

CREDIT OPINION

11 September 2025



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Connecticut (State of)

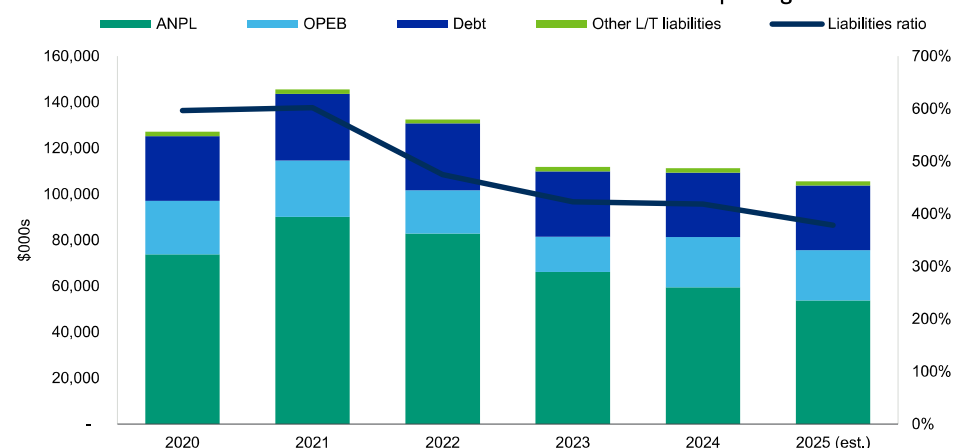
Update to credit analysis following upgrade to Aa2

Summary

The [State of Connecticut's](#) (Aa2 stable) credit profile benefits from the state's commitment to numerous governance improvements that have lead to significant budgetary reserves, strong financial performance, stable debt levels and significant pension contributions that exceed the tread water amount. Liabilities remain among the highest in the state sector, but have come down considerably since the state adopted its policy of fiscal guardrails in 2018 (see Exhibit 1). The state's high fixed costs limit budgetary flexibility compared to peers, but Connecticut has demonstrated it can keep costs within these constraints and consistently contribute significantly above actuarially determined pension contributions.

Exhibit 1

State liabilities relative to revenue will decline further for fiscal 2025 reporting



Assumes debt, OPEB and other liabilities remain stable, reflects reduction in ANPL for 2025

Source: Connecticut ACFR's, Moody's Ratings

Like the state sector as a whole, Connecticut projects slowing revenue growth driven by [expectation of sluggish global growth](#) and headwinds from federal trade, fiscal, monetary and immigration policies. Connecticut is less directly exposed to key federal policy shifts compared to other states, but is nonetheless managing rising Medicaid costs and will have to adjust to greater cost shifting to the state, from the federal government.

Connecticut does benefits from residents' high income and wealth levels, but that is somewhat offset by real GDP and employment that lag the nation. Favorably, population has started to modestly grow again, though population will likely falter if international immigration were to slow.

Credit strengths

- » Established trend of adhering to fiscal guardrails, minimizing impacts of revenue volatility and building up reserves and providing significant pension contributions
- » One of wealthiest states in the nation with per capita personal income well above national levels
- » Demonstrated willingness to make midyear budget adjustments

Credit challenges

- » Fixed costs for debt, pension and other post-employment benefits (OPEB) relative to budget are among the highest in the nation and restrict budgetary flexibility
- » Long-standing stagnant population trends that have reversed in recent years, but remain dependent on continued international immigration to offset domestic outmigration
- » Vulnerability to financial market fluctuations because of effect on capital gains for very high-wealth residents and employment in the financial services sector

Rating outlook

Connecticut's stable outlook reflects the expectation that the state will remain committed to the fiscal guardrails in place, ensuring continued structural balance, adequate rainy day reserves and aggressive paydown of pension liabilities.

