

## RATING ACTION COMMENTARY

# Fitch Rates Connecticut's \$935MM GO Bonds 'AA-'; Outlook Positive

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Fitch Ratings - San Francisco - 25 Sep 2024: Fitch Ratings has assigned 'AA-' ratings to the following State of Connecticut general obligation (GO) bonds:

--\$600 million GO bonds (2024 series F);

--\$200 million GO bonds (2024 series G) (social bonds);

--\$135 million taxable GO bonds (2024 series H).

The bonds are expected to be offered by negotiated sale the week of Oct. 6, 2024. Par amounts are subject to change pending final sale. Bond proceeds will fund statewide capital programs.

In addition, Fitch has affirmed the following ratings:

--Connecticut's Issuer Default Rating (IDR) at 'AA-';

--Connecticut's outstanding GO bonds at 'AA-';

--Capital Region Development Authority's (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 at 'AA-'.

--The University of Connecticut's (UConn) GO bonds at 'AA-';

--Connecticut Higher Education Supplemental Loan Authority's (CHESLA) state-supported revenue bonds at 'A+';

--Connecticut Development Authority and Connecticut Innovations' general fund obligation bonds at 'A+'.

The Rating Outlook is Positive.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Connecticut, State of (CT) [General Government]	LT IDR AA- Rating Outlook Positive Affirmed	AA- Rating Outlook Positive
Connecticut, State of (CT) /General Obligation - Unlimited Tax/1 LT	LT AA- Rating Outlook Positive Affirmed	AA- Rating Outlook Positive
Connecticut, State of (CT) /Special Capital Reserve Fund/1 LT	LT A+ Rating Outlook Positive Affirmed	A+ Rating Outlook Positive
Connecticut, State of (CT) /State Appropriation/1 LT	LT A+ Rating Outlook Positive Affirmed	A+ Rating Outlook Positive
Connecticut, State of (CT) /State Contract/1 LT	LT AA- Rating Outlook Positive Affirmed	AA- Rating Outlook Positive
Connecticut, State of (CT) /UConn State Debt Service Commitment/1 LT	LT AA- Rating Outlook Positive Affirmed	AA- Rating Outlook Positive

[VIEW ADDITIONAL RATING DETAILS](#)

Connecticut's 'AA-' IDR and GO bond rating reflect 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 Positive Outlook reflects Fitch's view that Connecticut is likely to see continued medium-term revenue growth, at or slightly above Fitch's long-term expectations for national inflation, while the state maintains its renewed commitment to budgetary guardrails that constrain the pace of expenditure growth.

The CRDA bonds' 'AA-' rating reflects Fitch's view that the ultimate security for the bonds, 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 GO bonds.

The UConn 'AA-' GO bonds are on par with Connecticut's 'AA-' IDR. Fitch considers the state's debt service commitment (DSC) for the bonds *pari passu* to the state's GO 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 special capital reserve fund (SCRF) without further legislative approval. Although debt service for the bonds is deemed appropriated by statute, it is not appropriated in the same manner 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. Although debt service for the bonds is deemed appropriated by statute, it is not appropriated in the same manner 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.

## **KEY RATING DRIVERS**

### **Revenue Framework - 'a'**

Absent tax policy changes, Fitch expects underlying revenue 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, as well as the ability to levy new taxes and fees and 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 revenue. 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 moderate relative to personal income. Net pension liabilities are a more significant burden, with the state carrying obligations for state retirees and local schoolteachers. Other post-employment benefits (OPEB) also represent a significant liability, although one the state has been able to modify through benefits reduction.

### **Operating Performance - 'aaa'**

Connecticut's robust fiscal resilience is bolstered by statutory mechanisms supporting accumulation of reserves, including setting aside in the budget reserve fund (BRF) volatile revenue collections over specific thresholds and a required excess margin of revenue over budgeted spending. Budget management powers and sophisticated fiscal monitoring, including frequent revenue and budget forecasting, allow the state to quickly identify budget underperformance 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 amplify 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, while the state maintains its renewed commitment to budgetary guardrails that constrain expenditure growth;

-- 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, as with much of the Northeast, has been 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**

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

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**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)

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Connecticut, State of (CT)

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