

Rating Action: Moody's assigns Aa3 to Connecticut's GO bonds; outlook stable

23 May 2022

New York, May 23, 2022 -- Moody's Investors Service has assigned a Aa3 rating to approximately \$1.068 billion of the State of Connecticut's General Obligation Bonds, consisting of \$150 million General Obligation Bonds (2022 Series C), \$567.565 million of General Obligation Refunding Bonds (2022 Series D) and \$350 million of Taxable General Obligation Bonds (2022 Series A). The bonds are expected to price May 25 and close June 22. The outlook is stable.

RATINGS RATIONALE

Connecticut's Aa3 GO rating reflects the state's continued commitment to numerous governance improvements that have created significant budgetary reserves, lessened revenue volatility, and improved pension funding. The reserves are critical in mitigating budgetary inflexibility created by the state's heavy debt and retiree benefit liabilities, which are among the highest of the states. The Aa3 rating also reflects Connecticut's high income and wealth levels. Although the state showed good financial performance through the pandemic and there has been some recent reversal of negative population trends, longer term economic performance has lagged the nation and the state suffered recent consecutive years of population loss.

RATING OUTLOOK

Connecticut's outlook is stable, reflecting high level of budgetary reserves and the state's strong provisions to promote fiscal discipline, which include bolstering funding of its pension system, improving liquidity and requiring GAAP-based budgeting.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Reduced pension and debt leverage relative to the state's economic base, resulting in lower fixed costs
- Sustained stronger economic performance

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Significant additional leverage, encompassing bonded debt, pension and OPEB obligations and negative unassigned GAAP balances
- Rapid acceleration of revenue/economic/demographic weakness
- Significant decline in liquidity position

LEGAL SECURITY

The state's GO rating is backed by the state's full faith and credit pledge.

USE OF PROCEEDS

Proceeds from the 2022 Series C bonds will be used to finance various state purposes. Proceeds of the 2022 Series D bonds will be used to refund some or all of outstanding maturities of the state's previously-issued GO bonds, 2012 Series B, 2012 Series C and 2012 Series E. Proceeds of the taxable 2022 Series A bonds will be used to finance various economic development, housing-related and other state purposes.

PROFILE

The State of Connecticut has a population of 3.56 million people located in the coastal northeastern US, bordered by Rhode Island (Aa2 stable), Massachusetts (Aa1 stable) and New York (Aa1 stable) with 618 miles of shoreline, according to the National Oceanic and Atmospheric Administration (NOAA). The state has a large and diverse economy with real gross state product of \$245.8 billion in 2021. It is the wealthiest state in the country with per capita income of nearly 134% of the US average.

METHODOLOGY

The principal methodology used in these ratings was US States and Territories Methodology published in March 2022 and available at <https://ratings.moodys.com/api/rmc-documents/356901> . Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: <https://ratings.moodys.com/rating-definitions> .

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