

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns Aa3 to Connecticut's Special Tax Obligation Bonds, 2024 Series A and Series B; outlook positive**

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13 Nov 2024

New York, November 13, 2024 -- Moody's Ratings (Moody's) has assigned a Aa3 rating to the State of Connecticut's \$1 billion Special Tax Obligation Bonds, Transportation Infrastructure Purposes, 2024 Series A and anticipated \$380 million Special Tax Obligation Refunding Bonds, Transportation Infrastructure Purposes, 2024 Series B. We maintain a Aa3 rating on the approximately \$7 billion outstanding parity special tax obligation (STO) bonds. The outlook is positive.

#### RATINGS RATIONALE

The Aa3 rating considers the credit profile of the state of Connecticut (issuer rating Aa3 positive), as well as the strong legal covenants associated with the special tax obligation bonds, the diversified stream of pledged revenues that exhibit some sensitivity to economic fluctuations, and satisfactory debt service coverage. The strong legal covenants include a constitutional lockbox on pledged funds, a two times additional bonds test and a state covenant to provide pledged revenue in each year equal to at least two times debt service.

#### 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

- Upgrade of state's issuer rating

#### FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Downgrade of the state's issuer rating

- Revenue declines resulting in lower debt service coverage
- Materially weakened legal covenants

## LEGAL SECURITY

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.

The 2024 bonds will not be secured by a debt service reserve fund, unlike previous STO issuances. All of the STO debt, including the 2024 bonds, have a parity claim to the pledged revenue. The state transportation fund maintains ample liquidity supporting the debt program.

## USE OF PROCEEDS

Proceeds of the 2024 Series A new money bonds will be used to fund various state transportation infrastructure projects. Proceeds of the 2024 Series B bonds will refund certain outstanding maturities for economic savings.

## 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 these ratings was US States and Territories published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425428>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## REGULATORY DISCLOSURES

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