New York, November 12, 2020 -- Moody's Investors Service has downgraded University of Connecticut's (UCONN) student fee revenue bond rating to A1 from Aa3. The rating action affects about $200 million of bonds. The outlook has been revised to stable from negative. We maintain an A1 rating with a stable outlook on $1.5 billion of UConn 2000 bonds based on the State of Connecticut's rating (A1 stable) and payment of debt service on the bonds.

RATINGS RATIONALE

The downgrade on the University of Connecticut's student fee revenue bonds to A1 is driven by a combination of longer-term demographic and economic pressures both for the university and for the state combined with more immediate challenges driven by the coronavirus pandemic, which we consider a social risk under our ESG framework. The latter includes substantial thinning of pledged revenues supporting debt service and generally weaker operating performance expected for fiscal 2021. With the weaker financial performance, there are prospects for some reduction in the university's already comparatively modest liquidity.

The A1 rating is supported by UCONN's importance as a large, flagship land-grant public university that serves more than 29,000 full-time equivalent students across multiple campuses, has a revenue base of nearly $1.5 billion, and total cash and investments close to $1 billion. A strong regional brand and very good enrollment diversification across programs, geographies, and degree types supports continued favorable student demand. Very close ties to the state are provided by the university's governance structure as well as substantial funding accounting for 36% of total revenue, which is used to support operations and debt service on university infrastructure. In addition to near term operating uncertainty caused by the pandemic, other longer term offsetting considerations include significant competition for students which could limit ability to grow net tuition revenue. With the state's own fiscal challenges, longer term prospects for growth in state funding are constrained as well. Further, UCONN has materially high adjusted leverage including the UCONN 2000 bonds, for which the university is legally obligated even thought the state pays debt service, and thin liquidity. These challenges are partially tempered by leadership's demonstrated financial stewardship and actions to adjust operations, which should result in resumed strengthening of operating performance post fiscal 2021.

RATING OUTLOOK

The stable outlook reflects our expectations of ongoing favorable student demand, which increases prospects for restoring 5-6x pledged revenue coverage of student fee revenue bonds for fiscal 2022. It also incorporates expectations of continued strong state financial support over the outlook period, maintenance of operating cash flow margins above 10%, and generally stable unrestricted liquidity.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Further improvement in the university's strategic position, including enhanced student demand and research profile, as well as fundraising performance
- Strengthening of state's credit profile, along with a demonstrated commitment to continue providing funding to support both operations and debt service
- Outsized growth in financial reserves, materially strengthening coverage of debt and expenses

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Deterioration in state credit quality or sustained reductions in state financial support
- Softening in student demand or failure to make progress towards restoring coverage of pledged revenue to historical levels at above 5x by fiscal 2022
- Material decline in unrestricted liquidity relative to expenses

**LEGAL SECURITY**

The Student Fee Revenue Bonds are payable from Pledged Revenues, which include certain mandatory student fees and net revenues of the student housing, dining and parking facilities. For fiscal 2019, total pledged revenue amounted to about $179 million, and revenue available for debt service provided 5.3x coverage. With the coronavirus pandemic adding considerable operational disruption for fiscal 2021, pledged revenue and coverage will materially narrow. Favorably, UCONN's strong student demand provides good prospects for restoring both pledged revenue and coverage closer to historical levels in the 5-6x range once the impact of the pandemic subsides. Further, the university's board has the ability to broaden the pledge if needed to ensure maintenance of sufficient debt service coverage.

The university's debt profile includes about $1.7 billion of general obligation bonds issued as part of the UCONN 2000 Infrastructure Improvement Program. The bonds are general obligations of the university, for which its full faith and credit are pledged. Additional security is provided by the pledge of and a lien upon the State debt service commitment. Under the master indenture, the state commits to annually appropriate sufficient funds from its general fund to fully cover debt service payments on bonds issued under this program. Payments by the state for debt service are deposited directly to the bond trustee on behalf of UCONN. The rating on the UCONN 2000 bonds is based on the state's A1 rating.

**PROFILE**

University of Connecticut was established in 1881 as one of the nation's nine colonial land grant colleges, and is Connecticut's flagship research and land grant university. UCONN has its main campus in Storrs, four undergraduate regional campuses, the School of Law in Hartford, and the medical and dental schools at University of Connecticut Health Center's Farmington campus outside of Hartford. UCHC is an organizational unit of UCONN that includes the medical and dental schools, the faculty practice plan, medical and dental clinics, and John Dempsey Hospital. For fall 2019, UCONN reported nearly 32,000 headcount enrollment across its campuses.

**METHODOLOGY**


**REGULATORY DISCLOSURES**

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004

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