Factors that could lead to an upgrade

- » Reduced pension and debt leverage approaching 200% of state revenue, and reduced fixed costs below 15% of state revenue
- » Evidence of sustained economic performance that approximates the nation

Factors that could lead to a downgrade

- » 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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

	2020	2021	2022	2023	2024	State Medians (2024)
Economy						
Nominal GDP (\$billions)	278.0	296.8	321.7	345.9	365.7	331.0
Real GDP, annual growth	-5.3%	3.5%	3.4%	2.7%	2.6%	2.4%
RPP-adjusted per capita income as % of US	123.6%	123.3%	120.7%	124.1%	0.0%	97.8%
Nonfarm employment, annual growth	-7.4%	2.9%	3.2%	1.6%	0.8%	1.2%
Financial performance						
Available balance as % of own-source revenue	10.8%	13.6%	13.6%	13.2%	15.7%	42.3%
Net unrestricted cash as % of own-source revenue	24.1%	44.4%	50.0%	40.8%	34.1%	71.6%
Leverage						
Total long-term liabilities as % of own-source revenue	596.5%	602.1%	474.8%	424.8%	418.8%	90.9%
Adjusted fixed costs as % of own-source revenue	29.4%	26.7%	21.4%	23.8%	22.7%	5.3%

Source: Moody's Ratings, US Bureau of Economic Analysis, US Bureau of Labor Statistics and Moody's Ratings

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.

Detailed credit considerations

Economy

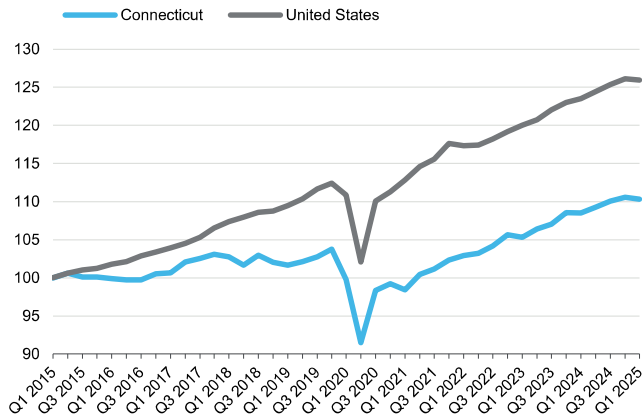
Connecticut's economy continues to underperform relative to national trends, although some bright spots can be seen. Real GDP growth has more closely mirrored national performance in the past few years, narrowing the historical gap (Exhibit 3). However, the state's five-year compound annual growth rate (CAGR) for real GDP remains below the U.S. average.

Employment growth has plateaued after recovering to pre-pandemic levels (Exhibit 4). While total employment is stable, monthly gains have been inconsistent, and the unemployment rate has edged up from 3.2% in late 2024 to 3.6% as of April 2025.

Exhibit 3

Connecticut's real GDP growth was relatively flat before 2020 but growth has more closely mirrored that of the nation for the past few years

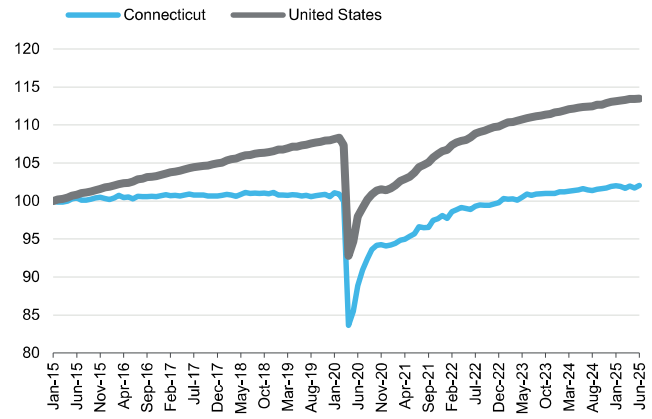
Real GDP indexed to Q1 2015



Source: US Bureau of Economic Analysis

Exhibit 4

Employment is above pre-COVID levels but growth has since plateaued, mimicking national trends



