

**State of Connecticut**

**Special Tax Obligation Bonds Transportation Infrastructure Purposes**

<b>Affirmed</b>	<b>Rating</b>	<b>Outlook</b>
Special Tax Obligation Bonds, Transportation Infrastructure Purposes	AA+	Stable
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**Rating Summary:** 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 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 is 2.84x based upon audited FY 2018 pledged revenues.

**Methodology:**

[U.S. Special Tax Revenue Bond Rating Methodology](#)

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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 passage of a November 2018 ballot measure amended the State Constitution to require that all monies contained in the STF be used solely for transportation purposes, including payment of debt service on debt incurred for state transportation purposes. It also requires that sources of funds deposited into the STF are deposited into the STF so long as such sources are authorized by statute to be collected. KBRA views the constitutional dedication of transportation revenues

positively and the passage of the referendum as reflecting strong public support for transportation. However, transportation revenues remain subject to diversion by statute, as was the case in FY 2020 when \$58 million, a relatively modest amount, was allocated to the General Fund. 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.

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 strong economy with well above average wealth levels. Wealth levels remain very high, with per capita income of \$76,456 at 140% of the national average. However, the state’s recovery from the last recession continues to be sluggish and real gross state product (GSP) contracted in seven of the last ten years.

KBRA understands the State plans an issue of Special Tax Obligation Bonds Transportation Infrastructure Purposes by the end of calendar year 2019 and we will update our analysis at the time of this issuance.

**Key Rating Strengths**

- Stable source of revenues provide good coverage of debt service.
- The state’s commitment to transportation capital funding is strong and is buttressed by the public support for transportation purposes reflected in the passage of the November 2018 referendum.
- Legal protections are favorable including the covenant to maintain at least 2.0x 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.

This report was revised October 3, 2019 to correct amounts shown in the “Highlights” table on page 2 for those items labeled “Oil Companies Tax; Licenses, Permits, and Fees; Sales Tax – DMV; and, Other, Net”. There was no change in the amounts shown for Total Revenues or the Debt Service Coverage Ratio.

**Drivers for Rating Change**

- |   |   |
|---|---|
| • More rapid growth in the State's economy.   | + |
| • An economic downturn that leads to declining coverage levels and budgetary pressure on the State. | - |

<b>Highlights</b> (dollars millions) (FYE June 30)		
	2018	2019 Est. <sup>1</sup>
<b>Pledged Revenues and Coverage</b>		
Motor Fuels Tax	\$ 500	\$ 511
Oil Companies Tax	313	308
Licenses, Permits, Fees	142	152
Sales Tax - DMV	86	87
General Retail Sales and Use Tax	327	371
Motor Vehicle Receipts	253	250
Other, Net	9	6
Total	1,630	1,685
Combined Sen. and Sub. Lien DS	574	642
<b>Debt Service Coverage Ratio</b>	<b>2.84x</b>	<b>2.63x</b>

**Economic Data**

Per Capita Personal Income (2018) (in dollars)	\$76,456
<i>as a % of U.S.</i>	140%
Population (2018)	3,572,665
<i>Growth 2010 to 2018</i>	-0.2%
Real GSP, % Chg. 2010 to 2018	
Connecticut	-2.1%
New England	10.1%
U.S.	19.0%

(1) Estimated FY 2019 revenues based on OPM Letter dated July 19, 2019

**Rating Determinants (RD)**

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+

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