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Memorandum

February 19, 2019

TO: Capital Development Committee

FROM: Vanessa Reilly, Research Analyst, 303-866-4753

SUBJECT: Colorado State University Intercept Project Approval

Summary

This memorandum summarizes the approval process for projects financed through the state's Higher Education Revenue Bond Intercept Program and details three intercept projects submitted by Colorado State University (CSU), which are pending approval by the Capital Development Committee (CDC).

Borrowing under the State Intercept Program

The Higher Education Revenue Bond Intercept Program allows the state to make necessary payments of principal and interest on revenue bonds, if needed, on behalf of a participating state-supported higher education institution. Under the program, an institution is permitted to bond for projects using the state's credit rating, which typically results in cost savings for the institution.

In order to participate in the program, an institution must meet certain requirements regarding its credit rating and its debt service coverage ratio. An institution must have a credit rating in one of the three highest categories from a nationally recognized statistical rating organization, without regard to modifiers within a category. If more than one organization has rated an institution, none of the ratings can be in a category below the three highest categories. An institution must also have a debt service coverage ratio of 1.5, measured by dividing net revenue available for annual debt service by the total amount of annual debt service plus the annual debt service to be issued.

The requirements to participate in the intercept program are established in law and verified by the Office of the State Treasurer in a report published by September 1 of each year. An excerpt of relevant sections of the 2018 report is included as Attachment A. The report itemizes the following for each state-supported higher education institution:

- the most recent credit rating or ratings;
- the debt service coverage ratio;

- the total amount of intercept bonds issued, including the anticipated payment schedule; and
- the total amount of revenue bonds issued, including the anticipated payment schedule.

Based on this report, the State Treasurer issues an annual preapproval certificate to each governing board that meets the statutory requirements to participate in the intercept program. The preapproval certificate includes the total amount of intercept bonds that a governing board may issue in the next year. For FY 2018-19, CSU's preapproval amount is \$994,996,403. The institution is required to receive certification from the State Treasurer that it qualifies to participate in the intercept program prior to submitting a proposal to the CDC for review and approval. Any proposed new borrowing under the state intercept program is subject to approval by the CDC and the Joint Budget Committee (JBC), regardless of the cost of individual projects.

Other approval requirements. Intercept projects exceeding \$2 million for new projects or \$10 million for renovation projects must also be reviewed as part of an institution's two-year projection of cash need. In addition, the Colorado Commission on Higher Education must review and approve program plans for any new project costing more than \$2 million that will be financed under the intercept program. Once an institution is prepared to issue intercept-backed bonds, it submits the proposed borrowing for separate review and approval by the CDC and the JBC.

Colorado State University Intercept Projects

CSU has submitted three projects to the CDC for review and approval in February 2019 under the intercept program. A description of each project is detailed on the university's most recent two-year cash list, which is included as Attachment B. In addition to the preapproval requirements verified by the State Treasurer, current law specifies that a request for intercept project approval to the CDC must also include:

- the maximum amount of intercept bonds the governing board seeks to issue;
- the anticipated terms of the issuance, including the maximum annual debt service; and
- if available, a copy of the governing board's resolutions authorizing the issuance.

The maximum amount of intercept bonds CSU seeks to issue for the projects is \$22.7 million. The total amount of cash funds spending authority requested by CSU for the three projects is the same amount. CSU anticipates that the intercept bonds will be issued for a term of 30 years at an interest rate of 5.0 percent. The maximum debt service payment is anticipated to be \$1.5 million per year. In September 2018, CSU was approved by the CDC and JBC to borrow up to \$45.0 million for five other intercept projects.

CDC Action Required

Approve the use of the intercept program for the following Colorado State University projects:

- 2243 Centre Ave Purchase (\$9,300,000 CF);
- South Campus Animal Research Facility (\$6,250,295 CF); and
- South Campus Infrastructure (\$7,150,000 CF).

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



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:					
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:					
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.