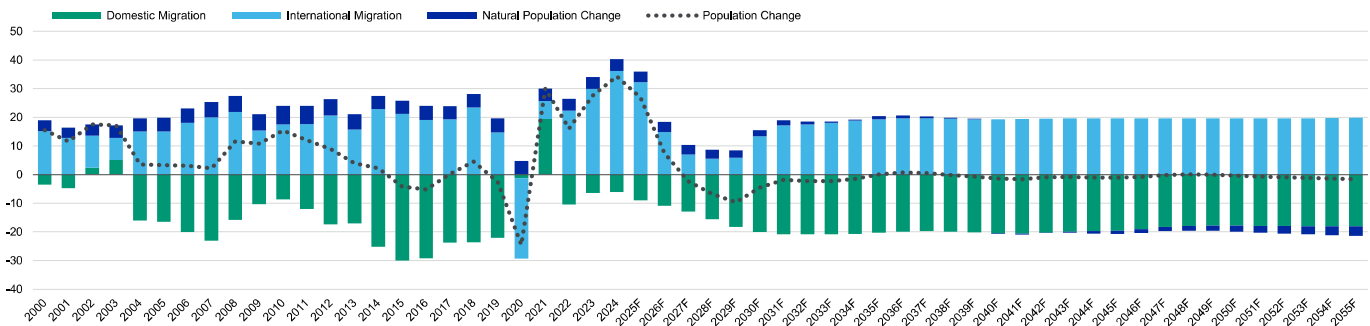
Source: US Bureau of Labor Statistics

Population trends are mixed. Net migration turned positive in recent years because of international in-migration, but domestic outmigration persists, and natural population growth is marginal (Exhibit 5). The state's demographic profile continues to skew older, which may constrain future labor force growth and economic output.

Exhibit 5

High levels of immigration are projected to continue, helping to support the state's population even as domestic outmigration continues

Net change in population, thousands



Source: Moody's, US Census Bureau

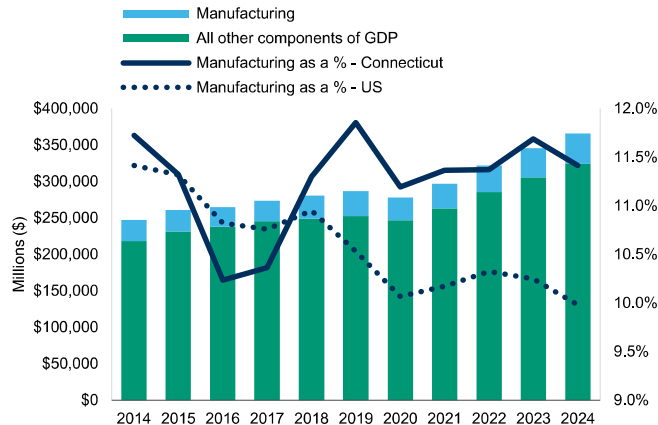
Connecticut's economic base is diverse, with high-wage sectors such as finance, insurance, and professional services comprising over 39% of state GDP. However, employment growth in these sectors has been mixed, with finance trimming back while insurance has expanded. Manufacturing, which accounts for nearly 12% of GDP, remains a key part of the state's economy. The sector is supported by defense-related contracts in aerospace and submarine production, which have helped to insulate it even as manufacturing loses share in the national economy (Exhibit 6). However, this also exposes the state to federal defense policy shifts. While not accounting for a large portion of the state's employment, these firms create high-paid jobs and help to generate additional economic activity.

Despite these strengths, Connecticut faces structural weaknesses. High business costs continue to weigh on competitiveness, and the state's economy remains reliant on volatility in financial markets and defense spending cycles. The manufacturing sector, while a source of resilience, is increasingly constrained by skilled labor shortages, which have contributed to employment declines and hiring difficulties across factories (Exhibit 7). Nevertheless, the dominance of aerospace manufacturing has supported continued growth in the sector, helping to reduce cost growth and sustain output even as labor availability tightens. Looking ahead, Connecticut's economic

trajectory will depend on its ability to retain and attract working-age residents and sustain growth in high-value sectors in the face of its various headwinds.

Exhibit 6

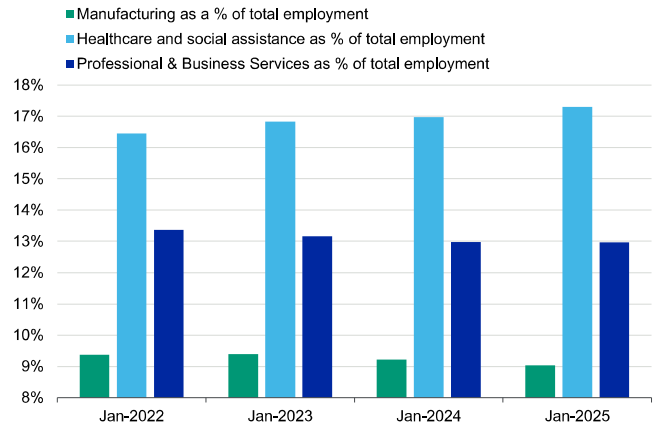
Manufacturing remains a driver of GDP growth even as it loses share in the national economy
Percentage of total GDP (right)



