STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Connecticut; Appropriations; General Obligation; General Obligation Equivalent Security

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Rationale

Standard & Poor's Ratings Services has revised its outlook on Connecticut's general obligation (GO) and appropriation-secured debt outstanding to negative from stable. At the same time, Standard & Poor's has affirmed its 'AA' rating on Connecticut's $16.0 billion parity GO debt outstanding.

The outlook revision reflects our view of increased budget pressure because of weak revenue growth. Sluggish revenues have contributed to a $1.1 billion projected budget gap the state will need to close in its fiscal 2016 budget, or 6% of expenditures. We are concerned that structural budget balance is under pressure during a period of national economic growth. Should we perceive budget pressure to significantly worsen during our two-year outlook horizon, or if currently modest reserves become drawn down significantly during a period of economic growth, we could take a negative rating action.

Standard & Poor's also assigned its 'AA' long-term rating and negative outlook to Connecticut's $400 million GO bonds, 2015 series A, and $100 million taxable GO bonds, 2015 series A.

We believe Connecticut's steady, but relatively weak, post-recession economic growth has contributed to budget pressure, despite a substantial tax increase in fiscal 2012. In particular, employment in the well-paying state financial sector shrank 1.8% in 2014, according to the state, although overall state employment has been growing, albeit slower than that of the nation. Budget pressures have also been driven by growth in health services, collective bargaining increases, pension, debt, and retirement health costs. We also see some additional evidence of budget pressure in the small use of $61 million of effective deficit financing this fiscal year through a refinancing, although down from an originally budgeted $122 million, as well as the governor's recent proposal to use bond premiums and other debt service savings for $153 million of budget solutions in fiscal 2016 and $173 million in fiscal 2017, although these would be small in relation to the $18 billion proposed fiscal 2016 budget.

The 'AA' rating reflects what we view as Connecticut's:

- Diverse economic base, which has experienced cyclical performance over time;
- High wealth and income levels;
- Capacity to adjust revenues and expenditures, which we believe has provided it with the flexibility to manage budget volatility;
- Active monitoring of revenues and expenditures to identify gaps; and
- Adequate operating liquidity, which has improved due to stronger revenue performance, the move to budgeting based on generally accepted accounting principles (GAAP), and issuance of GAAP conversion bonds to provide liquidity to assist in the transition.

In our view, despite these strong fundamentals, the state has a history of cyclical budget performance, which has led it to issue debt to cover operating deficits in recessionary periods, some of which still remain outstanding from the last recession. Connecticut's above-average debt levels, high unfunded pension liabilities, and large unfunded other postemployment benefit (OPEB) liabilities represent a significant fixed-cost pressure, which we expect to remain high for the foreseeable future. The governor has recently proposed a significant expansion in tax-backed debt for transportation purposes; however, we expect the program to be contingent on additional transportation-related tax revenue being made available.

Standard & Poor's understands that the series 2015A GO bonds are being issued to fund various capital projects.

Connecticut's economic recovery continues at a modest pace, as weakness in government, manufacturing, and finance sector employment weighs down growth in other sectors. The state estimates it has recovered approximately 81% of the jobs lost through the Great Recession, in part with a pick-up in job growth in the second half of calendar 2014. Its real gross state product (GSP) growth was slightly negative in 2011, but has since resumed, albeit at a much slower pace than that of the nation. Connecticut has one of the highest concentrations of financial services employment in the country, at 8% of total jobs as of 2013. Although these jobs are generally high paying, the state has experienced consecutive years of job losses in this sector since 2008, according to IHS Global Insight. Nevertheless, IHS Global Insight estimates that the state experienced modest total employment growth of 0.8% in calendar 2014, and projects 2.0% growth in 2015, and 1.1% in 2016, led by the services industries, compared with 1.7%, 2.1%, and 1.8%, respectively, for the nation. The unemployment rate remains slightly elevated compared with that of the U.S., but has improved since the recession, dropping to 7.8% in 2013 (compared with 7.4% for the nation) from 9.3% in 2010. It was 6.4% in December 2014 on a preliminary basis compared with 5.6% for the nation, on a seasonally adjusted basis.

The state produced a $248.5 million budgetary operating surplus in the fiscal year ended June 30, 2014, bringing the state budget reserve fund (BSF) up to $519.2 million, or 3% of general fund spending. The operating surplus exceeded an original budget surplus projection of only $4.4 million.

