

Rating Action: Moody's assigns CO Community College System's Ser 2017 Rev Bds Aa3 underlying & Aa2 enhanced; outlook stable

Global Credit Research - 04 Dec 2017

New York, December 04, 2017 -- Issue: Systemwide Revenue Bonds (Arapahoe Community College - Castle Rock Collaboration Campus) Series 2017A; Rating: Aa3; Rating Type: Underlying LT; Sale Amount: \$65,630,000; Expected Sale Date: 12/18/2017; Rating Description: Revenue: Public University Limited Pledge;

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

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.

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

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

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

Jared Brewster

Lead Analyst
Higher Education
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Leonard Jones
MANAGING DIRECTOR
Regional PFG Northeast
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO,

COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary

of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.