State of Connecticut – G.O.

Issuer: State of Connecticut		
Assigned	**Rating**	**Outlook**
General Obligation Bonds (2025 Series C)	AA+	Stable
General Obligation Refunding Bonds (2025 Series D)	AA+	Stable
Taxable General Obligation Bonds (2025 Series B)	AA+	Stable
Affirmed	**Rating**	**Outlook**
General Obligation Bonds	AA+	Stable

Methodology:

[U.S. State General Obligation Rating Methodology]

[ESG Global Rating Methodology]

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Rating Summary: The long-term rating for the State of Connecticut's (the "State") General Obligation Bonds ("Bonds") reflects the State's strong credit profile and its maintenance of certain statutory fiscal guardrails since FY 2018 which have accommodated consistently well-funded reserves and progress in addressing its large unfunded pension liabilities. Counterbalancing, to some extent, the aforementioned strengths is the State's trend of slow economic growth and high ratio of tax-supported debt and net pension liabilities relative to personal income. In addition, like other states, the State will face higher costs associated with certain social welfare programs as a result of recent federal policy changes implemented in the One Big Beautiful Bill Act (OBBBA).

Proceeds of the currently offered Bonds will be used to finance a portion of the State's ongoing capital needs, refund certain outstanding bonds for present value savings to be taken on a level basis over the life of the refunding bonds, and pay the costs of issuance.

The State has maintained certain statutory fiscal guardrails since FY 2018 which it has covenanted to maintain with respect to certain general obligation bondholders through at least FY 2028. The guardrails have provided a strong framework for managing revenue volatility, fully funding reserves, and accelerating the paydown of State's substantial unfunded pension liabilities. Notably, the legislature did loosen certain guardrail provisions as part of the FY 2026 – FY 2027 budget process. However, KBRA views the revised provisions as continuing to provide a strong framework for further improving the State's financial footing.

The revenue volatility cap, the marquee provision of the fiscal guardrails, remains in place. The cap requires the most volatile components of personal income tax and pass-through entity tax receipts, in excess of an indexed threshold, to be deposited into the State's budget reserve fund (BRF or rainy-day fund). However, the threshold for the cap has been "rebased" higher. The threshold for FY 2026 at $4.73 billion is up $649 million or 15.9% YoY. As before, any BRF balance exceeding 18% of subsequent-year appropriations at year-end, as well as half of any balance between 15% and 18% of subsequent year-appropriations at year-end, is required to be deposited as supplemental contributions toward the State's unfunded pension liabilities.

The guardrail requirement to direct the year-end unappropriated general fund balance to the BRF remains in place with the recently enacted biennium budget. A modification beginning this fiscal year however stipulates that if the BRF is funded to the statutory maximum at 18% of subsequent year appropriations, any remaining unappropriated general fund surplus is to be directed to the State's Early Childhood Education Endowment (ECEE) for early childhood care education programs. Previously, such excess funds would have instead been directed toward supplemental pension contributions.

The guardrails, since inception in FY 2018, have resulted in a BRF funded to the statutory limit in each year since FY 2020 and $8.6 billion in supplemental pension contributions between FY 2020 and FY 2024. The BRF balance increased from just $213 million at FYE 2017 to an estimated $6.35 billion or 26.3% of budgeted FY 2026 appropriations as of June 30, 2025. The BRF balance in excess of the 18% reserve limit at FYE 2025, which KBRA estimates at approximately $2.0 billion, is to be deposited toward unfunded liabilities by the end of the 2025 calendar year, supplementing the $3.62 billion actuarially determined employer contribution (ADEC) already appropriated for FY 2025, marking a sixth consecutive year of pension contributions in excess of the ADEC.

The State's general fund is estimated to have ended FY 2025 with a $459 million surplus. Estimated gross general fund receipts increased by a strong 8.1% YoY to $26.0 billion after moderating slightly in the two prior years due to fading pandemic-era stimulus. Estimated personal income and pass-through entity tax proceeds exceeded the revenue volatility cap by $2.1 billion, with this excess directed to the BRF, resulting in estimated general fund revenues available for appropriation of $23.9 billion, an increase of approximately 5.2% YoY. Estimated expenditures increased 5.0% YoY to $23.4 billion.

