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 D	AA+	Stable
Affirmed	**Rating**	**Outlook**
Special Tax Obligation Bonds, Transportation Infrastructure Purposes	AA+	Stable

Methodology
- U.S. Special Tax Revenue Bond Rating Methodology
- ESG Global 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. Pledged revenue collections have rebounded from the pandemic low point, increasing 17% in the fiscal year ending June 30, 2021 to $1.78 billion. This amount is 5.3% above the pre-pandemic collections of FY 2019, although it also reflects additions to the total revenue stream (i.e. increased allocations of sales taxes) as well as organic growth. Debt service coverage in FY 2021 was strong at 2.67x.

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, notably pledging sales taxes in 2016 and adding a new highway user fee levied on truck traffic that is effective January 1, 2023, underscoring the importance of transportation infrastructure funding.

The State uses STF revenues both to pay debt service and fund transportation programs and capital outlays on a pay go basis. 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 as well as continuing pay go contributions. The State's projections call for parity borrowing of $925 million in FY 2023, $1 billion in FY's 2024 and 2025, and $1.1 billion in FY 2026. These amounts of projected borrowing have increased from a level of $875 million annually through FY 2026 that represented the State's plans at the beginning of 2021.

Connecticut has historically had a very strong economy with well above average wealth levels although growth levels have lagged the region and U.S since 2010. Unemployment has been higher than the regional and national levels since the Great Recession which is a reversal of earlier trends. Early in the pandemic unemployment levels were better in Connecticut than the region and U.S., but more recently have trended higher than these broader averages.

The Stable Outlook reflects KBRA's expectation that debt service coverage on the bonds will remain at comfortable levels based upon the stability and expected growth of the pledged revenues and the State's demonstrated history of addressing transportation funding levels.

Key Credit Considerations

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 slower than that of the U.S. and New England region for more than a decade although wealth levels are favorable.
- Transportation needs are substantial and place pressure upon the State's ability to fund them over the longer term.

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)	**2021 Unaudited**
Pledged Revenues and Coverage	
Motor Fuels Tax	$ 475.2
Oil Companies Tax	229.1
Licenses, Permits, Fees	482.9
Sales Tax - DMV	321.4
General Retail Sales and Use Tax	130.7
Motor Vehicle Receipts	117.2
Other, Net	21.2
Total	1,777.7
Debt Service STO Bonds	664.7
Debt Service Coverage Ratio	**2.67x**
Expected Future Borrowing ($ in millions)	
FY 2023	$925
FY 2024	$1,000
FY 2025	$1,000
FY 2026	$1,100

Rating Determinants (RD)	
Legal Framework	AAA
Nature of Special Tax Revenues	AAA
Economic Base and Demographics	AA-
Revenue Analysis	A+
Coverage and Bond Structure	AAA

RD 1: Legal Framework

For additional information about the legal and statutory framework underlying the issuance of the State's Special Tax Obligations, please refer to our rating report published on April 14, 2021.

Bankruptcy Assessment

KBRA has consulted outside counsel and the following represents our understanding of the material bankruptcy issues relevant to Special Tax Obligations.

Bankruptcy

The United States Bankruptcy Code is not applicable to states. Because Connecticut is a state and it is the issuer, the Bonds are not subject to adjustment in a Chapter 9 case given that the State is not eligible for relief under the U.S. Bankruptcy Code.

Passage of the Act

The State has authorized the issuance of special tax obligation bonds for transportation infrastructure purposes pursuant to Public Act 84-254 of the General Assembly of the State, as amended, and other public and special acts adopted by the General Assembly (the "Act"). Under the terms and provisions of the Act, the State Bond Commission is empowered to authorize special tax obligation bonds of the State for transportation infrastructure projects and uses, following enactment of annual legislative authorizations. The Act also authorizes the issuance of special tax obligation bonds to refund outstanding special tax obligation bonds and to refund certain general obligation bonds of the State issued for transportation purposes, and authorizes the execution of the Indentures as contracts of the State with the holders of the Bonds.

The Pledge, Statutory Lien and Other Statutory Provisions and Covenants

Pledge. The Bonds are special obligations of the State and are payable solely from the Pledged Revenues and other receipts, funds or moneys pledged pursuant to the Act and the relevant indentures. Under the Act and the relevant indentures, all Pledged Revenues received or collected are promptly credited to the Special Transportation Fund established in 1983.

