State of Connecticut

Special Tax Obligation Bonds Transportation Infrastructure Purposes

Issuer: State of Connecticut		
Assigned	**Rating**	**Outlook**
Special Tax Obligation Bonds, Transportation Infrastructure Purposes, 2020 Series A	AA+	Stable
Affirmed	**Rating**	**Outlook**
Special Tax Obligation Bonds, Transportation Infrastructure Purposes	AA+	Stable

Methodology:

U.S. Special Tax Revenue Bond Rating Methodology

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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 historically provided strong debt service coverage, including coverage exceeding 2.6x in FY2019. As of April 30, pledged revenue projections for the year ending June 30, 2020 were revised downward 9.2% from the prior January 2020 estimate to reflect revised expectations in the context of social distancing measures implemented in response to the COVID-19 crisis, but coverage is projected to remain strong at 2.3x.

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 so long as these sources of funds are authorized by statute to be collected, they must be deposited into the STF. KBRA views the constitutional dedication of transportation revenues positively and the passage of the referendum as reflecting strong public support for transportation. Transportation revenues remain subject to diversion by statute, but in a manner that respects the minimum coverage covenant that pledged revenues must provide no less than 2.0x coverage of debt service. A relatively modest amount was allocated to the General Fund by statute in 2020. 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. Projections call for parity borrowing of $850 to $875 million annually through FY 2024. Based on April 30 consensus revenue estimates which account for COVID-19 related disruptions and anticipated future borrowings, debt service coverage is projected to range from 2.2x to 2.3x over this period.

Connecticut has historically had a very strong economy with well above average wealth levels. Wealth levels remain very high, with per capita income of $79,087 at 140% of the national average in 2019. However, the state's recovery from the last recession was sluggish and real gross state product (GSP) contracted in seven of the last twelve years. Social distancing measure implemented in response to the ongoing COVID-19 pandemic will additionally weigh on the state in the near term. The depth, duration, and ultimate pace of the economic recovery as the economy reboots remains to be seen.

The Stable Outlook reflects KBRA's expectation that debt service coverage on the bonds will remain ample in the near term despite COVID-19 related economic disruption because of the diversity and historic performance of the pledged revenues.

Key Credit Considerations

KBRA continues to monitor the direct and indirect impacts of the COVID 19 virus on the U.S. Special Tax Revenue Bond sector. Please refer to ongoing research on the topic **here** for more information.

The rating was assigned because of the following key credit considerations:

Credit Positives

- Stable source of revenues provides 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.

Credit Challenges

- The State's rate of economic recovery has been significantly slower than that of the U.S. and New England region over the last several years.
- The level of unfunded pension liabilities remains high.

Rating Sensitivities

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

ESG Considerations

When relevant to credit, ESG factors are incorporated into the credit analysis in the same manner as all other credit-relevant factors. Among the ESG factors that have impact on this rating analysis are:

- Discussion in RD 3: Economic Base and Demographics reflects Social Factors. KBRA has examined the following areas for this credit: trends in population, education, income, poverty levels, employment, unemployment and GSP as well as the potential impacts of the COVID-19 pandemic on the State's economic outlook.

More information on ESG Considerations for the Public Finance sector can be found **here**.

Highlights (dollars millions) (FYE June 30)		
	2019	**2020 Est.**[1]
Pledged Revenues and Coverage		
Motor Fuels Tax	$ 510	$ 483
Oil Companies Tax	313	246
Licenses, Permits, Fees	150	143
Sales Tax - DMV	87	84
General Retail Sales and Use Tax	371	387
Motor Vehicle Receipts	250	260
Other, Net	7	(37)
Total	1,688	1,566
Debt Service	642	687
Debt Service Coverage Ratio	**2.63x**	**2.28x**
Economic Data		
Per Capita Personal Income (2019) (in dollars)	$79,087	
as a % of U.S.	140%	
Population (2019)	3,565,287	
Growth 2010 to 2019	-0.4%	
Real GSP, % Chg. 2010 to 2019		
Connecticut	0.5%	
New England	13.5%	
U.S.	22.3%	

(1) Estimated FY 2020 revenues based on OPM Letter dated April 30, 2020.

KBRA KROLL BOND RATING AGENCY

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+

RD 1: Legal Framework

KBRA views the legal and statutory framework underlying the issuance of the State's Special Tax Obligations as providing strong bondholder protection.

In 2015, the General Assembly passed legislation that established the Special Tax Fund (STF) as a perpetual fund and stated that, once funds are deposited in the STF, these funds can only be used for transportation purposes. The passage of a November 2018 ballot measure amended the State Constitution to establish the STF as a permanent fund of the State.

