



RATING ACTION COMMENTARY

Fitch Rates \$220MM University of Connecticut GO Bonds 'A+'; Outlook Stable

Fri 11 Mar, 2022 - 1:01 PM ET

Fitch Ratings - San Francisco - 11 Mar 2022: Fitch Ratings has assigned an 'A+' rating to \$220 million in University of Connecticut (UConn) General Obligation (GO) Bonds 2022 Series A.

Par amounts are subject to change pending final sale.

The bonds are expected to be offered by negotiated sale the week of March 28, 2022.

The Rating Outlook is Stable.

SECURITY

The bonds are a general obligation of UConn, additionally secured by a pledge of and lien on a state of Connecticut debt service commitment for P&I, appropriated from the state's general fund without further legislative approval.

ANALYTICAL CONCLUSION

UConn's GO bonds are rated at 'A+', one notch below Connecticut's 'AA-' Issuer Default Rating (IDR) 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.

Connecticut's 'AA-' IDR reflects its superior gap-closing capacity, as well as its wealthy and diverse, yet slow-growing economic profile. The rating also incorporates the state's liability burden, carrying costs and expenditure growth trends that are likely to remain comparatively high over time. In recent years, enhancements to the state's fiscal management practices materially increased the state's resilience to absorb economic and revenue cyclicalities.

Economic Resource Base

Connecticut has a diverse and mature economic base anchored by a large finance sector and important manufacturing and education and health sectors. Pre-coronavirus pandemic economic expansion cushions the state as its recovery trails the nation's. Connecticut has the highest per capita personal income of any state, though income growth has slowed in the prior decade.

KEY RATING DRIVERS

Revenue Framework: 'a'

The state's largest tax revenue source, personal income tax, is subject to considerable cyclicalities, although the state instituted measures to shield the general fund from its volatility. Sales, corporate income, transportation and gaming taxes further diversify the revenue base. Absent tax policy changes, underlying revenues are expected to grow only modestly over time, consistent with the state's wealthy and diverse but slow-growing economic profile. The state has unlimited legal ability to levy taxes.

Expenditure Framework: 'aa'

Connecticut's natural pace of spending growth is expected to outpace revenues, requiring ongoing budget controls. The state has consistently demonstrated the ability to cover its comparatively high fixed costs, including making full actuarial contributions to pensions for more than a decade, and it benefits from the large degree of budget autonomy common to states.

Long-Term Liability Burden: 'a'

The state's long-term liability burden is elevated and among the highest for U.S. states, but still considered moderate relative to personal income. Long-term debt consists primarily of GO and transportation borrowings, with much of GO borrowing undertaken on behalf of local schools. Net pension liabilities are a more significant burden, with the state carrying obligations for state retirees as well as for local school teachers. Other post-employment benefits is also a significant liability, although one the state has been able to modify.

Operating Performance: 'aa'

Resilience is bolstered by strong mechanisms that are set aside in the budget reserve fund volatile revenue collections over specific thresholds and a required excess margin of revenues over budgeted spending, enabling rapid accumulation of balances. Budget management powers and strong fiscal monitoring, including frequent revenue and budget forecasting, allow the state to identify budget under-performance and address emerging gaps.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Consistent economic and revenue growth in line with long-term national inflation or stronger over the medium term, raising Fitch's assessment for revenue growth prospects;

--Material and sustained success in gradually lowering its elevated liability burden to less than 10% of personal income, while managing comparatively high fixed cost burden.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Erosion of existing budget management practices, including taking actions during the current period of fiscal uncertainty that further elevate the state's liability burden or materially enlarge structural challenges.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'.

Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CREDIT PROFILE

UConn GO bonds are issued by and carry the GO pledge of UConn, but their security and the 'A+' 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-', on par with the IDR.

State general fund obligations, with the strength of continuing appropriations, are seen as slightly less secure than the state's GO bonds, 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 system. The UConn GO bonds have been issued as part of the state's UConn 2000 program, first enacted in 1995 and extended multiple times since. In 2017, the state extended the program from fiscal 2024 to fiscal 2027, and in 2021 an additional \$25 million of State Debt Service Commitment was added, resulting in a total estimated cost of \$4.6 billion, of which \$4.3 billion is being funded by UConn GO bonds benefiting from the state's debt service commitment. Of this amount, about \$3.3 billion in par debt service commitment bonds have been issued to fund \$3.6 billion of university project construction to date, with \$1.5 billion principal currently outstanding.

Recent projects have been designed 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 the regional campuses and the UConn Health Center (UCH) in Farmington. Current new issue bond proceeds will fund various projects dispersed among these areas and include new academic and research facilities, residential and support facility improvements, and phase II of UConn's fine arts expansion

For additional information on the state of Connecticut's IDR, see "Fitch Rates Connecticut's \$800 Million GO Bonds 'AA-'; Outlook Stable," published on Dec. 09, 2021, available at www.fitchratings.com.

DATE OF RELEVANT COMMITTEE

08 December 2021

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Connecticut, State of (CT) [General Government]		
Connecticut, State of (CT) /UConn State Debt Service Commitment/1 LT	LT	A+ Rating Outlook Stable Affirmed
		A+ Rating Outlook Stable

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APPLICABLE CRITERIA

[U.S. Public Finance Tax-Supported Rating Criteria \(pub. 04 May 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

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