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Ratings

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Summary:

University Of Connecticut; Public Coll/Univ - Unlimited Student Fees

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US$300.0 mil GO Debt service commitment (University of Connecticut) ser 2018A due 04/18/2038		
Long Term Rating	AA-/Negative	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to University of Connecticut (UConn)'s $300 million series 2018A general obligation bonds. The series 2018A bonds are issued pursuant to the state's University of Connecticut 2000 Act and are referred to by the university as general obligation debt service commitment (GO-DSC) bonds that are backed by both the state's commitment to pay debt service and the university's GO pledge. At UConn's latest fiscal year ended June 30, 2017, total outstanding debt was $1.65 billion, of which $1.5 billion is debt that is state supported. The outlook is negative.

The negative outlook on the GO-DSC bond rating reflects our view that UConn's financial performance and available resources, though improved for fiscal 2017, are slightly weak for the current rating, and with ongoing state budgetary pressure, they may not improve even with continued favorable revenue and expense management. Also, if we lower the rating on Connecticut, given UConn's large dependency on debt service support from the state for its UConn GO-DSC bonds, debt ratings on UConn could be directly affected.

The long-term rating on the GO-DSC bonds reflect our view that UConn's enterprise profile is very strong and its financial profile is strong, leading to an initial indicative stand-alone credit profile rating of 'a+'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, the 'AA-' rating on the university's bonds better reflects its favorable enrollment trend, increasing selectivity, and higher graduation rate for the rating category compared with medians and peers.

The rating further reflects our opinion of UConn's credit strengths, which include:

- Status as the flagship public university in Connecticut;
- A favorable FTE enrollment trend with positive growth in each of the past five fall enrollment periods;
- Increasing selectivity and improved graduation rates;
- Significant state support for capital with almost all capital needs paid for directly by the state pursuant to the UConn 2000 Act while state appropriations for operations declined in fiscal 2017 for the first time in recent years;
- Continuing progress in a major initiative known as Next Generation Connecticut--a $1.55 billion investment begun in July 2015 and being made through fiscal year 2027 to promote growth in the STEM disciplines funded in partnership with the state, Bioscience Connecticut, and a $1.1 billion investment in genomics and personalized

medicine tied to a relatively new long-term (20-year) contract with The Jackson Laboratory of Bar Harbor, Maine; and

- Somewhat high, but manageable, debt burden as most debt is state-supported while the debt burden associated only with student fee revenue backed debt is very modest.

Factors diminishing UConn's credit strengths in our view include:

- Recurring operating deficits on a full-accrual basis in each of the past five years as the university doesn't budget for depreciation although it budgets and attains break-even or better performance on a cash basis;
- Modest available resources for the rating category that we estimate results in a 58.3% adjusted UNA to pro forma debt ratio for fiscal 2017 excluding state supported debt (GO-DSC);
- Continuing large capital needs that have pushed outstanding debt over the past five years on a pro forma basis to $2.1 billion at fiscal year-end 2017 from $1.1 billion at fiscal year-end 2012 (pro forma debt includes the current issue); and
- Strong competition from private and public colleges and universities throughout the U.S. northeast.

We rate UConn's debt above the rating associated with Connecticut. UConn derives a fair amount of financial support from the state through its operating appropriation, capital support in the form of its GO-DSC bonds, and reimbursement of a portion of costs associated with its fringe benefits. However, we believe this rating differential is warranted as UConn isn't entirely dependent on state support with 72% of its operating revenue derived from other sources e.g., tuition and fees, grants and contracts revenue, auxiliary operations, and health care and professional services revenue. In addition, we view UConn's available resources as ample and further enhanced by the university's robust philanthropic support. However, if Connecticut were downgraded, it could become a greater factor in our future assessment of the ratings on UConn.

We understand proceeds from the current debt issue are for various projects authorized pursuant to the UConn 2000 infrastructure improvement program.

For additional information on the rating assigned to UConn please see University of Connecticut; GO; GO Equivalent Security.

Outlook

The negative outlook reflects our expectation that UConn's enrollment trend may begin to flatten shortly, following a period of growth, leading to depressed net tuition revenue growth, and when combined with further state budgetary pressure could depress financial performance and available resources if management's actions to further curtail expenses are insufficient. Also, a downgrade on Connecticut, were it to occur, would likely place further weight on the ratings on UConn given a higher-than-average dependence on the state for operating and capital support.

Downside scenario

A lower rating is possible if student demand begins to slow leading to a reduction in net tuition revenue growth that when combined with a more stringent state operating appropriation lead to cash-based deficits and a reduction in

available resource ratios. Furthermore, since UConn is somewhat dependent on Connecticut for operating and capital support, if the rating on the state were lowered, it could become a greater factor in our analysis on UConn. Also, additional debt without a commensurate increase in available resources could pressure the ratings.

Upside scenario

A higher rating is not likely in our view due to modest financial operations and continuation of a significant capital expansion program that has raised total outstanding debt and slightly depressed available resources.

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