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INVESTORS SERVICE

Rating Action: Moody's assigns A1 to UConn GO bonds supported by State of Connecticut; outlook stable

Global Credit Research - 29 Mar 2018

New York, March 29, 2018 -- Moody's Investors Service has assigned an A1 rating to the University of Connecticut's \$300 million General Obligation Bonds 2018 Series A. The outlook is stable. The bonds are expected to price on April 18.

RATINGS RATIONALE

The A1 rating is derived from the strong legal security provided by the State of Connecticut's (A1 stable) commitment to pay debt service through the UConn 2000 program; pursuant to that commitment amounts sufficient to pay debt service are deemed appropriated from the general fund without need for any additional legislative action. Because of the lack of appropriation risk and the state's strong commitment to pay debt service, we rate the bonds at the same level as the state's general obligation bonds. Additional security is provided by the university's full faith and credit pledge of assured revenues, defined as tuition, fees, and other resources for repayment of the bonds.

RATING OUTLOOK

Connecticut's outlook is stable, reflecting the state's strong provisions to promote fiscal discipline, which pair redressing elements of its high leverage position and requiring GAAP-based budgeting.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Achievement and maintenance of higher GAAP-basis combined available reserve levels
- Established trend of structural budget balance
- Evidence of sustained stronger economic performance
- Reduced pension and debt leverage relative to Moody's 50-state medians, resulting in lower annual fixed costs

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Significant additional leverage, encompassing bonded debt, pension and OPEB obligations and negative unassigned GAAP balances
- Rapid acceleration of revenue/economic/demographic weakness
- Declining liquidity position

LEGAL SECURITY

The UConn 2000 program is an arrangement between the University of Connecticut and the State of Connecticut pursuant to state statute and a master indenture dated November 1, 1995. The current offering of bonds is secured by a pledge of and lien upon the state debt service commitment, which is defined by the UConn 2000 Act as the state's commitment to pay an amount sufficient to make full and timely debt service. Payments are deemed appropriated from the state's general fund and do not require annual legislative action. The act directs the state treasurer to deposit payments into the debt service fund held by the trustee of the bonds. Although the legislature may exercise its power to change the statute, we view the state to have made a long-term commitment to continue to service the bonds as a priority item of its general fund.

The bonds are general obligations of the University of Connecticut, further secured by and payable from amounts of the state debt service commitment appropriated out of the state general fund and obligated to be paid by the state treasurer. The bonds are payable from all of the university's assured revenues, which are defined in the master indenture to include tuition, fees, legally available gifts and grants, annual state

appropriations for operating expenses, and the state debt service commitment. While assured revenues are legally pledged, the university expects to rely on the receipts of the pledged state debt service commitment and does not plan to budget other revenues for bond repayment.

Pursuant to the terms of the indenture for the bonds, the university covenants that so long as the bonds are outstanding it will establish and increase its tuition, fees and charges in an amount sufficient to meet its debt service requirements. Nonetheless, the state debt service commitment will continue to provide the primary source of bondholder security. We believe that the university would have very limited ongoing ability to assume responsibility for payment on the general obligation bonds, given the magnitude of annual debt service relative to its existing revenue base.

USE OF PROCEEDS

Proceeds of the new money issuance will be used for capital improvements to the university's facilities, part of the UConn 2000 Infrastructure Improvement Act.

PROFILE

The State of Connecticut has a population of 3.59 million people located in the coastal northeastern US, bordered by Rhode Island (Aa2 stable), Massachusetts (Aa1 stable) and New York (Aa1 stable), with 618 miles of shoreline, according to the NOAA. The state has a large and diverse economy with a gross state product of \$260 billion in 2016. It is the wealthiest state in the country with per capita income of 141% of the US average.

University of Connecticut was established in 1881 as one of the nation's nine colonial land grant colleges, and is Connecticut's flagship research and land grant university. UConn has its main campus in Storrs, four undergraduate regional campuses, the School of Law in Hartford, and the medical and dental schools at University of Connecticut Health Center's Farmington campus outside of Hartford.

METHODOLOGY

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation, and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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Marcia Van Wagner
Lead Analyst
State Ratings
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

Timothy Blake
MANAGING DIRECTOR
Municipal Supported Products
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



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