State of Connecticut

General Obligation Bonds (2016 Series D) and Taxable General Obligation Bonds (2016 Series A)

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July 19, 2016

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Executive Summary

Kroll Bond Rating Agency (KBRA) has **assigned** a long-term rating of **AA-** with a **Stable outlook** to the State of Connecticut's (the "State") $250.0 million General Obligation Bonds (2016 Series D) and $250.0 million Taxable General Obligation Bonds (2016 Series A). Additionally, KBRA has **downgraded** the long-term rating of the State of Connecticut's outstanding General Obligation Bonds to **AA-** from AA. The Outlook has been revised from Negative to **Stable**. After issuance of the 2016 Series D and Taxable Series A Bonds, the State's outstanding general obligation debt will total approximately $18.1 billion.

KBRA has also **downgraded** the long-term rating of the State of Connecticut General Fund Obligation Bonds 2014 Series A issued by Connecticut Innovations, Inc. to **AA-** from AA and revised the outlook from **Negative** to **Stable**. KBRA views the obligation of the State to pay debt service on the 2014 Series A Bonds as tantamount to the general obligation security of the State.

This rating is based on KBRA's **U.S. State General Obligation Rating Methodology**. KBRA's rating evaluation of the long-term credit quality of state general obligation bonds focuses on the following four key rating determinants:

- Management Structure, Budgeting Practices and Policies,
- Debt and Additional Continuing Obligations,
- Financial Performance and Liquidity Position, and
- State Resource Base.

For further information and a full discussion of the key Rating Determinants, please see the **State of Connecticut General Obligation Bonds, Series 2015 A and Taxable Series 2015 A** report published on March 11, 2015. KBRA's **most recent rating report** was published on May 19, 2016.

Security

The 2016 Series D and Taxable Series A Bonds are general obligations of the State and are secured by Connecticut's full faith and credit pledge. All general obligation bond debt service of the State is deemed appropriated without further action by the State Legislature.

Use of Proceeds

Proceeds of the 2016 Series D and Taxable Series A Bonds will be used to fund various capital projects of the State.

Key Rating Strengths
• Current leadership has demonstrated an ability and willingness to make adjustments during the fiscal year to maintain budget balance.
• A strong financial management framework exists for tracking revenues and monitoring budget performance as well as an established mechanism for adjusting budgeted expenditures during the fiscal year.
• Connecticut has the highest personal per capita income in the country at $64,864 for calendar year 2014.
• Available cash balances provide good liquidity for operations, without utilization of external borrowing.
Key Rating Concerns
• State's inability over the last two years to maintain balanced financial operations without significantly reducing the Budget Reserve Fund. The Budget Reserve Fund is projected to be drawn down to an amount equal to 0.5% of FY 2016 General Fund expenditures, which KBRA considers very low.
• State's recent difficulty in accurately projecting personal income tax levels impacted by the performance of volatile financial markets, specifically capital gains taxes, and continued lack of significant growth in wage levels across the State.
• State debt burden is high, compared to other states, on a per capita basis and as a percentage of personal income.
• Connecticut has a relatively high level of unfunded pension liabilities.

Rating Summary

KBRA's decision to downgrade the State's General Obligation Bond rating is based on the State's inability over the last two years to maintain balanced financial operations without significantly reducing its Budget Reserve Fund ("BRF"). The drawdown of the BRF stems from the State's recent difficulty in accurately projecting capital gains tax revenue levels impacted by the performance of volatile financial markets and continued lack of significant growth in wage levels across the State. The State closely monitors budget to actual performance on a monthly basis and both the Governor and the Legislature have taken action on a regular basis to balance financial operations, as needed, over the last two years. However, in FY 2015 and FY 2016, the potential for significant unanticipated shortfalls in income tax collections was recognized near the end of the fiscal year, when, based on discussions with the State's Office of Policy and Management ("OPM"), options to cut spending were limited. In FY 2015, the State's BRF was drawn down from $519.2 million, or 2.9% of FY 2016 General Fund expenditures, to $406.0 million, or 2.3% of FY 2016 General Fund expenditures. Due to continued unanticipated shortfalls in income tax collections, the State's BRF is projected to be further drawn down to $90.2 million, or 0.5% of FY 2016 expenditures, a level which KBRA views as providing very limited budget flexibility. The State currently has no specific plans to increase funding to the BRF.

