

State of Connecticut

Special Tax Obligation Bonds Transportation Infrastructure Purposes

Issuer: State of Connecticut		
Assigned	Rating	Outlook
Special Tax Obligation Bonds, Transportation Infrastructure Purposes, 2024 Series A	AAA	Stable
Special Tax Obligation Refunding Bonds, Transportation Infrastructure Purposes, 2024 Series B	AAA	Stable
Affirmed	Rating	Outlook
Special Tax Obligation Bonds, Transportation Infrastructure Purposes	AAA	Stable

Methodology:

[U.S. Special Tax Revenue Bond Rating Methodology](#)

[ESG Global Rating Methodology](#)

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Rating Summary: The long-term ratings for the Special Tax Obligation Bonds – Transportation Infrastructure Purposes reflect the ample coverage and growing nature of most revenues pledged to repayment, descending debt service requirements, and a robust legal framework that includes a covenant for the State to provide pledged revenues in each fiscal year sufficient to provide at least 2.0x annual debt service coverage. In the event that debt service coverage does not meet the 2.0x requirement, the covenant requires that the State must pass legislation within one year adjusting pledged revenues to satisfy the coverage requirement. Such a covenant is a relative rarity in the broader category of special tax financings.

Bond proceeds will be used to fund transportation projects within the State, refund certain outstanding bonds both for present value savings and to eliminate sequestration risk with respect to federal interest rate subsidy payments for certain heretofore outstanding Build America Bonds, and pay the cost of issuance. The Bonds are payable from a diverse basket of state revenues derived largely from transportation-related activity. The pledged revenues consist of certain sales taxes, oil companies tax, motor fuels tax, highway use tax, and various transportation-related fees and charges. Pledged revenues increased 16.5% in the fiscal year ending June 30, 2024 to \$2.41 billion, a record level of collections. Unaudited debt service coverage in FY 2024 was strong at 2.79x.

The currently offered bonds (Bonds) will be issued under an Amended and Restated Indenture of Trust (2024 Indenture) which loosens certain bondholder security provisions relative to those for previously issued bonds (Pre-2024 Bonds). As permitted under the 2024 Indenture, the Bonds will not feature a debt service reserve requirement. In contrast, Pre-2024 Bonds continue to feature a requirement to maintain a debt service reserve equivalent to maximum annual debt service (MADS). The 2024 Indenture additionally does not require advance debt service set-asides, though the State has elected to issue the presently offered series as “Monthly Payment Bonds” with the same 1/6 interest and 1/12 principal monthly set-asides required for Pre-2024 Bonds. Both the Bonds and Pre-2024 Bonds are designated as Senior Bonds. The 2024 Indenture also includes a number of changes that will become effective upon obtaining the consent of the holders of at least 60% in aggregate principal outstanding including the ability to issue variable rate debt, as well as make provisions for swaps, credit facilities, liquidity facilities and balloon payment indebtedness as parity obligations, in addition to other comparatively minor changes. In KBRA’s opinion, the weakened security provisions pertaining to the currently offered Bonds do not reach a threshold of warranting a rating lower than that assigned to the Pre-2024 Bonds.

The Connecticut Constitution designates the Special Transportation Fund (STF) into which all pledged revenues are deposited and used first to pay debt service as a perpetual fund. It requires that all monies contained in the STF be used solely for transportation purposes, including payment of debt service on debt incurred for state transportation purposes. It additionally requires that so long as these sources of funds are authorized to be collected, they must be deposited into the STF.

The State has directed substantial new funding sources to the STF in recent years. Between FY 2016 and FY 2023 the state phased in the dedication of the proceeds of a 0.5% component of the State’s 6.35% general sales and use tax as well as the proceeds of all motor vehicle sales and use taxes. The Legislature has additionally implemented a Highway User Fee that assesses a per-mile tax on commercial trucks that scales from 2.5 cents to 17.5 cents per mile based on vehicle weight class. The tax, all proceeds of which are deposited to the STF, became effective January 1, 2023, raised \$30 million in the second half of FY 2023, and an unaudited \$60 million in FY 2024.



