STATE OF COLORADO
OFFICE OF THE TREASURER
Walker R. Stapleton

COLORADO TREASURER'S 3RD ANNUAL REPORT
STATE INSTITUTIONS OF HIGHER EDUCATION
FISCAL YEAR 2018/2019

TABLE OF CONTENTS

Introduction

STATE OF COLORADO
DEPARTMENT OF THE TREASURY

Walker R. Stapleton
State Treasurer

Ryan Parsell
Deputy Treasurer

August 31, 2018

Colorado Joint Budget Committee
The Honorable Millie Hamner, Chair
The Honorable Kent Lambert, Vice Chair
The Honorable Dominick Moreno
The Honorable Kevin Lundberg
The Honorable Bob Rankin
The Honorable Dave Young
200 East Colfax Ave
Denver, CO 80203

Dear Committee Members:

The Colorado Treasurer's Office submits this report to comply with Colorado Revised Statutes (C.R.S.) section 23-5-139. According to the statute, this report addresses the fiscal health of Colorado's Higher Education Institutions ("institution(s)") as it relates to outstanding debt and debt service costs. Specifically, this report will show:

1. The most recent credit rating of each institution that has issued either intercept or stand alone bonds
2. The debt service coverage ratio for each institution that has issued either intercept or stand alone bonds
3. The total amount of all intercept and stand alone bonds issued by each institution

Additionally, this report also serves as the pre-approval certificate to show which institutions qualify for pre-approval of the state of Colorado's intercept program.

Colorado law directs the Treasurer's Office to calculate a pre-approval amount for qualifying institutions one of two ways. The Treasurer's Office has calculated the amount using the two methods outlined in statute and using the "lesser of the two amounts". One of the methods states to use "the difference between seventy-five percent of the most recent fiscal year's general fund appropriations for stipends and fee-for-service contracts that are re-appropriated to such governing board and the total annual debt service payments for intercept bonds". The second method allows for "[t]he total amount of additional revenue bonds a governing board could issue while maintaining the requirements set forth in subparagraph (II) of paragraph (b) of this subsection (1)". Pre-approvals were then calculated assuming a thirty year amortization at a 4.25% interest rate.

This is the third such report the Treasurer's Office has submitted. The Treasurer's Office always solicits feedback regarding the previous report and makes changes in accordance with that feedback. This year's report better reflects some figures based on how institutions account for a federal subsidy that is received in conjunction to the Build America Bonds issued in the past.

However, one set of feedback could not be addressed in this report without a statutory change.

It was brought to Treasury's attention the timing of this report does not align with when the higher education institutions in question submit their audited financial statements. The result of this misalignment is this report communicates the outstanding debt profile from one year and debt service coverage from a different year. This could understate or overstate the debt coverage ratio for a higher education institution.

Treasury attempted to rectify this issue by asking institutions to submit more up-to-date figures if such figures were available. Only Colorado Mesa University could submit such figures. The figures submitted by Colorado Mesa University help to underscore why having a report due before audited financial statements are available is problematic. This year's report shows Colorado Mesa University's debt service coverage ratio for "all bonds" and "intercept bonds" to be 1.60 times and 1.79 times, respectively. If the more updated figures from Colorado Mesa University been included, the coverage ratio would have been 1.69 times and 1.89 times—a significant difference! Such a seemingly minor issue could be the difference between whether an institution can participate in the program under statute.

To rectify this issue going forward, the legislature could consider changing the due date of this report to a time after audited financial figures are available from each higher education institution.

The information presented in this report is believed to be accurate and up-to-date. However, aside from the issue listed above, some of the rating data for a few of institutions is older than that of other institutions. New ratings usually are updated when an institution is seeking new debt. Please use caution when comparing some datasets.

Finally, a report like this represents much time and effort among the contributors. The Treasurer's Office would like to thank Amanda Bickel of the Joint Budget Committee Staff, Stephanie Chichester and Nick Taylor of North Slope Capital, Lori Ann Knutson from the Attorney General's Office. We'd also like to thank the Chief Financial Officers, and their staff, from the higher education institutions who helped

edit and refine the figures used in this report. Specifically, we'd like to thank Laura Glatt, Brad Baca, Heather Heersink, Steve Schwartz, George Middlemist, Todd Saliman, Chad Marturano, Lynn Johnson, Bridget Mullen, Mark Superka, Patrick Brodhead, and Kirsten Volpi.

Sincerely,

Walker R. Stapleton
State Treasurer

Ryan Parsell
Deputy Treasurer

Executive Summary

The following institutions are measured as to whether they met the statutory requirements to participate in the intercept program. If all requirements are met, the pre-approval amount is included as well.

Institution:	Adams State College	Colorado Community College System	Colorado Mesa University	Colorado School of Mines	Colorado State
Ratings Requirement Met	✓	✓	✓	✓	✓
Ratio Requirement Met	✓	✓	✓	✓	✓
Percentage Requirement Met	✓	✓	✓	✓	✓
Pre Approval Amount	$3,242,660	$529,745,658	$51,244,219	$92,277,888	$994,996,403

Institution:	Fort Lewis College	MSU Denver	CU	University of Northern Colorado	Western State Colorado University
Ratings Requirement Met	✓	✓	✓	✓	✗
Ratio Requirement Met	✓	✓	✓	✓	✓
Percentage Requirement Met	✓	✓	✓	✓	✓
Pre Approval Amount	$59,390,306	$463,499,728	$2,764,003,762	$346,021,933	N/A

Ratings

C.R.S. section 23-5-139 requires the Treasurer's Office to communicate an institution's "credit rating in one of the three highest categories, without regard to modifiers with a category, from at least one nationally recognized statistical rating organization".

There are three nationally recognized statistical rating organizations from which a credit rating can be obtained: Moody's, Standard and Poors, and Fitch. Below are the most recent ratings available for each institution. **However, not each institution has been rated recently and their financial situation may have changed since their last rating.** Please reference "Institution Profiles" for the last date an institution was rated. The three highest categories for Moody's, S&P, and Fitch are Aaa/Aa/A, AAA/AA/A, and AAA/AA/A, respectively.

<u>**Key Takeaway:**</u> Two institutions (Colorado School of Mines and Fort Lewis College) experienced a credit rating downgrade since the last report. Those reports can be found in the appendix section.

Institution	Moody's	S&P	Fitch
Adams State College	A3 (Negative)	N/A	N/A
Colorado Community College System	Aa3 (Stable)	N/A	N/A
Colorado Mesa University	A2 (Stable)	N/A	N/A
Colorado School of Mines	A1 (Stable)	A+ (Stable)	N/A
Colorado State University	Aa3 (Stable)	A+ (Stable)	N/A
Fort Lewis College	A2 (Negative)	A (Stable)	N/A
Metropolitan State University	A1 (Stable)	A (Negative)	N/A
University of Colorado	Aa1 (Stable)	Withdrawn	AA+ (Stable)
University of Northern Colorado	A3 (Stable)	A- (Stable)	N/A
Western State Colorado University	Baa1 (Stable)	Withdrawn	N/A

Institutions Meeting the Rating Requirement	Institutions Not Meeting the Rating Requirement
Adams State College; Colorado Community College System; Colorado Mesa University; Colorado School of Mines; Colorado State; Fort Lewis College; MSU Denver; CU; University of Northern Colorado	Western State Colorado University — Learning. Elevated.

Debt Service Coverage Ratio and Outstanding Debt

The debt service coverage ratio is measured by "dividing the governing board's net revenue available for annual debt service over such governing board's total amount of annual debt service". Colorado statute requires a ratio of "at least one and one-half to one" to be eligible for the intercept program.

The following is the calculated outstanding debt, service coverage, and their respective ratios.

Institution	Adams State University	Colorado Community College System	Colorado Mesa University	Colorado School of Mines	Colorado State University
FY2018 Debt Service-All Outstanding Bonds	$3,549,097	$7,685,177	$15,419,237	$16,054,760	$66,112,248
FY2018 Debt Service-Intercept Bonds	3,256,128	2,569,589	13,771,297	11,363,921	47,192,541
Debt Service Coverage Ratio: FY 2017 Net Pledged Revenues	5,419,775	27,232,170	24,648,000	45,224,000	154,858,072
DSCR-All	**1.53x**	**3.54x**	**1.60x**	**2.82x**	**2.34x**
DSCR-Inter.	**1.66x**	**10.60x**	**1.79x**	**3.98x**	**3.28x**

Institution	Fort Lewis College	Metropolitan State University	University of Colorado	University of Northern Colorado	Western State Colorado University
FY2018 Debt Service-All Outstanding Bonds	$3,972,032	$11,305,086	$128,539,264	$10,955,863	$6,185,741
FY2018 Debt Service-Intercept Bonds	2,274,306	7,077,363	N/A	10,314,556	6,185,741
Debt Service Coverage Ratio: FY 2017 Net Pledged Revenues	7,718,684	30,698,161	1,183,326,000	39,057,385	9,987,262
DSCR-All	**1.94x**	**2.72x**	**9.21x**	**3.56x**	**1.61x**
DSCR-Inter.	**3.39x**	**4.34x**	**N/A**	**3.79x**	**1.61x**

Institutions Meeting the Ratio Requirement	Institutions Not Meeting the Ratio Requirement
Adams State College	
Colorado Community College System	
Colorado Mesa University	
Colorado Mines	
Colorado State	
Fort Lewis College	
MSU Denver	
CU	
University of Northern Colorado	
Western State Colorado University	

However, it should be noted the figures in this section come from two different fiscal years. The debt service requirements for both "all outstanding debt" and "intercept bonds" both come from fiscal year 2018 while the debt service net pledged revenues come from fiscal year 2017. This is because the submission date of this report does not align with a higher education institution's year-end reporting and the availability of audited financial statements. Because the due date of this report does not align with the availability of audited financial statements, the ratio calculations above could be artificially high or low.

The Treasury attempted to rectify this issue by asking institutions for this fiscal year's net pledged revenues. However, the timing of this report did not make it possible for almost all of the institutions to answer by the due date. A comparison of these figures helps to demonstrate why the misalignment may be problematic to policymakers.

The graph below illustrates the impact of the difference between net pledged revenues of two different fiscal years. The comparison uses Colorado Mesa University because Colorado Mesa University was the only institution that could provide fiscal year 2018-2019 figures for net pledged revenues.

(The chart is included on the next page.)

Institution	Colorado Mesa University	Institution	Colorado Mesa University
FY2018 Debt Service-All Outstanding Bonds	$15,419,237	FY2018 Debt Service-All Outstanding Bonds	$15,419,237
FY2018 Debt Service-Intercept Bonds	13,771,297	FY2018 Debt Service-Intercept Bonds	13,771,297
Debt Service Coverage Ratio: FY 2017 Net Pledged Revenues	24,648,000	Debt Service Coverage Ratio: **FY 2018 Net Pledged Revenues**	26,103,376
DSCR-All	**1.60x**	**DSCR-All**	**1.69x**
DSCR-Inter.	**1.79x**	**DSCR-Inter.**	**1.89x**

The above comparison shows a difference in figures of .09 and .10. Such a difference may seem small but it could have a large impact. Such a difference could mean an institution that could participate in the program may not qualify. The inverse is also true.

Additionally, this report does not align with how institutions of higher education may or may not account for their BABs subsidies. This too may also make institutions appear closer to the statutory threshold than is reflected in their CAFRs.

Debt Service as a Percentage of State Funding

The institutions in question receive funding through various mechanisms. The state supplies funding to institutions directly through the Colorado Opportunity Fund ("COF") and fee for service. The amount of intercept debt service owed by any institution in any year cannot be more than 75% of the combined amount of the COF and fee for service.

Below is each institution's intercept debt service amount as a percentage of state funding.

Institution	State Funding Amount	FY2018 Intercept Debt Service Amount	Percentage of Debt Service Amount to State Funding
Adams State College	$15,834,361	$3,256,128	21.29%
Colorado Community College System	172,072,046	2,569,589	1.49
Colorado Mesa University	29,474,193	13,771,297	34.92
Colorado School of Mines	22,873,493	11,363,921	49.68
Colorado State University	154,858,072	47,192,541	30.47
Fort Lewis College	13,053,096	2,274,306	18.17
Metropolitan State University	58,343,983	7,077,363	12.53
University of Colorado	218,505,019	N/A	N/A
University of Northern Colorado	42,492,726	10,314,556	26.05
Western State Colorado University	14,043,348	6,185,741	46.50

(Information continued on next page)

Institutions Meeting the Percentage Requirement	Institutions Not Meeting the Percentage Requirement
Adams State College Colorado Great Stories Begin Here Colorado Community College System Colorado Mesa University Colorado School of Mines Colorado State Fort Lewis College MSU Denver CU University of Northern Colorado Western State Colorado University Learning. Elevated.	

Institutional Profiles: An Explanation

The following pages include institutional profiles for each institution of higher education. It will show whether the institution currently qualifies to be in the intercept program and the amount pre-approved.

Each profile will include two graphs.

One graph will show each institution's debt service obligation by series (for example, "2009 B" or "2012") for each fiscal year.

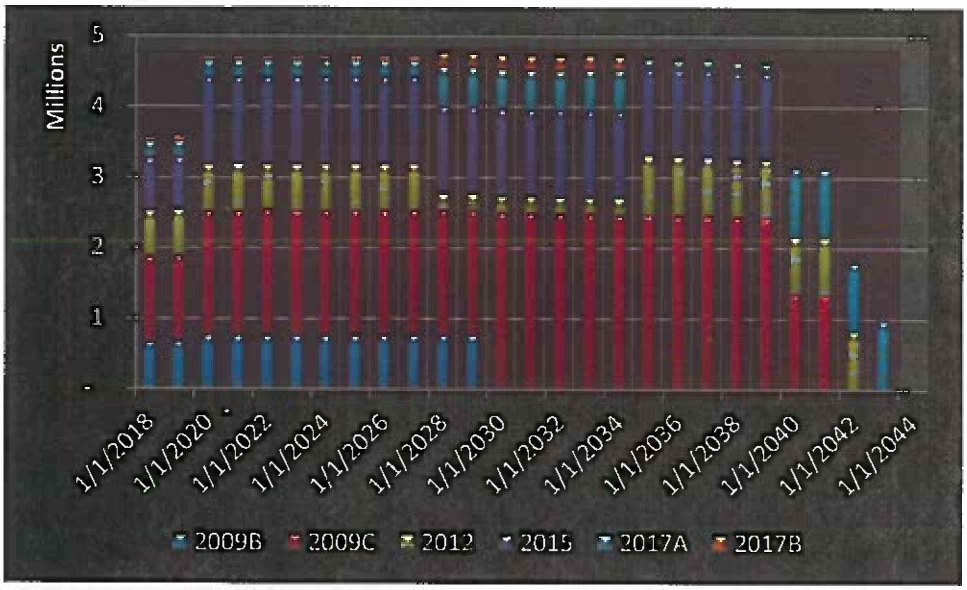
The second graph will show the breakdown between debt in the intercept program and stand alone debt.

The profile also will show the recent ratings from rating agencies in the order of Moody's, S&P, and Fitch.

Institution Profiles

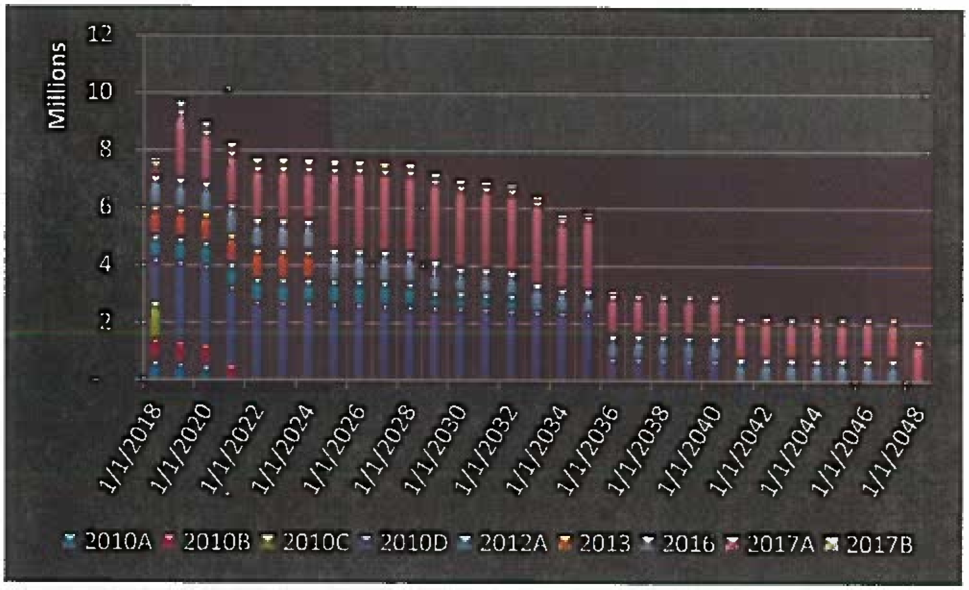
Adams State College

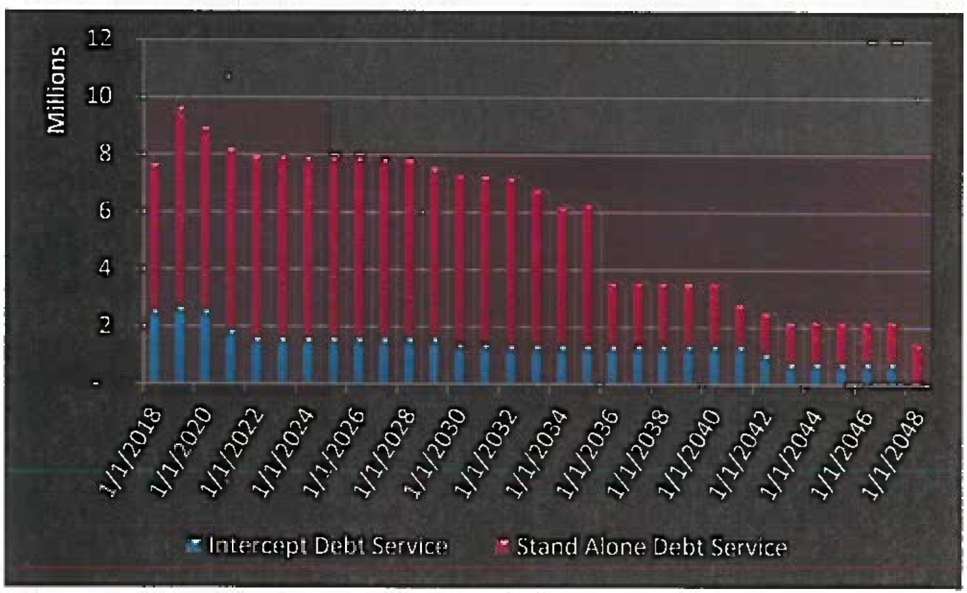
	Location: Alamosa **Agency Ratings:** A3, N/A, N/A* **Last Rated by Agency:** May 2017	**Pre-Approved for Intercept?** Yes **Pre-Approval Amount:** $3,242,660



