

# State of Connecticut

## General Obligation Bonds

### (2017 Series A) & (2017 Series B)

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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") approximately \$600 million General Obligation Bonds, composed of \$550 million of General Obligation Bonds (2017 Series A) and \$50 million of General Obligation Refunding Bonds (2017 Series B). Additionally, KBRA has **affirmed** the long-term rating of **AA-** with a **Stable** outlook on the State of Connecticut's outstanding General Obligation Bonds. After the issuance of the 2017 Series A and 2017 Series B Bonds, the State's outstanding general obligation debt will total approximately \$18.9 billion.

KBRA has also **affirmed** the long-term rating of **AA-** with a **Stable** outlook on the State of Connecticut General Fund Obligation Bonds 2014 Series A issued by Connecticut Innovations, Inc. 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 November 2, 2016.

## Security

The 2017 Series A and 2017 Series B 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 2017 Series A and 2017 Series B Bonds will be used to refund outstanding general obligation bonds of the State and fund various capital improvement projects.

### 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 \$68,704 for calendar year 2015.
- 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. In FY 2016, the Budget Reserve Fund was drawn down to an amount equal to approximately 1.3% of FY 2016 General Fund expenditures.
- 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's increasing budgetary burden related to fixed costs, specifically debt service, pension contributions, and Medicaid expenditures.
- 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 assignment of the AA- rating and **Stable** outlook on the 2017 Series A and 2017 Series B Bonds reflects the State's difficulty in maintaining balanced financial operations without significantly reducing its Budget Reserve Fund ("BRF"). The drawdown of the BRF stems from the State's inability over the last several years to accurately project capital gains tax revenue levels impacted by the performance of volatile financial markets and continued slow growth in the withholding portion of income taxes, both of which resulted in significant personal income tax revenue shortfalls during the fiscal year.

In FY 2016, the State's BRF was drawn down from \$406.0 million, or 2.9% of FY 2016 General Fund expenditures, to \$235.6 million, or 1.3% of FY 2016 expenditures, which KBRA considers to be low given the progressive nature of the State's income tax structure. 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, which KBRA views very positively. However, in both FY 2015 and FY 2016, revenue shortfalls continued until the end of the fiscal year when, based on discussions with the State's Office of Policy and Management ("OPM"), options to cut spending are limited. In KBRA's view, the State's revenue projections included in the revised FY 2017 budget continue to be somewhat optimistic given the State's recent revenue performance and the potential for volatility in financial markets. KBRA will continue to monitor the State's FY 2017 revenue performance and the impact on the State's financial operations.

Based on the OPM letter dated February 21, 2017, an operating surplus of \$22.9 million in the General Fund is currently projected for FY 2017. This projection reflects the January 2017 consensus revenue estimates. As in prior years, April collections of the final income tax collections, will be a significant factor in determining year-end financial position. The BRF is currently projected to end FY 2017 at \$259 million, or 1.4% of General Fund appropriations, which KBRA still considers to be low.

On February 8, 2017, the Governor presented his proposed FY 2018/FY 2019 biennium budget to the General Assembly. Under the proposed budget, FY 2018 and FY 2019 are projected to end the fiscal year with operating surpluses of \$2.1 million and \$4.5 million, respectively. The baseline biennium budget for the General Fund includes a gap of \$1.7 billion in FY 2018 and \$1.9 billion in FY 2019. The Governor's biennium budget closes these budget gaps through a combination of revenue enhancements and expenditure reductions. The spending reductions are largely structural in nature and the revenue enhancements do not raise the major State taxes. For FY 2018 and FY 2019, the proposed budget includes savings resulting from collective bargaining savings, implementation of municipal cost sharing of pension costs for the Teacher's Retirement System, other adjustments to Municipal Aid, and changes to the tax structure for hospitals, among other changes. These FY 2018 spending cuts are expected to roll forward with some adjustments to balance the FY 2019 budget. The proposed FY 2018 and FY 2019 budget, though inclusive of areas of uncertainty, represents the administration's efforts to change the structure of its budget, as well as address

inequities in its school funding system. The rating also reflects the State's willingness to address long term financial risks, as evidenced by the State's restructuring of the future stream of pension obligation for its State Employment Retirement System (SERS) to increase stability and predictability. KBRA will continue to monitor and assess the State's response to the ongoing budgetary pressure in FY 2018 and beyond.

