

RatingsDirect®

Summary:

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

Primary Credit Analyst:

Adam Torres, New York + 1 (212) 438 1141; adam.torres@spglobal.com

Secondary Contact:

Kimberly Barrett, Centennial + 1 (303) 721 4446; Kimberly.Barrett@spglobal.com

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

Credit Profile

Connecticut SRFPOOL

Long Term Rating

AAA/Stable

Affirmed

Connecticut Clean Wtr Fd, Connecticut

State of Connecticut, Connecticut

Connecticut Clean Wtr Fd (Connecticut)

Long Term Rating

AAA/Stable

Affirmed

Connecticut Clean Wtr Fd (Connecticut) SRFPOOL

Long Term Rating

AAA/Stable

Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'AAA' long-term rating on Connecticut's state revolving fund (SRF) general revenue bonds outstanding.
- The outlook is stable.

Security

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--some of which is funded through guaranteed investment contracts (GICs)--but also includes money on hand in the debt service fund. In addition, any unpledged assets in the SRF are also available to cover debt service requirements. The support fund is funded with assets of the SRF.

Credit overview

We assess the program's enterprise risk profile as extremely strong, due to low industry risk and an extremely strong market position. Furthermore, the portfolio's loss coverage score (LCS), operating performance, and financial policies lead to our assessment of an extremely strong financial risk profile. In determining our financial assessment, we exclude GICs due to such providers having lower ratings than downgrade remedies already in such agreements; we also exclude cash that is not specifically pledged but is available as general program assets.

Because we view securitizations backed by pools of public-sector assets as highly sensitive to country risk, we cap the rating on the securitization at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'.

Finally, we note there have been no additional debt issuances in recent years, but additional program loans have been

made, all of which become pledged assets; therefore, the program's assets have only continued to increase relative to liabilities (debt outstanding).

The leverage test meets our 'AAA' threshold, leading to the final rating.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that SRF management will 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.

Downside scenario

Although we believe it is unlikely, should the financial position worsen, either through deterioration in underlying loans or decline in available funds, we could lower the rating.

Credit Opinion

Enterprise risk

We view the enterprise risk profile of the program as extremely strong. This is due to a combination of the low industry risk profile for municipal pools, and the program's market position, which we consider extremely strong. The state treasurer administers Connecticut's SRF programs (in partnership with the Department of Energy and Environmental Protection for the Clean Water SRF, and in partnership with the Department of Public Health for the Drinking Water SRF), and receives financial support from multiple levels of government, including federal capitalization grants and state matching funds. The Clean Water Program is authorized by state statutes to manage both the drinking water and wastewater (clean water) SRF programs.

Financial risk

Averaging all of the financial policies and practices, we view the corpus of these as ranging from strong to extremely strong. Management performs a credit review for all new loans and has the ability to require a debt service reserve fund from borrowers. All participants must submit annual financial statements. Loan payments are made monthly, allowing for early identification and resolution of any late payments. Permitted investments within the bond resolutions are fairly permissive, but more than 75% of current assets are held in the state short-term investment fund. Management also prioritizes projects annually using criteria established in state statute.

In terms of reserves, there is about \$225 million in non-GIC pledged funds (almost all of which is cash, plus some state and local government obligations). GIC-backed pledged funds total \$36 million; however, because downgrade remedies based on GIC-provider ratings have been triggered, we have excluded these from our calculations. We further note that the program has significant unpledged assets as well beyond these figures; although not specifically pledged, these funds provide legitimate and significant support because they can only be used for the program, and which repayment would flow to a pledged account if necessary.

Finally, regarding operating performance, management has indicated that there have been no loan defaults since the program's organization in 1986.

SRF program characteristics and bond provisions

As of Oct. 31, 2022, there is about \$845 million of bonds outstanding, supported by \$1.65 billion of loans.

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 SRF programs. Rather, the over-collateralization, and protection against revenue shortfalls, comes primarily from unpledged, but available, cash and short-term investments.

The Connecticut SRF has been actively involved with sewer and water infrastructure needs in the state since 1986. Repayments are deposited into the clean water and drinking water revolving funds as received; these accounts are cross-collateralized. Any repayments not needed for bond debt service may be used to make additional loans. Management has indicated that it expects ongoing demand for water and sewer infrastructure project funding.

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