Connecticut’s Series 2024F-H General Obligation Bonds Rated 'AA-'; Other Ratings Affirmed; Outlook Is Stable

September 20, 2024

PRIMARY CREDIT ANALYST

Thomas J Zemetis
New York
+ 1 (212) 4381172
thomas.zemetis
@spglobal.com

SECONDARY CONTACT

Rob M Marker
Englewood
+ 1 (303) 721 4264
Rob.Marker
@spglobal.com

NEW YORK (S&P Global Ratings) Sept. 20, 2024--S&P Global Ratings assigned its 'AA-' long-term rating to the State of Connecticut's $600 million general obligation (GO) bonds, 2024 series F, $200 million GO bonds, 2024 series G, and approximately $135 million GO refunding bonds, 2024 series H, based on the application of its "Methodology For Rating U.S. Governments," published Sept. 9, 2024. At the same time, we affirmed our 'AA-' long-term rating on the state's GO debt outstanding.

We also affirmed our 'AA-/A-1' dual rating on the state's series 2016C GO bonds and on the Capital Region Development Authority's series 2004B bonds, with liquidity support provided by Bank of America. In addition, we affirmed our 'AA-' rating on debt secured by a special capital reserve fund, which we view to be on par with that of the state GO rating as state-supported GO-equivalent securities, including various issues by the Connecticut Housing Finance Authority, the Connecticut Health and Educational Facilities Authority, and Connecticut Green Bank. We also affirmed our 'A+' rating on the state's appropriation-secured debt and our 'A-' rating on obligations secured by the state's moral obligation. The outlook on all long-term ratings is stable.

The rating reflects our view of Connecticut's structurally balanced financial performance and buildup of record-high balances in the budget reserve fund, while also demonstrating progress on curbing future growth of its very high debt, pension, and other postemployment benefits (OPEB) liabilities. In our view, this has been ushered in, in part, by sound and proactive management that uses long-term financial forecasting to identify potential outyear budget gaps and the state's implementation and extension of financial controls to manage future expenditure growth and potential cyclical pressures on the revenue base.

"The state's favorable economic metrics, including high per capita income and gross state product, compared with those of the nation further anchor our view of its underlying credit quality," said S&P Global Ratings credit analyst Tom Zemetis. In our view, these credit strengths are offset by the state's historically very high debt and significantly underfunded pension and OPEB liabilities relative to those of peers. These liabilities comprise a large share of Connecticut's budget and could reduce budgetary flexibility as the state navigates potentially slower economic and revenue growth conditions over the current and next fiscal biennium.

The outlook incorporates our expectation that the state will continue its commitment to recently extended statutory financial and debt controls, and our view that Connecticut's recent financial momentum and buildup of high reserves during a period of economic and revenue growth will help to address future budget uncertainties. We also believe the state will demonstrate a commitment to curbing future fixed-cost growth by transferring excess revenues and budget surpluses to pay down its high pension and OPEB liabilities, while also moderating GO debt issuance, supporting our view of credit stability.

We could lower the rating if the state cannot reach consensus on recurring budget solutions that prioritize structural stability in future biennial budgets, or if it demonstrates a weakened commitment to financial controls or sustaining its reserve and liquidity position at currently high levels. We could also lower the rating if the debt and liability burden rises to a level that we view as less sustainable and no longer consistent with our view of the state's credit quality.

Although unlikely over the outlook period, we could also raise the rating if the state demonstrates timely and consistent structural adjustments to balance future budgets and makes sustainable progress in reducing its overall debt, pension, and OPEB liability burden from its currently very high level.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022