# State of Connecticut

Connecticut's 'AA' STO bond rating reflects superior resiliency of the financing structure, the state's active management of special transportation fund (STF) revenues, and slow underlying growth prospects for Connecticut's transportation revenues that are in line with other states. All outstanding STO bonds carry a senior lien.

The rating on the STO bonds remains capped at Connecticut's 'AA' Issuer Default Rating (IDR) due to the state's ability to statutorily adjust the rates and distribution of pledged taxes and fees.

## Ratings

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|---|---|
| Long-Term IDR | AA |

### Outlooks

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|---|---|
| Long-Term IDR | Stable |

## New Issues

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| $1,560,000,000 Special Tax Obligation Bonds Transportation Infrastructure Purposes 2025 Series A | AA |

## Outstanding Debt

Issuer Ratings Information

## Applicable Criteria

U.S. Public Finance State Governments and Territories Rating Criteria (February 2025)

## Related Research

Fitch Rates Connecticut's $1.6B STO Bonds 'AA'; Outlook Stable (November 2025)

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## Dedicated Tax Key Rating Drivers

### Growth Prospects for Revenues

**Growth Prospects Slow:** Slow underlying growth prospects for transportation-related revenues pledged to the bonds are similar to those of other states, and the pledge of a portion of statewide sales taxes adds diversity, supporting Fitch's expectation for pledged revenue growth in line with inflation over time and an 'a' growth prospects assessment. Fitch expects continued active state management of pledged revenues to augment the state's resources for transportation capital and operating needs.

### Sensitivity and Resilience

**Leverage Limits and High Resiliency:** Receipts are economically sensitive and subject to legislative adjustments. However, pledged revenues can absorb a sizable decline and still provide sufficient coverage of debt service, supporting an 'aaa' assessment for resilience. A 2x maximum annual debt service (MADS) additional bonds test (ABT) provides a strong cushion for bondholders in the event of cyclical declines.

### Exposure to Related Government

**Rating Capped by State IDR:** The credit is exposed to Connecticut's operating performance given the state's ability and demonstrated willingness to alter the flow of revenues to the transportation fund. There is no appropriation risk associated with the security. This interdependence caps the STO rating at the state's 'AA' IDR.

## Dedicated Tax Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A sustained erosion in pledged receipts or state actions that reduce pledged revenues to the STF or otherwise reduce the resilience of the structure with coverage of maximum anticipated leverage falling closer to, or below, 1.5x over time.
- A downgrade of Connecticut's IDR, given that the rating on STO bonds is capped by the state's IDR.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An upgrade of Connecticut's IDR, coupled with maintenance of resilience and revenue growth prospects, absent state actions, in line with Fitch's current expectations.

## Dedicated Tax Current Developments

In spring 2024, Connecticut legislators approved a one-time fiscal 2024 appropriation of $527 million of STF balances in excess of 18% of budgeted expenditures to fund early redemption of STO bonds while maintaining healthy STF reserve levels. In spring 2025, the legislature formalized this 18% STF surplus cap for fiscal 2025 and beyond, with excess moneys funding bond defeasance.

The state amended the STO senior lien indenture in October 2024. A debt service reserve fund is now optional under the amended indenture, beginning with the 2024 series bonds, and surety debt service reserve funds are allowed. Additionally, once the par amounts of bonds issued under the updated indenture reach 60% of all outstanding STO debt, the revised indenture allows variable-rate debt on the senior lien, as well as capitalized interest and balloon indebtedness up to $250 million. These changes do not alter Fitch’s view of the fundamental credit quality of the rated security.

## Dedicated Tax Credit Profile

STO bonds issued under Connecticut's longstanding transportation borrowing program are supported by a first claim on pledged revenues deposited to the STF, consisting primarily of transportation-related taxes and fees. All outstanding bonds are on a senior lien, as the last second-lien bonds matured in April 2020.

Monthly deposits for debt service for all outstanding bonds are made on a one-sixth, one-12th basis, though the amended indenture allows the state, on issuance, to have the bond series’ full debt service payments made by the last day of the month prior to the payment date. Bonds issued prior to 2024 are also backed by a debt service reserve cash-funded at MADS.

All outstanding STO bonds are issued at fixed rates with a 20-year maximum amortization. Leverage of pledged resources is limited by minimum required coverage of 2x MADS in any 12 consecutive months of revenues in the 18 months prior to issuance of additional bonds. The bonds also carry a rate covenant requiring 2x annual coverage on aggregate principal and interest requirements on all bonds, plus interest requirements on notes.

Fiscal 2025 estimated pledged revenues consisted of a fixed portion of the statewide general sales taxes ($879 million, 37% of the total); a motor fuels tax charged on gasoline, diesel and other fuels sold by distributors ($514 million, 22%); a tax on gross earnings from the sale of petroleum products containing oil derivatives levied on oil companies ($298 million, 13%); various motor vehicle registration, inspection and user fees ($275 million, 12%); vehicle license, permit and fee revenues ($138 million, 6%); and a sales tax levied on motor vehicles ($114 million, 5%).

A tax on vehicle sales was phased in beginning in fiscal 2021. In fiscal 2022, 75% of vehicle sales taxes were deposited to the STF, up from 25% in fiscal 2021. Beginning in fiscal 2023, 100% of vehicle sales taxes were shifted to the STF.