Source: Bureau of Economic Analysis

Exhibit 7

However, the sector comprises a shrinking percentage of statewide employment in the face of labor shortages and a rapidly growing healthcare industry



Source: Bureau of Labor Statistics

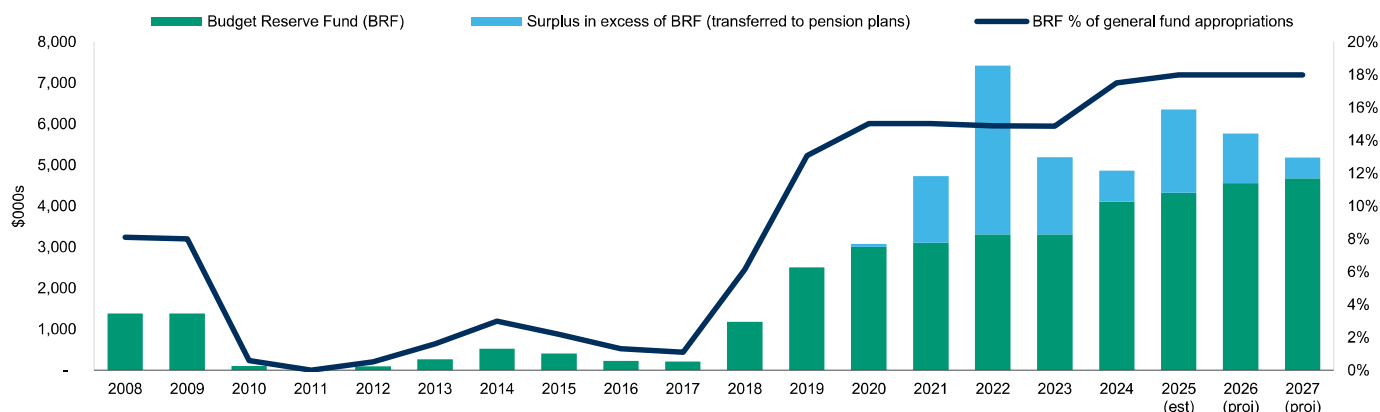
Finances and Liquidity

Like the state sector overall, Connecticut's finances have benefited greatly in recent years both from significant federal aid and strong income and sales tax revenue growth. While revenue growth is slowing compared to the peaks reached in fiscal years 2022 and 2023, collections continue to exceed the revenue forecast and the fiscal guardrails in place point to continued deposits to the BRF and excess payments to the state's largest pension plans (State Employee Retirement System (SERS) and Teachers Retirement System (TRS)).

The state's fiscal guardrails are powerful tools that ensure an annual budget surplus, adequate reserves and aggressive pension funding. The major guardrails include a spending cap, a volatility cap and a revenue cap. Favorably, in the spring of 2023, the state legislature extended the term of the fiscal guardrails for an additional decade with the option to revisit these provision in five years. State appropriations are limited by a formulaic growth rate, which is capped at 5.1% for 2026. The expenditure cap excludes debt service, transfers to the BRF, federal mandates or matching funds, and certain payments to the state pension plans. The volatility cap sets an annual maximum threshold for estimating the state's most volatile revenue streams: the estimates and finals portion of the state personal income tax and the pass-through entity tax. Collections above the threshold are transferred to the BRF, and if the balance exceeds the capped level, excess is transferred to the SERS and TRS. Finally, the revenue cap limits appropriations to 98.75% of the consensus revenue forecast.

Additionally, the legislature further increased the legal maximum level of the BRF to 18% of subsequent year general fund appropriations, starting in fiscal 2024. The BRF is critical for mitigating the inflexibility created by the state's high fixed costs, which consumed roughly 23% of the state's general fund budget in fiscal 2024. The BRF will receive volatility cap deposits annually to remain at 18% of appropriations (see Exhibit 8)

Exhibit 8

Fiscal guardrails protect the budget reserve fund (BRF) and points to continued excess payments to pension plans above ADEC requirements

Projected surplus transferred to pension systems assumes the BRF increases annually to remain at 18% of the ensuing general fund appropriations. Volatility cap transfers based on projected E&F and PET revenue less the projected threshold amount.

