

State of Connecticut Special Tax Obligation Bonds Transportation Infrastructure Purposes

Issuer: State of Connecticut		
Assigned	Rating	Outlook
Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2021 Series A	AA+	Stable
Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes, 2021 Series B	AA+	Stable
Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes, 2021 Series C (Forward Delivery)	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 Special Tax Obligation Bonds (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 2.3x in FY2020. As of January 15, pledged revenue projections for the year ending June 30, 2021 are 10.1% below the level anticipated in the FY 2020 – FY 2021 biennium budget reflecting the impact of the COVID-19 crisis and related public health measures. Debt service coverage is nevertheless projected to remain strong at over 2.5x in the fiscal year ending June 30, 2021.

The rating level reflects the limited volatility of pledged revenues historically and through the current pandemic affected environment, as well as strong historic and projected debt service coverage. Also reflected is the State's covenant to budget pledged revenues equivalent to at least 2.0x annual debt service, a relative rarity among state transportation credits, and a rapidly amortizing, declining annual debt service schedule.

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 \$875 million annually through FY 2026. Based on January 15 consensus revenue estimates which account for COVID-19 related disruptions and anticipated future borrowings, debt service coverage is projected to range from 2.5x to 2.1x over this period.

Public health measures implemented following onset of the pandemic in March 2020 have caused a significant falloff in economic activity in both Connecticut and nationwide, the strictest of which have been eased as spread of the virus has been brought under control. The unemployment rate in Connecticut peaked to 14.6% in May 2020 during the height of pandemic-related restrictions compared to a U.S. peak of 14.4% one month earlier in April. The unemployment rate as of February 2021 is 8.5%, higher than the U.S. average at 6.6%. The State nevertheless seems to be benefitting from pandemic-induced in-migration, primarily from New York. The US Postal Service recorded 16,500 change in address submissions in 2020 to Connecticut, mostly from New York, compared with 7,000 that moved out in 2019.

Connecticut has historically had a very strong economy with well above average wealth levels. Wealth levels remain very high, with per capita income of \$77,289 at 137% 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. It remains to be seen how quickly the State and national economy will recover as the vaccine rollout progresses.

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. Click [here](#) to access KBRA’s ongoing research on the topic. Rating level reflects 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. | - |

Highlights			
FYE June 30 (dollars in millions)			
		2020	2021 Est.¹
Pledged Revenues and Coverage			
Motor Fuels Tax	\$	478	\$ 467
Oil Companies Tax		230	204
Licenses, Permits, Fees		129	130
Sales Tax - DMV		73	94
General Retail Sales and Use Tax		401	442
Motor Vehicle Receipts		242	333
Other, Net		(36)	21
Total		<u>1,517</u>	<u>1,691</u>
Combined Sen. and Sub. Lien DS	\$	651	689
Debt Service Coverage Ratio		2.3x	2.5x

Economic Data			
Per Capita Personal Income (2019)		\$77,289	
<i>as a % of U.S.</i>		137%	
Population (2019)		3,565,287	
<i>Growth 2010 to 2019</i>		-0.4%	
Real GSP, % Chg. 2010 to 2019			
Connecticut		1.4%	
New England		13.5%	
U.S.		22.4%	

(1) Concensus Revenue Estimates

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	AAA

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 Senior and Second Lien MADS. Under both the Senior and Second Lien Indentures, upon issuance of additional bonds, the debt service reserve funds must be funded to combined lien 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 and notes in the next year.

