

## State of Connecticut Special Tax Obligation Bonds Transportation Infrastructure Purposes

Ratings	
State of Connecticut	
<b>Assigned</b>	
<b>Long-Term Rating</b>	<b>Outlook: Stable</b>
Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2018 Series B	AA+
Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes, 2018 Series C	AA+
<b>Affirmed</b>	
<b>Long-Term Rating</b>	<b>Outlook: Stable</b>
Special Tax Obligation Bonds, Transportation Infrastructure Purposes	AA+
Second Lien Special Tax Obligation Bonds, Transportation Infrastructure Purposes	AA+

*KBRA's long-term ratings do not apply to bonds backed by a letter of credit or liquidity facility, unless otherwise noted.*

**Methodology:**  
[KBRA's U.S. Special Tax Revenue Bond Methodology](#)

**Contacts:**  
Paul Kwiatkoski, Managing Director  
(646) 731-2387  
[Pkwiatkoski@kbra.com](mailto:Pkwiatkoski@kbra.com)

Kate Hackett, Managing Director  
(646) 731-2304  
[khackett@kbra.com](mailto:khackett@kbra.com)

Jack Morrison, Associate Director  
(646) 731-2410  
[jmorrison@kbra.com](mailto:jmorrison@kbra.com)

Justin Schneider, Senior Analyst  
(646) 731-2453  
[jschneider@kbra.com](mailto:jschneider@kbra.com)

The bonds are issued to fund transportation projects within the state and are in turn payable from a diverse and stable source of state tax revenues and fees largely derived from transportation activities. The pledged revenues consist of motor fuels taxes, motor vehicle receipts, sales taxes, various licenses and permits, and other taxes and revenues. These pledged revenues have shown modest growth over the recent past and provide favorable coverage of debt service. Coverage on the outstanding Special Tax Obligation bonds, including the current issue, is 2.8x based upon FY 2018 pledged revenues.

Connecticut has a longstanding commitment to transportation services. In 2015, the Special Tax Fund (STF), into which all pledged revenues are deposited and used first to pay debt service, was designated a perpetual fund by legislation. The state now proposes to establish the STF's permanence under the state constitution, and a ballot measure seeking approval from the voters for this amendment is on the November 2018 ballot. The state has also added additional revenues to those pledged to the bonds over time, most notably pledging sales taxes in 2016, underscoring the importance of transportation infrastructure funding. After payment of debt service, remaining funds in the STF are dedicated to transportation expenditures.

The future transportation capital needs of the state are significant and the state plans to fund much of these capital plans with additional parity bonds. Over the next four years, \$3.7 billion of parity bonds are expected to be issued. The state projects current debt service coverage to range from 2.6x to 2.4x over this period. The state's assumptions supporting these projections appear reasonable, in KBRA's opinion.

Connecticut has historically had a very strong economy with well above average wealth levels. Wealth levels remain very high, with per capita income of \$71,000 at 140% of the national average. However, the state's recovery from the last recession continues to be sluggish. Annual growth in total non-farm employment has been slower than the U.S. and New England growth rates in each of the last seven years. Also noteworthy is the negative change in real gross state product from 2010-2017, which was -3.3% in Connecticut, compared to 7.5% and 14.3% for New England and the U.S., respectively. The **Stable** Outlook reflects the strong and durable coverage the pledged revenues provide to debt service payments.

### Key Rating Strengths

- Stable source of revenues provide good coverage of debt service.
- The state's commitment to transportation capital funding is strong.
- Legal protections are favorable including the covenant to maintain at least 2X annual debt service coverage.

### Key Rating Concerns

- The state's rate of economic recovery has been significantly slower than that of the U.S. and New England region.

### Drivers for Upgrade

- More rapid growth in the state's economy.

### Drivers for Downgrade

- An economic downturn that leads to declining coverage levels and budgetary pressure on the state.

<b>Highlights of Important Ratios</b>	
<b>Issuer name</b>	<b>State of Connecticut</b>
<b>Issue</b>	<b>Special Tax Obligation Bonds</b>
<b>Pledged Revenues (\$ in Millions)</b>	<b>As of June 30, 2018</b>
Motor Fuels Tax	\$499.4
Oil Companies Tax	\$314.8
Licenses, Permits, Fees	\$137.9
Sales Tax - DMV	\$85.9
General Retail Sales and Use Tax	\$327.5
Motor Vehicle Receipts	\$253.1
Other <sup>1</sup>	\$9.5
<b>Total Net Revenues</b>	<b>\$1,628.1</b>
Principal and Interest Requirements of the 2004B - 2018A Senior Bonds	\$502.7
Principal and Interest Requirements on the Outstanding Second Lien Bonds	\$71.0
DSCR Principal and Interest Requirements of the 2004B - 2018A Senior Bonds	3.2x
Actual and Projected Principal and Interest Coverage for all Outstanding Senior Bonds and Outstanding Second Lien Bonds	2.8x
<b>Economic Data</b>	<b>As of Calendar Year 2017</b>
Population	3,588,184
State Income Per Capita	\$70,121
Real GSP Per Capita	\$62,633
% Change from 2010 in Real GSP	-3.3%

Source: State of Connecticut, US Census, & Bureau of Economic Analysis

<sup>1</sup> Other Revenues are comprised of Federal Build America Bond Subsidy receipts, interest income, and refunds of taxes

<b>Rating Determinants (RD)</b>	
1. Legal Framework	AAA
2. Nature of Special Tax Revenues	AAA
3. Economic Base and Demographics	AA-
4. Revenue Analysis	A+
5. Coverage and Bond Structure	AA+

**Rating Determinant 1: Legal Framework**

KBRA views the legal and statutory framework underlying the issuance of the State’s Special Tax Obligations as providing strong bondholder protection.

