MOODY'S
RATINGS

Rating Action: Moody's Ratings revises State of Connecticut outlook to positive, affirms Aa3 issuer rating and assigns Aa3 to 2024 GO bonds

30 May 2024

New York, May 30, 2024 -- Moody's Ratings (Moody's) has revised the outlook on the State of Connecticut to positive, from stable, and affirmed the Aa3 issuer rating for the State of Connecticut. We have also assigned a Aa3 rating to the State of Connecticut $200 million General Obligation Bonds (2024 Series D) and the $250 million Taxable General Obligation Bonds (2024 Series A).

The outlook revision to positive is driven by the state's prudent financial policies that have led to increased budgetary reserves and consistent pension contributions that have begun moderating the state's very high unfunded pension liabilities. With continued adherence to these policies, the state is expected to maintain solid reserve levels and further reduce leverage metrics. The affirmation of the Aa3 issuer rating reflects the state's high resident income and wealth levels strong fiscal guardrails offset by lagging real GDP, employment and population growth; and high debt and pension liabilities.

At the same time, Moody's has affirmed the Aa3 ratings on the state's debt that considered to be equivalent to the issuer credit quality. This includes outstanding general obligation bonds, state-supported non-appropriation debt associated with the Connecticut Housing Finance Authority (CHFA), the Connecticut Higher Education Supplemental Loan Authority (CHESLA), the Connecticut Health and Educational Facilities Authority (CHEFA and the City of Hartford, CT Special Obligation Refunding Bonds. We have also affirmed the VMIG-1 rating on the Series 2016 C variable rate demand bonds.

Moody's has also affirmed the A1 rating on the CHEFA state-supported child care revenue bonds and the Aa3 rating on the Special Tax Obligation Transportation Infrastructure bonds. The affirmation of Connecticut's issuer and instrument ratings affects approximately $28 billion in net tax supported debt.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?

docid=PBM_PBM908623726 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

The Aa3 issuer rating reflects the state's commitment to numerous governance improvements that have led to significant budgetary reserves, strong financial performance, stable debt levels and significant pension contributions well in excess of a tread water payment level. While Connecticut's credit profile has continued to improve since the adoption of fiscal guardrails in 2018, liabilities remain high, resulting in high fixed costs that limit budget flexibility compared to state sector peers. The Aa3 rating also reflects Connecticut's high income and wealth levels, somewhat offset by real GDP, employment and population growth that has lagged the nation for several years.

The state's general obligation rating is on par with the issuer rating given the state's full faith and credit pledge to the debt.

The VMIG-1 short-term rating on the state's 2016 Series C variable rate demand bonds reflects the credit quality of Bank of America, N.A. (LT/ST Counterparty Risk Assessment Aa1(cr)/P-1(cr)) as provider of liquidity support in the form of a standby bond purchase agreement (SBPA), the long-term rating of the bonds, and our assessment of the likelihood of an early termination or suspension of the SBPA without a final mandatory tender.

The Aa3 ratings on the special obligation and revenue bonds issued through CHFA, CHEFA and CHESLA are secured by a special capital reserve fund and similar structures reflect the very strong legal security, which does not require annual appropriation. Most projects financed under these mechanisms are more essential, but the less essential nature of a small number of economic development projects is offset by the strength of the legal security.

The A1 lease ratings on state-supported child care bonds issued through CHEFA reflect the moderate legal structure which requires annual appropriation for debt service, and the high essentiality of the social services provided by the projects.

The Aa3 rating on the City of Hartford, CT Special Obligation Refunding Bonds is based on the contract assistance agreement with the State of Connecticut. The obligation to make payments in the amount of debt service on the bonds is a noncontingent full faith and credit obligation of the State. The state makes payments directly to the trustee for the bonds.

The Aa3 rating on senior lien special tax obligation bonds reflects the strong legal covenants, including a two times additional bonds test and state covenant to provide pledged revenue in each year equal to at least two times debt service, as well as a debt service reserve funded at maximum aggregate annual debt service, the diversified stream of pledged revenues with some sensitivity to economic fluctuations, and satisfactory debt service coverage. Both economic and legal factors closely link the credit profile of the special transportation fund to the state general obligation profile.

RATING OUTLOOK

Connecticut's positive outlook reflects the expectation that state's trend of positive financial performance will continue under its extended fiscal guardrail framework, enabling it to proactively pay down its high pension liability.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

For the issuer and GO ratings:

- Reduced pension and debt leverage to below 350% of state revenue, and reduced fixed costs below 20% of state revenue

- Evidence of sustained economic performance that approximates the nation

For the GO-related bonds (including deemed appropriated and annual appropriation credits):

- Upgrade of issuer rating

For the special tax obligation:

- Upgrade of issuer rating

For the SBPA:

- N/A

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

For the issuer and GO ratings:

- Increase in liabilities to 550% of state revenue or higher

- Weakened economic trends and revenue declines without commensurate budget adjustments

- Significant decline in budget reserve fund and liquidity position

For the GO-related bonds (including deemed appropriated and annual appropriation credits):

- Downgrade of issuer rating

For the special tax obligation:

- Downgrade of issuer rating

- Failure of state to maintain at least 2 times coverage as covenanted

- Weakened legal covenants such as reversal of constitutional protection of revenue pledged to debt service

For the SBPA:

- Downgrade of issuer rating

- Downgrade of counterparty rating

LEGAL SECURITY

General obligation - full faith and credit:

State General Obligation (GO) Bonds: Connecticut's GO bonds are backed by the state's full faith and credit pledge.

