

# State of Connecticut – G.O.

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**METHODOLOGY**

[Public Finance: U.S. State General Obligation Rating Methodology](#)

## Ratings

Description	Rating Action	Rating/Outlook or Watch
<b>Issuer: State of Connecticut</b>		
General Obligation Bonds (2026 Series A)	Assigned	AA+/Stable
General Obligation Refunding Bonds (2026 Series B)	Assigned	AA+/Stable
Taxable General Obligation Bonds (2026 Series A)	Assigned	AA+/Stable
General Obligation Bonds	Affirmed	AA+/Stable

## Rating Summary

The rating for the State of Connecticut’s (the “State”) General Obligation Bonds (“Bonds”) reflects the State’s strong credit profile and its maintenance of certain statutory fiscal guardrails since FY 2018 which have accommodated consistently well-funded reserves and progress in addressing its large unfunded pension liabilities. Counterbalancing, to some extent, the aforementioned strengths are the State’s trend of slow economic growth and high ratio of tax-supported debt and net pension liabilities relative to personal income. In addition, like other states, the State will face higher costs associated with certain social welfare programs as a result of federal policy changes implemented in the One Big Beautiful Bill Act (OBBBA).

Proceeds of the currently offered Bonds will be used to finance a portion of the State’s ongoing capital needs, refund certain outstanding bonds for present value savings, and pay the costs of issuance.

The State has maintained certain statutory fiscal guardrails since FY 2018 which it has covenanted to maintain with respect to certain general obligation bondholders through at least FY 2028. The guardrails have provided a strong framework for managing revenue volatility, fully funding reserves, and accelerating the paydown of the State’s substantial unfunded pension liabilities. Notably, the legislature did loosen certain guardrail provisions as part of the FY 2026 – FY 2027 biennium budget process. However, KBRA views the revised provisions as continuing to provide a strong framework for further improving the State’s financial footing.

The revenue volatility cap, the marquee provision of the fiscal guardrails, remains in place. The cap requires the most volatile components of personal income tax and pass-through entity tax receipts, in excess of an indexed threshold, to be deposited into the State’s budget reserve fund (BRF or rainy-day fund). However, the threshold for the cap was “rebased” higher. The threshold for FY 2026 at \$4.73 billion is up \$649 million or 15.9% YoY. The Governor has also proposed an additional temporary \$500 million cap increase for the FYE 2026 balance to fund a tax rebate program in FY 2027. As before, any BRF balance exceeding 18% of subsequent-year appropriations at year-end, as well as half of any balance between 15% and 18% of subsequent year-appropriations at year-end, is generally required to be deposited as supplemental contributions toward the State’s unfunded pension liabilities. However, the legislature increased the BRF limit for



the FYE 2025 ending balance to 18% plus \$500 million (~20.1%) to set-aside the incremental amount to mitigate the loss of any federal funds per the implementation of the OBBBA in FY 2026. At the beginning of the 2026 legislative session, the legislature passed Special Act 26-1 which directed the remaining \$330 million of the original \$500 million out of the Budget Reserve Fund to the new Federal Cuts Response Fund. Additionally, the same Special Act extended the spending authority through the end of FY 2027 instead of only through FY 2026.

The guardrail requirement to direct the year-end unappropriated general fund balance to the BRF remains in place with the enacted FY 2026 – FY 2027 biennium budget. A modification beginning in FY 2026 however stipulates that if the BRF is funded to the statutory maximum, any remaining unappropriated general fund surplus is to be directed to the State's Early Childhood Education Endowment (ECEE) for early childhood care education programs. Previously, such excess funds would have instead been directed toward supplemental pension contributions.

The guardrails, since inception in FY 2018, have resulted in a BRF funded to the statutory limit in each year since FY 2020 and \$10.1 billion in supplemental pension contributions between FY 2020 and FY 2025. The BRF balance increased from just \$213 million at FYE 2017 to a projected \$6.14 billion at FYE 2026, or an amount equal to 24.1% of proposed FY 2027 appropriations. The BRF balance in excess of the 18% reserve limit at FYE 2026 is projected to amount to approximately \$1.57 billion which would be deposited toward unfunded liabilities by the end of the 2026 calendar year, supplementing the \$3.64 billion actuarially determined employer contribution (ADEC) identified for FY 2026, marking a seventh consecutive year of pension contributions in excess of the ADEC.

