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Ratings

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Research Update:

Connecticut's $1.6 Billion Series 2025 A Special Tax Obligation Bonds Assigned 'AA' Rating

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Overview

- S&P Global Ratings assigned its 'AA' long-term rating to Connecticut's $1.6 billion senior-lien special tax obligation (STO) bonds, series 2025 A.
- At the same time, we affirmed our 'AA' long-term rating and underlying rating on the state's senior-lien STO bonds outstanding.
- The outlook is stable.

Rationale

Security

Once a revenue has begun to be deposited to the state's transportation fund (STF), there is first lien on [and constitutional dedication of] the revenue collected statewide that secures the bonds. Pledged revenue is deemed appropriated and does not require further legislative approval for the payment of debt service. Pledged revenue deposited to the STF includes:

- A portion of the state's general retail sales and use tax, as specified under state statutes;
- Motor fuels taxes (including gasoline, special fuels, and motor carrier road taxes);
- Taxes on oil companies;
- Motor vehicle receipts (registration fees for motor vehicles, license, permit, and fee revenue); and
- Other transportation-related receipts, funds, and money.

The amended indenture (dated Nov. 1, 2024) enables the state to elect, on a series-by-series basis, the timing of debt service deposits with the trustee, including up to the date they are due. However, the series 2025 bonds and senior-lien STO bonds outstanding require monthly deposits to the trustee for principal and interest requirements in the next month plus one-12th of the principal and interest required over the next 12 months. The amended indenture removed a debt service reserve fund (DSRF) requirement, though a DSRF may be established for future series. The series 2025 will not maintain a DSRF.

Proceeds from the series 2025 bonds will finance various projects of the Connecticut Department of Transportation's transportation infrastructure program and refund certain STO bonds outstanding for debt service savings.

Credit highlights

The 'AA' rating incorporates our view of Connecticut's very strong economic fundamentals, anchored by a large statewide taxing base from which pledged revenue is collected, and the diverse composition of pledged revenue deposited into the STF that has exhibited low volatility across economic cycles. While we anticipate that Connecticut will continue to issue debt to fund its transportation infrastructure program, the state has demonstrated active management of the STF, both in its sizing of debt issuances associated with the Connecticut Department of Transportation's large transportation capital program and its periodic expansion of revenue deposited to the fund, which we believe will continue to provide debt service coverage (DSC) above 2x.

Pledged revenue (per S&P Global Ratings' calculation, which excludes interest income and subsidy payments) declined 7% in fiscal 2025 to $2.15 billion, primarily as a result of a 17% decline of oil companies tax collections. Favorably, general sales and use tax, the largest component of pledged revenue, grew 4% and motor fuels tax, the second largest, increased 2%, mitigating the overall effect of pledged revenue declines and demonstrating the value of the STF's diverse revenue composition, which we anticipate will generally support stable revenue trends. We view the state's revenue projections, which extend through 2030, as relatively conservative, as they are well below the average annual growth rate of 8% from 2020 to 2025. Based on the Nov. 10, 2025, consensus revenue forecast, pledged revenue is projected to increase 6% in 2026 and 5% in 2027, decline 3% in 2028, and increase 2% for fiscal years 2029 and 2030, resulting in coverage maintained near or above 2x throughout the forecast period, even when including potential additional issuance of nearly $6 billion from 2026 to 2030, which could be modified if revenue does not meet forecasts.

The state projects a modest STF surplus in fiscal 2026, but structural out-year gaps could materialize in fiscal years 2027 to 2030 as revenue growth slows and debt service expenditures increase. Assuming no revenue enhancements or adjustments to the state's prospective transportation bond financing needs, Office of Policy and Management projects a revenue-expenditure imbalance that will need to be addressed pursuant to the state's constitutional requirement to adopt a balanced budget. Therefore, a key credit consideration will be the state's ability to identify alternative and sustainable revenue sources and raise revenue when necessary to fund the state's transportation infrastructure program and maintain coverage.