The State uses STF revenues both to pay debt service and fund transportation programs and capital outlays on a pay-go basis. The future transportation capital needs of the State are significant, and the State plans to fund much of these capital plans with additional parity bonds as well as continuing pay-go contributions. The State's projections call for annual parity new money borrowing of \$1.0 billion in FY 2025, \$1.3 billion in FY 2026, and \$1.4 billion annually in both FY 2027 and FY 2028.

The State's FY 2025 enacted budget includes a provision allowing the State to use year-end STF balances exceeding 18% of subsequent year budgeted expenditures to defease and discharge STO Bonds. This provision is currently in effect for only one year, although the State intends to request that this flexibility be made permanent. The State expects to redeem \$527 million in callable bonds pursuant to this provision in FY 2025.

Seasonally adjusted unemployment in July 2024 was 3.6%, a level lower than the U.S. average at 4.3%. Wealth levels remain very high, with per capita personal income of \$87,447 at 128% of the national average in 2023. The economic growth trend in the State have been sluggish with real gross state product (GSP) growth of just 7.4% between 2010 and 2023, significantly lower than the New England regional growth of 23.2% and National growth of 35.0%.

The Stable Outlook reflects KBRA's expectation that debt service coverage on the STO Bonds will remain at comfortable levels based upon the stability and resilience of the pledged revenues and the State's demonstrated history of actively managing the basket of pledged revenues and transportation funding levels.

Key Credit Considerations

The rating actions reflects the following key credit considerations:

Credit Positives

- Diverse pledged revenue sources provide a stable source of payment and solid coverage of debt service requirements.
- Legal protections are favorable including a covenant to maintain at least 2.0x annual debt service coverage.

Credit Challenges

- The State's rate of economic growth has been slower than that of the U.S. and New England region for more than a decade although wealth levels are favorable.
- Transportation needs are substantial and place pressure upon the State's ability to fund them over the longer term.

Rating Sensitivities

- | | |
|---|----------|
| ▪ Not applicable at AAA rating level. | + |
| ▪ An economic downturn that leads to a sustained decline in coverage and budgetary pressure on the State. | - |

Highlights FYE June 30 (dollars in millions)			
	2022	2023	2024 Unaudited
Pledged Revenues and Coverage			
Sales and Use Tax	\$ 703	\$ 838	\$ 844
Oil Companies Tax	387	384	359
Motor Fuels Tax*	390	262	505
Motor Vehicle Receipts	282	255	279
Licenses, Permits, Fees	126	126	142
Sales Tax - DMV	122	117	115
Other, Net	(9)	88	167
Total	2,001	2,070	2,411
Combined Sen. and Sub. Lien DS	743	811	863
Debt Service Coverage Ratio	2.69x	2.55x	2.79x
Economic Data			
Per Capita Personal Income (2023) as a % of U.S.		\$87,447 128%	
Population (2023) Δ 2010 to 2023		3,617,176 1.2%	
Real GSP, Δ 2010 to 2023			
Connecticut		7.4%	
New England		23.2%	
U.S.		35.0%	
Summary Legal Provisions			
Coverage Covenant	Pledged revenues must provide 2.00x annual debt service coverage.		
Additional Bonds Test	Historical and projected annual receipts equivalent to 2.00x pro forma MADS, subject to adjustment for changes to pledged revenue sources. The historical coverage portion of the test will be eliminated upon achievement of 60% bondholder consent under the 2024 Indenture.		
DSRF Requirement	<u>Bonds:</u> No DSRF requirement. <u>Pre-2024 Bonds:</u> MADS.		
*The State Legislature implemented an exemption from the 25 cent per gallon tax rate from April 1, 2022 through December 31, 2022. Beginning January 1, 2023, the tax rate on gasoline and gasohol was phased-in by 5 cent increments until reaching the original 25 cents per gallon on May 1, 2023. The estimated revenue loss as a result of such change was \$90 million in FY 2022 and \$240 million in FY 2023.			



