

Rating Action: Moody's assigns Aa3 to Colorado State University's 2017C&D, enhanced Aa2 to 2017C; outlook stable

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New York, December 05, 2017 -- Issue: System Enterprise Revenue Refunding Bonds Series 2017C; Rating: Aa3; Rating Type: Underlying LT; Sale Amount: \$267,240,000; Expected Sale Date: 12/11/2017; Rating Description: Revenue: Public University Broad Pledge; Issue: System Enterprise Revenue Refunding Bonds Series 2017C; Rating: Aa2; Rating Type: Enhanced LT; Sale Amount: \$267,240,000; Expected Sale Date: 12/11/2017; Rating Description: Revenue: Public University Broad Pledge; Issue: System Enterprise Revenue Refunding Bonds Series 2017D; Rating: Aa3; Rating Type: Underlying LT; Sale Amount: \$50,720,000; Expected Sale Date: 12/11/2017; Rating Description: Revenue: Public University Broad Pledge;

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.

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

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.

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