State Coverage Covenant

Under the Senior Indenture, the State covenants to provide pledged revenues in each fiscal year, computed as of the end of the fiscal year, in an amount equal to at least 2.0x the aggregate debt service on all Senior Bonds. KBRA considers the existence of the State covenant as positive and views the required 2.0x coverage level as strong. In the event that debt service coverage does not meet the 2.0x requirement, the State must pass legislation within a year to satisfy this coverage requirement.

Debt Service Reserve Fund

The bonds are secured by debt service reserve funds which are cash funded in an amount equal to combined MADS. Under both the Indenture, upon issuance of additional bonds, the debt service reserve funds must be funded to combined MADS.

Flow of Funds

All pledged revenues collected by the State are identified and credited to the STF held by the State on a daily, monthly or quarterly basis, depending on the source. Pledged revenues will be transferred monthly, as follows:

First, to the debt service accounts in an amount equal to 1/12th of the principal and interest requirement on the Senior Bonds and Senior Notes in the next year.

Second, to the debt service reserve account under the Senior Indenture to maintain the fund requirement of maximum annual debt service.

Third, to the debt service accounts under the Second Lien Indenture in an amount equal to the principal and interest requirement on the Second Lien bonds in the next year. The State may also issue Second Lien Notes.

Fourth, to the debt service reserve account under the Second Lien Indenture to maintain the fund requirement of combined maximum annual debt service reflecting both the Senior and Second Lien Bonds.

Fifth, after all deposits have been made under the Senior and Second Lien indenture, pledged revenues are used, subject to annual appropriation by the General Assembly, for payment of debt service on State general obligation bonds issued for transportation purposes and to the payment of State budget appropriations for the State Department of Transportation and the DMV. Funds may not be used for the general purposes of the State, only transportation purposes.

The State redeemed the last outstanding Second Lien obligations on April 7, 2020.

Additional Bonds Test

Additional Bonds may be issued under the Senior Lien Indenture if pledged revenues paid into the STF for any period of 12 consecutive months out of the last 18 months, adjusted for enacted changes in taxes and fees and certified in a certificate issued by the OPM is equal to 2.0x combined debt service requirements on outstanding and proposed Senior and Second Lien Bonds and interest requirements on Senior Notes for the current and each succeeding fiscal year, which KBRA views as a conservative test.

Bankruptcy Assessment

Under Chapter 9 of the U.S. Bankruptcy Code, state governments are not permitted to petition courts for protection from creditors, including holders of their general obligation debt.

RD 2: Nature of Special Tax Revenues

KBRA views the pledged special taxes as providing a diverse, broad based source of payment for the bonds. The pledged revenues include a number of taxes and fees on transportation activity across the State: taxes on gasoline and diesel, a tax on gross receipts of oil companies and a diversity of fees and charges related to motor vehicles. In addition, pledged revenues include a portion of the State sales tax which is levied on a broad retail sales base. The pledged revenues are derived from activities and sales which KBRA views as essential goods and services.

RD 3: Economic Base and Demographics

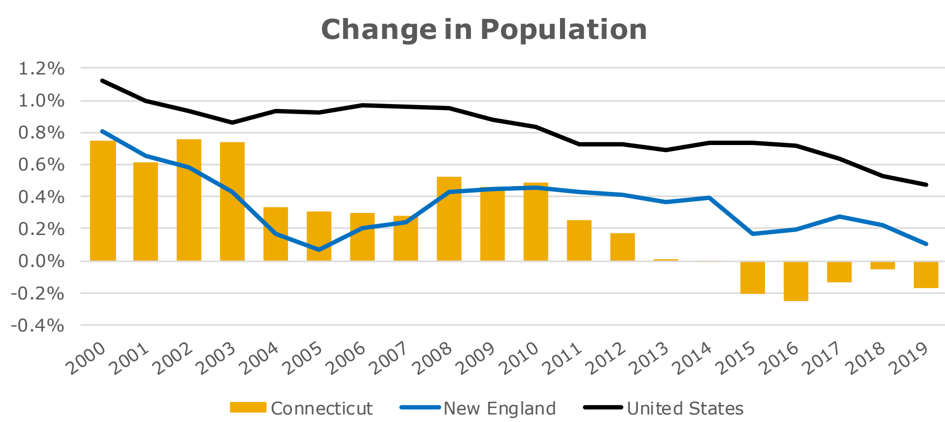
The State's economic base is highly developed but has experienced slow growth in recent years. Per capita personal income ranks first among the 50 States and high levels of educational attainment and low levels of poverty position the State well relative to peers in several areas. Population growth, however, has been flat since 2010 as the New England region and U.S. have grown more rapidly at 2.6% and 6.1%, respectively. Per capita personal income levels have also grown slowly in recent years and real gross state product (GSP) through 2019 has been nearly flat since 2010.