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 to reduce expenditures and 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 ratings assigned to all of the four Rating Determinants remain consistent with previously designated levels. KBRA continues to assign an overall rating of AA- to the State's General Obligation Bonds. 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+
- State Resource Base: AA-

## **Outlook: Stable**

KBRA's **Stable** outlook on the State of Connecticut's General Obligation bonds reflects the expectation that the State will manage its finances to maintain balanced operations and adequate reserves. 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 2016 Financial Results**

Based on the Comptroller's audited budgetary based financial report in November 2017, FY 2016 ended with an operating deficit of \$170.4 million in the General Fund, which was eliminated by a transfer from the Budget Reserve Fund (BRF). As a result of this transfer, the balance in the BRF was reduced from \$406 million to \$235.6 million, or 1.3% of FY 2016 expenditures, which KBRA considers to be low. This outcome is largely the result of a significant shortfall in personal income tax collections totaling \$654 million, or 7.1% below the FY 2016 budget. These FY 2016 shortfalls stem from the State's difficulty in projecting the level of capital gains taxes to be collected as well as lower than expected receipts of withholding taxes, which reflects lower than anticipated wage growth in the labor force.

Based on the State Comptroller's report for FY 2016, actual General Fund revenues increased 2.9% in FY 2016, from FY 2015 levels, due to revenue enhancements. This level is significantly below the FY 2016 budget assumptions. Actual revenues from the withholding portion of income taxes grew by 3.4%, while actual revenues from the final and estimated portion declined by 4.4%, despite an increase in rates for upper tax brackets.

In FY 2016, the economic growth rate (not reflecting revenue enhancements) for the withholding portion of personal income taxes was 2.8% and the economic growth rate for the final and estimated portion was a negative 7.6%, compared to FY 2016 budget projections of 5.2% and 7.1% growth in withholding and estimated and final collections, respectively. Sales tax revenues increased at an economic growth rate of 2.8% in FY 2016.

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.

<b>Statement of Revenues, Expenditures, and Net Surplus for General Fund</b>					
<b>General Fund (budgetary modified cash basis) FY 2012-2016 (ending June 30)</b>					
<i>(in \$ millions)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Operating Revenues	17,780.8	17,282.0	17,009.1 <sup>1,2</sup>	19,405.0	18,561.6
Operating Expenditures	17,951.2	17,419.7	16,980.0	19,025.7	18,781.6
Other Resources	0	24.5	28.7	18.7	76.5
Net Operating Surplus (Deficit)	(170.4)	(113.2)	57.7	398.0	(143.6)
Transfer (to) from Budget Reserve Fund	170.4	113.2	(248.5)	(177.2)	143.6
Reserved for Subsequent Years Expenditure	0	0	0.0	220.8	0.0
Reserved from Prior Year Resources	0	0	190.8	0.0	0.0
<b>Net Surplus (Deficit) June 30th</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Budget Reserve Fund</b>	<b>\$235.6</b>	<b>\$406.0</b>	<b>\$519.2</b>	<b>\$270.7</b>	<b>\$93.5</b>
<b>% of Operating Expenditures</b>	<b>1.3%</b>	<b>2.3%</b>	<b>3.1%</b>	<b>1.4%</b>	<b>0.5%</b>

Source: Connecticut 2016 Annual Information Statement

<sup>1</sup> 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.

<sup>2</sup> FY 2014 revenues do not include \$599 million of GAAP Conversion Bonds

## Midterm Budget Revisions for FY 2017

Based on the April 2016 consensus revenue estimates, OPM projected a the General Fund deficit for FY 2017 of approximately \$1 billion, which reflected shortfalls in personal income taxes of approximately \$835 million from the original FY 2017 budget. Under the revised budget passed by the General Assembly in May 2016, General Fund spending was reduced by \$847.2 million, or 4.5%. The midterm budget revisions addressed the shortfall by instituting deep spending cuts across most state agencies and programs. A portion of these cuts represented a continuation of reductions implemented by the State since April 2016. OPM states that the majority of these spending reductions were recurring with approximately half of the cuts related to reduction of personnel levels. The most significant reductions to spending in the revised FY 2017 budget include across the board reductions in funding for personnel services and related fringe benefits, reductions of block grants for higher education, and reductions in certain municipal and education related grants. The budget revisions also included a reduction in sales and use tax revenue transfers to municipal revenue sharing and special transportation funds. The State's pension contributions are fully funded under the revised FY 2017 budget.

## Projected FY 2017 Financial Performance

Based on the January 2017 consensus revenue estimates, OPM projected a net \$57 million increase in General Fund revenues in their January 2017 letter. The largest positive revision is an \$80 million increase in the Corporation Tax, reflective of strong collections over the previous few months. Other revenue increases included \$32 million from a legal settlement. Projections for sales tax revenues and the withholding portion of the personal income tax was revised downward by \$30 million and \$15 million respectively.