So far in fiscal 2015, the state Office of Policy and Management (OPM) has made several modest downward midyear revisions in its projections compared to budget. To remain balanced during the year, the governor ordered a total of $86 million of spending rescissions in November and January, and has proposed an additional $61 million of transfers and administrative actions to achieve no net change to the ending general fund balance at fiscal year-end 2015. The separate state comptroller's office has released a report forecasting the remaining midfiscal 2015 budget gap as slightly worse than the OPM's projection by about $40 million. The 2015 midyear gap is the result of slightly lower projected revenue. Although the $147 million of total expected midyear corrections are only 0.8% of estimated 2015 appropriations, we do note that the 2015 budget includes $61 million of effective deficit financing derived from the recent refunding of debt principal due in fiscal 2015 into later years, although down from an originally budgeted $122 million.

A positive inclusion in state budgets since fiscal 2012 has been full funding of the annual actuarially required state retirement system pension contribution, which will help ameliorate what we view as currently low retirement systems' funded levels, which we calculate at a relatively low combined 50% on a combined actuarial basis. The state employees' retirement system alone has a funded ratio using the new Governmental Accounting Standards Board (GASB) 67 GAAP basis methodology of what we regard as a low 39.54% (compared with 41.5% using state actuarial assumptions), while the teacher retirement funded ratio on a GASB basis was 61.56%.

The governor recently released his fiscal 2016-2017 biennium executive budget proposal. The state projects only 0.5% general fund revenue growth in fiscal 2016 before the governor's suggested policy changes. As a result, the executive budget identified a $1.1 billion budget gap, using current service levels, which will need to be closed in each of fiscal years 2016 and 2017. The gap equals approximately 6% of 2016 current service expenditures, before budget-closing actions. The governor's budget proposal includes both revenue and expenditure changes to close the gap that we view as largely of a recurring nature. These include on the revenue side: $557.6 million of revenue enhancements in fiscal 2016, resulting from changes to the corporation tax, such as limiting tax loss carryforwards for corporations ($273.2 million in 2016); an increase in a hospital provider tax ($165.2 million), and delays in expirations and exemptions for certain income; and sales taxes and earned income credits ($110.3 million). On the expenditure side, proposed gap-closing adjustments of $590.3 million for fiscal 2016 include: extending a cap on statutory formula funding grants to towns ($122.9 million), department of social service reductions ($168.9 million), and cuts in higher education ($55.5 million). Connecticut believes that the governor's gap-closing proposals are largely of a recurring nature, and as a result actions taken for fiscal 2016 would also substantially close the fiscal 2017 forecasted gap of also $1.1 billion, although various modest additional measures would also be needed within the biennium budget.

In addition, the governor has proposed a substantial increase in annual transportation capital spending, to make up for perceived past underfunding of transportation infrastructure. This could involve up to $6.6 billion of additional state bonding in the next five years, consisting mostly of transportation fund secured bonds, and a small portion of new GO bonding. The legislature is currently considering this proposal, and how it might be funded with additional tax revenue. The potential exists for substantially more bonding after the initial five-year period under the contemplated program.

On a GAAP basis, the most recent audited fiscal year, 2014, ended with a negative $41 million general fund balance position, or negative 0.2% of general fund expenditures, substantially improved from a negative $589 million balance at fiscal year-end 2013. The improvement in the fund balance was in part the result of the sale of $560 million of GAAP conversion bonds in fiscal 2014, issued to improve the GAAP fund balance position and assist the state's transition to GAAP-based budgeting. In our view, state finances have been cyclical; the BSF reached a balance of almost $1.4 billion in fiscal 2009, before being depleted during the subsequent recession. Since then, the BSF has been built back up to $519 million at fiscal year-end 2014, or 3% of general fund expenditures, a level the state expects it would maintain in fiscal 2015, if remaining midyear 2015 corrective actions are implemented. The governor has proposed only a minor $3.2 million addition in 2016 and $5.0 million in 2017. The total general fund balance reached a low on a GAAP basis of negative $1.3 billion at fiscal year-end 2011. Connecticut expects that its current transition to GAAP-based budgeting will enable it to maintain a positive GAAP-basis general fund balance in future years.