Colorado Community College System

COLORADO COMMUNITY COLLEGE SYSTEM	**Location:** Various **Agency Ratings:** Aa3, N/A, N/A **Last Rated by Agency:** Dec 2017	**Pre-Approved for Intercept?** Yes **Pre-Approval Amount:** $529,745,658

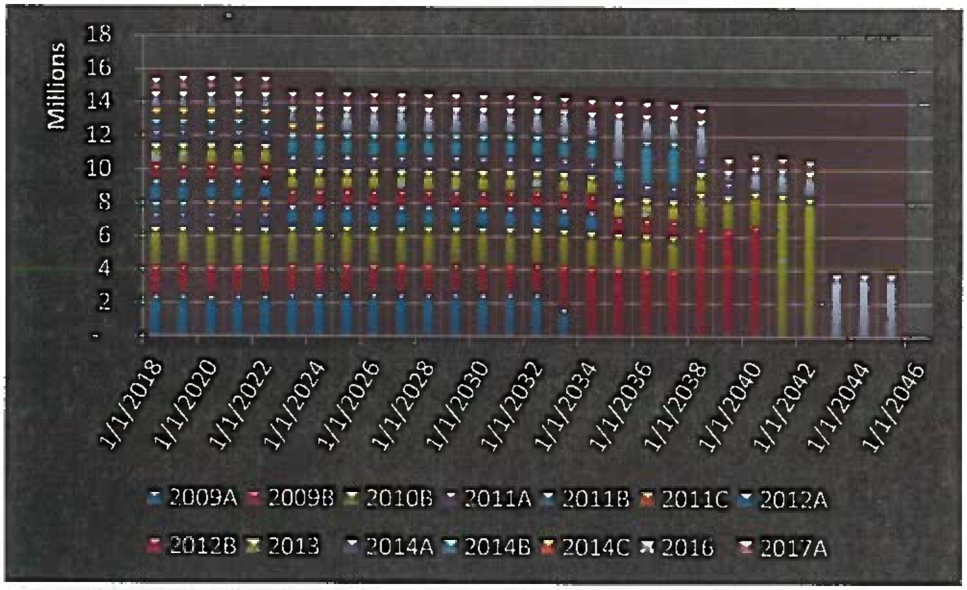




Colorado Mesa University

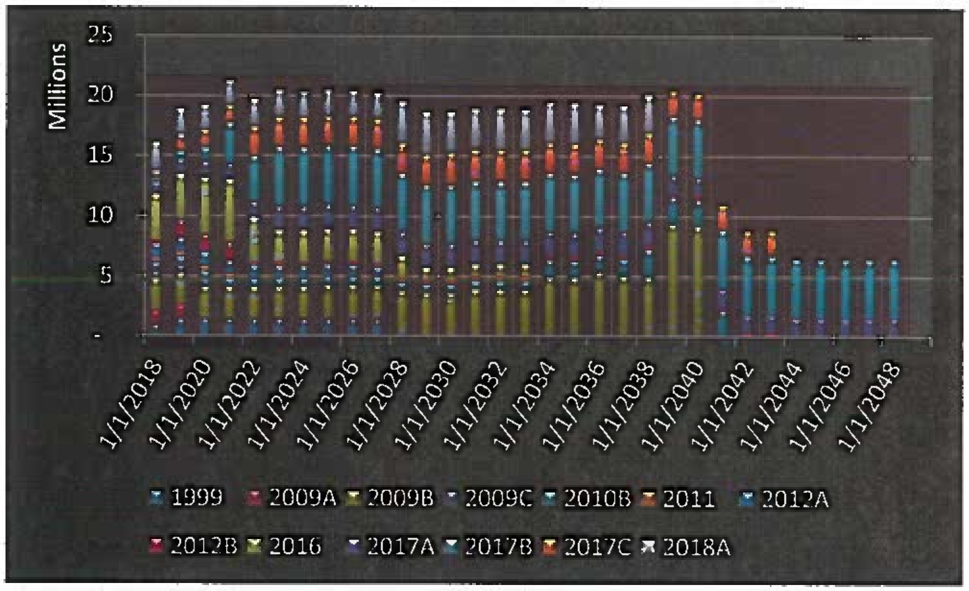
COLORADO MESA UNIVERSITY

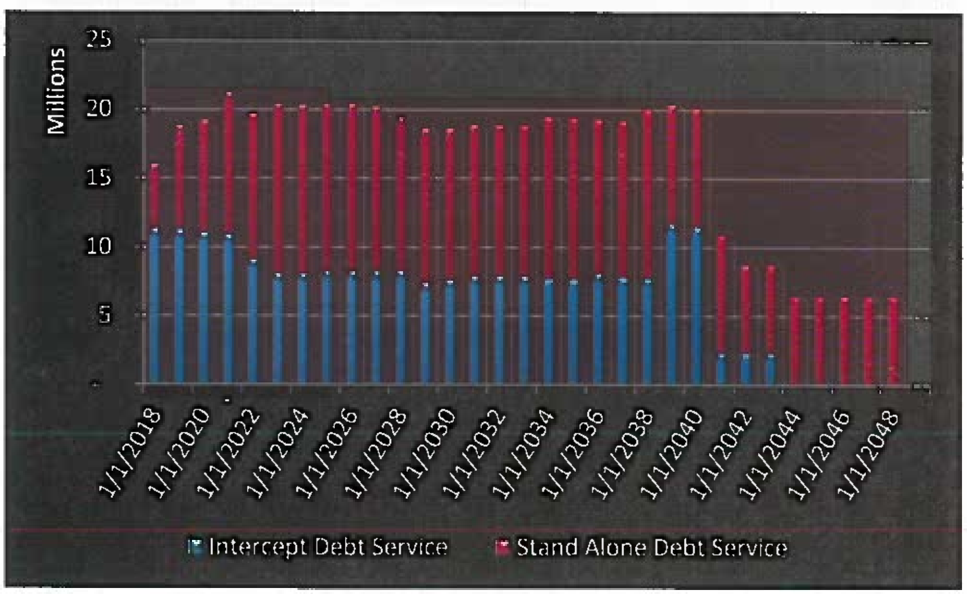
Location: Grand Junction Agency Ratings: A2, N/A, N/A Last Rated by Agency: Jan 2016	Pre-Approved for Intercept? Yes Pre-Approval Amount: $51,244,219



Colorado School of Mines

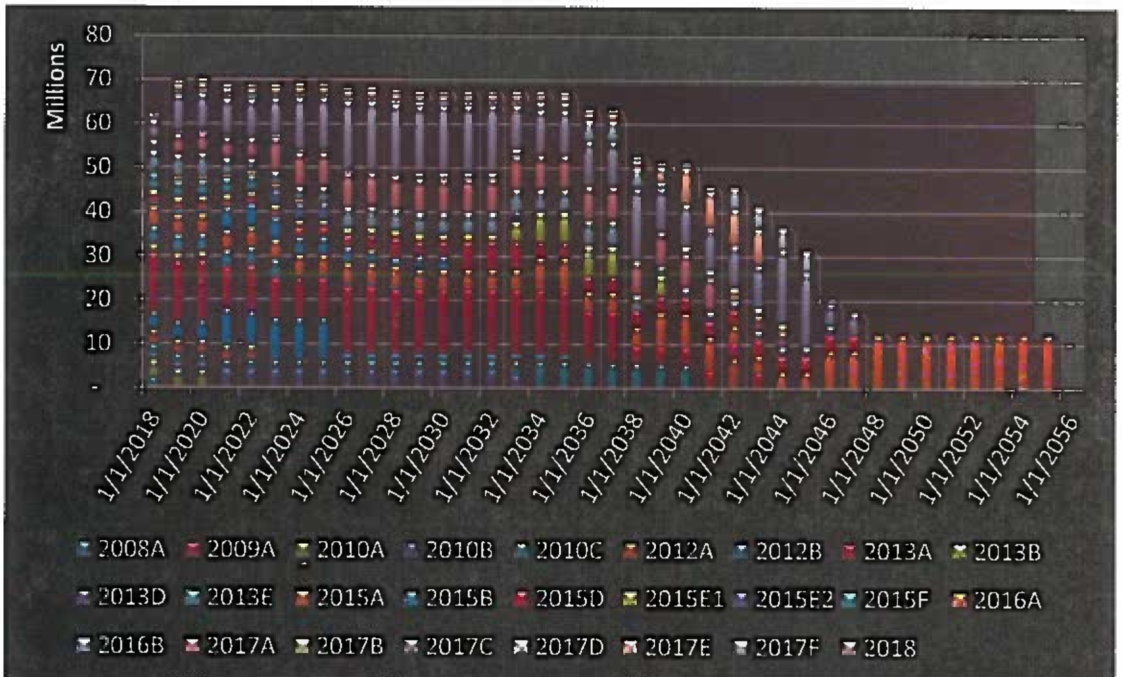
COLORADO MINES	Location: Golden Agency Ratings: A1, A+, N/A Last Rated by Agency: May 2018	Pre-Approved for Intercept? Yes Pre-Approval Amount: $92,277,888





Colorado State University

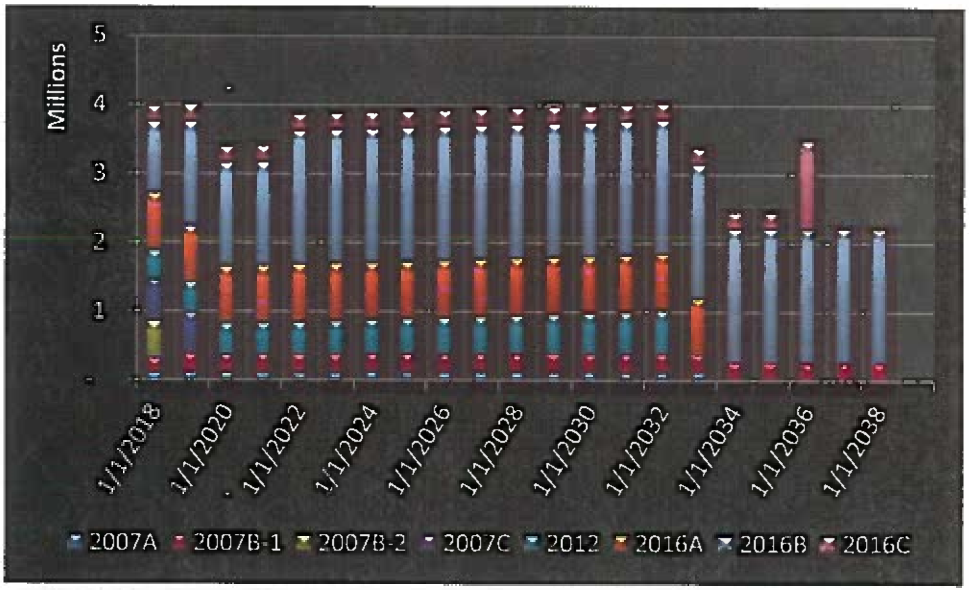
	Location: Fort Collins **Agency Ratings:** Aa3, A+, N/A **Last Rated by Agency:** Dec 2017	**Pre-Approved for Intercept?** Yes **Pre-Approval Amount:** $978,669,928

