

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to Colorado's Rural COPs, Series 2022; outlook stable

19 May 2022

New York, May 19, 2022 -- Moody's Investors Service has assigned a Aa2 rating to the State of Colorado's \$500 million Rural Colorado Certificates of Participation, Series 2022 with an expected sale date of June 2, 2022. The outlook is stable.

RATINGS RATIONALE

The Aa2 rating on the Series 2022 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 fundamentals, above-average resident income levels, and sound financial and liquidity positions that have improved in recent years because of better-than-projected revenue collections and conservative fiscal management. The rating further incorporates the state's relatively moderate leverage (debt, pension, OPEB and other long-term liabilities) and fixed costs. Balanced against these strengths are a history of narrower reserves and constitutional restrictions and voter initiatives which constrain budgeting flexibility.

RATING OUTLOOK

Colorado's stable outlook reflects the expectation that the state's strong economic fundamentals and sound fiscal management will continue to support healthy financials. Long-term liabilities are expected to remain moderate with proactive management and a history of timely appropriations for the lease payments securing the vast majority of its debt.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Sustained maintenance of strong financial reserves
- Voter actions that enhance the state's fiscal 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 2022 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 2022 Rural COPs will be used to fund state highway and transit projects.

PROFILE

Colorado is the 21st largest state by population, at 5.8 million. Its nominal state gross domestic product, \$421.9 billion as of 2021, is the 16th largest. Income levels are above average - the state's per capita personal income is equal to 104.2% of the US level after adjusting for regional cost of living and its poverty level is among the lowest in the nation.

METHODOLOGY

The principal methodology used in this rating was US States and Territories Methodology published in March 2022 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1299298 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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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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