In 2015, the General Assembly passed legislation that established the Special Tax Fund (STF) as a perpetual fund and stated that, once funds are deposited in the STF, these funds can only be used for transportation purposes. To date, the permanence of the STF has been established by statute. An amendment to the state constitution that would establish the STF as a permanent fund is on the November 2018 ballot.

**State Coverage Covenant**

Under the Senior Indenture, the State covenants to provide pledged revenues in each fiscal year, computed as of the end of the fiscal year, in an amount equal to at least 2x the aggregate debt service on all Senior Bonds. KBRA considers the existence of the State covenant as positive and views the required 2x coverage level as strong. In the event that debt service coverage does not meet the 2x requirement, the State must pass legislation within a year to satisfy this coverage requirement.

The Second Lien Indenture includes the covenants discussed above with the required debt service coverage level under the State’s covenant to maintain coverage based on combined Senior and Second Lien debt service.

**Debt Service Reserve Fund**

Both the Senior and Second Lien Bonds are secured by debt service reserve funds which are cash funded in an amount equal to combined MADS. Under both the Senior and Second Lien Indenture, upon issuance of additional bonds, the debt service reserve funds must be funded to combined MADS.

**Flow of Funds**

All pledged revenues collected by the State are identified and credited to the STF held by the State on a daily, monthly or quarterly basis, depending on the source. Pledged revenues will be transferred monthly, as follows:

First, to the debt service accounts in an amount equal to 1/12th of the principal and interest requirement on the Senior Bonds and Senior Notes in the next year.

Second, to the debt service reserve account under the Senior Indenture to maintain the fund requirement of maximum annual debt service.

Third, to the debt service accounts under the Second Lien Indenture in an amount equal to the principal and interest requirement on the Second Lien bonds as due. The State may also issue Second Lien Notes.

Fourth, to the debt service reserve account under the Second Lien Indenture to maintain the fund requirement of combined maximum annual debt service reflecting both the Senior and Second Lien Bonds.

Fifth, after all deposits have been made under the Senior and Second Lien indenture, pledged revenues are

used, subject to annual appropriation by the General Assembly, for payment of State budget appropriations for the State Department of Transportation and the DMV. Funds may not be used for the general purposes of the State, only transportation purposes.

### Additional Bonds Test

Additional Bonds may be issued under the Senior Lien Indenture if pledged revenues paid into the STF for any period of 12 consecutive months out of the last 18 months, adjusted for enacted changes in taxes and fees and certified in a certificate issued by the OPM is equal to 2x combined debt service requirements on outstanding and proposed Senior and Second Lien Bonds and interest requirements on Senior Notes for the current and each succeeding fiscal year, which KBRA views as a conservative test.

Based on the foregoing, KBRA views the Legal Framework for the issuance of the State of Connecticut's Special Tax Obligation Bonds as being consistent with a AAA rating for this determinant.

### Bankruptcy Assessment

Under Chapter 9 of the U.S. Bankruptcy Code, state governments are not permitted to petition courts for protection from creditors, including holders of their general obligation debt.

### Rating Determinant 2: Nature of Special Tax Revenues

KBRA views the pledged special taxes as providing a diverse, broad based source of payment for the bonds. The pledged revenues include a number of taxes and fees on transportation activity across the State: taxes on gasoline and diesel, a tax on gross receipts of oil companies and a diversity of fees and charges related to motor vehicles. In addition, pledged revenues include a portion of the State sales tax which is levied on a broad retail sales base. The pledged revenues are derived from activities and sales which KBRA views as essential goods and services.

Based on the forgoing, KBRA views the nature of the pledged revenue as being consistent with an AAA rating.

### Rating Determinant 3: Economic Base and Demographics

In KBRA's view, the State economy continues to grow but at a slower pace than regional and national growth trends. In several key indicators such as per capita income the State's economy is greater than its regional peers (New England) and the nation but lags in growth rate.