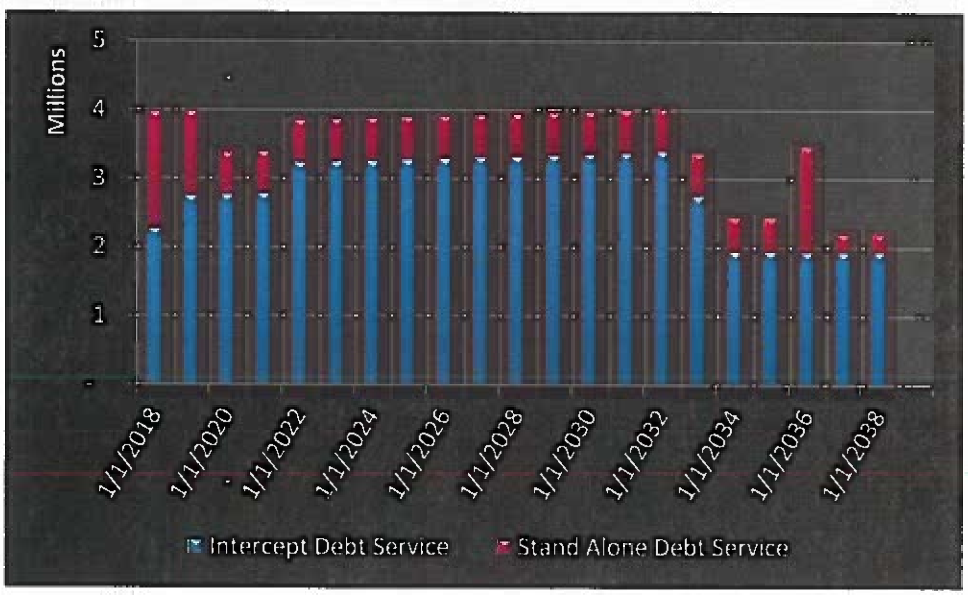


Fort Lewis College

Location: Durango
Agency Ratings: A2, N/A, N/A
Last Rated by Agency: July 2018

Pre-Approved for Intercept?
Yes
Pre-Approval Amount:
$59,390,306

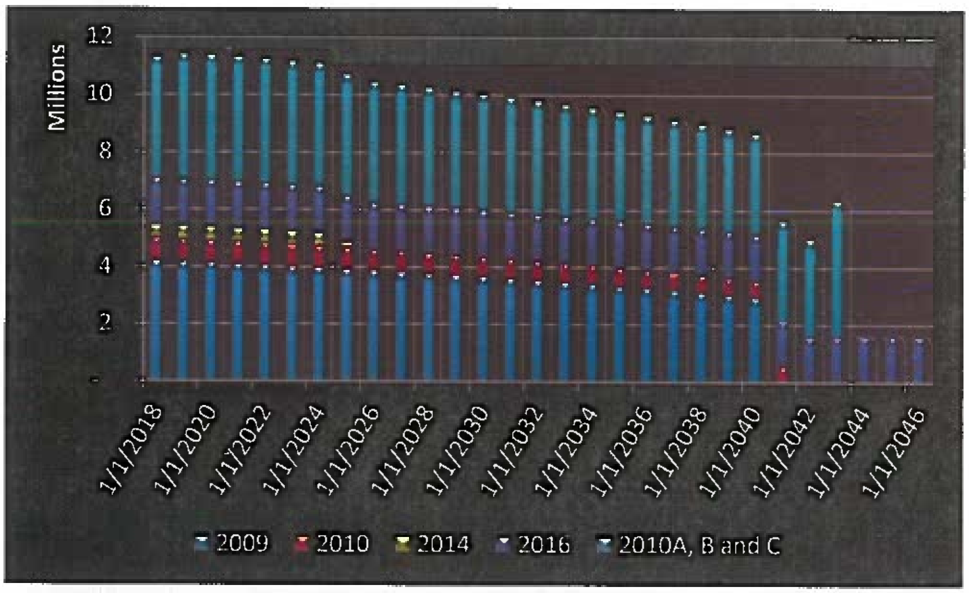


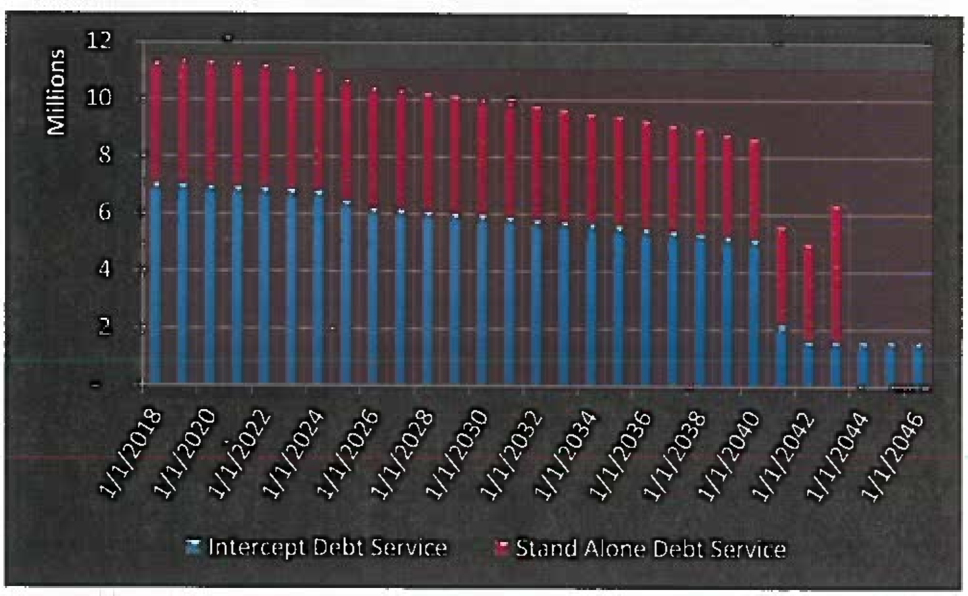


Metropolitan State University

Location: Denver
Agency Ratings: A1, A, N/A
Last Rated by Agency: May 2018

Pre-Approved for Intercept? Yes
Pre-Approval Amount: $463,499,728

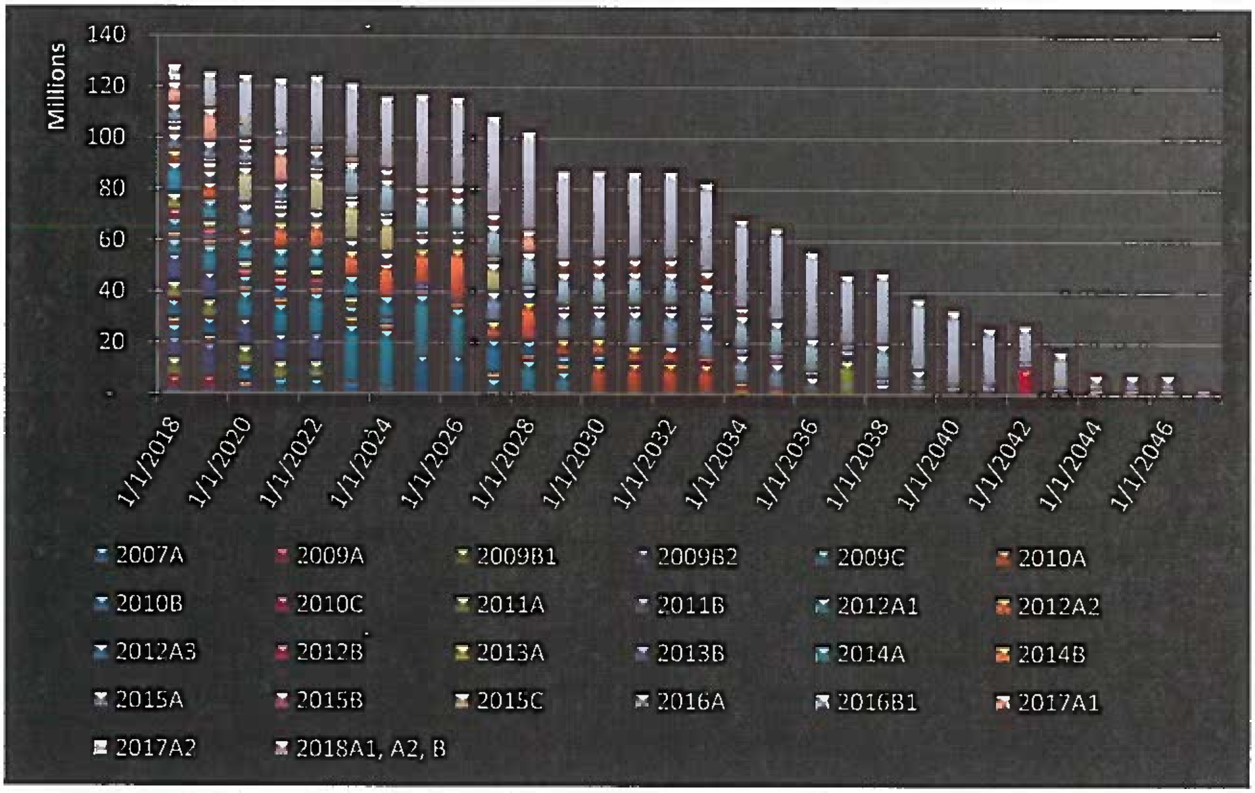




University of Colorado

Location: Various
Agency Ratings: Aa1, N/A, AA+
Last Rated by Agency: May 2018

Pre-Approved for Intercept?
Yes
Pre-Approval Amount:
$2,764,003,762

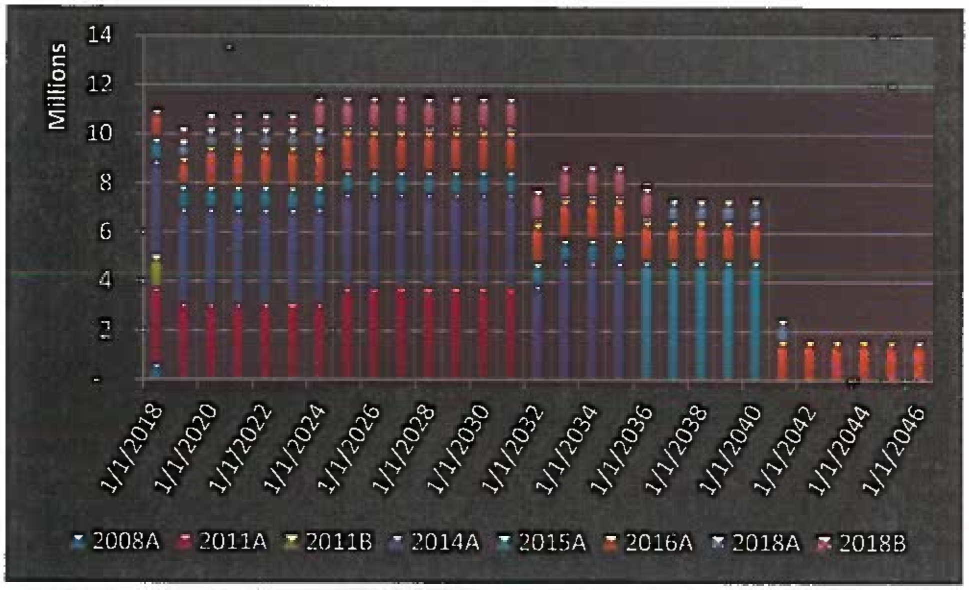


University of Northern Colorado

UNIVERSITY OF NORTHERN COLORADO

Location: Greeley
Agency Ratings: A3, A-, N/A
Last Rated by Agency: May 2018

Pre-Approved for Intercept?
Yes
Pre-Approval Amount:
$346,021,933

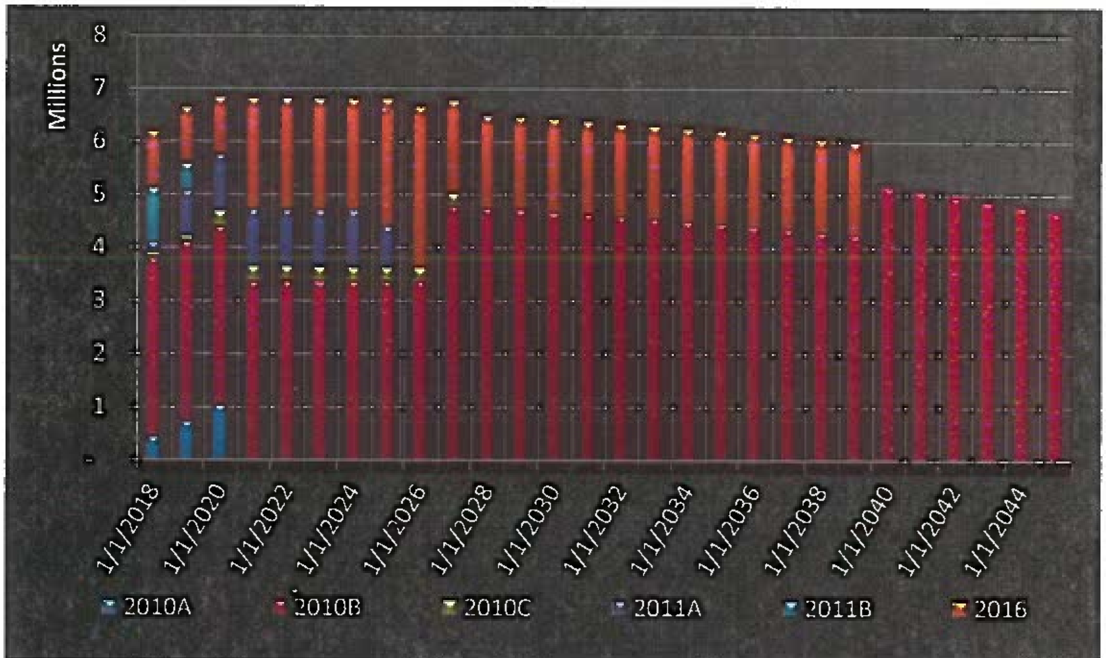


Western State Colorado University

WESTERN STATE COLORADO UNIVERSITY
Learning. Elevated.

Location: Gunnison
Agency Ratings: Baa1
Last Rated by Agency: Aug 2016

Pre-Approved for Intercept?
No
Pre-Approval Amount:
N/A



Appendix: Credit Reports

Adams State College

Moody's
INVESTORS SERVICE

Rating Action: Moody's affirms Adams State University's (CO) A3 underlying ratings and Aa2 enhanced ratings; outlook negative on underlying ratings

31 Jul 2018

New York, July 31, 2018 -- Moody's Investors Service has affirmed Adams State University's A3 underlying ratings on approximately $50 million of outstanding debt. At the same time, we have affirmed the Aa2 enhanced ratings on over $40 million of outstanding revenue bonds qualified for the state intercept program. The outlook for the underlying rating is negative.

RATINGS RATIONALE

The A3 rating reflects the university's important role in providing education to Hispanic students in the State of Colorado (Aa1 stable) and surrounding region, demonstrated by its designation as a Hispanic Serving institution. The university's scale is comparatively small, but operating performance has remained resilient despite enrollment challenges due to management's sharp focus on expense reductions. Management expects improved operating performance in fiscal 2018 and fiscal 2019, driven by the impact of continued expense reductions. Although improving, the State of Colorado's funding for higher education has historically lagged peers. Low overall wealth compared to peers will remain a credit drag, as the university has limited opportunities to meaningfully grow financial resources. Favorably, the university's available unrestricted liquidity affords a solid cushion to operating expenses, with 137 monthly days cash. Fair strategic positioning incorporates some leadership challenges, with an interim president recently appointed. Recently enacted pension reform, despite modestly increasing future pension contributions, will be credit positive over time but the large unfunded pension liability and increased pension costs will be constraining credit factors for the foreseeable future. Favorable resolution of the university's accreditation, which was put under probation in February 2016, is credit positive.

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.

RATING OUTLOOK

The negative outlook reflects uncertainty regarding the university's ability to continue to successfully balance operating performance due to enrollment challenges and limited state support. Net tuition revenue faces pressure from enrollment declines, a high-need student population, and a recently enacted guaranteed tuition programs and recent tuition freezes. 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

- Significant strengthening of student demand, reflected in higher enrollment and growing net tuition revenue

- Material increase in total cash and investments

- Substantially stronger operating support from the State of Colorado

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

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Inability to maintain operating cash flow margins at or above 12-14%

- Material enrollment declines further pressuring net tuition revenue

- Reduction in operating support from the State of Colorado

- Material increase in debt given already comparatively high leverage inclusive of unfunded pension liability

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

LEGAL SECURITY

ASU's outstanding bonds are secured by pledged revenues, which include 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 as long as it maintains enterprise status. The bonds are further secured by a pledge of a portion of student fees. The university reported debt service coverage of 1.6x in fiscal 2017.

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. The university was founded in 1921 as a normal school and has grown to serve a mix of undergraduate, graduate and distance learning programs. In fiscal 2017, the Adams State recorded operating revenue of $55 million and served a fall FTE enrollment of 3,221 students.

METHODOLOGY

The principal methodology used in the underlying ratings was Higher Education published in December 2017. The principal methodology used in the enhanced ratings was State Aid Intercept Programs and Financings published in December 2017. Please see the Rating Methodologies 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 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.

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.

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Colorado Community College System

MOODY'S
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CREDIT OPINION
4 December 2017

New Issue

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Colorado Community College System

New Issue - Moody's assigns CO Community College System's Ser 2017 Rev Bds Aa3 underlying & Aa2 enhanced; outlook stable

Summary Rating Rationale

Moody's Investors Service has assigned Aa3 underlying to Colorado Community College System's (CCCS) planned fixed rate Systemwide Revenue Bonds (Arapahoe Community College - Castle Rock Collaboration Campus), $66 million Series 2017A and Aa2 enhanced ratings to $8 million Series 2017B (both maturing in 2048). Both series will be issued through the Colorado State Board for Community Colleges and Occupational Education System. We have also affirmed the Aa3 underlying ratings on CCCS's outstanding revenue bonds and Aa2 enhanced ratings for CCCS's outstanding bonds with rated state intercepts. The outlook for both underlying and enhanced ratings for CCCS is stable.

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 a significantly underfunded pension plan.

The Aa2 enhanced rating is based on the Aa2 rating of the Colorado Higher Education Enhancement Program (the Colorado State Intercept Act), as well as the sufficiency of interceptable revenues and transaction structure of CCCS's revenue bonds.

Credit Strengths

» Large scale, with 13 colleges and enrollment of 22,615 students in fall 2016 allows for cost efficiencies

» State commitment to system evidenced by 30% increase in state funding (non-COF stipend) to approximately $115 million in fiscal 2016 from $88 million in fiscal 2015

» Low direct debt measured by pro forma debt to operating revenues of 0.3 times and no material debt plans beyond the current offering

» Colorado intercept enhancement program for bonds benefits bondholders

Credit Challenges

» Countercyclicality results in enrollment pressure during periods of economic growth (15% decline in enrollment from fall 2012 to fall 2016)

» 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 as the economy reaches full employment, that management will take steps to reduce expenses as warranted to maintain cash flow margins above 5%, and that the system will not issue any material debt beyond the current offering.

The stable outlook for the enhanced rating is based on the state's enhancement program outlook (the Colorado State Intercept Act), which is derived from the State of Colorado's 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

» Continued deterioration in operating cash flows resulting in weakened debt service coverage

» Material increase in leverage or reduction of liquidity

» Increase in mandated pension contributions without adequate expense reductions or increased revenues

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

Key Indicators

Exhibit 1

COLORADO COMMUNITY COLLEGE SYSTEM

	2012	2013	2014	2015	2016	Pro forma
Total FTE Enrollment	25,925	24,656	23,625	23,714	22,615	22,615
Operating Revenue ($000)	566,065	580,077	591,052	608,317	619,464	619,464
Annual Change in Operating Revenue (%)	-1.3	2.5	1.9	2.9	1.8	1.8
Total Cash & Investments ($000)	384,508	382,732	396,555	389,372	367,767	367,767
Total Debt ($000)	86,715	80,935	104,727	99,162	109,991	161,620
Spendable Cash & Investments to Total Debt (x)	4.3	4.6	3.7	3.8	3.2	2.2
Spendable Cash & Investments to Operating Expenses (x)	0.7	0.6	0.7	0.6	0.5	0.5
Monthly Days Cash on Hand (x)	246	232	218	222	200	200
Operating Cash Flow Margin (%)	10.6	7.8	7.1	8.7	6.4	6.4
Total Debt to Cash Flow (x)	1.5	1.8	2.5	1.9	2.8	4.1
Annual Debt Service Coverage (x)	13.5	6.1	5.9	7.1	3.5	5.3

Pro forma column includes fiscal 2016 operating results and investments, fall 2016 enrollment, debt outstanding as of June 20, 2017 including Series 2017A and Series 2017B new money and crossover refunding amounts, and estimated new debt service.

Source: Moody's Investors Service

Recent Developments

Arapahoe Community College is constructing a collaboration campus that will provide a resource for delivering seamless education from a high school diploma to an Associates Degree to a Bachelor's degree, as well as workforce training for the local community. The

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project is a partnership with Colorado State University (Aa3 stable), Douglas County School District RE-1 (Aa1 stable) and the Town of Castle Rock (issuer rating Aa2). The total project cost is $37 million, of which $23 million will be bond financed.

A student building fee increase of $5 per credit hour at the college will go into effect on July 1, 2018. Management projects that the total new student building fee, which is included in the net revenue pledge to bondholders, would cover approximately 80% of future debt service associated with the $23 million in new debt. In addition to the increased student fee, management expects additional revenue from leasing out space in the collaboration campus.

Detailed Rating Considerations

Market Profile: System serves important role as largest provider of education in Colorado

CCCS's good strategic position is evidenced by its importance as a provider of higher education in the state, large size, and ability to adjust program offerings, which will keep enrollment demand steady after years of declines. (Community college enrollment growth tends to be countercyclical to economic growth.) Across the 13 colleges within the system, urban locations are seeing steady enrollment growth, while locations in rural areas are experiencing enrollment pressures. Work force training programs, online courses, college-level courses for high school students, and various pathway programs are available throughout CCCS. Overall, enrollment in fall 2017 is similar to fall 2016 (22,615 FTEs), and management expects continued flat enrollment as the economy grows.

The system's good operating environment is based on an improved state funding environment, current political support to increase tuition, and ability to raise student fees as necessary. Non-COF stipend state funding has improved, increasing by approximately $25 million in fiscal 2016 from fiscal 2015. The system increased tuition by 5.6% starting in fall 2017, after the Colorado General Assembly allowed for a 7% increase. The system has the ability to raise student fees as necessary. The operating environment does have challenges, however, including heavy reliance on tuition and fees for revenue and lack of property tax support.

Operating Performance: Expense flexibility and centralized services will keep operating margins steady in a low revenue growth environment

CCCS's expense flexibility and centralized services are important factors in the system's credit and will keep operating margins flat as it continues to manage in a challenging revenue growth environment. Management estimates fiscal 2017 operating margins to be similar to fiscal 2016, but below the fiscal 2012 through 2016 average of 7%. Budgeted fiscal 2018 results are similar to fiscal 2017.

Future support from the State of Colorado remains an important credit consideration given a history of volatile funding. The system primarily receives operating support in the form of the College Opportunity Fund and the annual fee for service (FFS) contracts. Non-COF stipend total state support in fiscal 2017 was relatively flat compared to fiscal 2016, at approximately $115 million. Budgeted fiscal 2018 funding is flat, but a potential increase in funding of approximately 9% in fiscal 2019 was presented in the governor's budget, which if enacted would be credit positive.

An additional important credit consideration is the potential for an increase in mandated employer contributions to the Public Employees' Retirement Association of Colorado ("PERA"). Recently, both the board that governs PERA and the governor released plans that would increase employer contributions to PERA. Management is currently planning for multiple scenarios, which could increase required contributions by approximately 10-20%. We expect management to adjust expenses as necessary to maintain operating cash flows above 5%.

Wealth and Liquidity: Significant liquid reserves and low leverage are an important credit characteristic

CCCS's significant liquid reserves are a credit positive attribute and we expect them to remain at the same level as the system continues operating in a flat revenue growth environment. Fiscal 2016 spendable cash and investments totaled $353 million, more than double the Aa-rated fiscal 2016 median for community colleges of $141 million. Management estimates a marginal decline in cash in investments in fiscal 2017.