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

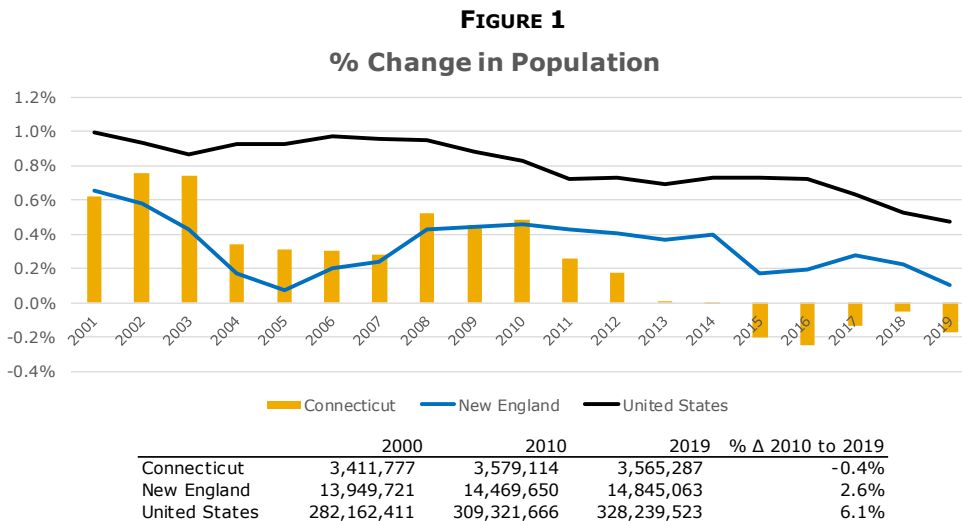
The State's economic base is highly developed but has experienced slow growth in recent years. Per capita personal income ranks first among the 50 States and high levels of educational attainment and low levels of poverty position the State well relative to peers in several areas. Population growth, 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 2020, 13 "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 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

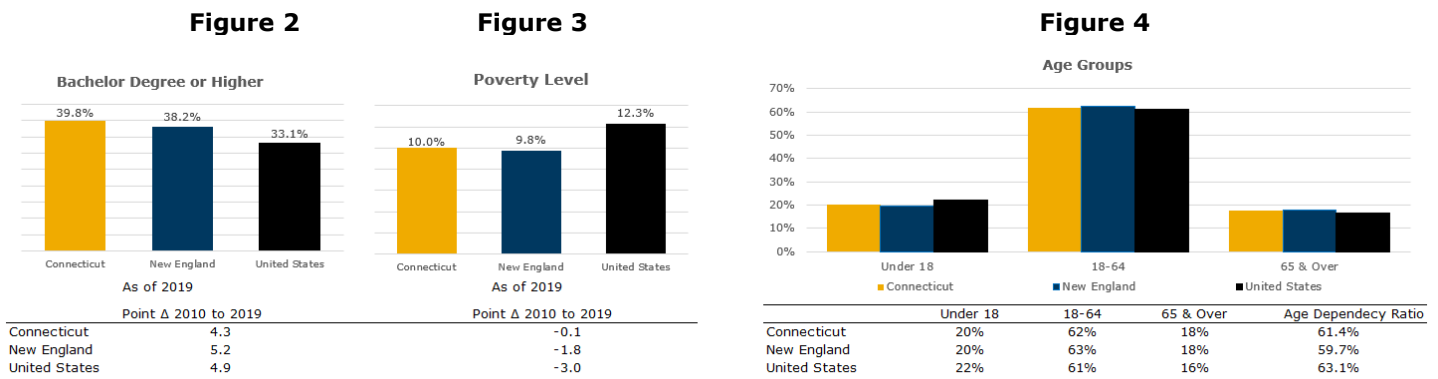
Total population has declined slightly over the last six years, lagging the positive growth of the region and the U.S.



Source: U.S. Bureau of Economic Analysis

Educational Attainment, Poverty, and Age Groups

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 marginally higher than the U.S.



Source: U.S. Census

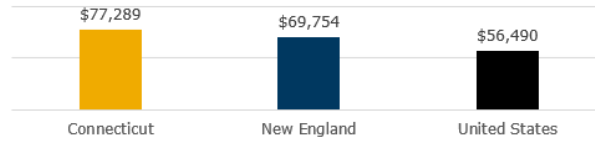
Bachelor degree or higher defined as "% of population over 25 with Bachelor's degree or higher".
Poverty level defined as "portion of population living below the poverty line".

Per Capita Personal Income and State Income

Per capita personal income at \$77,289 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 the New England region and U.S. over the past decade.

Figure 5

Personal Income Per Capita



As of 2019

	% Δ 2010 to 2019	Comparison
Connecticut	24.5%	-
New England	33.9%	111% of Region
United States	39.3%	137% of U.S.

