

25 OCT 2023

## Fitch Rates \$350 Million University of Connecticut GO Bonds 'AA-'; Outlook Stable

Fitch Ratings - San Francisco - 25 Oct 2023: Fitch Ratings has assigned a rating of 'AA-' to the following University of Connecticut (UConn) General Obligation (GO) Bonds:

--\$220 million University of Connecticut General Obligation Bonds, 2023 Series A;

--\$130 million University of Connecticut General Obligation Bonds, 2023 Refunding Series A.

In addition, Fitch has upgraded outstanding UConn GO Bonds to 'AA-' from 'A+'.

The bonds are issued for the purpose of providing funds for the UConn 2000 Infrastructure Improvement Program, which includes projects at UConn Health, and to currently refund all or a portion of outstanding UConn GO series 2013 and series 2014 GO bonds, and to pay costs of issuance.

The bonds are expected to be offered by negotiated sale the week of Oct. 23. Par amounts are subject to change pending final sale.

The Rating Outlook is Stable.

UConn's GO bonds are rated 'AA-', aligned with the state of Connecticut's 'AA-' Issuer Default Rating (IDR). Fitch is treating the state's Debt Service Commitment (DSC) for the bonds as pari-passu to the state's commitment to pay its own GO bonds, as the DSC statutorily appropriates principal and interest in a manner substantially similar to state GOs, requiring no further legislative approval. Strong legal protections are buttressed by the constitutional state priority of higher education and the expectation of continued strong state support of the UConn system.

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 elevated long-term liability burden, carrying costs and expenditure growth trends, which are likely to remain comparatively high over time.

### SECURITY

The bonds are a general obligation of UConn, additionally backed by a pledge of and lien on the state of Connecticut's DSC to pay principal and interest on the bonds, as appropriated from the state's general fund without further legislative approval.

### KEY RATING DRIVERS

#### Revenue Framework - 'a'

The state's largest tax revenue source, personal income tax (PIT), is subject to considerable cyclicity, although the state has instituted measures to shield the general fund from its volatility. Sales and

corporate income 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 budgetary 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. OPEB is also a significant liability, although one the state has been able to modify.

### **Operating Performance - 'aaa'**

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

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- Weakening of budget management policies and practices that materially amplifies structural challenges;
- Actions that elevate the state's liability burden closer to 40% or more of personal income.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

- Consistent economic or revenue growth at or above Fitch's long-term expectations for national inflation 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 actively managing a comparatively high fixed cost burden.

## **PROFILE**

Connecticut

Connecticut's economy is anchored by a sophisticated, defense-related manufacturing sector, important finance and insurance sectors in Fairfield County and Hartford, respectively, health and education institutions, and tourism linked in part to Native American gaming in the southeast. Population growth in Connecticut, like much of the northeast, is well below the U.S. average in recent decades. 2022 census data

points to modest 1.5% uptick since the 2010 census, stronger than recent annual estimates but below neighboring states and national trends.

## UConn

UConn is a public entity and serves as the state flagship land grant institution, including the main campus in Storrs, four undergraduate regional campuses, a law school and UConn Health located throughout the state. UConn currently serves over 32,000 students, including UConn Health, studying in 14 colleges and schools offering eight undergraduate and 23 graduate and professional degree programs.

## Debt Service Commitment Details

The state DSC is substantially similar to Connecticut's GO pledge. The DSC statutorily appropriates all amounts of the debt service commitment for the bonds out of the resources of the state General Fund (state law title 10a-10b(c)). Debt service is already appropriated using language substantially similar to that used to appropriate the State's general obligation debt service. No further legislative action is required for appropriation or payment. UConn never possesses the funds, as the Treasurer pays each fiscal year's debt service directly to the paying agent. A notable difference is that in the UConn GO bonds, the university buttresses its own full faith and credit pledge with the state's DSC of general fund resources, whereas the state GO pledge includes a full faith and credit pledge to raise ad valorem taxes.

## 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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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## Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Connecticut, State of (CT) [General Government]			
<ul style="list-style-type: none"><li>Connecticut, State of (CT) /UConn State Debt Service Commitment/1 LT</li></ul>	LT	AA- 	Upgrade A+ 

## RATINGS KEY OUTLOOK WATCH

POSITIVE



NEGATIVE



EVOLVING



STABLE



## 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)

## **Additional Disclosures**

### [Solicitation Status](#)

## **Endorsement Status**

University of Connecticut (CT)    EU Endorsed, UK Endorsed

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