Pledged Revenues consist of taxes, fees, charges and other receipts, funds or moneys of the State credited to the Special Transportation Fund. These include motor fuels taxes; oil companies taxes; a portion of the general retail sales taxes; motor vehicle receipts; motor vehicle related licenses, permits and fees; sales taxes imposed on casual sales of motor vehicles; motor vehicle related fines, penalties and other charges and other transportation related revenue sources more particularly defined in the Act.

Legislation enacted in 2015 created a new statutory transportation "lock box," which established the Special Transportation Fund as a perpetual fund, the resources of which are to remain in the Special Transportation Fund and are to be expended solely for transportation purposes, including the payment of debt service on the Bonds. All sources of moneys required by State law to be credited to the Special Transportation Fund after June 29, 2015 are to continue to be credited to such fund to the extent the State collects or receives such moneys.

The Act provides that the State Treasurer shall apply the resources in the Special Transportation Fund first to pay or to provide for the payment of debt service requirements (the "Debt Service Requirements") on the Bonds or on Notes in such amount or amounts and in such manner as required by the Indentures. The Act further provides that, as part of the contract with bondholders, upon authorization of the issuance of the Bonds, all amounts necessary for the punctual payment of Debt Service Requirements are deemed appropriated from the Pledged Revenues and the Treasurer is required to pay such principal and interest as the same shall accrue, but only from the Pledged Revenues and other receipts, funds or moneys pledged to repay the Bonds. The State's bond counsel has opined that such amounts are validly deemed to be appropriated from the sources listed and the referenced payment does not require further legislative approval.

In addition, it is notable that Section 19 of Article III of the State Constitution, added through voter approval in 2018, provides among other things that (i) the Special Transportation Fund is a perpetual fund, (ii) the General Assembly “shall direct the resources of said fund solely for transportation purposes, including the payment of debt service on obligations of the state incurred for transportation purposes” and (iii) “the general assembly shall enact no law authorizing the resources of said fund to be expended other than for transportation purposes.”

Statutory lien. The Act provides that the obligation of the State to pay the Debt Service Requirements will be secured by: (i) a first call upon the Pledged Revenues as they are received by the State and credited to the Special Transportation Fund (pledged revenues being first applied to debt service is commonly referred to as a gross pledge); and (ii) a lien upon any and all amounts held to the credit of the Special Transportation Fund from time to time, except for amounts representing (A) proceeds of short term State notes or (B) transportation related federal revenues of the State.

The pledge of the Pledged Revenues under the Act is made by the State by operation of law. As is traditional with statutory lien legislation, the Act provides that the lien is valid and binding (a) from the time the pledge is made, and any revenues or other receipts, funds or moneys so pledged and received by the State are subject immediately to the lien of the pledge without any physical delivery thereof or further act, and (b) as against all parties having claims of any kind in tort, contract or otherwise against the State, irrespective of whether such parties have notice of the lien. This clarifies the existence of a lien, and is an improvement over general statutory pledge language.

State covenants. The Act and the relevant indentures make an array of commitments to bondholders. Pursuant to the Act and under the Senior Indenture, the State has covenanted with the bondholders to impose, charge, raise, levy, collect and apply the Pledged Revenues and other receipts, funds or moneys pledged for the payment of Debt Service Requirements, in such amounts as may be necessary to pay the Debt Service Requirements in each year in which the Senior Bonds or Senior Notes are outstanding. In addition, the State has covenanted that it will not limit, or otherwise alter, the rights or obligations of the appropriate officers of the State with respect to the application of the Pledged Revenues or to impose, maintain, charge or collect the taxes, fees, charges and other receipts constituting the Pledged Revenues as may be necessary to fulfill the terms of the enactments and documents authorizing the issuance of the Senior Bonds, including the Pledged Revenue coverage requirement (described below).

With respect to the Pledged Revenue coverage requirement, the Senior Indenture includes the covenant of the State to provide Pledged Revenues, in each fiscal year, after deducting payments out of Pledged Revenues for reserves required under the Senior Indenture, and computed as of the final business day of such fiscal year, in an amount equal to at least two (2) times the aggregate Principal and Interest Requirements on Senior Bonds and Interest Requirements on Senior Notes in such fiscal year.

