State of Connecticut
Special Tax Obligation Bonds Transportation Infrastructure Purposes

Issuer: State of Connecticut		
Assigned	**Rating**	**Outlook**
Special Tax Obligation Bonds, Transportation Infrastructure Purposes, 2023 Series A	AAA	Stable
Special Tax Obligation Refunding Bonds, Transportation Infrastructure Purposes, 2023 Series B	AAA	Stable
Upgrade	**Rating**	**Outlook**
Special Tax Obligation Bonds, Transportation Infrastructure Purposes	AAA *from AA+*	Stable

Methodology:

U.S. Special Tax Revenue Bond Rating Methodology

ESG Global Rating Methodology

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Rating Summary: The upgrade of the long-term rating for the Special Tax Obligation Bonds – Transportation Infrastructure Purposes (Bonds) recognizes: the increased diversity and resilience of pledged revenues per the phased-in dedication of certain general sales and use taxes, motor vehicle sales tax, and highway use tax receipts; and, the recent stabilization of motor fuel tax receipts following the end of a gas tax holiday that was in place from March 2022 through April 2023. The rating is further underpinned by the ample coverage and growing nature of most revenues pledged to repayment, descending debt service requirements, and a robust legal framework that includes a fully funded debt service reserve fund at maximum annual debt service and a covenant for the State to provide pledged revenues in each fiscal year sufficient to provide at least 2.0x annual debt service coverage. In the event that debt service coverage does not meet the 2.0x requirement, the covenant requires that the State must pass legislation within one year adjusting pledged revenues to satisfy the coverage requirement. Such a covenant is a relative rarity in the broader category of special taxes.

The Special Tax Obligation Bonds are issued to fund transportation projects within the State and are payable from a diverse basket of state revenues derived largely from transportation-related and other activities. The pledged revenues consist of certain sales taxes, oil companies tax, motor fuels tax, highway use tax, and various transportation-related fees and charges. Estimated pledged revenues increased 4.0% in the fiscal year ending June 30, 2023 to $2.08 billion, a record level of collections, reflecting additions to pledged revenues. Unaudited debt service coverage in FY 2023 was strong at 2.57x.

Connecticut has a longstanding commitment to transportation investment. In 2015, the Special Tax Fund (STF), into which all pledged revenues are deposited and used first to pay debt service, was designated a perpetual fund by legislation. The passage of a November 2018 ballot measure amended the State Constitution to require that all monies contained in the STF be used solely for transportation purposes, including payment of debt service on debt incurred for state transportation purposes. It also requires that so long as these sources of funds are authorized by statute to be collected, they must be deposited into the STF. KBRA views the constitutional dedication of transportation revenues positively and the passage of the referendum as reflecting strong public support for transportation investment.

The State has directed substantial new funding sources to the STF in recent years. Between FY 2016 and FY 2023 the state phased in the dedication of the proceeds of a 0.5% component of the State's 6.35% general sales and use tax as well as the proceeds of all motor vehicle sales and use taxes. The two new revenue sources totaled $838 million in FY 2023 or 40.3% of the $2.08 billion in total pledged revenues. The Legislature has additionally implemented a Highway User Fee that assesses a per-mile tax on commercial trucks that scales from 2.5 cents to 17.5 cents per mile based on vehicle weight class. The tax, all proceeds of which are to be deposited to the STF, became effective January 1, 2023, raised $30 million in FY 2023, and is projected to generate between $60 million and $90 million annually in the next several years as implementation and compliance improve.

The State uses STF revenues both to pay debt service and fund transportation programs and capital outlays on a pay-go basis. The future transportation capital needs of the State are significant, and the State plans to fund much of these capital plans with additional parity bonds as well as continuing pay-go contributions. The State's projections call for annual parity new money borrowing escalating from $875 million in FY 2024 to $1.1 billion by FY 2028. Transportation investment in the State will be bolstered over the next four years by supplemental federal grant funding provided under the Infrastructure Investment and Jobs Act (IIJA). The State expects to receive a 30% increase in Federal Transportation Authority funding (~$300 million) and a 48% increase in Federal Highway Administration funding (~$1.3 billion) through FY 2027. Such funds do not flow through the STF but are expected to be available to bolster Statewide transportation infrastructure investment.

