

**Rating Action: Moody's assigns Aa2 to Colorado's BEST COPs 2021S; Outlook stable**

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New York, November 05, 2021 -- Moody's Investors Service has assigned a Aa2 rating to the State of Colorado's Building Excellent Schools Today Certificates of Participation, Tax-Exempt Series 2021S (the 2021S BEST COPs), to be issued in the estimated amount of \$152.7 million. Following the issuance of the 2021S BEST COPs, the state will have approximately \$1.47 billion of COPs outstanding issued under the BEST program, all rated Aa2. The outlook is stable.

**RATINGS RATIONALE**

The Aa2 rating on the 2021S BEST COPs is one notch below the state's issuer rating of Aa1. The one notch distinction reflects the moderate legal structure inherent in an annually renewable lease-backed security, the essentiality of the leased assets, and the state's established track record of making appropriation-backed debt payments under similar financing agreements.

The State of Colorado's issuer rating of Aa1 reflects the state's strong economic performance in the years preceding the current pandemic, higher-than-average income levels, and relatively low debt levels. Balanced against these strengths are a history of narrow reserves, above average pension liabilities, and constitutional restrictions and voter initiatives which constrain budgeting flexibility.

Like all US states, Colorado initially projected a significant shortfall in tax revenues in fiscal 2020 and 2021 as a result of the coronavirus pandemic and economic slowdown. Better than expected revenue performance, however, has resulted in a significant increase in reserves and cash balances to levels not seen before the current crisis, providing the state with the ability to address future budget challenges.

**RATING OUTLOOK**

The outlook for Colorado's long-term ratings is stable. The state has generally conservative financial practices and a history of timely appropriations for the lease payments securing the vast majority of its debt. The economy's fundamentals remain strong and a better than average recovery from the current slowdown will likely continue. Debt levels are expected to remain moderate.

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING**

- A significant and sustained increase in financial reserves.
- Voter actions that enhance the state's fiscal health and flexibility.

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING**

- A sustained weakening of GAAP-basis fund balances or a significant weakening in liquidity.
- Voter actions that further constrain the state's fiscal flexibility.
- A protracted weakening of the state's generally strong economic fundamentals.

**LEGAL SECURITY**

The Building Excellent Schools Today (BEST) capital construction program was approved by state statute in the 2008 legislative session. The outstanding BEST COPs, including the 2021S BEST COPs, are payable on a parity basis solely from gross lease payments annually appropriated by the legislature. The leased property consists of K-12 school facilities located throughout the state.

The state has identified specific revenue streams from which it anticipates making these appropriations. These include revenues from the State School Land Trust, matching payments made by the local school districts participating in the program, certain excess lottery revenues, and an allocation of marijuana excise tax

revenues. The State School Land Trust receives rent and royalty payments from various land lease agreements in the state. Ultimate security for the COPs is provided by the state's ability to appropriate funds from any legally available source, including the state's general fund, if revenues from the State School Land Trust and other identified revenues are insufficient to make certificate payments. The obligation to make lease payments is absolute and unconditional, once appropriated, and the availability of the state general fund, if needed, mitigates risk of any failure to receive participant matching payments.

#### USE OF PROCEEDS

Proceeds of the Series 2021S BEST COPs will be used to fund the cost of local school projects for participating K-12 institutions.

#### PROFILE

Colorado is the 21st largest state by population, at 5.8 million. Its state gross domestic product, \$390 billion, is the 16th largest. Income levels are above average - the state's per capita personal income is equal to 108.3% of the US level and its poverty level is among the lowest in the nation.

#### METHODOLOGY

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments Methodology published in November 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM\\_1298498](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1298498) . Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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