The enacted budget for the FY 2026 to FY 2027 biennium, commencing July 1, 2025, is balanced and assumes $24.0 billion in general fund spending in FY 2026 (up 2.6% from the estimated FY 2025 amount) and $25.4 billion in general fund spending in FY 2027 (up 5.5% YoY). The aforementioned rebased volatility cap is budgeted to provide an estimated $600 million in additional revenues to the general fund in FY 2026 and $632 million in FY 2027. While KBRA views the change as measured, it does represent some loosening of the fiscal guardrails that have been key to the State's improved financial footing since FY 2018, given that volatility cap transfers available for the BRF and the accelerated paydown of pensions will be reduced. Additional enacted revenue measures include tweaks to corporate income tax policies that net an additional $189 million in FY 2026 and $172 million in FY 2027; and a rebase of the hospital user fee and increased federal match receipts on hospital supplemental payments. The latter measure nets a combined $516 million in additional receipts beginning in FY 2027.

The biennium budget was enacted prior to the enactment of the omnibus-style federal tax and spending law known as OBBBA. Among its many provisions, OBBBA will, over several years, tighten eligibility for social welfare programs including Medicaid and the Supplemental Nutrition Assistance Program (SNAP), impose new penalties for improper benefit payments from these state-administered programs, and reduce federal cost-sharing for Medicaid Expansion and health insurance exchange subsidy programs. Connecticut's Office of Policy and Management (OPM) is working to analyze the fiscal impact of these and other changes that are not accounted for in the enacted budget. In general, the financial impact is expected to be limited in FY 2026 but become more substantial in FY 2027 and subsequent years as the federal policy changes are phased in. Discussions are ongoing for a potential special legislative session prior to the regular session, which begins in February 2026, to address any immediate needs that arise prior to fiscal year end. Leadership is additionally discussing setting aside a portion of the pending $2.1 billion volatility cap revenue transfer for FY 2025 to accommodate any loss of federal funds from the OBBBA. The administration anticipates that any volatility cap funds set aside and not used for the fiscal impact of federal policy changes by FYE 2026 would be transferred to the pension system in accordance with standard practice.

Connecticut's economy recovered well from the pandemic but continues to grow more slowly than the U.S. Real gross state product (GSP) in 2024 was up 6.8% from the 2019 level versus U.S. real gross domestic product (GDP) growth of 12.5% over the same period. Seasonally adjusted employment in July 2025 was 0.8% above the pre-pandemic level which lags U.S. growth of 3.5%. Favorably, the seasonally adjusted unemployment rate in Connecticut at 3.8% as of July 2025 is below that of the U.S. at 4.2%. Wealth levels remain very high, with per capita personal income of $93,235 at 129% of the national average in 2024.

The State has high debt levels, but this partly reflects its practice of issuing general obligation debt for certain university projects and for purposes that municipal entities and counties fund in other states, such as local school construction. Fixed costs (debt service, OPEB and pension) were 20.4% of general government expenditures in FY 2024, which KBRA views as high. Debt amortization is favorable with 81% of general obligation principal scheduled to retire within 10 years.

The Stable Outlook reflects Connecticut's diverse and high wealth economic base, strong reserve position, and effective financial management practices, which together provide a solid foundation for future financial performance.

Key Credit Considerations

The rating actions reflect the following key credit considerations:

Credit Positives

- State is estimated to have completed FY 2025 with a BRF balance exceeding the statutory cap at 18% of general fund appropriations and is positioned to direct surplus resources toward supplemental pension contributions for a sixth consecutive year.
- Strong financial management framework and enhanced statutory fiscal guardrails in place through at least FY 2028 position the State for strong operating results.
- Strong wealth levels with the second highest per capita personal income level among all states.