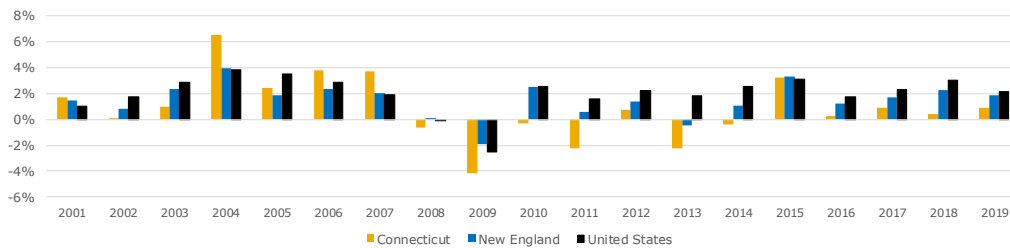
Source: U.S. Bureau of Economic Analysis

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

Figure 6

Real GSP Annual Change (chained 2012 dollars)



(\$ in Millions)	2000	2010	2019	% Δ 2010 to 2019
Connecticut	216,293,100	247,876,800	251,329,800	1.4%
New England	749,152,700	872,608,700	990,777,500	13.5%
United States	13,130,987,000	15,598,753,000	19,091,662,000	22.4%

Source: U.S. Bureau of Economic Analysis

Note: Output for the "United States" represents GDP of the United States, not the sum of all 50 states.

Employment

Unemployment has historically tracked closely with the U.S. and the New England region but has diverged during the first two months of 2021. In February, the State unemployment rate was 8.5%, higher than the unemployment rate in both New England (6.9%) and the U.S. (6.6%).

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

FIGURE 7

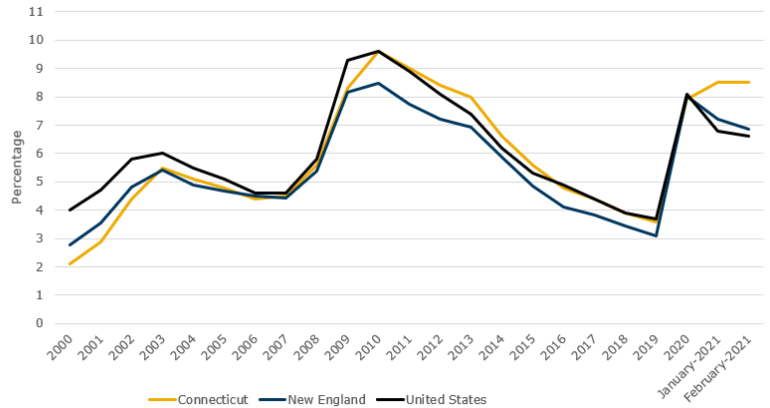
Total Employment (Not Seasonally Adjusted) (In Thousands)						
	Connecticut	% Δ	New England	% Δ	United States	% Δ
2000	1,724		7,138		136,891	
2001	1,699	-1.5%	7,120	-0.3%	136,933	0.0%
2002	1,698	0.0%	7,125	0.1%	136,485	-0.3%
2003	1,688	-0.6%	7,100	-0.4%	137,736	0.9%
2004	1,687	-0.1%	7,118	0.2%	139,252	1.1%
2005	1,708	1.2%	7,164	0.6%	141,730	1.8%
2006	1,750	2.5%	7,260	1.3%	144,427	1.9%
2007	1,773	1.3%	7,311	0.7%	146,047	1.1%
2008	1,772	0.0%	7,297	-0.2%	145,362	-0.5%
2009	1,731	-2.3%	7,097	-2.7%	139,877	-3.8%
2010	1,728	-0.2%	7,102	0.1%	139,064	-0.6%
2011	1,742	0.8%	7,154	0.7%	139,869	0.6%
2012	1,730	-0.7%	7,192	0.5%	142,469	1.9%
2013	1,719	-0.6%	7,204	0.2%	143,929	1.0%
2014	1,764	2.6%	7,348	2.0%	146,305	1.7%
2015	1,786	1.2%	7,437	1.2%	148,834	1.7%
2016	1,801	0.9%	7,532	1.3%	151,436	1.7%
2017	1,819	1.0%	7,638	1.4%	153,337	1.3%
2018	1,831	0.6%	7,758	1.6%	155,761	1.6%
2019	1,848	1.0%	7,822	0.8%	157,538	1.1%
2020	1,725	-6.7%	7,212	-7.8%	147,795	-6.2%
Δ 2010 to 2020		-0.2%		1.6%		6.3%
Δ Since Trough		-0.2%		1.6%		6.3%
February-2021	1,546	-10.4%	7,137	-1.0%	149,522	1.2%

