The Office Of State Treasurer
Denise L. Nappier

News

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TWO CREDIT RATING AGENCIES MAINTAIN STATE'S RATING;
S&P LOWERS RATING ONE NOTCH

HARTFORD, CT – State Treasurer Denise L. Nappier announced today that Moody's Investors Service has reviewed and affirmed its bond rating for the State's General Obligation bonds at A1 with a stable outlook.

Another agency, Fitch Ratings, issued positive commentary about the overall strength of Connecticut's General Obligation credit. Fitch currently rates the State's General Obligation bonds at A+.

"The recent comments by Moody's and Fitch on Connecticut's credit are welcome news, and confirm the wisdom of the State's plan to control bonding and replenish the Rainy Day Fund. This should serve as encouragement to the Governor and General Assembly to maintain the course in favor of fiscal discipline," Treasurer Nappier said.

"Connecticut's outlook is stable, reflecting the pending replenishment of the state's rainy day fund and the state's strong provisions to promote fiscal discipline," Moody's said.

Fitch acknowledged the State's fiscal challenges, and said that it assumes that the "State will continue to proactively manage its challenged financial operations based on identified attributes." These factors include, but are not limited to, the following:

- Improved fiscal management with greater reliance on structural solutions and the State's intent to bolster balances in the Budget Reserve Fund
- Frequent revenue forecasting allowing the State to identify revenue underperformance and quickly implement corrective actions
- Consistent demonstrated ability by the State to cover its comparatively high fixed costs, including making full actuarial contributions to pensions and benefits

Soundness of S&P Downgrade Questioned

One rating agency, S&P Global Ratings, has downgraded the State to A from A+. "We are managing our finances more prudently, capping our debt," Treasurer Nappier said. "Thus, it is disappointing that S&P has chosen to downgrade the State at this time. The enhanced financial controls adopted by the General Assembly in October are important steps in the right direction, and should be given time to take effect."

S&P's downgrade report cited recently recalculated debt metrics utilizing data from the 2017 state audit as well as some recently available federal statistics. Further, S&P mentions its belief that the State's debt ratios will likely be under pressure because of additional borrowing requirements, including transportation projects, pension funding and the new commitment to the City of Hartford.

Conspicuously absent from S&P's analysis is any mention of the enhanced controls enacted by the legislature this past year to limit spending, rein in debt issuance, and systematically shore up the State's Budget Reserve Fund through spending, bonding and volatility caps. This contrasts with a March 28 report by S&P that referenced the legislative action as a positive factor.

"In its decision to reduce the State's General Obligation bond rating, it does not appear the potential pressure on our debt ratios was balanced against steps the Legislature has taken to regain flexibility and structural balance," Treasurer Nappier said.

Moreover, she said, the recent Contract for Financial Assistance with the City of Hartford, which predated all three rating agency reports, was not the principal factor in S&P's downgrade. Fitch said the agreement would not affect its rating of the State's GO debt, in fact.

"The agreement with Hartford, in my view, is important in restoring the bond market's faith in Hartford and, by extension, all the State's municipalities. Hartford's General Obligation bond debt has been substantially upgraded -- 12 notches by S&P. That Connecticut's debt is not significantly affected, coupled with the fact that the state has enacted a cap on rising future debt burden, draws into question the soundness of S&P's rating." Treasurer Nappier said.

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