

FITCH RATES UNIVERSITY OF CONNECTICUT'S \$201MM GO BONDS 'AA-'; OUTLOOK NEGATIVE

Fitch Ratings-New York-25 March 2014: Fitch Ratings assigns 'AA-' ratings to the following University of Connecticut (UConn) general obligation (GO) bonds:

- \$107 million GO bonds (2014 series A);
- \$94 million GO bonds (2014 refunding series A).

The par amount for the refunding series may change upon final sale, expected via negotiated sale on or about April 8.

In addition, Fitch affirms the following ratings:

- \$920 million in outstanding UConn GO bonds at 'AA-'.

The Rating Outlook is Negative.

SECURITY

The bonds are general obligations of the University of Connecticut, additionally secured by a pledge of and lien on a State of Connecticut debt service commitment for principal and interest, appropriated from the state's general fund without further legislative approval. The bonds are not general obligations of the state, and its full faith and credit are not pledged.

KEY RATING DRIVERS

RATING LINKED TO STATE: UConn's GO bonds are rated one notch below the GO bond rating of the State of Connecticut (the state) based on the state's debt service commitment equal to principal and interest and appropriated without further legislative approval. Higher education is a constitutional state priority, and legal protections are strong.

STATE'S NEGATIVE OUTLOOK BASED ON FISCAL VULNERABILITY: The Negative Outlook reflects the state's reduced fiscal flexibility at a time of lingering economic and revenue uncertainty. The adopted budget for the current biennium relied on one-time items and anticipated little near-term progress in rebuilding fiscal flexibility. Recent revenue momentum, if it continues, may allow the state to materially improve its reserve position.

HIGH WEALTH LEVELS: Connecticut is the nation's wealthiest state as measured by per capita personal income. Economic recovery has been slow and uneven since the recession, and the state's large and important finance sector continues to weaken.

CYCLICAL REVENUES AND SPENDING PRESSURE: State revenue performance is cyclical, while high fixed costs limit its ability to respond during revenue downturns.

HISTORICAL WILLINGNESS TO BUILD BALANCES: During past economic recoveries the state has demonstrated a willingness and ability to rapidly repay deficit borrowing and rebuild its rainy day balance. The current slow recovery has hampered rebuilding of reserves in the current biennium.

HIGH DEBT: Tax-supported debt is high for a U.S. state. Most state GO bonds, excluding state GO bonds issued to fund the teachers' retirement system, amortize rapidly.

SIGNIFICANT PENSION OBLIGATIONS: Unfunded liabilities for employees are significant, including for state employee and teacher pensions. The state fully funds actuarially calculated pension contributions and maintains a fixed amortization date. Additionally, the state has taken steps to reform retirement pension and health liabilities.

RATING SENSITIVITIES

RATING LINKED TO STATE CREDIT QUALITY: The rating is sensitive to changes in the state's GO bond rating, to which this rating is linked.

CREDIT PROFILE

The UConn GO bonds are issued by and carry the GO pledge of UConn, but their security rests with the debt service commitment of the state. Principal and interest are paid annually from the state's general fund, appropriated and obligated for payment by the State Treasurer without requiring further legislative approval. Fitch rates the state's own GO bonds 'AA' with a Negative Outlook. State general fund obligations, with the strength of continuing appropriations, are seen as slightly less well secured, and the UConn bonds fall within this category. The state's debt service commitment is separate from the operating appropriations and allotments that the state makes available to the university.

Over the last two decades, the state has prioritized renewal and expansion of facilities at UConn, the state's flagship public university. The UConn GO bonds have been issued as part of the state's UConn 2000 program, first enacted in 1995 and recently extended through 2024. Under the most recent extension, the program's total authorized amount has risen to \$4.6 billion over the 1995-2024 period, of which \$4.3 billion will be UConn GO bonds benefitting from the state's debt service commitment. Of this amount, more than \$1.8 billion in debt service commitment bonds have been issued for university capital projects to date, with \$919.9 million outstanding.

The latest extension was authorized by the state as part of a university effort to expand UConn research facilities and faculty, particularly in science and technology fields. The majority of UConn 2000 funded projects have been at the main UConn campus in Storrs, with additional projects at other UConn campuses and the UConn Health Center.

For further information on the State of Connecticut, please see Fitch's press release dated March 4, 2014, 'Fitch Rates \$400MM Connecticut GO Bonds 'AA'; Outlook Negative,' at 'www.fitchratings.com'.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from IHS Global Insight.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. State Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033

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