MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa to State of Connecticut's $250M State Revolving Fund General Revenue Bonds, (Green Bonds, 2015 Series A); outlook is stable

Global Credit Research - 09 Apr 2015

Approximately $892,190,000 of debt affected

CONNECTICUT (STATE OF) STATE REVOLVING FUND
Other Housing
CT

Moody's Rating

ISSUE	RATING
State Revolving Fund General Revenue Bonds (Green Bonds, 2015 Series A)	Aaa

Sale Amount	$250,000,000
Expected Sale Date	05/06/15
Rating Description	Revenue: Government Enterprise

Moody's Outlook STA

NEW YORK, April 09, 2015 --Moody's Investors Service ("Moody's") has a assigned Aaa rating to State of Connecticut's $250,000,000 State Revolving Fund General Revenue Bonds, (Green Bonds, 2015 Series A). The Bonds are being issued under the General Bond Resolution (GBR), dated December 17, 2002. Concurrently, we are affirming the Aaa ratings on the outstanding debt of State of Connecticut's State Revolving Fund issued under the GBR, affecting an additional $642,190,000 of outstanding bonds. The outlook is stable.

SUMMARY RATING RATIONALE

The rating is based on a very strong default tolerance (49%) provided by program structure and high over-collateralization of assets to debt (2.20x as of June 30, 2014). Supporting the rating is high credit quality of loan pool and solid management and governance.

OUTLOOK

The stable outlook reflects the strong loan portfolio and sufficient cash and investments balances to pay debt service.

WHAT COULD MAKE THE RATING GO UP

- n/a

WHAT COULD MAKE THE RATING GO DOWN

- A significant credit deterioration or increased concentration of the loan portfolio can place downward pressure

- Substantial increased leveraging of the program that results in a significant decrease in default tolerance or debt service coverage

STRENGTHS

*Default Tolerance: 49% of loans could default for the entire length of the program and still meet debt service obligations.

*Cross-collateralization: each series of bonds has all available moneys in the SRF program as sources of payment. All available moneys in SRF program are available to pay debt service, though the majority is not pledged to bondholders. The program structure, however, is closed loop and moneys cannot be used for any other purpose.

*Strong credit quality of the loan portfolio.

*Management's proactive monitoring of loans which aids borrowers' track record of no missed loans payments.

CHALLENGES

*Thin debt service coverage projected in stressed cash flows due to debt service spikes in fiscal years ending in 2016 and 2019; cash flows projected to sufficiently cover debt service until bond maturity.

*Counter-party risk as a material amount of cash and investments ($135.9M) are currently held with GIC providers.

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

LOAN PORTFOLIO: COMPOSITION CHARACTERIZED BY SIZE AND DIVERSITY

The high credit quality (described further below) and loan portfolio composition supports the Aaa rating on Connecticut State Revolving Fund Program (SRF Program). Each participant in the program must pledge its full faith and credit or a dedicated revenue source as security for repayment of the loan. Approximately 79% of pledged loans are backed by a general obligation pledge or a combination of a general obligation pledge and revenue pledge of the borrower based on outstanding loans and anticipated loan commitments through February 28, 2016. The SRF Program has approximately $1.1 billion loans outstanding and $432 million undrawn loan and anticipated commitments, expected to total approximately $1.5 billion in borrower loan commitments. The size and diversity of the program's loan portfolio is characterized by 94 unique borrowers, 49% of loan commitments attributed to the top 5 borrowers, and borrowers comprising less than 1% of loan commitments is 15%.

UNDERLYING CREDIT QUALITY AND DEFAULT TOLERANCE: HIGH CREDIT QUALITY AND DEFAULT TOLERANCE IS KEY CREDIT FACTOR

A key element of the Aaa rating on the SRF Program is the high credit quality of the borrowers in the loan portfolio. With available investments and liquid assets, the program could withstand 49% of its loans defaulting through maturity and still meet debt service on all bonds issued under the GBR. This substantial default tolerance score is an important credit strength. It is important to note that no borrower has actually suffered a missed payment or default, and though the default tolerance is very high, a default is unlikely to occur.