The State's highly progressive income tax structure and its reliance on capital gains taxes expose its General Fund revenue base to the performance of the stock market. Approximately 15.0% of total income tax collections are capital gains taxes, which reflects the high wealth levels of the State. The volatility of the stock market over the last two years and the difficulty in forecasting the level of capital gains taxes has been a major factor in the State's overestimation of income tax collections. The level of capital gains taxes has always been difficult to predict; however, the State's relatively modest level of reserves has provided less cushion to absorb the impact of market fluctuations than in pre-recession times. Connecticut's economic recovery has been slow since the recession and the State has lost a significant number of high paying finance jobs, replacing them with jobs in relatively lower paying sectors. Since FY 2012, annual growth in the withholding portion of personal income taxes has been approximately 3%-4%, as compared to annual growth in the 6%-7% range in periods prior to the recession. In FY 2016, based on internal and external economic data sources, State revenue projections assumed higher job growth than in recent years; however, employment and wage growth remained consistent with recent history. In FY 2016, total personal income tax collections were originally projected to increase 7.5% from FY 2015 actual collections; however, actual FY 2016 income tax collections increased only 1.4%, based on May OPM numbers. Based on FY 2016 revenue levels, the State has revised down its revenue projections for FY 2017 and the Legislature passed legislation in May implementing expenditure reductions to close a $1 billion gap in the General Fund. While the revised FY 2017 revenue projections are more conservative, uncertainty as to actual collections still exists and the reduced BRF level provides limited cushion.

The State closely monitors its budget to actual financial performance on a monthly basis. Under State statutes, the Governor may implement a certain level of expenditure reductions, or rescissions, without legislative approval, to maintain a balanced budget and may submit proposals to the General Assembly for additional reductions if necessary. Over the last several years, the Governor has implemented expenditure reductions a number of times through this process and the General Assembly has taken action at the request of the Governor. If the monthly statement on financial performance indicates a projected General Fund deficit greater than 1.0% of total General Fund appropriations, the Governor is required to submit a report to the General Assembly that outlines a plan that the Governor shall implement to reduce expenditures to prevent a deficit.

Based on the review of the four KBRA Rating Determinants included in the KBRA Methodology for rating State General Obligation debt, KBRA has determined that the rating assigned to Financial Performance and Liquidity Position should be revised to A+. KBRA has determined that the other three Rating Determinants are consistent with previously designated levels. KBRA's Rating Determinant ratings are summarized as follows:

- Management Structure, Budgeting Practices and Policies: AA+
- Debt and Additional Continuing Obligations: AA-
- Financial Performance and Liquidity Position: A+ (revised from AA-)
- State Resource Base: AA-

Outlook: Stable

KBRA's **Stable** outlook reflects the expectation that the State will manage its finances to maintain balanced operations. The State has revised its revenue projections down for FY 2017 and it is KBRA's expectation that the Governor and Legislature will take action to make budget adjustments as needed. Connecticut remains reliant on capital gains tax revenues which are impacted by the performance of volatile capital markets. KBRA will continue to monitor both the trends in personal income tax collections and the State's progress in restructuring the expenditure side of their General Fund budget.

In KBRA's view, the following factors may contribute to a rating upgrade:

- Trend of structurally balanced budgets and actual financial results showing General Fund operating surpluses.
- Sustained increase in the State's Budget Reserve Fund.
- Significant increase in the funded ratios for the State's pension systems.

In KBRA's view, the following factors may contribute to a rating downgrade:

- Continued pressure on personal income tax collections from volatility in the financial markets, further shifts in the State's employment base or decline in economic activity.
- Failure to take actions necessary to maintain budget discipline and balanced financial operations.
- Significant reliance on non-recurring revenues to balance the budget.