Based on the OPM letter dated February 21, 2017, an operating surplus of \$22.9 million in the General Fund is currently projected for FY 2017. This projection reflects the January 2017 consensus revenue estimates. As in prior years, April collections of the final income tax collections will be a significant factor in determining year-end financial position. Overall, General Fund expenditures are projected to be \$10.6 million above budget for FY 2017. OPM states that anticipated appropriation lapses are ahead of budgeted levels at this time, potentially reducing budget flexibility for the rest of the year. The BRF is projected to end the year at \$259 million, or 1.4% of General Fund appropriations.

Based on the January 2017 consensus revenue estimates, the economic growth rates for the withholding portion of income tax are projected at 2.8% for FY 2017, compared to November 2016 projections of 3.3%. Current estimated and final income tax collections growth projections are 2.8% in FY 2017, compared to a previous projection of 2.9% and sales tax projection are currently projected to grow 2.4%, compared to 3.1%

## **Pension Changes to the State Employees Retirement System**

In November 2015, OPM released a report by the Boston College Center for Retirement Research which identified certain risks in the State's pension programs which potentially could increase the State's pension contributions significantly in the future. In early 2016, the Governor directed that a study group be convened to develop recommendations on how the funding for pension plans could be restructured and how budgeting uncertainty for pension funding could be reduced for the State Employee's Retirement System (SERS). The State signed a memorandum of understanding with SEBAC in December 2016 which amended certain provisions governing the SERS system. This agreement was approved by the General Assembly on February 1, 2017. Under this agreement charges included: reduction of the assumed rate of return from 8% to 6.9%, extension of the amortization period for the historical unfunded liability by an additional 15 years, setting the amortization of future liabilities at 25 years and adoption of the Entry Age Normal actuarial cost method and changing the methodology for amortizing the unfunded liability to the level dollar method over a five year period. These changes will reduce the SERS funded ratio and increase pension costs in the short run but will provide the State with a more consistent and predictable schedule of pension contributions in the future. Projected annual SERS pension costs will increase from \$1.7 billion in FY 2018 to \$2.5 billion in 2023 and then remain stable. The most recent valuation as of June 30, 2016 (received in January 2017) reflects these changes. Based on this valuation, the funded ratio of the SERS pension fund is 35.5% on an actuarial basis. The State continues to include 100% of its ARC requirement in the FY 2018/FY 2019 proposed budget.

## **Governor's Recommended Budget for FY 2018 and FY 2019**

On February 8, 2017, the Governor presented his proposed FY 2018/FY 2019 biennium budget to the General Assembly. The proposed FY 2018 General Fund budget is \$18.0 billion and the proposed FY 2019 budget is \$18.3 billion. Under the proposed budget, FY 2018 and FY 2019 are projected to end the fiscal year with operating surpluses of \$2.1 million and \$4.5 million, respectively. The proposed budget reflects growth of appropriations of .8% and 1.8% in each year of the biennium.

The baseline biennium budget for the General Fund includes a gap of \$1.7 billion in FY 2018 and \$1.9 billion in FY 2019. These baseline numbers reflect anticipated growth in certain fixed costs and entitlements, including debt service, pension contributions and Medicaid expenditures. The Governor's biennium budget closes these budget gaps through a combination of revenue enhancements and expenditure reductions. The spending reductions are largely structural in nature and the revenue enhancements do not raise the major State taxes. For FY 2018 and FY 2019, the proposed budget includes savings resulting from collective bargaining savings, implementation of municipal cost sharing of pension costs for the Teacher's Retirement System, other adjustments to Municipal Aid, and changes to the tax structure for hospitals, among other changes. These FY 2018 spending cuts are expected to roll forward, with some adjustments, to balance the FY 2019 budget. On the revenue side, the Governor's proposal includes \$321 million and \$287 million in revenue enhancements in FY 2018 and FY 2019, respectively. These revenue enhancements include elimination of a property tax credit, decrease in the earned income tax credit (EITC), increase in cigarette taxes and modification of State gift and estate taxes.

The major drivers of spending reduction in the FY 2018/FY 2019 proposed budget are the collective bargaining savings, estimated at \$700 million in FY 2018 and the municipal sharing of pension costs, estimated at \$408 million in FY 2018. The State is currently in active negotiations with its state employee's union (SEBAC) on a range of compensation and pension reform issues. The SEBAC labor contract expired



as of June 30, 2016. OPM has stated that the State has formulated alternate cost saving programs to these proposed collective bargaining savings. Under the municipal cost sharing program, the Governor proposes that municipalities begin to contribute one-third of the employer share of teachers' pension costs, based on the number of teachers employed at the local level. In Connecticut, municipalities operate the school systems and this proposal represents a significant change to how school costs are funded. This proposal does not include changes to teacher benefits or contributions. KBRA will review the State's adopted budget for FY 2018/FY 2019 to assess the impact of final budget provisions on the financial operations of the State.