Liquidity

Liquidity is a credit strength for CCCS and is expected to remain relatively flat. The system held approximately $320 million of monthly liquidity in fiscal 2016, providing 200 days of cash on hand, above the fiscal 2016 median for AA-rated community colleges of 160 days. Along with the decline in cash and investments, management estimates a decline in liquidity in fiscal 2017 as a result of its strategic investments.

Leverage: Current leverage is solid, with no expectations of near-term debt issuance

Direct debt is modest, with spendable cash and investments covering pro forma debt by over 2 times, well above the Aa-rated community college median of 1.3 times. Pro forma debt to operating revenue is 0.3 times, stronger than the Aa-rated community college median of 0.5 times. Management does not anticipate material debt issuance in the near future.

Debt Structure

All of the system's debt is fixed rate, fully amortizing, with declining debt service. Outstanding debt matures through 2048.

Debt-Related Derivatives

None

Pensions and OPEB

An outsized pension liability and associated operating costs are a key credit challenge for the system. CCCS has significant debt-like obligations through its participation in pension and retirement health plans. 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 contributed approximately $42 million to the pension fund in fiscal 2016, an elevated approximately 7% of operating expenses. Moody's three-year average adjusted net pension liability is $1.9 billion and the total adjusted net pension liability to operating revenue is a high 3.3 times. Additional pension contributions are likely given the outsized pension liability and is a credit negative.

OPEB expenses are marginal, totaling approximately $750,000 in fiscal 2016.

Governance and Management: Good budget planning and flexible program offerings

CCCS's good strategic position is reflected by the system's multi-year budget planning and flexible program offerings. Budgeting is done on a multi-year basis at the individual college level and is overseen and guided by the system management. The system has flexibility to adjust program offerings as needed. The individual colleges in the system have established relationships with local universities, school districts, and businesses.

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. Back office operations at the various colleges has been centralized. Additionally, management is working with colleges in more rural areas of the state to grow enrollment.

The president of the system recently announced her retirement, which will take place in July 2018. A search for a replacement is ongoing, with a plan to fill it in the spring of 2018 to have overlap. We expect a seamless transition to a new president once the position is filled.

Legal Security

The Series 2017A and Series 2017B bonds are secured by net revenues, which include gross revenues less operations and maintenance expenses. 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 2017A and Series 2017B bonds.

Use of Proceeds

Proceeds of the Series 2017A bonds will be used to finance a portion of the costs of constructing the Arapahoe Community College - Castle Rock Collaboration Campus project (the "ACC Collaboration Campus"), crossover refund, and advance refund a portion of outstanding debt. Of the approximately $66 million of Series 2017A bonds being issued, $23 million is new money going towards the new project, while the rest will go towards crossover and advanced refunding. Since crossover refunding bonds do not legally defease outstanding parity bonds, the refunded bonds continue to be included in pro forma debt along with the crossover refunding bonds. Proceeds from the Series 2017B bonds will be used to crossover refund outstanding intercept enhanced debt.

Obligor Profile

The Colorado Community College System is the largest higher education provider in the State of Colorado serving 120,000 students in fall 2016 and recording over $600 million in operating revenue for fiscal 2016. The system offers a full range of 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 Community College Revenue-Backed Debt published in June 2016. 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 Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

Colorado Community Coll.Sys.

Issue	Rating
Systemwide Revenue Bonds (Arapahoe Community College - Castle Rock Collaboration Campus) Series 2017A	Aa3
Rating Type	Underlying LT
Sale Amount	$65,630,000
Expected Sale Date	12/18/2017
Rating Description	Revenue: Public University Limited Pledge
Systemwide Revenue Bonds (Arapahoe Community College - Castle Rock Collaboration Campus) Series 2017B	Aa2
Rating Type	Enhanced LT
Sale Amount	$8,045,000
Expected Sale Date	12/18/2017
Rating Description	Revenue: Public University Limited Pledge

Source: Moody's Investors Service

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Colorado Mesa University

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Rating Action: Moody's assigns A2 underlying & Aa2 enhanced to Colorado Mesa University's Ser 2016 Rev Bds; outlook stable

11 Jan 2016

New York, January 11, 2016 -- Issue: Enterprise Revenue Bonds, Series 2016; Underlying Rating: A2; Enhanced Rating: Aa2; Sale Amount: $22,000,000; Expected Sale Date: 1/21/2016; Rating Description: Revenue: Public University Broad Pledge

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.

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

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.

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Colorado School of Mines

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Rating Action: Moody's downgrades Colorado School of Mines (CO) to A1, assigns A1 to Series 2018A, Aa2 enhanced affirmed; outlook revised to stable

11 May 2018

New York, May 11, 2018 -- Moody's Investors Service has assigned an A1 underlying rating to the Colorado School of Mines (CSM) planned $37.9 million Institutional Enterprise Revenue Refunding Bonds, Series 2018A. At the same time we have downgraded to A1 from Aa3 the underlying ratings on $233 million of outstanding parity revenue bonds and affirmed the Aa2 enhanced ratings on $122 million of outstanding revenue bonds qualified for the state intercept program. The outlook on the underlying rating is revised to stable from negative. The outlook on the enhanced rating is stable.

RATINGS RATIONALE

The downgrade to A1 reflects CSM's plans for additional debt financed capital projects over the next several years. The downgrade also incorporates the inflexible costs related to CSM's outsized exposure to the state's underfunded pension liability. While the debt financed capital projects will likely be financed through partnerships or revenue bonds other than CSM revenue bonds, the likely financial, legal and strategic attributes of the projects will be debt-like in their use of debt capacity.

The A1 underlying rating incorporates CSM's established niche in earth sciences, energy and the environment, drawing steady increases in enrollment, net tuition revenue growth and substantial research activity. CSM's very good strategic positioning reflects solid wealth and liquidity levels relative to peers driven by disciplined fiscal oversight, and strong donor support. Challenges include historically weak State of Colorado (Aa1 stable issuer rating) support, increasing financial leverage, sizeable pension exposure, and prospects for slowing revenue growth in some key revenue streams.

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 Colorado's current rating and outlook.

RATING OUTLOOK

The stable outlook reflects expectations that CSM will effectively manage revenue and expense growth to maintain favorable operating performance with cash flow from operations providing good coverage of debt service. It also incorporates expectations that future debt financed capital investments, whether financed directly or with partners, will be effectively managed and support the overall credit health and strategy of CSM.

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: Substantial improvement in flexible financial resources combined with reduction in financial leverage; and further strengthening of brand, demonstrated by increased student demand and revenue growth

-Enhanced rating: Upgrade in the State of Colorado rating

FACTORS THAT COULD LEAD TO A DOWNGRADE

-Underlying rating: Material deterioration in operating performance or revenue growth prospects

-Enhanced rating: Deterioration in credit quality of the State of Colorado rating

LEGAL SECURITY

The planned series 2018A 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 fiscal 2017 net pledged revenues of $45 million covered debt service ($14.5 million) 3.1x.

USE OF PROCEEDS

Proceeds of the Series 2018A bonds will be used to refund the outstanding Series 2010A bonds.

PROFILE

The Colorado School of Mines, located west of Denver in Golden, was originally established in 1874. CSM offers undergraduate and graduate degrees, including doctoral, and has been dedicated to education in mineral engineering and earth sciences. In fiscal year 2017, CSM recorded $252 million in operating revenue and in fall 2017 served a full-time equivalent enrollment (FTE) of 5,818 students.

METHODOLOGY

The principal methodology used in the underlying ratings was Higher Education published in December 2017. The principal methodology used in the enhanced ratings was State Aid Intercept Programs and Financings published in December 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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Summary:

Colorado School of Mines Board of Trustees; Public Coll/Univ - Unlimited Student Fees

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Table Of Contents

Summary:

Colorado School of Mines Board of Trustees; Public Coll/Univ - Unlimited Student Fees

Credit Profile		
US$37.04 mil institutional enterprise rev rfdg bnds ser 2017C dtd 12/28/2017 due 12/01/2042		
Long Term Rating	A+/Stable	New
US$10.48 mil institutional enterprise rev rfdg bnds ser 2017D dtd 12/28/2017 due 12/01/2040		
Long Term Rating	A+/Stable	New

Rationale

S&P Global Ratings assigned its 'A+' rating to the Colorado School of Mines Board of Trustees' series 2017C and 2017D institutional enterprise revenue refunding bonds. The outlook is stable.

We assess Mines' enterprise profile as very strong, with low industry risk; excellent selectivity, with steady growth in full-time enrollment; and sound governance and management. We assess the university's financial profile as strong, with solid financial management policies and financial performance, but an above-average debt burden and average available resources relative to debt, as well as contingent liabilities related to pension obligations. Mines has also consistently received stable operating support from the State of Colorado and robust research funding from federal grants. Combined, we believe these credit factors lead to an indicative and final 'a+' stand-alone credit profile and 'A+' long-term rating.

Factors supporting the rating include our view of Mines':

- Rising enrollment, excellent student quality, and a solid academic demand niche in engineering and science;
- Healthy historical financial performance and stable state operating support, although operating margins have weakened compared with historical margins, and audited fiscal 2017 operating results are slightly weaker than fiscal 2016;
- Excellent financial resources to operating expenses relative to those of other public institutions;
- Good revenue diversity and flexibility; and
- Good management team that is forward looking and maintains robust financial policies and practices.

Offsetting credit factors include our view of Mines' moderate debt burden relative to the medians in the rating category, as well as continued capital needs and debt issuance.

Mines plans to use net proceeds from the 2017C bonds to advance refund all or a portion of the university's series 2012B bonds; and those from the 2017D bonds to advance refund, on a crossover basis, all or a portion of the university's series 2010B bonds. Total pro forma debt is approximately $294 million and pro forma maximum annual debt service (MADS) of about $21 million represents about 7.0% of operations, which we view as above-average but manageable.

Mines has approximately $10.1 million in prior obligations (series 1999) that are secured by a senior lien on the net revenues of the auxiliary facility enterprise system, including a broad mix of revenue from various auxiliary facilities and unlimited student fees. The prior obligation lien has been closed, and the school's other enterprise revenue bonds (ERBs; series 2009A, 2009B, 2009C, 2010A, 2010B, 2011, 2012A and 2012B parity obligations) and the 2017A and series 2017B issuances, are secured by a subordinate lien on these net revenues. They also benefit from a pledge of additional revenues, including a pledge of 10% student tuition revenue and indirect cost recoveries that were not available to the prior obligations. We do not differentiate between the rating on the new issues and the prior obligations because of the closed prior lien and what we consider the small amount of debt outstanding, as well as the additional security pledged to the parity obligations. Both security pledges are, in our opinion, equivalent to a broad unlimited student fee.

Management reports that the board could approve about $70 million in additional debt for a facility that would support a collaboration between Mines and a federal agency. We have not factored this debt into our ratios because the board hasn't approved it yet.

Historically, Mines has posted positive full-accrual financial operations, when adjusted for support provided by fee-for-services and endowment spending support by the Colorado School of Mines Foundation. The audited fiscal 2016 adjusted operating margin declined to a still-healthy 1.6% from 6.7% in fiscal 2014 due to a moderation in tuition rate increases and higher expenditures, including higher costs related to hiring, plant operations and maintenance, and higher retirement benefit costs. In fiscal 2017, based on audited results, the operating margin weakened to negative 1.0% on an adjusted basis, given increased hiring costs and depreciation expense. However, management reports that actual results to date in fiscal 2018 are better than budgeted, in part due to increased enrollment, and it expects stronger operating results on a generally accepted accounting principles (GAAP) basis in fiscal 2018. Management does not budget for estimated depreciation expense, which has equaled about $18.5 million annually in the past two years, but includes about $3.5 million annually for capital renewal and builds an operating reserve into the budget. Given the strong operating results on a cash basis and current budgeting practices, we expect operations to remain close to break-even in the near term after depreciation expense, which could continue to pressure operating margins on a GAAP basis.

The university is in Golden and has 13 academic departments at the graduate and undergraduate level, with a focus on engineering and science, primarily related to the earth, energy, and the environment. The single campus encompasses 474 acres and the school has renewed and built infrastructure in the past decade, using bonds, fundraising, student fees, and grants for funding.

For more information on Colorado School of Mines, see the analysis published July 27, 2017, on RatingsDirect.

Outlook

The stable outlook reflects our expectation that Mines will continue to experience stable enrollment, a strong demand profile, balanced full-accrual operations, and a manageable debt burden. The outlook also reflects our expectation that Mines will continue to attract private research funding and fundraise, and that selectivity will remain strong, with continued good state operating support.

Downside scenario

Credit factors that could negatively affect the rating include debt issuance without commensurate growth in resources that leads to a higher debt burden or deterioration in liquidity ratios. In addition, although we don't expect it, a significant decline in enrollment, sustained full-accrual operating deficits, or sharp decreases in financial resource ratios could lead to a negative rating action.

Upside scenario

We do not expect to raise the rating in the next two years given Mines' moderate debt burden and adequate financial resource ratios. But should financial ratios and unrestricted net assets improve significantly and the debt burden ease, we could consider a higher rating.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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Colorado State University

MOODY'S
INVESTORS SERVICE

CREDIT OPINION

5 December 2017

New Issue

Rate this Research

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Colorado State University System, CO

New Issue - Moody's assigns Aa3 to Colorado State University's 2017C&D, enhanced Aa2 to 2017C; outlook stable

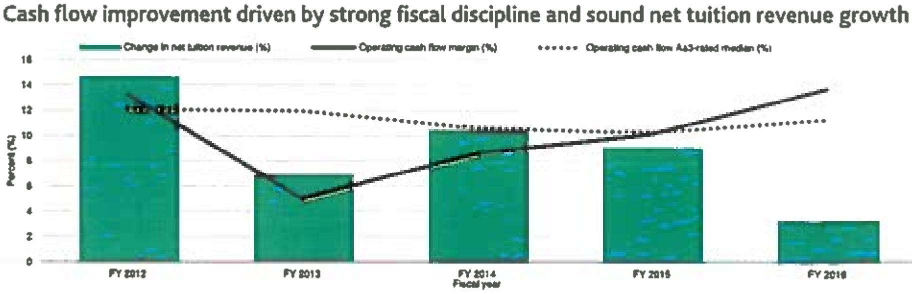
Summary Rating Rationale

Moody's Investors Service has assigned Aa3 underlying ratings to the Colorado State University System's (CSUS or the system) planned fixed rate System Enterprise Revenue Refunding Bonds, $267 million Series 2017C and $51 million Series 2017D (maturing 2047 and 2045, respectively). We have also assigned a Aa2 enhanced rating to the Series 2017C Bonds. All bonds will be issued through the CSUS Board of Governors. Outstanding Aa3-rated parity bonds total $1.1 billion and rated bonds qualified by the state intercept program total $769 million. The outlook is stable.

The Aa3 rating reflects the system's role as land grant institution for the State of Colorado (Aa1 stable issuer rating), sizeable $1.2 billion scope of operations, and significant research enterprise. Steady student demand and sound growth of net tuition revenue demonstrate the system's solid national brand. Favorable capital campaign results, strong fiscal stewardship, and successful execution of substantial campus investments further support the rating. Challenges include high leverage, with exposure to a sizeable pension liability, and historically limited state support for operations and capital.

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 Colorado's current rating and outlook.

Exhibit 1
Cash flow improvement driven by strong fiscal discipline and sound net tuition revenue growth



Source: Moody's Investors Service

Credit Strengths

» Excellent strategic positioning as Colorado's land-grant university, with 38,900 full-time equivalent (FTE) students in fall 2017 at its multi-campus and statewide network

» Good net tuition revenue growth, averaging 9% annually, over the fiscal 2012-2016 period

» Multidisciplinary research activity, comprising 17% of fiscal 2016 expenses

» Substantially improved philanthropic support, averaging $75 million annually over the fiscal 2012-16 period

» Bondholders benefit of Colorado intercept enhancement program for certain bonds

Credit Challenges

» Highly leveraged, with spendable cash and investments to debt of 0.5 times and debt to operating revenue of 1.0 times, both weaker than Aa3-medians

» Large unfunded pension liability adds considerable debt-like liabilities and inflexible costs

» Ambitious strategic plan with multiple academic and facilities components necessitates heightened risk management

» Very low state funding for operations (11% of operating revenues) and only periodic capital support

» Sustained enrollment momentum is challenging in a highly competitive student market

Rating Outlook

The stable outlook on the Aa3 underlying rating reflects our expectation of continued student demand, ongoing operational adjustments and strategic prioritizations to maintain balanced operating performance and solid debt service coverage. The stable outlook further reflects our expectation that the university will successfully manage the elevated debt service requirements beginning in fiscal 2018.

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: Sizeable improvement in spendable cash and investments, strengthening of national brand, sustained strong cash flow margins, and limited debt increases

» Enhanced rating: Upgrade in the State of Colorado issuer rating

Factors that Could Lead to a Downgrade

» Underlying rating: Sustained deterioration of cash flow margins and debt service coverage, erosion of liquidity, and significant increase in leverage beyond what is currently planned

» Enhanced rating: Deterioration in credit quality of the State of Colorado issuer rating

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

COLORADO STATE UNIVERSITY SYSTEM, CO	2012	2013	2014	2015	2016	Pro Forma 2016	Median: Aa Rated Public Universities
Total Fall Semester FTE Enrollment	23,721	23,882	23,843	24,332	25,116	25,116	28,405
Operating Revenue ($000)	982,494	955,830	1,017,576	1,087,092	1,175,274	1,175,274	1,104,854
Annual Change in Operating Revenue (%)	7.7	-2.7	6.5	6.8	8.1	8.1	4.4
Total Cash & Investments ($000)	717,510	711,676	726,001	781,817	953,282	953,282	1,201,140
Total Debt ($000)	625,663	602,821	753,489	982,394	1,116,964	1,144,389	597,459
Spendable Cash & Investments to Total Debt (x)	0.9	0.9	0.7	0.6	0.7	0.6	1.3
Spendable Cash & Investments to Operating Expenses (x)	0.6	0.6	0.5	0.5	0.6	0.6	0.7
Monthly Days Cash on Hand (x)	154	139	123	128	159	159	162
Operating Cash Flow Margin (%)	13.2	5.0	8.6	10.2	13.7	13.7	12.0
Total Debt to Cash Flow (x)	4.8	12.5	8.6	8.9	6.9	7.1	4.4
Annual Debt Service Coverage (x)	4.6	1.6	2.0	2.5	3.3	3.3	3.0

Note: Pro forma 2016 reflects impact issuance of the new money series 2016A&B bonds in November 2016
Source: Moody's Investors Service

Detailed Rating Considerations

Market Profile: Multi-campus system with rising enrollment; growing research

The system will continue to record steady student demand due to its campus and program delivery diversity with a large research oriented campus in Fort Collins, regional Hispanic Serving Institution in Pueblo, and accredited online Global Campus degree content. Headcount enrollment across the system rose a strong 5.4% from fall 2013 to fall 2017, with the rapid rise largely attributed to the Global Campus online degree programs. Favorably, the system is on track to grow its Fort Collins headcount to 35,000 by the end of the decade (fall 2017 was 33,413) evidenced by preliminary freshman counts at Fort Collins campus of over 5,000. The Pueblo campus continues to face modest enrollment declines due to smaller geographic reach and demographic challenges.