Financial Performance and Liquidity Position Update

FY 2015 Results

Based on the Annual Report of the State Comptroller for FY 2015, dated November 30, 2015, the State's General Fund ended FY 2015 with a deficit of $113.2 million on a budgetary basis, which represented 0.6% of FY 2015 General Fund expenditures. The deficit was largely driven by higher than expected expenditures and lower than anticipated revenues. Total income tax collections were down $113.2 million which was 1.2% under budget. As discussed, OPM monitors budget performance on a monthly basis. Though revenue collections showed shortfalls throughout the fiscal year, increased shortfalls in income tax collections began to be reported in April of 2015, when options to cut spending are more limited. State statute dictates that the BRF must be drawn down to fund the end of fiscal year deficit. To fund the FY 2015 deficit, the BRF was drawn down from $519.2 million to $406.0 million, or approximately 2.3% of FY

2015 General Fund appropriations. While KBRA views the magnitude of the projected FY 2015 deficit as minimal, it does represent a material drawdown of the State's Budget Reserve Fund.

In the adopted FY 2015 budget, total General Fund revenues were projected to increase by 4.9% from actual 2014 levels. For FY 2015, actual total General Fund revenues increased at a rate of 1.8% from FY 2014. Actual personal income taxes collected as withholding taxes increased at a rate of 3.1% and taxes collected as estimated and final payments increased 9.9% in FY 2015. Sales and use tax collections increased 3.9% over FY 2015.

Financial results for FY 2015 reflect actions taken by the Governor in November 2014 and January 2015 to cut spending under the gubernatorial authority to implement a certain level of expenditure reductions, or rescissions, without legislative approval, if necessary to maintain a balanced budget. FY 2015 operations also reflect action by the Legislature to address budget shortfalls and restore fiscal balance.

Statement of Revenues, Expenditures, and Net Surplus for General Fund
General Fund (budgetary modified cash basis) FY 2012-2015 (ending June 30)

(in $ millions)	2015	2014	2013	2012
Operating Revenues	17,282.0	17,009.1 [1,2]	19,405.0	18,561.6
Operating Expenditures	17,419.7	16,980.0	19,025.7	18,781.6
Other Resources	24.5	28.7	18.7	76.5
Net Operating Surplus (Deficit)	(113.2)	57.7	398.0	(143.6)
Transfer (to) from Budget Reserve Fund	113.2	(248.5)	(177.2)	143.6
Reserved for Subsequent Years Expenditure	0	0.0	220.8	0.0
Reserved from Prior Year Resources	0	190.8	0.0	0.0
Net Surplus (Deficit) June 30th	**$0**	**$0**	**$0**	**$0**
Budget Reserve Fund	**$406.0**	**$519.2**	**$270.7**	**$93.5**
% of Operating Expenditures	**2.3%**	**3.1%**	**1.4%**	**0.5%**

Source: Connecticut 2015 Annual Information Statement

[1] FY 2014 General Fund revenues and expenditures reflect the reduction of approximately $2.8 billion in both revenues and expenditures related to the shift to the "net budgetary" approach in Medicaid funds.

[2] FY 2014 revenues do not include $599 million of GAAP Conversion Bonds

FY 2016-FY 2017 Biennium Budget

On June 3, 2015, the General Assembly passed a biennial budget bill for FY 2016 and FY 2017, which was subsequently amended in special session. The final adopted budget, as amended, included significant revenue enhancements and also modifications to spending cuts, as compared to the Governor's proposed budget. Total General Fund revenues were projected to grow at an economic growth rate of 4.0% in FY 2016 and 3.7% in FY 2017. In FY 2016, personal income taxes and sales taxes were projected to grow at a rate of 5.9%, over actual FY 2015 levels, with withholding income taxes and estimated and final income taxes projected to increase at 5.2% and 7.1%, respectively. In FY 2017, personal income taxes were projected to increase 5.5%, with withholding taxes and final and estimated taxes increasing at 5.2% and 6.0% from FY 2016 levels, respectively. The biennial budget projected a budget surplus of $0.8 million in FY 2016 and $2.5 million in FY 2017.