The Senior Bonds are also secured by a Reserve Account established and required to be maintained in an amount equal to the maximum Principal and Interest Requirements on Senior Bonds for the current or any future fiscal year.

Non-impairment. According to KBRA outside counsel, in the event that the State were not to perform these obligations, bondholders would have claims for breach of contract, and may have claims for constitutional impairment under the Contract Clause of the US Constitution, as governed by the leading cases such as *United States Trust Company of New York v. New Jersey*, 431 U.S. 1 (1977). In *United States Trust*, the Supreme Court considered whether the state action impairs a contractual obligation (subsequent cases have re-articulated this inquiry in terms of “substantial impairment” rather than “impairment”). If a state action does substantially impair a contractual obligation, then the court has to determine whether the state action is reasonable and necessary to serve an important public purpose. A state action must fail both prongs of this test to be invalidated as a violation of the Contract Clause. Prior to engaging in a Contract Clause analysis, a court would first decide whether a state action affecting a contract has invoked a constitutional issue, or whether the claim is more properly decided in a breach-of-contract action under state law.

Claims of constitutional impairment are very factually driven. It thus is not possible to predict whether some future State action would rise to the legally-required level of “substantial impairment” of a material state obligation to bondholders (or wholesale elimination of a bondholder remedy) that would also pass the required public purpose test. However, it is helpful here that the State has provided a detailed list of actions that it will and will not take. In addition, bondholders have protections through the State Constitutional limitations on use of funds in the Special Transportation Fund, and on related actions of the State. KBRA is advised by outside counsel that, in the event of a violation by the State, these limitations could also provide bondholders with a state constitutional claim (separate from a Federal Constitutional claim), which KBRA understands is a higher order of claim than for breach of contract or statutory violation.

RD 2: Nature of Special Tax Revenues

For additional information on the nature of the special taxes underlying the issuance of the State’s Special Tax Obligations, please refer to our rating report published on April 14, 2021.

RD 3: Economic Base and Demographics

See Appendix A for updated employment and unemployment data. For more information about the State's economic base and demographics, please refer to our rating report published on April 14, 2021.

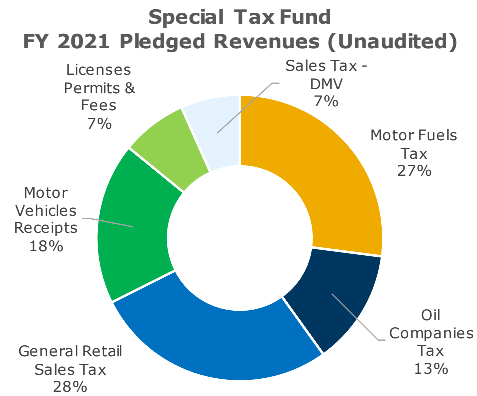
RD 4: Revenue Analysis

The COVID-19 pandemic negatively impacted pledged revenues, particularly for FY 2020, but coverage has remained strong and comfortably in excess of the 2.0x annual debt service coverage covenant. In fact, unaudited figures for FY 2021 indicate that overall pledged revenues exceeded those of FY 2019 by over 5%.

Fuel-related taxes – motor fuel taxes and oil company tax – account for 39.6% of net revenues in FY 2021. This is down from 46.7% in FY 2020, due to the growth of sales and use tax revenue (27.2% in FY 2021) and motor vehicle receipts (largely registration fees). Volatility in overall pledged revenues has historically been low, though the oil company tax is quite sensitive to changes in consumption.

As of July 2021, Connecticut ranks around the middle among northeast states for aggregate gasoline motor fuel tax rates (includes state excise, other state, and federal taxes) and ranks 17th highest among all states. Connecticut ranks 11th among all states for aggregate gasoline motor fuel tax rates.[1]

Figure 1



Source: Office of the State Comptroller's Letter dated September 30, 2021 Reporting on FYE 2021

Trends in Revenues

The unaudited FY 2021 financial results show total STF revenues ending at 17.2% above the FY 2020 level and even exceeding the FY 2019 level by 5.3%. Compared to OPM's April 30, 2021 forecast, FY 2021 total STF revenues were 3.9% ahead and all major revenue components outperformed.