**FIGURE 1**

	2017 Population	Chg from 2010	2017 Age Dependency Ratio <sup>1,2</sup>	Chg from 2010	2017 Population w/ B.A. Degree or Higher <sup>2,4</sup>	Chg from 2010	2017 Poverty Level <sup>2</sup>	Chg from 2010
Connecticut	3,588,184	0.3%	59.8%	58.7%	38.7%	3.1%	9.6%	-0.5%
New England	14,810,001	2.4%	56.4%	54.5%	39.7%	4.1%	10.2%	-1.0%
United States	325,719,178	5.3%	61.8%	58.8%	32.0%	3.8%	13.4%	-1.9%
Connecticut as % of New England	N/A		106.2%		97.4%		94.2%	
Connecticut as % of U.S.	N/A		96.8%		120.9%		71.6%	

Source: U.S. Census Bureau

	2017 Personal Income (\$ Billions)	Chg from 2010	2017 Personal Income per capita	Chg from 2010	2017 Real Gross State Product (\$Billions)	Chg from 2010	2017 Real GSP Per Capita	Chg from 2010
Connecticut	\$251.61	13.1%	\$70,121	12.9%	\$224.7	-3.3%	\$62,633	-3.5%
New England	\$927.58	23.1%	\$62,632	20.3%	\$883.2	7.5%	\$59,637	5.0%
United States	\$16,413.55	31.7%	\$50,392	25.1%	\$16,721.5	14.3%	\$51,337	8.6%
Connecticut as % of New England	N/A		112.0%		N/A		105.0%	
Connecticut as % of U.S.	N/A		139.2%		N/A		122.0%	

Source: Bureau of Economic Analysis

<sup>1</sup> Age dependency ratio is the sum of the population under 18 yrs and over 65 yrs divided by persons age 18 to 64 yrs.

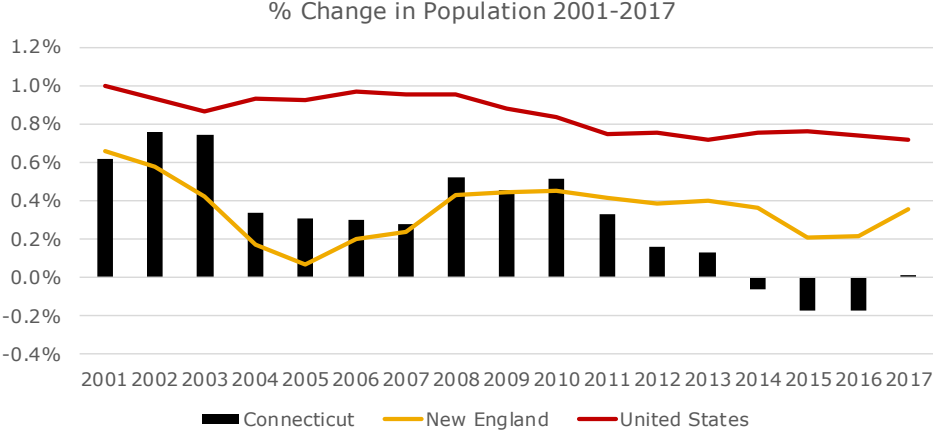
<sup>2</sup> Year over year change shown as nominal change in percentage points.

<sup>3</sup> Great Lakes region is defined as Connecticut, Maine, Massachusetts, New Hampshire, Vermont, and Rhode Island

<sup>4</sup> Percent of the population aged 25 and over.

Connecticut’s population of 3.6 million has remained flat since 2010 and has experienced weaker growth than the region and nation. Going forward, KBRA expects the State’s population growth will continue be slower than the region and nation.

**FIGURE 2**

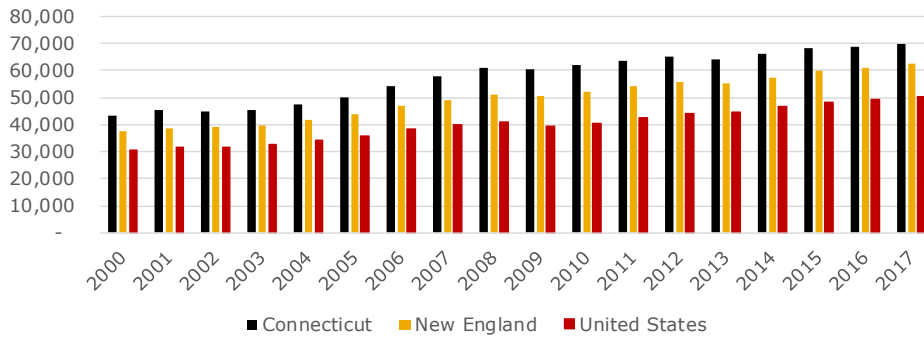


Source: Bureau of Economic Analysis

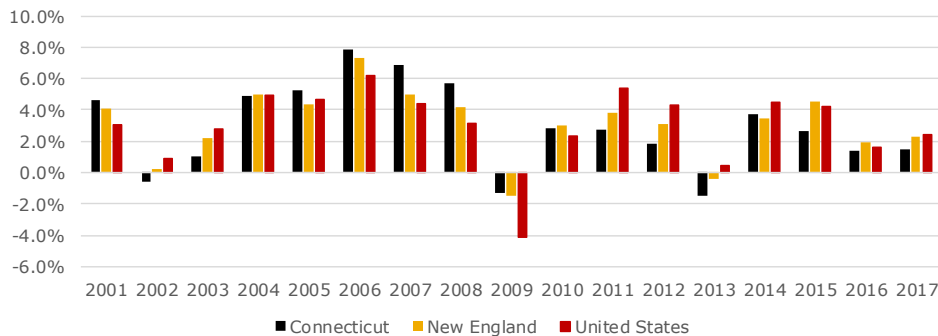
Income levels, as measured by per capita personal income, have historically been the highest in the nation. Per capita personal income in 2017 is still the highest in the nation at \$70,121. Even though the State still has the highest per capita personal income its growth rate has slowed. From 2010 to 2017, the State’s per capita personal income has grown by 12.9% which is the lowest growth rate for any state in the nation over the same time. This is reflective of losses of many financial sector jobs in the State; financial sector jobs have decreased by 5.3% since 2010.