Source: U.S. Bureau of Labor Statistics

Bold = trough during the Great Recession (2008-2012)

FIGURE 8

Unemployment Rates



Employment data from 2020 demonstrated a significant contraction due to the COVID-19 pandemic. Total employment decreased 6.7% year over year, with the total number of employed persons in February 2021 (1.55 million) in the State lower than in 2010 (1.78 million). The employment picture may improve later in the year as vaccination efforts progress and COVID-19 related restrictions are further eased.

RD 4: Revenue Analysis

Onset of the COVID-19 pandemic has negatively impacted pledged revenues since March 2020 but actual and projected coverage remains strong and comfortably in excess of the 2.0x annual debt service coverage covenant.

Total pledged revenue volatility is historically low, though the oil companies franchise tax (31% of FY 2020 revenues) is quite sensitive to wholesale oil prices.

Fuel related taxes account for approximately 46% of FY 2020 revenues, these taxes include:

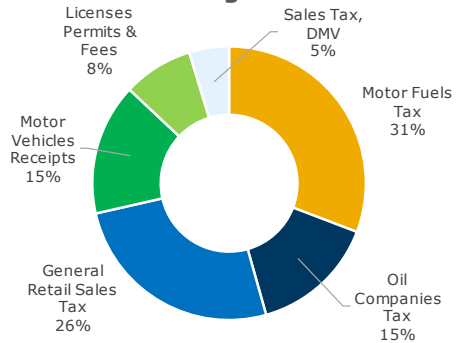
- motor fuels tax (a per gallon gasoline tax with no fuel-price dependent component and a diesel tax with a fuel-price dependent component) and
- oil companies tax, which is highly sensitive to oil prices.

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

Connecticut ranks at the high end of the range for fuel tax rates among northeast states. Connecticut’s gasoline motor fuel taxes ranks 16th highest among the States as of January 2021.²

FIGURE 9

Special Tax Fund
FY 2020 Pledged Revenues



Source: State of Connecticut State Comptroller Statutory Basis (GAAP Based Budgeting) Annual Report for FY 2020

Trends in Revenues

The latest consensus revenue estimates from January 15, 2021 indicate that FY 2021 STF revenues will be 10.1% below the level budgeted in the FY 2020 – FY 2021 biennium budget due primarily to the impact of the pandemic and related public health measures on motor fuel consumption and fuel prices. This estimate is improved from the 10.5% decline forecast in OPM’s April 30, 2020 estimate. All pledged revenues other than motor vehicle related sales tax and motor vehicle receipts are projected to underperform budget.

The consensus revenue estimates anticipate a strong recovery in STF revenues in FY 2021 (11.5%), FY 2022, (9.7%), and FY 2023 (7.6%) with more modest growth thereafter. 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 and pre-owned cars was allocated to the STF, with a phased increase in the dedication to 100% of new and pre-owned car sales tax by 2023. The increased

² American Petroleum Institute State Motor Fuel Taxes Rates as of January 1, 2021.

allocation of sales taxes is the primary driver of forecast STF revenue growth through FY 2023, though a gradual post-pandemic recovery is also a factor.