Source: Moody's Ratings, State of Connecticut

State revenue in fiscal 2025 was up 5.2% compared to 2024, driven by gains in personal income taxes and pass-through entity taxes, both of which fuel the volatility cap transfers. As a result, the state estimates a budget surplus for fiscal 2025 budget surplus of over \$727 million, as well as another large volatility cap transfer of over \$2 billion. The state plans to use a portion of the budget surplus for one time uses, including \$300 million for the early childhood education endowment, and carry forward for certain salary adjustments and other minor uses, which would bring the actual surplus to \$158 million. The total volatility cap transfer is projected at \$2.2 billion, which a small \$221 million transferred to the budget reserve fund to maintain the BRF balance at the policy level, leaving \$2 billion for excess pension payments. The legislature may opt to use a portion of the volatility cap transfer to buffer budgetary demands stemming from federal policy changes and rising Medicaid costs, but this would require a 3/5 vote to do so.

The adopted 2026 budget assumes a revenue growth factor of a modest 1.9%. Revenue projections are also curtailed by an income tax reduction approved by the legislature in 2023 legislative session, effective for income year 2024, bringing the marginal tax rates down to 2% from 3%, for income up to \$20,000 (married filing jointly), and down to 4.5% from 5% for income up to \$100,000 (married filing jointly).

Like most states, education and health and human services are among the largest expense categories. The state points to Medicaid expenditures as a primary budget pressure, as costs continue to rise even while enrollment declines coming out of the pandemic and the end of the public health emergency. Connecticut has adopted some reductions in their Medicaid program to control costs, and make room for some necessary increases in provider rates, nursing home agreements, and other smaller items.

Liquidity

With the rapid growth of the state's budget reserve since 2017, Connecticut's liquidity has strengthened dramatically. The state has not needed to borrow for cash flow in several years and has no plans to borrow in the current fiscal year. According to state treasury reporting, the state's available cash balance as of the June 2025 was \$10.7 billion.

Leverage

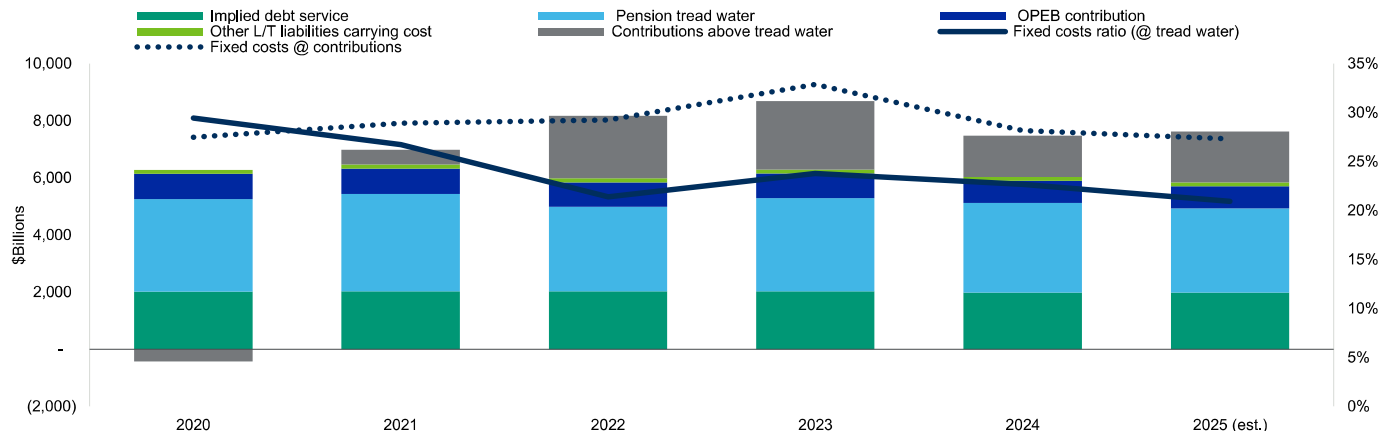
Connecticut has one of most leveraged profiles of the 50 states, in part because the state takes on liabilities that in some other states are the direct responsibility of other levels of government, such as the payment of teacher pension liabilities and school construction costs. Fixed costs are also well above the median for the state sector, which limits flexibility to reduce expenditures.

