

**Rating Action: Moody's assigns Aa2 to Colorado's Rural COPs, Ser. 2021;
outlook stable**

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New York, April 12, 2021 -- Moody's Investors Service has assigned a Aa2 rating to the State of Colorado's \$500 million Rural Colorado Certificates of Participation, Series 2021. The outlook is stable.

RATINGS RATIONALE

The Aa2 rating on the Series 2021 Rural 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 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. Revenues have, however, overperformed initial projections and the state now expects that it will end fiscal 2021 with sizable reserves.

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.

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 transaction is structured as a lease-lease back of certain existing state facilities, the "leased property." The Series 2021 Rural COPs are secured by lease payments to be made by the state for the use of the leased property. Annual lease payments are to be made, in part, from the state's General Fund and, in part, from the State Highway Fund. Payments from the General Fund are subject to annual appropriation by the state legislature. Payments from the State Highway Fund are not subject to appropriation, but are subject to annual allocation by the state's Transportation Commission.

USE OF PROCEEDS

Proceeds of the Series 2021 Rural COPs will be used for various state capital and highway projects.

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 January 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1260202 . Alternatively, please see the Rating Methodologies page on www.moody.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.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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