Credit Challenges

- Lower relative growth in the economic indicators of population, employment, and gross state product, although there are recent signs of growth in population.
- Unfunded pension liabilities and tax-supported debt burden are high relative to personal income, each more than 3x the respective U.S. average. However, the State borrows for many local purposes and the comparison on a combined state and local basis is more moderate.

  Federal policy changes implemented in the OBBBA will push responsibility for funding a larger share of certain social welfare programs to states. Connecticut, like many other states, has not yet accounted for these additional costs in its enacted budget.

Rating Sensitivities

▪ Significant improvement in the funded ratios for the State's pension systems.	+
▪ Structural operating deficits in the general fund. ▪ Further relaxation of the fiscal guardrails. ▪ Sustained weakening in the State's employment base and economic activity.	-

Rating Highlights	
Per Capita Personal Income (2024) (in dollars)	$93,235
as a % of U.S.	*129%*
Population (2024)	3,675,069
Growth 2010 to 2024	*2.7%*
Real GDP, % Change 2014 to 2024	
Connecticut	1.1%
New England	1.0%
United States	3.7%
Budget Reserve Fund Balance ($ in millions)	
FYE 2020	$3,013
FYE 2021	$3,112
FYE 2022	$3,313
FYE 2023	$3,316
FYE 2024	$4,105
FYE 2025 (Estimated)[1]	$6,353
Direct Debt (9/1/2025) ($ in millions)	$24,520
Net Pension Liability ($ in millions)	$34,740
Fixed Costs as a % of Governmental Expenditures (FY 2024)	20.4%

(1) Projected balance prior to post-close transfers which would bring balance back in compliance with the statutory cap at 18% of approprations.

Rating Determinants (RD)	
1. Management Structure, Budgeting Practices and Policies	AAA
2. Debt and Additional Continuing Obligations	A+
3. Financial Performance and Liquidity Position	AA+
4. State Resource Base	AA-

A discussion of each rating determinant, ESG management, and KBRA's bankruptcy assessment can be found in prior KBRA reports, the most recent of which is dated April 3, 2025.

RD 3: Financial Performance and Liquidity Position Update

Figure 1

General Fund Revenues and Expenditures
Budgetary Modified Cash Basis (FYE June 30) (dollars in millions)