Research activity remains a vibrant component of the CSUS profile. The system's specialized areas of research include veterinary and biological sciences, as well as renewable energy. Investments in new facilities have afforded more activity with bio-med engineering and multi-university collaborations, leading to rising awards. Fiscal year 2017 awards of $314 million (as reported by the system) were up 11% over fiscal 2016. Research funding remains largely dependent on federal funding (69% of sponsored research funding), which is likely to be constrained in the near term, tempering the system's aspirational goal to reach $400 million in research funding by the end of the decade.

Operating Performance: Balanced operations and sound debt service coverage support stable outlook

The system's operating performance is expected to remain balanced. A strong 14% fiscal 2016 operating cash flow margin was driven by a combination of continued solid growth of student charges (comprising 55% of fiscal 2016 operating revenue) rising research activity (28% of revenues), and good expense management. Preliminary guidance for fiscal 2017 operating performance shows somewhat stronger results when compared to fiscal 2016. Debt service coverage was a strong 3.3 times in fiscal 2016, but is somewhat inflated as several large project debt service payments are supported by capitalized interest into fiscal 2018.

The uncertainty of future support in State of Colorado funding remains an ongoing credit challenge. The state has a history of uneven higher education funding and policy cuts, though recent funding proposals are providing greater higher education operating and capital support. The system receives state operating support in the form of the College Opportunity Fund (COF, a stipend granted to undergraduate students) and annual fee for service (FFS) contracts, which together amounted to a comparatively modest 11% ($135 million) of system operating revenues. Favorably, the state increased higher education funding for fiscal 2018, though a modest $20 million across all universities and colleges. The system received roughly $5 million, to increase fiscal 2018 COF plus FFS funding to $139 million.

Wealth and Liquidity: Successful launch of $1 billion comprehensive campaign

The CSU foundation is in the midst of $1 billion comprehensive campaign to fund endowment, financial aid, infrastructure and program resources. Campaign momentum will be critical to the preservation of the system's financial strength. Through July 2017, nearly 83% or $833 million in cash and pledges of the goal had been reached, with the targeted completion in 2020. Including foundation assets, spendable cash and investments were $729 million at fiscal end 2016.

The CSU foundation endowment was $330 million for June 30, 2017, and recorded an annual return of 13.0%. Asset allocation remains stable and diverse, in line with peers, with the largest allocations to domestic equities, global equities and marketable alternatives.

LIQUIDITY

The system's liquidity profile has improved to a level on par with the Aa3-median. For fiscal 2016, CSUS reported $454 million of liquidity (largely on deposit with the State Treasurer), which translates to 159 monthly days cash on hand. Fiscal 2017 is up to $516 million. The system's mostly fixed-rate debt structure and solid cash flow further limit unforeseen draws on liquidity.

Leverage: Highly leveraged; state capital and gift support are essential for further investment

The system is highly leveraged compared to other Aa3-rated public universities. High leverage reflects historically weak state capital funding and a period of significant capital investment, mitigated to some extent by several projects that are supported by gifts, user fees, enterprise revenues, and capital support. Spendable cash and investments to debt (of $1.1 billion) of 0.6 times and debt to operating revenues of 1.0 times are outliers compared to the Aa3-medians of 1.2 times and 0.5 times, respectively. Though capital campaign results are favorably adding to wealth levels and the system has been generating good surpluses, leverage will remain relatively high in the near term in the absence of substantial improvements in flexible reserves.

CSUS is benefitting from recent state capital support for a new $50 million chemistry building and up to $250 million in state funded projects statutorily authorized in conjunction with the expansion of the National Western Center (NWC) redevelopment in Denver, Colorado. These funds are authorized for covering debt service payments beginning on July 1, 2019 and will support multiple facilities at the NWC Complex as well as on the Fort Collins campus. The facilities at the NWC complex, located in the Denver metropolitan area, will create opportunities for educational outreach, a focus on water resources and research as well as an equine sports medicine and community outreach clinic. The projects at the Fort Collins campus will support the efforts in Denver by developing an equine teaching hospital, a facility that will support biological and transitional research, and a NWC education and outreach center. The State of Colorado is currently planning to issue the first tranche for $50 million for the Fort Collins campus facilities in January 2018.

The system is considering executing a $50 million commercial paper program in early calendar year 2018 to provide bridge financing for several of its planned capital projects, inclusive of those that will be repaid with donor support. No additional debt is currently planned beyond the current program.

DEBT STRUCTURE

The system's conservative debt structure of fixed rate debt generally amortizing over 30 years provides predictability in annual debt service payments.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

The university has substantial additional debt-like obligations through its participation in state pension and retirement health plans that add considerable long-term credit risk. Eligible employees participate in the State Division Trust Fund (SDTF), a cost-sharing multiple employer defined benefit plan administered by the Public Employees' Retirement Association (PERA). Moody's three-year average adjusted net pension liability (ANPL) is $1.1 billion. Added to direct debt of $1.1 billion, total adjusted debt is 2.0 times fiscal 2016 operating revenue, well above the Aa3-rated median of 1.0 times. Given the ongoing funding needs of the multiple-employer pension plan in which the system participates along with growing OPEB requirements, the system will face inflationary cost pressures for these fringe benefits.

OPEB expenses comprised a moderate 2.3% of operating expenses. The system contributes to PERA's Health Care Trust Fund (HCTF) and three single-employer DB healthcare plans.

Governance and Management: Focused team overseeing multiple campuses and active capital investment

CSUS's strong and integrated strategic and capital planning help bolster its excellent strategic positioning and will bolster future student demand. Sound fiscal management, with excellent risk controls have allowed the system to maintain ample operating cash flow throughout the recent period of heavy capital and strategic investments.

Legal Security

The System Enterprise Revenue Bonds are secured by a pledge of revenues at both CSU and CSU-Pueblo (Global Campus revenues are not pledged), 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.

The fiscal 2017 net pledged revenue was $161 million, which is a limited roughly 13% of the system's operating revenues. Maximum annual debt service coverage ($75 million) is 2.2 times. Pledged revenue coverage is narrower compared to debt of rated peers due to the limited 10% pledge of tuition monies.

There are no debt service reserve fund requirements for the Series 2017C and 2017D Bonds.

The system's proposed series 2017C bonds are expected to be secured by the state intercept program (in addition to certain other parity bonds outstanding). Colorado's higher education intercept program is categorized as an unlimited advance. Should the system fail to provide sufficient funds for debt service, the trustee is required to notify the state treasurer on the business day immediately prior to the debt service payment date. The treasurer is required to remit funds to the trustee in immediately available funds of the state. The treasurer recovers the debt service payment from the system's fee-for-service funds, as well as from unpledged tuition revenue. Please see our report dated October 22, 2008 for more detail on this program rating.

The intercept program currently covers the Series 2009A, 2010A 2010B, 2010C, 2012A, 2012B, 2013A, 2013B, 2013E, 2015C, 2015E and 2017A bonds.

Use of Proceeds

Proceeds of the series 2017C and 2017D are expected be used to refund all or portions of the series 2013C, 2013E, 2015A and 2015E bonds (should market conditions afford interest rate savings), and to pay costs of issuance.

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.

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 Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 3

Colorado State University System, CO

Issue	Rating
System Enterprise Revenue Refunding Bonds Series 2017C	Aa3
Rating Type	Underlying LT
Sale Amount	$267,240,000
Expected Sale Date	12/11/2017
Rating Description	Revenue: Public University Broad Pledge
System Enterprise Revenue Refunding Bonds Series 2017C	Aa2
Rating Type	Enhanced LT
Sale Amount	$267,240,000
Expected Sale Date	12/11/2017
Rating Description	Revenue: Public University Broad Pledge
System Enterprise Revenue Refunding Bonds Series 2017D	Aa3
Rating Type	Underlying LT
Sale Amount	$50,720,000
Expected Sale Date	12/11/2017
Rating Description	Revenue: Public University Broad Pledge

Source: Moody's Investors Service

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S&P Global
Ratings

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Summary:

Colorado State University System Board of Governors; CP; Public Coll/Univ - Unlimited Student Fees; School State Program

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Table Of Contents

Summary:

Colorado State University System Board of Governors; CP; Public Coll/Univ - Unlimited Student Fees; School State Program

Credit Profile		
US$25.0 mil taxable CP nts ser 2018B due 03/01/2037		
Short Term Rating	A-1	New
US$25.0 mil cp nts ser 2018A dtd 06/20/2018 due 03/01/2037		
Short Term Rating	A-1	New
Colorado St Univ Sys Brd of Governors sys enterprise rev rfdg bnds		
Long Term Rating	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors taxable CP nts ser 2018B due 03/01/2037		
Short Term Rating	A-1	Affirmed

Rationale

S&P Global Ratings assigned its 'A-1' short-term rating to the Colorado State University System Board of Governors' (CSU or the system) commercial paper (CP) notes, series A (tax exempt) and series B (taxable). At the same time, S&P Global Ratings affirmed its 'A+' long-term and underlying ratings on CSU's enterprise revenue bonds outstanding. The outlook is stable.

We assess the system's enterprise profile as very strong, reflecting steady enrollment growth and solid demand metrics as well as the system's solid research presence. We assess CSU's financial profile as strong, reflecting improving financial operations on a full-accrual basis, offset by an above-average debt burden and low financial resource ratios relative to debt for the rating, as well as contingent liabilities related to pension obligations. Combined, they lead to an indicative credit rating of 'a+' and a long-term bond rating of 'A+'.

The 'A+' long-term rating reflects our view of CSU's:

- Significant program and degree offerings on its three campuses and its status as the land grant institution in Colorado;
- Broad pledge of net revenue, including tuition, fees, research, indirect cost recovery, and auxiliary revenue;
- Increasing enrollment, with a combined 51,563 headcount as of fall 2017;
- Adequate financial resources to operating expenses, with adjusted unrestricted net assets (UNA) covering 35% of expenses; and
- Positive adjusted, full-accrual financial operations in both fiscal years 2016 and 2017.

Partially offsetting the above strengths, in our view, are the system's:

- Significant increase in debt during the past few years, with an above-average, but manageable, pro forma maximum annual debt service (MADS) burden of 5.5% of fiscal 2017 operating expenses;
- Low financial resources relative to debt for the rating, with adjusted UNA equal to 41.5% of pro forma debt, and
- Relatively small, but increasing, endowment for the rating.

CSU plans to use the CP program to fund various capital projects. As of April 30, 2018, the system had its operating portfolio invested in the Colorado State Treasury Pool, a diverse portfolio of money market instruments, investment grade fixed-income assets, and U.S. Treasury and Agencies. The portfolio totals to more than $500 million that, when discounted, is more than $350 million. These assets provide ample coverage for the maximum authorized $50 million CP program. S&P Global Ratings will monitor the sufficiency and the liquidity of assets identified for self-liquidity monthly.

Pro forma the university's CP program, plus approximately $53 million in debt we expect the system to issue during our two-year outlook period, total debt is approximately $1.15 billion, including some capital leases.

A pledge of net revenues from CSU's Fort Collins and Pueblo campuses--which include a variety of student fees, indirect cost recovery, and 10% of tuition--secure the system enterprise revenue bonds. This makes the underlying security the equivalent of an unlimited student fee pledge, in our opinion.

Outlook

The stable outlook reflects our expectation that CSU will maintain its robust demand and enrollment profile and continue to produce at least break-even full-accrual results. We also expect the system to maintain or improve its financial resource ratios.

Upside scenario

We could take a positive rating action if CSU continues to improve financial operations while demonstrating growth in financial resource ratios and maintaining its enrollment profile.

Downside scenario

We could lower the rating during our two-year outlook period if the system issues material debt without a commensurate buildup in resources, or if financial operations weaken significantly.

Ratings Detail (As Of June 20, 2018)		
Colorado St Univ Sys Brd of Governors cp nts ser 2018A dtd 06/20/2018 due 03/01/2037		
Short Term Rating	A-1	Affirmed
Colorado St Univ Sys Brd of Governors ser 2017C (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors sys enterprise rev rfdg bnds		
Long Term Rating	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of June 20, 2018) (cont.)		
Unenhanced Rating	NR(SPUR)	
Underlying Rating for Credit Program	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
Long Term Rating	AA/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Underlying Rating for Credit Program	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
Long Term Rating	AA/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Underlying Rating for Credit Program	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
Long Term Rating	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF enhancement		
Long Term Rating	AA/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Underlying Rating for Credit Program	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF ser 2017C		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF ser 2017F		
Long Term Rating	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
Long Term Rating	AA/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Underlying Rating for Credit Program	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
Long Term Rating	AA/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Underlying Rating for Credit Program	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
Long Term Rating	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
Long Term Rating	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors SCHSTPR		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of June 20, 2018) (cont.)		
Underlying Rating for Credit Program	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors sys enterprise		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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Fort Lewis College

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
13 July 2018

Rate this Research

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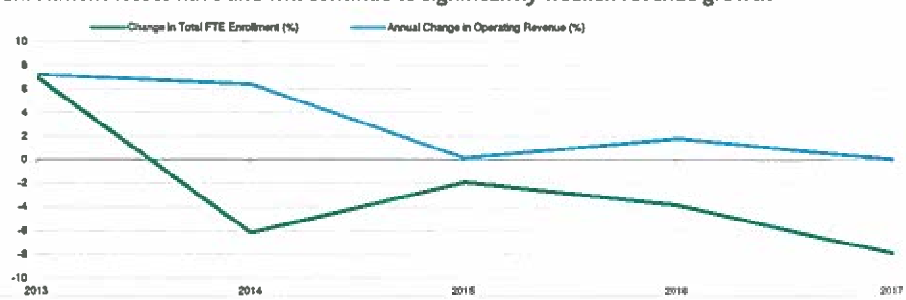
Fort Lewis College, CO

Update following revision of outlook to negative

Summary

Fort Lewis College's (A2 negative) very good credit quality is supported by its unique role in the State of Colorado (Aa1, stable) and region as the state's public liberal arts college with prominent provision of higher education to Native American students. The latter mission contributes to the college's credit strength as the state not only subsidizes the full cost of tuition for Native American students but also has provided strong capital support to the college. As a result, Fort Lewis has very low leverage, affording it some operating flexibility. The college's relatively healthy unrestricted liquidity, with over 175 monthly days cash on hand, is a favorable credit element as the college confronts continued significant enrollment declines. These declines will reduce revenue in the near term and stymy potential future growth. Despite management's commitment to contain expenses, the college's small operating base limits future large-scale expense reduction efforts without harming core programs. While the college has historically generated consistent sound operating performance, the college's projections for fiscal 2018 and fiscal 2019 indicate a material weakening of operating cash flow. Although improving, the State of Colorado's funding for higher education has historically lagged peers, requiring the college to rely heavily on tuition revenue from a shrinking population of enrolled students to fund operations. Recently, the college appointed a new president whom is reengaging traditionally targeted student groups and is bringing in a new "data-driven" approach to recruitment and program offerings in an effort to curb enrollment losses.

Exhibit 1
Enrollment losses have and will continue to significantly weaken revenue growth



Source: Moody's Investors Service

Credit strengths

» Good liquidity, providing 177 days cash on hand, offers a cushion to the college in times of stressed operations

» Low leverage in comparison to peers, with debt to cash flow of 5.5x

» Full tuition paid by the State of Colorado (Aa1 stable) for all Native American students (24% of revenue in fiscal 2017)

» Colorado intercept program benefits bondholders

Credit challenges

» Small public college experiencing student enrollment declines

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

» Building expense pressures and low revenue growth weakening operating performance

» Small operating base limits future budget flexibility

Rating outlook

The negative outlook indicates prospects for credit deterioration if the college generates cash flow margins weaker than we currently expect, in the 5-6% range, for fiscal 2018 and 2019, or is unable to stabilize enrollment with reasonable prospects for material improvement in financial performance in fiscal 2020.

Factors that could lead to an upgrade

» Significant strengthening of student demand, reflected in growing enrollment and improved pricing power

» Material increase in total cash and investments

» Materially stronger operating support from the State of Colorado

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

Factors that could lead to a downgrade

» Inability to stabilize enrollment with or improve operating performance from projected weak cash flows

» Material use of available reserves or increased debt, increasing leverage

» Reduction in support for the Native American tuition waiver or of weakening operating support from the State of Colorado

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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2
FORT LEWIS COLLEGE, CO

	2013	2014	2015	2016	2017	Median: A Rated Public Universities
Total FTE Enrollment	3,797	3,565	3,498	3,365	3,101	10,184
Operating Revenue ($000)	66,516	70,757	70,873	72,160	72,205	212,722
Annual Change in Operating Revenue (%)	7.2	6.4	0.2	1.8	0.1	1.9
Total Cash & Investments ($000)	49,055	51,852	50,619	56,666	52,704	178,994
Total Debt ($000)	56,957	55,117	52,288	51,267	51,724	139,579
Spendable Cash & Investments to Total Debt (x)	0.7	0.8	0.8	0.9	0.8	0.8
Spendable Cash & Investments to Operating Expenses (x)	0.6	0.6	0.6	0.6	0.5	0.6
Monthly Days Cash on Hand (x)	193	193	182	212	177	140
Operating Cash Flow Margin (%)	16.5	16.0	12.2	13.5	13.1	10.3
Total Debt to Cash Flow (x)	5.2	4.9	6.1	5.3	5.5	6.6
Annual Debt Service Coverage (x)	2.7	2.7	2.0	2.9	2.4	1.9

Source: Moody's Investors Services

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 waivers to all qualified Native Americans who meet admission requirements. A member of the Council of Public Liberal Arts Colleges (COPLAC), Fort Lewis College had fiscal 2017 operating revenues of $72 million and enrolled 3,101 FTE students in fall 2017.