The State however continues to benefit from a diverse and highly productive economic base. In 2019, 14 "Fortune 500" companies were headquartered in Connecticut, including United Technologies Corporation (UTC), Cigna, Charter Communications, Hartford Financial Services and Stanley Black & Decker. The defense industry is an important component of the State's economy and has demonstrated renewed strength since 2002, a trend that is expected to continue. Major defense companies include UTC and its Pratt and Whitney Aircraft Division, Sikorsky Aircraft (a division of Lockheed Martin), and General Dynamics Corporation's Electric Boat Division.

UTC, historically headquartered in Hartford, CT completed a merger with Raytheon Company in April 2020 to form Raytheon Technologies. The consolidated entity is headquartered in Waltham, MA but Governor Lamont has stated that nearly all of UTC's 19,000 employees will remain in Connecticut, with approximately 100 moving to the new headquarters.

Population

Total population has dropped slightly over the last five years, lagging the positive growth of the region and U.S.



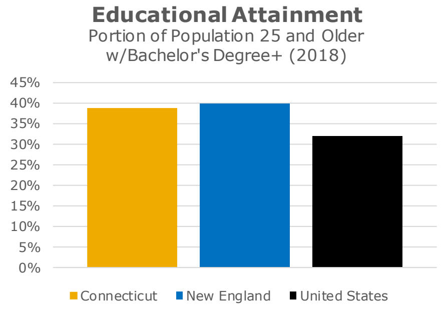
	2010	2019	Δ 2010 to 2019 (%)
Connecticut	3,579,114	3,565,287	-0.4%
New England	14,469,650	14,845,063	2.6%
U.S.	309,321,666	328,239,523	6.1%

Source: U.S. Census Bureau

Educational Attainment, Poverty, and Age Groups

The level of educational attainment in Connecticut and the New England region is high relative to the U.S. Poverty in the State is well below the U.S. average. Connecticut's proportion of working age individuals is higher than the U.S.

FIGURE 1

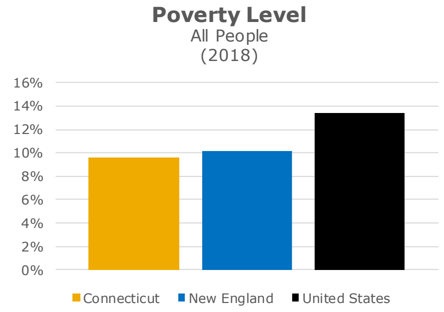


Educational Attainment

	2010	2018	Point Δ 2010 to 2018
Connecticut	35.5%	39.6%	4.1
New England	35.6%	37.5%	1.9
United States	28.2%	32.6%	4.4

Source: U.S. Census

FIGURE 2

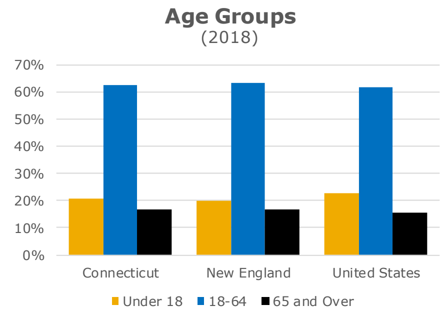


Poverty Level

	2010	2018	Point Δ 2010 to 2018
Connecticut	10.1%	10.4%	0.3
New England	11.2%	10.3%	-0.9
United States	15.3%	13.1%	-2.2

Source: U.S. Census

FIGURE 3



Age Groups

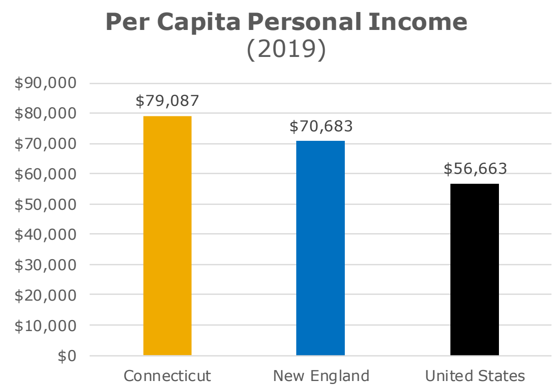
	Under 18	18-64	65 and Over
Connecticut	20.7%	62.5%	16.8%
New England	19.9%	63.2%	16.9%
United States	22.6%	61.8%	15.6%

Source: U.S. Census

Per Capita Personal Income

Per capita personal income at $79,087 in 2019 is the highest in the country reflecting the concentration of the State's economy in high value-added industries. Per capita personal income growth however has lagged since 2010.