Rating Determinants (RD)	
1. Legal Framework	AAA
2. Nature of Special Tax Revenues	AAA
3. Economic Base and Demographics	AA-
4. Revenue Analysis	AA
5. Coverage and Bond Structure	AAA

RD 1: Legal Framework

Defined Pledge

The Connecticut Constitution designates the Special Transportation Fund (STF) into which all pledged revenues are deposited and used first to pay debt service as a perpetual fund and requires that all monies contained in the STF be used solely for transportation purposes, including payment of debt service on debt incurred for state transportation purposes. It additionally requires that so long as these sources of funds are authorized to be collected, they must be deposited into the STF.

Coverage Covenant

The State covenants to provide pledged revenues in each fiscal year, computed as of the end of the fiscal year, in an amount equal to at least 2.0x the aggregate debt service on all Senior Bonds. In the event that debt service coverage does not meet the 2.0x requirement, the State must pass legislation within a year to satisfy this coverage requirement.

Debt Service Reserve Fund

The Bonds are being issued under the 2024 Indenture which does not include a debt service reserve requirement. It does allow that bonds may be issued with a reserve account as designated on a series by series basis, but the currently offered bonds do not feature a debt service reserve. In contrast, the Pre-2024 Bonds are secured by a debt service reserve equivalent to MADS.

Timing of Deposits

The 2024 Indenture does not require advance debt service set-asides, though the State has elected to issue the presently offered series as "Monthly Payment Bonds" with the same 1/6 interest and 1/12 principal monthly set-asides required for Pre-2024 Bonds.

Flow of Funds

All pledged revenues collected by the State are identified and credited to the STF on a daily, monthly or quarterly basis, depending on the source. Pledged revenues are transferred monthly, as follows:

First, to required deposits to the bond service sub-account, note repayment account, and the redemption sub-account.

Second, to the debt service reserve account amounts required to maintain the reserve fund requirement.

Third, to the payment of principal on Senior Notes or other obligations of the State subordinate to the Senior Bonds, and, subject to annual appropriation by the General Assembly, for payment of debt service on State general obligation bonds issued for transportation purposes and to the payment of State budget appropriations for the State Department of Transportation and the DMV. Funds may not be used for the general purposes of the State, only transportation purposes.

Additional Bonds Test (ABT)

Additional bonds may be issued provided that pledged revenues in 12 consecutive months of the immediately preceding 18 months, as adjusted for any increase or decrease in taxes, fees, or charges, provide coverage of at least:

- (a) 2.0x MADS for all Senior Bonds and interest requirements on Senior Notes, excluding the estimated impact of the Bonds to be issued; and,
- (b) 2.0x MADS for all Senior Bonds, excluding interest requirements on Senior Notes, but including the estimated impact of the Bonds to be issued.

Upon reaching the consent of holders of 60% of outstanding Senior Bond principal, the ABT will be modified to strike (a) and revise the lookback period to 12 consecutive months of the preceding 24 months.

Bankruptcy

The United States Bankruptcy Code is not applicable to states. Because Connecticut is a state and it is the issuer, the Bonds are not subject to adjustment in a Chapter 9 case given that the State is not eligible for relief under the U.S. Bankruptcy Code.

RD 2: Nature of Special Tax Revenues

Breadth of Tax Base

Pledged revenues consist of a broad basket of taxes and fees capturing a significant level and broad range of essential economic activity. The largest categories of pledged revenues include a portion of the state's general sales and use tax, all motor vehicle sales taxes, an oil companies gross earnings tax and a per gallon motor fuel taxes.

Geographic Area of Tax Base

The geographic area of the tax base is broad encompassing the entirety of the State.

RD 3: Economic Base and Demographics

The State's economic base is highly developed but experienced slow growth in the years leading up to the pandemic, as discussed below. Connecticut's employer base remains diverse and productive. As of 2024, 15 "Fortune 500" companies are headquartered in Connecticut, including Cigna, Charter Communications, Hartford Financial Services, and Stanley Black & Decker. The defense companies Lockheed Martin, Raytheon Technologies, and General Dynamics are a major component of the State's economy. Financial companies, including investment firms and insurance companies, continue to constitute a large part of the State's economy.