The OPM's forecast for this issuance's POS projects that total STF revenues will increase by another 6.3% in FY 2022 and 9.8% in FY 2023, and then ease to annual increases of 1.8% to 3.8% during FY 2024 through FY 2026. One of the key factors in the projected growth is the phased increase in the dedication of the sales taxes collected on the sales of new and pre-owned cars will reach 100% by 2023.

Figure 2

Actual, Estimated, and Projected Debt Service Coverage
FYE June 30 (dollars in millions)

	Actual					Unaudited	Projected				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Motor Fuels Tax	518	499	500	510	478	475	480	496	491	490	488
% change	*0.3%*	*-3.8%*	*0.3%*	*2.0%*	*-6.2%*	*-0.6%*	*1.1%*	*3.3%*	*-1.0%*	*-0.2%*	*-0.4%*
Oil Companies Tax[1]	250	238	313	313	230	229	250	269	284	298	313
% change	*-26.0%*	*-4.6%*	*31.1%*	*0.2%*	*-26.4%*	*-0.6%*	*9.3%*	*7.4%*	*5.5%*	*5.0%*	*5.0%*
Sales Tax[2]	109	188	327	371	401	483	670	776	792	815	840
% change	-	*72.8%*	*73.8%*	*13.2%*	*8.2%*	*20.5%*	*38.7%*	*15.8%*	*2.0%*	*3.0%*	*3.0%*
Motor Vehicles Receipts	252	243	253	250	242	321	264	267	274	269	272
% change	*0.8%*	*-3.4%*	*4.2%*	*-1.1%*	*-3.5%*	*33.0%*	*-17.8%*	*0.9%*	*2.7%*	*-1.8%*	*1.1%*
Licenses, Permits & Fees	144	144	142	150	129	131	141	142	143	144	145
% change	*-1.0%*	*0.1%*	*-1.5%*	*5.8%*	*-14.3%*	*1.6%*	*7.7%*	*0.9%*	*0.4%*	*0.8%*	*0.8%*
Sales Tax - DMV	87	85	86	87	73	117	94	90	91	92	92
Highway Use Fee	-	-	-	-	-	-	-	45	90	94	98
Federal Payments	12	12	12	12	12	12	11	10	9	8	7
Interest Income	8	9	18	37	22	2	5	6	6	8	9
Transfers	(7)	(7)	(6)	(6)	(36)	25	(6)	(6)	(6)	(6)	(6)
Refunds	(21)	(17)	(15)	(37)	(35)	(17)	(21)	(19)	(19)	(20)	(20)
Total Net Revenues	**1,353**	**1,395**	**1,630**	**1,688**	**1,517**	**1,778**	**1,890**	**2,075**	**2,154**	**2,192**	**2,239**
% change	*-0.6%*	*3.1%*	*16.9%*	*3.6%*	*-10.2%*	*17.2%*	*6.3%*	*9.8%*	*3.8%*	*1.8%*	*2.1%*
Debt Service[3]	**492**	**542**	**574**	**642**	**651**	**665**	**766**	**838**	**914**	**978**	**1,034**
Debt Service Coverage	***2.7x***	***2.6x***	***2.8x***	***2.6x***	***2.3x***	***2.7x***	***2.5x***	***2.6x***	***2.4x***	***2.2x***	***2.2x***

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

[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 2019, 17% in FY 2020, 56% in FY 21, 75% in FY22, and 100% in FY23.

[3]Includes existing debt service requirements plus anticipated debt service on projected annual issuance through FY26.

[1] American Petroleum Institute State Motor Fuel Taxes Rates as of July 1, 2021.

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, which means this revenue has limited exposure to the high volatility of fuel price swings.