FIGURE 4



Per Capita Personal Income

	2010	2019
Connecticut as a % of New England	119%	112%
Connecticut as a % of United States	153%	140%

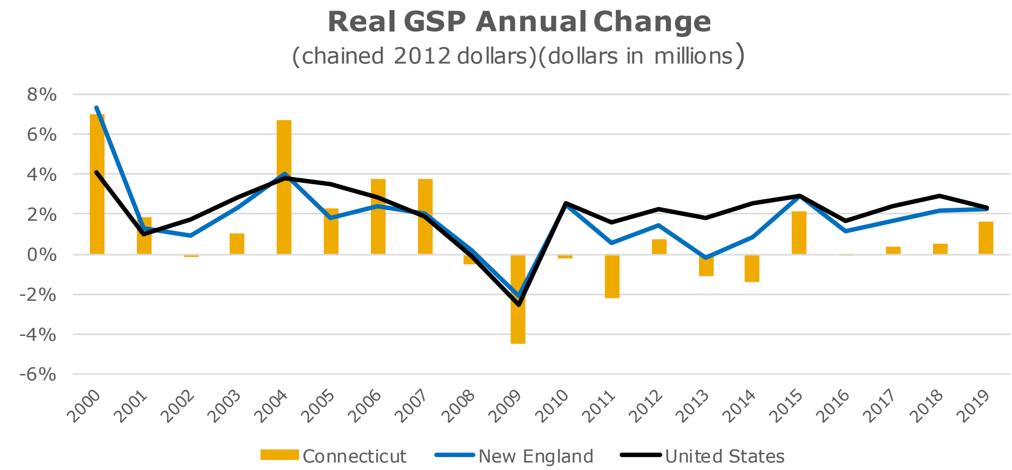
Source: Bureau of Economic Analysis

Real Gross State Product

Connecticut's real (inflation adjusted) GSP experienced a more pronounced decline and weaker recovery following the Great Recession than the region and U.S. overall, contracting in seven of the last twelve years. In KBRA's view, the decline reflects poor performance in the State's pharmaceuticals and financial activities sectors, both of which were outsized contributors to growth in the decade preceding the Great Recession. The financial activities sector has declined from 31.0% of GSP in 2009 to 27.7% in 2019. Pharmaceutical sector activity has additionally declined due to the reduction of activity in the State by Pfizer, Bayer, and Bristol Myers Squibb. This drag is evidenced by the decline in chemical manufacturing as a share of total GSP from 7.5% in 2006 to 1.7% in 2017.[1]

[1] Most recent GSP data for chemical manufacturing sector is 2017.

FIGURE 5



($ in Millions)	2010	2019	% Δ 2010 to 2019
Connecticut	247,461	248,819	0.5%
New England	871,810	989,428	13.5%
United States	15,598,753	19,073,056	22.3%

Source: U.S. Bureau of Econocmic Analysis

Employment

Unemployment has tracked closely with the U.S. over the last decade but trailed the performance of the region. The State unemployment rate was 3.9% as of March 2020, which was somewhat higher than the New England region (3.6%) but lower than the U.S. (4.5%).

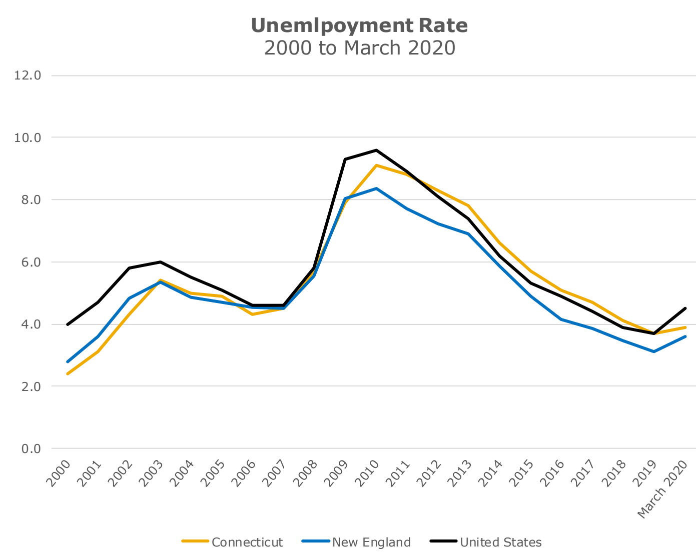
FIGURE 6

Employment (Not Seasonally Adjusted) (in thousands)