The FY 2016 - FY 2017 biennial budget also includes $802.1 million in revenue enhancements for FY 2016 and $664.4 million in revenue enhancements for FY 2017. Significant revenue changes include an increase to the top personal income tax marginal rate, limits on the use of deductions in the corporate tax and increases in the health provider tax. Under the new budget, significant portions of the sales tax revenues will be intercepted to fund an increased municipal aid program for property tax relief and to fund the "Let's Go CT" transportation initiative beginning in FY 2016. In both FY 2016 and FY 2017, the use of one-time revenues is minimal, representing less than 1.0% of revenues.

Under the adopted budget, significant expenditure reductions from current service levels were made in the General Fund in both FY 2016 and FY 2017, which reduces appropriations to State agencies and programs. Areas of spending cuts included the Medicaid program, Department of Social Services and other social service programs. The budget held K-12 school aid relatively flat and funding for the State's higher education system was reduced slightly. The budget included the State's full actuarially required contributions for its pension funds. The budget also included approximately $48 million in each year for the amortization of the remaining GAAP based fund deficit in the General Fund; this amortization is scheduled to commence in FY 2016.

FY 2016 Financial Performance

Based on its letter dated June 20, 2016, OPM is projecting a $315.8 million deficit in the General Fund or approximately 1.8% of projected FY 2016 General Fund expenditures. OPM began projecting significant FY 2016 shortfalls in the General Fund in March, with shortfalls largely driven by ongoing unanticipated declines in personal income tax collections. These FY 2016 shortfalls have reflected the State's difficulty in projecting the level of capital gains taxes as well as lower than expected withholding taxes, which reflects lower than anticipated wage growth in the labor force. The total General Fund shortfall in income tax collections for FY 2016 is currently estimated at $634.4 million, or approximately 6.5% lower than budgeted numbers. The State's BRF will be drawn down to fund this FY 2016 deficit, reducing the balance from $406 million to $90 million, or 0.5% of FY 2016 expenditures, which KBRA considers to be very low.

As discussed above, total budgeted General Fund revenues and total personal income tax revenues were projected to increase by 4% and 5.9%, respectively, from actual FY 2015 numbers. Based on information provided by OPM in early June 2016, which reflects April 2016 consensus revenue estimates, actual General Fund revenues increased only 2.6%, and total personal income taxes increased 1.4% in FY 2016. Actual withholding income taxes increased 3.3% and estimated and final taxes declined 5.6%, compared to FY 2016 budget projections of increases 5.2% and 7.1% in withholding and estimated and final collections respectively. In November 2015, the State had revised it General Fund revenue projections down, based on November consensus revenue estimates, however actual revenues came in lower than even the revised estimates.

In FY 2016, personal income taxes accounted for 52% of the State's projected General Fund revenues. Historically, withholding taxes represent 60%-70% of total personal income tax collections with estimated and final payments representing the balance. Estimated and final personal income tax collections include taxes on capital gains, dividends and bonuses as well as estimated personal income tax payments. Approximately half of the estimated and final collections, or 15% of total personal income tax collections, represent taxes on capital gains, which is impacted by financial market performance and taxpayer decisions on the sale of securities. Since FY 2012, the personal income taxes from withholding have shown an annual increase of 3%-4%. Annual collections of estimated and final income tax collections have fluctuated significantly with annual declines of over 6%-7% in FY 2012 and FY 2014 and annual increase of 22% and 10% in FY 2013 and FY 2015, respectively. Capital gains tax collections reflect capital gains taken in the immediately preceding fiscal year. The State has found it difficult to project the level of estimated and final income taxes and actual collections have been lower than budgeted levels in four out of five years since FY 2012.

