

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

16 Nov 2020

New York, November 16, 2020 -- Moody's Investors Service has assigned a A1 rating to the University of Connecticut's \$173 million General Obligation Bonds, 2020 Series A and \$126 million General Obligation Bonds, 2020 Refunding Series A. The outlook is stable. The bonds are expected to price the week of December 7 and close the week of December 14.

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.

The state's recent actions to build substantial reserves improved its preparedness for economic downturns and revenue volatility and provide a cushion as the state responds to the impacts of the coronavirus pandemic. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the State of Connecticut. However, the situation surrounding coronavirus is evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the state changes, we will update the rating and/or outlook at that time.

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 OF THE RATINGS

- State rating upgrade

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- State rating downgrade
- Failure of the state to abide by its commitment to pay debt service

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.

Although the bonds are general obligations of the University of Connecticut, 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. 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 2020 Series A new money issuance will be used for capital improvements to the university's facilities, part of the UConn 2000 Infrastructure Improvement Act. Proceeds of the Refunding Series A bonds, depending on market conditions, are tentatively planned to refund all or a portion of UConn 2000 program bonds issued in 2010 and 2011.

PROFILE

The State of Connecticut has a population of 3.57 million people located in the coastal northeastern US, bordered by Rhode Island (Aa2 stable), Massachusetts (Aa1 stable) and New York (Aa2 stable), with 618 miles of shoreline, according to the National Oceanic and Atmospheric Administration (NOAA). The state has a large and diverse economy with a gross state product of \$288 billion in 2019. It is the wealthiest state in the country with per capita income of nearly 137% of the US average.

The 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 these ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1102364 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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