

FITCH RATES CONNECTICUT'S \$980MM GO BONDS 'AA'; OUTLOOK REMAINS NEGATIVE

Fitch Ratings-New York-05 May 2015: Fitch Ratings assigns an 'AA' rating to \$980 million in state of Connecticut general obligation (GO) bonds, consisting of:

- \$500,000,000 GO bonds (2015 series B);
- \$200,000,000 GO bonds (2015 series C) - SIFMA index;
- \$280,000,000 GO bonds (2015 series D) - SIFMA index.

The bonds are expected to sell via negotiated sale, with series B selling on May 12 and series C and D selling on May 20.

The Rating Outlook remains Negative.

SECURITY

The bonds are general obligations to which the full faith and credit of the state will be pledged for payment of principal and interest.

KEY RATING DRIVERS

NEGATIVE OUTLOOK BASED ON BUDGET VULNERABILITY: The Negative Outlook reflects the state's reduced fiscal flexibility at a time of lingering economic and revenue uncertainty. The adopted budget for the current biennium relied on one-time items and anticipated little near-term progress in rebuilding fiscal flexibility. Fiscal performance during the biennium to date has been challenged by ongoing revenue uncertainty, although the state has taken action to maintain forecast balance and has made some progress restoring its rainy day fund.

HIGH WEALTH LEVELS: Connecticut is the nation's wealthiest state as measured by per capita personal income. Economic recovery has been slow and uneven since the recession, and the state's large and important finance sector continues to weaken.

CYCLICAL REVENUES AND SPENDING PRESSURE: The state's revenue performance is cyclical, while high fixed costs limit its ability to respond during revenue downturns.

HISTORICAL WILLINGNESS TO BUILD BALANCES: During past economic recoveries the state has demonstrated a willingness and ability to rapidly repay deficit borrowing and rebuild its rainy day balance.

COMPARATIVELY HIGH DEBT LEVELS: Tax-supported debt is high for a U.S. state. This is partially attributable to the above-average role the state plays in relation to local levels of government when compared to most other states. Most GO bonds, excluding GO bonds issued to fund the teachers' retirement system, amortize rapidly.

SIGNIFICANT PENSION OBLIGATIONS: Net liabilities for retired employees are significant, including for state employee and teacher pensions. The state fully funds actuarially calculated pension contributions and maintains fixed amortization dates. Additionally, the state has taken steps to reform retirement pension and health liabilities.

RATING SENSITIVITIES

REBUILDING FISCAL FLEXIBILITY: The rating is sensitive to the state's ability to continue progress in rebuilding fiscal flexibility and meet forecast assumptions in the context of slow economic and revenue growth and high fixed costs. Weaker performance could result in a downgrade.

CREDIT PROFILE

Connecticut's 'AA' GO rating reflects its high wealth and income resources, tempered by a comparatively high burden of bonded debt, retirement liabilities and other fixed costs. The Negative Outlook is based on the state's inability in its last adopted budget, for the fiscal 2014 - 2015 biennium, to return to more structurally sustainable budgeting and rebuild flexibility. The budget relied on non-recurring resources to achieve balance, and although some progress has been made since then in rebuilding the rainy day fund, economic and revenue under-performance remain near-term risks.

Performance in fiscal 2015, which ends on June 30, continues to track slightly behind expectations. The state's comptroller currently forecasts a deficit of \$161 million, which incorporates an updated consensus revenue forecast released on April 30 that lowered fiscal 2015 expected revenues \$41 million largely due to personal income tax underperformance. The state expects to close the forecast fiscal 2015 gap through a combination of administrative and legislative actions.

The governor's executive budget proposal for the fiscal 2016 - 2017 biennium, released in February 2015, absorbs rising fixed costs, achieves narrow forecast balance and avoids reliance on non-recurring resources, but leaves the rainy day fund balance nearly unchanged from the current balance of \$519.2 million (2.9% of general fund appropriations). The legislature continues to deliberate on the budget.

For additional information on the Connecticut's GO rating, see Fitch's rating action commentary of March 9, 2015 'Fitch Rates Connecticut's \$500MM GO Bonds 'AA'; Outlook Remains Negative' at www.fitchratings.com.

Contact:

Primary Analyst
Douglas Offerman
Senior Director
+1-212-908-0889
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Marcy Block
Senior Director
+1-212-908-0239

Committee Chairperson
Laura Porter
Managing Director
+1-212-908-0575

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from IHS Global Insight.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'Pension Pressures Continue' (May 14, 2014).

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. State Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033

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