

Rating Action: Moody's assigns Aa2 to Colorado's Hi Ed COPs, Ser. 2020; outlook stable

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New York, October 21, 2020 -- Moody's Investors Service has assigned a Aa2 rating to the State of Colorado's \$65.5 million Higher Education Certificates of Participation, Series 2020. The outlook is stable.

RATINGS RATIONALE

The Aa2 rating on the 2020 Higher Education 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 narrow reserves, above average pension liabilities, and constitutional restrictions and voter initiatives which constrain budgeting flexibility.

Like all US states, Colorado faced a significant shortfall in tax revenues in fiscal 2020 and 2021 as a result of the coronavirus pandemic and economic slowdown. The state addressed the shortfall in its fiscal 2021 budget primarily with expenditure cuts. The state's decision to suspend, in fiscal 2021, its \$225 million annual supplemental distribution to the state retirement system will weaken the funding of the system and increase budget pressure on the state and its local governments going forward.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the State of Colorado. However, the situation surrounding coronavirus is evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the state changes, we will update the rating and/or outlook at that time.

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 is likely. 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 2020 Higher Education COPs are secured by lease payments to be made from the state's general fund. The state's obligation to make rental payments is subject to appropriation by the legislature.

USE OF PROCEEDS

Proceeds of the COPs will fund capital projects at three state college/university campuses.

PROFILE

Colorado is the 21st largest state by population, at 5.8 million. Its state gross domestic product, \$390.3 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 published in July 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1102364 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this 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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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

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