Population

Connecticut's population increased 1.0% between 2010 and 2023, slower than that of the New England region and United States which grew 4.7% and 8.3%, respectively.

Figure 1

Population	State of Connecticut	Δ (%)	New England	Δ (%)	United States	Δ (%)
1970	3,038,782		11,878,088		203,798,722	
1980	3,113,174	2.4%	12,371,656	4.2%	227,224,719	11.5%
1990	3,291,967	5.7%	13,229,502	6.9%	249,622,814	9.9%
2000	3,411,777	3.6%	13,949,721	5.4%	282,162,411	13.0%
2010	3,580,279	4.9%	14,476,185	3.8%	309,378,433	9.6%
2020	3,577,586	-0.1%	15,057,898	4.0%	331,526,933	7.2%
2023	3,617,176	1.1%	15,159,777	0.7%	334,914,895	1.0%
Δ 2010 to 2023	1.0%		4.7%		8.3%	

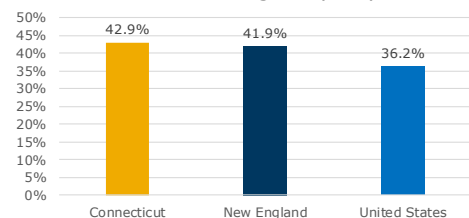
Source: U.S. Census Bureau

Educational Attainment, Poverty, and Age Groups

Educational attainment in Connecticut has historically exceeded the U.S. In 2023, poverty in the State was below the U.S. average. Per capita personal income is strong at \$89,945 as of 2023, or 129% of the U.S. average.

Figure 2

Educational Attainment Portion of Population 25 and Older w/Bachelor's Degree+ (2023)

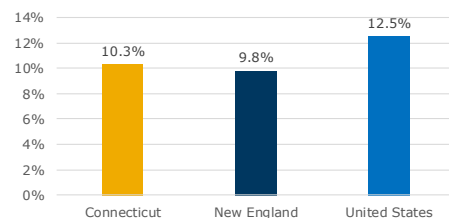


	2010	2023	Δ 2010 to 2023
Connecticut	35.5%	42.9%	20.8%
New England	33.0%	41.9%	27.0%
United States	28.2%	36.2%	28.4%

Source: U.S. Census

Figure 3

Poverty Level All People (2023)

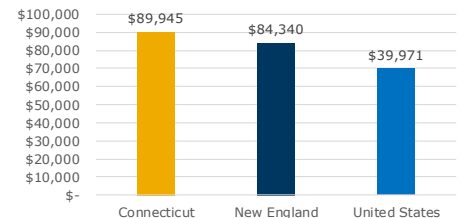


	2010	2023	Δ 2010 to 2023
Connecticut	10.1%	10.3%	-0.3
New England	11.6%	9.8%	-1.7
United States	15.3%	12.5%	-2.7

Source: U.S. Census

Figure 4

Per Capita Personal Income In Dollars (2023)



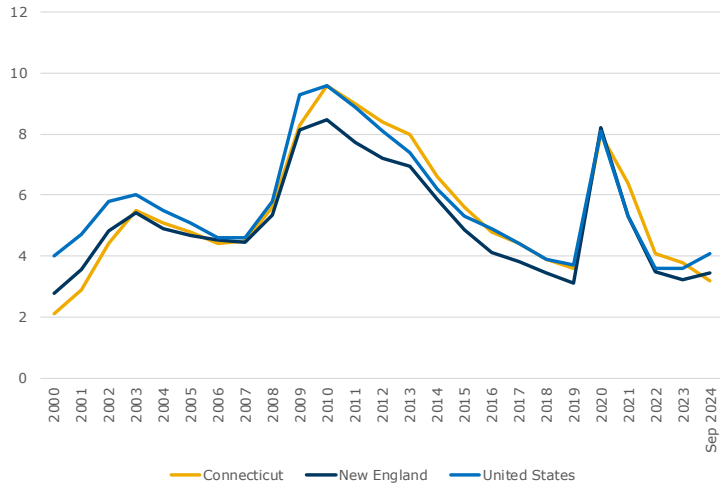
	2010	2023	Δ 2010 to 2023
Connecticut	\$61,392	\$89,945	46.5%
New England	\$51,768	\$84,340	62.9%
United States	\$40,557	\$69,810	72.1%

Source: U.S. Census

Employment

State employment levels have not yet recovered to the 2019 pre-pandemic level. According the U.S. Bureau of Labor Statistics data, the total number of jobs remains 1.2% below the 2019 average as of September 2024 versus U.S. employment which exceeds the 2019 level by 2.7%. Connecticut's unemployment rate was 3.2% as of September 2024, lower than the U.S. at 4.1%.