Key Takeaway: 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
	

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
 <p>ADAMS STATE COLLEGE COLORADO <i>Great Success Begins Here</i></p> <p>COLORADO COMMUNITY COLLEGE SYSTEM</p> <p>COLORADO MESA UNIVERSITY</p> <p>COLORADO MINES</p> <p>Colorado State</p> <p>MSU DENVER</p> <p>UNIVERSITY OF NORTHERN COLORADO</p> <p>WESTERN STATE COLORADO UNIVERSITY <i>Learning. Elevated.</i></p>	

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: <u>FY 2018 Net Pledged Revenues</u>	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
 <p>ADAMS STATE COLLEGE <i>Great Service. Right Place.</i></p> <p>COLORADO COMMUNITY COLLEGE SYSTEM</p> <p>COLORADO MESA UNIVERSITY</p> <p>COLORADO MINES</p> <p>COLORADO STATE UNIVERSITY</p> <p>FORT LEWIS COLLEGE</p> <p>MSU DENVER</p> <p>CU</p> <p>UNIVERSITY OF NORTHERN COLORADO</p> <p>WESTERN STATE COLORADO UNIVERSITY <i>Learning. Elevated.</i></p>	

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.

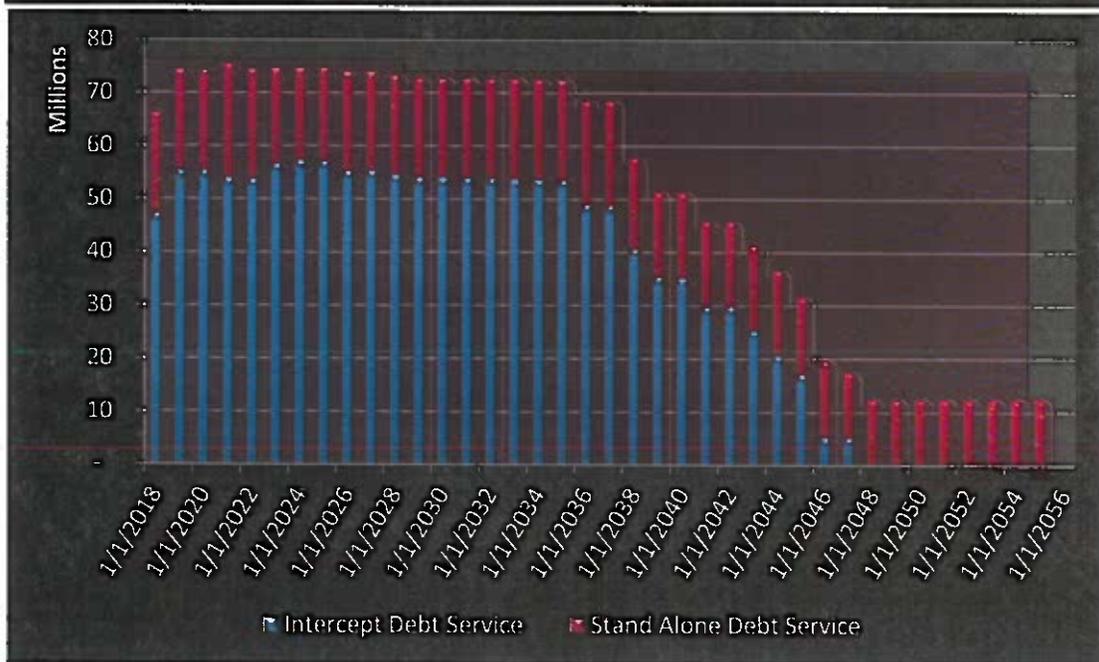
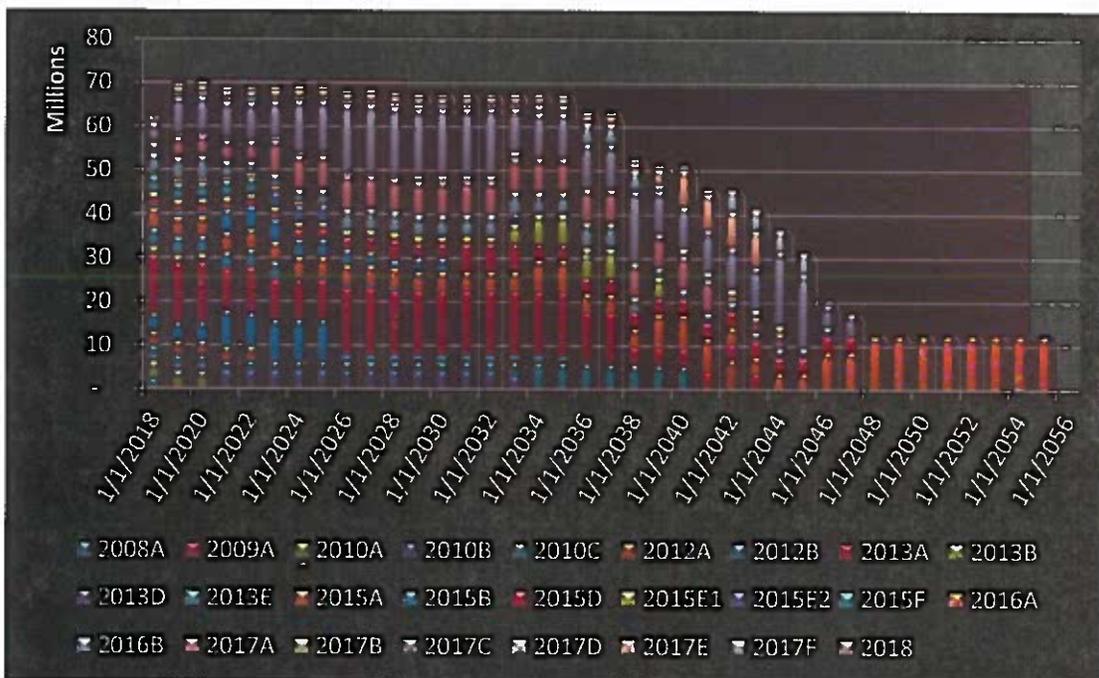
The profile also will show the recent ratings from rating agencies in the order of Moody's, S&P, and Fitch.