The STF also benefits from the fiscal 2023 implementation of a highway use fee on truck traffic in the state. The highway use fee generated a preliminary $30 million in fiscal 2023 and $60 million in fiscal 2024. The state projects over $60 million per year in fiscal 2025 and beyond.

Estimated fiscal 2025 total net pledged revenues of $2.2 billion are 8% below fiscal 2024 levels, as a tax on gross earnings from the sale of petroleum products and interest earned in the fund declined while most revenues sources remained relatively flat.

Connecticut's November 2026 consensus revenue estimate projects 5% growth in total net pledged revenues to $2.3 billion, led by growth in sales tax revenues to $898 million, with small annual decreases forecast thereafter. The oil company tax is budgeted to grow slightly in in the forecast horizon, though weakness in petroleum prices could lead to lower collections.

The state closely monitors STF revenues, with monthly updates by the state budget office and comptroller, and updates of a multiyear outlook at each state consensus forecast. After payment of debt service, receipts support the state's broad transportation needs, including expenses of the departments of transportation and motor vehicles, as well as pay-as-you-go capital. The forecast of cumulative surpluses or deficits over time is regularly updated to reflect underlying economic and revenue trends and planned changes to taxes, fees and their distributions, as well as operating and capital spending and state debt issuance plans.

Multi-year STF consensus revenue forecasts from the Connecticut Office of Policy and Management have typically shown narrowing surpluses or deficits later in the state's planning period. To ensure the STF retains a cumulative surplus, including as a cushion against revenue shocks such as that experienced during the pandemic, the state has a longstanding practice of actively adjusting planned capital spending, debt issuance, revenues and expenses across a multiyear horizon. Current state projections anticipate small surpluses in the fiscal 2026-2027 biennium.

## Dedicated Revenue Stream Drivers and Growth Prospects

### *Limited Transportation Receipts' Growth Prospects*

Fitch views growth prospects for the diverse mix of transportation and general receipts securing the STO bonds to be slow but in line with long-term expectations for inflation. Transportation-related collections in Connecticut, as in other states, are expected to be a flat-to-declining source of revenue in the absence of rate changes, particularly given factors such as rising fuel efficiency and the transition to alternative fuels. The recent addition of new sales tax and highway use fee revenues diversifies the revenue mix and will likely result in stronger overall growth over time. The dedicated revenue stream had a 10-year CAGR of 6.7% through fiscal 2024, but this CAGR reflects substantial rate changes and other state actions that increased receipts flowing to the STF.

## Sensitivity and Resilience of Security through Economic Declines

### *Superior Resilience of Pledged Receipts*

To assess the resilience of the bond structure to potential cyclicality, Fitch considers how much cushion the structure could provide under stress scenarios that assume full issuance to the ABT. The assessment relies on historical pledged revenue performance for these scenarios, which include stressing current revenues based on the largest actual historical decline and on a moderate recession as provided by the Fitch Analytical Stress Test (FAST), a model that relates historical pledged revenue over time to GDP.

The state's demonstrated capability to statutorily redirect pledged revenues is offset by the ample cushion created by the current set of pledged revenues, supporting Fitch's 'aaa' resilience assessment.

Based on fiscal 2024 net revenues of $2.4 billion and assuming full issuance to the 2x ABT, collections could fall 50% while maintaining sum-sufficient coverage of debt service. This level of cushion is a sizable 5x the largest historical decline (-10.2%, in fiscal 2020). Using the FAST model, a separate scenario assuming Fitch's standard moderate GDP decline of 1.0% produces an expected revenue decline of 4.0%. This constitutes a superior level of resilience, with the structure's cushion at 12x the scenario revenue decline.

### Exposure to Related Government

The bonds are exposed to the operations of the state of Connecticut by virtue of the state's ability to statutorily adjust the rates of pledged taxes and fees that are deposited to the STF. This exposure is somewhat mitigated, as no annual appropriation is required to pay for debt service. STF funds are statutorily deemed appropriated for debt service once bonds are issued.

Voters approved a constitutional dedication of revenues held in the STF for transportation purposes in 2018, though the legislature retains discretion to adjust rates of pledged revenues prior to deposit into the STF. Some of these adjustments constrain resilience, while some enhance it. This was demonstrated during the fiscal 2020-2021 biennium, when the scheduled phase-in of expanded sales tax deposits to the STF was modified to support the general fund, as well as in the fiscal 2022-2023 biennium, when the state passed the highway use fee on truck traffic that became effective on Jan. 1, 2023.

Connecticut was one of a handful of states that implemented a gas tax holiday to counteract the effect on consumers of the spike in gas prices that occurred at the start of the Russia-Ukraine War in 2022.

For additional information on Connecticut's IDR, please see Fitch's September 2025 press release "Fitch Upgrades Connecticut's IDR to 'AA'; Rates $1.4B GO Bonds 'AA'; Outlook Stable," at www.fitchratings.com..

## Economic Resource Base

Connecticut's economy is anchored by several key sectors. These include sophisticated defense-related manufacturing, finance, insurance, and health and education institutions. Tourism, linked in part to Native American gaming in the southeast, also plays an important role.

Population growth in Connecticut, as with much of the Northeast, has been well below the U.S. average in recent decades. Census data for 2024 indicates a modest 2.8% uptick since the 2010 census, stronger than recent annual estimates but below the rates of several neighboring states and the nation overall.

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