The State's general fund is projected to end FY 2026 with a small \$33 million surplus. Gross general fund receipts are projected to increase by a modest 0.8% YoY to \$26.2 billion following firmer growth in the preceding year. Estimated personal income and pass-through entity tax proceeds are projected to exceed the revenue volatility cap by \$1.8 billion, with this excess directed to the BRF, resulting in projected general fund revenues available for appropriation of \$24.4 billion, an increase of approximately 3.6% YoY. Total appropriations are projected to increase 2.1% YoY to \$24.4 billion. Through March 31, 2026, approximately \$169 million has been provided to state agencies from the \$500 million contingency set aside in the BRF to mitigate federal funding lost due to the OBBBA.

The Governor's proposed mid-biennium adjusted budget for FY 2027 is balanced. Proposed revenues are projected to increase 5.8% YoY to \$25.5 billion supported by improved PIT and CIT receipts due in part to proposed policy changes, inclusive of the aforementioned \$500 million tax rebate proposal which is to be paid out in early FY 2027 from a portion of the FY 2026 volatility cap transfer. Proposed appropriations are up 4.6% YoY to \$25.5 billion. The most notable proposed revenue policy change is a reduction to the hospital provider tax paired with a reduction in supplemental payments to hospitals that would ultimately net the general fund about \$54 million in savings after accounting for federal reimbursement.

The remaining \$330 million of the original \$500 million that was allocated to the Federal Cuts Response Fund provides a substantial buffer to respond to federal funding reductions in FY 2026 and FY 2027 arising due to the OBBBA. Among its many provisions, OBBBA will, over several years, tighten eligibility for social welfare programs including Medicaid and the Supplemental Nutrition Assistance Program (SNAP), impose new penalties for improper benefit payments from these state-administered programs, and reduce federal cost-sharing for Medicaid Expansion and health insurance exchange subsidy programs. The State has not provided specific year-by-year projections of the law's budgetary impact but KBRA understands that many of the laws most significant provisions will ratchet through FY 2028 while others such as required reductions to state hospital in-patient provider taxes must be phased in through FY 2032. KBRA views the proposed provisioning of substantial funds to address these cuts as supportive of the state's financial flexibility.

Connecticut's resource base is affluent but slow growing. Real gross state product (GSP) in 2025 was up 9.0% from the 2015 level versus U.S. real gross domestic product (GDP) growth of 26.9% over the same period. Seasonally adjusted employment in January 2026 was 1.1% below the pre-pandemic level which lags U.S. growth of 3.4%. The seasonally adjusted unemployment rate in Connecticut at 4.5% as of January 2026 is slightly above that of the U.S. at 4.3%. Wealth levels remain very high, with per capita personal income of \$98,879 at 129% of the national average in 2025.



The State has high debt levels, but this partly reflects its practice of issuing general obligation debt for certain university projects and for purposes that municipal entities and counties fund in other states, such as local school construction. Fixed costs (debt service, OPEB and pension<sup>1</sup>) were 21.1% of general government expenditures in FY 2025, which KBRA views as high. Debt amortization is favorable with 79% of general obligation principal scheduled to retire within 10 years.

The Stable Outlook reflects Connecticut’s diverse and high wealth economic base, strong reserve position, and effective financial management practices, which together provide a solid foundation for future financial performance.

## Key Credit Considerations

The rating actions reflect the following key credit considerations:

### Credit Positives

- State is projected to complete FY 2026 with a BRF balance exceeding the statutory cap at 18% of general fund appropriations and is positioned to direct surplus resources toward supplemental pension contributions for a seventh consecutive year.
- Strong financial management framework and enhanced statutory fiscal guardrails in place through at least FY 2028 position the State for strong operating results.
- Strong wealth levels with the highest per capita personal income level among all states as of 2025.

