

# RatingsDirect®

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## Summary:

# Connecticut Clean Water Fund Connecticut; State Revolving Funds/Pools

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## Summary:

# Connecticut Clean Water Fund Connecticut; State Revolving Funds/ Pools

### Credit Profile

US\$250.0 mil st revolving fd gen rev bnds (Connecticut) (Green Bnds) ser 2015 A due 03/01/2035

*Long Term Rating*

AAA/Stable

New

## Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' rating to Connecticut's state revolving fund general revenue bonds (Green Bonds 2015 series A). At the same time, Standard & Poor's affirmed its 'AAA' rating on the state revolving fund's general revenue bonds outstanding. The outlook is stable. Because we view securitizations backed by pools of public-sector assets as highly sensitive to country risk, the rating on the securitization is capped at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'.

We understand the state intends to use the proceeds of the bonds to fund additional clean water and drinking water loans under the state revolving clean water and drinking water fund programs. The bonds are issued pursuant to a general revenue bond resolution. Under this general bond resolution, debt service on the bonds is paid from available money, which primarily includes pledged borrower obligations and money in the accounts of the support fund, but also includes money on hand in the debt service fund. Additionally, any unpledged assets in the revolving fund are also available to cover debt service requirements. The support fund is funded with assets of the state revolving fund according to the support fund requirement specified in the supplemental resolutions for each series.

The 'AAA' rating reflects our view of the state's extremely strong enterprise risk profile and extremely strong financial risk profile, reflective of the program's:

- Low industry risk score and extremely strong market position,
- Extremely strong loss coverage score due to program reserves and annual coverage generated from borrower payments,
- Excellent history of borrower repayment, with no loans in default, and
- Generally strong financial policies and practices.

With this issuance, there will be about \$892.2 million of bonds outstanding, supported by \$1.1 billion of loans either outstanding or committed, along with an additional \$64.6 million of available pledged reserves and \$59.2 million in associated support funds. These amounts are currently invested with Trinity Funding Company, LLC, Bank of America Corp., American International Group, Inc., Société Generale, or in state and local government securities. Another \$220.5 million is also available in the General Revenue Receipt Fund. Although not pledged, these funds provide legitimate and significant support because they can only be used for debt service or to make future loans, whose repayment would flow to a pledged account.

The cash flows are structured so that a combination of borrower payments and scheduled releases of investment principal and earnings from the support fund provides sufficient funds to pay bond principal and interest. Therefore, the support fund is not a true reserve fund in the manner of other state revolving fund programs. Rather, the overcollateralization, and protection against revenue shortfalls, comes primarily from unpledged, but available, cash and short-term investments. Historically, the amount of cash and short-term investments available to the program has been stable since the transition from the prior resolution to the current resolution, aside from a large defeasance in 2008.

## Outlook

The stable outlook reflects Standard & Poor's expectation that state revolving fund management will continue to maintain its historical practices of sound program operations and performance. Rating stability is predicated on our belief that management will likely maintain sizable liquid assets in the program that, while not specifically pledged, provide sufficient support to the program. In our view, downside risks, while minimal, exist in that available cash and short-term investments could be used to make loans with a payment structure that does not provide sufficient coverage of projected bond principal and interest payments to cover the level of defaults needed to maintain the current loss coverage score. Should this occur and result in insufficient collateralization for the program to withstand certain default scenarios, we could lower the rating.

## Related Criteria And Research

### Related Criteria

USPF Criteria: U.S. Public Finance Long-Term Municipal Pools, March 19, 2012

Ratings Detail (As Of April 8, 2015)		
Connecticut		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Connecticut Clean Wtr Fd state revolving		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>Connecticut</b>		
Connecticut Clean Wtr Fd, Connecticut		
Connecticut (Connecticut Clean Wtr Fd) state revolv		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Connecticut (Connecticut Clean Wtr Fd) st revolv fd gen rev bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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