteriorate over the next three years as it makes substantial investments in salary increases, capital enhancements, and programmatic changes to bolster enrollment growth. In FY 2014, UNC generated a 4.4% deficit compared to a surplus of 3.3% in FY 2011. Management projects a 5.9% deficit in FY 2015 as enrollment was 4.3% below budget. With ongoing investments, management projects that operating performance will continue to be negative through FY 2018.

UNC's operations are highly sensitive to enrollment, with nearly three-quarters of operating revenue derived from student charges. Enrollment softening and additional financial aid resulted in nearly flat net tuition revenue compared to the prior year despite a 5% increase in tuition prices. The university's very high reliance on student charges underscores the ongoing need for effective enrollment management, particularly with pressure to grow student charges and an overly ambitious enrollment growth plan.

State funding has been relatively volatile, though prospects for operating and capital support are improved for FY 2016. The university receives state operating support in the form of the College Opportunity Fund (COF, a stipend granted to undergraduate students) and annual fee for service contracts, which together amounted to a comparatively moderate 18% ($33.6 million) of operating revenues in FY 2014. Favorably, the state increased operating support in FY 2015 by 11.3%, translating to an additional $3.8 million in state support. The university is anticipating a similar increase in FY 2016.

Projected operating performance diverges from the university's recent ability to generate and retain operating surpluses. UNC has limited prospects to increase financial reserves between operating deficits and limited fundraising. Between FY 2009-2013, UNC built up cash reserves for operations ($23 million), plant improvements ($10 million) and strategic initiatives ($9 million). During FY 2014, UNC used roughly $10 million for the strategic plan, and expects to use $16 million in FY 2015.

The university is planning to build a multi-use facility (Campus Commons) encompassing a student center, visitor and alumni center, learning center, and performing arts center. The cost is estimated at $74 million and is expected to be funded with capital appropriations from the state to be received over two years ($38 million total; the governor recently approved $23 million and UNC will request the remaining $15 million for FY 2017); $12 million in gifts; and the remaining $24 million to be bond financed using cash flow from a capital improvement fee to internally support debt service. The project has been designed in two phases, with the first phase ($44 million) designed as a fully-functioning facility. Given the appropriation of phase one money from the state, the university expects to issue at least the phase one portion of the new money bonds within the next 12-18 months.

Philanthropic support will be an integral component for the implementation of UNC's strategic plan. Gifts averaged roughly $4.8 million annually though FY 2012. Recently, foundation fundraising activities were folded into university operations allowing management to work closely with development objectives. Since then, management reports that annual contributions rose to $12.2 million in FY 2013 and were $6.3 million for FY 2014. The development office is currently in planning for a significant capital campaign, which will include the $12 million in gifts for the proposed Campus Commons project.

The UNC Foundation endowment was valued at $101.9 million at June 30, 2014, recording a return of 16.3%. Investments are allocated among: equities (44%), fixed income (24%), hedge funds (14%), private equity (4%), commodities (5%), cash and other (8%). The foundation uses Innovest as an investment advisor. Through the first six months of FY 2015, endowment performance was 1.6% with a market value down to $97.8 million, reflecting similar trends of peer portfolios.

Liquidity

UNC's liquidity profile is expected to change materially over the next three fiscal years due to the planned spend down of reserves. In FY 2014, UNC could cover 140 days of operating expenses from unrestricted cash and investments that could be liquidated within a month. Following the spend down in FY 2015, liquidity will drop to 110 days and continue to decline at least through FY 2018 based on management's projections. Deterioration of liquidity beyond what has been estimated would result in a downgrade, reflecting more limited flexibility as the university tries to alter its market profile.

Most of the university-held unrestricted assets are invested in the state treasurer's pool ($69 million as of FY-end 2014).

DEBT AND OTHER LIABILITIES: LONG-TERM DEBT BENEFITS FROM STATE INTERCEPT; LIMITED BORROWING PLANNED

While the State of Colorado has provided limited direct capital support, it enhances bondholder protection by extending an intercept program to UNC's debt. In FY 2014, UNC was moderately leveraged which reflects multiple years of relatively modest capital investment and some growth of financial reserves. Expendable financial resources to debt of 0.6 times is weaker than the A1-rated median of 0.8 times. Campus infrastructure improvements of $30 million over the FY 2012-14 period were internally funded, reflecting no capital appropriations from the state.