FIGURE 10

Actual, Estimated, and Projected Debt Service Coverage											
FYE June 30 (dollars in millions)											
	Actual					Est.		Projected			
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Motor Fuels Tax	518	499	500	510	478	467	473	486	493	492	491
% change	0.3%	-3.8%	0.3%	2.0%	-6.2%	-2.3%	1.3%	2.7%	1.3%	-0.2%	-0.2%
Oil Companies Tax ¹	250	238	313	313	230	204	246	268	284	298	313
% change	-26.0%	-4.6%	31.1%	0.2%	-26.4%	-11.7%	21.0%	8.8%	6.0%	5.0%	5.0%
Sales Tax ²	109	188	327	371	401	442	652	755	769	792	816
% change	-	72.8%	73.8%	13.2%	8.2%	10.3%	47.4%	15.8%	1.9%	3.0%	3.0%
Motor Vehicles Receipts	252	243	253	250	242	333	264	266	274	270	273
% change	0.8%	-3.4%	4.2%	-1.1%	-3.5%	37.8%	-20.8%	0.8%	3.3%	-1.7%	1.1%
Licenses, Permits & Fees	144	144	142	150	129	130	141	142	143	144	145
% change	-1.0%	0.1%	-1.5%	5.8%	-14.3%	0.7%	8.6%	0.9%	0.8%	0.8%	0.8%
Sales Tax - DMV	87	85	86	87	73	94	88	90	90	91	92
Federal Payments	12	12	12	12	12	12	11	10	9	8	7
Interest Income	8	9	18	37	22	5	5	6	6	8	9
Transfers	(7)	(7)	(6)	(6)	(36)	25	(6)	(6)	(6)	(6)	(6)
Refunds	(21)	(17)	(15)	(37)	(35)	(20)	(21)	(21)	(22)	(22)	(23)
Total Net Revenues	1,353	1,394	1,630	1,688	1,517	1,691	1,854	1,995	2,042	2,075	2,118
% change	-0.6%	3.0%	17.0%	3.6%	-10.2%	11.5%	9.7%	7.6%	2.4%	1.6%	2.0%
Debt Service³	492	542	574	642	651	689	779	849	911	966	1,011
Debt Service Coverage	2.7x	2.6x	2.8x	2.6x	2.3x	2.5x	2.4x	2.4x	2.2x	2.1x	2.1x

Source: POS Table 8 for revenues and Table 9 for debt service and coverage.

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

²Reallocation of sales tax began in FY2016, at an increasing rate, with phase in of new car sales tax beginning at 8% in FY 2019, 17% in FY 2020, 56% in FY 21, 75% in FY22, and 100% in FY23.

³Includes existing debt service requirements plus anticipated debt service on projected annual issuance of \$875 each year from FY 2021 to FY 2026.

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 in the decade preceding the pandemic averaged about 1%, reflecting constrained consumption growth from both slow economic growth and the increasing efficiency of motor vehicles. Motor fuels tax decline 6.2% in FY 2020 and is projected to decline another 2.3% in FY 2021 due to reduced consumption trends associated with the pandemic. The decline reflects sensitivity to fuel consumption and, in the case of diesel only, a reduction in the tax rate tied to a reduction in the wholesale price of diesel. Modest recovery is forecast in the subsequent three years with flat to mildly declining revenues thereafter.

The gasoline tax rate has been at the current 25 cents per gallon level for the last 15 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.³ The Motor Fuels Tax is paid by distributors monthly to the STF, helping to provide a smooth cashflow for the STF.

FIGURE 11

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	\$0.417
2019	\$0.250	\$0.439
2020	\$0.250	\$0.465
2021	\$0.250	\$0.446

Source: State of Connecticut STO Official Statements.

³The wholesale rate is as reported by the Oil Price Information Service weekly, from April 1 to March 31, for the period prior to the rate effective date of July 1.



Oil Companies Tax

The oil companies tax 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.

Oil companies tax revenue declined 26.4% in FY 2020 and is projected to decline another 11.7% in FY 2021 reflecting sensitivity to both fuel consumption and prices. Receipts are projected to recover gradually beginning in FY 2022 and recover to the FY 2019 pre-pandemic level by FY 2026 as consumption and oil prices recover.

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.

Such revenues declined 7.5% in FY 2020 due to the granting of a 90-day extension from DMV credentials on March 10th expiring through June 8th in response to the COVID-19 crisis. Foregone revenues are expected to be largely recouped in FY 2021 and level out thereafter as renewals return to an ordinary schedule.

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. The State has benefitted from significant federal assistance and relative economic resilience through the pandemic, but sales taxes could once again be reduced should State budget pressures emerge. The 2.0x annual debt service rate covenant mitigates the risk of substantial revenue diversion.

Sales tax receipts increased 8.2% in FY 2020 despite the pandemic due to the increased allocation of new and pre-owned car sales tax revenues from 8% in FY 2019 to 33% in FY 2020. The consensus revenue estimate forecasts further growth of 10.3% in FY 2021, 47.4% in FY 2022, and 15.8% in FY 2023 at which time the allocation of all new and pre-owned car sales tax revenues to the STF will be fully phased in.