Current projections of FY 2016 financial results for the State's General Fund reflect actions taken by the Governor and State Legislature to cut spending to maintain fiscal balance. In addition to $103.0 million in rescissions made by the Governor in September 2015, the Legislature instituted additional spending reductions in a December 2015 special legislative session for a total of $323.5 million in expenditure reductions and revenue adjustments. These legislative actions were taken in response to a statutorily required deficit mitigation plan submitted by the Governor. Legislative action was taken again in March 2016 for an additional $220.0 million in reductions and adjustments for a total of $523.6 million in actions taken. At the time of the budget performance projections in May 2016, OPM stated that, while the State will continue to implement spending cuts, including layoffs, hiring limitations and contract cancellations, it is probable that the Budget Reserve Fund would be drawn on to fund the FY 2016 deficit projected at that time.

Midterm Budget Revisions for FY 2017

Based on the April consensus revenue estimates available at the time of the May 2016 OPM projections, the General Fund deficit for FY 2017 was projected at approximately $1 billion, which reflects shortfalls in personal income taxes of $835 million from the original FY 2017 budget. In May 2016, legislation was passed implementing mid-term budget revisions for FY 2017, which closed the budget gap and ended the fiscal year with a minimal surplus of $0.2 million. Under the FY 2017 revised budget, total General Fund revenues are projected to increase 2.5% from FY 2016 levels, with personal income taxes from withholding and estimated and final collections increasing at 3.3% and 2.0%, respectively. The original adopted FY 2017 budget included assumptions of 3.7% growth in total General Fund revenues and assumptions of 5.2% growth in withholding and 6% in estimated and final collections.

The adopted midterm budget revisions address the shortfall by instituting deep spending cuts across most state agencies and programs, which the State has been implementing since April. OPM states that the majority of these spending reductions are recurring with approximately half of the cuts related to reduction of personnel levels. The adopted revisions include plans for elimination of positions through layoffs and attrition and also include cuts in Medicaid spending, aid to municipalities, higher education programs and the State's transportation program. Overall, the General Fund expenditures were reduced 4.4% through these budget revisions. The State's pension contributions are fully funded under the FY 2017 budget. The FY 2017 budget includes no tax increases.

State Resource Base Update

KBRA believes that the trends that Connecticut is experiencing as it continues to recover from the Great Recession are indicative of a longer-term shift from historically strong economic and wage growth. Over the last decade, Connecticut's population growth has been below the population growth rate for the New England region and the U.S. From 2006 to 2015, the State's population grew by 3%, as compared to 3.3% for New England and 7.6% for the U.S. Since 2011, Connecticut's population has remained essentially unchanged at 3.6 million residents. Between 2010 and 2014, the population of the New England region grew 1.1%, while the State's population only grew 0.5%. KBRA expects that Connecticut's population growth will continue to be slower than that for New England and the U.S.

Overall, the State's population has a high level of educational attainment at 38.0%, defined as the population ages 25 and over with a Bachelor's degree or higher and it ranks among the top 15% of states at 126.2% of the national level. Connecticut's age dependency ratio, which measures the nonworking population against the working population, remained steady at 58.7% from 2010 to 2014, indicating that the age concentration of the State's population remains relatively consistent. Connecticut's estimated poverty level grew 0.7% from 2010 to 2014 to 10.8% despite the increased per capita income.

Income levels, as measured by per capita personal income, have historically been the highest in the nation. Per capita personal income in 2014 was $65,864, which was 114% and 141% of New England and U.S. levels, respectively. The State's high per capita personal income figure has historically been driven by the greater proportion of residents who work in high paying jobs in the finance, insurance, real estate, and certain manufacturing (such as defense) sectors. Despite the loss of a significant number of high-paying jobs since 2008, the State still has an above-average proportion of jobs in services, manufacturing and finance industries compared to the rest of the nation. In 2014, finance jobs comprised 7.7% of non-agricultural employment in the State, as compared to 5.7% in the U.S. KBRA notes that this elevated concentration of high paying jobs has resulted in rates of annual personal income growth within the State that have generally exceeded growth rates for the region and U.S. Historically, declines in personal income growth have generally been steeper than the region and the U.S. during periods of economic decline.