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



Colorado State University

MOODY'S

INVESTORS SERVICE

CREDIT OPINION

5 December 2017

New Issue

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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

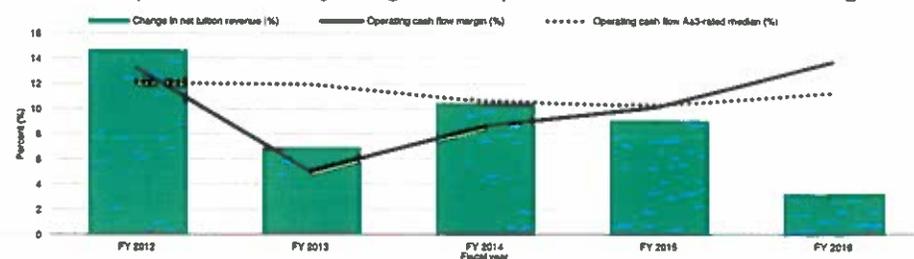
Moody's Investors Service has assigned Aa3 underlying ratings to the Colorado State University System's (CSUS or the system) planned fixed rate System Enterprise Revenue Refunding Bonds, \$267 million Series 2017C and \$51 million Series 2017D (maturing 2047 and 2045, respectively). We have also assigned 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 Z

COLORADO STATE UNIVERSITY SYSTEM, CO							
	2012	2013	2014	2015	2016	Pro Forma 2016	Median: Aa 2016 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.moody.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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Summary:

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

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Rationale

Outlook

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

<i>Short Term Rating</i>	A-1	New
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US\$25.0 mil cp nts ser 2018A dtd 06/20/2018 due 03/01/2037

<i>Short Term Rating</i>	A-1	New
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Colorado St Univ Sys Brd of Governors sys enterprise rev rfdg bnds