Debt Structure

UNC's debt is primarily comprised of fixed rate debt (86% of total debt) amortizing over 30 years, providing predictability for its budgeting process. The remaining 14% is a variable rate direct placement with Wells Fargo Bank, N.A. (Aa3 rating under review for upgrade). The direct placement has the same covenants as UNC's fixed rate debt including sum sufficient annual debt service coverage and additional bond tests, as well as inclusion under the state intercept program. The direct purchase agreement is not coterminous with the bonds, which could present a liquidity risk if UNC were unable to replace or refund the debt which is subject to mandatory tender on July 1, 2017. The final maturity of the bonds is June 1, 2036.

Debt-Related Derivatives

None

Pensions and OPEB

Eligible employees of the university participate in one of five retirement plans: the Public Employees' Retirement Association (PERA) defined benefit (DB) plan, a PERA defined contribution (DC) plan, a PERA deferred compensation plan, a voluntary tax-deferred retirement plan, and an optional retirement plan (ORP). PERA is a cost-sharing, multi-employer DB plan administered by the state. At present, the university is fully funding its required contributions to all plans. The FY 2014 pension expense was a manageable 6.0% of expenses.

Other post-retirement employment benefits are provided to eligible employees primarily through the PERA Health Care Program. UNC's OPEB FY 2014 expenses comprised a low 0.8% of operating expenses.

GOVERNANCE AND MANAGEMENT: HEIGHTENED OVERSIGHT AND PLANNING NEEDED DURING IMPLEMENTATION OF AMBITIOUS ENROLLMENT PLANS

The implementation of UNC's enrollment plan requires heightened oversight and contingency planning. As mentioned above, plans are built on aggressive growth assumptions which if missed could result in outsized declines in liquidity.

The university is overseen by a nine-member Board of Trustees. Seven members are appointed by the Colorado governor for four year terms and have voting rights. The remaining two members include a faculty member and full-time student. Two new members joined the board January 1, 2015. The president has been in place since July 2002 and has been associated with UNC since 1998. An interim currently serves as the vice president for development and alumni relations, with the position expected to be filled by July 1, 2015.

KEY STATISTICS (FY 2014 financial data; fall 2014 enrollment)

- Full-Time Equivalent Enrollment: 10,502 students

- Total Financial Resources: $177 million

- Total Direct Debt: $143 million

- Total Operating Revenue: $190.5 million

- Reliance on Student Charges Revenue (% of Moody's-adjusted Operating Revenue): 73%

- Monthly Days Cash on Hand: 140 days

- Operating Cash Flow Margin: 7.4%

- State of Colorado Issuer Rating: Aa1 stable

OBLIGOR PROFILE

The University of Northern Colorado is a four-year university located in Greeley, Colorado, which is one hour north of the

Denver Metropolitan Area. UNC offers undergraduate and graduate programs among its six colleges. In FY 2014, the university recorded operating revenues of $190 million and served a headcount enrollment of 12,050 students.

LEGAL SECURITY

The proposed Series 2015A Bonds (and parity Series 2011A, 2011B and 2014A bonds) are secured by a pledge that includes net revenues of certain auxiliary enterprise facilities (housing, dining, and certain student recreational facilities), certain mandatory student fees, 10% of net tuition revenue, as well as indirect cost recoveries (overhead received for research grants and contracts) and extended studies revenue. The FY 2014 net pledged revenue was $29.5 million, which is 15.5% of the university's FY 2014 Moody's adjusted operating revenues of $190 million.

The revenue pledge is net of Prior Obligations (approximately $4.7 million of senior lien debt will be outstanding after this refunding, dependent on market conditions) and any operation and maintenance expenses. The FY 2014 debt service coverage for the parity Series 2011A, 2011B, and 2014A bonds was 4.5 times.

The Series 2015A bonds are expected to be secured by the state intercept program, in addition to the Series 2011A, 2011B, and 2014A bonds. The Prior Obligations, which include the Series 2005 and 2008A Auxiliary Facility Revenue bonds, do not benefit from the state's intercept program.

There is no debt service reserve fund for the Series 2015A Bonds. The Series 2005 and 2008A Bonds each have debt service reserve funds through surety bonds with Assured Guaranty Municipal Corporation (A2 stable).

USE OF PROCEEDS:

Proceeds from the Series 2015A Bonds are expected to be used to refund the remaining outstanding Series 2005 Bonds (amount to be refunded is dependent on market conditions) and to pay issuance costs.