	Connecticut		New England[1]			U.S.		
	2014	**% Chg from 2010**	**2014**	**% Chg from 2010**	**CT as % of NE Avg**	**2014**	**% Chg from 2010**	**CT as % of U.S. Avg**
Population	3,596,080	0.5%	14,618,806	1.1%	**24.6%**	316,128,839	2.2%	
Age Dependency Ratio[2]	58.7%	0.0%	56.2%	0.1%		60.2%	1.3%	**97.5%**
Population with B.A. Degree or higher[3]	38.0%	2.5%	37.7%	2.2%	**100.8%**	30.1%	1.9%	**126.2%**
Poverty Level	10.8%	0.7%	11.7%	0.5%	**92.4%**	15.5%	0.2%	**69.7%**
Personal Income (in billions)	$236.8	19.8%	$849.5	18.9%		$14,945	20.4%	
Personal Income per capita	$65,864	19.2%	$57,862	17.1%	**113.8%**	$46,871	16.8%	**140.5%**
Gross State Product (in billions)	$253.0	8.8%	$924.9	12.7%		$17,348	18.5%	
GSP per capita	$70,353	8.3%	$63,003	11.0%	**111.7%**	$54,407	15.0%	**129.3%**

Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis
[1] New England is defined as Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
[2] Age dependency ratio is the sum of the population under 18 yrs and over 65 yrs divided by persons age 18 to 64 yrs
[3] Percent of the population aged 25 and older

The State continues to have a diverse economic base. The State's Gross State Product ("GSP"), which measures a state's economic output, in 2014, was focused in finance, insurance and real estate services, manufacturing, and government sectors. Together, these four areas comprised 77.2% of the State's GSP in 2014, which is higher than the 71% for the U.S. Manufacturing as a contributor to GSP continues to decline, and decreased by nearly one-third (32.3%) in recent years, to 10.7% in 2014 from 15.8% in 2007. The State cites increased competition with foreign countries and with other states as key factors contributing to this decline in manufacturing. Connecticut's GSP has increased annually since 2005, with the exception of two years. In 2008 and 2009, the State's GSP declined by 1.4% and 2.0%, respectively. KBRA notes that since 2009, the State's GSP growth has lagged that of New England and the U.S. In 2014, the State's GSP grew by 2.5% from the prior year compared to 3.5% for New England and 4.1% for the U.S.

In 2015, seventeen "Fortune 500" companies were headquartered in Connecticut, including United Technologies Corporation ("UTC"), Cigna, Praxair, and Priceline Group. Included in the aforementioned 17 companies is General Electric Co. (GE) which announced in January of this year its plans to move its headquarters from Fairfield, CT to Boston, MA by 2018. This move would result in the relocation of 200 of the 800 employees at GE headquarters to Boston. However, the State notes that GE will continue to have a presence in Connecticut, with an estimated 5,000 employees at other General Electric divisions.

Over the past several decades, Connecticut's employment base has shifted significantly from manufacturing to service industries. In 2014, over 90% of the State's workforce was in non-manufacturing jobs, a significant increase from approximately 50% in the early 1950s. KBRA notes that the defense industry, which comprises about one-quarter of the State's manufacturing employees, is an important component of the State's economy and has demonstrated renewed strength since 2002. In fiscal year 2014, the State ranked fourth in total defense contract amounts awarded and second in per capita dollars awarded. Major defense companies include UTC and its Pratt and Whitney Aircraft Division, and General Dynamics Corporation's Electric Boat Division.

Although the State lags the New England region and the United States on various employment indicators, recent improvement in overall employment and a notable decline in the unemployment rate suggest an improving employment picture statewide. Connecticut's overall employment did not experience growth until 2014, unlike the rest of the New England region and the United States where overall employment began to increase in 2011. Between 2010 and 2015, total state employment grew 2.5%. The State's employment growth has been somewhat slower than the 4.1% growth for the region and 8.8% for the

U.S. since 2010. Connecticut's recent employment gains reflect the continued recovery of the State's economy and increased employment opportunities in industries such as insurance and leisure and hospitality. State management is projecting further employment growth in research and development ("R&D") and management & business sectors. KBRA notes that, due to a revision in modeling assumptions, the Bureau of Labor Statistics ("BLS") retroactively republished employment and unemployment figures dating back to 2009. This could lead to inconsistencies in reported figures in KBRA's published reports.

