S&P Global
Ratings

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Summary:

Connecticut; Appropriations; General Obligation; General Obligation Equivalent Security; Moral Obligation

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Summary:

Connecticut; Appropriations; General Obligation; General Obligation Equivalent Security; Moral Obligation

Credit Profile		
US$250.0 mil GO rfdg bnds ser 2019 B due 02/15/2029		
Long Term Rating	A/Positive	New
Connecticut GO		
Unenhanced Rating	A(SPUR)/Positive	Affirmed

Rationale

S&P Global Ratings assigned its 'A' long-term rating to the State of Connecticut's series 2019B general obligation (GO) refunding bonds. At the same time, we affirmed our 'A' long-term rating on the state's outstanding GO debt, our 'A-' long-term rating on its appropriation backed obligations, and our 'BBB' long-term rating on its moral obligation debt outstanding. The outlook is positive.

Connecticut's GO rating has remained on positive outlook since March 2019. The state is likely to maintain recently replenished reserves over the fiscal 2020-2021 biennium at levels we consider strong and has the potential to moderate its currently high debt levels if the governor's proposal for a "debt diet" is carried through into policy. Currently, Connecticut remains the only state with a potentially high enough debt burden to trigger a one-notch downward override rating adjustment under our state rating methodology. During our two-year outlook horizon (since March 2019), we could raise the state GO rating if we believe Connecticut's currently high debt level might no longer be sustained at our override threshold, or if we believe it will retain currently high budget reserves through the current fiscal 2020-2021 biennium.

The series 2019B bonds are GOs of the state of Connecticut for which is full faith and credit have been pledged for repayment of principal and interest. The bonds will refund some or all of the maturities on its outstanding series 2009A and B GO bonds. There is no extension of maturity and the refunding is being undertaken for interest savings.

The GO rating on Connecticut reflects our view of the following factors, including its:

- High-income levels, supported by a diverse economic base, although an increasing aging population and declining total population are contributing to slower economic growth will weaken revenue growth over the long term;
- Recently implemented bond covenants that for five years will require the state to budget slightly less than forecast revenue, limit GO debt issuance, and place income tax receipts above the volatility cap into reserves;
- Increase in budget reserves from a low 1.2% of expenditures at fiscal year-end 2017, to a good 6.2% of expenditures in fiscal year-end 2018, and a projected 11.6% at fiscal year-end 2019; and

- Adequate operating liquidity, despite negative generally accepted accounting principles (GAAP) general fund balances.

However, offsetting factors include the state's high debt, high unfunded pension liabilities, and large unfunded other postemployment benefit (OPEB) liabilities, all of which create what we believe are significant and growing fixed-cost pressures that restrain Connecticut's budgetary flexibility, as evidenced by a four-month delay in enacting the fiscal 2018-2019 biennium budget. Connecticut had the second-highest combined debt, pension, and OPEB liabilities of all the states in fiscal 2017, as well as individually the highest tax-backed debt-to-gross state product (GSP). It is the only state that has triggered a one-notch rating override reduction in our state rating model due to high debt.

High fixed costs, which could pose a major impediment to solving future budget gaps in the event of a recession--combined debt service, pension, OPEB, Medicaid, and other entitlement costs made up 49% of Connecticut's fiscal 2019 budgeted expenditures.

At the same time, the state has been funding full annual actuarially determined contributions to its retirement systems and is partially prefunding an OPEB trust fund, helping hold down the pace of projected future cost increases.

Fiscal 2020-2021 adopted biennium budget

The adopted biennium budget general fund revenue totals $19.4 billion in 2020 and $20.0 billion in 2021. The assumed revenues are 99.5% and 99.25% of gross revenues after policy changes, consistent with the state's revenue and volatility cap. In our opinion, the adopted budget is structurally balanced and does not use one-time revenue measures. Furthermore, the state's volatility and revenue cap should allow it to continue adding to reserve balances over the biennium.

Gross revenues are $1.1 billion and $1.5 billion more than the April 2019 consensus revenue forecast over each respective year of the biennium. Revenue changes this biennium include maintaining the health provider tax at the fiscal 2019 level ($516.1 million each year), broadening of the sales tax base ($145 million in fiscal 2020 and $268.8 million in fiscal 2021), and various other changes to the state's tax and fee policies.

At the end of the biennium, the state projects that after transfer to its budget reserve fund (BRF) consistent with its volatility cap, revenue cap, and projected operating surplus, the ending balances will increase to $2.7 billion and $3.17 billion, or 13.5% (fiscal 2020) and 15.4% (fiscal 2021) of net appropriations.

The budget also relies on achieving $450 million of savings from labor, most of which is expected to be achieved through changes in health care coverage and other related benefits. Potential savings proposals by the administration are unlikely to require a vote of union membership, which has been contentious during past budget cycles.