	Actual										Estimated 8/20/2025		Adopted Budget		
	2020	Δ YOY (%)	2021	Δ YOY (%)	2022	Δ YOY (%)	2023	Δ YOY (%)	2024	Δ YOY (%)	2025	Δ YOY (%)	2026	Δ YOY (%)	2027
Revenues															
Personal Income Tax	$ 9,398	10.0%	$ 10,340	17.3%	$ 12,132	-7.5%	$ 11,223	-2.7%	$ 11,803	9.8%	$ 12,954	-2.5%	$ 12,631	3.6%	$ 13,080
Pass-through Entity Tax	1,242	24.8%	1,550	48.9%	2,308	-11.2%	2,048	-14.9%	1,965	20.4%	2,366	-10.6%	2,115	2.6%	2,170
Less: Volatility Cap Deposit	(530)		(1,241)		(3,047)		(1,322)		(1,321)		(2,090)		(730)		(623)
Net PIT and Pass-Through Entity Tax	10,109	5.3%	10,649	7.0%	11,392	4.9%	11,950	9.3%	12,446	6.3%	13,231	5.9%	14,016	4.4%	14,627
Federal Grants (excl. ARPA)	1,797	-16.7%	1,496	29.3%	1,935	3.3%	1,998	6.5%	2,061	-6.1%	1,936	-4.3%	1,853	9.8%	2,035
Sales and Use Tax	4,318	11.0%	4,793	0.5%	4,818	2.6%	4,945	3.8%	5,003	2.3%	5,120	-0.3%	5,103	2.5%	5,230
Corporate Income Tax	934	23.4%	1,153	21.5%	1,401	8.2%	1,517	11.0%	1,556	-9.9%	1,402	18.4%	1,660	-0.2%	1,656
Excise Taxes (Alcohol and Cigarettes)	419	2.6%	430	-5.7%	406	-8.5%	371	-23.7%	310	4.5%	324	-5.0%	307	-3.9%	295
Indian Gaming Payments	164	39.4%	229	8.7%	249	12.2%	279	22.9%	306	8.8%	333	0.6%	335	4.6%	350
Statutory Transfers from Other Funds	136	-15.8%	115	10.2%	126	-10.9%	113	-21.4%	99	6.4%	106	-13.0%	92	-1.7%	90
Other	785	112.3%	1,667	-0.2%	1,664	-0.8%	1,652	-43.8%	936	54.1%	1,443	-32.1%	980	66.2%	1,629
Total Revenues	**19,194**	7.0%	**20,531**	7.1%	**21,991**	3.8%	**22,823**	3.3%	**22,716**	5.2%	**23,893**	1.9%	**24,345**	6.4%	**25,914**
Expenditures															
General Government	635	1.8%	646	16.0%	750	24.6%	934	-45.8%	507						
Public Safety	281	1.3%	284	6.9%	304	13.9%	346	-0.6%	344						
Conservation and Development	172	10.4%	189	23.0%	233	1.5%	237	4.2%	247						
Health and Hospitals	1,203	3.4%	1,244	2.6%	1,276	9.3%	1,395	63.8%	2,285						
Human Services	4,357	-2.3%	4,258	4.4%	4,445	11.8%	4,969	-5.9%	4,676						
Education, Libraries and Museums	5,155	2.9%	5,304	7.4%	5,698	6.4%	6,060	0.9%	6,114						
Corrections and Judicial	2,004	-0.5%	1,994	-4.1%	1,912	11.9%	2,139	1.8%	2,178						
Debt Service	2,205	0.5%	2,216	4.9%	2,325	-5.4%	2,200	-0.7%	2,185						
Other/Adjustments*	3,154		3,921		3,788		3,988		3,779						
Total Expenditures	**19,163**	4.7%	**20,056**	3.4%	**20,731**	7.4%	**22,267**	0.2%	**22,315**	5.0%	**23,434**	2.6%	**24,036**	5.5%	**25,362**

Source: Annual Financial Reports of the State Comptroller;
OMP Rating Agency Presentation dated August 26-28, 2025

*Includes adjustments to actuals to reconcile total expenditures as reported in Annual Finanial Report of the State Comptroller with expenditures as reported in OPM credit rating agency presentations.

Figure 2

Budget Reserve Fund Summary Operations
Budgetary Modified Cash Basis (FYE June 30) (dollars in millions)

	2020	2021	2022	2023	2024	2025 Estimated	2026 Projected
Beginning BRF Balance	$ 2,506	$ 3,013	$ 3,112	$ 3,313	$ 3,316	$ 4,105	$ 4,327
Transfers to General Fund	-	-	-	-	-	-	-
General Fund Surplus (Outside of Volatility Cap)	39	476	1,261	555	401	459	351
Less: GF Transfer to Early Childhood Education Endowment	-	-	-	-	-	(300)	TBD
Volatility Cap Deposit	530	1,241	3,047	1,322	1,321	2,090	1,440
Ending BRF Balance Before Statutory Post-Close Transfers to SERS/TRS	**3,074**	**4,730**	**7,420**	**5,190**	**5,038**	**6,353**	**TBD**
as a % of Ensuing FY Net GF Approps.	*15.0%*	*22.8%*	*33.4%*	*22.1%*	*21.5%*	*26.3%*	
Statutory Transfer to SERF and TRS Following Year End	(62)	(1,618)	(4,107)	(1,875)	(933)	(2,027)	
Ending BRF Balance After Statutory Post-Close Transfer to SERS/TRS	**3,013**	**3,112**	**3,313**	**3,316**	**4,105**	**4,327**	
as a % of Ensuing FY Net GF Approps.	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*18.0%*	*18.0%*	

Source: Annual Reports of the State Comptroller for Actuals;
Rating Agency Presentation dated August 26-28, 2025 for FY 2025 Estimate and FY 2026 Projected