Connecticut, State of (CT) [State Revolving Fund]

New Issue

$170,000,000 State Revolving Fund Refunding General Revenue Bonds (Green Bonds), Series 2026A AAA

Sale Date

Week of May 25.

Outstanding Debt

Issuer Ratings Information

Rating Outlook

Stable.

Applicable Criteria

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (May 2026)

State Revolving Fund and Municipal Finance Pool Program Rating Criteria (February 2025)

Related Research

Fitch Rates Connecticut's SRF Refunding General Revenue Bonds, Series 2026A 'AAA'; Outlook Stable (May 2026)

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The 'AAA' rating reflects the ability of the Connecticut's State Revolving Fund (SRF) program's financial structure to absorb hypothetical pool defaults exceeding Fitch Ratings' 'AAA' Liability Rating Stress Hurdle (LSRH) without causing an interruption in bond payments. Aggregate pool credit risk is measured using Fitch's Portfolio Stress Model (PSM), and the strength of the program's financial structure is measured using Fitch's Cash Flow Model.

The PSM's liability rating stress hurdle is measured against the CFM's breakeven default tolerance rate to produce a model implied rating. A positive net difference (the default tolerance less the hurdle) in the calculation suggests a passing model output at a given rating stress.

The program's pool produced a 'AAA' liability stress hurdle of 22% in the PSM, while Fitch' cashflow modelling demonstrates that the program can continue to pay bond debt service even with a default tolerance rate of up to 76.1% in the first four years and 100% in each of the middle and final four-year periods. These results reflect a lower than standard 84% recovery rate, reflecting the significantly large obligor within the portfolio. The default tolerance exceeds the 'AAA' stress hurdle implying a passing result under Fitch's modeling analyses. These results are prior to any benefit of the program's equity funds.

Security

Bonds are secured by program loan repayments, the debt service fund and the support funds. In addition, under the 2002 general bond resolution (GBR), the state is required to make sufficient transfers to pay bond debt service from all available moneys in the revolving fund, which includes program equity, if necessary.

Key Rating Drivers

Portfolio Credit Risk

With approximately 80 obligors, the portfolio is smaller and more concentrated than similar pools. The top 10 participants approximate 72% of the total portfolio; the largest obligor is 40.7% of the portfolio. The program's underlying obligor credit quality is sound with over 90% of obligors exhibiting investment-grade credit characteristics. Obligor security is strong as nearly all obligors are secured by unlimited tax general obligation and/or net utility system revenue pledges. These preceding pool characteristics translate to an implied weighted average rating as calculated by Fitch's PSM of 'A'/'A-'.

Financial Structure

Fitch's cash flow modeling demonstrates that program resources are sufficient to withstand hypothetical pool defaults in excess of Fitch's 'AAA' liability rating stress hurdle, as derived using the PSM, without causing an interruption in bond payments. Due to the concentration of the largest obligor, the Fitch adjusted recovery rate of 84% was utilized in the cash flows.

Under the GBR, the state is obligated to transfer to the debt service fund any available moneys in the SRF, including equity moneys, in an amount sufficient to make debt service payments. Connecticut's incorporation of this obligation in the GBR provides additional bondholder protection. When utilizing these additional funds, the default tolerance rate exceeds 100% in each of Fitch's four-year modeling periods.

Program Management

Connecticut maintains sound formal program underwriting and loan monitoring guidelines exhibited by the lack of pledged borrower defaults to date.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade

--Significant deterioration in aggregate borrower credit quality or material increases in program leverage resulting in the program's inability to pass Fitch's 'AAA' liability rating stress hurdle.

Factors that could, individually or collectively, lead to positive rating action/upgrade

--The ratings are at the highest level on Fitch's scale and cannot be upgraded.

Credit Profile

Connecticut's state revolving funds provide subsidized loans to local entities throughout the state for eligible clean water and drinking water projects. Fitch evaluates the separate clean water and drinking water SRFs as a single program given the cross-collateralization feature, whereby debt service deficiencies in one fund may be cured by surpluses in the other.

The program has remained in line with historical performance. The program has not issued bonds since 2019 and more recently has been utilizing more program equity and prepayments to originate loans.

The medians cited within this report are based on similar 'AAA'-rated municipal finance pools, which primarily consist of SRFs, and are further described in Fitch's most recent peer credit analysis. The medians are for comparative purposes only; the primary driver for an assigned rating is Fitch's model results, as described below.

High Quality Obligor Pool with Manageable Concentration

At 79 borrowers, the current loan pool is somewhat small and concentrated. However, the large majority of borrowers are of high credit quality. The Hartford County Metropolitan District, unrated by Fitch but assessed as very strong, is the pool's largest borrower, accounting for about 41% of the total. The remaining top 10 borrowers account for an elevated 31% of the pool, and most are assessed to be investment grade. The program's loan security is strong, with each borrower backed by general obligation pledges (79.4%), net utility system revenues (18.2%), or a combination of the two (2.4%). Overall pool attributes have remained similar over the past several years. Although the weighted average life of the loans is 17.2, currently outstanding bonds will mature by 2039.

Sound Financial Structure

Fitch calculates the program asset strength ratio (PASR) as an additional measure of financial strength. The PASR, an asset-to-liability ratio, includes total scheduled obligor repayments plus any additional pledged funds divided by total scheduled bond debt service. The state’s PASR is 1.6x, lower than Fitch's 2025 'AAA' rating category median of 2.1x. The program's financial structure is sound, in part evidenced by a projected minimum annual debt service coverage (DSC) of 1.4x.