**FIGURE 3**

Per Capita Personal Income  
2000-2017



% Change in Per Capita Personal Income  
2001-2017

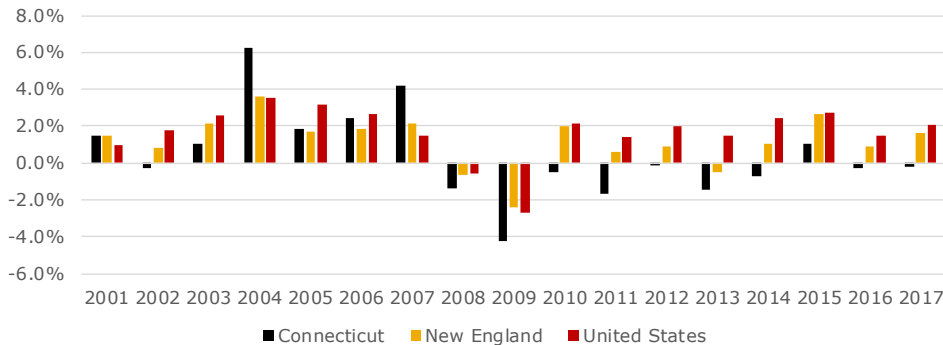


Source: Bureau of Economic Analysis

Over the last twenty years, the State’s high per capita personal income figure has historically been driven, in part, by the relatively large proportion of residents who work in high paying jobs in the finance, insurance, real estate, and certain manufacturing sectors (such as defense). Overall, Connecticut’s real GSP has decreased by 3.3% since 2010, compared to the Region (7.5%) and Nation (14.3%) which has grown over that period.

**FIGURE 4**

% Change in Real GSP  
(Chained 2009 Dollar)

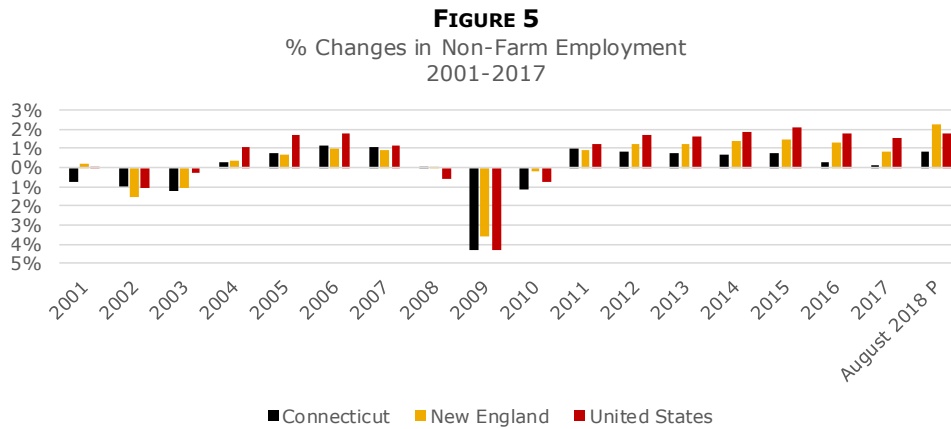


Source: Bureaus of Economic Analysis

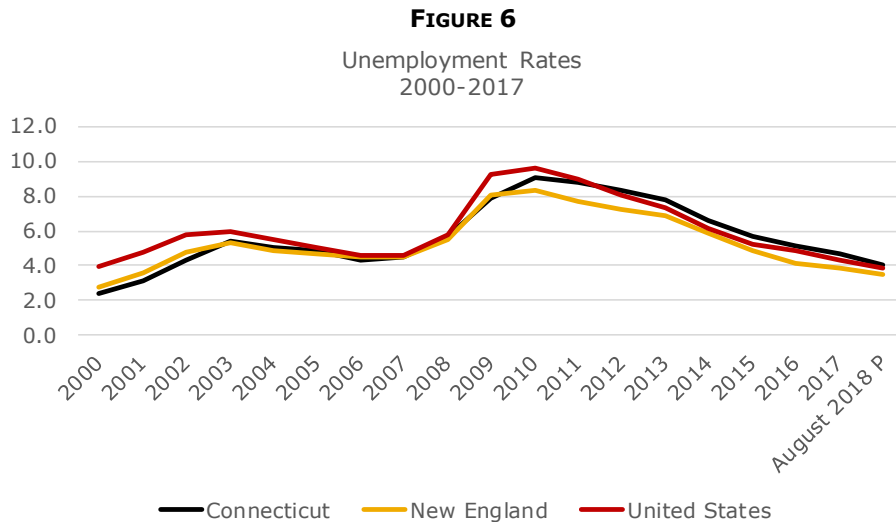
The State continues to have a diverse economic base. In 2018, 16 “Fortune 500” companies were headquartered in Connecticut, including United Technologies Corporation (UTC), Cigna, Praxair, Stanley

