

# MOODY'S

## INVESTORS SERVICE

### Rating Action: Moody's assigns Aa3 to \$300 million University of Connecticut's GO bonds; outlook stable

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Global Credit Research - 18 Mar 2015

#### **\$932M similarly secured bonds outstanding**

New York, March 18, 2015 --

Moody's Rating

Issue: General Obligation Bonds, 2015 Refunding Series A; Rating: Aa3; Sale Amount: \$50,000,000; Expected Sale Date: 03-26-2015; Rating Description: General Obligation

Issue: General Obligation Bonds, 2015 Series A; Rating: Aa3; Sale Amount: \$250,000,000; Expected Sale Date: 03-26-2015; Rating Description: General Obligation

Opinion

Moody's Investors Service has assigned a rating of Aa3 with a stable outlook to the University of Connecticut's \$250 million General Obligation Bonds, 2015 Series A and \$50 million General Obligation Bonds, 2015 Refunding Series A. The university plans to sell the bonds beginning Thursday March 26th with a retail order period and institutional pricing on Tuesday March 31st.

#### SUMMARY RATING RATIONALE

The Aa3 rating is derived from the strong legal security provided by the state debt service commitment (pursuant to the UConn 2000 program) which is deemed appropriated in amounts sufficient to pay debt service from the State of Connecticut's General Fund (general obligation bonds rated Aa3 with a stable outlook). 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.

The Aa3 state rating incorporates Connecticut's high combined fixed costs for debt service, pension, and post employment benefits relative to the state's budget; pension funded ratios that are among the lowest in the country and likely to remain well below average; and minimal reserve levels. The slow pace of the state's economic recovery led to revenue underperformance and persistent budget gaps though the state has recently worked to increase reserves and bring the state budget into fiscal balance .

The stable outlook incorporates our expectation that Connecticut's revenue trends should improve as it emerges from the recession, and the state will maintain its commitment to addressing its negative GAAP basis unassigned General Fund balance.

#### OUTLOOK

The outlook for Connecticut is stable reflecting the positive steps the state has taken to address its long-standing balance sheet weakness and reduce its fixed post employment benefit costs through pension reforms, as well as the adoption of a budget that largely relies on recurring solutions. We expect that Connecticut's revenue trends should improve as its recovery picks up steam. We also expect that the state will maintain its new commitment to replenishing its rainy day fund over time and addressing its remaining negative GAAP basis unassigned General Fund balance. The slow pace of economic recovery will continue to challenge the state's financial position over the near term.

What could make the rating go up

- Achievement and maintenance of higher GAAP-basis combined available reserve levels
- Established trend of structural budget balance
- Evidence of sustained stronger economic performance

- Reduced debt ratios relative to Moody's 50-state median and lower fixed annual costs.
- Significantly improved funding of pension and post-retirement liabilities

What could make the rating go down

- Lack of improvement in available reserve levels
- Reversion to significant one-time budget solutions, including deficit financings
- Revenue weakness driven by delayed economic recovery
- Cash flow strain stemming from reduced liquidity
- Significant increase in fixed costs as percent of budget
- Failure to appropriate adequate funds for debt service

#### OBLIGOR PROFILE

The State of Connecticut has a population of almost 3.6 million people. The state, located in the northeastern US, has a large and diverse economy with a gross state product of \$249.2 billion. It is the wealthiest state in the country with per capita income of 137.1% of the US average.

The University of Connecticut is part of the state's system of public higher education. The university is an agency of the State of Connecticut and is able to borrow money in its own name on behalf of the state for certain capital improvements at the University.

#### LEGAL SECURITY

##### STATE DEBT SERVICE COMMITMENT DEEMED APPROPRIATED FROM STATE GENERAL FUND

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, Moody's views the state to have made a long-term commitment to continue to service the bonds as a priority item of its General Fund.

##### BONDS FURTHER SUPPORTED BY PLEDGE OF UNIVERSITY REVENUES; RATE COVENANT

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 receipt 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. The refunding bond proceeds will be used to refund outstanding debt to provide net debt service savings.

## RATING METHODOLOGY

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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