Figure 5
Unemployment Rates



	State of Connecticut	New England	United States
September 2024	3.2	3.5	4.1
August 2024	3.4	3.5	4.2
GFC Annualized Peak	9.6	8.5	9.6
Point Δ from GFC Annualized Peak	-6.2	-5.0	-5.4

Source: U.S. Bureau of Labor Statistics. Seasonally Adjusted.

Figure 6

Total Employment (Not Seasonally Adjusted) (in thousands)						
	State of Connecticut	Δ (%)	New England	Δ (%)	United States	Δ (%)
2000	1,724		7,138		136,891	
2001	1,699	-1.5%	7,120	-0.3%	136,933	0.0%
2002	1,698	0.0%	7,125	0.1%	136,485	-0.3%
2003	1,688	-0.6%	7,100	-0.4%	137,736	0.9%
2004	1,687	-0.1%	7,118	0.2%	139,252	1.1%
2005	1,708	1.2%	7,164	0.6%	141,730	1.8%
2006	1,750	2.5%	7,260	1.3%	144,427	1.9%
2007	1,773	1.3%	7,311	0.7%	146,047	1.1%
2008	1,772	0.0%	7,297	-0.2%	145,362	-0.5%
2009	1,731	-2.3%	7,097	-2.7%	139,877	-3.8%
2010	1,728	-0.2%	7,102	0.1%	139,064	-0.6%
2011	1,742	0.8%	7,154	0.7%	139,869	0.6%
2012	1,730	-0.7%	7,192	0.5%	142,469	1.9%
2013	1,719	-0.6%	7,204	0.2%	143,929	1.0%
2014	1,764	2.6%	7,348	2.0%	146,305	1.7%
2015	1,786	1.2%	7,437	1.2%	148,834	1.7%
2016	1,801	0.9%	7,532	1.3%	151,436	1.7%
2017	1,839	2.1%	7,726	2.6%	153,337	1.3%
2018	1,849	0.6%	7,861	1.7%	155,761	1.6%
2019	1,862	0.7%	7,931	0.9%	157,538	1.1%
2020	1,725	-7.4%	7,308	-7.8%	147,795	-6.2%
2021	1,725	0.0%	7,504	2.7%	152,581	3.2%
2022	1,834	6.3%	7,734	3.1%	158,291	3.7%
2023	1,822	-0.6%	7,758	0.3%	161,037	1.7%
Sep 2024	1,839	0.9%	7,894	1.7%	161,864	0.5%
Δ 2019 to Sep 2024	-1.2%		-0.5%		2.7%	

Source: U.S. Bureau of Labor Statistics. Seasonally Adjusted.

Real Gross State Product

Connecticut's real gross state product (GSP) in 2023 was up 7.4% compared to 2010. In contrast, the New England region and the U.S. saw real GSP rise by 23.2% and 35.0%, respectively, underscoring the State's comparatively weak growth.

Figure 7

Real Gross State Product (GDP) (dollars in millions) (chained 2017 dollars)						
	State of Connecticut	Δ (%)	New England	Δ (%)	United States	Δ (%)
2000	\$ 233,874		\$ 803,965		\$ 14,096,033	
2010	266,773	14.1%	948,885	18.0%	16,789,750	19.1%
2020	260,765	-2.3%	1,061,532	11.9%	20,267,585	20.7%
2023	286,628	9.9%	1,169,288	10.2%	22,671,096	11.9%
Δ 2010 to 2023	7.4%		23.2%		35.0%	

Source: U.S. Census Bureau

RD 4: Revenue Analysis

Pledged revenues provide a broad and growing payment source for the Bonds.