Year	Connecitcut	Δ YOY (%)	New England	Δ YOY (%)	United States	Δ YOY (%)
2000	1,722		7,131		136,891	
2001	1,705	-1.0%	7,127	0.0%	136,933	0.0%
2002	1,697	-0.4%	7,116	-0.2%	136,485	-0.3%
2003	1,688	-0.5%	7,103	-0.2%	137,736	0.9%
2004	1,686	-0.1%	7,115	0.2%	139,252	1.1%
2005	1,709	1.4%	7,168	0.7%	141,730	1.8%
2006	1,749	2.3%	7,260	1.3%	144,427	1.9%
2007	1,773	1.4%	7,304	0.6%	146,047	1.1%
2008	1,775	0.1%	7,278	-0.4%	145,362	-0.5%
2009	1,741	-1.9%	7,109	-2.3%	139,877	-3.8%
2010	1,737	-0.2%	7,103	-0.1%	139,064	-0.6%
2011	1,746	0.5%	7,141	0.5%	139,869	0.6%
2012	1,730	-0.9%	7,171	0.4%	142,469	1.9%
2013	1,718	-0.7%	7,197	0.4%	143,929	1.0%
2014	1,763	2.6%	7,342	2.0%	146,305	1.7%
2015	1,781	1.0%	7,426	1.1%	148,834	1.7%
2016	1,794	0.8%	7,525	1.3%	151,436	1.7%
2017	1,808	0.8%	7,632	1.4%	153,337	1.3%
2018	1,822	0.8%	7,765	1.7%	155,761	1.6%
2019	1,842	1.1%	7,844	1.0%	157,538	1.1%
March 2019	1,820		7,766		156,441	
March 2020	1,837	0.9%	7,713	-0.7%	155,167	-0.8%
Growth 2007/2008 Cyclical Peak to 2019	**3.8%**		**7.4%**		**7.9%**	

Source: US Bureau of Labor Statistics

FIGURE 7



Source: US Bureau of Labor Statistics

Preliminary March 2020 employment increased 0.9% year over year despite the phase in of social distancing measures implemented mid-month in response to the COVID-19. KBRA anticipates that employment data for Connecticut in coming months will show deterioration. Initial weekly unemployment claims in Connecticut ranged from 3,000 to 8,000 in 2020 through March 14th but have subsequently average near 44,000 in each of the last six weeks through Aril 25th.

While the duration and severity of COVID-related headwinds remains to be seen, a pronounced recessionary environment appears increasingly likely in the near term both in Connecticut and nationally.

RD 4: Revenue Analysis

On an overall basis, historical pledged revenues have shown limited sensitivity to economic conditions, except for the oil companies tax which is sensitive to wholesale gasoline prices. The unprecedented nature of the COVID-19 pandemic is projected to lead to reduced pledged revenue, although coverage is projected to remain strong. The State's coverage covenant to maintain 2.0x annual debt service coverage from pledged revenues is a key mitigating credit feature.

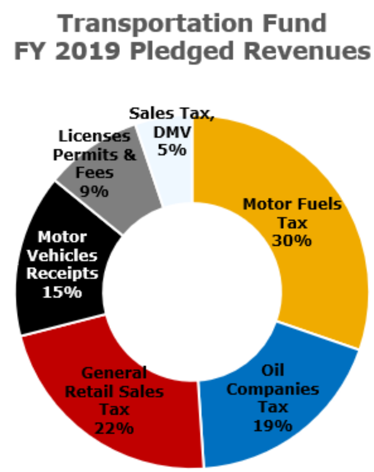
Fuel related taxes account for approximately 49% of FY 2019 revenues, these taxes include:

- **motor fuel tax** (a per gallon gasoline tax and a diesel tax with a fuel-price dependent component) and
- **oil companies tax**, which is highly sensitive to oil prices.

The next largest pledged revenue source is sales taxes followed by motor vehicle receipts (largely registration fees).

CT ranks at the high end of the range for fuel tax rates among northeast states. CT's gasoline motor fuel taxes ranks 11th highest among the States as of January 2020.[2]

FIGURE 8



Source: State of Connecticut State Comptroller Statutory Basis (GAAP Based Budgeting) Annual Report for FY 2019

Trends in Revenues

The April 30, 2020 Office of Policy and Management estimate of FY 2020 (YE 6/30/20) Transportation Fund revenues are estimated at 10.5% below budget, reflecting the economic contraction resulting from the coronavirus (COVID-19) pandemic which is reducing motor fuel consumption and depressing fuel prices. With the exception of licenses, permits and fees, all major revenue sources are underperforming budget. The largest decline is in the oil companies tax, which is sensitive to fluctuations in both consumption and price.