Connecticut's economy has recovered significantly from the early months of the pandemic, but seasonally adjusted unemployment was slightly elevated at 3.8% in August versus the U.S. at 3.6%. Wealth levels remain high, with per capita personal income of $84,272 at 129% of the U.S. average in 2022. The longer-term, pre-pandemic economic growth trend in the State was sluggish with real gross state product (GSP) contracting in seven of the last fifteen years. KBRA continues to monitor growth in the context of the broad pandemic recovery, with an eye toward the timing and severity of the next economic downturn.

The Stable Outlook reflects KBRA's expectation that debt service coverage on the Bonds will remain at comfortable levels based upon the stability and resilience of the pledged revenues and the State's demonstrated history of actively managing the basket of pledged revenues and transportation funding levels.

Key Credit Considerations

The rating actions reflect the following key credit considerations:

Credit Positives

- Diverse pledged revenue sources provide a stable source of payment solid coverage of debt service requirements.
- The State's commitment to transportation capital funding is strong and is buttressed by the public support for transportation purposes reflected in the passage of the November 2018 referendum.
- Legal protections are favorable including a covenant to maintain at least 2.0x annual debt service coverage.

Credit Challenges

- The State's rate of economic growth has been slower than that of the U.S. and New England region for more than a decade although wealth levels are favorable.
- Transportation needs are substantial and place pressure upon the State's ability to fund them over the longer term.

Rating Sensitivities

▪ Not applicable at AAA rating level.	+
▪ An economic downturn that leads to a sustained decline in coverage levels and budgetary pressure on the State.	-

Highlights FYE June 30 (dollars in millions)			
	2021	**2022**	**2023 Est.**
Pledged Revenues and Coverage			
Sales and Use Tax	$ 483	$ 703	$ 838
Oil Companies Tax	229	387	392
Motor Fuels Tax	475	390	264
Motor Vehicle Receipts	321	282	255
Licenses, Permits, Fees	131	126	126
Sales Tax - DMV	117	122	117
Other, Net	21	(9)	89
Total	1,778	2,001	2,080
Combined Sen. and Sub. Lien DS	664	743	811
Debt Service Coverage Ratio	**2.68x**	**2.69x**	**2.57x**
Economic Data			
Per Capita Personal Income (2022)		$84,272	
as a % of U.S.		129%	
Population (2022)		3,626,205	
Δ *2010 to 2022*		1.5%	
Real GSP, Δ 2010 to 2022			
Connecticut		3.3%	
New England		18.3%	
U.S.		27.9%	
Summary Legal Provisions			
Coverage Covenant	Pledged revenues must provide 2.00x annual debt service. coverage.		
Additional Bonds Test	Historical and projected annual receipts equivalent to 2.00x pro forma MADS. Subject to adjustment for changes to pledged revenue sources.		
DSRF Requirement	MADS		

Rating Determinants (RD)	
1. Legal Framework	AAA
2. Nature of Special Tax Revenues	AAA
3. Economic Base and Demographics	AA-
4. Revenue Analysis	AA
5. Coverage and Bond Structure	AAA

KBRA's revised rating assessment recognizes the increased diversity and resilience of pledged revenues per the dedication of new and growing revenue sources in recent years. The rating places particular emphasis on the fundamental strengths of the "Legal Framework" and "Coverage and Bond Structure" rating determinants – namely the compounding strength of the constitutional dedication of pledged revenues and the 2.0x rate covenant as well as descending debt service requirements and strong historic debt service coverage.

RD 1: Legal Framework

The legal and statutory framework underlying the Bonds provide strong bondholder protections. In 2015, the General Assembly passed legislation that established the Special Tax Fund (STF) as a perpetual fund and stated that, once funds are deposited in the STF, these funds can only be used for transportation purposes. The passage of a November 2018 ballot measure amended the State Constitution to establish the STF as a permanent fund of the State, and restricts the use of revenues to transportation purposes.

Defined Pledge and State Coverage Covenant

Under the Senior Indenture, the State covenants to provide pledged revenues in each fiscal year, computed as of the end of the fiscal year, in an amount equal to at least 2.0x the aggregate debt service on all Senior Bonds. KBRA considers the existence of the State covenant as positive and views the required 2.0x coverage level as strong. In the event that debt service coverage does not meet the 2.0x requirement, the State must pass legislation within a year to satisfy this coverage requirement.

