

Rating Action: Moody's assigns Aa3 to Connecticut GO bonds; outlook stable

14 May 2021

New York, May 14, 2021 -- Moody's Investors Service has assigned a Aa3 rating to approximately \$1 billion of the State of Connecticut's general obligation bonds, consisting of \$300 million General Obligation Bonds (2021 Series B) (Social Bonds), \$175 million General Obligation Refunding Bonds (2021 Series C), \$225 million of General Obligation Refunding Bonds (2021 Series D) (Forward Delivery) (Social Bonds) and \$300 million of Taxable General Obligation Refunding Bonds (2021 Series A). The bonds are expected to price May 19 and close June 4, except for the Series D bonds which are expected to close August 3. The outlook is stable.

RATINGS RATIONALE

Connecticut's Aa3 GO rating reflects the state's continued commitment to numerous governance improvements that have already borne fruit in the accumulation of significant budgetary reserves and good financial performance through the pandemic. The reserves are critical in mitigating budgetary inflexibility created by the state's heavy debt and retiree benefit liabilities, which are among the highest of the states. The policies creating the reserves also reduce the impacts of revenue volatility, promote more robust funding of the state's pension systems and lead to better budget management. The Aa3 rating also reflects Connecticut's high income and wealth levels offset by a lagging economy and recent consecutive years of population loss, making liabilities more burdensome.

Recent Developments

Because of better-than-expected revenue collections, Connecticut's state budget office currently projects that the state will end fiscal 2021 with a \$250 million budget surplus and make a deposit into its rainy day fund of roughly \$950 million. Because the state will have exceeded its threshold for the fund's balance, most of that deposit will then be transferred as additional deposits to the state's pension funds. Governor Lamont is in negotiations with the state legislature to craft the fiscal 2022-2023 biennial budget, which he proposes to balance with a significant portion of the state's allocation from the federal American Rescue Plan Act as well as other spending and revenue initiatives.

RATING OUTLOOK

Connecticut's outlook is stable, reflecting high level of budgetary reserves and the state's strong provisions to promote fiscal discipline, which include bolstering funding of its pension system, improving liquidity and requiring GAAP-based budgeting.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Reduced pension and debt leverage relative to the state's economic base, resulting in lower fixed costs
- Evidence of sustained stronger economic performance

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Significant additional leverage, encompassing bonded debt, pension and OPEB obligations and negative unassigned GAAP balances
- Rapid acceleration of revenue/economic/demographic weakness
- Significant decline in liquidity position

LEGAL SECURITY

The state's GO rating is secured by the state's full faith and credit pledge.

USE OF PROCEEDS

Proceeds from the 2021 Series B and 2021 Series D social bonds will be used to finance school construction (Series B) or refund outstanding bonds that originally financed school construction projects (Series D). Proceeds from the 2021 Series C bonds will refund certain outstanding GO bonds previously issued by the state. The 2021 Series A new money bonds will finance various capital projects of the state.

PROFILE

The State of Connecticut has a population of 3.56 million people located in the coastal northeastern US, bordered by Rhode Island (Aa2 stable), Massachusetts (Aa1 stable) and New York (Aa2 stable) with 618 miles of shoreline, according to the National Oceanic and Atmospheric Administration (NOAA). The state has a large and diverse economy with a gross state product of \$280.9 billion in 2020. It is the wealthiest state in the country with per capita income of nearly 134% of the US average.

METHODOLOGY

The principal methodology used in this rating was US States and Territories published in April 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1084466 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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