

# RatingsDirect®

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**Summary:**

**Connecticut; Appropriations; General  
Obligation; General Obligation  
Equivalent Security; Moral Obligation**

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## Summary:

# Connecticut; Appropriations; General Obligation; General Obligation Equivalent Security; Moral Obligation

### Credit Profile

Connecticut		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut GO		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut GO		
<i>Long Term Rating</i>	A+/Stable	Downgraded

## Rationale

S&P Global Ratings has lowered its general obligation (GO) rating on the State of Connecticut to 'A+' from 'AA-'. S&P Global Ratings has also lowered its rating on the state's appropriation-secured debt to 'A' from 'A+', and its rating on the state's moral obligation debt to 'BBB+' from 'A-'. The outlook is stable.

The downgrade reflects our view of state economic weakness that has resulted in successive downward state revenue adjustments during a period of national economic growth. The most recent state revenue forecast revision has prompted the governor to propose a deficit mitigation plan for fiscal 2017 that will empty the state's already small budget stabilization fund (BSF), and that has opened up what we view as very sizable budget gap Connecticut will need to close in the upcoming 2018-2019 biennium budget. We believe the size of the budget gap will create continuing budget pressure consistent with our lower rating, particularly if additional revenue shortfalls occur. In our view, the state will have limited remaining flexibility to respond to any further downward revenue adjustments due to the large expenditure cuts already made; the large and growing portion of the budget devoted to fixed costs for debt service, pension, and other postemployment benefits (OPEB); and the lack of plans to rebuild a meaningful BSF through at least the end of fiscal 2019. Revenue growth is likely to remain weak even as the national economy grows because of the apparent permanent loss of many of high-paying financial sector jobs that were lost in the last recession.

The state's January consensus revenue forecast projected lower general fund revenue than the previous year, in part due to diversion of sales tax for transportation purposes and to the state's municipal revenue-sharing account. Connecticut made a subsequent additional downward consensus revenue forecast revision following weak April income tax returns. Gov. Dannel Malloy has proposed closing the additional \$413 million general fund budget gap for the current 2017 fiscal year, or 2% of budgeted expenditures, largely with one-time measures, such as emptying the state's BSF and using various funds sweeps. Connecticut also revised its 2018 revenue downward by an additional \$597 million, and its 2019 revenue downward by \$865 million. Combined with earlier identified budget gaps, the state needs to close a \$2.28 billion gap in fiscal 2018, or what we calculate as a sizable 12% of projected 2018 expenditures

before budget adjustments, as well as close a \$2.78 billion gap (14%) in 2019.

The governor's proposed January 2018-2019 biennium executive budget uses what we view as a relatively small amount of one-time budget measures, but this would not rebuild the depleted BSF to what we would consider meaningful levels (see "Connecticut Budget Proposal Highlights Financial Strain at Both State and Municipal Levels," published Feb. 15, 2017, on RatingsDirect). His revision, released May 15, contains an additional mix of proposed new revenue and expenditure cuts. However, due to the lower forecast revenue, we believe that the state's fixed costs as a percent of budget, which is already the third highest among the states (see "Poised To Strengthen In Fiscal 2018, U.S. State Budget Conditions Remain Under Longer Term Pressure," published May 8, 2017), could rise even higher, despite a proposal to push a portion of teacher retirement contributions onto local governments. We understand that the teacher pension funding proposal, as well as certain other proposals the governor made, might be meeting with some resistance in the state legislature that could result in a final adopted budget that could differ substantially from Gov. Malloy's proposal, or result in late budget adoption.

In addition, we believe the large size of the budget gap could create an incentive to incorporate nonrecurring budget measures when the final budget is adopted, or on subsequent downward revisions, which has already happened in fiscal 2017. The fact that Connecticut is encountering financial pressure during a national economic recovery does not bode well for what might happen in the next recession, particularly since debt service, pension, and OPEB fixed costs consumed 28% of general fund expenditures in fiscal 2017. The state still has not fully retired deficit financing bonds issued in the last recession, and the governor's recent proposal for an annual delay of \$58 million in the conversion to generally accepted accounting principles (GAAP) budgeting is, in our view, a one-shot budget action, in that the state sold \$560 million of GAAP conversion bonds in 2014 to create a balance to assist in the conversion to GAAP-based budgeting.

For more information on Connecticut, please see our most recent full GO analysis published March 20, 2017.

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 '2.2' to Connecticut. A score of '2.2' is indicative of a 'AA-' rating; however, we have notched our rating down one notch to 'A+', as permitted by our criteria, due to the severity of the current budget gap and weak economic performance, which in our view has affected the state's ability to predict and manage potential future midyear gaps, particularly in the absence of a meaningful budget reserve.

## **Outlook**

The stable outlook reflects our expectation that Connecticut will continue to face significant budget pressure because of weak economic and revenue growth, high fixed costs, and an inability to rebuild a material BSF even in a period of national economic growth. A positive rating action would depend on the state's ability to regain a meaningful BSF reserve and stabilize or reduce Connecticut's rising fixed costs as a share of the overall budget. Such an event would likely require the state's economic performance to improve from currently sluggish levels. Factors that could lead to negative rating action would include a state economic recession that caused a significant impact on revenue, while the state's ability to respond remained limited because result of high fixed costs and lack of a BSF reserve. A significant

increase in long-term liabilities to burdensome levels could also lead to a negative rating action, in view of Connecticut's already high debt burden and relatively low funded retirement systems, although the state expects to pay its full annually determined contribution to its retirement systems. Pension contributions are scheduled to increase for a few years then level off, although OPEB could pose a growing problem, despite state plans to begin contributing to an OPEB trust fund, as Connecticut is contractually mandated to provide OPEB under long-term union contracts.