Debt Service Reserve Fund

The Bonds are secured by debt service reserve funds which are cash funded in an amount equal to combined Senior and Second Lien MADS. Under both the Senior and Second Lien Indentures, upon issuance of additional bonds, the debt service reserve funds must be funded to combined lien MADS.

Flow of Funds and Timing of Deposits

All pledged revenues collected by the State are identified and credited to the STF held by the State on a daily, monthly or quarterly basis, depending on the source. Pledged revenues will be transferred monthly, as follows:

> First, to the debt service accounts in an amount equal to 1/12th of the principal and interest requirement on the Senior Bonds and Senior Notes in the next year.
>
> Second, to the debt service reserve account under the Senior Indenture to maintain the fund requirement of maximum annual debt service.
>
> Third, to the debt service accounts under the Second Lien Indenture in an amount equal to the principal and interest requirement on the Second Lien bonds and notes in the next year.
>
> Fourth, to the debt service reserve account under the Second Lien Indenture to maintain the fund requirement of combined maximum annual debt service reflecting both the Senior and Second Lien Bonds.
>
> Fifth, after all deposits have been made under the Senior and Second Lien indenture, pledged revenues are used, subject to annual appropriation by the General Assembly, for payment of debt service on State general obligation bonds issued for transportation purposes and to the payment of State budget appropriations for the State Department of Transportation and the DMV. Funds may not be used for the general purposes of the State, only transportation purposes.

The State redeemed the last outstanding Second Lien obligations on April 7, 2020.

Additional Bonds Test

Additional Bonds may be issued under the Senior Lien Indenture if pledged revenues paid into the STF for any period of 12 consecutive months out of the last 18 months, adjusted for enacted changes in taxes and fees and certified in a certificate issued by the OPM is equal to 2.0x combined debt service requirements on outstanding and proposed Senior and Second Lien Bonds and interest requirements on Senior Notes for the current and each succeeding fiscal year, which KBRA views as a conservative test.

Bankruptcy

The United States Bankruptcy Code is not applicable to states. Because Connecticut is a state and it is the issuer, the Bonds are not subject to adjustment in a Chapter 9 case given that the State is not eligible for relief under the U.S. Bankruptcy Code.

RD 2: Nature of Special Tax Revenues

Breadth of Tax Base

Pledged revenues consist of a broad basket of taxes and fees capturing a significant level and broad range of essential economic activity. The largest categories of pledged revenues include a portion of the state's general sales and use tax, all motor vehicle sales taxes, an oil companies gross earnings tax and a per gallon motor fuel taxes.

Geographic Area of Tax Base

The geographic area of the tax base is broad encompassing the entirety of the State.

RD 3: Economic Base and Demographics

The State's economic base is highly developed but experienced slow growth in the years leading up to the pandemic, as discussed below. Connecticut's employer base remains diverse and productive. In 2022, 14 "Fortune 500" companies were headquartered in Connecticut, including Cigna, Charter Communications, Hartford Financial Services, and Stanley Black & Decker. The defense companies Lockheed Martin, Raytheon Technologies, and General Dynamics are a major component of the State's economy. Financial companies, including investment firms and insurance companies, continue to constitute a large part of the State's economy.

Population

Connecticut's population increased 1.3% between 2010 and 2022, slower than that of the New England region and United States which grew 4.5% and 7.7%, respectively.

Figure 1

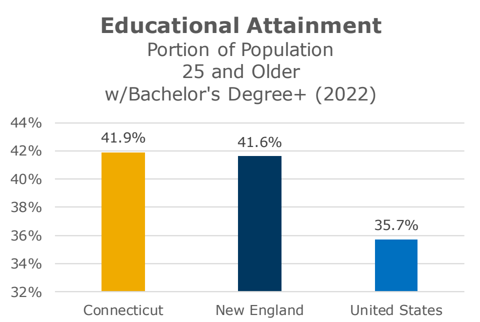
Population Growth								
							Change 2010 to 2022	
	1980	1990	2000	2010	2020	2022	Total	CAGR
Connecitcut	3,113,174	3,291,967	3,411,777	3,580,279	3,597,362	3,626,205	1.3%	0.11%
New England	12,371,656	13,229,502	13,949,721	14,476,185	15,074,473	15,129,548	4.5%	0.37%
United States	227,224,719	249,622,814	282,162,411	309,378,433	331,511,512	333,287,557	7.7%	0.62%

Source: U.S. Census Bureau

Educational Attainment, Poverty, and Age Groups

Educational attainment in Connecticut has historically outperformed the U.S. In 2022, poverty in the State was below the U.S. average. Per capita personal income is strong at $84,272 as of 2022, or 129% of the U.S. average.