We consider Connecticut's level of approximately $21 billion in tax-backed GO and transportation debt after this sale to be high and rising slowly. At fiscal year-end 2014, we calculate the state had $5,460 of tax-backed debt per capita, up from $5,137 at fiscal year-end 2013. However, since fiscal year-end 2014, the state has sold $1.07 billion of additional GO bonds and $731.5 million of transportation special tax bonds. With these series 2015A GO bonds, we calculate debt per capita at about $5,851, which could rise further should the governor's proposed transportation program be approved by the legislature. Tax-backed debt to income at fiscal year-end 2014 was 9.0%, using 2013 personal income. Our calculation of tax-backed debt service to total governmental fund expenditures during fiscal 2014 was 9.6%. We also consider combined unfunded pension liabilities as high, at $52.2 billion, although now that the state is funding the pension annual required contribution for its employee retirement system this will likely begin to improve at some point. In addition, we consider OPEB high at $22 billion, including both the state employees' and the state teachers' retirement system. Connecticut law considers state employee OPEB a contractual right of current workers, and state payment of teachers' OPEB a state statutory obligation. Connecticut recently implemented a state employee contribution of 3% of salary toward OPEB, over and above current health costs, which the state will match at the 3% rate beginning in fiscal 2017. Combined with small state OPEB trust fund contributions in 2008 and 2011, this will help ameliorate this still-sizable unfunded liability.

Based on the analytic factors we evaluate for states, on a scale of '1.0' (strongest) to '4.0' (weakest), we have assigned a composite score of '1.9' to Connecticut.

Outlook

The outlook revision reflects our view of increased budget pressure as the result of weak revenue growth. Sluggish revenues have contributed to a $1.1 billion projected budget gap the state will need to close in its fiscal 2016 budget, or 6% of expenditures. We are concerned that structural budget balance is under pressure during a period of national economic growth. If Connecticut is able to maintain near structural balance over our two-year outlook horizon, we could potentially return the outlook to stable.

Government Framework

The government framework, including fiscal policy and intergovernmental funding within which each state taxes, spends, and issues debt, influences the state's ability to manage through economic cycles.

A key feature of Connecticut's governmental framework is a balanced budget requirement. A voter-approved amendment to the state constitution provides that the amount of general budget expenditures authorized in any fiscal year shall not exceed the estimated amount of revenue for that fiscal year. In developing its budget, the state operates under a statutory expenditure cap that limits spending growth to the greater of personal income growth or the inflation rate. The cap excludes debt service and certain other expenditures. There is no statutory or constitutional prohibition against borrowing for operating purposes. Connecticut is authorized to issue GO debt, special tax obligation debt, and special obligation and revenue debt. Debt outstanding, authorized and payable from the general fund, is limited by statute to 1.6x total general fund tax receipts. As of Jan. 15, 2015, authorized unissued GO debt stood at $3.4 billion.

There are no constitutional or statutory provisions providing for, or precluding, a priority of payment for GO debt service over other claims of the state. Funds for debt service are "deemed to be appropriated" and, as part of the contract between bondholders and Connecticut, the state must appropriate all amounts necessary for the punctual payment of principal and interest.

Connecticut, which is not a voter-initiative state, has the autonomy to raise taxes and has adjusted its tax structure over time. Connecticut has relatively broad service responsibilities with about 28% of its budget tied to education funding and other resources shared with local government units. Although it has legal flexibility to adjust funding to local governments, Connecticut has avoided sharp midyear reductions in these areas in recent years. Court cases over the years regarding education funding have generally contributed to increased spending over time in our view.

On a scale from '1.0' (strongest) to '4.0' (weakest), Standard & Poor's assigned a '1.5' score to

Connecticut's governmental framework.

Financial Management

State statutes and internally developed policies guide budget management, long-term financial planning, capital planning, debt management, and investing.

Financial management assessment: "strong"

We consider Connecticut's management practices "strong" under our financial management assessment (FMA) methodology. An FMA of strong indicates that, in our opinion, practices are robust, well embedded, and likely sustainable.