Black & Decker and Hartford Financial Service Group. KBRA notes that the defense industry is an important component of the State’s economy and has demonstrated renewed strength since 2002 and we expect this trend to continue. Major defense companies include UTC and its Pratt and Whitney Aircraft Division, Sikorsky Aircraft (a division of Lockheed Martin), and General Dynamics Corporation’s Electric Boat Division. In July 2018, the State announced that KPMG would be adding 110 new jobs to its Stamford office over the next five years. In addition to KPMG, Seven Stars Cloud Group is establishing its global headquarters for technology and innovation at the University of Connecticut’s former campus in West Harford and expects to create 330 jobs over the next five years.

Since 2010, the State has also generally lagged the region and the nation in growth in total employment and reduction of the unemployment rate.



Source: Bureau of Labor Statistic  
P= Preliminary

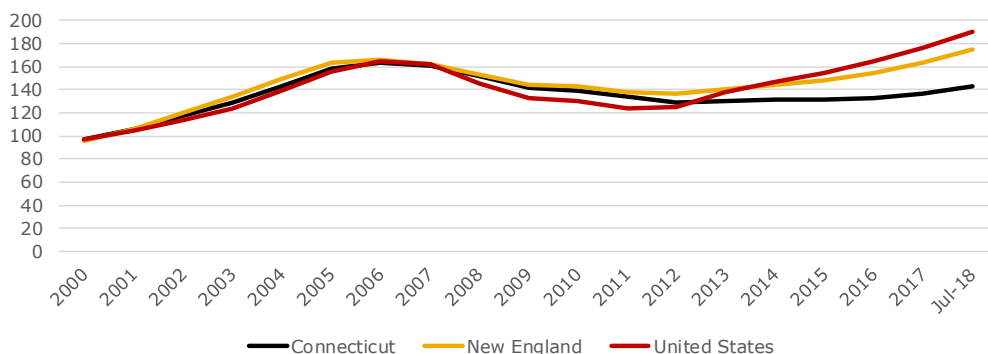


Source: Bureau of Labor Statistics  
P= Preliminary

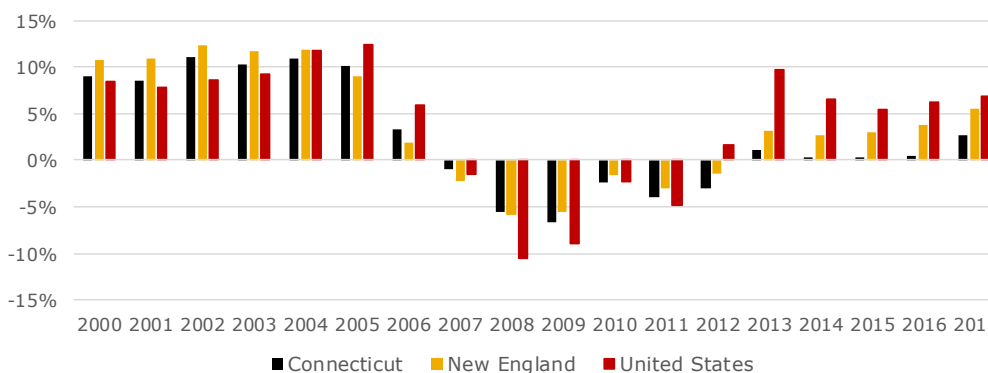
Despite the continued decline of the State’s average unemployment rate from a peak of 9.1% in 2010 to 4.0% in August 2018, the unemployment rate in Connecticut is still above that of the region and U.S. The State’s housing market began to recover in 2013 and, as of July 2018, the Freddie Mac House Price Index is 87.6% of its pre-recession peak.

**FIGURE 7**

Freddie Mac Home Price Index  
2000-2017  
(not seasonally adjusted)



% Change in Freddie Mac Home Price Index  
2000-2017  
(not seasonally adjusted)



Source: Freddie Mac Home Price Index

Based on the foregoing, KBRA views the State of Connecticut’s resource base as consistent with a AA- rating.

**Rating Determinant 4: Revenue Analysis**

On an overall basis, historical pledged revenues have shown limited sensitivity to economic conditions, except for the oil companies tax which is sensitive to wholesale gasoline prices. The general retail sales tax (a portion of which was allocated to STF starting in FY 2016) is subject to the level of economic activity in the State and is a less volatile revenue source. While KBRA recognizes the potential for volatility in certain pledged revenues, these risks are mitigated, in KBRA’s view, by the State’s coverage covenant to maintain 2x debt service coverage from pledged revenues in every fiscal year, which KBRA views as very positive.