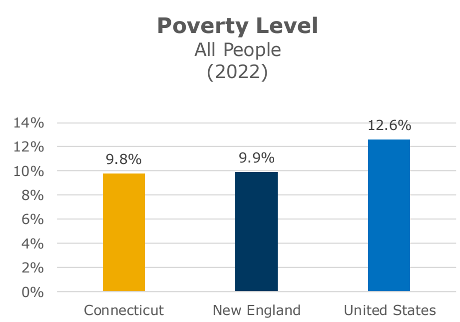
Figure 2



	2010	2022	Δ 2010 to 2022
Connecticut	35.5%	41.9%	18.0%
New England	33.0%	41.6%	26.1%
United States	28.2%	35.7%	26.6%

Source: U.S. Census

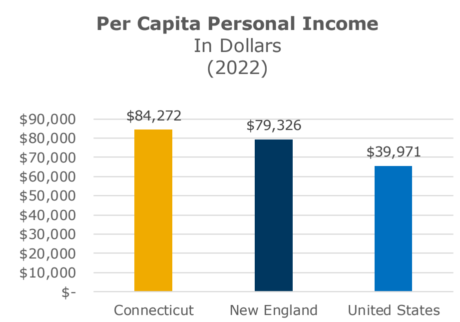
Figure 3



	2010	2022	Δ 2010 to 2022
Connecticut	10.1%	9.8%	-0.3
New England	11.6%	9.9%	-1.7
United States	15.3%	12.6%	-2.7

Source: U.S. Census

Figure 4



	2010	2022	Δ 2010 to 2022
Connecticut	$ 61,743	$ 84,272	36.5%
New England	$51,978	$79,326	52.6%
United States	$ 40,683	$ 65,423	60.8%

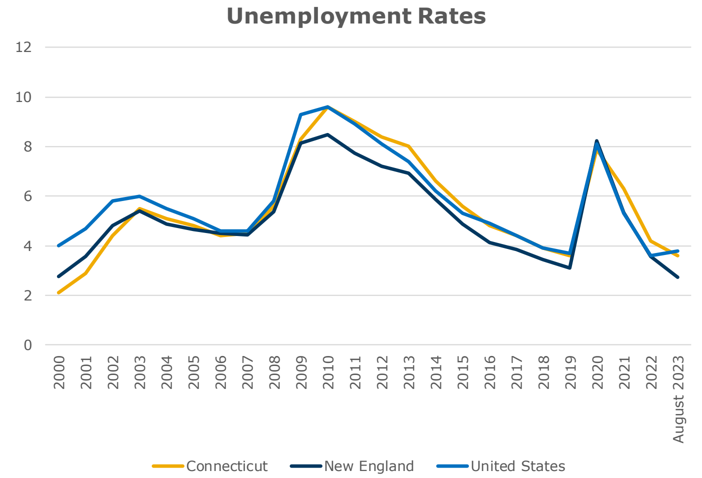
Source: U.S. Census

Employment

State employment levels have not yet recovered to the 2019 pre-pandemic level. According the U.S. Bureau of Labor Statistics data, the total number of jobs remains 2.1% below the 2019 average as of August 2023 versus U.S. employment which exceeds the 2019 level by 2.5%.

Connecticut’s unemployment rate was 3.6% as of August 2023, slightly lower than the U.S. at 3.8%.

Figure 5



	Connecticut	New England	United States
August 2023	3.6	2.7	3.8
July 2023	3.6	2.7	3.5
GFC Annualized Peak	9.6	8.5	9.6
Point Δ from GFC Annualized Pea	-6.0	-5.8	-6.1

Source: U.S. Bureau of Labor Statistics. Seasonally Adjusted.

