

**Rating Action: Moody's assigns Aa2 to Colorado's \$58M CDOT headquarters COPs, Ser. 2017; outlook stable**

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New York, March 15, 2017 -- Issue: Colorado Department of Transportation, Headquarters Facilities Lease Purchase Agreement, Certificates of Participation, Series 2017; Rating: Aa2; Rating Type: Underlying LT; Sale Amount: \$58,380,000; Expected Sale Date: 04/04/2017; Rating Description: Lease Rental: Appropriation

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the State of Colorado's (Aa1 stable) issuance of Colorado Department of Transportation (CDOT) Headquarters Facilities Lease Purchase Agreement Certificates of Participation (COPs), Series 2017. The COPs will be payable from lease payments to be made by CDOT for use of the lease property pursuant to an annually renewable lease purchase agreement. Lease payments will be made from fuel taxes, registration fees and other transportation-related revenue transferred annually to the State Highway Fund (SHF). The COPs are expected to be issued in the amount of \$58 million and to price on April 4.

The Aa2 rating on the Series 2017 CDOT COPs, one notch below the state's issuer rating of Aa1, reflects the limited obligation inherent in a lease-backed security. Although the lease payments securing the COPs are not subject to appropriation by the state legislature, they are subject to annual allocation by the State Transportation Commission (STC) through its approval of the department's budget. The rating incorporates the essentiality of the leased assets, CDOT's headquarters building in Denver (Aaa stable) and regional facilities in Pueblo (Aa2 no outlook), Greeley (sales tax bonds Aa3 no outlook), and Aurora (COPs Aa2 stable); the breadth and stability of the revenue stream of transportation-related revenues from which lease payments will be made; and the state's established track record of making appropriation-backed debt payments under similar financing agreements. The state's Aa1 issuer rating is based on its strong economic performance, higher-than-average income levels, and low relative debt levels; balanced against narrow reserves, above average pension liabilities, and constitutional restrictions and voter initiatives which constrain budgeting flexibility.

Rating Outlook

The outlook for Colorado's long-term ratings is stable. The state has a history of timely appropriations for lease payments and generally conservative fiscal practices. The economy continues to show positive trends and debt levels are expected to remain moderate.

Factors that Could Lead to an Upgrade

A significant and sustained improvement in the state's general credit quality evidenced by an increase in financial reserves.

Voter actions that enhances the state's fiscal health and flexibility.

Factors that Could Lead to a Downgrade

A significant reduction in revenues allocated to the State Highway Fund, as a result of either economic trends or legislative diversion.

A weakening of the state's general credit quality evidenced by: a deterioration of GAAP-basis fund balances from current narrow levels; a significant weakening in liquidity; or a return to reliance on non-recurring actions to balance the budget.

Voter actions that further constrain the state's overall fiscal flexibility.

Legal Security

The Series 2017 CDOT COPs, along with the 2016 COPs, are payable from lease payments to be made by CDOT for use of the leased assets, its facilities in Denver, Pueblo, Greeley and Aurora. Lease payments are

not subject to appropriation by the legislature but are subject to allocation by the STC as part of its approval of CDOT's budget.

#### Use of Proceeds

Proceeds of the 2017 CDOT COPs will fund land purchase, construction of, and improvements, and reimburse CDOT for prior expenditures to construct, CDOT's regional headquarters facilities in Pueblo and Greeley, and maintenance facilities in Aurora and Platteville.

#### Obligor Profile

Colorado is the 26th largest state by population, at 5.4 million. Its state gross domestic product, \$294 billion, is the 18th largest. Income levels are above average--the state's per capita personal income is equal to 105.8% of the US level and its poverty rate is the 8th 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 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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