Detailed credit considerations

Market profile: important provider of education to Native American students facing significant enrollment challenges

Fort Lewis College's good strategic position will continue to be supported by its distinct market niche as one of only two colleges in the United States offering full-tuition waivers to Native American students. Overall, Native American students comprise about a third of enrolled students. The college waives tuition for all Native American students upfront and receives reimbursement from the State of Colorado in the subsequent fiscal year. The college was reimbursed $17.4 million in fiscal 2017, up moderately from the $16.2 million reported in fiscal 2016.

A fiercely competitive environment for the growing number of high school seniors in the state, coupled with retention struggles, have led to significant enrollment declines over the past five years. The number of FTEs in fall 2017 totaled 3,101, down 8% from fall 2016 and down 18% from fall 2013. Over the past five years, new matriculants have declined 20% and transfers have declined nearly 30%. Retention weakened dramatically in 2017, down to 59% from the 66% percent reported in 2016. Despite efforts to increase enrollment and retention, including the hiring of an enrollment consultant in 2015 and additional programs on-campus to promote retention, college officials anticipate an additional significant overall enrollment decline of nearly 10% in fall 2018.

In addition to the Native American reimbursement program, the college receives state operating support in the form of College Opportunity Fund (COF) stipend and contracted Fee for Service (FFS). In fiscal 2017, the college received $11.5 million from these sources, down slightly from fiscal 2016. As this funding is based primarily on enrollment, we anticipate stagnant to slightly declining revenue from these sources over the coming years. Favorably, the state provides solid capital support to the college, limiting the college's need to borrow for future capital projects.

Operating performance: material operating weakness expected as operating revenue declines

Due to continued enrollment challenges impacting revenue growth, we expect the college's operations to be weaker in fiscal 2018 and fiscal 2019. The college's fiscal 2017 operating cash flow margin of 13.1% is solid for the A2 rating category, well-above the median of 10.2%. The college implemented expense cuts this year and announced budget cuts into fiscal 2019, demonstrating management's commitment to minimizing operating performance declines. Additional material expense cuts beyond fiscal 2019 will prove challenging, as the college's operating base is small and material additional cuts could lead to further weakening of the college's competitiveness.

Operating revenue in fiscal 2018 will decline due to net tuition revenue losses stemming from enrollment declines. This decline follows a trend of weak revenue growth since the end of fiscal 2014. Since that fiscal year, revenue has grown only 0.7%, well below the A2-rated university median growth during that period of 1.9%. Management is budgeting for a slight downtick in revenue in fiscal 2019, due to an additional year of enrollment losses, offset partially by increased one-time state operating support and a tuition increase of 5% starting in fall 2018 (in-state and out-of-state).

College officials have made expense growth containment a priority over the recent period of revenue weakness to maintain operating performance. Since the end of fiscal 2014, non-pension related expenses have increased by approximately 1%. The college cut $1.7 million of budgeted non-pension expenses in fiscal 2018 and a further $4.2 million reduction in fiscal 2019, which will keep expenses relatively flat over the next two years. Management reports that no academic programs have ended due to these budget cuts. Management's ability to continue adjusting expenses without harming competitiveness will be challenging due to the college's small operating base.

Wealth and liquidity: low overall wealth, but solid available liquidity

Total cash and investments will remain modest for the A2-rating category as the college will struggle to build reserves with limited fundraising and thin operating surpluses. Total cash and investments totaled $53 million at the end of fiscal 2017 and have increased just 7% since the end of fiscal 2013, primarily due to the college's capital investments. In fiscal 2017, the college used internal reserves to fund numerous project on campus, including renovations to student housing. Due to management's successful cost containment strategies, spendable cash and investments to operating expenses remain adequate for the rating category at 0.51x.

Liquidity

The college's liquidity will remain stable and solid for its size of operations and rating category. As of June 30, 2017, the college had $31 million in monthly liquidity, representing 177 monthly days cash on hand, above peers (fiscal 2017 A2 median for public universities was 160 days).

Leverage: low leverage affords the college flexibility in a competitive operating environment

The college's leverage remains a key credit positive as the college continues managing through a competitive operating environment. Total debt to cash flow of 5.5x is strong for the A2 rating category (median of 7.3x in fiscal 2017). Spendable cash and investments to total debt is also healthy at 0.80x. The college has no additional debt plans over the next three years.

Debt structure

All of the college's debt is fixed rate and amortizes through 2038.

Legal security

The college's outstanding bonds are payable from a net revenue pledge of the college. This net revenue pledge includes the gross revenues of all of the college's facilities, student fees, all revenues accruing to the college from overhead charges on research project, subtracted by operating and maintenance expenses. The pledge also includes 10% of the tuition revenues received by the college, as long as it maintains enterprise status (the college had enterprise status in fiscal 2017), and other income that the board determines to include in gross pledged revenues. The fiscal 2017 pledged net revenue provided annual debt service coverage of 1.86x.

Outstanding Series 2016 and Series 2016B bonds are covered by the State of Colorado's higher education intercept program that is categorized as an unlimited advance. Should the college fail to provide sufficient funds for debt service, the trustee is required to notify the state treasurer on the business day prior to the debt service payment date. The treasurer is required to remit funds to the trustee immediately from available state funds. The treasurer recovers the debt service payment from the college's fee-for-service funds, as well as from unpledged tuition revenue.

Debt-Related derivatives

The college does not have any debt-related derivatives.

Pension and OPEB

Fort Lewis College's pension liabilities are moderate, unlike many other Colorado universities, due to a lower number of participants in the state's pension fund. Recently enacted pension reforms will lower accrued liabilities and improve pension funding trajectories, a credit positive for the college. Reforms, which begin in fiscal 2019, include a 0.25% increase in employer contributions, increased employee contributions, and modifications to retiree benefits. These reforms will modestly increase the college's pension contributions going forward.

The 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 for the college is $67 million. Total adjusted debt is 1.6x operating revenue in fiscal 2017, below the A2-rated university median of 2.1x.

Management and governance: cautious budgeting and planning are key to maintaining operating performance

The college's cautious budgeting and planning are key to maintaining operating performance in a competitive environment. The college's management incorporates contingencies into its annual budget. This practice will help to mitigate any unexpected revenue deficiencies. The college also creates multi-year internal budget forecasts, demonstrating thoughtful budgeting practices.

The college recently appointed a new president that plans to usher in a new "data-driven" approach to college recruitment and program offerings. Additionally, the new president plans to reengage potential students from traditionally served backgrounds, including Native Americans and first generation students. The success of the new president's plans will be critical to the college's future success.

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Metropolitan State University

Moody's
INVESTORS SERVICE

Rating Action: Moody's assigns Metropolitan State University's A1 underlying, Aa2 enh. to Ser. 2016; outlook stable

06 Jan 2016

New York, January 06, 2016 -- Issue: Institutional Enterprise Revenue Bonds (Aerospace and Engineering Sciences Building Project) Series 2016; Underlying Rating: A1; Enhanced Rating: Aa2; Sale Amount: $26,395,000; Expected Sale Date: 01-19-2016; Rating Description: Revenue: Public University Broad Pledge

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.

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

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.

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Metropolitan State University Board of Trustees, CO, Debt Outlook Revised To Stable From Negative On Improved Enrollment

08-Dec-2017 13:03 EST
View Analyst Contact Information

SAN FRANCISCO (S&P Global Ratings) Dec. 8, 2017--S&P Global Ratings has revised its outlook to stable from negative and affirmed its 'A' underlying rating (SPUR) on Metropolitan State University Board of Trustees (MSU Denver), Colo.'s direct and guaranteed revenue debt. At the same time, S&P Global Ratings affirmed the following:

Its 'A' SPUR on the Metropolitan State College Board of Trustees' institutional enterprise revenue debt, issued for MSU Denver; and
Its 'A' SPUR on Metropolitan State College of Denver Roadrunner Recovery & Reinvestment Act Finance Authority, Colo.'s revenue debt, issued for HLC @ Metro Inc. HLC is an instrumentality of the State of Colorado, whose financials are presented as a discrete component unit of MSU Denver. The rating reflects our opinion of the guarantee, which is on par with MSU Denver's existing debt.

"The outlook revision reflects our view that MSU Denver's enrollment has stabilized; operations will continue to hold steady, remaining positive on a cash basis in fiscal 2018; and financial resources will continue to be adequate, albeit somewhat weak for the rating category," said S&P Global Ratings credit analyst Debra Boyd. The rating reflects MSU Denver's strengthening demand profile and stable state funding environment, which we expect to continue over the two-year outlook period.

The 'A' rating reflects our opinion of the university's:

Improving full-time-equivalent (FTE) enrollment for fall 2017 after years of declining enrollment;
Historically positive full-accrual operations, and positive cash operations based on the draft audit for fiscal 2017;
Key niche in the state's higher education hierarchy, serving the urban metropolitan Denver area, with solid state support; and
Stable and experienced management.

We believe these credit strengths are somewhat offset by what we consider MSU Denver's:

Below-average available resource ratios with fiscal 2017 adjusted unrestricted net assets of $64.6 equal to 25.4% of adjusted operations and 43% of total debt, based on the draft audit provided for fiscal 2017;
Total guaranteed and direct debt of $51.7 million, which a manageable 11.3% maximum annual debt service partially mitigates; and
Modest endowment with limited fundraising history.

MSU Denver, founded in 1963, is one of 10 public state four-year colleges in Colorado. It occupies the 140-acre Auraria campus (created by state statute in 1974) in downtown Denver. The Auraria campus is also home to the Community College of Denver and University of Colorado at Denver. MSU Denver serves approximately half of the 44,000 students at the Auraria campus, and through its three colleges (letters, arts, and sciences; business; and professional studies) and one school (education), it offers 58 majors. Niche programs include accounting, hospitality, teacher education, and social work. In fall 2017, total student enrollment was 20,174, or 15,087 FTE students, 97% of which were undergraduates.

The stable outlook reflects our view that MSU Denver's FTE enrollment has rebounded and will continue, strengthening the university's revenue base. We expect operations to return to break-even full-accrual results and for MSU Denver to maintain its financial resources relative to its expenses and debt. We do not expect the university to issue additional debt during the two-year outlook period.

We could consider a negative rating action if MSU Denver's demand profile were to weaken, full-accrual operating margins were to remain negative, or if available resource ratios were to weaken such that they are no longer commensurate with the current rating.

We do not consider a higher rating likely within the outlook period, given the university's pressured available resources and modest endowment. A higher rating would be predicated on significant FTE growth, coupled with a trend of positive operations and substantial growth in financial resources relative to expenses and debt.

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University of Colorado

FitchRatings

Fitch Rates Univ. of Colorado's Series A-1, A-2, & B CP Notes 'F1+'; Rev Bonds Affirmed at 'AA+'

Fitch Ratings-New York-25 May 2018: Fitch Ratings has assigned an 'F1+' Short-term rating on the Regents of the University of Colorado's (CU) Commercial Paper (CP) notes series A-1 (tax-exempt), CP notes series A-2 (taxable), and extendible CP notes series B (tax-exempt). In addition, Fitch has affirmed the Long-term rating on $1.5 billion of CU fixed rate revenue bonds at 'AA+'.

CU plans initially to draw approximately $150 million of tax-exempt CP notes over the next 12 months to support the university's capital spending plans. CU plans to take out the short-term notes with a fixed rate long-term debt issuance in summer or fall 2019. The CP notes are expected to price the week of June 4, 2018.

The Rating Outlook is Stable.

SECURITY

Revenue bonds are secured by University of Colorado enterprise revenues, consisting primarily of auxiliary net revenues, indirect cost recovery revenues, student fees, 100% of tuition revenues, and other self-funded and research related services. Pledged revenues exclude state appropriations.

The 'F1+' Short-term rating is based on the adequacy of CU's self-liquidity to support the CP program and CU's strong overall credit quality.

KEY RATING DRIVERS

GOOD BALANCE SHEET RATIOS: CU's balance sheet resources relative to operations (63%) and debt (159%) compare favorably to 'AA' medians.

STRONG STUDENT DEMAND: CU's prominent position as the flagship institution for higher education and research in the state has fueled steady and significant enrollment growth over the past several years. The state recently approved measures to allow CU to accept more out-of-state students, which should bolster continued enrollment growth.

TRACK-RECORD OF PROFITABILITY: CU has a track record of breakeven to positive operating margins fueled by enrollment growth, profitable healthcare operations, and fairly diverse revenue sources. The negative operating margin in fiscal 2017 was driven by increased pension costs following a downward adjustment to the discount rate for the PERA multi-employer defined benefit pension plan. Fitch expects CU's operating margins to rebound to historical trends.

POSSIBLE PERA PENSION RELIEF: The state House and Senate recently approved legislation that would provide meaningful long-term reductions to defined benefit pension plan liabilities. The legislation is awaiting approval from the Governor.

MODEST DEBT SERVICE COVERAGE: While CU's debt burden is manageable, maximum annual debt service (MADS) coverage was a thin 0.8x in fiscal 2017 because of the modest results in the year. MADS coverage should improve as operating results correct.

MANAGEABLE CAPITAL PLANS: CU has manageable capital spending plans. The university is planning to issue more than $300 million of new money debt in the coming years (including $75 million by summer or fall 2018) to support capital spending.

RATING SENSITIVITIES

BALANCED OPERATIONS: The Stable Outlook assumes the University of Colorado will return to structurally balanced operations. Maintenance of strong balance sheet ratios supports the rating. Material improvement in balance sheet strength could warrant upward rating movement. Unexpected sustained adjusted operating losses that lead to balance sheet weakening could lead to downward rating pressure.

CREDIT PROFILE

CU is a comprehensive flagship graduate research university and the largest institution of higher education in Colorado. CU offers a full array of undergraduate, graduate, and professional programs on four campuses: the flagship location in Boulder, Colorado Springs, Denver, and the Anschutz Medical Campus in Aurora. The Anschutz campus is also home to the University of Colorado Hospital (UCHealth). UCHealth is a separate legal entity (AA-/Positive), but maintains very tight alignment with CU's School of Medicine and is CU's primary teaching hospital.

CU's strong student demand growth is evidenced in total enrollment among its four campuses up 3.4% fall 2016 to 2017, totaling 65,375. Fitch expects continued enrollment growth in fall 2018. CU's net tuition and fees measured just over $1 billion in fiscal 2017.

GOOD BALANCE SHEET RATIOS

CU maintains good balance sheet resources. At audited fiscal year-end 2017 (June 30 year-end), available funds (AF, defined by Fitch as cash and investments less non-expendable restricted net assets) totaled $2.6 billion. AF covered fiscal 2017 operating expenses by a good 62% (AA category median is 48%) and debt by a favorable 159% (AA category median is 86%).

In addition, CU benefits from the support of various 501(c)(3) organizations, particularly the University of Colorado Foundation (CUF), which are not included in the university's available funds. CUF's long-term investment pool was valued at $1.6 billion as of Dec. 31, 2017, and has grown steadily in recent years. CU and CUF have benefited from increasing fundraising in recent years. CU's endowment spend policy recently was reduced to a manageable 4%.

STRONG STUDENT DEMAND

Net tuition growth has been fueled by strong enrollment trends, which is the result of CU's prominent position as the flagship institution for higher education and research in the state. Total headcount across the four campuses increased 3.4% in fall 2017 to 65,375 from 63,202 in fall 2016 (undergraduate headcount was up 3.8% and graduate up 2.4%). This continues a trend that has been going on for years, as CU's total headcount is up more than 13% since 2012. Enrollment growth should continue in fall 2018, and CU has capacity to accommodate growth, particularly the Colorado Springs campus. Undergraduate applications have increased significantly in recent years (up 75% since 2012).

Student selectivity and matriculation are stable and student quality remains high. Student quality as measured by standardized test scores is above average. Among incoming freshmen as of fall 2017, CU's average ACT and SAT scores of 27 and 1,191, respectively, exceed national averages by significant margins.

The state recently approved measures to allow CU to increase its share of out-of-state students from 33% to as high as 45%. This measure increases the university's operating flexibility and should ensure continued enrollment growth for high-quality students leading to student tuition and fee revenue growth.

TRACK-RECORD OF PROFITABILITY; EVOLVING PENSION DYNAMICS

CU has a track record of breakeven-to-positive margins. Between fiscal 2012 and fiscal 2016, CU's adjusted operating margin averaged 1.1% and the university was at least break-even in each year. In audited fiscal 2017, however, CU recorded an adjusted negative 4.1% operating margin.

The key driver behind the weaker operating results in fiscal 2017 was a significant increase in non-cash pension expenses related to changes in the PERA multi-employer defined benefit pension plan. In late fiscal 2017, PERA lowered its discount rate materially on the pension plan from 7.25% to 5.26%. Additionally, PERA adopted new mortality tables that assumed longer longevity among plan retirees. Consequently, the PERA changes resulted in a $312 million unplanned increase in non-cash pension expense in fiscal 2017. CU's liability to PERA increased 74% from $1.18 billion at year-end 2016 to $2.05 billion at year-end 2017 (a 74% increase). In addition, since these changes were not adopted until the year end, CU management did not have time to react with revenue enhancements and expense savings.

Fitch notes that the share of CU employees participating in the PERA defined benefit pension plan has been roughly flat in recent years, as the number of plan participants measured approximately 8,500 in 2013 and 8,700 in 2017. Over this same period, the number of participants in CU's defined contribution plan increased from approximately 9,700 to 16,200; Consequently, CU's proportionate share of PERA is slowly decreasing. New employees without previous PERA service do not participate in PERA at CU. Over the long term, this will help to reduce the university's liability.