Fiscal 2019 projections

For fiscal 2019, the state estimates a $160 million general fund surplus. The results are achieved primarily through better-than-budgeted revenues in personal income tax withholding (6.6%) and the pass-through entity tax (93%). The state expects to transfer $895.5 million to its BRF based on its volatility cap in addition to the $160 million of operating surplus. Resulting transfers bring the reserve fund balance to an estimated $2.2 billion, or 11.6% of net appropriations.

For the past several years, a point of contention has been the state's imposition of a hospital provider tax. In 2015, the

Connecticut Hospital Association sued the state over the 2011 provider tax, claiming the state violated federal Medicaid rules. Under the original agreement with the state, Connecticut hospitals agreed to pay in $350 million each year. Those funds, plus an additional $50 million in federal Medicaid funds, were to be redistributed back to hospitals. However, state budget deficits led the state to increase the tax while payments back to the industry decreased, even as federal reimbursement rates grew.

In 2019, hospitals paid $900 million to the state with supplemental payments flowing back to them as an offset by leveraging increasing federal Medicaid funds. The state has reached a tentative agreement with the hospital association and has reserved $160 million from the fiscal 2019 surplus and $30 million from fiscal 2020 for an expected settlement of $190 million. Final approval of any settlement will require approval by the federal Center for Medicare and Medicaid Services. In the fiscal 2020-2021 biennium, the state has budgeted for a continued $900 million annual hospital provider tax.

Tax-supported debt

In our opinion, Connecticut's debt burden is high by all measures when compared with that of state peers, in part reflecting debt issued for education and other programs that in other states might be handled at the local level of government.

We calculate that Connecticut's approximately $24.3 billion in GO and tax-supported debt at fiscal year-end 2018 puts the state's total tax-supported debt per capita at about $6,810, a level we consider high. Debt levels have been rising, although we expect them to stabilize as the state reaches its debt cap, and may eventually decline if Connecticut adopts the governor's plan for a debt diet and the use of tolling to finance its substantial transportation capital needs. We calculate debt to personal income as high at 9.1% at fiscal year-end 2018, using 2018 debt and 2018 reported personal income, and we find that tax-supported debt service is also high at 15.3% of total GAAP general governmental expenditures, less federal revenue and restricted grants. Tax-supported debt includes GO debt, capital leases, and special tax-supported transportation bonds. On a positive note, at fiscal year-end 2018, the amortization of tax-backed debt outstanding remained rapid at 68% in 10 years, under our calculation.

The state's transportation infrastructure program is planned to remedy perceived underinvestment over previous years. The program will take a number of years to ramp up, requiring the hiring of new engineers in the Department of Transportation and new design work and environmental permits. It involves up to $6.6 billion of additional state bonding in the initial five years, consisting mostly of transportation fund-secured bonds, and a small portion of new GO bonding. The potential exists for substantial further bonding beyond the initial five-year period if gas taxes or transportation-related fees were increased or if the governor's proposal for highway tolling is adopted.

The governor has proposed a debt diet that would reduce annual GO authorizations by approximately $1 billion annually over the current biennium compared to prior years. However, the legislature has not yet passed a bonding bill for the biennium and authorized amounts will likely be higher than those proposed by the governor and contained in the current bill. The state may also consider additional bonding for its transportation infrastructure program whether or not tolls are approved this year. A special legislative session this summer is expected to address the question of tolls and the state's bonding authorizations for the biennium. In our opinion, the state's debt burden is likely to remain high and consistent with a one-notch downward override rating adjustment under our state rating methodology.

Economy

For 2018, the state's economy showed improvement, but continued to lag that of the nation in some areas. A persistent strain on the economy is the state's demographic profile that shows a continuing aging population and 2018 marked the fifth consecutive year of total population decline. The state's unemployment rate was 4.1% for 2018, in line with the national 3.9% rate.

The state's per capita personal income of $74,561 in 2018 was the highest in the nation, although it has declined from 153% of the U.S. in 2010 to a still-high 139% in 2018 because of slow economic growth. However, GDP growth has been below that of the U.S. for some time. One-, five-, and 10-year compound annual state real GSP growth rates were 0.95%, 0.09%, and negative 0.70%, respectively, compared with 2.86%, 2.39%, and 1.75%, respectively, for the nation. Connecticut also experienced greater decline in GSP than national GDP during the recession, although annual growth was stronger than that of the U.S. in 2007 and in 2006 before the recession.

Based on the analytic factors we evaluate for states, on a scale of '1.0' (strongest) to '4.0' (weakest), we have assigned a composite score of '2.2' to Connecticut, indicative of an 'AA-' rating. However, we also calculate that a majority of Connecticut's debt ratios in our state scoring criteria may lie more than one-third above the level necessary to score a '4', which triggers a one-notch rating override under our state scoring criteria, for an indicative rating of 'A+'. We are further using our discretionary ability to rate one notch below the indicative rating and maintain our 'A' rating due to our view of the state's high fixed-cost burden and lagging economic growth compared to peers.