Figure 6

Total Employment (Not Seasonally Adjusted) (in thousands)						
	Connecticut	Δ(%)	New England	Δ(%)	United States	Δ(%)
2000	1,724		7,138		136,891	
2001	1,699	-1.5%	7,120	-0.3%	136,933	0.0%
2002	1,698	0.0%	7,125	0.1%	136,485	-0.3%
2003	1,688	-0.6%	7,100	-0.4%	137,736	0.9%
2004	1,687	-0.1%	7,118	0.2%	139,252	1.1%
2005	1,708	1.2%	7,164	0.6%	141,730	1.8%
2006	1,750	2.5%	7,260	1.3%	144,427	1.9%
2007	1,773	1.3%	7,311	0.7%	146,047	1.1%
2008	1,772	0.0%	7,297	-0.2%	145,362	-0.5%
2009	1,731	-2.3%	7,097	-2.7%	139,877	-3.8%
2010	1,728	-0.2%	7,102	0.1%	139,064	-0.6%
2011	1,742	0.8%	7,154	0.7%	139,869	0.6%
2012	1,730	-0.7%	7,192	0.5%	142,469	1.9%
2013	1,719	-0.6%	7,204	0.2%	143,929	1.0%
2014	1,764	2.6%	7,348	2.0%	146,305	1.7%
2015	1,786	1.2%	7,437	1.2%	148,834	1.7%
2016	1,801	0.9%	7,532	1.3%	151,436	1.7%
2017	1,839	2.1%	7,726	2.6%	153,337	1.3%
2018	1,849	0.6%	7,861	1.7%	155,761	1.6%
2019	1,869	1.0%	7,932	0.9%	157,538	1.1%
2020	1,734	-7.2%	7,322	-7.7%	147,795	-6.2%
2021	1,739	0.3%	7,523	2.7%	152,581	3.2%
2022	1,852	6.5%	7,742	2.9%	158,291	3.7%
Aug 2023	1,829	-1.2%	7,756	0.2%	161,484	2.0%
Δ 2019 Avg to Aug 2023	-2.1%		-2.2%		2.5%	

Source: U.S. Bureau of Labor Statistics. Seasonally adjusted.

Real Gross State Product

Connecticut’s real gross state product (GSP) in 2022 was up 3.3% compared to 2010. In contrast, the New England region and the U.S. saw real GSP rise by 18.3% and 27.9%, respectively, underscoring the State’s comparatively weak growth.

Figure 7

Real GSP (dollars in millions) (chained 2012 dollars)						
	Connecticut	Δ (%)	New England	Δ (%)	United States	Δ (%)
2000	216,158		747,745		13,138,035	
2010	244,355	13.0%	871,287	16.5%	15,648,991	19.1%
2020	235,235	-3.7%	951,602	9.2%	18,509,143	18.3%
2022	252,533	3.3%	1,030,930	18.3%	20,014,128	27.9%
CAGR 2010 to 2022	0.3%		1.4%		2.1%	
Total Δ 2010 to 2022	3.3%		18.3%		27.9%	

Souce: U.S. Bureau of Economic Analysis

RD 4: Revenue Analysis

Pledged revenues provide a broad and growing payment source for the Bonds.

Concentration in Taxable Base

Concentration in the taxable base is low. Sales and use taxes made up 40.3% of receipts in FY 2023. Approximately half of such receipts are derived from a portion of the State’s general sales and use tax with the other half comprised by receipts from a dedication of all motor vehicle sales taxes. The next largest categories are the oil companies tax at 18.8% and motor fuels tax at 12.7%.

Figure 8

Pledged Revenues in FY 2023 (Estimated) FYE June 30 (dollars in millions)			
Source	Description	Total	% Total
Sales and Use Taxes	1. 0.5% portion of the State's 6.35% general sales and use tax (7.9% of total general sales tax receipts). 2. All sales and use taxes levied on motor vehicles sales levied at a rate of 6.35% for vehicles costing $50,000 or less and 7.75% for vehicles costing more than $50,000.	$ 837.6	40.3%
Oil Companies Tax	3. 8.1% tax on gross earnings from petroleum sales.	391.7	18.8%
Motor Fuels Tax	4. $0.25/gallon tax on gasoline and $0.492/gallon of diesel sold in the State, as well as similar taxes apportioned to businesses operating buses trucks, and other large commercial vehicles both within and outside the State.	263.8	12.7%
Motor Vehicle Receipts	5. DMV fees collected for license, registration, and similar services.	254.6	12.2%
License, Permits, & Fees	6. Fees and charges for certain permits and services provided by the State for transportation sevices, as well as certain traffic fines.	126.3	6.1%
Sales Tax - DMV	7. Proceeds on taxles on on casual sales of motor vehicles.	117.0	5.6%
Highway Use	8. Fee charged to commercial carriers highway road use ranging from $0.025 to $0.175 per mile based on vehicle weight.	30.0	1.4%
Other	9. Interst income and Federal Build America Bond subsidy receipts.	82.2	4.0%
Refunds		(23.1)	
Total		**2,080.1**	