Annual revenue growth in the decade preceding the pandemic averaged about 1%, reflecting both slow economic growth and the increasing efficiency of motor vehicles. Motor fuels tax revenue declined by 6.2% in FY 2020, demonstrating sensitivity to fuel consumption and, in the case of diesel only, a decline in the tax rate tied to the reduction in the wholesale price of diesel. The revenue decreased by 0.6% in unaudited 2021 results – less than the 2.3% decline projected as of the Series 2021ABC issuance. The State lowered the diesel tax rate by another 10% at the start of FY 2022. The forecast for the overall motor fuels tax suggests modest recovery in FY 2022, a slightly greater recovery in FY 2023, and then a gradual decline through FY 2026.

The gasoline tax rate has been at the current 25 cents per gallon level for more than 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.[2] The Motor Fuels Tax is paid by distributors monthly to the STF, helping to provide a smooth cashflow for the STF.

Figure 3

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
2022	$0.250	$0.401

Source: State of Connecticut STO Preliminary Official Statement.

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. The state's Commissioner of Revenue Services deposits 100% of the tax revenues directly into the STF.

Oil companies tax revenue declined by 26.4% in FY 2020 and by another 0.6% in FY 2021 (unaudited), although the latter is better than the 12.6% decline predicted in OPM's April 30, 2020 forecast. Receipts are projected to recover by 9.3% in FY 2022 and 7.4% in FY 2023 and recovery to the FY 2019 pre-pandemic level by FY 2026.

Figure 4

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 (unaudited)*	8.1%	229

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

**Office of State Comptroller's Letter dated September 30, 2021 Reporting on FYE 2021, unaudited*

Motor Vehicles Receipts and Licenses, Permits, and Fees

Motor vehicle receipts, which break down into motor vehicle registrations and other motor vehicle receipts, and licenses, permits, and fees (LPF) revenue include approximately 25 different revenues from a basket of transportation-related charges. The main revenue source is motor vehicle registration fees, which accounted for 57.4% of this basket's receipts in FY 2021.

Until the pandemic, such revenues had been relatively flat year-to-year. The basket of revenues fluctuated in FY 2020 and FY 2021 due to the policies pursued during the pandemic – e.g., the extension of deadlines for DMV credentials such as licenses and registrations.

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 FY 2020 and FY 2021 biennium budget reduced the allocation to the STF in both its fiscal years. The 2.0x annual debt service rate covenant mitigates the risk of substantial revenue diversion.

Despite the pandemic, sales tax revenue has turned out to be very healthy. Sales tax receipts increased by 8.2% in FY 2020 due to the increased allocation of new and pre-owned car sales tax revenues and grew by another 20.5% in FY 2021. OPM forecasts further growth of 38.7% 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. The incorporation of sales and use tax from the sale of cannabis is expected to add another few million of annual revenue starting in FY 2023.

[2] The 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.

Highway Use Fee

An upcoming addition to pledged revenues will be highway use fees, which will become effective on January 1, 2023. These fees will tax truck carriers monthly for the vehicle miles traveled by their heavy vehicles, with rates ascending as gross weight increases. OPM forecasts that these fees will generate $45 million for the STF in FY 2023, followed by at least $90 million annually from FY 2024 through FY 2026.

STF Operations

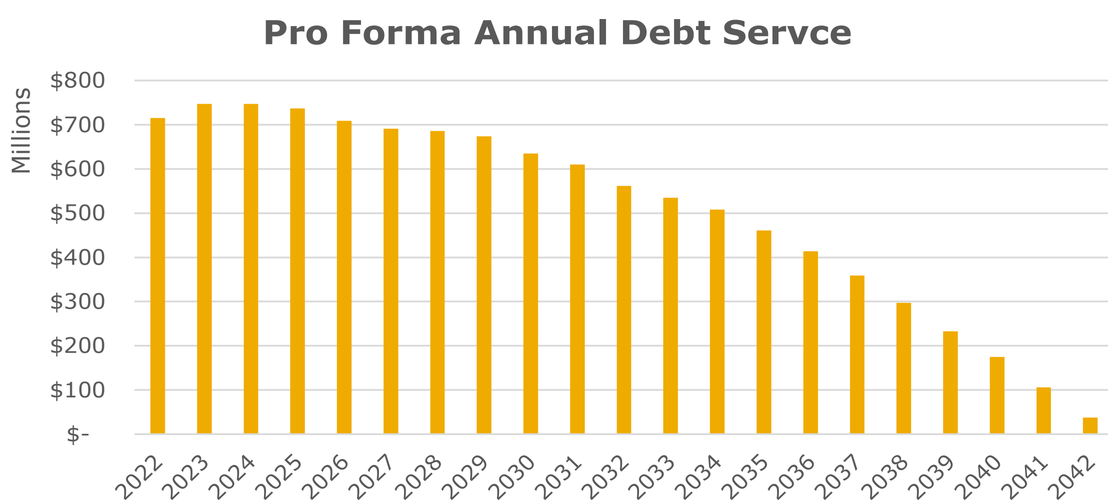
The Special Transportation Fund was established in June 1983 to account for the transportation related taxes, revenues and fees pledged for payment of special tax obligation bonds issued by the State and utilized as a source of funding for state transportation programs. The operations of the STF are 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, which began in 1984, 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 have been federal funding, followed by Special Tax Obligation Bonds and then 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. Expected annual issuance of Special Tax Obligation bonds over the next four years has been increased from just under $900 million per year to $925 million in 2023, $1 billion in 2024 and 2025, and $1.1 billion in 2026.