The Transportation Fund had revenue of $1,688 million in FY 2019 (see table below), which exceeded the budget by $68 million. The strongest performing tax category was the Oil Companies tax, as higher than anticipated oil prices resulted in collections $33 million above target.

The state began allocating sales taxes to the STF in 2016, with 0.3% of the statewide tax of 6.35% deposited in the STF. The allocation was increased to 0.4% in 2017 and 0.5% in 2018. Beginning in 2019, 8% of the sales taxes collected on the sales of new cars was allocated to the STF, with a phased increase in the dedication to 100% of new car sales tax by 2023. The increased allocations of sales taxes have driven the growth in STF revenues in recent years and is the main driver for projected growth in sales tax revenue. General Fund budgetary pressures have impacted the allocation, and further pressure on diverting sales tax funds is possible.

[2] American Petroleum Institute State Motor Fuel Taxes Rates as of January 1, 2020.

FIGURE 9

Actual, Estimated, and Projected Debt Service Coverage FYE June 30 (dollars in millions)	Actual					Biennial Budget		Projected		
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Motor Fuels Tax	517	518	499	500	510	483	492	477	496	503
% change	*1.7%*	*0.3%*	*-3.8%*	*0.3%*	*2.0%*	*-5.3%*	*2.0%*	*-3.0%*	*4.0%*	*1.4%*
Oil Companies Tax[1]	338	250	238	313	313	246	215	267	305	324
% change	*-11.2%*	*-26.0%*	*-4.6%*	*31.1%*	*0.2%*	*-21.6%*	*-12.6%*	*24.5%*	*14.1%*	*6.4%*
Sales Tax[2]	-	109	188	327	371	387	396	583	679	693
% change	*-*	*-*	*72.8%*	*73.8%*	*13.2%*	*4.5%*	*2.2%*	*47.3%*	*16.5%*	*2.0%*
Motor Vehicles Receipts	250	252	243	253	250	260	326	264	266	274
% change	*5.7%*	*0.8%*	*-3.4%*	*4.2%*	*-1.1%*	*3.9%*	*25.3%*	*-19.1%*	*0.8%*	*3.3%*
Licenses, Permits & Fees	145	144	144	142	150	143	147	148	148	149
% change	*5.1%*	*-1.0%*	*0.1%*	*-1.5%*	*5.8%*	*-4.7%*	*2.5%*	*0.7%*	*0.4%*	*0.4%*
Sales Tax - DMV	84	87	85	86	87	84	80	87	88	89
Federal Payments	12	12	12	12	12	12	12	11	10	9
Interest Income	7	8	9	18	37	22	6	10	11	13
Transfers	35	(7)	(7)	(6)	(6)	(36)	25	(6)	(6)	(6)
To Transportation Strategy Board	(15)	-	-	-	-	-	-	-	-	-
Total	1,372	1,374	1,412	1,645	1,725	1,601	1,697	1,840	1,998	2,048
Refunds	(11)	(21)	(17)	(15)	(37)	(35)	(20)	(21)	(21)	(22)
Total Net Revenues	**1,361**	**1,353**	**1,395**	**1,630**	**1,688**	**1,566**	**1,677**	**1,819**	**1,976**	**2,026**
% change	*8.4%*	*-0.6%*	*3.1%*	*16.9%*	*3.6%*	*-7.2%*	*7.1%*	*8.5%*	*8.6%*	*2.5%*
Debt Service[3]	**460**	**493**	**543**	**575**	**642**	**687**	**768**	**806**	**855**	**903**
Debt Service Coverage	***2.96x***	***2.74x***	***2.57x***	***2.83x***	***2.63x***	***2.28x***	***2.18x***	***2.26x***	***2.31x***	***2.24x***

Source: Actuals from Comptroller's Annual Reports; FY 2020 Biennial Budget Figures from OPM letter of April 30, 2020, which reviesed the letter of April 20, 2020 for the period ending June 30, 2020; FY 2021 through FY 2024 Figures taken from April 30, 2020 Concensus Revenue Estimate.

[1]All oil companies tax collections deposited to STF beginning FY2016.

[2]Reallocation of sales tax began in FY2016, at an increasing rate, with phase in of new car sales tax beginning at 8% in FY 19, 33% in FY 20, 56% in FY 21, 75% in FY22, and 100% in FY23.

[3]Includes existing debt sergice requirements plus and anticipated debt service on projected annual issuance ranging from $850 million to $875 each year from FY 2020 to FY 2024.