The high credit quality of borrowers and default tolerance offsets thin debt service coverage projections of 1.04x in stressed cash flows due to front-loaded debt. Default tolerance and cash flow projections assume 0% reinvestment earnings held in short-term investments and discounts revenues and principal from funds held with downgraded GIC Providers. GIC Providers include: Trinity Funding Company, Bank of America Corp. American International Group, Inc. and Societe Generale.

Liquidity

The program has good liquidity benefiting from substantial reserves that are available to pay bond debt service. Approximately 60% of available funds are invested in the Connecticut's short-term interest fund or held in cash, and the balance is held in collateralized guaranteed investments contracts (GICs).

LEGAL FRAMEWORK, COVENANTS, AND DEBT STRUCTURE: GENERAL BOND RESOLUTION PROVIDES PROGRAM FLEXIBILITY AND EFFICIENCY

The Bonds are issued under Connecticut SRF's GBR and are payable from all available funds in the Revolving Fund, which includes: borrower loan repayments and income or principal revenue from other assets and investments. All funds are available for payment for debt service, but only monies in the pledged fund, debt service fund, bond proceeds fund, and support funds are pledged to bondholders. As a practical matter, all monies in the SRF Program are available to pay debt service because funds may not be transferred out of the program under federal requirements.

Furthermore, loan repayments are deposited into the debt service fund on a monthly basis as they are paid. The GBR does not require a reserve fund, which grants the state the flexibility to determine the required reserve levels with each new series of debt through the use of a supplemental resolution. The SRF Program had more than $458 million in cash and investments as of February 28, 2015.

In addition, the drinking water programs and clean water programs are cross-collateralized. Both the drinking water program and the clean water program make loans from proceeds of the bonds. Loan repayments from the SRF Program are deposited to the State Revolving Fund General Revenue Bond Program and are available to pay all bonds whether loans were made under the drinking water program or the clean water program. The cross-collateralization has been structured in accordance with the Environmental Protection Agency's regulations.

Debt Structure

The 2015 Series A bonds will bear interest at fixed interest rates to their maturity or prior redemption.

Debt-Related Derivatives

None.

Pensions and OPEB

Not a material factor in the methodology.

MANAGEMENT AND GOVERNANCE: MANAGEMENT CHARACTERIZED BY FISCAL CONSERVATISM AND PROACTIVE LOAN MONITORING

A further credit strength of the program is the fiscal conservatism and careful management practices of the parties involved. The loans are proactively monitored through coordination with the State's Office of Policy and Management. The program is jointly managed by the Treasurer's Office and the Departments of Energy and Environmental Protection (DEEP) and Public Health (DPH). The Treasurer's Office is responsible for implementation and management of the fund. DEEP and DPH are responsible for preparing project priority lists and eligibility requirements and for monitoring projects. Moody's views the coordination and insight of these three entities as strengths to the program.

KEY STATISTICS

Fund structure: Cash Flow Model (in transition)

SRF program: Clean Water and Drinking Water

Total bonds outstanding: $892 million (including 2015 Series A)

Total loans outstanding: $1.23 billion (as of February 28, 2015)

Total reserves: $458 million (as of February 28, 2015)

Default tolerance: 49%

Lowest projected aggregate debt service coverage: 1.04x

Number of borrowers: 94

Portfolio credit characteristics: High credit quality, top five borrowers comprise 49% of the portfolio; largest borrower is Hartford County Metropolitan District Commission (Aa1 stable), accounting for 33% of total loan commitments.

OBLIGOR PROFILE

The Connecticut State Revolving Fund consists of (i) a wastewater pollution control revolving fund program (Clean Water) established by the State under the federal Water Quality Act of 1981, and (ii) the drinking water revolving fund program established by the State under the 1996 amendments to the Safe Drinking Water Act. Federal capitalization grants and state matching funds are used to provide loans to qualifying clean and drinking water projects.

LEGAL SECURITY

The 2015 Series A bonds are issued under the GBR and are special obligations of the State of Connecticut, and solely payable from all available moneys in the Revolving Fund, including loan repayments and income or principal of any other assets or investments necessary to pay bond debt service.

USE OF PROCEEDS

The 2015 Series A issuance will be used to make loans to borrowers in connection with the financing or refinancing of public wastewater infrastructure projects and public drinking water infrastructure projects.

METHODOLOGY

The principal methodology used in this rating was U.S. State Revolving Fund Debt published in March 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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