In addition to the proposals discussed above, the Governor is also proposing changes to the State school funding formula (Education Cost Sharing or ECS) which will direct a larger share of State resources to communities with lower property tax base wealth and higher student poverty than the current formula. It also eliminates funding for empty seats in schools. This proposal responds to the September 2016 ruling by the State Superior Court titled Connecticut Coalition for Justice in Education Funding (CCJEF) which dictated that the State must distribute its education funding on a consistent and equitable basis. Under these proposed changes, funding for Special Education would be funded on a separate basis from the ECS structure. Grants to fund Special Education would reimburse town special education cost on a sliding scale basis based on the town's per capita property tax base level. OPM states that these proposals would not have significant impact on the State's overall funding levels for education.

The Governor is also proposing a plan for greater accountability by municipalities receiving higher levels of municipal aid and reduces certain municipal mandates for all communities. The proposal establishes a nine member Municipal Accountability Review Board which will review municipal operations based on various credit factors of a given municipality.

Under the Governor's recommended budget for FY 2018/FY 2019, the economic growth rate for total General Fund revenues is projected to be 1.7% in FY 2018 and 2.1% in FY 2019. Economic growth rates for the withholding portion of the personal income tax are projected at 3.6% in FY 2018 and 3.9% in FY 2019. Final and estimated income taxes are projected to grow 2.6% and 2.3%, respectively, and sales taxes are projected to grow 2.8% and 3.3%, respectively, in FY 2018 and FY 2019. In KBRA's view, the revenue projections in the proposed FY 2018/FY 2019 budget are somewhat optimistic, given the State's recent revenue performance and the significant potential for volatility in the financial markets. KBRA also notes that, over the last few years, unanticipated revenue shortfalls continue until the end of the fiscal year, when the ability to cut spending is more limited and optimistic revenue projections could exacerbate this situation. KBRA will continue to monitor the State's revenue performance and the impact on the State's financial operations.

## **State Resource Base Update**

In KBRA's view, the State economy continues to improve but still lags regional and national growth trends. Over the last decade, Connecticut's population growth rate has been below that of the New England region and the U.S. From 2010 to 2015, the State's population grew by 0.4%, as compared to 1.9% for New England and 3.9% for the U.S. Going forward, KBRA expects that Connecticut's population growth will continue to be slower than that for New England and the U.S.

Income levels, as measured by per capita personal income, have historically been the highest in the nation. Per capita personal income in 2015 was \$68,704, which was 114% and 142% 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. Historically, declines in personal income growth have generally been steeper in Connecticut than the region and the U.S. during periods of economic decline.

	Connecticut		New England <sup>1</sup>		CT as % of NE Avg	U.S.		CT as % of U.S. Avg
	2015	% Chg from 2010	2015	% Chg from 2010		2015	% Chg from 2010	
Population	3,590,886	0.4%	14,727,584	1.9%	<b>24.4%</b>	321,418,821	3.9%	<b>1.1%</b>
Age Dependency Ratio <sup>2</sup>	59.0%	0.3%	56.7%	0.7%		60.7%	1.8%	
Population with B.A. Degree or higher <sup>3</sup>	38.3%	2.8%	38.3%	2.8%	<b>100.0%</b>	30.6%	2.4%	<b>125.2%</b>
Poverty Level	10.5%	0.4%	11.2%	0.1%	<b>93.4%</b>	14.7%	-0.6%	<b>71.4%</b>
Personal Income (in billions)	\$246.7	10.9%	\$886.6	17.7%		\$15,464	24.5%	
Personal Income per capita	\$68,704	10.6%	\$60,200	15.6%	<b>114.1%</b>	\$48,112	19.5%	<b>142.8%</b>
Gross State Product (in billions)	\$252.9	7.8%	\$955.1	15.2%		\$17,920	22.4%	
GSP per capita	\$70,437	7.4%	\$64,853	13.1%	<b>108.6%</b>	\$55,752	17.8%	<b>126.3%</b>

Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis

<sup>1</sup> New England is defined as Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont

<sup>2</sup> Age dependency ratio is the sum of the population under 18 yrs and over 65 yrs divided by persons age 18 to 64 yrs

<sup>3</sup> Percent of the population aged 25 and older

Connecticut's GSP has increased 7.8% since 2010; however, the State's GSP growth has lagged that of the region and the U.S. in that period. In 2015, the State's GSP grew by 3.2% from the prior year compared to 4.9% for New England and 3.7% for the U.S.

