

Western Colorado University has received questions from Nationwide Insurance related to the University's Debt Service Coverage for FY23. Below are the questions and the University's responses. Western Colorado University is currently in compliance with all of its financial covenants and is not encountering any financial difficulties.

1. I am concerned I need to understand how you are going to remedy the below 1.0x Debt Service Coverage for the whole system level (not the reported DSC) ?

A major factor in Western's DSC is the impact of the recognition of all remaining Rady operation support for out years as a one-year pledge gift. The \$80M gift to support the Rady School of Computer Science and Engineering included funding for operations and prior to FY22, that operating support was recognized as revenue annually in proportion to the related expenses. In FY22, accounting rules dictated that the remainder of Rady operating support be fully recognized. In that year, \$14.3M was added to fund balance for this operating support. As a result, revenue was recognized in FY22 that is intended to offset future year expenses. In FY23, \$2.0M of that fund balance was used to offset Rady school operating expenses. The revenue recognized in FY22 continues to offset expenses in out years, but the entirety of the revenue has already been recognized, which results in the appearance of reduce EBIDA.

Another impact to EBIDA is recent Board approved strategic investments in the institution as a whole. It is important to note that many of these strategic investments have not been paid for by the auxiliary funds that cover this debt, and those areas have seen more stable operations than the university as a whole. Additionally, the university has a general debt service reserve fund that has \$4.3M in it that continues to see year over year growth.

Finally, while DSC for the University has decreased it is important to note that bondholder DSC for FY23 was 3.64x. Please see page 80 of the FY23 Financial and Compliance Audit for additional details.

2. What is the main plan to control the growing expenses in the coming years?

Outside of strategic investments the main driver of increased expenses is inflation. The University will continue to strategically budget expenses in line with revenue to ensure a balanced budget.

3. What is the plan for the University to improve its Operating revenue while controlling its expenses in the coming years?

The University will continue to advocate for additional increases in State funding. From FY23-FY25 we have seen a steady increase in State funding, going from \$18.1M to \$24.7M. In FY25 the University received an additional \$4.5M (22.4%), which is the largest funding increase in Western's history. A major component of this is what we refer to as the "rural ask", in which Western, along with Adams University and Fort Lewis College, was able to secure an additional \$3M of base building funding provided to each of the rural schools through step one of the funding formula. We will continue to lobby for this to be a factor in future funding formula models. Additionally, Western

will continue to focus on healthy enrollment to ensure tuition revenue is stable. A key goal of Western's new strategic Plan is creating a comprehensive budgeting process to ensure financial sustainability.

4. Knowing the University's weak operating performance in recent years, if it gets disqualified from the state intercept program, how long will it take to get back into it?

The University has no reason to believe it will be disqualified from the State intercept program. It is important to note that if this was to occur, it would only impact future borrowing, not currently issued debt.

5. The University matriculation rate has been declining, and it was below the median in FY23. What are the plans to change the trend back to historical levels and a positive enrollment trend?

Enrollment is a main focus of senior leadership. To ensure a healthy enrollment we have implemented an aggressive outreach campaign to admitted and deposited students, including personal phone calls from Deans and Chairs, as well as our Epic Mentors. We are seeing success with these efforts and enrolled students has been increasing on a weekly basis.