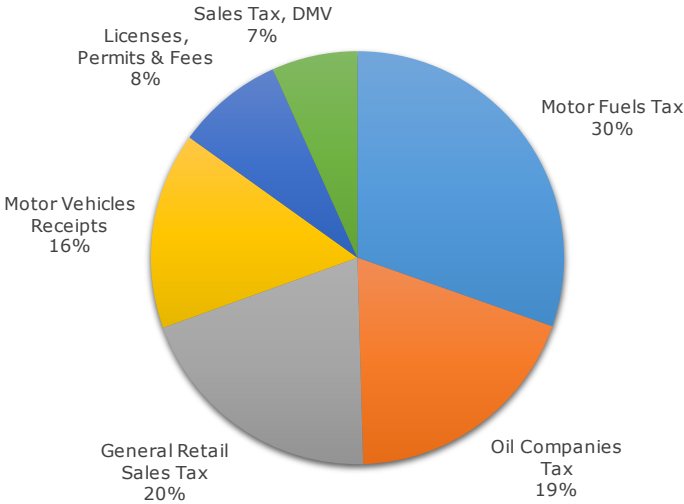
Fuel related taxes account for approximately 49% of FY 2018 revenues, down from 52% in 2017. These taxes includes the motor fuel tax (a per gallon gasoline tax and a diesel tax with a fuel-price dependent component) and the oil companies tax, which is highly sensitive to oil prices. The next largest pledged revenue source is sales taxes followed by motor vehicle receipts (largely registration fees). In 2016, the State dedicated a portion of the general retail sales tax to the STF and, beginning in 2019, an additional allocation of sales tax revenues will be dedicated to the STF. The revenue allocation changes are part of the State’s effort to increase funding for the STF.

CT ranks at the high end of the range for fuel tax rates among northeast states. Nationwide, CT ranks 10th highest for gasoline taxes according to a November 2017 report by the American Petroleum Institute.



**FIGURE 8**

**Special Tax Fund  
FY 2018 Pledged Revenues**



Source: State of CT (Per the Comptroller's report of September 28, 2018 for the period ending June 30, 2018 unaudited)

**Trends in Revenues**

The table below shows the historical and projected growth in pledged revenues. The state began allocating sales taxes to the STF in 2016, with 0.3% of the statewide tax of 6.35% deposited in the STF. This allocation was increased to 0.4% in 2017 and .05% in 2018. Beginning in 2019, 8% of the sales taxes collected on the sales of new and pre-owned cars at dealers will be allocated to the STF. This allocation will increase to 33% in 2020, 56% in 2021, 75% in 2022, and 100% in 2023. These increasing allocations of sales taxes have driven the growth in STF revenues on a historical basis, and are expected to be the major contributors to projected growth in sales tax.

**FIGURE 9**
**Special Transportation Fund  
Actual and Projected Revenues  
Budgetary Basis Revenues Fiscal Year Ending June 30, (\$ in millions)**

	Actual						Projected as of April 30, 2018			
	2013	2014	2015	2016	2017	2018*	2019	2020	2021	2022
Motor Fuels Tax	501.3	508	516.6	518.2	498.5	499.4	499.9	500.4	497.9	495.5
% change	1.7%	1.3%	1.7%	0.3%	-3.8%	0.2%	0.1%	0.1%	-0.5%	-0.5%
Oil Companies Tax <sup>1</sup>	199.4	380.7	337.9	250	238.4	314.8	330	346.5	355.2	364
% change	-12.1%	90.9%	-11.2%	-26.0%	-4.6%	32.0%	4.8%	5.0%	2.5%	2.5%
Sales Tax <sup>2</sup>			109		188.4	327.5	361.4	459.7	552.5	632.2
% change					72.8%	73.8%	10.4%	27.2%	20.2%	14.4%
Motor Vehicles Receipts	234.5	236.1	249.5	251.5	242.9	253.1	253.2	255.2	257.1	259.2
% change	-0.4%	0.7%	5.7%	0.8%	-3.4%	4.2%	0.0%	0.8%	0.7%	0.8%
Licenses, Permits & Fees	137.3	138.4	145.4	143.9	144	137.9	140	140.6	141.1	141.7
% change	1.0%	0.8%	5.1%	-1.0%	0.1%	-4.2%	1.5%	0.4%	0.4%	0.4%
Sales Tax - DMV	79	82.2	83.9	87.2	85	85.9	86.8	87.6	88.5	89.4
Federal Payments	12.4	12.1	12.1	12.2	12.2	12.2	12.1	12.1	11.8	11
Interest Income	4.1	6.8	6.9	8.2	9	17.7	18.1	18.4	18.8	19.2
Transfers	88.7	-83	34.7	-6.5	-6.5	-5.5	-5.5	-5.5	-5.5	-5.5
To Transportation Strategy Board	-15	-15	-15							
Total	1,241.7	1,266.3	1,372.0	1,373.6	1,411.7	1,643.0	1,696.0	1,815.0	1,917.4	2,006.7
Refunds	-9.2	-10.6	-11.1	-20.8	-17.3	-14.9	-18.7	-19.5	-20.3	-20.7
<b>Total Net Revenues</b>	<b>1,232.5</b>	<b>1,255.7</b>	<b>1,360.9</b>	<b>1,352.8</b>	<b>1,394.4</b>	<b>1,628.1</b>	<b>1,677.3</b>	<b>1,795.5</b>	<b>1,897.1</b>	<b>1,986.0</b>
% change		1.9%	8.4%	-0.6%	3.1%	16.8%	3.0%	7.0%	5.7%	4.7%
DS Senior	371.5	366.2	376	400	459.4	502.7	539.7	538.4	540.7	538.1
DS Senior proposed <sup>3</sup>							46.7	107.9	186.7	283.7
DS Second Lien	59.3	82.5	83.0	92.4	82.6	71.0	54.3	40.0	34.2	5.6
<b>Combined Sr. &amp; Second Lien DS<sup>3</sup></b>	<b>430.8</b>	<b>448.7</b>	<b>459</b>	<b>492.4</b>	<b>542</b>	<b>573.7</b>	<b>640.7</b>	<b>686.3</b>	<b>761.6</b>	<b>827.4</b>
<b>Annual Combined DS Coverage</b>	<b>2.9</b>	<b>2.8</b>	<b>3.0</b>	<b>2.8</b>	<b>2.6</b>	<b>2.8</b>	<b>2.6</b>	<b>2.6</b>	<b>2.5</b>	<b>2.4</b>

