S&P Global Ratings

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Summary:

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

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

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Summary:

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

Credit Profile		
US$800.0 mil GO bnds ser 2021A due 01/15/2041		
Long Term Rating	A/Stable	New
Connecticut GO		
Long Term Rating	A/Stable	Affirmed
Connecticut GO		
Long Term Rating	A/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'A' long-term rating to the State of Connecticut's series 2021A general obligation (GO) bonds. At the same time, we affirmed our 'A' long-term rating and underlying rating (SPUR) on the state's GO debt outstanding and our 'A/A-1' rating on its series 2016C (GO) and 2004B (contract assistance) bonds, our 'A-' rating on state appropriation-backed debt, and our 'BBB' rating on its moral obligation debt. The outlook on all the ratings is stable.

Connecticut is issuing approximately $800 million series 2021A bonds to fund various capital projects throughout the state. The bonds are GOs of the state for which its full faith and credit have been pledged for repayment of principal and interest.

Credit overview

S&P Global Ratings views the state as being in a relatively strong position in fiscal 2021 after weathering the immediate fiscal shocks of the pandemic earlier this year. Entering into the fiscal year, the balance in its Budget Reserve Fund (BRF) was a record high of $3.0 billion and at the statutory limit of 15% of the following fiscal year's general fund net appropriations. The state also ended 2020 with a slight surplus of $38.7 million, excluding a $530.3 million transfer to the BRF under the state's revenue volatility cap, first implemented in fiscal year 2018. For the first time since the volatility cap was implemented, the state was able to transfer excess surplus of $61.6 million toward paying down unfunded pension liabilities.

As the state navigates a weaker and more uncertain economic environment in fiscal 2021, it estimates a $879.4 million draw from the BRF to address its budget deficit. The estimated year-end balance is $2.1 billion and still very strong at 10.8% of estimated general fund expenditures for the year. If revenues were to weaken in the second half of the fiscal year, we view the state's reserves as adequate to address any expected fiscal imbalance. The November consensus revenue forecast was conservative and anticipates rising COVID-19 cases across the nation, reduced consumer activity, and a waning effect of federal stimulus measures.

However, the state's reserve balances will be insufficient to close estimated gaps over the next biennium (fiscal years 2022 and 2023). The November consensus revenue forecast for the general fund estimates a decline of 2.8% in fiscal year 2022 and growth of 2.7% in fiscal 2023 year over year. The Office of Policy and Management (OPM) is still developing current service projections for the upcoming biennium. It's annual Fiscal Accountability Report (November 2020) reports fixed costs exceeding revenue growth in the general fund by $1.6 billion (fiscal 2022) and $246.3 million (fiscal 2023). The state estimates fixed costs approximately 49% of general fund expenditures in fiscal 2020 and include pension and other postemployment benefit (OPEB) contributions, debt service, Medicaid, and other entitlement program costs. OPM expects that once current service reviews are completed, the general fund gap will be greater than $2.0 billion per fiscal year. How the state choses to address its revenue shortfall in the next biennium will be a key consideration of future credit quality.

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. A very high debt burden continues to pressure the state's financial profile. We calculate that Connecticut's approximately $24.7 billion in GO and tax-supported debt at fiscal year-end 2019 puts its total tax-supported debt per capita at about $6,900, a level we consider high. Debt levels rose previously and should stabilize as the state anticipates GO bond issuance in amounts below the GO debt cap, but given adopted bond authorizations and weakening economic indicators, the state's ability to further moderate its debt burden is pressured. We calculate debt to personal income as high at 9% at fiscal year-end 2019 and tax-supported debt service also as high at 14.7% 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.

As of June 30, 2019, the state's overall average pension funded ratio across all plans was only 44%. The three-year average pension funded ratio was also 44%. The total unfunded liability of all plans is about $11,250 per capita, or a high 14% of state personal income. (For additional information on states' funding progress for pension and OPEB liabilities, see our report "Sudden-Stop Recession Pressures U.S. States' Funding For Pension And Other Retirement Liabilities," published Aug. 3, 2020, on RatingsDirect.)

Very strong wealth and income levels remain a hallmark of the state's economic profile. In 2019, its per capita personal income was $77,289 and 137% of the nation. However, its growth in personal income significantly slowed following the Great Recession to a compounded annual growth rate (CAGR) of 2.5% (2009-2018). Economic output has also lagged the nation the past five years, with a real gross state product (GSP) CAGR of 1.12% compared to 2.45% for the nation. Connecticut experienced a greater decline in GSP than national GDP during the last recession, although annual growth was stronger than that of the U.S. in 2007 and 2006 before the recession.

The state's economic performance has been strong for the Northeast region relative to peers during the pandemic. From peak to trough, it lost approximately 17% of nonfarm payrolls and has recovered 66% through October 2020. For October, the state's unemployment rate was 6.1%, better than the national 6.9%. There is also some anecdotal evidence of the it is benefiting from in-migration. Home sales and prices have increased in southern Connecticut, which lies within the New York City metropolitan area. Whether this represents a long-term gain for the state or a short-term response to the pandemic remains unknown. If the state can retain these new residents, it bodes well for future economic stability and growth.

Within the state, education and health services (20.1% of employment) is the largest segment of state employment and significantly higher than the national average (16.0%). Connecticut also has one of the highest concentrations of financial services employment in the country (7.3% state; 5.0% national), while the state's financial industry was hit hard by the last recession, its jobs are generally high-paying and thus are an important support for income and spending. Following the COVID-19-induced recession, financial activities employment thus far appears to be less affected than other sectors. The preservation of these high-paying jobs during the recession has been of benefit to the state.

