



Rating Action: **Moody's downgrades Adams State University (CO)'s to A3; outlook negative**

Global Credit Research - 26 Jan 2016

New York, January 26, 2016 -- Summary Rating Rationale

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

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

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

Rating Outlook

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

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

Factors that Could Lead to an Upgrade

Underlying rating:

Sustained improvement in cash flow leading to strengthened debt service coverage

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

Material improvements in available reserves and liquidity

Enhanced rating:

Upgrade of the State of Colorado rating

Factors that Could Lead to a Downgrade

Underlying rating:

Material ongoing declines in enrollment, further pressuring operating performance

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

Enhanced rating:

Deterioration in credit quality of the State of Colorado rating

Legal Security

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

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

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

Use of Proceeds

Not applicable.

Obligor Profile

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

Methodology

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

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