PRINCIPAL METHODOLOGIES

The principal methodology used in the underlying rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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**Analysts**

Mary Kay Cooney
Lead Analyst
Public Finance Group

Moody's Investors Service

Christopher Collins
Backup Analyst
Public Finance Group
Moody's Investors Service

Karen Kedem
Additional Contact
Public Finance Group
Moody's Investors Service

**Contacts**

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

WESTERN STATE UNIVERSITY

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
5 August 2016

New Issue

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**Contacts**

**David Schlachter** 212-553-4453
*Associate Analyst*
david.schlachter@moodys.com

**Susan I Fitzgerald** 212-553-6832
*Associate Managing Director*
susan.fitzgerald@moodys.com

**Mary Kay Cooney** 212-553-7815
*AVP-Analyst*
marykay.cooney@moodys.com

# Western State Colorado University, CO

## New Issue - Moody's Assigns Baa1 Underlying and Aa2 Enhanced to Western State Colorado Univ's Bonds; Outlook Stable

### Summary Rating Rationale

Moody's Investors Service has assigned a Baa1 underlying rating and Aa2 enhanced rating to Western State Colorado University's (WSCU) planned $30 million of fixed rate Auxiliary Facilities Revenue Refunding Bonds, Series 2016 (final maturity 2039). We have affirmed the Baa1 underlying and Aa2 enhanced ratings on the university's outstanding rated bonds. The outlook for the underlying and enhanced ratings is stable.

The underlying Baa1 rating incorporates Western State's relatively small scope of operations as a regional public university in the central Rocky Mountain region. The rating acknowledges enrollment growth arising from strategic investments in capital and programming, relatively strong cash flow margins driven by rising net tuition revenue, and a fixed rate debt profile with no additional debt plans. Offsetting challenges include stiff competition for students, very high leverage and capital spending relative to expenses, historically limited operating and capital support from the State of Colorado (issuer rating Aa1 stable), weak gift support to offset high reliance on student charges, and a large unfunded pension liability.

The Aa2 enhanced rating is based on the structure and mechanics of the Colorado Higher Education Enhancement Program, which is derived from the State of Colorado's current rating. The program outlook is stable.

### Credit Strengths

» Colorado unlimited advance intercept program benefits bondholders

» Strong growth in net tuition revenue, averaging 14% over the fiscal 2011-15 period

» Steady cash flow margins sufficient to support high capital expense burden

» Enrollment growth arising from infrastructure and program strategic investment

» Fixed-rate debt with no additional financing plans

### Credit Challenges

» Highly leveraged (FY 2015 debt to operating revenue of 2 times), exacerbated by large unfunded pension liability

» Capital expenses (depreciation and interest) equivalent to 23% of total expenses depresses operating flexibility

» Historically limited state operating and capital support

» Weak gift support limits revenue diversity

## Rating Outlook

The stable outlook reflects expectations of continued improvements in operating cash flow leading to strengthened debt service coverage, and moderate growth in flexible reserves. The stable outlook further refects our expectations that WCSU will make budgetary adjustments in response to enrollment fluctuations given the very competitive student market.

The stable outlook for the enhanced rating is based on the state's current stable long-term outlook.

## Factors that Could Lead to an Upgrade

» Improvement of the leverage profile, either through resource or revenue growth

» Sustained improvement in operating cash flow leading to stronger debt service coverage

» For the enhanced rating, upgrade of the Colorado Higher Education Enhancement Program rating

## Factors that Could Lead to a Downgrade

» Increase in leverage

» Sustained decrease in cash flow and debt service coverage of less than 1 time

» Reduction in liquidity

» For the enhanced rating, downgrade of Colorado Higher Education Enhancement Program rating

## Key Indicators

Exhibit 1

WESTERN STATE COLORADO UNIVERSITY

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Total FTE Enrollment | 2,108 | 2,130 | 2,188 | 2,254 | 2,326 |
| Operating Revenue ($000) | 36,976 | 36,500 | 37,281 | 41,463 | 44,451 |
| Annual Change in Operating Revenue (%) | 6.4 | -1.3 | 2.1 | 11.2 | 7.2 |
| Total Cash & Investments ($000) | 31,451 | 26,224 | 25,779 | 29,434 | 30,388 |
| Total Debt ($000) | 100,097 | 97,969 | 91,081 | 94,185 | 92,977 |
| Spendable Cash & Investments to Total Debt (x) | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Spendable Cash & Investments to Operating Expenses (x) | 0.5 | 0.3 | 0.3 | 0.3 | 0.3 |
| Monthly Days Cash on Hand (x) | 171 | 117 | 120 | 120 | 127 |
| Operating Cash Flow Margin (%) | 16.7 | 9.3 | 14.4 | 15.2 | 14.9 |
| Total Debt to Cash Flow (x) | 16.2 | 28.8 | 17.0 | 15.0 | 14.0 |
| Annual Debt Service Coverage (x) | 2.6 | 1.6 | 1.6 | 1.3 | 1.1 |

*Source: Moody's Investors Service*

## Recent Developments

In fiscal 2016, the university was not considered an enterprise under Colorado's Taxpayer Bill of Rights (TABOR) legislation, due to the receipt from the state funds that were greater than 10% of revenues. Due to the receipt of $17 million in capital funding WSCU's state support was 29% of total revenues. As the capital funding represented one-time funds, the university expects to return to enterprise status in fiscal 2018.