Concentration in Taxable Base

Concentration in the taxable base is low. Sales and use taxes made up 35.0% of receipts in FY 2024. Approximately half of such receipts are derived from a portion of the State's general sales and use tax with the other half comprised by receipts from a dedication of all motor vehicle sales taxes. The next largest categories are the oil companies tax at 14.9% and motor fuels tax at 20.9%.

Figure 8

Pledged Revenues (Unaudited) in FY 2024			
FYE June 30 (dollars in millions)			
Source	Description	Total	% Total
Sales and Use Taxes	1. 0.5% portion of the State's 6.35% general sales and use 2. All sales and use taxes levied on motor vehicles sales levied at a rate of 6.35% for vehicles costing \$50,000 or less and 7.75% for vehicles costing more than \$50,000.	\$ 844	35.0%
Oil Companies Tax	3. 8.1% tax on gross earnings from petroleum sales.	359	14.9%
Motor Fuels Tax	4. \$0.25/gallon tax on gasoline and \$0.492/gallon of diesel sold in the State, as well as similar taxes apportioned to businesses operating buses trucks, and other large commercial vehicles both within and outside the State.	505	20.9%
Motor Vehicle Receipts	5. DMV fees collected for license, registration, and similar services.	279	11.6%
License, Permits, & Fees	6. Fees and charges for certain permits and services provided by the State for transportation services, as well as certain traffic fines.	142	5.9%
Sales Tax - DMV	7. Proceeds on taxes on casual sales of motor vehicles.	115	4.8%
Highway Use	8. Fee charged to commercial carriers highway road use ranging from \$0.025 to \$0.175 per mile based on vehicle weight.	60	2.5%
Other	9. Interest income, Federal Build America Bond subsidy receipts, and transfers.	97	4.0%
Refunds		(22)	
Total		2,411	

Source: POS

Trend in Revenues

Pledged revenues have grown significantly from \$1.38 billion in FY 2015 to an unaudited \$2.41 billion in FY 2024 due to the aforementioned dedication of a portion of the State's general sales and use taxes and all motor vehicle sales and use taxes to the STF. The dedication was gradually phased in with FY 2023 reflecting the first year of the full dedication.

Figure 9

Pledged Revenues													
FYE June 30 (dollars in millions)													
	Sales and Use Tax	Motor Fuel Tax	Oil Companies Tax	Motor Vehicle Receipts	Licenses, Permits, & Fees	Sales Tax - DMV	Highway Use Fee	Federal Payments	Interest	Transfers	Refunds	Total Pledged Revenue	Δ YoY
2007	\$ -	\$ 478	\$ 141	\$ 225	\$ 171	\$ -	\$ -	\$ -	\$ 46	\$ 1	\$ (11)	\$ 1,051	
2008	-	495	128	226	154	-	-	-	37	7	(10)	1,036	-1.4%
2009	-	495	142	221	142	-	-	-	16	(7)	(9)	1,000	-3.5%
2010	-	504	142	221	135	-	-	-	7	65	(10)	1,062	6.2%
2011	-	484	165	220	136	72	-	9	6	101	(10)	1,183	11.3%
2012	-	493	227	235	136	77	-	13	2	75	(10)	1,248	5.5%
2013	-	501	199	235	137	79	-	12	4	89	(9)	1,248	0.0%
2014	-	508	381	236	138	82	-	12	7	(83)	(11)	1,271	1.9%
2015	-	517	338	250	145	84	-	12	7	35	(11)	1,376	8.3%
2016	109	518	250	252	144	87	-	12	8	(7)	(21)	1,353	-1.7%
2017	188	499	238	243	144	85	-	12	9	(7)	(17)	1,395	3.1%
2018	328	500	313	253	142	86	-	12	18	(6)	(15)	1,630	16.9%
2019	371	510	313	250	150	87	-	12	37	(6)	(37)	1,688	3.6%
2020	401	478	230	242	129	73	-	12	22	(36)	(35)	1,517	-10.2%
2021	483	475	229	321	131	117	-	12	2	25	(17)	1,778	17.2%
2022	703	390	387	282	126	122	-	11	5	(3)	(22)	2,001	12.6%
2023	838	262	384	255	126	117	29	10	72	(6)	(18)	2,070	3.4%
2024 Unaudited	844	505	359	279	142	115	60	9	87	32	(22)	2,411	16.5%

