S&P Global
Ratings

RatingsDirect®

Summary:

Connecticut; General Obligation; General Obligation Equivalent Security

Primary Credit Analyst:
Timothy W Little, New York + 1 (212) 438 7999; timothy.little@spglobal.com

Secondary Contact:
David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@spglobal.com

Table Of Contents

Summary:

Connecticut; General Obligation; General Obligation Equivalent Security

Credit Profile		
US$700.0 mil GO bnds ser 2020A dtd 01/07/2020 due 01/15/2040		
Long Term Rating	A/Positive	New
US$191.75 mil GO rfdg bnds ser 2020B due 01/15/2026		
Long Term Rating	A/Positive	New
Connecticut GO		
Long Term Rating	A/Positive	Affirmed
Connecticut GO		
Long Term Rating	A/Positive	Affirmed

Rationale

S&P Global Ratings assigned its 'A' long-term rating to the State of Connecticut's series 2020A general obligation (GO) bonds and series 2020B GO refunding bonds. At the same time, we affirmed our 'A' long-term rating and underlying rating (SPUR) on the state's outstanding GO debt and 'A/A-1' rating on the state's series 2016C GO bonds. The outlook is positive.

Our GO rating on Connecticut 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 2020A and B bonds are general obligations of the state of Connecticut for which its full faith and credit have been pledged for repayment of principal and interest. The series 2020A bonds will fund various capital projects, while the series 2020B bonds will refund some or all of the maturities on its outstanding series 2010A and C 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, which 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 and passthrough entity tax receipts above the volatility cap into reserves;

- Increase in budget reserves from a low 1.1% of expenditures at fiscal year-end 2017, to a good 6.2% of expenditures in fiscal year-end 2018, and a projected 13.0% 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 cost increases.

Fiscal 2020 budget projections

Consensus revenue forecast estimates related in November show the state down $85 million, largely reflecting an increase in the state's refund of taxes line of $100 million. This is likely a result of tax policy changes as a result of the new Pass-Through Entity Tax. However, due to the state adopting budgeted revenues at 99.5% of estimates, adopting a budgeted surplus, among other measures, the state's ending balance is estimated to remain positive by about $300 million. The state will release new consensus revenue estimates again in January and April 2020.

The state's rainy day reserve is very strong and expected to grow at the end of the year based on current estimates. However, there is some risk for the state to draw on these reserves either through transferring funds to other uses, like capital spending or paying down unfunded pension liabilities. S&P Global Ratings projects the risk of recession as 30%-35% over the next 12 months, more than double from a year ago. In our opinion, the state's concentration in financial services activities makes it more susceptible to revenue volatility during an economic downturn. Its ability to maintain strong balances would likely insulate it from personal income tax volatility during a downturn.

Plans for future debt financing are a key rating driver

In our opinion, Connecticut's debt burden is high by all measures when compared with those 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.

The state's transportation infrastructure program is planned to remedy perceived underinvestment over previous years. Recently, the governor proposed CT2030, a plan that calls for a $21.1 billion investment over the next 10 years. Projects are primarily split between $14.2 billion for roads and bridges and $7.1 billion in public transit systems. While the plan calls for continued Special Transportation Fund bonding, albeit at a reduced level than prior years, it also relies on new toll revenues from cars and trucks. Debate around tolls in the state has been contentious with differing plans put forward, including an option to continue without tolling in the state. Legislative action is required for imposing in-state tolls.

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 as part of the financing plan. 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.

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, an anchor or '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. We are further using our discretionary ability to rate one notch below the anchor rating and overriding factors to 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 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 it 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 revise the outlook to stable.

Ratings Detail (As Of November 22, 2019)		
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

Ratings Detail (As Of November 22, 2019) (cont.)		
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
Connecticut GO		
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
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
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

Ratings Detail (As Of November 22, 2019) (cont.)		
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
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 November 22, 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 November 22, 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) (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
Connecticut Hlth & Educl Facs Auth, Connecticut		
Connecticut		
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Positive	Affirmed
Connecticut Innovations Incorporated, Connecticut		
Connecticut		
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.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.