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- 2026.

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 2.3x 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.

FIGURE 12

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

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	8.1%	230
2021 (Est)*	8.1%	204

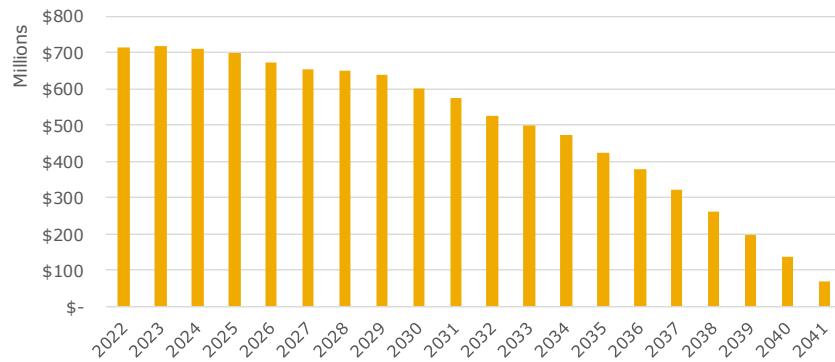
Source: State of Connecticut STO POS and Connecticut General Assembly Office of Legislative Research

*OMP Letter to Comptroller dated March 19, 2021 for period ended February 28, 2021.



FIGURE 13

Pro Forma Annual Debt Service



Source: State of Connecticut

January 15, 2021 consensus revenue estimates through FY 2024 and OPM estimate through FY 2026 estimate that pledged revenues will increase 11.5% in FY 2021, 9.7% in FY 2022, and 7.6% in FY 2023 lifted by a gradual post-pandemic recovery and the phase in of distribution of 100% of new and pre-owned car sales tax to the STF over this period.

Based on these revenue assumptions and anticipated debt service requirements with issuance of \$875 million each year through FY 2026, debt service coverage is projected to remain strong declining from 2.5x in FY 2021 to 2.1x in FY 2026.

FIGURE 14

Debt Service Coverage Historic and Projected							
FYE June 30 (dollars in millions)							
	2020	2021	2022	2023	2024	2025	2026
	Actual	Estimated	Projected	Projected	Projected	Projected	Projected
Motor Fuels Tax	\$ 478.2	\$ 467.4	\$ 473.3	\$ 486.0	\$ 492.5	\$ 491.5	\$ 490.5
Oil Companies Tax	230.4	203.5	246.3	268.0	284.2	298.4	313.3
Sales and Use Tax	400.9	442.3	651.8	754.6	769.3	792.3	816.0
Motor Vehicle Receipts	241.6	332.9	263.5	265.6	274.4	269.6	272.6
License, Permits, Fee Revenues	128.7	129.6	140.7	141.9	143.1	144.2	145.4
Sales Tax-DMV	73.1	94.0	88.2	89.5	90.4	91.3	92.2
Other	(36.3)	21.0	(9.9)	(11.1)	(11.8)	(12.0)	(12.2)
Total Net Revenues	1,516.6	1,690.7	1,853.9	1,994.5	2,042.1	2,075.3	2,118.0
Debt Service ¹	650.8	688.8	778.8	849.0	911.0	965.7	1,011.3
Debt Service Coverage	2.3x	2.5x	2.4x	2.4x	2.2x	2.1x	2.1x

Source: POS Table 8 for revenues and Table 9 for debt service and coverage.

¹Includes existing debt service requirements plus anticipated debt service on projected annual issuance of \$875 each year from FY 2021 to FY 2026.

Coverage Sensitivity

Based on projected FY 2021 net revenues of \$1.69 billion and pro forma MADS of \$718 million, which includes projected debt service on the currently offered bonds but not future issuance, pledged revenues could decline by 15.0% before reaching the 2.0x MADS coverage additional bonds test or by 57.5% before reaching 1.00x coverages. KBRA views this level of coverage as strong.

KBRA has revised assessment of the Coverage and Bond Structure rating determinant to AAA from AA+ reflecting the strong historic and projected debt service coverage in excess of 2.0x.



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