FitchRatings

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Fitch Rates $840MM Connecticut GO Bonds 'AA-'; Outlook Stable

Fitch Ratings - San Francisco - 07 Dec 2023: Fitch Ratings has assigned 'AA-' ratings to the following State of Connecticut general obligation (GO) bonds:

--$400 million Connecticut General Obligation Bonds (2024 Series A);

--$250 million Connecticut General Obligation Bonds (2024 Series B) (Social bonds);

--$190 million Connecticut General Obligation Refunding Bonds (2024 Series C) (Social bonds).

In addition, Fitch has upgraded outstanding Capital Region Development Authority (CRDA, formerly known as the Capital City Economic Development Authority) appropriation-backed parking and energy fee revenue bonds 2004 series B and series 2018 refunding bonds to 'AA-' from 'A+'. Fitch has also affirmed the rating for UConn's GO bonds at 'AA-', and the ratings for CHESLA bonds and Connecticut Development Authority and Connecticut Innovations general fund obligation bonds at 'A+'.

The 2024 series A bonds are issued for the purpose of statewide capital programs. The 2024 series B bonds are issued for school construction projects. The 2024 series C bonds will be used to refund all or a portion of outstanding series 2014 (school construction) GO bonds, and to pay costs of issuance.

The bonds are expected to be offered by negotiated sale the week of December 18. Par amounts are subject to change pending final sale.

The Rating Outlook is Stable.

Connecticut's 'AA-' IDR reflects its superior gap-closing capacity, as well as its wealthy and diverse, yet slow-growing, economic profile. The rating also incorporates the state's elevated long-term liability burden, carrying costs and expenditure growth trends, most of which are likely to remain comparatively high over time.

The CRDA bonds' upgrade to 'AA-' from 'A+' reflects Fitch's updated view that the ultimate security for the bonds, which is the state's full faith and credit obligation to fulfill debt service commitments to the CRDA under the state contract without further legislative appropriation, should be considered pari passu to the state's general obligation bonds.

UConn's 'AA- 'GO bonds are on par with Connecticut's 'AA-' Issuer Default Rating (IDR). Fitch considers the state's debt service commitment for the bonds (DSC) pari passu to the state's general obligation bonds, as the DSC appropriates principal and interest with the same statutory language as state GOs, requiring no further legislative approval.

The CHESLA bonds 'A+' rating, one notch below Connecticut's 'AA-' IDR, reflects the state's pledge to fund the SCRF without further legislative approval. Though debt service for the bonds is deemed appropriated by statute, it is not appropriated the same as GO bond debt service.

The 'A+' rating on the Connecticut Development Authority and Connecticut Innovations general fund obligation bonds--one notch below Connecticut's 'AA-' (IDR)--reflects the state's pledge to fund the SCRF without requiring further legislative approval. Though debt service for the bonds is deemed appropriated by statute, it is not appropriated the same as GO bond debt service.

SECURITY

The GO bonds are supported by the full faith and credit of the state pledged to payment of principal and interest.

The UConn bonds are a general obligation of UConn, additionally backed by a pledge of and lien on a state of Connecticut debt service commitment for P&I, appropriated from the state's general fund without further legislative approval.

The CRDA bonds are special obligations of the CRDA (formerly known as the Capital City Economic Development Authority), primarily backed by a contract with the state of Connecticut for annual financial assistance in an amount equal to annual debt service on the bonds. The contract payments are appropriated without need for further legislative appropriation. Pledged revenues additionally consist of parking and energy fees associated with the convention center and Adriaen's Landing projects in the city of Hartford.

The CHESLA revenue bonds are special obligations of the authority backed by education loan repayments and a special capital reserve fund (SCRF) equal to maximum annual debt service. In the event of a draw on the fund, the state deems appropriated from its general fund, an amount necessary to replenish the SCRF.

The Connecticut Development Authority and Connecticut Innovations bonds are special obligations of the Connecticut Development Authority, payable solely from state general fund. Payments are deemed appropriated.

KEY RATING DRIVERS

Revenue Framework - 'a'

The state's largest tax revenue source, personal income tax (PIT), is subject to considerable cyclicality, although the state has instituted measures to shield the general fund from volatility. Sales and corporate income taxes further diversify the revenue base. Absent tax policy changes, underlying revenues are expected to grow only modestly over time, consistent with the state's wealthy and diverse, but slow-growing, economic profile. The state has complete legal control over its revenue system through mechanisms such as base-broadening and the ability to levy new taxes and fees and to adjust rates.

Expenditure Framework - 'aa'

Connecticut's natural pace of spending growth is expected to marginally outpace revenue growth, despite recently extending robust budget controls for the next decade. The state has consistently demonstrated the ability to cover its comparatively high fixed costs, with more than a decade of full actuarial contributions to pensions supplemented by statutory additional pension payments from excess revenues, and it benefits from the large degree of budgetary autonomy common to states.

Long-Term Liability Burden - 'a'

The state's long-term liability burden is elevated and among the highest for U.S. states, but still considered moderate relative to personal income. Long-term debt consists primarily of GO and transportation borrowings, with much of GO borrowing undertaken on behalf of local schools. Net pension liabilities are a more significant burden, with the state carrying obligations for state retirees as well as for local school teachers. OPEB is also a significant liability, although one the state has been able to modify and reduce benefits.

Operating Performance - 'aaa'

Connecticut's fiscal resilience is bolstered by strong statutory mechanisms that set aside in the budget reserve fund (BRF) volatile revenue collections over specific thresholds and a required excess margin of revenues over budgeted spending, enabling rapid accumulation of reserve balances. Budget management powers and sophisticated fiscal monitoring, including frequent revenue and budget forecasting, allow the state to quickly identify budget under-performance and address emerging gaps.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

--Weakening of budget management policies and practices that materially amplifies structural challenges.

--Actions that elevate the state's liability burden closer to 40% or more of personal income.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Consistent economic or revenue growth at or above Fitch's long-term expectations for national inflation over the medium term, raising Fitch's assessment for revenue growth prospects.

--Material and sustained success in gradually lowering its elevated liability burden to less than 20% of personal income, while actively managing a comparatively high fixed-cost burden.

PROFILE

Connecticut's economy is anchored by a sophisticated, defense-related manufacturing sector; important finance and insurance sectors in Fairfield County and Hartford, respectively; health and education institutions; and tourism linked in part to Native American gaming in the southeast. Population growth in Connecticut, like much of the Northeast, is well below the U.S. average in recent decades. 2022 census data point to a modest 1.5% uptick since the 2010 census, stronger than recent annual estimates, although below that of several neighboring states and the nation.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Connecticut, State of (CT) [General Government]	LT IDR	AA-	Affirmed		AA-
• Connecticut, State of (CT) /General Obligation - Unlimited Tax/ 1 LT	LT	AA-	Affirmed		AA-
• Connecticut, State of (CT) /Special Capital Reserve Fund/ 1 LT	LT	A+	Affirmed		A+
• Connecticut, State of (CT) /State Appropriation/ 1 LT	LT	A+	Affirmed		A+

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• Connecticut, State of (CT) /State Contract/ 1 LT	LT	AA-	Upgrade		A+
• Connecticut, State of (CT) /UConn State Debt Service Commitment/ 1 LT	LT	AA-	Affirmed		AA-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub.04 May 2021) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Connecticut, State of (CT)	EU Endorsed, UK Endorsed

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