Non-Agricultural Employment (Not Seasonally Adjusted)

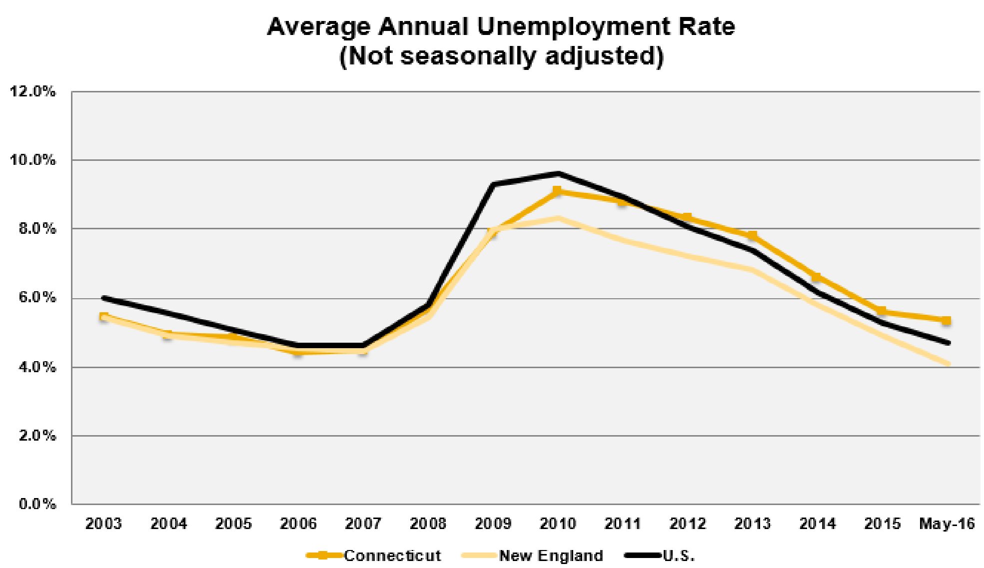
	Connecticut		New England		U.S.	
in thousands	Employment	% Chg	Employment	% Chg	Employment	% Chg
2009	1,741.0		7,108.8		131,313.0	
2010	1,737.4	-0.2%	7,102.7	-0.1%	130,361.0	-0.7%
2011	1,746.0	0.5%	7,141.5	0.5%	131,932.0	1.2%
2012	1,730.7	-0.9%	7,173.1	0.4%	134,175.0	1.7%
2013	1,726.9	-0.2%	7,212.3	0.5%	136,381.0	1.6%
2014	1,761.6	2.0%	7,330.1	1.6%	138,958.0	1.9%
2015	1,781.5	1.1%	7,393.2	0.9%	141,865.0	2.1%
2016*	1,794.2	0.7%	7,462.4	0.9%	143,888.0	1.4%

Source: U.S. Bureau of Labor Statistics

*May 2016 Estimates

New England: Maine, Massachusetts, New Hampshire, Vermont, Rhode Island, and Connecticut

Despite the continued decline of the State's average unemployment rate from a peak of 9.1% in 2010 to 5.6% in 2015, the unemployment rate in Connecticut is still above that of the region and U.S., which averaged 4.9% and 5.3%, respectively. As of May 2016, the State's estimated unemployment rate further declined to 5.4%, compared to 4.1% across the New England region and 4.7% nationwide.



Source: U.S. Bureau of Labor Statistics

Conclusion

KBRA has assigned a long-term rating of **AA**- and a **Stable** outlook to the State of Connecticut's General Obligation Bonds (2016 Series D) and Taxable General Obligation Bonds (2016 Series A). Additionally, KBRA has downgraded the long-term rating of the State of Connecticut's outstanding General Obligation Bonds to **AA-** from AA. The outlook has been revised from Negative to **Stable**.

KBRA has also **downgraded** the long-term rating of the State of Connecticut General Fund Obligation Bonds 2014 Series A issued by Connecticut Innovations, Inc. to **AA-** from AA and revised the outlook from Negative to **Stable**.