Source: POS

Trend in Revenues

Pledged revenues have grown significantly from $1.38 billion in FY 2015 to an estimated $2.08 billion in FY 2023 primarily due to the aforementioned dedication of a portion of the State's general sales and use taxes and all motor vehicle sales and use taxes to the STF. The dedication was gradually phased in with FY 2023 reflecting the first year of the full dedication.

Figure 9

Pledged Revenues FYE June 30 (dollars in millions)	Sales and Use Tax	Motor Fuel Tax	Oil Companies Tax	Motor Vehicle Receipts	Licenses, Permits, & Fees	Sales Tax - DMV	Highway Use Fee	Federal Payments	Interest	Transfers	Refunds	Total Pledged Revenue	Δ YoY
2007	$ -	$ 478	$ 141	$ 225	$ 171	$ -	$ -	$ -	$ 46	$ 1	$ (11)	$ 1,051	
2008	-	495	128	226	154	-	-	-	37	7	(10)	1,036	-1.4%
2009	-	495	142	221	142	-	-	-	16	(7)	(9)	1,000	-3.5%
2010	-	504	142	221	135	-	-	-	7	65	(10)	1,062	6.2%
2011	-	484	165	220	136	72	-	9	6	101	(10)	1,183	11.3%
2012	-	493	227	235	136	77	-	13	2	75	(10)	1,248	5.5%
2013	-	501	199	235	137	79	-	12	4	89	(9)	1,248	0.0%
2014	-	508	381	236	138	82	-	12	7	(83)	(11)	1,271	1.9%
2015	-	517	338	250	145	84	-	12	7	35	(11)	1,376	8.3%
2016	109	518	250	252	144	87	-	12	8	(7)	(21)	1,353	-1.7%
2017	188	499	238	243	144	85	-	12	9	(7)	(17)	1,395	3.1%
2018	328	500	313	253	142	86	-	12	18	(6)	(15)	1,630	16.9%
2019	371	510	313	250	150	87	-	12	37	(6)	(37)	1,688	3.6%
2020	401	478	230	242	129	73	-	12	22	(36)	(35)	1,517	-10.2%
2021	483	475	229	321	131	117	-	12	2	25	(17)	1,778	17.2%
2022	703	390	387	282	126	122	-	11	5	(3)	(22)	2,001	12.6%
2023 Est.	838	264	392	255	126	117	30	10	72	(6)	(18)	2,080	4.0%

Source: POS and prior official statements.

FY 2020 pledged revenues declined 10.2% to $1.52 billion reflecting the impact of the early stages of the COVID-19 pandemic on the underlying taxes and fees. Oil companies tax in particular declined 26.4% to $229 million as the sharp decline in both energy prices and gas consumption reduced oil company gross earnings. Licenses, permit, and fee revenues additionally declined 14.3% to $129 million due to the granting of a 90-day extension of DMV credentials in response to the pandemic.

FY 2021 pledged revenues rebounded by a sharp 17.2% YoY to $1.78 billion owing largely to an increase in the allocation of motor vehicle sales tax to the STF to 25% from 17% in the prior year resulting in receipts of $483 million. Motor vehicle receipts increased by an also notable 33% to $321 million reflecting the ending of pandemic-related DMV credential extensions.

FY 2022 receipts increased by 13.1% to $2.01 billion due to an increased allocation of the motor vehicle sales tax to 75% from 25% in the prior year resulting in receipts of $703 million. Oil companies tax increased 71.2% to $392 million as firming oil prices and continued recovery in consumption supported strong oil company gross receipts. Motor fuel taxes in contrast declined 18.1% to $389 million reflecting the Legislature's implementation of a $0.25 cent per gallon motor fuel tax holiday in the final four months of FY 2022 in response to surging gas prices.

FY 2023 receipts increased 4.0% to $2.08 billion due to an increased allocation of the motor vehicle sales tax to 100% from 75% in the prior year resulting in receipts of $838 million. Motor fuel taxes declined 32.3% to $264 million reflecting continuation of the gas tax holiday through December 31, 2022 and the gradual restoration of the $0.25 per gallon tax in monthly $0.05 increments with the tax returned to the full $0.25 level on May 1, 2023.

