MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aa3 rating to Connecticut's Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2015 Series A and B; outlook stable

Global Credit Research - 24 Sep 2015

Aa3 rating applies to $3.7 billion of senior lien special tax bonds

CONNECTICUT (STATE OF)
State Governments (including Puerto Rico and US Territories)
CT

Moody's Rating

ISSUE		RATING
Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2015 Series A		Aa3
Sale Amount	$700,000,000	
Expected Sale Date	09/29/15	
Rating Description	Special Tax: Transportation-Related	
Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes, 2015 Series B		Aa3
Sale Amount	$140,000,000	
Expected Sale Date	09/29/15	
Rating Description	Special Tax: Transportation-Related	

Moody's Outlook STA

NEW YORK, September 24, 2015 --Moody's Investors Service has assigned a Aa3 rating with a stable outlook to the State of Connecticut's $840 million Special Tax Obligation (STO) Bonds Transportation Infrastructure Purposes 2015 Series A and STO Refunding Bonds Series B. The state plans to sell the senior lien bonds the week of September 29.

SUMMARY RATING 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.

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.

WHAT COULD MAKE THE RATING GO UP

- Higher coverage levels

WHAT COULD MAKE THE RATING GO DOWN

- Revenue falloff resulting in significantly lower debt service coverage

- Weakened legal covenants

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

- Structural enhancements to the STF that diversify the pledged revenues of the fund, eliminate general fund transfers, and establish the STF as a perpetual fund, the resources of which will remain in the STF

CHALLENGES

- Some sensitivity of revenues to economic fluctuations

- Sizeable future borrowing plans at $3.5 billion through the next five years

RECENT DEVELOPMENTS

In fiscal 2015, Connecticut enacted significant legislative changes that enhanced the STO program including a new sales tax pledge and new statutory lockbox that establishes the STF as a perpetual fund.

The Connecticut General Assembly passed the Appropriation Bill, Public Act 15-244, and the Implementer Bill, Public Act 15-5, which implement provisions for the state budget for the biennium ending June 30, 2017. These acts provide that a specific portion of state general sales tax revenues be deposited directly into the STF, with a phase in period beginning Oct. 1, 2015, of 0.3%, increasing to 0.4% on Oct 1, 2016, and to 0.5% beginning July 1, 2017. The tax is expected to generate $158.6 million in fiscal 2016, $260.6 million in fiscal 2017 and $356.5 million in fiscal 2018.

In addition, oil companies tax revenues, previously transferred from the general fund, will be deposited directly to the STF beginning in fiscal 2016, and general fund transfers were eliminated.

The new statutory lockbox establishes the STF as a perpetual fund, the resources of which shall be expended solely for transportation purposes, which include the payment of debt service on obligations of the state incurred for transportation purposes.

DETAILED RATING RATIONALE

TAX BASE AND NATURE OF PLEDGE: BONDS SUPPORTED BY GROSS DIVERSE REVENUE PLEDGE

Connecticut's special tax obligation bonds are payable from pledged revenues credited to the STF that consist of motor fuels tax, oil companies tax, general retail sales taxes, motor vehicle receipts, licenses, permits and fees, and sales taxes. The majority of pledged revenues have been derived from motor fuel taxes, which provided about 38% of fiscal 2015 pledged revenues, followed by oil companies tax at 25%, motor vehicle receipts at 18%, licenses, permits and fees at 11%, and sales taxes (DMV) and other at 6%. With the recent legislative changes, the projected fiscal 2018 composition is expected to diversify, with general retail sales taxes accounting for about 21%.

DEBT SERVICE COVERAGE AND REVENUE METRICS: DEBT SERVICE REQUIRES TWO TIMES COVERAGE REQUIREMENT

The STO's have had solid debt service coverage metrics and a history of stable senior lien debt service coverage of at least 3.0 times over the last few years and aggregate debt service of at least 2.7 times. In fiscal 2014, senior lien debt service coverage stood at 3.5x, which is the highest in the last four years. Preliminary 2015 results indicate senior lien debt service coverage stood at 3.7 times.

The bonds benefit from strong legal covenants and recent legislative changes ensure the resources of the STF will be expended solely for transportation purposes.

Pledged revenue growth has been stable and increased 1.8% in fiscal 2014; revenue volatility has been limited and revenue increases implemented in the 2011 legislative session helped maintain average annual senior lien debt service coverage at 3 times during the recent recession and recovery period.

As in other states, Connecticut's motor fuels tax exhibits vulnerability to economic cycles. In addition, the state is projecting a decline in oil companies tax receipts in fiscal 2016.

Liquidity

We view liquidity as solid; unlike most transportation programs, Connecticut's STO bond indenture also requires a combined debt service reserve account equal to maximum annual debt service. The reserve is currently cash funded. The additional bonds test requires two times coverage of current and future annual debt service by pledged revenues in 12 of the 18 months preceding issuance.

DEBT AND OTHER LIABILITIES

Debt Structure

As of Sept. 1, 2015, there were $4.0 billion of special tax obligation bonds outstanding, of which $3.7 billion are senior lien and $300 million are second lien.

Debt-Related Derivatives

All of the STO debt is fixed rate with no derivative exposure.

Pensions and OPEB

Pensions and OPEB are not factors in the special tax methodology.

MANAGEMENT AND GOVERNANCE

The DOT is an agency of the state that has a budget approved by the state Office of Policy and Management. The same reporting guidelines apply to the DOT through the Connecticut Office of Policy and Management. There has been effective management of the state's STF.

KEY STATISTICS

- Additional Bonds Test: 2.0x

- Debt Service Reserve Fund: cash reserve funded at maximum annual debt service

- Total MADS coverage: 2.8 times

OBLIGOR PROFILE

The State of Connecticut has a population of almost 3.6 million people. The state, located in the northeastern US, has a large and diverse economy with a gross state product of $249.2 billion. It is the wealthiest state in the country with per capita income of 137.1% of the US average.

The state infrastructure program was established in 1984 and is a continuous program that finances the ongoing requirements of the state for the planning of infrastructure. The state's biennial budget included a five-year transportation improvement program that provides initial funding for the 30-year "Let's Go CT" capital investment plan.

LEGAL COVENANTS

The state covenants to provide pledged revenues in each fiscal year equal to at least two times aggregate principal and interest requirements on senior lien and second lien bonds. In addition, there is an additional bonds test of 2.0x aggregate senior lien debt service coverage for current and all succeeding years on outstanding and additional bonds. The indenture contains a reserve requirement whereby maximum annual aggregate debt service is fully funded with cash and held with a trustee.

LEGAL SECURITY

The bonds are secured by a gross pledge of motor fuels tax, oil companies tax, general retail sales taxes, motor vehicle receipts, licenses, permits and fees, and sales taxes. The legal security structure has diversified with the inclusion of a portion of sales taxes and the pledged revenues are credited to the STF.

USE OF PROCEEDS

Proceeds will be allocated for the state's transportation infrastructure program. The series B bonds will refund existing 2007 special tax obligation bonds.

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.

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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