The absence of Western State's enterprise status for FY 2016 has led to the description of these planned Series 2016 bonds as Auxiliary Facilities revenue bonds, rather than the Institutional Enterprise revenue bonds of prior issues. The major differentiating factor is the absence of 10% in tuition revenue or roughly $1.9 million of the nearly $8 million in pledged revenues. Once the university returns to enterprise status, a Springing Tuition Revenue Pledge will allow the 10% of tuition revenues to be added as a pledge for bond security, without further action of the board, so long as no more than 10% of total revenues and capital grants are received from the state.

Upon the springing pledge of Tuition Revenues, the Series 2016 Bonds shall have a parity lien on the Institutional Enterprise Revenues with the Outstanding Bonds. Current bondholders are unaffected by this springing pledge. Series 2016 bondholders will receive Tuition Revenues once the University becomes an Enterprise which will not be dropped if the University goes out of Enterprise status in the future.

## Detailed Rating Considerations

### Market Profile: Investment in Facilities and Niche Programs Attract Students

Western State's recent sizeable investment in campus facilities and academic programs position it well for enrollment growth. The university is challenged by its somewhat remote location and significant competition from larger and more comprehensive public universities in Colorado. Located 200 miles southwest of Denver, Western State is the only college serving the central Rocky Mountain Gunnison area and surrounding recreation areas providing a unique niche for degree seeking students. The university is investing in programs, including at the graduate level, that build on its high altitude location and areas of programmatic strength to distinguish itself from competitors.

Full-time equivalent (FTE) enrollment rose 10% from fall 2011 (2,108 FTE) to fall 2015 (2,386 FTE), and is on track to meet headcount targets in 2020. Management reports that fall 2016 enrollment will be up slightly over fall 2015.

### Operating Performance: Consistent Operating Cash Flow; Narrow Debt Service Coverage

The university's consistent ability to attain positive operating cash flow and meet debt service underpins the stable outlook. Operating cash flow margins are expected to remain in the 14-17% range going forward based on gradually increasing enrollment and relatively steady state funding. Strong cash flow is essential to meet the college's high debt service burden, with thin 1.1 times (Moody's adjusted) debt service coverage in FY 2015. Preliminary FY 2016 financial results indicate cash flow margin to be slightly improved over fiscal 2015.

Favorably, net tuition, which comprises 70% of operating revenues, has improved an average of 14% annually over the fiscal 2011-15 period. The absence of strong state operating support has led to higher net tuition per student levels, $9,726, relative to peers (Baa-median of $8,950). Western has continued to increase tuition levels in FY 2016 (5.5% resident and 5.4% non-resident) and FY 2017 (8.0% resident and 4.6% non-resident).

Improved state funding has added some operating stability, with total operating funding from the state rising 25% from FY 2012-16. This includes both the College Opportunity Fund, a stipend granted to undergraduate students which is included in net tuition revenue, and the annual fee-for-service (FFS) contracts which covers graduate students and other designated programs. A new state funding model implemented for FY 2016 provided WSCU with an additional $863,000, bringing FFS and COF funding to $11.6 million. Total COF and FFS funding comprised a moderate 24% of operating revenues.

### Wealth and Liquidity: Modest Financial Reserves; Good Relative Liquidity

Total cash and investments of $30 million at fiscal end 2015 remain below the $50 million Baa-median. Western State's high capital spending costs limit strong growth in reserves. Spendable cash and investments of $13 million were 0.3 times operating expense in FY 2015, below the Baa-median of 0.5 times.

#### LIQUIDITY

The university has good liquidity for its size of operations. As of June 30, 2015, the college had $15 million in monthly liquidity, representing 127 monthly days cash on hand, stronger than the Baa-median of 79 days. We expect WSCU will keep a good cushion of liquidity for the Baa1 rating due to the limited revenue sources, high fixed costs, and a competitive market profile.