In FY 2024, pledged receipts are projected to experience uplift from the restored motor fuels tax expected to be in place for the entire year. With the sales tax dedication now fully phased in, however, KBRA anticipates that revenues growth will be relatively flat in future years absent further revenue dedication.

RD 5: Coverage and Bond Structure

Coverage

Pledged revenues provided strong debt service coverage at or above 2.33x in each of the last five years and estimated coverage of 2.57x in FY 2023.

Figure 10

Pledged Revenues and Debt Service Coverage
FYE June 30 (dollars in millions)

	Actual					Estimated	Projected				
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Sales Tax[1]	328	371	401	483	703	838	860	883	906	930	955
% change	*73.8%*	*13.2%*	*8.2%*	*20.5%*	*45.7%*	*19.1%*	*2.7%*	*2.7%*	*2.6%*	*2.7%*	*2.7%*
Motor Fuels Tax	500	510	478	475	390	264	496	507	497	499	502
% change	*0.3%*	*2.0%*	*-6.2%*	*-0.6%*	*-18.0%*	*-32.3%*	*87.9%*	*2.2%*	*-1.9%*	*0.4%*	*0.6%*
Oil Companies Tax	313	313	230	229	387	392	387	357	330	338	347
% change	*31.1%*	*0.2%*	*-26.4%*	*-0.6%*	*69.0%*	*1.2%*	*-1.2%*	*-7.7%*	*-7.6%*	*2.5%*	*2.5%*
Motor Vehicles Receipts	253	250	242	321	282	255	254	255	257	258	259
% change	*4.2%*	*-1.1%*	*-3.5%*	*33.0%*	*-12.4%*	*-9.6%*	*-0.2%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*
Licenses, Permits & Fees	142	150	129	131	126	126	124	126	127	130	131
% change	*-1.5%*	*5.8%*	*-14.3%*	*1.6%*	*-3.6%*	*0.2%*	*-2.1%*	*1.9%*	*0.7%*	*2.6%*	*0.6%*
Sales Tax - DMV	86	87	73	117	122	117	108	107	107	108	109
Highway Use Fee[2]	-	-	-	-	-	30	90	94	98	101	103
Federal Payments	12	12	12	12	11	10	9	8	7	6	4
Interest Income	18	37	22	2	5	72	59	51	46	38	36
Transfers	(6)	(6)	(36)	25	(3)	(6)	(14)	(14)	(6)	(6)	(6)
Refunds	(15)	(37)	(35)	(17)	(22)	(18)	(21)	(20)	(20)	(21)	(22)
Total Net Revenues	**1,630**	**1,688**	**1,517**	**1,778**	**2,001**	**2,080**	**2,353**	**2,355**	**2,349**	**2,382**	**2,420**
% change	*16.9%*	*3.6%*	*-10.2%*	*17.2%*	*12.6%*	*17.0%*	*13.1%*	*0.1%*	*-0.2%*	*1.4%*	*1.6%*
Debt Service[3, 4]	**574**	**642**	**651**	**665**	**743**	**811**	**888**	**951**	**989**	**1,074**	**1,150**
Debt Service Coverage	***2.84x***	***2.63x***	***2.33x***	***2.67x***	***2.69x***	***2.57x***	***2.65x***	***2.48x***	***2.38x***	***2.22x***	***2.10x***

Source: POS Table 8 for revenues and Table 9 for debt service and coverage.

[1]The State phased in the dedication of a 0.5% portion of the 6.35% general sales tax to the STF between FY 2016 and FY 2018. The State subsequently also phased in the dedication of new and used car sales tax collections beginning at 8% in FY 2019, 17% in FY 2020, 25% in FY 2021, 75% in FY 2022, and 100% in FY 2023 and all future years.

[2]Highway user fee was intorduced in January 1, 2023 with FY 2023 collections reflecting 6 months of collections and less than full compliance given realities of implementing a new tax.

[3]Includes existing debt service requirements plus anticipated debt service on projected annual issuance through FY 2028.

