MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa3 rating to Connecticut's Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2014 Series A and B

Global Credit Research - 26 Sep 2014

Outlook is stable

New York, September 26, 2014 --

Moody's Rating

Issue: Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2014 Series A; Rating: Aa3; Sale Amount: $600,000,000; Expected Sale Date: 09-29-2014; Rating Description: Special Tax: Sales

Issue: Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes, 2014 Series B; Rating: Aa3; Sale Amount: $130,000,000; Expected Sale Date: 09-29-2014; Rating Description: Special Tax: Sales

Opinion

Moody's Investors Service has assigned a Aa3 rating with a stable outlook to the State of Connecticut's $730 million Special Tax Obligation (STO) Bonds Transportation Infrastructure Purposes 2014 Series A and STO Refunding Bonds 2014 Series B. The state plans to sell the senior lien bonds the week of September 29. Proceeds of the bonds will be used for the department of transportation's statewide infrastructure projects and refunding prior debt for debt service savings.

SUMMARY RATINGS RATIONALE

The Aa3 rating incorporates the strong legal covenants, including a two times additional bonds test and a combined senior and second lien debt service reserve funded at maximum aggregate annual debt service; the diversified stream of pledged revenues with some sensitivity to economic fluctuations; and satisfactory debt service coverage. The rating also incorporates a close relationship between the General Fund and the State Transportation Fund (STF). Any movement in the state rating may have credit implications for the STO bonds, which could include a rating distinction between the senior and second lien STO bonds that are currently rated Aa3 with a stable outlook.

STRENGTHS:

- History of stable aggregate debt service coverage of at least two times by diversified stream of dedicated transportation-related revenues. Senior lien debt service coverage has been at least 3 times in recent years.

- Effective management of Connecticut's Special Transportation Fund (STF).

- Legal rate covenant to provide pledged revenues in each fiscal year equal to two times aggregate principal and interest requirements on senior lien and second lien bonds.

CHALLENGES:

- Some sensitivity of revenues to economic fluctuations.

- Future borrowing plans are sizeable, at $1.8 billion ($600 million annually) through fiscal year 2018.

- Lack of legal separation of revenues from state's General Fund means the credit could be exposed to overall state fiscal pressures.

Outlook

The outlook for Connecticut's Special Tax Obligation bonds is stable at the Aa3 level reflecting our expectation that pledged revenue collections will continue to provide adequate debt service coverage even during an economic downturn. Given the close relationship between the state's General Fund and Special Transportation Fund, the outlook on the STO bonds could be affected by any movement in the state rating.

WHAT COULD MOVE THE RATING UP

- Higher coverage levels.

- Permanent separation of the STO from the state's general fund.

WHAT COULD MOVE THE RATING DOWN

- Revenue falloff resulting in significantly lower debt service coverage.

- Weakened legal covenants.

- Downgrade of state general obligation rating.

RATING METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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