RD 5: Coverage and Bond Structure

KBRA views the coverage and bond structure of the STO bonds as strong. The State's practice of contributing additional revenues to the STF have kept coverage comfortably above 2X. The debt structure is conservative. Amortization is fairly rapid. All outstanding bonds are fixed rate.

Figure 5



Revenue projections provided are based upon the consensus revenue forecast of April 15, 2021 through FY 2024 and OPM estimate through FY 2026. Annual debt service costs reflect annual debt service for bonds outstanding plus the State's expected issuance through 2026. Coverage remains comfortable, although the annual debt service requirements for the STF bonds increase to over $1 billion in 2026. As shown in Figure 6, debt service coverage is 2.66x in 2021 and declines to 2.16x in 2026.

Figure 6

Debt Service Coverage Historic and Projected FYE June 30 (dollars in millions)	2020 Actual	2021 Unaudited	2022 Projected	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Motor Fuels Tax	$ 478.2	$ 475.2	$ 480.3	$ 496.0	$ 491.0	$ 489.8	$ 488.0
Oil Companies Tax	230.4	229.1	250.4	268.9	283.7	297.9	312.8
Sales and Use Tax	400.9	482.9	670.0	775.7	791.6	815.3	839.8
Motor Vehicle Receipts	241.6	321.4	264.2	266.5	273.6	268.8	271.8
License, Permits, Fee Revenues	128.7	130.7	140.8	142.1	142.7	143.8	145.0
Sales Tax-DMV	73.1	117.2	93.9	89.7	90.6	91.5	92.4
Other	(36.3)	21.2	(9.9)	36.4	80.7	84.6	88.7
Total Net Revenues	1,516.6	1,777.7	1,889.7	2,075.3	2,153.9	2,191.7	2,238.5
Debt Sevice[1]	650.8	664.7	765.5	837.7	914.1	978.2	1,034.1
Debt Service Coverage	**2.33x**	**2.67x**	**2.47x**	**2.58x**	**2.36x**	**2.24x**	**2.16x**

Source: POS Table 8.

[1]Includes existing debt service requirements plus anticipated debt service on projected annual issuance of $800MM in FY 2022, $925MM in FY 2023, $1B in FY 2024 and FY 2025, and $1.1B in FY 2026.

Coverage Sensitivity

Based on projected FY 2021 net revenues of $1.78 billion and pro forma of $747 million, which includes projected debt service on the currently offered and outstanding bonds but not annual debt service on current plans for future issuance, pledged revenues could decline by 16.0% before reaching the 2.0x MADS coverage additional bonds test or by 57.9% before reaching 1.00x coverage. Growth in pledged revenues will be required to maintain coverage requirements on the outstanding and additional bonds currently planned to be issued.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

Environmental Factors

Governor Lamont's goal for the executive branch of the State government is to achieve a 45% reduction in greenhouse gas emissions below 2001 levels by 2030, a 25% reduction in waste disposal from 2020 levels by 2030, and a 10% reduction in water consumption from 2020 to 2030.