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 '2.1' 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.

Environmental, social, and governance factors

Our rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. S&P Global Ratings considers health and safety a social risk under our view of environmental, social, and governance (ESG) factors. Absent the social risks of COVID-19, we consider Connecticut to have elevated social risks compared to the sector given its aging population and higher cost of living. These demographic trends could present long-term credit risks to the state's economic and budgetary performance. Environmental risks are considered above those of other states due to its 618 miles of coastline along Long Island Sound. Connecticut's shoreline roads and communities are at risk from rising sea levels. However, we view the state's governance risks as being in line with the sector and it has historically maintained a strong management and policy framework to respond to developing risks. (For more information, see "ESG U.S. Public Finance Report Card: Tri-State Region Governments And Not-For-Profit Enterprises," Oct. 28, 2020.)

Stable Outlook

Upside scenario

If the state is able to weather the economic recession, maintaining good reserve balances through the next biennium and demonstrating a moderating debt burden, we may consider a higher rating. We currently estimate that the majority of our debt ratios may remain at least one-third higher than the threshold triggering our one-notch lower rating over our outlook horizon. This threshold was first triggered at the end of fiscal 2017.

Downside scenario

Should the state rely on significant one-time measures (including deficit bonds or pension deferrals) to address its structural gap or if it sees its reserves deteriorate to low levels as they were before implementation of the volatility transfer, we may lower the rating. We also note that the state's three-year average pension funding ratio is close to our threshold of 40%, and may result in further downward rating action if pension funding levels deteriorate.

For more information, continue to our full analysis on the State of Connecticut, published May 15, 2020, on RatingsDirect.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of December 7, 2020)		
Connecticut APPROP		
Long Term Rating	A-/Stable	Affirmed
Connecticut GO		
Long Term Rating	A/Stable	Affirmed
Connecticut GO		
Long Term Rating	A/Stable	Affirmed
Connecticut GO		
Long Term Rating	A/Stable	Affirmed
Connecticut GO		
Long Term Rating	A/Stable	Affirmed
Connecticut GO		
Long Term Rating	A/Stable	Affirmed
Connecticut GO		
Long Term Rating	A/Stable	Affirmed
Connecticut GO		
Long Term Rating	A/Stable	Affirmed
Connecticut GO		
Long Term Rating	A/Stable	Affirmed
Connecticut GO		
Long Term Rating	A/A-1/Stable	Affirmed
Connecticut GO		
Long Term Rating	A/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Connecticut GO		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO bnds ser 2019 A dtd 04/11/2019 due 04/15/2020-2039		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO bnds ser 2019 A dtd 04/11/2019 due 04/15/2020-2039		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Ratings Detail (As Of December 7, 2020) (cont.)		
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Ratings Detail (As Of December 7, 2020) (cont.)		
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Ratings Detail (As Of December 7, 2020) (cont.)		
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Ratings Detail (As Of December 7, 2020) (cont.)		
Connecticut GO (BAM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (BAM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (FGIC)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (FGIC) (National)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (MBIA) (National)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut GO (MBIA) (National)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Capital Region Development Authority, Connecticut		
Connecticut		
Capital City Econ Dev Auth (Connecticut) GOEQUIV		
Long Term Rating	A/A-1/Stable	Affirmed
Capital Region Dev Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Capital Region Dev Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Capital Region Dev Auth (Connecticut) GOEQUIV		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut Green Bank, Connecticut		
Connecticut		
Connecticut Green Bank (Connecticut) (Climate Bond Certified)		
Long Term Rating	A/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth, Connecticut		
Connecticut		
Connecticut Hlth & Educl Facs Auth (Connecticut) APPROP		
Long Term Rating	A-/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) APPROP		
Long Term Rating	A-/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GO		
Long Term Rating	A/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GO		
Long Term Rating	A/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed

Ratings Detail (As Of December 7, 2020) (cont.)		
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV (BAM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) MORALOB (ASSURED GTY)		
Unenhanced Rating	BBB(SPUR)/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) (BAM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut Hlth & Educl Facs Auth (Connecticut) (BAM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut Hsg Fin Auth, Connecticut		
Connecticut		
Connecticut Hsg Fin Auth (Connecticut) state-supported sp oblig bnds		
Long Term Rating	A/Stable	Affirmed
Connecticut Hsg Fin Auth (Connecticut) state-supported sp oblig bnds		
Long Term Rating	A/Stable	Affirmed
Connecticut Hsg Fin Auth (Connecticut) state-supported sp oblig bnds (Connecticut) ser 24 due 06/15/2048		
Long Term Rating	A/Stable	Affirmed
Connecticut Hsg Fin Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Connecticut Hsg Fin Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Connecticut Hsg Fin Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Connecticut Hsg Fin Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Connecticut Hsg Fin Auth (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed

Ratings Detail (As Of December 7, 2020) (cont.)		
Connecticut Innovations Incorporated, Connecticut		
Connecticut		
Connecticut Dev Auth (Connecticut) GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut Dev Auth (Connecticut) GO (MBIA) (National)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Connecticut Innovations Inc (Connecticut) GOEQUIV		
Long Term Rating	A/Stable	Affirmed
Hartford, Connecticut		
Connecticut		
Connecticut GO (ASSURED GTY)		
Unenhanced Rating	A(SPUR)/Stable	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.

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