<i>Long Term Rating</i>	A+/Stable	Affirmed
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Colorado St Univ Sys Brd of Governors taxable CP nts ser 2018B due 03/01/2037

<i>Short Term Rating</i>	A-1	Affirmed
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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:

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

- 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		
<i>Short Term Rating</i>	A-1	Affirmed
Colorado St Univ Sys Brd of Governors ser 2017C (BAM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors sys enterprise rev rfdg bnds		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
<i>Long Term Rating</i>	AA/Stable	Affirmed

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

Ratings Detail (As Of June 20, 2018) (cont.)

<i>Unenhanced Rating</i>	NR(SPUR)	
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF enhancement		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF ser 2017C		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF ser 2017F		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors PCU_USF		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors SCHSTPR		
<i>Long Term Rating</i>	AA/Stable	Affirmed

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

Ratings Detail (As Of June 20, 2018) (cont.)

<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
Colorado St Univ Sys Brd of Governors sys enterprise		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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 S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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Two-Year Projection of Cash Need

Colorado State University

Thursday, February 21, 2019

SUGGESTED MOTION:

Approve the projects listed on the Colorado State University two-year projection of cash need.

Requires Reauthorization, Two-Year Period Elapsed

Project Name	LEED Certification	Amount	Fund Source
<p>South Campus Infrastructure</p> <p>2017-081</p> <p>The project constructs infrastructure on the south campus for the build-out of the veterinary medicine campus, which is the site of the proposed Equine Veterinary Teaching Hospital and Institute for Biological and Translational Therapies (IBTT) buildings. Both buildings were financed through the National Western COP issuance. The project includes utilities, roads, fencing and gates, stormwater detention, landscaping, support buildings, and animal waste management facilities. The project will also relocate several existing buildings in accordance with the current campus master plan.</p> <p>The source of cash funds is proceeds from bonds that will be issued under the Higher Education Revenue Bond Intercept Program, pending further legislative review and approval by the Capital Development Committee.</p> <p>Date Authorized Until: March 10, 2018</p>	N/A	\$7,150,000	CF
Subtotal: Requires Reauthorization, Two-Year		\$7,150,000	

New Project List, Requires Approval

Project Name	LEED Certification	Amount	Fund Source
<p>Purchase of 2243 Centre Avenue</p> <p>2020-066</p> <p>The project purchases and provides tenant finishes for 2243 Centre Avenue, a three-story, 33,000-GSF building located in the Center for Advanced Technology, about 1/2 mile south of the main campus. The building is currently owned by the Colorado State University Resesarch Foundation. CSU Semester at Sea is already leasing space in the building and University Advancement will move from several different main campus locations to this building after purchase.</p> <p>The source of cash funds is proceeds from bonds that will be issued under the Higher Education Revenue Bond Intercept Program, pending further legislative review and approval by the Capital Development Committee.</p> <p>Date Authorized Until: TBD</p>	Gold	\$9,300,000	CF
<p>South Campus Animal Research Facility</p> <p>2020-095</p> <p>The project constructs a 12,150-GSF facility on the south campus to house laboratory animals in support of the Translational Medicine Institute, Animal Cancer Center, Pre-Surgical Research Laboratory, and the Veterinary Teaching Hospital. Current laboratory animal housing, located in the Veterinary Teaching Hospital, has limited holding capacity and limited space for procedures. It also lacks space to provide dogs with outdoor exercise and is located undesirably close to client service areas.</p> <p>The source of cash funds is proceeds from bonds that will be issued under the Higher Education Revenue Bond Intercept Program, pending further legislative review and approval by the Capital Development Committee.</p> <p>Date Authorized Until: TBD</p>	Gold	\$6,250,295	CF
Subtotal: New Project List, Requires Approval		\$15,550,295	

**SUGGESTED
MOTION:**

Approve the projects listed on the Colorado State University two-year projection of cash need.

Grand Total, All Projects: \$22,700,295