The pension changes notwithstanding, CU's core operations remain favorable, as the university has benefited from steady growth in net tuition and fees, and diverse and growing research (with a particular focus on expanding non-federal funding sources). To this end, CU has a history of fairly diverse revenues sources, which in fiscal 2017 included student tuition and fees (32%), grants and contracts (25%), and healthcare operations (22%). Moreover, prior to the year-end PERA pension changes, CU's operating trends in fiscal 2017 were ahead of fiscals 2016 and 2015.

Looking forward, management budgeted at least breakeven operating results in fiscal 2018 and Fitch expects margins in future years to be better than fiscal 2017 and in-line with historical trends (Fitch generally expects public universities to record at least breakeven results). CU will continue to benefit from positive enrollment trends and diversified research efforts. Additionally, the governor's budget has recommended automatic annual state higher education funding increases of at least 7% in fiscal 2020 through fiscal 2022.

POSSIBLE PERA PENSION RELIEF

The state House and Senate recently approved legislation (SB18-200) that would provide meaningful long-term relief to defined benefit pension plan liabilities.

Key highlights from the legislation include the following: contributions from employees would increase two percentage points (phased on over three years), employer contributions increase 0.25 percentage points (starting July 2019), the state would directly appropriate $225 million per year to PERA for 30 years (beginning in July 2018), current retirees would receive no COLA increases for two years and future retirees would not receive COLA for the first three years of retirement (after which COLA is capped at 1.5% per year), the retirement eligibility age would increase to 64 for new hires (starting in 2020), and in the event revenues into PERA are significantly above or below projections, the legislation would include provisions that automatically adjust employee and employer contributions and the COLA to ensure solvency.

The legislation is awaiting approval from the Governor.

MANAGEABLE DEBT BURDEN, MODEST DEBT SERVICE COVERAGE

CU's pro forma debt burden is manageable but debt coverage ratios are thin based on fiscal 2017 results. The university's total bonded debt measures $1.52 billion; inclusive of capital leases, the debt equivalent of operating leases (measured as a 5x multiplier of lease expense), and notes payable, total long-term debt is $1.63 billion. Pro forma MADS of $128 million translates to a moderately low MADS burden of 3.2% (AA median is 4.8%). MADS coverage is a thin 0.8x, based on fiscal 2017 results due to the aforementioned significant increase in pension expense (AA median is 1.6x). If not for the $312 million increase in non-cash pension expense, CU's MADS coverage would be a strong 3.3x and coverage should improve in fiscal 2018 and beyond.

MANAGEABLE CAPITAL SPENDING PLANS

CU has manageable capital plans given its considerable scope of operations. Key future projects include personalized medicine and mental health facilities at the Anschutz medical campus, an aerospace engineering building in Boulder, undergraduate housing in Boulder and Colorado Springs, and an academic sports medicine building in Colorado Springs.

To support capital plans, CU is expected to issue more than $300 million of new money debt in the coming years. This includes $75 million of long-term fixed rate bonds in summer or fall 2018. Fitch views the debt plans as manageable, particularly considering CU's front-loaded debt service amortization schedule (the university will pay off a like amount of debt by the time the new debt is fully issued). The new CP program was planned as of Fitch's last review in November 2017.

'F1+' SHORT-TERM RATING

The 'F1+' short-term rating is based on the sufficiency of CU's liquid resources and written procedures to fund any un-remarketed put and/or commercial paper roll on the planned $200 million of maximum potential CP debt and supported by self-liquidity.

Based on Fitch's Rating Criteria related to US Public Finance Short Term Debt, CU had "eligible" cash, investments, and dedicated bank lines of credit in excess of the 125% threshold
of its maximum self -liquidity funding exposure for which supports the 'F1+' rating.

Using a conservative calculation which includes i) CU's cash and bank credit facilities, ii) conservative discounts for US Treasury / Agency debt, municipal bonds and corporate bonds, and iii) a maximum draw under $200 million tax-exempt and taxable CP program, pro forma coverage is strong at 4.7x (based on discounted liquidity as of unaudited March 31, 2018).

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Applicable Criteria

Rating Criteria for Public-Sector, Revenue-Supported Debt (pub. 26 Feb 2018) (https://www.fitchratings.com/site/re/10020113)
U.S. Public Finance College and University Rating Criteria (pub. 26 Apr 2017) (https://www.fitchratings.com/site/re/897285)
U.S. Public Finance Short-Term Debt Rating Criteria (pub. 01 Nov 2017) (https://www.fitchratings.com/site/re/905637)

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MOODY'S
INVESTORS SERVICE

CREDIT OPINION
25 May 2018

Rate this Research

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University of Colorado, CO

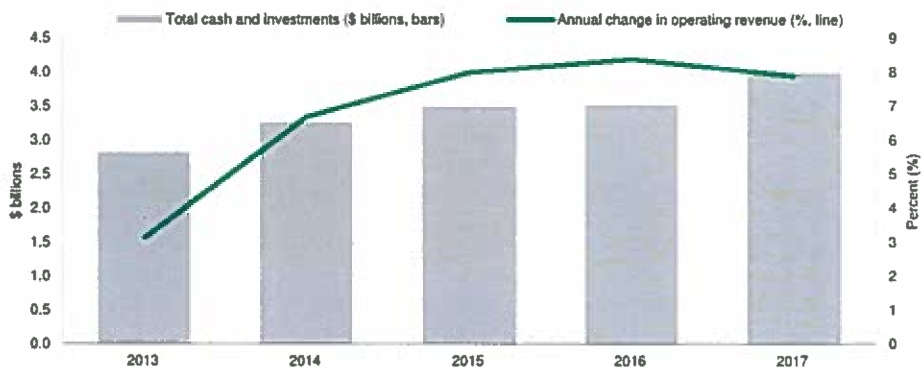
Update to credit analysis

Summary

University of Colorado (CU, Aa1 stable) benefits from its role as the State of Colorado (Aa1 stable, issuer rating) flagship institution, with excellent strategic positioning, a significant research enterprise and important role in the provision of medical education for Colorado. The rating is further supported by CU's substantial $3.9 billion scope of operations, consistent favorable operating performance, and robust gift activity. Prudent financial stewardship will ensure continued strong growth in cash and investments and manageable leverage. Offsetting challenges include very limited state support for operations and capital, ongoing need for capital investment, and exposure to potentially volatile healthcare operations. Exposure to the state's underfunded pension liability adds further uncertainty for future expense pressures.

Exhibit 1

Strong momentum for rising wealth and operating revenue underscores CU's excellent strategic positioning



Source: Moody's Investors Service

Credit strengths

» Large scope of operations ($3.9 billion in fiscal 2017) as Colorado's flagship, research-intensive, multi-campus university, and academic medical center

» Significant total cash and investments of nearly $4 billion and 227 monthly days cash on hand enhance financial flexibility

» Robust growth in net tuition revenue demonstrates strong brand recognition (fiscal 2013-17 increase of 27%)

» Sizeable $664 million in multi-disciplinary research activity

» Manageable leverage; spendable cash and investments cover debt by 2x

Credit challenges

» Weak state funding for both operations and capital (4% of fiscal 2017 operating revenues)

» Volatile healthcare exposure through a component unit physician practice plan that contributes 22% of operating revenues

» Sizeable pension liability (Moody's three-year average net pension liability of $2.4 billion from fiscal 2015-2017)

Rating outlook

The stable outlook reflects our expectations that CU will continue to record steady student demand and growth in student charges, strong research activity and flexibility to adjust to federal funding challenges, and substantial gift support. CU's rating, which is on par with the state's issuer rating, reflects the university's favorable revenue growth and diversity to offset state funding limitations.

Factors that could lead to an upgrade

» Material growth in financial cushion to debt and operations, with sustained elevated improvement in cash flow margins

» Substantial increase in research profile

» Significant enhancement in philanthropic support

Factors that could lead to a downgrade

» Sustained weakening of financial reserves, liquidity and leverage

» Material deterioration in enrollment or research leading to weaker operations

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

UNIVERSITY OF COLORADO, CO

	2013	2014	2015	2016	2017	Pro Forma 2017	Median: Aa Rated Public Universities
Total Fall FTE Enrollment	48,928	49,398	50,766	51,749	53,997	53,997	28,405
Operating Revenue ($000)	2,877,108	3,069,437	3,314,945	3,592,799	3,877,367	3,877,367	1,104,854
Annual Change in Operating Revenue (%)	3.1	6.7	8.0	8.4	7.9	7.9	4.4
Total Cash & Investments ($000)	2,821,738	3,257,934	3,491,243	3,519,401	3,990,991	3,990,991	1,201,140
Total Debt ($000)	1,477,746	1,900,207	1,778,164	1,754,977	1,548,830	1,911,839	597,459
Spendable Cash & Investments to Total Debt (x)	1.6	1.5	1.7	1.7	2.2	1.8	1.3
Spendable Cash & Investments to Operating Expenses (x)	0.9	0.9	0.9	0.9	0.8	0.8	0.7
Monthly Days Cash on Hand (x)	206	222	221	216	227	227	162
Operating Cash Flow Margin (%)	12.4	11.3	11.0	10.4	11.8	11.8	12.0
Total Debt to Cash Flow (x)	4.1	5.5	4.9	4.7	3.4	4.2	4.4
Annual Debt Service Coverage (x)	3.1	3.7	3.8	3.1	3.3	3.3	3.0

Pro forma 2017 data reflects fiscal year 2017 data, which includes $163 million of the Series 2017A-2 cross-over refunding bonds and the full $200 million authorization of the planned CP and ECP programs; FTE refers to full-time equivalent students.
Source: Moody's Investors Service

Profile

The University of Colorado is the flagship public higher education institution for the state of Colorado with multiple campuses. The main campus is located in Boulder, with additional campuses in Downtown Denver, Aurora (Anschutz Medical campus) and Colorado Springs. CU is a member of the Association of American Universities. In fiscal 2017, CU recorded $3.9 billion in operating revenue, and in fall 2017 enrolled 53,997 FTE students.

Detailed credit considerations

Market profile: solid brand, comprehensive programming, and broad research activity

Student demand will remain sound across CU's four campuses due to the diversity of missions, academic programs and strong research activity. Enrollment across the institution totaled 53,997 full-time equivalent (FTE) for fall 2017, up 10% over fall 2013, inclusive of 19% graduate and post-graduate students. Enrollment at the flagship Boulder campus comprises nearly half of the university's 65,375 headcount. CU at Colorado Springs (UCCS) is the university's fastest growing campus, with 19% of headcount. The remaining 30% is enrolled at the Anschutz Medical Center campus in Aurora (7%) or the UC Denver campus (23%) at the Auraria Higher Education Center.

CU's net tuition per student will remain high relative to peers, though guaranteed tuition pricing programs at the Boulder campus are likely to moderate growth in the near term. Pricing varies across campuses, but the fiscal 2017 aggregate net tuition per student of $19,877 is well above the Aa1-median ($13,194). Higher net tuition per student stems from material non-resident enrollment (nearly half of the Boulder flagship campus fall 2017 first time students were from out of state), very limited state support, and a large mix of higher tuition graduate programs. CU Boulder implemented a guaranteed tuition pricing program for resident undergraduates beginning in fiscal 2017, augmenting its existing non-resident guaranteed tuition program. To date, roughly 56% of the overall system's students participate in this program.

Medical research and education are an important aspect of CU's role as the leading public Academic Medical Center in the state. The university maintains a strong working relationship with the Anschutz Medical Campus in Aurora, that is co-located with the University of Colorado Hospital Authority (UCHA, a legally separate organization with separately secured debt, Aa3 stable). UCHA is the primary teaching hospital for the CU School of Medicine, with the University of Colorado Hospital and Children's Hospital Colorado at the Anschutz campus. The university benefits in multiple ways from its relationship with UCHA, primarily through CU Medicine (formerly University Physicians, Inc. or UPI) practice plan and clinical research activity. CU Medicine includes roughly 2,600 physicians, with fiscal 2017 results showing $877 million in operating revenue.

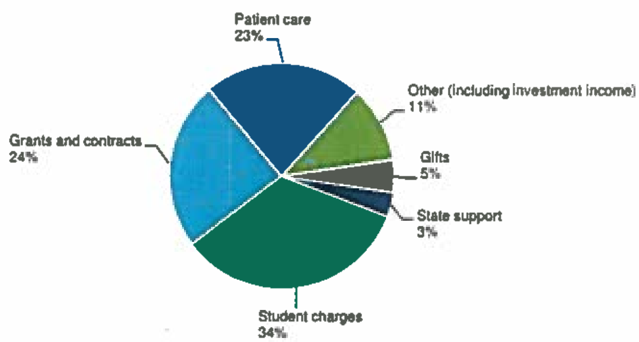
Robust research funding is an essential component of CU's credit quality, with nearly equal focus on both health and natural sciences related activity. The scope of the university's research is considerable, with fiscal 2017 $664 million direct research expenditures and a reported $1.0 billion in sponsored research awards in fiscal 2017. Roughly 60% of awards stem from federal sponsors, of which funding has grown a modest 5% over the last five years.

Operating performance: solid cash flow bolsters operations and reserve growth

CU's good fiscal discipline, combined with solid student demand, improved research funding, and favorable operations of its physician practice plan unit will support the university's continued positive operating performance. Cash flow margins of roughly 10%-12% will continue to provide strong debt service coverage of nearly 3x annually.

The university's multiple major revenue streams are performing well, and are expected to remain sound in the near term. CU's revenue diversity provides stability for variations in any one income stream, as well as mitigating the very low state operating support. Net tuition revenue has grown a robust 28% over the fiscal 2013-17 period. Grant and contract activity (24% of operating revenue) has resumed growth and indirect cost recovery funds, and revenues derived from the physicians practice plan (CU Medicine) have risen 56% in five years. Improvements in CU Medicine metrics are due largely to rising clinical volumes, strong oversight of reimbursement rates, and rate increases.

Exhibit 3
Revenue diversity mitigates uncommonly low state operating support
Fiscal 2017 Moody's adjusted operating revenue



Source: Moody's Investors Service

State support for operations is uncommonly low (4%) and we expect funding to remain a minimal portion of operations. Favorably, the state's fiscal 2019 budget includes an 8.5% increase for higher education, plus an additional $16 million allocation. State funding includes both the College Opportunity Fund (COF), a stipend granted to undergraduate students that we include in net tuition revenue, and the annual fee for service (FFS) contracts, which cover graduate students and other designated programs.

Wealth and liquidity: sound fiscal oversight; philanthropic success and retained earning bolster reserves

The university's total and relative wealth levels are key credit strengths that add stability to its overall profile. Total cash and investments rose a very strong 41% over the fiscal 2013-17 period, reaching nearly $4.0 billion at June 30, 2017, and driven by fundraising success, favorable capital markets, and strong financial stewardship. Spendable cash and investments of nearly $3.4 billion is up a similarly strong 43% in the fiscal 2013-17 period, far outpacing growth of similarly rated peers.

The university's overall cash and investments are separated into short term and long term pools to maximize liquidity and investment oversight strategies. The short term pool managed by the university totaled $2.6 billion at fiscal-end 2017, and was comprised largely of more liquid securities. The long term investment pool (LTIP) for CU assets was $1.3 billion at June 30, 2017. The fiscal 2017 return was a strong 15.0%. The foundation and university portfolios are managed internally with oversight provided by respective investment advisory committees and external assistance from third party advisors as needed.

Liquidity

CU's liquidity is very good. The nearly $2.2 billion in monthly liquidity translates to 227 monthly days cash on hand, providing a good cushion to operations, particularly given the sound operating cash flow, conservative debt structure and predictable debt service, and modest other calls on liquidity.

CU has a new commercial paper (CP) and extendible commercial paper (ECP) program. Maturing commercial paper will be supported by its own liquidity. CU's self-liquidity assets and strong treasury management support the highest short term ratings on the new programs. At March 31, 2018 the university had $763 million of discounted daily liquidity, largely money market funds and US Treasuries. The internal daily liquidity provides a strong 11.4x coverage of its commercial paper excluding the largest money market investment with one sponsor. The calculation is based on the limitation of $75 million of commercial paper that can mature in a 5 day period that is included in its Issuing and Paying Agency Agreement, not on the maximum $200 million authorized by the university's board.

Leverage: moderate leverage with manageable debt plans

Future capital plans are manageable given regular debt amortization, favorable operating performance, growth in cash and investments, and philanthropic success. The university's sizeable financial reserves and revenues provide very good support to debt. Fiscal 2017 spendable cash and investments of $3.4 billion cushion pro forma debt, inclusive of cross-over refunding debt and the full CP/ECP authorization of roughly $1.9 billion by a solid 1.8x.

CU's capital budget includes the use of the planned CP/ECP program over the next three years, with interim transactions to refinance with longer term debt. In addition, CU is planning a roughly $75 million new issue in fall 2018 (fiscal 2019) to fund sports medicine facility, athletic venue, and infrastructure projects at the CU-Colorado Springs campus.

Debt structure

The university's conservative long term debt structure of fixed rate, regularly amortizing debt provides predictability in annual debt service payments and preserves future debt capacity as principal is reduced each year. The Series 2017A-2 bonds include crossover refunding components: $138 million will be refunded June 1, 2019, and $27 million will be refunded June 1, 2020, Due to the long tenure before the refunding occurs, we have included these bonds as additional pro forma debt.

A blended component unit, CU Medicine (formerly UPI) has $9 million of debt in a fixed rate direct bank placement with US Bank, N.A.

Legal security

CU's planned commercial paper and extendable commercial paper notes will be on parity with the university enterprise revenue bonds, and will be 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 parity obligations are also secured by a pledge of 100% of tuition revenues, as well as mandatory facilities construction fees. There are no debt service reserve funds.

The CP and ECP programs will be used as an interim financing vehicle, adding a component of debt subject to relatively frequent rate resets, with accompanying interest rate and remarketing risks, into the leverage profile. However, given good liquidity and relatively modest interest rate exposure, these risks remain manageable.

The Series B ECP Notes will have initial maturity dates of 1 to 90 days following issuance. If the notes cannot be rolled on the Original Maturity Date, the Extended Maturity Date shall be 270 days from the issue date, allowing for a minimum of 180 days before the university is obligated to pay the Notes. The extension to the Extended Maturity Date is not an event of default or a breach of any covenant. The ECP is not subject to redemption prior to its Original Maturity Date but is subject to redemption on any day during the extension period with five days notice.