The State continues to have a diverse economic base. In 2015, seventeen "Fortune 500" companies were headquartered in Connecticut, including United Technologies Corporation ("UTC"), Cigna, Praxair, Priceline Group and General Electric Corporation. 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. Major defense companies include United Technologies Corporation and its Pratt and Whitney Aircraft Division, Sikorsky Aircraft (a division of Lockheed Martin), and General Dynamics Corporation's Electric Boat Division. In September 2016, Governor Malloy announced that Sikorsky Aircraft would remain headquartered in the State for at least another 16 years.

Since 2010, the State has generally lagged the New England region and the United States growth in total employment and reduction of the unemployment rate. Between 2010 and 2016, total State employment grew 3.3%, as compared to 5.6% for the region and 10.7% for the US. Connecticut's recent employment gains reflect the continued slow recovery of the State's economy and increased employment opportunities in industries such as insurance and leisure and hospitality. 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)						
<i>in thousands</i>	Connecticut		New England		U.S.	
	Employment	% Chg	Employment	% Chg	Employment	% Chg
2009	1,741		7,109		131,313	
2010	1,737	-0.2%	7,103	-0.1%	130,361	-0.7%
2011	1,746	0.5%	7,141	0.5%	131,932	1.2%
2012	1,730	-0.9%	7,171	0.4%	134,175	1.7%
2013	1,724	-0.3%	7,205	0.5%	136,381	1.6%
2014	1,759	2.0%	7,322	1.6%	138,958	1.9%
2015	1,782	1.3%	7,412	1.2%	141,843	2.1%
2016	1,796	0.7%	7,499	1.2%	144,306	1.7%
Jan-2017*	1,784	-0.6%	7,476	-0.3%	143,261	-0.7%

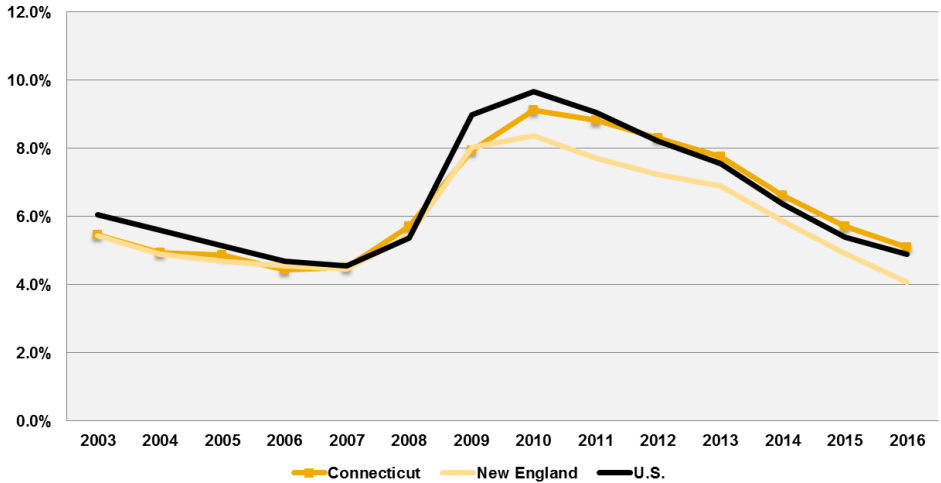
Source: U.S. Bureau of Labor Statistics

\* Preliminary Data

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 5.1% in 2016, the unemployment rate in Connecticut is still above that of the region and U.S., which averaged 4.1% and 4.9% in 2016, respectively. Based on preliminary estimates for January 2017, the State’s unemployment rate is 5.4% compared to 4.4% for the New England region and 4.8% nationwide.

**Average Annual Unemployment Rate  
(Not seasonally adjusted)**



Source: U.S. Bureau of Labor Statistics

**Conclusion**

KBRA has **assigned** a long-term rating of **AA-** with a **Stable outlook** to the State of Connecticut’s General Obligation Bonds (2017 Series A) and General Obligation Refunding Bonds (2017 Series B). Additionally, KBRA has affirmed the long-term rating of **AA-** with a **Stable** outlook on the State of Connecticut’s outstanding General Obligation Bonds. KBRA has also **affirmed** the long-term rating of **AA-** with a **Stable** outlook on the State of Connecticut General Fund Obligation Bonds 2014 Series A issued by Connecticut Innovations, Inc.

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