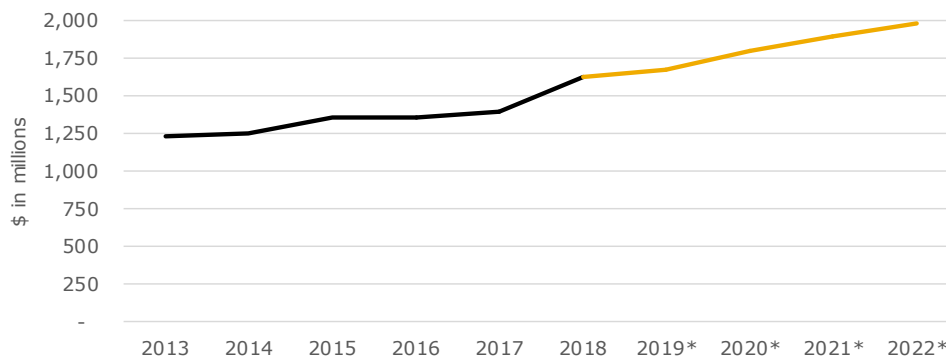
\*Unaudited

<sup>1</sup>All of oil companies tax deposited to STF beginning FY2016.

<sup>2</sup>Reallocation of sales tax began in FY2016, at an increasing rate, with phase in of new car sales tax beginning in FY2019. 8% in FY 19, 33% in FY 20, 56%, in FY 21, 75% in FY22, and 100% in FY23

<sup>3</sup>Includes proposed issues, \$750 million in FY19, \$750 million in FY20, \$ 1.0 billion in FY21 & \$1.2 Billion in FY22; issued with level debt service and 20 year final maturities.

Source: State of Connecticut

**FIGURE 10**
**Special Transportation Fund Revenues**


\*Projected Revenues in Gold

Source: Official Statements

### Motor Fuels Tax

The Motor Fuels Tax revenue consists of three taxes: the gasoline tax, the special fuels tax (includes diesel), and the motor carrier road tax. The gasoline tax is the dominant source of the motor fuel tax. The tax is levied on gallons sold, has limited fuel price exposure and thus does not experience extreme volatility from fuel price swings. Annual revenue growth since 2008 has averaged less than 1%, reflecting constrained consumption growth from both sluggish economic growth and the increasing efficiency of motor vehicles.

The gasoline tax rate is currently 25 cents/gallon and has been unchanged for over ten years. The diesel tax rate is set at a base rate of 29 cents per gallon plus a factor equal to the average wholesale price times the Oil Companies Tax rate. (The wholesale rate is as reported by the Oil Price Information Service weekly, from April 1 to March 31, for period prior to the rate effective date of July 1.)

Growth in the diesel tax rate had been a driver in Motor Fuel Tax revenue growth. Sizable declines in the diesel rate in 2011 and 2017 contributed to revenue dips in those years. Weekly diesel price data to date indicates a substantial increase in diesel prices, which will result in a rate increase in FY 2019.

The CT's Motor Fuels Tax is paid by distributors monthly to the STF, helping to provide a smooth fund cashflow for the STF.

### Oil Companies Tax

The Oil Companies Tax revenue is a tax on the gross earnings from the sale of petroleum products, and thus is sensitive to volatility in gasoline prices. Tax collections declined 36% from 2013-2017. However, they increased 32% from 2017-2018.

The tax is paid quarterly. Beginning July 1, 2015, the Commissioner of Revenue Services deposited 100% of the tax revenues directly into the STF. Previously, statutes specified the amount of oil companies tax revenue to be transferred to the STF from the General Fund.