However, the state has taken significant steps to reduce its pension liabilities and fixed costs, and is positioned to continue this trend over the next several years. The state has contributed significantly above the actuarially determined amount to the major pension funds, and above Moody's "tread water" amount, because of substantial budget surpluses and in accordance with their "volatility cap" mechanism. In fiscal 2025, it is expected that liabilities relative to revenue will fall below 400%. Along with the reduction in liabilities,

fixed costs will reduce to 21% of own-source revenue for fiscal 2025 (see Exhibit 9), even while continuing pension contributions above tread water level.

Exhibit 9

Fixed costs will continue to decline compared to own-source revenue



Assumes debt, OPEB and other liabilities remain stable, reflects reduction in tread water for 2025, and includes an assumed volatility cap transfer for 2025.

Source: Connecticut annual ACFR's, Moody's Ratings

Legal security

The state's general obligation debt is backed by its full faith and credit pledge. The state's special tax obligation debt is supported by a broad mix of transportation-related taxes and sales taxes. The state also supports certain debt issued by the City of Hartford, and higher education and housing entities, which is paid through the general fund and not subject to appropriation. A small amount of state-supported debt for child care revenue bonds is subject to annual appropriation by the legislature.

Debt structure

Connecticut's \$28.1 billion in net tax-supported debt outstanding (including premium, as of fiscal year 2024) consists primarily of general obligation bonds, which account for 60% of NTSD (Exhibit 10). Bonds backed by special taxes for highway construction account for another 28% of state debt. Most GO debt is structured with 20-year principal amortization and a declining debt service schedule, resulting in a current payout rate of 81% within 10 years.

Nearly half the state's GO debt funds school construction or municipal capital needs. The state's GO debt includes University of Connecticut's UCONN 2000 program debt which is paid through a debt service commitment by the state. In 2018, the state also absorbed about \$487 million in general obligation debt outstanding issued by the [City of Hartford](#) (Baa3 stable issuer rating) as a form of municipal assistance.

The state had \$416.8 million in variable rate debt as of June 30, 2025, most of which is indexed to SIFMA. Its variable rate debt accounts for less than 3% of the state's total GO debt. One variable rate series (2016 Series C) has an SBPA provided by [Bank of America, N.A.](#) (Aa2 (cr)/ P-1 (cr)). One series is a direct placement, 2017 Series C. One additional series was issued by CHESLA in fiscal 2026.

Exhibit 10

Debt largely consists of general obligation and highway revenue bonds

Type of debt	Fiscal 2024	% of total
General obligation bonds	16,931,681	60%
Lease rental bonds/appropriation debt	146,415	1%
Highway revenue bonds	7,860,010	28%
Misc - includes premium	2,817,284	10%
City of Hartford contract assistance	337,380	1%
Total	28,092,770	100%

Source: State of Connecticut ACFR

Connecticut's highway revenue bonds are issued through its Special Tax Obligation (STO) bond program, which is paid through a combination of motor fuels and oil companies taxes and other related fees, as well as sales taxes, which represent a growing share of pledged revenue. As of 2024, motor fuels taxes accounted for 21% of pledged revenue, and oil companies tax accounted for 15%. Debt service coverage hovers around 2.5 times, and is projected to remain above two times over the next several years.

Debt-related derivatives

The state is not a party to any derivative or swap agreements.

Pensions and OPEB

Connecticut's adjusted net pension liability (ANPL), our measure of the government's pension burden, was \$59.4 billion, or 224% of state own-source revenue as of the state's 2024 financial statements, and among the highest in the state sector. Favorably, the state's ANPL has reduced by nearly 30% over the last decade. Moody's ANPL reflects certain adjustments made to improve comparability of reported pension liabilities, including using the FTSE Pension Liability Index as the standard discount rate.

A major factor in the decline in the ANPL is the rise in interest rates. The FTSE Pension Liability Index had been below 3% for several years, but increased to 4.5% for 2023, and again to 4.9% for 2024.