For more information, see our full analysis on Connecticut, published March 19, 2019, on RatingsDirect.

Outlook

Our positive outlook reflects the increased likelihood that Connecticut will maintain recently replenished reserves at what we view as strong levels, and that the state's high debt levels could moderate if the governor's proposal for a new debt diet is carried through into policy. There is a one-in-three-chance we may raise the rating over the next year.

The adopted 2020-2021 biennium budget projects the state will further increase its reserve levels and maintain them at strong levels absent an economic downturn or agreement on use of the reserve balance by three-fifths of the legislature and approval of the governor. The state's high debt burden remains a credit concern. If the state adopts a plan to fund future tax-backed capital needs at debt levels significantly lower than prior years and we expect this level of future borrowing will be maintained and result in a lower overall state burden, we may raise our rating. However, if there is no progress on reducing the debt burden or if currently strong reserves are diverted for other uses and lowered to levels we no longer consider strong, we may lower the rating.

Ratings Detail (As Of July 9, 2019)		
Connecticut GO		
Long Term Rating	A/Positive	Affirmed
Connecticut GO		
Long Term Rating	A/Positive	Affirmed

Ratings Detail (As Of July 9, 2019) (cont.)		
Connecticut approp		
Long Term Rating	A-/Positive	Affirmed
Connecticut taxable GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO		
Long Term Rating	A/Positive	Affirmed
Connecticut GO		
Long Term Rating	A/Positive	Affirmed
Connecticut GO		
Long Term Rating	A/Positive	Affirmed
Connecticut GO		
Long Term Rating	A/Positive	Affirmed
Connecticut GO		
Long Term Rating	A/Positive	Affirmed
Connecticut GO		
Long Term Rating	A/Positive	Affirmed
Connecticut GO		
Long Term Rating	A/Positive	Affirmed
Connecticut GO		
Long Term Rating	A/Positive	Affirmed
Connecticut GO		
Long Term Rating	A/A-1/Positive	Affirmed
Connecticut GO		
Long Term Rating	A/Positive	Affirmed
Unenhanced Rating	NR(SPUR)	
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed

Ratings Detail (As Of July 9, 2019) (cont.)		
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed

Ratings Detail (As Of July 9, 2019) (cont.)		
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed

Ratings Detail (As Of July 9, 2019) (cont.)		
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (BAM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO (FGIC)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut GO		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Hartford GO		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Capital Region Development Authority, Connecticut		
Connecticut		
Capital City Economic Dev Auth (Connecticut) GOEQUIV		
Long Term Rating	A/A-1/Positive	Affirmed
Capital Region Development Authority (Connecticut) parking & energy fee rev bnds (Connecticut) ser 2005 C due 06/15/2029		
Long Term Rating	A/Positive	Affirmed
Capital Region Dev Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Capital Region Dev Auth (Connecticut) GOEQUIV		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth, Connecticut		
Connecticut		

Ratings Detail (As Of July 9, 2019) (cont.)		
Connecticut Hlth & Educl Facs Auth (Connecticut) APPROP		
Long Term Rating	A-/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) APPROP		
Long Term Rating	A-/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GO		
Long Term Rating	A/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GO		
Long Term Rating	A/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV (BAM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV (BAM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) MORALOB (ASSURED GTY)		
Unenhanced Rating	BBB(SPUR)/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) (BAM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) (BAM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut Hlth & Ed Fac Auth rev bnds (Connecticut State Univ Sys Issue) ser D-2 dtd 03/15/2002 due 11/01/2020-2022		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut Hlth & Ed Fac Auth (Connecticut) univ issue		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Connecticut Hsg Fin Auth, Connecticut		
Connecticut		
Connecticut Hsg Fin Auth (Connecticut) state-supported sp oblig bnds		
Long Term Rating	A/Positive	Affirmed

Ratings Detail (As Of July 9, 2019) (cont.)		
Connecticut Hsg Fin Auth (Connecticut) state-supported sp oblig bnds		
Long Term Rating	A/Positive	Affirmed
Connecticut Hsg Fin Auth (Connecticut) state-supported sp oblig bnds (Connecticut) ser 24 due 06/15/2048		
Long Term Rating	A/Positive	Affirmed
Connecticut Hsg Fin Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Hsg Fin Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Hsg Fin Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Hsg Fin Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Hsg Fin Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Innovations Incorporated, Connecticut		
Connecticut		
Connecticut Innovations Inc (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Dev Auth (Connecticut) GO		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Hartford, Connecticut		
Connecticut		
Connecticut GO (ASSURED GTY)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.