

State of Connecticut – Special Tax

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METHODOLOGY

[Public Finance: U.S. Special Tax Revenue Bond Rating Methodology](#)

Ratings

Description	Rating Action	Rating/Outlook or Watch
Issuer: State of Connecticut		
Special Tax Obligation Refunding Bonds, Transportation Infrastructure Purposes, 2026 Series A	Assigned	AAA/Stable
Special Tax Obligation Bonds, Transportation Infrastructure Purposes	Affirmed	AAA/Stable

Rating Summary

The long-term rating continues to reflect the ample coverage and stable nature of most revenues pledged to repayment of Special Tax Obligation Bonds, descending debt service requirements, and a robust legal framework that includes a covenant for the State of Connecticut (the State) to provide pledged revenues in each fiscal year sufficient to provide at least 2.0x annual debt service coverage. If debt service coverage does not meet the 2.0x requirement, the covenant requires that the State must pass legislation within one year adjusting pledged revenues to satisfy the coverage requirement. Such a covenant is a relative rarity in the broader category of special tax financings.

Proceeds of the 2026 Series A Bonds (the Bonds) will be used, together with other legally available funds, to refund certain outstanding bonds for present value savings, and to pay the cost of issuance. Special Tax Obligation Bonds are payable from a diverse basket of state revenues derived largely from transportation-related activity. The pledged revenues consist of certain sales taxes, oil companies tax, motor fuels tax, highway use tax, and various transportation-related fees and charges. Pledged revenues declined 2.1% in the fiscal year ending June 30, 2025 to \$2.36 billion. Debt service coverage in FY 2025 was strong at 2.75x. Pledged revenues from FY 2025 provide coverage of 2.61x pro forma MADS which occurs in FY 2027.

The Bonds are the third to be issued under an Amended and Restated Indenture of Trust (2024 Indenture). As permitted under the 2024 Indenture, the Bonds will not feature a debt service reserve requirement and advance debt service set-asides are not required, though the State has so far elected to structure bonds under the 2024 Indenture, including the presently offered series, as “Monthly Payment Bonds” with the same 1/6 interest and 1/12 principal monthly set-asides as prior bonds. The 2024 Indenture includes a number of changes that will become effective upon obtaining the consent of the holders of at least 60% in aggregate principal outstanding including the ability to issue variable rate debt, as well as make provisions for swaps, credit facilities, liquidity facilities and balloon payment indebtedness as parity obligations, in addition to other comparatively minor changes. Based on the certain assumptions, the State expects to reach the 60% threshold as early as calendar year 2028.

The Connecticut Constitution designates the Special Transportation Fund (STF) into which all pledged revenues are deposited and used first to pay debt service as a perpetual fund. It requires that all monies contained in the STF be used solely for



transportation purposes, including payment of debt service on debt incurred for said purposes. It additionally requires that so long as these sources of funds are authorized to be collected, they must be deposited into the STF.

The State has directed substantial new funding sources to the STF in recent years. Between FY 2016 and FY 2023, the State phased in the dedication of the proceeds of 0.5% of the State’s 6.35% general sales and use tax as well as the proceeds of all motor vehicle sales and use taxes. The Legislature has additionally implemented a Highway User Fee that assesses a per-mile tax on commercial trucks that scales from 2.5 cents to 17.5 cents per mile based on vehicle weight class. The tax, all proceeds of which are deposited to the STF, became effective January 1, 2023 (mid-year FY 2024) and raised an unaudited \$59.9 million in FY 2025.

The State uses STF revenues both to pay debt service and fund transportation programs and capital outlays on a pay-go basis. The future transportation capital needs of the State are significant, and the State plans to fund much of these capital plans with additional parity bonds as well as continuing pay-go contributions. The State’s projections call for annual parity new money borrowing of \$1.2 billion in FY 2027, and \$1.1 billion annually thereafter through FY 2030.

Seasonally adjusted unemployment in March 2026 was 4.8%, a level higher than the U.S. average 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 economic growth trend in the State has been sluggish, with real gross state product (GSP) growth of just 9.0% between 2015 and 2025, significantly lower than the New England regional growth of 19.7% and National growth of 26.9%.

The Stable Outlook reflects KBRA’s expectation that debt service coverage on the STO Bonds will remain at comfortable levels based upon the stability and resilience of the pledged revenues and the State’s demonstrated history of actively managing the basket of pledged revenues and transportation funding levels.

Key Credit Considerations

The rating actions reflect the following key credit considerations:

Credit Positives

- Diverse pledged revenue sources provide a stable source of payment and solid coverage of debt service requirements.
- Legal protections are favorable including a covenant to maintain at least 2.0x annual debt service coverage.

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Credit Challenges

- The State’s rate of economic growth has been slower than that of the U.S. and New England region for more than a decade although wealth levels are favorable.
- Transportation needs are substantial and place pressure upon the State’s ability to fund them over the longer term.

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Rating Sensitivities

- Not applicable at AAA rating level.
- An economic downturn that leads to a sustained decline in coverage and budgetary pressure on the State.

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Key Ratios

FYE June 30 (dollars in millions)			
	2025	2026 Projected	2027 Projected
Pledged Revenues and Coverage			
Sales and Use Tax	\$878	\$894	\$917
Oil Companies Tax	298	360	358
Motor Fuels Tax	514	503	505
Motor Vehicle Receipts	275	264	272
Licenses, Permits, Fees	140	140	141
Sales Tax - DMV	114	110	111
Highway User Fee	60	61	62
Other, Net	(57)	(36)	259
Adjustments to Rev. For Coverage Purposes*	140	83	(223)
Total Net Revenues for Coverage Purposes	2,361	2,378	2,402
Debt Service	859	891	899
Debt Service Coverage Ratio	2.75x	2.67x	2.67x
Economic Data			
Per Capita Personal Income (2025)		\$98,879	
as a % of U.S.		129%	
Population (2025)		3,688,496	
Δ 2015 to 2025		2.1%	
Real GSP, Δ 2015 to 2025			
Connecticut		9.0%	
New England		19.7%	
U.S.		26.9%	
Summary Legal Provisions			
Coverage Covenant	Pledged revenues must provide 2.00x annual debt service coverage. Historical and projected annual receipts equivalent to 2.00x pro forma MADS, subject to adjustment for changes to pledged revenue sources.		
Additional Bonds Test	The historical coverage portion of the test will be eliminated upon achievement of 60% bondholder consent under the 2024 Indenture. The State estimates that approximately 33% will have consented following issuance of the currently offered 2026 Bonds.		
	<u>2024 and Later Bonds:</u> No DSRF requirement.		
DSRF Requirement	<u>Pre-2024 Bonds:</u> MADS.		

*Pursuant to laws enacted in 2025 and 2026, respectively, the STF will delay recognition of \$140 million in receipts in FY 2025 and \$83 million in FY 2026, and will instead recognize the aggregate \$223 million in receipts in FY 2027. Coverage is calculated on a cash basis so this Adjustment of Revenue for Coverage Purposes line item is utilized to reverse this change for the purpose of the coverage calculation.



Rating Determinants

Rating Determinants (RD)	
1. Legal Framework	AAA
2. Nature of Special Tax Revenues	AAA
3. Economic Base and Demographics	AA-
4. Revenue Analysis	AA
5. Coverage and Bond Structure	AAA

A discussion of each Rating Determinant and KBRA’s bankruptcy assessment can be found in prior reports, the most [recent](#) of which is dated November 17, 2025.

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