

Rating Action: Moody's assigns Aa3 to Connecticut's Special Tax Obligation Bonds, 2021 Series D

29 Oct 2021

New York, October 29, 2021 -- Moody's Investors Service has assigned a Aa3 rating to Connecticut's \$500 million Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2021 Series D. The bonds are scheduled to price the week of November 8th and close the week of December 1st. The outlook is stable.

RATINGS RATIONALE

The Aa3 rating incorporates the strong legal covenants, including a two times additional bonds test and a combined senior and second lien debt service reserve funded at maximum aggregate annual debt service; the diversified stream of pledged revenues with some sensitivity to economic fluctuations; and satisfactory debt service coverage.

RATING OUTLOOK

The bonds carry the stable outlook of the State of Connecticut (Aa3), which reflects a 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 OF THE RATING

- Upgrade of state GO rating

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Downgrade of the state's GO rating
- Revenue declines resulting in lower debt service coverage
- Weakened legal covenants

LEGAL SECURITY

The bonds are secured by a gross pledge of motor fuels tax, oil companies' tax, general retail sales taxes, motor vehicle receipts, licenses, permits and fees and sales taxes. The security has been diversified with the inclusion of a portion of general sales taxes and a growing portion of sales tax on motor vehicles. By 2023, 100% of the sales tax on motor vehicles is scheduled to be pledged to the bonds. Pledged revenues are credited to the STF and once deposited to the fund are constitutionally dedicated to transportation purposes. The state projects that with this issuance, coverage of current debt service by pledged revenues will be 2.5x in fiscal 2022.

USE OF PROCEEDS

Proceeds of the Series D new money bonds will be used to fund various state transportation infrastructure projects.

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 positive) 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 \$276 billion in 2020. It is the wealthiest state in the country with per capita income of nearly 132% of the US average.

METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260087. 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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Marcia Van Wagner
Lead Analyst
State Ratings
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Timothy Blake
Additional Contact
MSPG
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



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