The state participates in several pension systems, of which the most significant are the State Employees Retirement System (SERS) and the Teachers Retirement System (TRS). Connecticut is among the handful of states that take responsibility for directly funding teacher pensions.

Pension contributions remain a very significant part of the state's budget, but the state has taken several actions that have helped to reduce the burden and ensure ample assets in the fund relative to liabilities. Connecticut adopted level dollar amortization and a requirement to annually meet the actuarially determined contribution to the plans, dating back to 2017. In addition, the state gradually decreased the assumed discount rate, which is currently down to 6.9%. All of these actions significantly improved pension funding, by increasing payments, and paying the liability down each year. The state has also applied large budget surpluses and excess funds generated through the volatility cap transfer to the two major pension plans, accelerating amortization. From 2020 — 2024, the state has contributed an additional \$8.6 billion to SERS and TRS on top of the actuarially determined contributions, and is projecting excess payments to continue in 2025 and 2026.

Connecticut's commitment to aggressive pension funding has created a buffer against market volatility to maintain fund solvency and prevent large increases in fixed costs in the future. Volatile investment returns that mimic those following the Great Recession, including a one year loss of over 23% with rebounding in later years, would erode some gains in the pension funded ratio and end the downward trajectory of fixed costs. But, the pension funds remain solvent and liabilities pay down through the amortization period, through 2048.

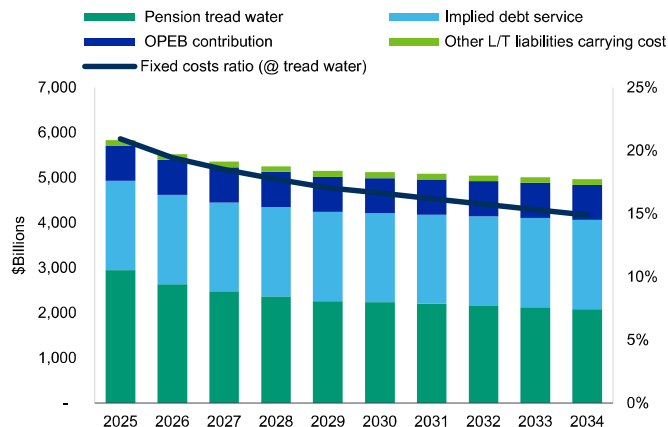
Assuming the state continues to make excess payments as planned, and returns remain constant at the assumed rate of 6.9%, the unfunded pension liabilities will decline and fixed costs will also continue to represent a smaller share of revenue, going below 20% in 2026 and continuing to decline (see Scenario 1, Exhibit 11). However, removing the excess payments, and assuming just the actuarially determined contribution is made, and with investment return volatility similar to market returns through the Great Recession, fixed

costs increase back up to 24% by 2028, before declining again to the high teens over the next decade (see Scenario 2, Exhibit 12). Positively, even with volatility, fixed costs remain below the high 30% reached before reforms and aggressive payments.

Exhibit 11

Continued excess payments and stable investment returns will continue to drive fixed costs down

Scenario 1

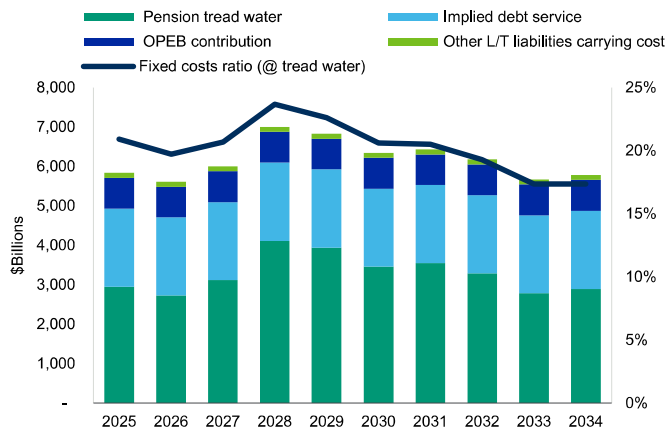


Source: Connecticut ACFR's, Moody's Ratings

Exhibit 12

Contributions increase with volatility but remain below historic high levels

Scenario 2



Source: Connecticut ACFR's, Moody's Ratings

Connecticut also has a very high OPEB liability. For fiscal 2024, Moody's adjusted net OPEB liability for the state is \$21.9 billion, or 83% of own source revenue. Employees have been required to make contributions to prefund OPEB benefits since 2011, and the state is now making matching contributions. Favorably, the combined employer and employee contributions exceed benefit outflows.