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### Credit Challenges

- Lower relative growth in the economic indicators of population, employment, and gross state product, although there are recent signs of growth in population.
- Unfunded pension liabilities and tax-supported debt burden are high relative to personal income, each more than 3x the respective U.S. average. However, the State borrows for many local purposes and the comparison on a combined state and local basis is more moderate.
- Federal policy changes implemented in the OBBBA will push responsibility for funding a larger share of certain social welfare programs to states over the next several years, which KBRA anticipates will pressure budgetary balance.

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## Rating Sensitivities

- Significant improvement in the funded ratios for the State’s pension systems.

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- Structural operating deficits in the general fund.

- Further relaxation of the fiscal guardrails.

- Sustained weakening in the State’s employment base and economic activity.

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<sup>1</sup> Excludes contributions in excess of the actuarially determined employer contribution.



## Key Ratios

<b>State of Connecticut</b>	
Per Capita Personal Income (2025) (in dollars)	\$98,879
as a % of U.S.	129%
Population (2025)	3,688,496
Growth 2010 to 2025	3.0%
<b>Real GDP, % Change 2015 to 2025</b>	
Connecticut	0.9%
New England	1.8%
United States	2.4%
<b>Budget Reserve Fund Balance (\$ in millions)</b>	
FYE 2021	\$3,112
FYE 2022	\$3,313
FYE 2023	\$3,316
FYE 2024	\$4,105
FYE 2025	\$4,827
FYE 2026 (Estimated) <sup>1</sup>	\$6,137
Direct Debt (2/1/2026) (\$ in millions)	\$25,768
Net Pension Liability (\$ in millions)	\$34,786
Fixed Costs as a % of Governmental Expenditures (FY 2025)	21.1%

(1) Projected balance prior to post-close transfers which would bring balance back in compliance with the statutory cap at 18% of appropriations.

## Rating Determinants

<b>Rating Determinants (RD)</b>	
1. Management Structure, Budgeting Practices and Policies	AAA
2. Debt and Additional Continuing Obligations	A+
3. Financial Performance and Liquidity Position	AA+
4. State Resource Base	AA-

A discussion of each rating determinant and KBRA's bankruptcy assessment can be found in prior KBRA reports, the most [recent](#) of which is dated September 9, 2025.