Revised revenue estimates reflecting the new reality of the COVID-19 crisis were released in an OPM letter dated April 30, 2020. The forecast revised downward the net pledged revenue estimate for the year ending June 30, 2020 by 9.5% relative to the January 15, 2020 forecast.

Motor Fuels Tax

The Motor Fuels Tax revenue consists of three taxes: the gasoline tax, the special fuels tax (includes diesel), and the motor carrier road tax. The gasoline tax is the dominant source of the motor fuel tax. The tax is levied on gallons sold, has limited fuel price exposure and thus does not experience extreme volatility from fuel price swings. Annual revenue growth since 2008 has averaged about 1%, reflecting constrained consumption growth from both sluggish economic growth and the increasing efficiency of motor vehicles.

The gasoline tax rate is currently 25 cents/gallon and has been unchanged for over ten years. The diesel tax rate is set at a base rate of 29 cents per gallon plus a factor equal to the average wholesale price times the Oil Companies Tax rate. (The wholesale rate is as reported by the Oil Price Information Service weekly, from April 1 to March 31, for period prior to the rate effective date of July 1.) The CT's Motor Fuels Tax is paid by distributors monthly to the STF, helping to provide a smooth cashflow for the STF.

The April 30, 2020 OPM letter lowered projections for motor fuels tax collections for FY 2020 by 6.0% to $483 million relative to the prior January 15 projection. The decline reflects sensitivity to fuel consumption but not directly to fuel prices.

FIGURE 10

Motor Fuel Tax Rate Per Gallon (FYE June 30)

FY	Gasoline	Diesel
2005	$0.250	$0.260
2006	$0.250	$0.260
2007	$0.250	$0.260
2008	$0.250	$0.370
2009	$0.250	$0.434
2010	$0.250	$0.451
2011	$0.250	$0.396
2012	$0.250	$0.462
2013	$0.250	$0.512
2014	$0.250	$0.549
2015	$0.250	$0.545
2016	$0.250	$0.503
2017	$0.250	$0.417
2018	$0.250	$0.439
2019	$0.250	$0.443
2020	$0.250	$0.465

Source: State of Connecticut STO official statements.

Oil Companies Tax

The Oil Companies Tax revenue is levied on the gross earnings from the sale of petroleum products, and thus is sensitive to volatility in gasoline prices. The tax is paid quarterly. Beginning July 1, 2015, the Commissioner of Revenue Services deposits 100% of the tax revenues directly into the STF. Previously, statutes specified the amount of oil companies tax revenue to be transferred to the STF from the General Fund.

The April 30, 2020 OPM letter lowered projections for oil companies tax collections for FY 2020 by 19.2% to $246 million relative to the prior January 15 projection. The decline reflects sensitivity to both fuel consumption and prices.

Figure 11

Oil Companies Tax Rates and Collections ($ in millions) (FYE June 30)

FY	Rate	Collections
2005	5.0%	$ 179
2006	5.8%	180
2007	6.3%	309
2008	7.0%	368
2009	7.0%	368
2010	7.0%	365
2011	7.0%	335
2012	7.0%	373
2013	7.0%	375
2014	8.1%	416
2015	8.1%	338
2016	8.1%	250
2017	8.1%	238
2018	8.1%	313
2019	8.1%	313
2020 (Est)*	8.1%	255

Source: State of Connecticut STO POS and Connecticut General Assembly Office of Legislative Research
**Office of Policy and Management Consensus Management Revenue Estimate dated April 20, 2020.*

Motor Vehicles Receipts and Licenses, Permits, and Fees

The two categories of motor vehicle receipts, and licenses, permits and fees include approximately 25 different revenues from a basket of transportation related charges. The major revenue source is motor vehicle registration fees, accounting for approximately 50% of this basket's receipts. Overall, revenues from these combined categories have been relatively flat.

The April 30, 2020 OPM letter lowered projections for these revenues by a combined 5.3% to $403 million relative to the prior January 15, 2020 estimate. The reduction reflects the granting of a 90-day extension on March 10th for DMV credentials expiring through June 8th. The extension was granted to accommodate the closure of DMV offices in response to the COVID-19 crisis. Foregone revenues are anticipated to be largely recouped in the following fiscal year when credentials are eventually renewed.

Sales Tax

As part of a State transportation infrastructure initiative, beginning in FY 2016, a specific portion of the State's general retail sales tax revenue was allocated as a new pledged revenue source. In FY 2016 and FY 2017, State budget stress led to delays in and reduction of allocated state retail sales tax revenues to the STF. The current enacted biennium budget reduced the allocation to the STF in FY 2020 and FY 2021. Ongoing budget stress in the State's operations however raise the possibility that sales tax allocations may be reduced in the future. Actions taken in FY 2016 and FY 2017 did not cause the State to breach the State's 2.0x debt service coverage covenant. KBRA notes that current FY2020 revenue estimates indicate coverage will remain strong.