State variable rate GO bonds backed by stand-by bond purchase agreement: The 2016 Series C variable rate demand bonds has a standby bond purchase agreement liquidity facility provided by Bank of America, N.A. (LT/ST Counterparty Risk Assessment Aa1(cr)/P-1(cr)). The agreement will expire on June 12, 2025, unless extended. The original agreement was amended twice (May 2019 and May 2022) to extend the expiration date each time.

Hartford, CT Special Obligation Bonds (Contract Assistance): The GO bonds issued by the city of Hartford are backed by a state contract assistance agreement which provides for a full faith and credit obligation of the state to make payments to the city's paying agent in amounts equal to debt service on the bonds.

Other state backed debt - not subject to appropriation:

Connecticut Higher Education Supplemental Loan Authority (CHESLA) State Supported Revenue Bonds: The CHESLA loan program bonds are supported by a special capital reserve fund which is a trustee-held fund required to be at least equal to the maximum annual debt service (MADS). Should the SCRF fall below MADS and the authority is unable to replenish with its own revenues, it is required to request an appropriation from the state to replenish the SCRF. The state's requirement to provide these funds is not subject to appropriation by any governmental entity.

Connecticut Health and Educational Facilities Authority (CHEFA) CT State University System Issue Revenue Bonds: Bonds are backed by a special capital reserve fund, special debt service commitment and state assistance grant agreements are secured by funds that are deemed appropriated and by required debt service payments or debt service reserve replenishment by the state treasurer.

Connecticut Housing Finance Authority (CHFA) State-Supported Special Obligation Bonds: Bonds have a special capital reserve fund, special debt service commitment and state assistance grant agreements are secured by funds that are deemed appropriated and by required debt service payments or debt service reserve replenishment by the state treasurer.

UCONN 2000 General Obligation Bonds: The UConn 2000 program is an arrangement between the University of Connecticut and the State of Connecticut pursuant to state statute and a master indenture dated November 1, 1995. Payments are deemed appropriated from the state's general fund and do not require annual legislative action. The act directs the state treasurer to deposit payments into the debt service fund held by the trustee of the bonds. UCONN 2000 program bonds are general obligations of the University of Connecticut, the university expects to rely on the receipts of the pledged state debt service commitment and does not plan to budget other revenues for bond repayment.

General Fund obligations issued through CT Innovations, Inc., CT Development Authority and Southeastern CT Water Authority: Connecticut general fund obligations are deemed appropriated and do not require further legislative action for payment of debt service from the state's general fund.

Obligations subject to appropriation:

Connecticut Health and Educational Facilities Authority's (CHEFA) State Supported Child Care Revenue Bonds: The state-supported child care revenue bonds are secured by the promise that the state treasurer will make debt service payments for the bonds subject to appropriation by the Connecticut legislature.

Special tax:

Special Tax Obligation Bonds, Transportation Infrastructure Purposes: The bonds are secured by a gross pledge of motor fuels taxes, oil companies' taxes, general retail sales taxes, motor vehicle receipts, licenses, permits and fees and sales taxes. Pledged revenues are credited to the Special Transportation Fund and, once deposited to the fund, are constitutionally dedicated to transportation purposes.

USE OF PROCEEDS

The new issuance of general obligations will provide new money for various capital projects throughout the state.

PROFILE

The State of Connecticut has a population of 3.6 million people, and is located in the coastal northeastern US, bordered by Rhode Island (Aa2 stable), Massachusetts (Aa1 stable) and New York state (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 a gross state product of $340.2 billion in 2023. It is the second wealthiest state in the country with per capita income of nearly 130% of the US average.

METHODOLOGY

The principal methodology used in the issuer, general obligation, and annual appropriation ratings was US States and Territories Methodology published in March 2022 and available at https://ratings.moodys.com/rmc-documents/356901 . The principal methodology used in the special tax ratings was US Public Finance Special Tax Methodology published in January 2021 and available at https://ratings.moodys.com/rmc-documents/70024 . The principal methodology used in the short-term enhanced rating was US Municipal Short-term Debt Methodology published in May 2023 and available at https://ratings.moodys.com/rmc-documents/398329. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM908623726 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Rating Solicitation

- Issuer Participation

- Participation: Access to Management

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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 on https://ratings.moodys.com/rating-definitions .

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