# RD 3: Financial Performance and Liquidity Position Update

Figure 1

General Fund Revenues and Expenditures														
Budgetary Modified Cash Basis (FYE June 30) (dollars in millions)														
	Actual									Estimated		Governor's Proposed		
	2021	Δ YOY (%)	2022	Δ YOY (%)	2023	Δ YOY (%)	2024	Δ YOY (%)	2025	Δ YOY (%)	3/20/2026	Δ YOY (%)	2026	Δ YOY (%)
<b>Revenues</b>														
Personal Income Tax	\$10,340	17.3%	\$12,132	-7.5%	\$11,223	-2.7%	\$11,803	15.5%	\$12,964	15.2%	\$13,602	0.9%	\$13,721	
Pass-through Entity Tax	1,550	48.9%	2,308	-11.2%	2,048	-14.9%	1,965	15.6%	2,367	24.2%	2,441	-3.1%	2,366	
Less: Volatility Cap Deposit	(1,241)		(3,047)		(1,322)		(1,321)		(2,099)		(1,810)		(1,213)	
Net PIT and Pass-Through Entity Tax	10,649	7.0%	11,392	4.9%	11,950	9.3%	12,446	10.7%	13,232	14.3%	14,232	4.5%	14,873	
Federal Grants (excl. ARPA)	1,496	29.3%	1,935	3.3%	1,998	6.5%	2,061	-3.1%	1,935	-11.3%	1,827	6.3%	1,943	
Sales and Use Tax	4,793	0.5%	4,818	2.6%	4,945	3.8%	5,003	3.6%	5,121	5.5%	5,279	2.5%	5,410	
Corporate Income Tax	1,153	21.5%	1,401	8.2%	1,517	11.0%	1,556	-7.5%	1,403	-16.0%	1,307	16.9%	1,527	
Excise Taxes (Alcohol and Cigarettes)	430	-5.7%	406	-8.5%	371	-18.5%	331	-16.6%	310	-11.3%	293	-4.4%	280	
Indian Gaming Payments	229	8.7%	249	12.2%	279	22.9%	306	19.3%	333	19.3%	365	4.3%	380	
Statutory Transfers from Other Funds	115	10.2%	126	-10.9%	113	-21.4%	99	-6.2%	105	-7.5%	92	-1.7%	90	
Other	1,667	-0.2%	1,664	-0.8%	1,652	-45.0%	915	-12.0%	1,453	8.9%	997	29.7%	1,292	
<b>Total Revenues</b>	<b>20,531</b>	<b>7.1%</b>	<b>21,991</b>	<b>3.8%</b>	<b>22,823</b>	<b>3.3%</b>	<b>22,716</b>	<b>4.7%</b>	<b>23,891</b>	<b>2.1%</b>	<b>24,391</b>	<b>5.8%</b>	<b>25,796</b>	
<b>Expenditures</b>														
General Government	646	16.0%	750	24.6%	934	-45.8%	507	0.9%	511					
Public Safety	284	6.9%	304	13.9%	346	-0.6%	344	5.1%	361					
Conservation and Development	189	23.0%	233	1.5%	237	4.2%	247	-0.3%	246					
Health and Hospitals	1,244	2.6%	1,276	9.3%	1,395	63.8%	2,285	115.5%	4,925					
Human Services	4,258	4.4%	4,445	11.8%	4,969	-5.9%	4,676	5.3%	4,925					
Education, Libraries and Museums	5,304	7.4%	5,698	6.4%	6,060	0.9%	6,114	5.6%	6,455					
Corrections and Judicial	1,994	-4.1%	1,912	11.9%	2,139	1.8%	2,178	4.7%	2,281					
Debt Service	2,219	4.9%	2,329	7.6%	2,506	8.1%	2,710	-7.9%	2,497					
Other/Adjustments*	3,917		3,785		3,681		3,254		1,279					
<b>Total Expenditures</b>	<b>20,056</b>	<b>3.4%</b>	<b>20,731</b>	<b>7.4%</b>	<b>22,267</b>	<b>0.2%</b>	<b>22,315</b>	<b>5.2%</b>	<b>23,481</b>	<b>3.7%</b>	<b>24,358</b>	<b>4.6%</b>	<b>25,470</b>	

\*Includes adjustments to actuals to reconcile total expenditures as reported in Annual Financial Report of the State Comptroller with expenditures as reported in OPM credit rating agency presentations.  
Sources: Annual Financial Reports of the State Comptroller; OPM Rating Agency Presentation dated April-13-14, 2026

Figure 2

Budget Reserve Fund Summary Operations								
Budgetary Modified Cash Basis (FYE June 30) (dollars in millions)								
	2021	2022	2023	2024	2025	2026	2027	
						Estimated	Governor Proposed	
Beginning BRF Balance	\$3,013	\$3,112	\$3,313	\$3,316	\$4,105	\$4,827	\$4,565	
Transfers to General Fund	-	-	-	-	-	-	-	
General Fund Surplus (Outside of Volatility Cap)	476	1,261	555	401	410	33	326	
Statutory Transfer to Early Childhood Education Endowment	-	-	-	-	(300)	(33)	(326)	
Statutory Transfer to Federal Cuts Response Fund	-	-	-	-	-	(500)		
Volatility Cap Deposit	1,241	3,047	1,322	1,321	2,099	1,810	1,213	
Ending BRF Balance Before Statutory Post-Close Transfers to SERS/TRS	4,730	7,420	5,190	5,038	6,314	6,137	5,779	
as a % of Ensuing FY Net GF Approps.	22.8%	33.4%	22.1%	21.4%	25.9%	24.1%		
Statutory Transfer to SERF and TRS Following Year End	(1,618)	(4,107)	(1,875)	(933)	(1,488)	(1,572)		
Ending BRF Balance After Statutory Post-Close Transfer to SERS/TRS	3,112	3,313	3,316	4,105	4,827	4,565		
as a % of Ensuing FY Net GF Approps.	15.0%	15.0%	15.0%	18.0%	20.1%	18.0%		

Sources: Annual Reports of the State Comptroller for Actuals; Rating Agency Presentation dated August 26-28, 2025 for FY 2025 Estimate and FY 2026 Projected



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