The April 30, 2020 OPM letter lowered projections for sales and use taxes for FY 2020 by 7.2% to $387 million relative to the prior January 15 projection. The decline reflects substantially reduced retail sales activity due to the COVID-19 crisis.

STF Operations

The Special Transportation Fund was established in June 1983 to account for the transportation related taxes, revenues and fees pledged for payment of special tax obligation bonds issued by the State and utilized as a source of funding for state transportation programs. The operations of the STF is included in the State CAFR as a major governmental fund. A separate financial report is also produced for the STF, showing each of its major funds. During the year OPM and the legislature's Office of Fiscal Analysis are required to issue consensus revenue estimates for a five-year period going forward on January 15, April 30 and November 10 of each year.

The State's Infrastructure Program began in 1984. The Program funds maintenance and improvement projects for the State's highways and local roads, bridges, transit (including bus and rail projects) and aviation improvements. The major sources of funding for the Infrastructure Program has been federal funding, followed by Special Tax Obligation Bonds and State appropriations. In 2015, the State launched a 30-year plan for modernizing and upgrading the State's transportation infrastructure called Let's Go CT! as part of the ongoing Infrastructure Program. Annual issuance of $875 million a year is planned for 2021- 2024.

RD 5: Coverage and Bond Structure

KBRA views the coverage and bond structure of the STO bonds as strong based on declining annual debt service requirements and historic coverage at or above 2.63x in each of the last five years. All outstanding bonds are fixed rate and mature within 20 years, a structure that the State anticipates maintaining.

OPM's April 30, 2020 letter estimates that pledged revenues in FY 2020 will decline 9.5% relative to prior January 15, 2020 estimates due to weakened economic conditions associated with the COVID-19 crisis and implementation of social distancing measures in mid-March. Pledged net revenues in FY 2021 are then projected to increase 7.0% YOY driven by a number of factors including an increase in the transfer of motor vehicle sales tax, motor vehicle receipts, a reduction in refunds, and modest economic recovery late in the year. Motor vehicle receipts are projected to grow 25.3% ($66 million) due to the end of 90-day extension of DMV credentials expiring between March 10th and June 8th, and the full year implementation of lengthened registration (2 to 3 years) and license (6 to 8 years) periods.

Based on these revenue assumptions and anticipated debt service requirements with issuance of an additional $875 million next year, debt service coverage is projected to be 2.28x in FY 2020 and 2.18x in FY 2021.

FIGURE 12

Debt Service Coverage Historic and Projected
(dollars in millions)

	2019 Actual	2020 Projected	2021 Projected	2022 Projected	2023 Projected	2024 Projected
Motor Fuels Tax	$ 509.7	$ 482.5	$ 492.0	$ 477.3	$ 496.3	$ 503.1
Oil Companies Tax	313.1	245.5	214.5	267.0	304.7	324.1
Sales and Use Tax	370.6	387.2	395.8	582.9	679.1	692.8
Motor Vehicle Receipts	250.4	260.1	325.9	263.5	265.6	274.4
License, Permits, Fee Revenues	150.1	143.0	146.6	147.6	148.2	148.8
Sales Tax-DMV	87.3	84.0	79.8	86.5	87.8	88.7
Other	6.9	(36.4)	22.3	(5.5)	(5.3)	(5.6)
Total Net Revenues	1,688.1	1,565.9	1,676.9	1,819.3	1,976.4	2,026.3
Debt Sevice	642.2	687.1	768.0	806.3	854.8	903.4
Debt Service Coverage	**2.63x**	**2.28x**	**2.18x**	**2.26x**	**2.31x**	**2.24x**

Source: Actuals from Comptroller's Annual Reports; FY 2020 Biennial Budget Figures from OPM letter of April 30, 2020, which reviesed the letter of April 20, 2020 for the period ending June 30, 2020; FY 2021 through FY 2024 Figures taken from April 30, 2020 Concensus Revenue Estimate.

[1]Includes existing debt sergice requirements plus and anticipated debt service on projected annual issuance ranging from $850 million to $875 each year from FY 2020 to FY 2024.

Coverage Sensitivity

Based on projected FY 2020 net revenues of $1.57 billion and pro forma MADS of $768 million, which includes projected debt service on the 2020 Series A Bonds but not future issuance, pledged revenues could decline by 12.2% before reaching the 2.0x coverage additional bonds test or by 51.0% before reaching 1.00x coverages. KBRA views this level of coverage as strong.