

Rating Action: Moody's assigns A1 to \$500M CT GO bonds 2018 Series C&D; outlook stable

24 May 2018

New York, May 24, 2018 -- Moody's Investors Service has assigned an A1 rating to the \$500 million of Connecticut's GO bonds, consisting of \$400 million of General Obligation bonds (2018 Series C) and \$100 million of General Obligation Refunding Bonds (2018 Series D). The bonds will price in a negotiated sale on or about June 5. The outlook is stable.

RATINGS RATIONALE

The A1 rating reflects Connecticut's high income levels, strong governance, and adequate liquidity, offset by high fixed costs for debt service, pension, and post-employment benefits relative to the state's budget. Unfunded pension liabilities combined with debt outstanding are among the highest, relative to revenues, of any state. The rating also reflects a lagging economy that is highly dependent on volatile revenue sources, recent consecutive years of population loss.

In recent developments, the legislature revised the fiscal 2018-2019 biennial budget. A surge in personal income tax collections will drive a \$1.3 billion deposit into the state's rainy day fund, adding to the roughly \$200 million balance. However, the fund will be drawn down to about \$769 million as the windfall revenues are used to balance fiscal 2018 and indirectly provide additional resources to fiscal 2019; nonetheless, the rainy day fund balance will be at its highest level since the last recession. The revised budget projects another deposit to the rainy day fund of about \$370 million in fiscal 2019. Next year, a new governor will need to grapple with large outyear budget gaps that grow from a projected \$2 billion in fiscal 2020 to nearly \$3.7 billion in fiscal 2023 as certain temporary taxes expire and growth in fixed costs continue to mount.

RATING OUTLOOK

Connecticut's outlook is stable, reflecting the state's strong provisions to promote fiscal discipline, which pair redressing elements of its high leverage position and requiring GAAP-based budgeting.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Achievement and maintenance of higher GAAP-basis combined available reserve levels
- Established trend of structural budget balance
- Evidence of sustained stronger economic performance
- Reduced pension and debt leverage relative to Moody's 50-state medians, resulting in lower annual fixed costs

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Significant additional leverage, encompassing bonded debt, pension and OPEB obligations and negative unassigned GAAP balances
- Rapid acceleration of revenue/economic/demographic weakness
- Declining liquidity position

LEGAL SECURITY

The bonds and notes are secured by the full faith and credit of the state of Connecticut.

USE OF PROCEEDS

The 2018 Series C bond proceeds will be used to fund various capital purposes of the state. The 2018 Series

D proceeds will refund certain outstanding general obligation bonds.

PROFILE

The State of Connecticut has a population of 3.59 million people located in the coastal northeastern US, bordered by Rhode Island (Aa2 stable), Massachusetts (Aa1 stable) and New York (Aa1 stable), with 618 miles of shoreline, according to the NOAA. The state has a large and diverse economy with a gross state product of \$262 billion in 2017. It is the wealthiest state in the country with per capita income of 139% of the US average.

METHODOLOGY

The principal methodology used in these ratings was US States and Territories published in April 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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