Consistent with Fitch criteria to address the concentration of the largest obligor, the Hartford County Metropolitan District, Fitch utilized a 75% recovery rate on this loan, resulting in the pool’s overall recovery rate of 84% which was applied to the cash flow models.

Excluding amounts in the equity fund, the program can continue to pay bond debt service, even with hypothetical obligor defaults of 76.1% over the first four years, 100% in the middle and last four years of the program's life. These results are in excess of Fitch's 'AAA' liability rating stress hurdle of 22%, as produced by the PSM.

Enhancement Provided by Equity Funds

The state's SRF loan pools are primarily protected from losses by surplus pledged loan amounts and investment earnings in excess of debt service, and amounts in the support and equity funds. As bonds amortize, amounts are released in accordance with a set schedule and are then available to pay for bond debt service. As of June 30, 2025, the combined clean water and drinking water equity funds balance was approximately $702.9 million. When equity funds are included in Fitch's analysis, default tolerance rate is 100% in each four-year period.

Strong Program Management and Underwriting

The state treasurer's office and Connecticut's department of energy and environmental protection (DEEP) jointly manage the clean water SRF program, while the state treasurer's office and the department of public health (DPH) jointly manage the drinking water program. Among other duties, DEEP and DPH are responsible for the preparation of the state's annual SRF priority lists, approval of construction disbursement requests, and the inspection of projects to ensure compliance. The program has recently been utilizing its equity and prepayments more to originate loans.

Connecticut requires that program borrowers evidence their ability to repay loans and provide relevant documentation such as financial statements, capital budgets and economic data. Management monitors monthly loan repayments and works with its loan servicing contractor, the program's trustee bank. In the event of a late payment, a policy is in place to implement immediate collection procedures. Connecticut has not experienced a pledged loan default across any of its SRF programs

Historical Program Metrics

	2025 'AAA' Median	CT CWF Series 2026A	CT CWF (2024-2)	CT CWF (2023-3)	CT CWF (2021-4)	CT CWF Series 2019A & B
Revolving Fund Type	–	CWSRF/DWSRF	CWSRF/DWSRF	CWSRF/DWSRF	CWSRF/DWSRF	CWSRF/DWSRF
Purpose	–	Refunding	Surveillance	Surveillance	Surveillance	Financing/Refunding
Total New Issuance ($ Mil.)	–	170.0	NA	NA	NA	280.8
Fitch Rating	–	AAA	AAA	AAA	AAA	AAA
Rating Date	–	5/11/2026	2/26/2024	3/16/2023	4/12/2021	5/31/2019
Fitch Default Tolerance Test (%)						
Minimum Default Tolerance Rate	100	76.1	76.1	65.5	72.1	64.1
Less: Fitch PSM Stress Hurdle**	29.2	22.0	21.2	17.3	22.1	21.9
Net Rating Stress Cushion	70.8	54.1	55.0	48.2	50.0	42.2
Financial Structure ($ Mil.)						
Total Outstanding Program Bonds	518	613	720	875	1,030	1,115
Program Assets ($ Mil.)						
Total Pledged Revenues Excluding Reserves	1,782	1,290	1,734	1,860	1,950	2,084
Total Pledged Revenues Including Reserves	1,782	1,290	1,734	1,860	1,957	2,094
Debt Service Reserve Fund Balance	2	0	0	0	7	11
Program Liabilities ($ Mil.)						
Total Debt Service	744	803	1,082	1,179	1,453	1,577
Financial Ratios						
Projected Minimum Annual DSC (x)	1.6	1.4	1.4	1.3	1.3	1.3
Program Asset Strength Ratio (x)	2.0	1.6	1.6	1.6	1.3	1.3
DSRF as % of Bonds Outstanding	0.1	0.0	0.0	0.0	0.7	1.0
Portfolio Summary						
No. of Borrowers	172	79	88	89	99	99
Implied WA Pool Rating (PSM)	BBB	A/A-	A-	A+	BBB+	A-
WA Life (Years)	18.1	17.2	15.4	16.9	16.5	18.2
% Investment Grade	76.5	90.3	88.9	96.6	86.8	91.8
Top 10 Concentration (%)	58.1	71.8	67.2	73.5	65.5	65.5
Largest Single Borrower (%)	17.2	40.7	37.7	40.6	40.3	39.6
Largest Borrower Composite Rating	AA-	AA	AA	AA-	AA	AA-
Security Pledge Distribution (%)						
Pledge 1	–	GO (79.4)	GO (83)	GO (76)	GO (81.8)	GO (75.1)
Pledge 2	–	Utility Revenues (18.2)	Utility Revenues (16.5)	Utility Revenues (22.6)	Utility Revenues (17.7)	Utility Revenues (20.6)
Pledge 3	–	GO and Utility (2.4)	GO and Utility (0.5)	GO and Utility (1.4)	GO and Utility (0.5)	GO and Utility (4.3)
Pledge 4	–	-	-	-	-	-

*Based on data collected for Fitch's peer review (through Dec. 2025). **PSM changes on March 4, 2021 and on Sept. 22, 2021 may result in differences in liability stress hurdles before and after these dates. See Fitch's related criteria for details. WA - Weighted average. Source: Fitch and Connecticut's Revolving Fund.

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