Ratings Detail (As Of May 17, 2017)		
Connecticut GO		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut Hlth & Ed Fac Auth		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut approp		
<i>Long Term Rating</i>	A/Stable	Downgraded
Connecticut GO		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut GO		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut GO		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO bnds ser 2016C due 05/15/2034		
<i>Long Term Rating</i>	A+/A-1/Stable	Downgraded
Connecticut GO bnds ser 2016E due 10/15/2017-2029, 2032-2036		
<i>Long Term Rating</i>	A+/Stable	Downgraded
<i>Unenhanced Rating</i>	NR(SPUR)	
Connecticut GO (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (AGM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (AGM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (AGM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded

Ratings Detail (As Of May 17, 2017) (cont.)		
Connecticut GO (AGM) (SEC MKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (AGM) (SEC MKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (AGM) (SEC MKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (AGM) (SEC MKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SEC MKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (BAM) (SEC MKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO (FGIC) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Connecticut GO <i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut GO <i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut GO <i>Long Term Rating</i>	A+/Stable	Downgraded

**Ratings Detail (As Of May 17, 2017) (cont.)**

Connecticut GO		
<i>Long Term Rating</i>	A+/Stable	Downgraded
<b>Connecticut GO</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
<b>Capital City Economic Dev Auth, Connecticut</b>		
Connecticut		
Capital City Economic Dev Auth (Connecticut) GOEQUIV		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Capital City Economic Dev Auth (Connecticut) GOEQUIV		
<i>Long Term Rating</i>	A+/A-1/Stable	Downgraded
<b>Connecticut Hlth &amp; Educl Facs Auth, Connecticut</b>		
Connecticut		
Connecticut Hlth & Educl Facs Auth (Connecticut) rev bnds (Child Care Facs Prog) (ASSURED GTY)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Downgraded
Connecticut Hlth & Educl Facs Auth (Connecticut) rev bnds (Connecticut) (Connecticut State Univ Sys Issue) ser J dtd 06/22/2011 due 11/01/2012-2031		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut Hlth & Educl Facs Auth (Connecticut) rev bnds (State Univ Sys Issue) ser D-1&2 dtd 03/15/2002 due 11/01/2003-2022		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut Hlth & Educl Facs Auth (Connecticut) rev rfdg bnds (Connecticut) (Connecticut State University System Issue) ser P-1 due 11/01/2036		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut Hlth & Educl Facs Auth (Connecticut) rev rfdg bnds (Connecticut) (Connecticut State University System Issue) ser P-2 due 11/01/2035		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut Hlth & Educl Facs Auth (Connecticut) rev rfdg bnds (Connecticut) (Connecticut State Univ Sys Issue) ser K dtd 06/22/2011 due 11/01/2012-20		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut Hlth & Educl Facs Auth (Connecticut) rev rfdg bnds (Connecticut) (Connecticut St Univ Sys Issue) ser L dtd 04/04/2012 due 11/01/2012-2029		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut Hlth & Educl Facs Auth (Connecticut) state supported rev bnds		
<i>Long Term Rating</i>	A/Stable	Downgraded
Connecticut Hlth & Educl Facs Auth (Connecticut) APPROP		
<i>Long Term Rating</i>	A/Stable	Downgraded
Connecticut Hlth & Educl Facs Auth (Connecticut) GOEQUIV		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut Hlth & Ed Fac Auth nsg home prog		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut Hlth & Ed Fac Auth (Connecticut) nsg home prog taxable		
<i>Long Term Rating</i>	A+/Stable	Downgraded
Connecticut Hlth & Ed Fac Auth (Connecticut) st univ sys issue		
<i>Long Term Rating</i>	A+/Stable	Downgraded

**Ratings Detail (As Of May 17, 2017) (cont.)**

**Connecticut Hlth & Ed Fac Auth rev bnds (Connecticut State Univ Sys Issue) ser D-2 dtd 03/15/2002 due 11/01/2020-2022**

*Unenhanced Rating* A+(SPUR)/Stable Downgraded

**Connecticut Hlth & Ed Fac Auth (Connecticut) univ issue**

*Unenhanced Rating* A+(SPUR)/Stable Downgraded

**Connecticut Hsg Fin Auth, Connecticut**

Connecticut

Connecticut Hsg Fin Auth (Connecticut) state supported spl oblig bnds

*Long Term Rating* A+/Stable Downgraded

Connecticut Hsg Fin Auth (Connecticut) state-supported spl oblig bnds (Connecticut)

*Long Term Rating* A+/Stable Downgraded

Connecticut Hsg Fin Auth (Connecticut) state-supported spl oblig bnds (Connecticut)

*Long Term Rating* A+/Stable Downgraded

Connecticut Hsg Fin Auth (Connecticut) state-supported spl oblig bnds (Connecticut)

*Long Term Rating* A+/Stable Downgraded

Connecticut Hsg Fin Auth (Connecticut) state-supported spl oblig bnds (Connecticut) (Amt)

*Long Term Rating* A+/Stable Downgraded

Connecticut Hsg Fin Auth (Connecticut) state-supported spl oblig bnds (Connecticut) (Federally Taxable)

*Long Term Rating* A+/Stable Downgraded

**Connecticut Hsg Fin Auth spl needs hsg mtg fin prog**

*Unenhanced Rating* A+(SPUR)/Stable Downgraded

**Connecticut Innovations Incorporated, Connecticut**

Connecticut

Connecticut Innovations Incorporated (Connecticut) gen fd oblig bnds

*Long Term Rating* A+/Stable Downgraded

**Connecticut Dev Auth (Connecticut) GO**

*Unenhanced Rating* A+(SPUR)/Stable Downgraded

Many issues are enhanced by bond insurance.

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