Key considerations in our assessment of the credit quality of the pledged STF revenue include:

- A very strong and diverse statewide economic base of more than 3.6 million people generating pledged revenue, coupled with incomes that rank among the highest in the U.S.
- Sales, motor fuel, and other motor vehicle activity that has historically demonstrated low volatility of pledged STF revenue, coupled with the state's regular forecasting of conditions within the fund and its history of implementing periodic increases to motor fuel tax rates, fees, and allocations of pledged revenue or approval of new revenue streams dedicated to the STF.

- Healthy and generally stable senior-lien pro forma maximum annual debt service (MADS) coverage of 2.4x (occurring in fiscal 2027), incorporating both fiscal 2025 actual pledged revenue and estimated debt service following the series 2025 issuance.
- Good bond provisions and Connecticut's strong commitment to its transportation program, including a 2x additional bonds test for both first- and second-lien bonds and establishment of a 2x rate covenant, which we view as credit stabilizing factors and likely to limit coverage dilution as the state funds additional transportation debt issuances in its capital improvement plan.
- A close linkage to the Connecticut general obligation (GO) rating. In our view, any rating action on the state's general creditworthiness could have a corresponding effect on the rating on the state's STO bonds.

For information on Connecticut's general creditworthiness, see our most recent report, Sept. 9, 2025.

Environmental, social, and governance

Environmental, social, and governance factors do not materially influence our credit analysis for Connecticut or its obligations secured by sales, motor fuels, and other related taxes. Connecticut's strong management and comprehensive long-term capital planning incorporate hardening of transportation assets, and other infrastructure helps mitigate exposure to physical risks--including severe weather events, coastal flooding and erosion, and inland flooding. In addition, although we recognize that Connecticut's aging population and generally slow growth may present long-term social capital challenges that could affect growth in pledged revenue and service, we believe that the broad tax base and diversity of pledged revenue, coupled with forecasting of the potential effects of long-term revenue pressures and adjustment revenue to reduce volatility in the STF, help manage these risks.

Outlook

The stable outlook reflects our expectation that DSC could fluctuate modestly as Connecticut issues additional debt to support substantial transportation-related capital needs, but that the state's diverse economic base and demonstrated timely adjustments to taxes and fees will help maintain healthy DSC above rate covenant requirements.

Downside scenario

Based on our view that the STO bonds exhibit a close linkage to Connecticut's general creditworthiness, a lowering of the state GO rating would likely result in a corresponding rating action on the STO. Alternatively, we could lower the rating if a significant or sustained deterioration of pledged revenue or a substantial increase in the STO debt burden materially weakened our view of coverage.

Upside scenario

The close linkage to the state's GO creditworthiness--limits the STO bonds rating to no more than one notch above Connecticut's general creditworthiness. Therefore, a positive rating action on the bonds would correspond with an improvement to the state GO rating.

Credit Opinion

Economic fundamentals: very strong

In our view, Connecticut's large, statewide economic base from which pledged revenue is derived supports very strong economic fundamentals. Very strong wealth and income levels continue to anchor the state's economy, although we monitor gross state product and population trends, which have typically lagged those of the nation and could limit growth prospects and economic activity.

Connecticut's effective buying incomes continue to rank among the highest in the nation at 119% relative to the U.S. Population increased each year from 2021 to 2024, to approximately 70,000 new residents, but we anticipate slower growth and a modest population decline of 0.48% through 2028. The state's aging population, consistent with that of the rest of New England, will likely limit economic growth and create higher service-level demands that may affect finances. Favorably, the state's highly educated workforce, with more than 40% of its population over the age of 45 holding a bachelor's degree or higher, is likely to facilitate continued innovation and business expansion.

Revenue volatility: low

We believe pledged revenue securing the STO bonds will continue to exhibit low volatility based on a broad, well-diversified mix of pledged transportation-related revenue that has remained resilient across economic cycles.

Sales and use tax allocations to the STF account for the leading share of pledged revenue (40% in fiscal 2025), while oil-consumption-based taxes, including motor fuels taxes (23%) and oil companies' tax payments (13%), represent the next largest revenue source. In our view, sales taxes, particularly those derived from auto sales, could exhibit greater sensitivity to changing economic conditions compared with per gallon fuel taxes or motor vehicle license fees, but we expect this revenue source will remain a relatively small share (approximately 5%) of pledged revenue over the long term. Connecticut projects a 1.3% average annual decline in motor fuel tax receipts from 2025 to 2030 amid a 2.5% average annual increase in sales and use tax receipts, and we view this as reasonable relative to our expectations for U.S. and state economic growth as well as increased fuel efficiency standards and changes in consumer trends.

