Moody's Ratings upgrades State of Connecticut to Aa2 and assigns Aa2 to 2025 GO bonds; outlook revised to stable

Rating Action | *6 min read* | 09 Sep 2025 Moody's Ratings

New York, September 09, 2025 -- Moody's Ratings (Moody's) has upgraded the State of Connecticut's issuer rating to Aa2 from Aa3 and revised the outlook to stable from positive. We have also assigned a Aa2 rating to the state's $800 million General Obligation Bonds (2025 Series C), the $300 million General Obligation Refunding Bonds (2025 Series D), and the $300 million Taxable General Obligation Bonds (2025 Series B).

The rating upgrade to Aa2 is driven by the state's well-established strong governance practices, that have led to increased budgetary reserves and consistent pension contributions that have begun moderating the state's very high unfunded pension liabilities. With continued adherence to these policies, the state is expected to maintain solid reserve levels and further reduce leverage metrics.

Authority (CHESLA), and the Connecticut Health and Educational Facilities Authority (CHEFA and the City of Hartford, CT Special Obligation Refunding Bonds)

- State-supported child care revenue bonds (CHEFA), subject to appropriation, to Aa3, from A1

- Special Tax Obligation Transportation Infrastructure bonds to Aa2, from Aa3

We have also affirmed the VMIG-1 rating on the Series 2016 C variable rate demand bonds and 2025 Series B-2 bonds. The upgrade of Connecticut's issuer and instrument ratings affects approximately $28 billion in net tax supported debt.

RATINGS RATIONALE

The Aa2 issuer rating reflects Connecticut's reduced liabilities and fixed costs, resulting in part from state's commitment to numerous governance improvements, namely it's fiscal guardrails originally put in place in 2018. The strict adherence to adopted financial policies have also lead to consistent structural balance and continued improvement in budgetary reserves. While reduced, given the state's full faith and credit pledge to the debt.

The VMIG-1 short-term rating on the state's 2016 Series C variable rate demand bonds reflects the credit quality of Bank of America, N.A. (LT/ST Counterparty Risk Assessment Aa2(cr)/P-1(cr)) as provider of liquidity support in the form of a standby bond purchase agreement (SBPA), the long-term rating of the bonds, and our assessment of the likelihood of an early termination or suspension of the SBPA without a final mandatory tender.

The Aa2 ratings on the special obligation and revenue bonds issued through CHFA, CHEFA and CHESLA are secured by a special capital reserve fund and similar structures reflect the very strong legal security, which does not require annual appropriation. Most projects financed under these mechanisms are more essential, but the less essential nature of a small number of economic development projects is offset by the strength of the legal security.

The VMIG 1 short term rating on the CHESLA Series 2025 B-2 bonds is based on the long-term rating on the bonds, including the

The Aa2 rating on the City of Hartford, CT Special Obligation Refunding Bonds is based on the contract assistance agreement with the State of Connecticut. The obligation to make payments in the amount of debt service on the bonds is a noncontingent full faith and credit obligation of the State. The state makes payments directly to the trustee for the bonds.

The Aa2 rating on senior lien special tax obligation bonds reflects the strong legal covenants, including a two times additional bonds test and state covenant to provide pledged revenue in each year equal to at least two times debt service, as well as a debt service reserve funded at maximum aggregate annual debt service, the diversified stream of pledged revenues with some sensitivity to economic fluctuations, and satisfactory debt service coverage. Both economic and legal factors closely link the credit profile of the special transportation fund to the state general obligation profile.

RATING OUTLOOK

Connecticut's stable outlook reflects the expectation that the state will remain committed to the fiscal guardrails in place, ensuring

- Evidence of sustained economic performance that approximates the nation

For the GO-related bonds (including deemed appropriated and annual appropriation credits), and the special tax obligation bonds:

- Upgrade of issuer rating

For the SBPA:

- N/A

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

For the issuer and GO ratings:

- Additional leverage resulting in liabilities in excess of 500% of state revenue
- Significant economic weakness and revenue declines without commensurate budget adjustments
- Sustained decline in budget reserve fund and liquidity position

covenanted

- Weakened legal covenants such as reversal of constitutional protection of revenue pledged to debt service

For the SBPA:

- Downgrade of issuer rating

- Downgrade of counterparty rating

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 $365.7 billion in 2024. It is the second wealthiest state in the country with per capita income of nearly 124% of the US average.

METHODOLOGY

Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/435880.

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