Beginning Oct. 15, 2009, the Office of Policy and Management (OPM) and the legislature's Office of Fiscal Analysis have been required by statute to issue consensus revenue estimates each year. An update to the estimate is required by Nov. 10, Jan. 15, and April 30 of each year, and it must cover a five-year period. In addition to its internal resources, Connecticut bases its revenue estimates for budget forecasting on a number of outside data sources and economic forecasting firms. The state's long-term financial planning includes a three-year forecast for the legislature in addition to the biennial budget. The financial plan is updated annually and submitted to the legislature by Nov. 15.

The state also produces a five-year capital improvement plan as part of the November update. State statutes require monthly revenue and expenditure forecasts measured against the budget. The OPM and the Office of the Comptroller generate monthly reports projecting year-end surpluses or deficits. State statutes also prescribe investment of state funds. Dedicated staff monitors investments and generates monthly reports. Connecticut also holds quarterly meetings with the investment advisory commission. The state has a swap management policy and other debt policies that guide amortization and issuance. Connecticut statute authorizes a budgetary reserve fund at a maximum of 10% of general fund appropriations. The statute prescribes that the state must transfer all unappropriated general fund surpluses into the budget reserve fund, and that the fund can only be drawn on to fund operating deficits. Currently, the budgetary reserve is at 3% of expenditures, and is not projected to grow in fiscal 2015 and only slightly in 2016.

Budget Management Framework

Connecticut maintains a formal schedule for updating revenues and expenditures on a monthly basis, and this is done by both OPM and the comptroller. If the comptroller reports a projected general fund deficit of greater than 1%, the governor is required to file a deficit mitigation plan. While the governor may reduce appropriations, this is limited to 5% of total appropriations and 3% of any fund, with any additional reductions requiring legislative approval. Legislative deliberation relating to interim budget adjustments has contributed to a delay in addressing budget gaps at times. The state is allowed to end the year in a deficit, which has periodically been addressed with deficit bonds. However, statutory provisions provide that any new budget deficit after fiscal 2013 must be funded in the ensuing fiscal year budget. Gap-closing solutions in previous bienniums have relied on significant nonrecurring measures and structural solutions.

On a scale from '1.0' (strongest) to '4.0' (weakest), Standard & Poor's assigned a '1.5' to Connecticut's financial management.

Economy

Although Connecticut's economy and population have been growing slowly recently, the state continues to maintain strong income levels.

Connecticut's population of 3.6 million represents 10-year growth of only 3.2% from 2003-2013, compared with 9.0% for the nation, according to the U.S. Census Bureau. However, the state's age dependency ratio of non-working age population-to-total population of 58.7% was slightly better than that of the nation at 59.8%.

The state's average unemployment rate in 2013 was 7.8% versus 7.4% for the U.S. The preliminary seasonally adjusted state unemployment rate in December 2014 was 6.4%, again just slightly above the nation at 5.6%. We believe the state's economy exhibits some moderate cyclicality due to exposure to the financial sector. IHS Global Insight has reported that the important financial industry, with its well-paying jobs, has been shrinking in the state since 2008, including a decline of 1.4% in 2014. In 2013, financial activities comprised 8.0% of payroll employment, compared to 5.8% for the nation. Other major sectors include education and health services (19.5% for the state compared with 15.4% for the U.S.); trade, transportation, and utilities (18.1% of state employment, 18.9% of U.S.); government (14.4% of state, 16.3% of U.S.); professional and business services (12.4% of state, 13.5% of U.S.); and manufacturing (9.9% of state, 8.8% of U.S). Key employers include Sikorsky Aircraft, Pratt & Whitney, Yale University, and Foxwoods Resort Casino, as well as insurance companies and financial sector firms.

State income levels are strong in our opinion. State per capita income of $60,847 in 2013 was 137% of that of the U.S., and GSP per capita of $69,312 was 131% of that of the nation, or fourth among all the states. However, GSP growth has been below that of the U.S. periodically In 2013, state GSP rose 0.9% compared with 1.8% for the nation, and 1.0% in 2012 compared with 2.5% for the U.S. Connecticut also experienced greater decline in GSP than the nation during the recession, although annual growth was stronger than that of the nation in 2007 and 2008 leading up to the recession.

The state projects personal income growth of 4.0% in fiscal 2015, 3.9% in fiscal 2016, and 4.9% in fiscal 2017, compared with IHS Global Insight's projected personal income growth of 3.6% in calendar 2015, 4.2% in calendar 2016, and 5.2% in calendar 2017.