In addition, we view Connecticut as actively managing the capacity of its transportation capital program, with regular forecasting of pledged revenue incorporated into Office of Policy and Management forecasting, review of bond issuance requests by the state's bond issuance commission, and the legislature's enacting revenue enhancements for transportation-related purposes when necessary. The state increased allocations or introduced new sources that have supported growth in STO-pledged revenue. Recent policy actions that have diversified and supported continued revenue growth include:

- In 2016, Connecticut made a statutory dedication of a 0.5% statewide general sales tax to the STF, and the legislature added dedicated sales and use taxes collected on the sale of new and used motor vehicles, with the taxes fully phased in during fiscal 2023.
- In 2021, the state approved a highway use fee (effective Jan. 1, 2023) on certain heavy, multi-unit motor vehicles based on the weight and number of miles driven on public roads in the state.

As more drivers transition to electric vehicles or other vehicles with higher fuel efficiency, we expect that pledged revenue for state highway user tax revenue bonds will recognize shifts in revenue reliance over the long term, but we believe the overall sector will remain resilient. If motor fuel tax revenue losses become significant, we believe states will consider transportation-related revenue alternatives, but thus far these industry shifts have generally not affected our ratings.

Coverage and liquidity: strong-to-very-strong

We calculate that actual pledged revenue for the fiscal year ended June 30, 2025 --excluding pledged Build America Bonds interest subsidy or interest earnings for our DSC calculations--covered senior-lien MADS of $892 million, (occurring in fiscal 2027) by 2.4x. Our MADS calculation includes the proposed series 2025 bonds and the state's planned defeasance of approximately $275 million of senior-lien outstanding debt in fiscal 2026.

The state projects annual DSC will remain at or above 2x throughout its forecast period of 2026 to 2030. Pro forma projections for fiscal years 2026 to 2030, which incorporate modest average annual growth of 1.8% in pledged revenue and factors in potential debt issuance of $5.8 billion (subject to approval by the state's bond commission), indicate that coverage will decline to approximately 2x in 2030. Estimated annual STO bond issuances range from $1.1 billion to $1.3 billion in fiscal years 2026 to 2030, but projected debt financing plans could change as the volume of projects, shifts in federal support, and lingering inflation-fueled effects augment project costs. Nevertheless, we view Connecticut's favorable debt amortization schedule--with nearly 57% of principal retired within the next 10 years, frontloaded debt service requirements, and conservative annual average pledged revenue growth projections from 2026 to 2030 should support stable DSC despite a potentially higher debt load.

Linkage to state general creditworthiness: close

Because the state collects the pledged revenue, we view the rating on the transportation revenue bonds as linked to Connecticut's creditworthiness. In our establishment of a one-notch upward limitation on the transportation revenue bond rating compared with the state GO rating, we factored Connecticut's provision of critical public services into our analysis. In 2018, Connecticut voters approved a state constitutional amendment that continues directing any funding sources to the STF, including motor fuels and oil company and sales tax revenue, as long as the law authorizing the state to collect or receive such revenue remains in existence. The amendment added state constitutional restrictions on the use of pledged transportation revenue once deposited to the STF in accordance with state statute against potential diversion of a portion of the pledged revenue stream. However, we believe that this does not mitigate the exposure of the STO rating from the operating risk of the state--as collector of the pledged taxes--to the extent that we would expand our one-notch upward limitation from the state rating. In addition, Connecticut does not, in our view, benefit from a limited scope of operations or extraordinary expenditure flexibility, which we believe still exposes it to some operating risk in the collection and distribution of pledge revenue.

Ratings List	
New Issue Ratings	
US$1,560,000,000 State of Connecticut, Special Tax Obligation Bonds, Transportation Infrastructure Purpose, 2025 Series A, dated: Date of Delivery, due: July 01, 2046	
Long Term Rating	AA/Stable
Ratings Affirmed	

Ratings List	
States	
Connecticut, CT Special Transportation Fund Revenues	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.