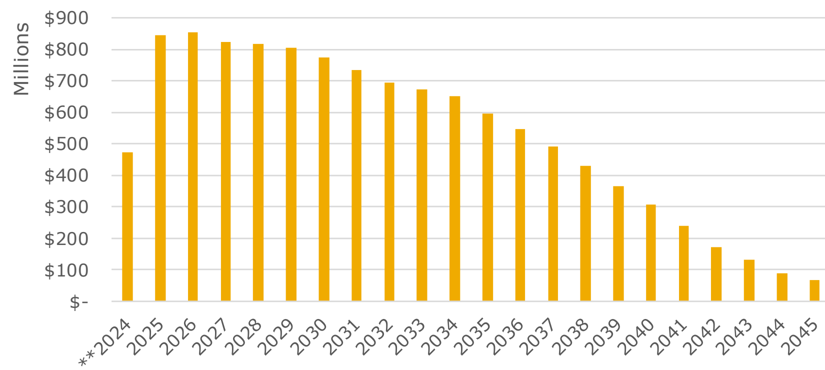
[4]Includes senior as well as subordinate bond debt service through FY 2020. Debt service in subsequent years is senior only due to final maturity of last outstanding subordinate bonds in FY 2020.

Outstanding bonds are entirely fixed rate and debt service requirements are descending. The State however anticipates that continuing annual borrowing needs escalating from $875 million in FY 2024 to $1.1 billion by FY 2028 will result in increasing debt service requirements each year through at least FY 2028. Based on the State's fairly conservative pledged revenue growth assumptions, debt service coverage is projected to decline to 2.10x by FY 2028. KBRA nevertheless views this level of coverage as ample given very limited historic volatility of pledged revenues and notes that overleveraging is precluded by the 2.0x MADS additional bonds test. The descending structure of debt service requirements furthermore positions the State to manage forward coverage through tempered issuance should pledged revenues not performance favorably.

Figure 11

Annual Debt Service Requirements*

FYE June 30



Source: State of Connecitcut

*Includes impact of currently offered new money bonds but not refunding bonds.

**Remaining debt service for the current fiscal year.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

Environmental Factors

Emission Targets: Connecticut has climate-related goals in place: State statute mandates 45% and 80% reductions in greenhouse gas emissions below 2001 levels by 2030 and 2050, respectively, and 10% and 25% decreases in water consumption and waste disposal, respectively, versus 2001 levels by 2030. The Connecticut Department of Energy and Environmental Protection's (DEEP) annual Greenhouse Gas Emissions Inventory, which measures progress toward these targets, noted in 2021 that data through 2018 indicated the State is lagging, particularly because of transportation emissions.

Physical Climate Risk: Connecticut faces risks from sea level rise, flooding, and severe coastal storms, as most of its population lives near the coast. The State has warned that rising sea levels could bring tidal flooding, even without storms, to infrastructure such as rail lines and I-95. In 2019, the Connecticut Institute for Resilience & Climate Adaptation, a joint program of DEEP and the University of Connecticut, recommended that planning incorporate a 20-inch sea level rise by 2050, and considered subsequent increases as likely. CIRCA's work includes its Municipal Resilience Grant Program to fund local resilience projects and involvement in Resilient Connecticut, which aims to craft a long-term resilience plan for the State and is expected to include regional risk assessments.

Social Factors

The State government has both long-running and new initiatives aimed at social equity. The decades-old Commission on Human Rights and Opportunities, for example, enforces civil and human rights law and regulations, including affirmative action plans at state agencies. Recent efforts include the passage of legislation declaring racism as a public health crisis and creation of a Social Equity Council that seeks to compensate neighborhoods most-affected by the "war on drugs" with revenue from the upcoming adult-use cannabis program.

Governance Factors

Cybersecurity: The State has employed a Chief Information Security Officer since FY 2021, evidencing an increased focus in this area. In March 2021, Governor Lamont announced a multi-year initiative intended to centralize how the Department of Administrative Services manages the state government's IT functions. In January 2022 the State began operation of the Department of Administrative Services / Bureau of Information Technology Solutions (DAS/BITS), providing wide-ranging shared services including infrastructure, applications, and user support. As of January 2023, DAS/BITS employes approximately 474 employees and had plans to hire an additional 65 by July 2023. It plans in the next year to complete the IT consolidation effort to expand the utilization of technology and bring greater skills and abilities to the State's IT workforce. The State additional operates under a State Cyber Disruption Response and Plan and a Cyber Incident Response Plan, which was updated in 2022. The State has not disclosed any notable or significant data breaches in recent years.