

**Rating Action: Moody's assigns Aa3 to Connecticut's GO bonds; outlook stable**

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08 Dec 2021

New York, December 08, 2021 -- Moody's Investors Service has assigned a Aa3 rating to approximately \$800 million of the State of Connecticut's general obligation bonds, consisting of \$500 million General Obligation Bonds (2022 Series A) and \$300 million General Obligation Bonds (2022 Series B) (Social Bonds). The bonds are expected to price the week of December 13 and close January 6. The outlook is stable.

**RATINGS RATIONALE**

Connecticut's Aa3 GO rating reflects the state's continued commitment to numerous governance improvements that have created significant budgetary reserves, lessened revenue volatility, and improved pension funding. The reserves are critical in mitigating budgetary inflexibility created by the state's heavy debt and retiree benefit liabilities, which are among the highest of the states. The Aa3 rating also reflects Connecticut's high income and wealth levels. Although the state showed good financial performance through the pandemic and there has been some recent reversal of negative population trends, longer term economic performance has lagged the nation and the state suffered recent consecutive years of population loss.

**Recent Developments**

Connecticut ended fiscal 2021 with an operating surplus of more than \$480 million, more than 2% of general fund revenue not including a volatility cap deposit of \$1.2 billion. Over a four-year period the volatility cap has caused more than \$4 billion to flow into the state's Budget Reserve Fund, with a growing portion of that amount bolstering the assets of the state's pension fund. The state's budget office is currently projecting a significant operating surplus in fiscal 2022 and that up to \$1.75 billion in excess of the 15% limit for the Budget Reserve Fund could further enhance funding for the state's underfunded retirement systems. However, in fiscal 2024, the state will face the loss of funds from the American Rescue Plan Act that it is relying on for budget balance in fiscal 2022 and 2023. We expect the state to continue to produce conservative revenue forecasts and take active steps to manage the loss of stimulus funds without perpetuating structural imbalance in its budget.

**RATING OUTLOOK**

Connecticut's outlook is stable, reflecting high level of budgetary reserves and the state's strong provisions to promote fiscal discipline, which include bolstering funding of its pension system, improving liquidity and requiring GAAP-based budgeting.

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS**

- Reduced pension and debt leverage relative to the state's economic base, resulting in lower fixed costs
- Sustained stronger economic performance

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS**

- Significant additional leverage, encompassing bonded debt, pension and OPEB obligations and negative unassigned GAAP balances
- Rapid acceleration of revenue/economic/demographic weakness
- Significant decline in liquidity position

**LEGAL SECURITY**

The state's GO rating is backed by the state's full faith and credit pledge.

**USE OF PROCEEDS**

Proceeds from the 2022 Series A Bonds will be applied to various capital projects of the state. Proceeds from the 2022 Series B Bonds (Social Bonds) will be used for education-related purposes.

## PROFILE

The State of Connecticut has a population of 3.56 million people located in the coastal northeastern US, bordered by Rhode Island (Aa2 stable), Massachusetts (Aa1 stable) and New York (Aa2 positive) with 618 miles of shoreline, according to the National Oceanic and Atmospheric Administration (NOAA). The state has a large and diverse economy with a gross state product of \$280.9 billion in 2020. It is the wealthiest state in the country with per capita income of nearly 134% of the US average.

## METHODOLOGY

The principal methodology used in these ratings was US States and Territories published in April 2018 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM\\_1084466](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1084466) . Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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