Source: POS and prior Official Statements

FY 2020 pledged revenues declined 10.2% to \$1.52 billion reflecting the impact of the early stages of the COVID-19 pandemic on the underlying taxes and fees. Oil companies tax in particular declined 26.4% to \$229 million as the sharp decline in both energy prices and gas consumption reduced oil company gross earnings. Licenses, permit, and fee revenues additionally declined 14.3% to \$129 million due to the granting of a 90-day extension of DMV credentials in response to the pandemic.

FY 2021 pledged revenues rebounded by a sharp 17.2% YoY to \$1.78 billion owing largely to an increase in the allocation of motor vehicle sales tax to the STF to 25% from 17% in the prior year resulting in receipts of \$483 million. Motor vehicle receipts increased by an also notable 33% to \$321 million reflecting the ending of pandemic-related DMV credential extensions.

FY 2022 receipts increased by 12.6% to \$2.00 billion due to an increased allocation of the motor vehicle sales tax to 75% from 25% in the prior year resulting in receipts of \$703 million. Oil companies tax increased 71.2% to \$387 million as firming oil prices and continued recovery in consumption supported strong oil company gross receipts. Motor fuel taxes in contrast declined 18.1% to \$390 million reflecting the Legislature's implementation of a \$0.25 cent per gallon motor fuel tax holiday in the final four months of FY 2022 in response to surging gas prices.

FY 2023 receipts increased 3.4% to \$2.07 billion due to an increased allocation of the motor vehicle sales tax to 100% from 75% in the prior year resulting in receipts of \$838 million. Motor fuel taxes declined 32.8% to \$262 million reflecting continuation of the gas tax holiday through December 31, 2022 and the gradual restoration of the \$0.25 per gallon tax in monthly \$0.05 increments with the tax returned to the full \$0.25 level on May 1, 2023. The estimated revenue loss as a result of the suspension was \$90 million in FY 2022 and \$240 million in FY 2023.

In FY 2024, pledged receipts increased 16.5% to \$2.41 billion primarily as a result of the restoration of the full motor fuels tax in each month of the year. The highway user fee was additionally in place for the full year for the first time contributing \$60 million. With the sales tax dedication now fully phased in, however, KBRA anticipates that revenues growth will be relatively flat in future years absent further revenue dedication.

RD 5: Coverage and Bond Structure

Coverage

Pledged revenues provided strong debt service coverage at or above 2.33x since FY 2019. Coverage based on FY 2024 receipts was 2.79x.

Figure 10

Pledged Revenues and Debt Service Coverage										
FYE June 30 (dollars in millions)										
	Audited					Unaudited	Projected			
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Sales Tax ¹	\$ 371	\$ 401	\$ 483	\$ 703	\$ 838	\$ 844	\$ 879	\$ 902	\$ 925	\$ 949
% change	13.2%	8.2%	20.5%	45.7%	19.1%	0.8%	4.1%	2.6%	2.6%	2.6%
Motor Fuels Tax ²	510	478	475	390	262	505	511	502	498	495
% change	2.0%	-6.2%	-0.6%	-18.0%	-32.8%	92.6%	1.2%	-1.7%	-0.7%	-0.6%
Oil Companies Tax	313	230	229	387	384	359	337	336	349	361
% change	0.2%	-26.4%	-0.6%	69.0%	-0.9%	-6.5%	-6.1%	-0.1%	3.9%	3.3%
Motor Vehicles Receipts	250	242	321	282	255	279	281	282	283	285
% change	-1.1%	-3.5%	33.0%	-12.4%	-9.6%	9.5%	0.6%	0.5%	0.5%	0.5%
Licenses, Permits & Fees	150	129	131	126	126	142	134	135	137	138
% change	5.8%	-14.3%	1.6%	-3.6%	0.3%	12.5%	-5.8%	0.7%	1.7%	0.7%
Sales Tax - DMV	87	73	117	122	117	115	118	119	120	121
Highway Use Fee ³	-	-	-	-	29	60	61	62	63	63
Federal Grants	12	12	12	11	10	9	8	7	6	4
Interest Income	37	22	2	5	72	87	64	42	37	32
Transfers	(6)	(36)	25	(3)	(6)	32	(14)	(6)	(6)	(6)
Refunds	(37)	(35)	(17)	(22)	(18)	(22)	(22)	(19)	(20)	(21)
Total Net Revenues	1,688	1,517	1,778	2,001	2,070	2,411	2,356	2,362	2,393	2,424
% change	3.6%	-10.2%	17.2%	12.6%	3.4%	16.5%	-2.3%	0.2%	1.3%	1.3%
Debt Service⁴	642	651	665	743	811	863	882	935	1,043	1,144
Debt Service Coverage	2.63x	2.33x	2.67x	2.69x	2.55x	2.79x	2.67x	2.53x	2.29x	2.12x