On a scale from '1.0' (strongest) to '4.0' (weakest), Standard & Poor's assigned a '1.9' to Connecticut's economy.

Budgetary Performance

State statutes create what we view as a favorable budget reserve fund structure. State statutes authorize a budgetary reserve fund at a maximum of 10% of general fund appropriations, and requires all unappropriated general fund surpluses go into the budget reserve fund, which can only be drawn on to fund operating deficits. Currently the BSF holds an amount equal to about 3% of spending.

We consider state liquidity as good. The state projects a weekly cash position that runs throughout each current fiscal year. As of Feb. 21, 2015, available pooled cash stood at $1.1 billion. The state sold $560 million GAAP funding bonds in fiscal 2014 to improve its fiscal year-end general fund balance on a GAAP basis, which has boosted its liquidity and allowed the state to transition into budgeting on a GAAP basis. In addition, the state has been able to access external debt markets to sell deficit funding bonds in previous years when it ended in a deficit budgetary position.

We consider the state to have a diverse revenue mix. On a budgetary basis, 51% of fiscal 2014 general fund revenues were derived from personal income tax, while 24% came from sales tax.

The state has also had a history of making timely midyear budget adjustments, including $86.2 million of multiple midyear allotment rescissions in fiscal 2015, with another $61 million of midyear adjustments in fiscal 2015, proposed by the governor, to meet the remaining projected midyear gap.

The state uses a consensus revenue forecasting process to produce a five-year revenue forecast for budgeting purposes. We believe Connecticut has substantial legal authority to cut expenditures, but cyclical revenue trends and high costs in such areas as pension and OPEB may somewhat limit state flexibility. The state considers OPEB benefits as a contractual right of employees.

We believe state budgetary performance has shown cyclical trends, with the state at times issuing deficit financing notes. Currently, Connecticut still has about $520.2 million of deficit financing economic recovery notes outstanding relating to original financing in 2009 of $915.8 million.

In our view, a degree of dependence on top taxpayers, who contribute a greater share of capital gains tax, contributes to cyclicality. The state estimates that millionaires contributed 29.4% of total state income tax collections in 2013.

Connecticut estimates that one-time revenue in its enacted 2015 budget totaled about $294.9 million, or about 1.7% of budgeted revenues. The state estimates that the governor's proposed 2016-2017 biennium budget contains about 2.4% of one-time revenue in fiscal 2016. The state is projecting personal income growth of 3.9% in fiscal 2016 (5.0% growth in income tax collections), compared with 4.2% personal income tax growth projected by IHS Global Insight in calendar 2016. Personal income growth has particular importance, as personal income taxes comprise about 62% of currently projected general fund tax revenue in fiscal 2015 (53% of total general fund revenue).

A positive inclusion in budgets since fiscal 2012 has been full funding of the annual actuarially required state retirement system pension contribution, using the state's unit credit actuarial cost method, that will help ameliorate what we view as currently low retirement systems' funded levels, which we calculate at a relatively low 50% on a combined actuarial GAAP basis, using the entry age normal actuarial method. On a GASB 67 GAAP basis, the employees' retirement system has what we regard as a low 39.54% funded ratio (compared with 41.5% using state actuarial assumptions), while the teacher retirement funded ratio, on a GASB basis, has a 61.56% funded ratio.

One potential recent pressure point is a federal review of the state's Medicaid reimbursement. One-half of requested reimbursement for the January through March 2014 quarter was deferred by the federal government earlier in the year pending review. Recent approval of a state Medicaid Plan Amendment has resulted in the recent release of more than 60% of the deferred funds, and the state believes it will receive the remaining reimbursements after further review. However, denial of reimbursements could affect the state general fund through Connecticut's payment of matching reimbursements to health care providers.

On a scale from '1.0' (strongest) to '4.0' (weakest), Standard & Poor's assigned a '1.5' to Connecticut's budgetary performance.

Debt And Liabilities

In our opinion, Connecticut's debt burden is high by all measures when compared with that of state peers, in part reflecting debt issued for education and other programs that may be handled at the local level of government in other states. It also includes debt issued for pension liabilities, which is not done by all states.