OPM's Intergovernmental Policy and Planning Division is responsible for implementing the Connecticut Environmental Policy Act and updating (five-year recurring cycle) to the State's Conservation and Development Policies Plan for Connecticut (C&D Plan), which helps guide capital investments for the development and growth in Connecticut. In late FY 2021, CDOT's Office of Environmental Planning welcomed a Transportation Supervising Planner to lead a new Sustainability and Resilience Unit. This role is intended to contribute to the reduction of CDOT facilities and operations' environmental impact, the fostering of resiliency (e.g., against storms) as a department priority, the development of adaptation strategies to risks including flooding and sea level rise, and other objectives.

Management is aware that the carbon transition will require further adjustment to the STF's motor vehicle-driven revenues. The new highway use fee's basis in VMT rather than fuel consumption reflects a recognition that motor fuel taxes will be pressured as a revenue source in the long-term. Management noted that the transition to more fuel-efficient vehicles is one of the factors reflected in the forecast that motor fuels tax revenue through FY 2026 will not return to the FY 2019 level.

Social Factors

CDOT's Office of Equal Opportunity and Diversity implements CDOT's Affirmative Action Policy and Plan. Contractors and consultants are required to have an approved affirmative action plan (reviewed by the Office of Contract Compliance) in order to receive a contract.

The highway use fee legislation faced criticism from trucking associations reflecting the stakeholder pressures surrounding transportation policy.

Governance Factors

In late FY 2020, the state hired Jeffery Brown, whose background is in cybersecurity in the private sector, as the state's inaugural Chief Information Security Officer. In March 2021, Governor Lamont announced a multi-year initiative intended to centralize how the Department of Administrative Services manages the state government's IT functions. Legislation (Public Act 21-119) signed by Governor Lamont in July 2021 provides a $11 million investment for the State government's cybersecurity work.

Appendix A: Employment and Unemployment

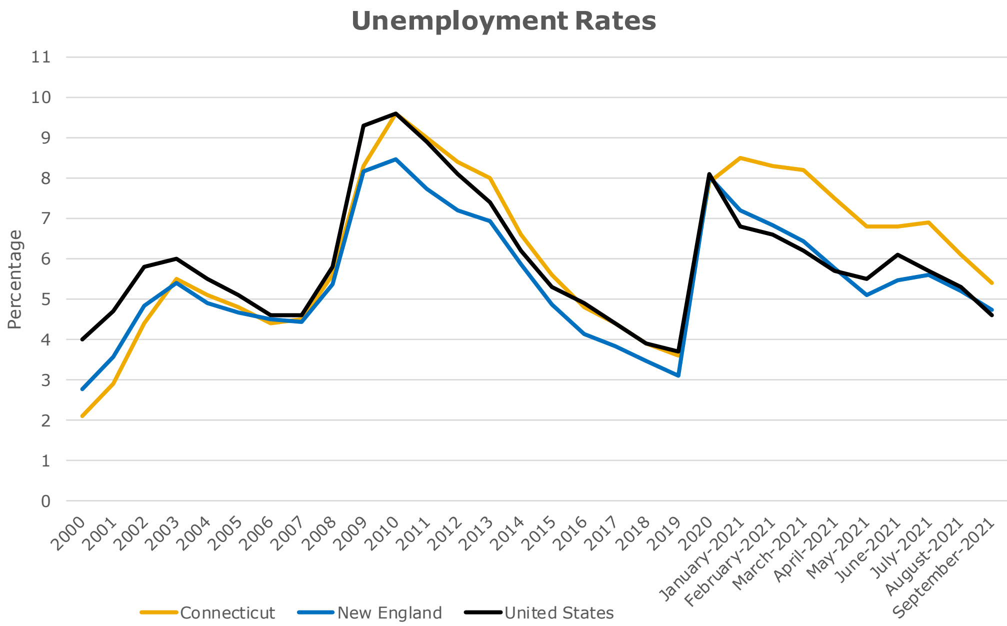
Figure 7

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%**
September-2021	1,718	-0.4%	7,466	3.5%	154,026	4.2%
10-Year CAGR (2020)		**0.0%**		**0.2%**		**0.6%**

Source: U.S Bureau of Labor Statistics

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

Figure 8



	Connecticut	New England	United States
September-2021	5.4	4.7	4.6

Source: U.S Bureau of Labor Statistics