S&P Global
Ratings

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Summary:

Connecticut; State Revolving Funds/Pools

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Summary:

Connecticut; State Revolving Funds/Pools

Credit Profile		
US$250.0 mil state revolving fund general rev bnds (Clean Wtr Fd) ser 2019A due 02/01/2039		
Long Term Rating	AAA/Stable	New
US$30.775 mil state revolving fund general rev bnds (Clean Wtr Fd) ser 2019B due 10/01/2022		
Long Term Rating	AAA/Stable	New
Connecticut		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AAA' rating to Connecticut's state revolving fund (SRF) general revenue bonds (green bonds 2019 series A, designated green bonds, and refunding series B). At the same time, we affirmed our 'AAA' rating on the SRF's general revenue bonds outstanding. The outlook is stable. Because we view securitizations backed by pools of public-sector assets as highly sensitive to country risk, the rating on the securitization is capped at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'.

We understand the state intends to use the proceeds of the series A bonds to fund additional clean water and drinking water loans under the state revolving clean water and drinking water fund programs, while the series B bonds will be used to refund outstanding SRF bonds for savings. The bonds are issued pursuant to a general revenue bond resolution. Under this general bond resolution, debt service on the bonds is paid from available money, which primarily includes pledged borrower obligations and money in the accounts of the support fund, but also includes money on hand in the debt service fund. Additionally, any unpledged assets in the revolving fund are also available to cover debt service requirements. The support fund is funded with assets of the SRF according to the support fund requirement specified in the supplemental resolutions for each series.

The 'AAA' rating reflects our view of the state's extremely strong enterprise risk and financial risk profiles, reflecting the program's:

- Low industry risk score and extremely strong market position;
- Extremely strong loss coverage score (LCS) due to program reserves and annual coverage generated from borrower payments;
- Excellent history of borrower repayment, with no loans in default; and
- Generally strong financial policies and practices.

With this issuance, there will be about $865 million of bonds outstanding, supported by $2.2 billion of loans either outstanding or committed though April 2020, along with an additional $50.3 million of available pledged reserves and

$25.9 million in associated support funds. These amounts are currently invested with Trinity Funding Co. LLC, Bank of America Corp., American International Group Inc., or Société Generale, or in state and local government securities. Another $349 million is also available in the general revenue receipt fund. Although not pledged, these funds provide legitimate and significant support because they can only be used for debt service or to make future loans, whose repayment would flow to a pledged account.

The cash flows are structured so that a combination of borrower payments and scheduled releases of investment principal and earnings from the support fund provides sufficient funds to pay bond principal and interest. Therefore, the support fund is not a true reserve fund in the manner of other SRF programs. Rather, the over-collateralization, and protection against revenue shortfalls, comes primarily from unpledged, but available, cash and short-term investments. Historically, the amount of cash and short-term investments available to the program has been stable since the transition from the prior resolution to the current one, aside from a large defeasance in 2008.

Averaging all of the financial policies and practices, we view the corpus of these as ranging from strong to good. Management performs a credit review for all new loans and has the ability to require a debt service reserve fund from borrowers. All participants must submit annual financial statements. Loan payments are made monthly, allowing for early identification and resolution of any late payments. Permitted investments within the bond resolutions are fairly permissive, but over 75% of current assets are held in the state short-term investment fund. Management also prioritizes projects annually using criteria established in state statute. Management has indicated that there have been no loan defaults since the program's organization in 1986, which we view as extremely low.

Program features and bond provisions

The Connecticut SRF has been actively involved with sewer and water infrastructure needs in the state since 1986. There are currently about $1.4 billion of clean water and drinking water loans outstanding; the borrower interest rate for loans in both programs is currently 2.0%. Repayments are deposited into the clean water and drinking water revolving funds as received; these accounts are cross-collateralized. Any repayments not needed for bond debt service may be used to make additional loans. Management has indicated that it expects ongoing demand for water and sewer infrastructure project funding.

Management has indicated that more than 75% of program loans are secured with a general obligation (GO) pledge. The largest five borrowers represent over 50% of outstanding loans, with the largest participant being the Metropolitan District of Hartford County (outstanding 'AA/Stable' GO bond rating).

Outlook

The stable outlook reflects S&P Global Ratings' expectation that SRF management will maintain its historical practices of sound program operations and performance. Rating stability is predicated on our belief that management will likely maintain sizable liquid assets in the program that, while not specifically pledged, provide sufficient support to the program. In our view, downside risks, while minimal, exist in that available cash and short-term investments could be used to make loans with a payment structure that does not provide sufficient coverage of projected bond principal and interest payments to cover the level of defaults needed to maintain the current LCS. Should this occur and result in insufficient collateralization for the program to withstand certain default scenarios, we could lower the rating.

Ratings Detail (As Of June 5, 2019)		
Connecticut Clean Wtr Fd state revolving		
Long Term Rating	AAA/Stable	Affirmed
Connecticut		
Connecticut Clean Wtr Fd, Connecticut		
Connecticut (Connecticut Clean Wtr Fd) state revolv		
Long Term Rating	AAA/Stable	Affirmed
Connecticut (Connecticut Clean Wtr Fd) st revolv fd gen rev bnds		
Long Term Rating	AAA/Stable	Affirmed
Connecticut Clean Wtr Fd, Connecticut		
Connecticut		
Connecticut Clean Wtr Fd (Connecticut) SRFPOOL		
Long Term Rating	AAA/Stable	Affirmed