Source: POS

¹The State phased in the dedication of a 0.5% portion of the 6.35% general sales tax to the STF between FY 2016 and FY 2018. The State subsequently also phased in the dedication of new and used car sales tax collections beginning at 8% in FY 2019, 17% in FY 2020, 25% in FY 2021, 75% in FY 2022, and 100% in FY 2023 and all future years.

²The State Legislature implemented an exemption from the 25 cent per gallon tax rate from April 1, 2022 through December 31, 2022. Beginning January 1, 2023, the tax rate on gasoline and gasohol was phased-in by 5 cent increments until reaching the original 25 cents per gallon on May 1, 2023. The estimated revenue loss as a result of such change was \$90 million in FY 2022 and \$240 million in FY 2023.

³Highway user fee was introduced in January 1, 2023 with FY 2023 collections reflecting 6 months of collections and less than full compliance given realities of implementing a new tax.

⁴Includes existing debt service requirements plus anticipated debt service on projected annual issuance through FY 2028.

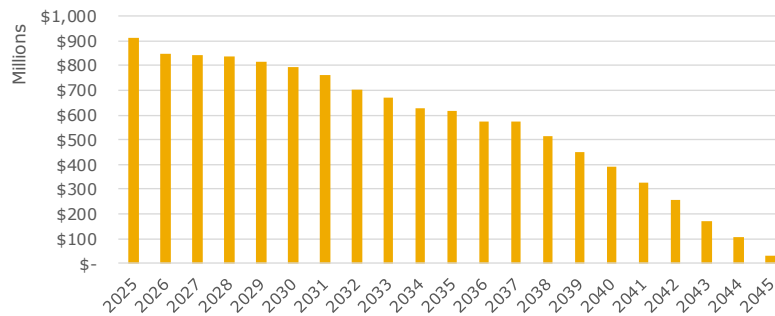
Outstanding bonds are entirely fixed rate and debt service requirements are descending. The State's projections call for annual parity new money borrowing of \$1.0 billion in FY 2025, \$1.3 billion in FY 2026, and \$1.4 billion annually in both FY 2027 and FY 2028. Based on the State's fairly conservative pledged revenue growth assumptions, debt service coverage is projected to decline to 2.12x by FY 2028. KBRA nevertheless views this level of coverage as ample given very limited historic volatility of pledged revenues and notes that overleveraging is precluded by the 2.0x MADs additional bonds test. The descending structure of debt service requirements furthermore positions the State to manage forward coverage through tempered issuance should pledged revenues not perform favorably.



Figure 11

Annual Debt Service Requirements*

BYE July 1



Source: State of Connecticut

*Assumes impact of currently offered bonds and the planned redemption/defeasance of outstanding bonds using an estimated \$527 million in the State Transportation Fund surplus balance.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found [here](#). Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

A discussion of ESG Management can be found in prior KBRA reports, the most [recent](#) of which is dated September 27, 2024.



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