### Leverage: High Leverage Will Continue to be a Burden

The university is highly leveraged, following multiple years of campus infrastructure investment, with limited growth in financial reserves. The FY 2015 spendable cash and investments to debt was a very thin 0.1 times, while debt to operating revenues, was 2.1 times. Debt service consumed nearly 13% of operating expenses in FY 2015, while the median for the higher education sector is under 5%. Favorably, the university has no further debt plans over the near to midterm.

#### DEBT STRUCTURE

All of WSCU's debt is fixed rate and amortizing, allowing for predictable budgeting. Maximum annual debt service of $7.1 million occurs in FY 2025, declining thereafter to $4.7 million in FY 2045.

#### DEBT-RELATED DERIVATIVES

None

#### PENSIONS AND OPEB

Western State has significant debt-like obligations and operating pressure through its participation in state pension and retirement health plans. Pension reforms confirmed by the Colorado Supreme Court in 2014 provide some relief in total liability exposure, but actual contributions lag actuarial recommendations. Given the ongoing funding needs of the multiple-employer pension plan in which the university participates along with growing OPEB requirements, WSCU will face inflationary cost pressures for these fringe benefits. PERA also administers a voluntary tax-deferred retirement plan.

The university fully funded its required contributions to all plans in FY 2015. Moody's three-year average adjusted net pension liability is $39 million (ANPL). Added to direct debt of $93 million, total adjusted debt is a sizeable 3.2 times FY 2015 operating revenue, weaker than the Baa-median of 0.7 times..

OPEB expenses comprised a low 0.1% of operating expenses in FY 2015. Health care for retirees is provided through PERA's Health Care Program or through the Colorado Higher Education Insurance Benefits Alliance (CHEIBA) Trust, a cost-sharing multiple-employer insurance pool that covers health insurance from retirement until Medicare eligibility.

### Governance and Management: Focus on Growth is High Priority

The university's good strategic positioning reflects execution of their campus master plan and recent growth of enrollment. Ongoing implementation of the enrollment plan will require strong oversight and adept contingency planning for the successful stewardship of the university. Favorably, WSCU's strategic plan is based on concrete and measurable implementation objectives, which enables tracking of progress against objectives.

## Legal Security

WSCU planned Series 2016 are on parity with prior debt in the security interest on auxiliary revenues. Prior bondholders additionally benefit from the 10% pledge of tuition, and 2016 bondholders are expected to benefit from that once enterprise status is restored.

For FY 2016, the net revenues will not include 10% of the university's tuition revenues that have been historically been included (see Recent Developments). Since the university expects that the 10% tuition pledge will be reinstated beginning in fiscal 2018, we have not made a rating distinction. Once the tuition pledge is reinstated it remains in place until the bonds mature.

The FY 2015 pledged revenues of $8.1 million cover parity debt service of $5.4 million by 1.5 times. There is no legally pledged debt service reserve fund.

All of WSCU's revenue bonds benefit from the presence of the Colorado Higher Education Enhancement Program (intercept) rating, which is categorized as an unlimited advance. If the university fails to provide sufficient funds, the paying agent is required to notify the state treasurer on the business day immediately prior to the debt service payment date. The treasurer is then required to remit funds to the paying agent, in immediately available funds of the state, the amount necessary to make the debt service payment.

## Use of Proceeds

Proceeds of the Series 2016 Bonds are planned to be used to refund all or portions of the Series 2009 and 2010A bonds, and to pay cost of issuance.

## Obligor Profile

Western State Colorado University is a four-year public university located in Gunnison, Colorado within Colorado's central Rocky Mountains. Among its academic offerings, WSCU's Professional Land and Resource Management (PLRM) program is one of only eight accredited programs in the US. In FY 2015, the university recorded operating revenues of $44 million and served 2,326 FTE students.

## Methodology

The principal methodology used in the underlying rating was Global Higher Education published in November 2015. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

## Ratings

Exhibit 2

### Western State Colorado University

| Issue | Rating |
|---|---|
| Auxiliary Facilities Revenue Refunding Bonds Series 2016 | Baa1 |
| Rating Type | Underlying LT |
| Sale Amount | $30,000,000 |
| Expected Sale Date | 08/23/2016 |
| Rating Description | Revenue: Public University Broad Pledge |
| Auxiliary Facilities Revenue Refunding Bonds Series 2016 | Aa2 |
| Rating Type | Enhanced LT |
| Sale Amount | $30,000,000 |
| Expected Sale Date | 08/23/2016 |
| Rating Description | Revenue: Public University Broad Pledge |

*Source: Moody's Investors Service*

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