We calculate that Connecticut's approximately $21.0 billion in GO and tax-supported debt, after this upcoming GO sale, puts the state's total tax-supported debt per capita at $5,851, a level we consider high. Debt levels have been rising: at fiscal year-end 2014, we calculate total tax-supported debt per capita was $5,460, up from $5,137 at fiscal year-end 2013. Connecticut's debt is high compared with that of its peers (see "2014 U.S. State Debt Review: New Issuance Remains A Lower Priority," published Oct. 13, 2014, on RatingsDirect). Compared with income, debt ratios were also high at fiscal year-end 2014, in our opinion, at 9.0% of personal income and 7.9% of GSP. We calculate tax-supported debt service at 9.6% of general fund expenditures in fiscal 2014, which we again consider high. The debt service burden has been stable over time, but recent bond issuance, including the GAAP conversion bonds, additional authorizations, and the governor's proposed new transportation program could increase this fixed-cost burden over time.

The governor's proposed new transportation infrastructure program is planned to remedy perceived underinvestment in transportation infrastructure in previous years. The program would take a number of years to ramp up, requiring the hiring of new engineers in the department of transportation and new design work and environmental permits. The new program could involve up to $6.6 billion of additional state bonding in the initial five years, consisting mostly of transportation fund secured bonds, and a small portion of new GO bonding. The legislature is currently considering this proposal, including how it might be funded with additional tax revenue, if it was to move ahead. The potential exists for substantial further bonding beyond the initial five-year period, if the program gets under way.

On a positive note, the amortization of debt outstanding tax-backed debt remains rapid at 65% in 10 years at fiscal year-end 2014 under our calculation. Connecticut's debt profile is largely in fixed-rate obligations, with approximately 11% of state GO debt consisting of variable-rate debt. The state terminated a $280 million interest rate swap agreement in March 1, 2015, and has only limited remaining exposure to swap agreement risk in our opinion. The state also recently entered into a $400 million temporary direct placement obligation; however, it consists only of a fixed rate BAN that we expect to be refinanced at the end of this month with long-term bonds.

The State Employees Retirement Fund (SERF) has recorded a significant unfunded pension liability of $14.9 billion as of June 30, 2014, up from $13.3 billion at June 30, 2012, and the SERF actuarial funded ratio in 2014 was low, in our opinion, at 41.5%. The market value funded ratio was 41.1%. The actuarial earnings assumption was lowered to 8.00% from 8.25% starting in fiscal 2014. SERF had an investment return of 5.0% in calendar 2014, below its actuarial assumption, although its five-year return has been 8.6%. Connecticut did not fund the full actuarial ARC in fiscal years 2008-2011, but has fully funded the ARC since. The SERF currently uses the projected unit credit actuarial cost method, which is not aligned with the new GASB standard that requires use of the entry age normal cost method. A conversion to this method would require legislative approval, as well as approval by the State Employees Bargaining Agent Coalition (SEBAC), and is expected to increase liabilities, lower funded ratios, and increase contributions, which would add to overall cost pressures. As a result, while full annual funding of the pension ARC using the state's unit credit actuarial method has occurred for three fiscal years, it will not necessarily always result in full ARC funding on a GAAP entry age normal method.

The Teachers' Retirement Fund had an unfunded liability of $10.8 billion at June 30, 2014, despite a deposit of $2 billion in bond proceeds in 2008. The funded ratio increased to 59.0% in 2014 from 55.2% in 2012, but below the 70.1% funded ratio in 2008. The market value funded ratio in 2014 was 51.1%. The current earnings assumption is 8.50%, which is higher than the 4.9% return achieved in calendar 2014, but almost the same as the current 8.54% five-year return.

Both of the state's major retirement funds are below the average funded ratio for state public pension plans, according to Standard & Poor's recent state pension report (see "U.S. State Pension Funding," published June 24, 2014). Total unfunded pension liability, as calculated by 2014 combined valuations of $52.2 million, including the judge's retirement system, is high at $7,196 per capita and 11.8% of personal income.