### Motor Vehicle Receipts; Licenses, Permits and Fees

The two categories of Motor Vehicle Receipts, and Licenses, Permits and Fees include approximately 25 different revenues from a basket of transportation related charges. The major revenue source is motor vehicle registration fees, accounting for approximately 50% of this basket's receipts. Overall, revenues from these combined categories have been relatively flat with growth under 1.0%. Projections indicate average annual growth of 0.8%.

### Sales Tax

As part of the ongoing State transportation infrastructure initiative (Let's Go CT!), beginning in FY 2016, a specific portion of the State's general retail sales tax revenue was allocated as a new pledged revenue source.

In FY 2016 and FY 2017, State budget stress led to delays in and reduction of allocated state retail sales tax revenues to the STF. The ongoing budget stress in the State's financial operations raise the

**FIGURE 11**

Rate History, cents/gal		
FY	Gasoline Rate	Diesel Rate
2005	25	26
2006	25	26
2007	25	26
2008	25	37
2009	25	43.4
2010	25	45.1
2011	25	39.6
2012	25	46.2
2013	25	51.2
2014	25	54.9
2015	25	54.5
2016	25	50.3
2017	25	41.7
2018	25	43.9

Sources: POS; Transportation Panel Report.

**FIGURE 12**

Oil Companies Tax Gross Collections, \$ in millions		
FY	Rate	Collections
2005	5.0%	179.0
2006	5.8%	279.6
2007	6.3%	309.4
2008	7.0%	367.8
2009	7.0%	267.8
2010	7.0%	264.9
2011	7.0%	334.5
2012	7.0%	373.0
2013	7.0%	374.9
2014	8.1%	416.1
2015	8.1%	337.9
2016	8.1%	250.0
2017	8.1%	238.4
2018*	8.1%	314.8

Sources: POS; Transportation Panel Report.

\* Per the Comptroller's report of September 28, 2018 for the period ending June 30, 2018 unaudited

possibility that sales tax allocations could be reduced in the future. Actions taken in FY 2016 and FY 2017 did not cause the State to breach the State's 2x debt service coverage covenant

#### **Other Sources**

Other pledged revenue sources include federal payments, which are the cash subsidy payments related to the State's Build America Bonds, as well as a modest amount of interest income. No transfers in are expected, although modest statutory annual transfers out to the Emission Enterprise Fund are planned.

#### **STF Operations**

The Special Transportation Fund was established in June 1983 to account for the transportation related taxes, revenues and fees pledged for payment of special tax obligation bonds issued by the State and utilized as a source of funding for state transportation programs. The operations of the STF is included in the State CAFR as a major governmental fund. A separate financial report is also produced for the STF, showing each of its major funds. During the year OPM and the legislature's Office of Fiscal Analysis are required to issue consensus revenue estimates for a five-year period going forward on January 15, April 30 and November 10 of each year.

The State's Infrastructure Program began in 1984. The Program funds maintenance and improvement projects for the State's highways and local roads, bridges, transit (including bus and rail projects) and aviation improvements. The major sources of funding for the Infrastructure Program has been federal funding, followed by Special Tax Obligation Bonds and State appropriations. In 2015, Governor Malloy launched a 30-year plan for modernizing and upgrading the State's transportation infrastructure called Let's Go CT! as part of the ongoing Infrastructure Program. Approximately \$2.8 billion of authorization was planned from 2016- 2020 for the first phase of this initiative. The Let's Go CT! initiative is the major driving force behind the State's increased issuance of State Special Tax Obligations.

Based on the forgoing, KBRA views the revenue analysis determinant as being consistent with an A+ rating.

#### **Rating Determinant 4: Coverage and Bond Structure**

KBRA views debt service coverage on combined Senior Bonds and Second Lien Bonds as strong based on MADS coverage from actual FY 2018 pledged revenues of 2.8x, which KBRA considers to be very strong.

Issuance of Special Tax Obligation Bonds has increased since 2015 when Governor Malloy launched the Let's Go CT! transportation initiative to modernize and upgrade the State's transportation infrastructure. Since 2015, the amount of Special Tax Obligation Bonds issued annually has increased from \$600 million to \$850 million in FY 2018. Future issuance is expected to be \$750 million in 2019, \$750 million in 2020, \$1 billion in 2021, and \$1.2 billion in 2022. Annual debt service requirements are expected to increase from \$574 million in 2018 to \$827 million in 2022. KBRA notes that the forecast of annual debt service requirements on future issuances assumes interest costs which appear conservative.

All outstanding STO Bonds are fixed rate and the State has stated that it currently has no intention of issuing variable rate debt.

Based on the foregoing, KBRA views the Coverage and Bond Structure Framework for the issuance of the State of Connecticut's Special Tax Obligation Bonds as being consistent with a AA+ rating for this determinant.

#### **Conclusion**

KBRA has assigned a long-term rating of AA+ with a Stable Outlook to the State of Connecticut Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2018 Series B and Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes, 2018 C, and affirmed outstanding Special Tax Obligation Bonds and outstanding Second Lien Special Tax Obligation Bonds.

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