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Fitch Rates Connecticut's \$1.4 Billion STO Bonds 'AA-'; Outlook Positive

Fitch Ratings - San Francisco - 14 Nov 2024: Fitch Ratings has assigned a 'AA-' rating to the state of Connecticut's \$1.38 billion special tax obligation (STO) bonds, consisting of:

--\$1.0 billion special tax obligation bonds transportation infrastructure purposes 2024 series A;

--\$380 million special tax obligation refunding bonds transportation infrastructure purposes 2024 series B.

The STO bonds will be offered by negotiated sale the week of Dec. 3, 2024. Par amounts are subject to change pending final sale.

Fitch has also affirmed the rating on Connecticut's outstanding STO bonds at 'AA-'.

The Rating Outlook is Positive.

The 'AA-' ratings and Positive Outlook on Connecticut's STO bonds reflect superior resiliency of the financing structure, the state's active management of special transportation fund (STF) revenues, and slow underlying growth prospects for Connecticut's transportation revenues, similar to those of other states. The rating on the STO bonds remains capped at the state's 'AA-' Issuer Default Rating (IDR) due to the state's ability to statutorily adjust the rates of pledged taxes and fees and their distribution. All currently outstanding STO bonds were issued under a senior lien.

Dedicated Tax Security

The STO bonds are backed by a gross lien on transportation-related revenues and other pledged receipts deposited to the STF, prior to any other use. The largest pledged revenue sources include a portion of statewide general and motor vehicle retail sales and use taxes, the state's motor fuels tax, a tax on the gross earnings of oil companies, and motor vehicle registration receipts. Funds deposited into the STF may not be withdrawn from the fund, with the exception of being used to pay debt service on STO bonds, and must be spent on transportation-related expenses.

Dedicated Tax Key Rating Drivers

Growth Prospects Slow: Slow underlying growth prospects for transportation-related revenues pledged to the bonds are similar to those of other states and the pledge of a portion of statewide sales taxes adds diversity, supporting Fitch's expectation for pledged revenue growth in line with inflation over time and an 'a' growth prospects assessment. Fitch expects continued active state management

of pledged revenues to augment the state's resources for transportation capital and operating needs.

Leverage Limits and High Resiliency: Receipts are economically sensitive and subject to legislative adjustments, but pledged revenues can absorb a sizeable decline and still provide sufficient coverage of debt service, supporting an 'aaa' assessment for resilience. A 2x maximum annual debt service (MADS) additional bonds tests provides a strong cushion for bondholders in the event of cyclical declines.

Rating Capped by State IDR: The credit is exposed to the operating performance of the state of Connecticut given the state's ability and demonstrated willingness to alter the flow of revenues to the transportation fund. There is no appropriation risk associated with the security. This interdependence caps the STO rating at the state's 'AA-' IDR.

Dedicated Tax Sensitivities

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

--A sustained erosion in pledged receipts, or state actions that reduce pledged revenues to the STF or otherwise reduce the resilience of the structure with coverage of maximum anticipated leverage falling closer to, or below, 1.5x over time;

--A downgrade of Connecticut's IDR, given that the rating on STO bonds is capped by the state's IDR.

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

--An upgrade of Connecticut's IDR, coupled with maintenance of resilience and revenue growth prospects, absent state actions, in line with Fitch's current expectations.

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, as with much of the Northeast, is well below the U.S. average in recent decades. Census data for 2023 point to a modest 1.2% uptick since the 2010 census, stronger than recent annual estimates but below the rates of several neighboring states and the nation overall.

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

Fitch does not provide ESG relevance scores for Connecticut, State of (CT) [General Government].

In cases where Fitch does not provide ESG relevance scores in connection with the credit rating of a

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Fitch Ratings Analysts

Bryan Quevedo

Director
 Primary Rating Analyst
 +1 415 732 7576
 Fitch Ratings, Inc. One Post Street Suite 900 San Francisco, CA 94104

Douglas Offerman

Senior Director
 Secondary Rating Analyst
 +1 212 908 0889

Eric Kim

Senior Director
 Committee Chairperson
 +1 212 908 0241

Media Contacts

Sandro Scenga

New York
 +1 212 908 0278
 sandro.scenga@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Connecticut, State of (CT) [General Government]			
<ul style="list-style-type: none"> Connecticut, State of (CT) 	LT	AA- +	Affirmed
			AA- +

ENTITY/DEBT	RATING	RECOVERY	PRIOR
/Special			
Tax			
Oblig			
Trans			
Infr/			
1 LT			

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	⊙	

Applicable Criteria

[U.S. Public Finance State Governments and Territories Rating Criteria \(pub.02 Apr 2024\) \(including rating assumption sensitivity\)](#)

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, v3.1.0 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

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

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