ESG considerations

Connecticut (State of)'s ESG credit impact score is CIS-2

Exhibit 13

ESG credit impact score

CIS-2

Score



Negative impact

Positive impact

ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

Connecticut's ESG Credit Impact Score (**CIS-2**) indicates that the state's environmental, social and governance characteristics have an overall neutral impact on the rating. Moderately negative exposure to physical climate risks and modestly weak demographic trends are offset by strong governance.

Exhibit 14

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Connecticut's E issuer profile score is moderately negative (**E-3**). Due to its coastline along the Long Island Sound, Connecticut is more exposed than most states to climate risks. The state faces risks across several climate factors, including hurricanes, rising temperatures and water stress. Connecticut is working to develop a systematic climate resiliency plan, though includes greater resiliency to these risks in major state transportation and related projects. The state's utilities regulatory authority has authorized funding for substation mitigation and other storm-hardening initiatives.

Social

Connecticut's S issuer profile score is moderately negative (**S-3**), reflecting its historic negative net migration trends and very high income inequality. Those trends will intensify social spending for items such as access to health care and other demands on the social safety net. Connecticut is a wealthy state, with per capita personal income among the highest in the US. However, during the nation's long economic expansion the state's population declined from its peak in 2013, aligning with an underperforming housing market and lagging labor force growth. Population trends reversed during the pandemic as some city-dwellers sought out more spacious residential accommodations. The state is also investing in families through its baby bonds program and early childhood education endowment, which may counteract outmigration and income inequality over the long term. The workforce is highly educated, with almost 40% of the population aged 25 or more possessing a bachelor's degree or higher compared to the nationwide rate of just less than 33%.

Governance

Reflecting its very strong financial management, Connecticut's G issuer profile score is positive (**G-1**). Annual multiyear Fiscal Accountability reports are produced by both the governor's budget office and the legislative office of fiscal analysis, and the state releases monthly budgetary updates. The state constitution requires a balanced budget, given greater force by the state's adoption of GAAP-basis budgeting. In addition, the state is not constrained by supermajority requirements to enact tax increases, mandated initiatives or voter referenda. The governor's executive authority to cut expenses mid-year without legislative approval is limited to 5% of an individual appropriation not to exceed 3% of any fund providing only moderate flexibility. We consider strong executive flexibility to make mid-year spending adjustments a plus. If a deficit exceeding 1% of the general fund is projected by the comptroller in that office's monthly financial statement, the governor is required to submit and implement a deficit mitigation plan. Historically, some of the state's financial provisions were not highly effective, as the state has accumulated high debt levels and did not make a constitutional spending cap operative until 2018. The state has taken action to address some of its most pressing long-run financial challenges in recent years by implementing pension and OPEB reforms and committing to moving pension contributions to a more adequate level, although the state's long-term obligations remain formidable. In addition, in recent years the state legislature enacted a number of measures designed to curtail spending and debt growth, rebuild the state's rainy day fund, and more frequently assess the condition of its pension funds. Following some of these provisions will now be required by bond covenants and constitutional amendments. While the required practices strengthens the state's long term credit profile, covenanting to follow them reduces budgetary flexibility.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US States and Territories Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to state and territory credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map to the actual rating assigned.

Exhibit 15

	Measure	Weight	Score
Economy			
Resident Income (PCI Adjusted for RPP / US PCI)	124.1%	15%	Aaa
Economic Growth (5-year CAGR real GDP - 5-year CAGR US real GDP)	-1.1%	15%	A
Financial performance			
Financial performance	Aa	20%	Aa
Governance/Institutional Framework			
Governance/Institutional Framework	Aaa	20%	Aaa
Leverage			
Long-term liabilities ratio (adjusted long-term liabilities / own-source revenue)	418.8%	20%	Baa
Fixed-costs ratio (adjusted fixed costs / own-source revenue)	22.7%	10%	Baa
Notching factors			
Very limited and concentrated economy			
Scorecard-Indicated Outcome			Aa3
Assigned rating			Aa2

Source: Moody's, US Bureau of Economic Analysis, State ACFRs

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