

State of Connecticut

Connecticut's 'AA' STO bond rating reflects strong resilience 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

Long-Term IDR	AA
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Outlooks

Long-Term IDR	Stable
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New Issues

\$439,135,000 Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes 2026 Series A	AA
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Sale Date

The week of June 8 via competitive sale

Outstanding Debt

[Issuer Ratings Information](#)

Applicable Criteria

[U.S. Public Finance State Governments and Territories Rating Criteria](#)

[U.S. Public Finance Dedicated Tax and Revenue Bond Rating Criteria](#)

Related Research

[Fitch Rates Connecticut's \\$1.1B GO Bonds 'AA'; Outlook Stable \(April 2026\)](#)

Analysts

Karen Krop
+1 212 908 0661
karen.krop@fitchratings.com

Douglas Offerman
+1 212 908 0889
douglas.offerman@fitchratings.com

Dedicated Tax Security

The STO bonds are backed by a gross lien on transportation-related revenues and other pledged receipts deposited to the STF, prior to any other use. The largest pledged revenue sources include a portion of statewide general and motor vehicle retail sales and use taxes, the state's motor fuels tax, a tax on the gross earnings of oil companies, and motor vehicle registration receipts. Funds deposited into the STF may not be withdrawn from the fund, except to pay debt service on STO bonds and transportation-related expenses.

Dedicated Tax Key Rating Drivers

Revenue Risk - 'a'

Stable Revenue Stream with Limited Growth Prospects: The bonds are backed by a mix of transportation-related revenues and a portion of the statewide sales tax that shows relative stability over time. Fitch assesses the revenue type at 'a', reflecting the narrow but largely essential revenues from fuel taxes. Fitch assesses revenue sensitivity at 'a' based on historical patterns of moderate declines and fairly quick recovery through the economic cycle, as well as the state's record of supporting revenues through tax policy changes. Revenue growth prospects are assessed at 'a', reflecting Fitch's expectation of growth in line with inflation.

Resilience - 'aa'

Leverage Limits and High Resiliency: Pledged revenues can absorb Fitch's standard 10% stress for the 'a' revenue risk assessment and still provide strong coverage of the more than 1.5x minimum 'aa' coverage requirement at maximum anticipated leverage, based on the 2x ABT.

Exposure to Related Government

Rating Capped by State IDR: The STO bonds are 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 with coverage of maximum anticipated leverage falling closer to, or below, 1.65x 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 a reduction in assumed leverage such that stressed coverage exceeds 2x.

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.

There has been some unevenness in recent revenue performance, largely due to gas tax holidays. A three-month gas tax holiday in fiscal 2022 reduced revenues by approximately \$90 million and then \$240 million in fiscal 2023. As these holidays phased out, revenue sharply increased in fiscal 2024. Fiscal 2025 total net pledged revenues of \$2.36 billion were 8% below fiscal 2024 levels, as a tax on gross earnings from the sale of petroleum products declined with a suspension of the tax on aviation fuel. Sales tax revenues have shown growth, increasing 4% in fiscal 2025.

Connecticut's April 2026 consensus revenue estimate projects 3.3% growth in total net pledged revenues to \$2.3 billion, led by growth in sales tax revenues to \$894 million, with 2.5% annual increases forecast thereafter. The oil company tax is expected to remain fairly level 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.

Additional Key Credit Driver Commentary for Revenue Risk

Bonds are payable from a mix of revenues dedicated to transportation purposes and deposited in the STF. These include a fixed portion of the statewide general sales taxes (\$878 million in fiscal 2025, 40% of the total); a motor fuels tax charged on gasoline, diesel and other fuels sold by distributors (\$514 million, 23%); a tax on gross earnings from the sale of petroleum products containing oil derivatives levied on oil companies (\$298 million, 12%); various motor vehicle registration, inspection and user fees (\$275 million, 12%); vehicle license, permit and fee revenues (\$140 million, 6%); and a sales tax levied on motor vehicles (\$114 million, 5%). These revenue types are from narrow but largely essential economic activity, leading to an 'a' assessment for revenue type.

Revenue trends are expected to be moderately sensitive to cyclical stress. Previous declines in pledged revenues have ranged between 5% and 10% with relatively rapid recovery that is often supported by policy changes that supplement revenues. This warrants an 'a' assessment for revenue sensitivity.

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, consistent with an 'a' assessment for growth prospects. 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 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 5% through fiscal 2025, incorporating substantial rate changes and other state actions that increased receipts flowing to the STF.

Additional Key Credit Driver Commentary for Resilience

Solid Coverage Levels

To assess the resilience of the bond structure to potential cyclical stress, Fitch considers how much coverage the structure could provide under a stress scenario that assumes full issuance to the ABT.

Fiscal 2025 net revenues of \$2.36 billion provided 2.75x coverage of annual debt service. Using the standard 10% stress related to the 'a' revenue risk assessment and full issuance to the ABT, fiscal 2025 revenues provide 1.8x coverage of maximum assumed leverage. This supports a resilience assessment of 'aa'.

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.

Additional Credit Factors (ACFs)

Fitch has applied an ACF with positive influence for revenue control, given the demonstrated ability and willingness of the State of Connecticut to actively manage pledged revenues.

The state has a history of adjusting the revenues deposited in the STF. 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.

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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