Given the university's Aa1 rating and ability to access the market, the 180 day period would allow sufficient time to issue long-term debt to refinance the ECP notes. While the P-1 rating primarily reflects the expected market access and management's procedures in the event of failed remarketing, it also incorporates the university's ample liquidity and ability to retire the ECP with its liquid assets well within the 180 day extendable period.

The combined CP and ECP authorization is $200 million, with a maximum of $75 million that can mature within a 5-day period established within the Issuing and Paying Agent Agreement.

Fiscal year 2017 pledged net revenues totaled $1.2 billion, representing approximately 30% of the university's 2017 operating revenues (Moody's calculated) of $3.9 billion. Pro forma maximum annual debt service coverage by pledged revenues is estimated at 9x inclusive of 100% of tuition revenue.

Debt-related derivatives
None.

Pensions and OPEB
The university has substantial additional debt-like obligations that add long-term credit risk through its participation in state pension and retirement health plans. However, given the university's good cash flow and healthy reserves, including some recent state pension reform actions, the pension liability is manageable at the Aa1-rating level.

Moody's three-year (fiscal 2015-17) average adjusted net pension liability (ANPL) is $2.4 billion. Added to pro forma direct debt of $1.9 billion, total adjusted debt is 1.1x operating revenue, weaker than the Aa1-median of 0.7x.

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 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 fiscal 2017.

OPEB expenses comprised a manageable 1.7% of operating expenses in fiscal 2017. CU participates in two OPEB plans: a university sponsored single-employer plan and PERA's Health Care Trust Fund (HCTF). The university met the requirements for funding contributions to the PERA HCTF. However, contributions of $14.9 million in fiscal 2017 to the single employer plan were below the OPEB cost of $69.4 million. The fiscal end 2017 reported OPEB liability was $344 million.

Governance and management: focused implementation of strategic and capital master plans by capable leadership team

Excellent strategic positioning, underscored by steady leadership, has enabled the university system to achieve strategic targets, despite recent years of economic uncertainty and the constraints of operating under the state's TABOR limitations. Key achievements include growing financial reserves, continued economic development, and operational stability among the four campuses.

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CREDIT OPINION
1 June 2018

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University of Northern Colorado, CO

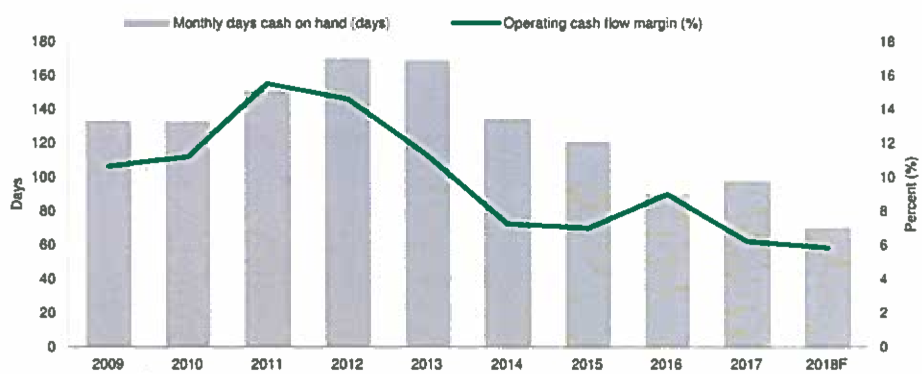
Update following downgrade to A3 and outlook changed to stable

Summary

University of Northern Colorado (UNC A3 stable) benefits from its role as a mid-sized regional public university, with relatively moderate direct debt leverage and no additional debt plans. UNC has experienced some success in enrollment stability and net tuition revenue growth from its multi-year fiscal stabilization plan. Offsetting challenges reflect the sizeable use of reserves to support its strategic plan over the last four years, weakening liquidity, cash flow and debt service coverage, and constraining UNC's ability to restore reserves. Further pressure stems from historically limited State of Colorado (Aa1 stable issuer rating) operating and capital support, as well as the elevated exposure to the state's underfunded pension liability.

On May 31, 2018, Moody's downgraded UNC's rating to A3 and revised the outlook to stable.

Exhibit 1
Weakened operating cash flow margins and use of reserves are expected to wane beyond fiscal 2019



2018F reflects forecasted 2018 data provided by UNC; Moody's estimates for liquidity and operating cash flow margin.
Source: Moody's Investors Service

Credit strengths

» Mid-sized regional public university, serving the sizeable Denver-Aurora Combined Statistical Area

» Moderate balance sheet leverage, with no additional debt plans

» Recent stabilization in enrollment and favorable growth in net tuition revenue

» Bondholders benefit from Colorado intercept program for majority of bonds

Credit challenges

» Declining liquidity due to substantial strategic investment, expected to continue through at least fiscal 2019

» Lagging cash flow margins and weaker debt service coverage, of 6.3% and 1.1x, respectively, in fiscal 2017

» Historically limited state operating and capital support heightens need for tuition growth and donor activity

» Large unfunded pension liability, with limited control over associated expenses

Rating outlook

The stable outlook reflects our expectations of operating cash flow margins between 6-8%, debt service coverage above 1.0x, and limited use of liquidity through fiscal 2019. It also incorporates our expectation UNC will achieve balanced operations in fiscal 2020, with a return to measured growth in financial reserves.

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 move to markedly stronger operation performance; material growth in unrestricted liquidity

» Enhanced rating: Upgrade in the State of Colorado rating

Factors that could lead to a downgrade

» Underlying rating: Failure to maintain debt service coverage above 1.0x; continued use of reserves further deteriorating liquidity position

» Enhanced rating: Deterioration in credit quality of the State of Colorado rating

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

UNIVERSITY OF NORTHERN COLORADO, CO

	2013	2014	2015	2016	2017	Median: A Rated Public Universities
Total Fall FTE Enrollment	11,148	10,612	10,634	11,126	11,337	10,190
Operating Revenue ($000)	187,678	189,321	192,172	199,305	205,356	205,676
Annual Change in Operating Revenue (%)	1.4	0.9	1.5	3.7	3.0	3.0
Total Cash & Investments ($000)	178,092	181,434	174,079	161,467	170,311	143,541
Total Debt ($000)	147,721	142,475	137,125	139,825	157,465	124,888
Spendable Cash & Investments to Total Debt (x)	0.7	0.7	0.7	0.6	0.5	0.8
Spendable Cash & Investments to Operating Expenses (x)	0.6	0.5	0.4	0.4	0.3	0.6
Monthly Days Cash on Hand (x)	169	134	121	90	98	139
Operating Cash Flow Margin (%)	11.3	7.3	7.0	9.0	6.3	10.4
Total Debt to Cash Flow (x)	7.0	10.3	10.1	7.8	12.2	6.3
Annual Debt Service Coverage (x)	2.0	1.3	1.2	1.6	1.1	2.0

Source: Moody's Investors Service

Profile

The University of Northern Colorado is a four-year university located in Greeley, Colorado, which is located one hour north of the Denver Metropolitan Area. UNC offers undergraduate and graduate programs among its six colleges. In fiscal 2017, the university recorded operating revenues of $205 million. It is the fourth largest university in the state with a fall 2017 full-time equivalent (FTE) enrollment of 11,337 students.

Detailed credit considerations

Market position: realigned enrollment goals of stabilization at current level

UNC's good strategic position reflects its large size, program diversity, and location northeast of the vibrant Denver Metropolitan area. Drawing roughly 80% of its students from Colorado, UNC further benefits from Colorado's favorable demographics for growing high school graduates and its recent recruitment focus within its regional service area. The fall 2017 FTE enrollment was over 11,300, with a roughly 80%-20% mix of undergraduate and graduate students. UNC's origin was a teacher's college, but has developed over time with program offerings reaching beyond education into health sciences, humanities, business, and performance and visual arts.

The university has realigned its originally ambitious headcount enrollment target of 15,000 to a 13,000 stabilization goal. Given the very competitive market conditions and the rising financial aid needs, university management has reset its enrollment goals to about 2,100 new freshman and 3,100 graduate students annually. Focused financial aid, retention efforts, and careful tuition pricing add good prospects for the stable enrollment to continue.

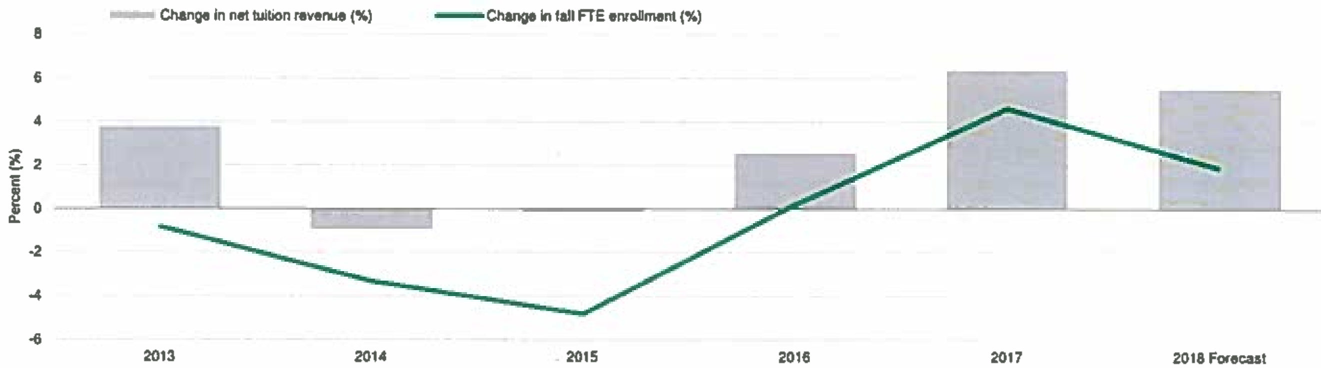
Operating performance: weak margins and coverage, balanced by some improvement in net tuition revenue and state support

UNC's fiscal performance will remain weak through at least fiscal 2019, due to its continued commitment to strategic enrollment investments, limited tuition increases, and rising financial aid needs. Favorably, annual investments are waning, with fiscal 2019 at $3.3 million, down from $6.1 million in fiscal 2014 (the initial year of the fiscal stabilization plan), $3.6 million in fiscal 2017, and $4.5 million expected for fiscal 2018. Expense efficiencies budgeted in fiscal 2019 are planned to offset a portion of the cash investments. However, fiscal 2017, projected 2018 and budgeted 2019 cash flow margins, averaging 6-7%, are well below historical public university A3-medians, ranging from 9-11%. Debt service coverage weakened to 1.1x in fiscal 2017 from 1.6x in fiscal 2016, with fiscal 2018 expected to be comparable to fiscal 2017.

UNC's operations are highly sensitive to enrollment, with nearly three-quarters of operating revenue derived from student charges. Favorably, the university has translated its stabilizing enrollment into net tuition revenue growth. From fiscal 2015-17, net tuition revenue rose a strong 9% translating to operating revenue growth in excess of 3% for fiscal years 2016 and 2017. Forecasted 2018 financial data shows a roughly 5.5% increase in net tuition revenue for fiscal 2018, with the lagging performance due to higher than expected financial aid support.

Exhibit 3

Positive enrollment growth supporting rising net tuition revenue adds stability to operations



Fiscal 2018 net tuition revenue forecast of 5.5% is based on UNC's forecasted annual results, based on nine months through March 31, 2018, compared to similar data for fiscal 2017.
Source: Moody's Investors Service

Improved state funding over the last five years has added some operating stability, with total operating funding from the state rising 21% from fiscal years 2013-17. State funding includes both the College Opportunity Fund (COF), a stipend granted to undergraduate students Moody's includes in net tuition revenue, and the annual fee for service (FFS) contracts, that cover graduate students and other designated programs. Combined COF and FFS fiscal 2017 funding of $39.1 million accounted for 19% of revenues, and rose 1.2% for fiscal 2018. Favorably, UNC is planning for a 5.6% increase in combined fiscal 2019 funding, to nearly $42 million.

Wealth and liquidity: use of reserves for strategic plan outpaces gift support

UNC has limited prospects to increase financial reserves. Total cash and investments of $170.3 million at fiscal end 2017 were down over 4% from fiscal 2013. Growth of wealth will continue to lag peers, with modest fundraising and narrow operations unable to keep pace with UNC's strategic use of reserves for academic and capital investments. Spendable cash and investments of $85 million decreased a sizeable 21% in the fiscal 2013-17 period, cushioning expenses by 0.3x, relative to the A3-median of 0.4x.

Improved philanthropic support would be credit positive, assisting in the implementation of UNC's strategic plan and in rebuilding financial flexibility. Gifts to the UNC Foundation averaged roughly $8 million annually though fiscal 2017. The development office is in the midst of a $45 million capital campaign, including $12 million in gifts for UNC's Campus Commons project, currently under construction. To date, nearly $43 million of the campaign goal has been attained in cash and pledges. .

The UNC Foundation endowment was valued at $99 million at June 30, 2017. The endowment fiscal year return of 11.2% was slightly below the 2017 NACUBO-Commonfund Student of Endowments average 12.2% return for all institution endowments.

Liquidity

The university's almost $40 million investment in its Fiscal Sustainability Plan, in addition to recent period weak operations, has resulted in a continued liquidity decline, surpassing the original plan targets. The fiscal 2017 monthly liquidity of $53 million translates to only 98 monthly days cash on hand, down from a five-year high of 169 days in fiscal 2013. Management is forecasting another decline in the current fiscal 2018 to $38 million, below the original plan target of $49 million, and is budgeted to be $33.5 million in fiscal 2019, below the plan target of $39 million. However, $6.6 million of the fiscal 2018 shortfall is due to a shift in state guidance for UNC's payroll dates to June 30 from July 1. Accounting for the full use of reserves, UNC's liquidity will fall to only 70 days for fiscal 2018, well below the A3-median of 105 days.

Limited calls on liquidity from investment commitments and the university's plan to refund directly placed variable rate bonds to fixed rate through the Series 2018 offering somewhat mitigate the low liquidity. An inability to develop a plan to restore flexible reserves beginning in fiscal 2020 will add pressure to the university's rating or outlook.

Leverage: manageable direct debt burden, but elevated pension exposure

Leverage is manageable, with the fiscal year 2017 spendable cash and investment to debt of 0.5x and debt to operating revenue of 0.8x, relative to the A3-medians of 0.8x and 0.7x, respectively. The university has no current plans for additional debt.

The university is currently constructing a new student services center, Campus Commons, which will house multiple campus units and music performance venues. The $74 million building cost was funded through proceeds of UNC's Series 2016A bonds, state support of $38 million, and gift support. The current nearly 17 year age of plant will be reduced once the new building is opened in fall 2019.

Debt structure

UNC's debt currently has about some variable rate exposure at 12% of the total $157 million debt through its Series 2011B bonds that are a direct placement with Wells Fargo Bank, N.A. The university plans to refinance these to a fixed rate issue in June 2018. The bonds are subject to mandatory tender on December 31, 2018. In the planned refinance, UNC expects to extend the maturity of the Series 2011B bonds by five years to fiscal 2041.

Legal security

Virtually all of UNC's debt (the Series 2018A&B with the Series 2011A, 2011B, 2014A, 2015A and 2016A, collectively, the parity bonds) is 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 fiscal 2017 net pledged revenue was $39.1 million, which is a limited 19% of the university's Moody's adjusted operating revenues of $205 million.

The revenue pledge is net of Prior Obligations (approximately $3.8 million of senior lien Series 2008A Auxiliary Facility Revenue Bonds) and any operation and maintenance expenses. The fiscal 2017 debt service coverage for the parity bonds was 3.9x.

The Series 2018B bonds are expected to be secured by the state intercept program, though are currently awaiting approval by the Colorado Treasurer's Office. We expect to assign the Aa2 rating once state approvals are in place. A separate press release will be published with this notification. The intercept program currently covers the Series 2011A, 2014A, 2015A, and 2016A bonds. Colorado's higher education intercept program is categorized as an unlimited advance. Should the university fail to provide sufficient funds for debt service, the trustee is required to notify the state treasurer on the business day immediately prior to the debt service payment date. The treasurer is required to remit funds to the trustee in immediately available funds of the state. The treasurer recovers the debt service payment from the university's fee-for-service funds, as well as from unpledged tuition revenue.

Debt-related derivatives

None.

Pensions and OPEB

UNC has substantial exposure to the state's underfunded pension liability, and the associated operating costs are a key credit challenge that are modestly mitigated by recent state pension reform actions. The university participates in the State Division Trust Fund (SDTF) cost-sharing multiple employer defined benefit plan administered by the Public Employees' Retirement Association (PERA). The Moody's three-year average adjusted net pension liability (ANPL) for the university was $274 million for fiscal 2017. Combined with pro forma debt, this additional debt-like obligation represents a moderately high 2.1x of operating revenues, which is weaker than the Moody's median for all public universities of 1.2x.

Other post-retirement employment benefits are provided to eligible employees primarily through the PERA Health Care Program. UNC's fiscal 2017 expenses comprised a nominal 0.2% of operating expenses.

Governance and management: transitioning leadership team

UNC's good strategic positioning reflects its size and regional importance, combined with the risks and market challenges associated with its major strategic plan that has relied on significant use of cash reserves and cash flow to invest in academic programming, faculty and capital needs to grow and stabilize its enrollment. Nearing the final phases of this plan, careful budgeting and a plan to revitalize cash reserves will be essential for fiscal stability. The university is in a leadership transition, with a new president beginning in July 2018 and an interim provost in place for at least 13 more months.

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Western State Colorado University

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Rating Action: Moody's Assigns Baa1 Underlying and Aa2 Enhanced to Western State Colorado Univ's Bonds; Outlook Stable

05 Aug 2016

New York, August 05, 2016 -- Issue: Auxiliary Facilities Revenue Refunding Bonds Series 2016; Rating: Baa1; Rating Type: Underlying LT; Sale Amount: $30,000,000; Expected Sale Date: 08/23/2016; Rating Description: Revenue: Public University Broad Pledge;

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

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.

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

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.

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