

FITCH RATES UNIVERSITY OF CONNECTICUT'S GO BONDS 'AA-'; OUTLOOK REMAINS NEGATIVE

Fitch Ratings-New York-18 March 2015: Fitch Ratings assigns an 'AA-' rating to approximately \$300 million in University of Connecticut (UConn) general obligation (GO) bonds, consisting of:

- \$250,000,000 GO bonds, 2015 series A;
- \$50,000,000 GO bonds, 2015 refunding series A.

The par amount of the refunding series is subject to change pending final sale.

The bonds are expected to sell via negotiated sale the week of March 30.

The Rating Outlook remains 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 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.

NEGATIVE OUTLOOK BASED ON STATE CREDIT: The Negative Outlook reflects the state's reduced fiscal flexibility at a time of lingering economic and revenue uncertainty. The state's adopted budget for the fiscal 2014-2015 biennium, which ends on June 30, relied on one-time items and anticipated little near-term progress in rebuilding fiscal flexibility. Fiscal performance during the biennium to date has been challenged by ongoing revenue uncertainty, although the state has taken action to maintain forecast balance and has made some progress restoring its rainy day fund.

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: The state's 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.

COMPARATIVELY HIGH DEBT LEVELS: Tax-supported debt is high for a U.S. state. This is partially attributable to the above-average role the state plays in relation to local levels of government

when compared to most other states. Most GO bonds, excluding GO bonds issued to fund the teachers' retirement system, amortize rapidly.

SIGNIFICANT PENSION OBLIGATIONS: Net liabilities for retired employees are significant, including for state employee and teacher pensions. The state fully funds actuarially calculated pension contributions and maintains fixed amortization dates. 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.

CREDIT PROFILE

The UConn GO bonds are issued by and carry the GO pledge of UConn, but their security and the 'AA-' rating rest 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, and UConn GO borrowing is integrated into the state's overall debt management.

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 since then extended through 2024. Under the most recent extension, the program's total estimated cost 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 \$1.9 billion in debt service commitment bonds have been issued for university capital projects to date, with about \$932 million currently outstanding.

The latest extension, titled 'Next Generation Connecticut,' was authorized by the state in 2013 as part of an effort to expand UConn research facilities and faculty, particularly in science and technology. The majority of UConn 2000-funded projects have been at the main UConn campus in Storrs, with additional projects at smaller regional UConn campuses and the UConn Health Center in Farmington. The majority of new money proceeds from the current sale will fund new construction at the UConn Health Center, with additional proceeds for the Storrs and regional campuses.

For further information on the State of Connecticut, please see Fitch's press release dated March 9, 2015, 'Fitch Rates Connecticut's \$500MM GO Bonds 'AA'; Outlook Remains 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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