Connecticut's OPEB liability is significant compared with other states (see "Diverging Trends Underlie Overall Stable U.S. State OPEB Liability," published Nov. 17, 2014), but recent actions to lower the liability have substantially lowered the growth trajectory. The most recent state employee OPEB valuation, as of June 30, 2013, shows an unfunded actuarial accrued liability (UAAL) of $19.5 billion. Connecticut still funds OPEB on a pay-as-you-go basis, and there are limited resources in the trust at this time ($160.4 million as of June 30, 2014). Pay-as-you-go costs for funding retiree health costs were $548.7 million in fiscal 2014, which was in contrast to the sizable $1.5 billion ARC in 2014.

The unfunded OPEB liability had been $26.6 billion at June 30, 2008. The lower liability is attributable to a change in the discount rate to 5.7% from 4.5% due to the creation of a trust fund, lower liabilities resulting from changes in plan design negotiated with the SEBAC, and various healthcare cost-containment initiatives. Before the plan changes and updated actuarial report, OPEB costs had been forecasted to rise sharply, reaching approximately $45 billion by fiscal 2017.

Connecticut is also statutorily required to fund one-third of teacher pension OPEB costs, plus the shortfall left after employer and employee contributions. The teachers' unfunded OPEB was $2.4 billion as of June 30, 2014, down from $3.0 billion in 2012.

On a combined basis, unfunded employee and teacher OPEB is $22.0 billion, or $6,118 per capita, a level we consider high.

On a scale from '1.0' (strongest) to '4.0' (weakest), Standard & Poor's assigned a '3.3' to Connecticut's debt and long-term liabilities.

Related Criteria And Research

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

U.S. State And Local Government Credit Conditions Forecast, Dec. 10, 2014

Ratings Detail (As Of March 9, 2015)		
Connecticut		
Long Term Rating	AA/Negative	Outlook Revised
Connecticut approp		
Long Term Rating	AA-/Negative	Outlook Revised
Connecticut taxable GO rfdg bnds ser 2014 B due 09/01/2027		
Long Term Rating	AA/Negative	Outlook Revised
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Long Term Rating	AA/Negative	Outlook Revised
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Connecticut GO bnds ser 2014 A due 03/01/2034		
Long Term Rating	AA/Negative	Outlook Revised

Ratings Detail (As Of March 9, 2015) (cont.)		
Connecticut GO bnds ser 2014 F due 11/15/2034		
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Connecticut GO bnds (Green Bnds) ser 2014 G due 11/15/2031		
Long Term Rating	AA/Negative	Outlook Revised
Connecticut GO rfdg nts var rate (Economic Recovery Nts) ser 2013 A due 01/01/2018		
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Connecticut Innovations Incorporated (Connecticut) gen fd oblig bnds		
Long Term Rating	AA/Negative	Outlook Revised
Connecticut Dev Auth (Connecticut) GO		
Unenhanced Rating	AA(SPUR)/Negative	Outlook Revised
Connecticut Resources Recov Auth, Connecticut		
Connecticut		
Connecticut Resources Recov Auth (Connecticut) resource recov rev rfdg bnds (Connecticut) (Covanta Southeastern Proj) ser 2010A due 11/15/2015		
Long Term Rating	AA/Negative	Outlook Revised
University of Connecticut, Connecticut		
Connecticut		
University of Connecticut (Connecticut)		
Long Term Rating	AA/Negative	Outlook Revised
University of Connecticut (Connecticut) GO bnds ser 2004 A dtd 01/15/2004 due 01/15/2005-2024		
Long Term Rating	AA/Negative	Outlook Revised
University of Connecticut (Connecticut) GO rfdg bnds		
Long Term Rating	AA/Negative	Outlook Revised
University of Connecticut (Connecticut) GO (AGM) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Negative	Outlook Revised
Univ of Connecticut		
Long Term Rating	AA/Negative	Outlook Revised
University of Connecticut GO		
Unenhanced Rating	AA(SPUR)/Negative	Outlook Revised
University of Connecticut (Connecticut) GO		
Unenhanced Rating	AA(SPUR)/Negative	Outlook Revised
Univ of Connecticut GO		
Unenhanced Rating	AA(SPUR)/Negative	Outlook Revised
Univ of Connecticut (Connecticut) GO		
Unenhanced Rating	AA(SPUR)/Negative	Outlook Revised
Waterbury, Connecticut		
Connecticut		
Waterbury (Connecticut) GO spl cap reserve fd		
Unenhanced Rating	AA(SPUR)/Negative	Outlook Revised

Many issues are enhanced by bond insurance.