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
Issuer: State of Connecticut		
General Obligation Bonds (2026 Series C)	Assigned	AA+/Stable
General Obligation Refunding Bonds (2026 Series D)	Assigned	AA+/Stable
General Obligation Refunding Bonds (2026 Series E) (Forward Delivery)	Assigned	AA+/Stable
Taxable General Obligation Bonds (2026 Series B)	Assigned	AA+/Stable
General Obligation Bonds	Affirmed	AA+/Stable

Rating Summary

The rating for the State of Connecticut's (the "State") General Obligation (G.O.) Bonds ("Bonds") reflects the State's strong credit profile and its maintenance of certain statutory fiscal guardrails 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, Connecticut will face higher costs associated with certain social welfare programs as a result of federal policy changes implemented in Public Law 119-21, more commonly known as HR 1 of 2025.

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

The State has maintained statutory fiscal guardrails since FY 2018 which it has covenanted to maintain with respect to certain G.O. 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.

The revenue volatility cap, a central component of the fiscal guardrails, requires the most volatile components of personal income tax (PIT) 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). 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. The State has periodically adjusted the revenue volatility cap beyond the baseline inflation adjustment and directed BRF balance in excess of the limit toward alternative uses, but these actions have historically been measured, and the cap remains an effective tool.

Notably, the State did direct a $500 million portion of the excess BRF balance accumulated at the end of FY 2025 to fund a Federal Cuts Response Fund (FCRF) to help absorb federal cuts implemented per HR 1 and other federal policy changes. It also temporarily increased the revenue volatility threshold for FY 2026 by $814 million to fund items including an additional $50 million dedication to the FCRF and $347 million for the newly established Early Childhood Education Endowment (ECEE). Of the $550 million allocated to the FCRF, $287 million has been allocated while $263 million remains available for future needs. A separate guardrail requiring the dedication of year-end unappropriated fund balance to the BRF was modified beginning in FY 2026 to instead direct any estimated surplus to the ECEE.

The guardrails, since inception in FY 2018, have resulted in a BRF funded to the statutory limit in each year since FY 2020 and $11.5 billion in supplemental pension contributions. The BRF balance increased from just $213 million at FYE 2017 to a projected $5.89 billion at FYE 2026, or an amount equal to 23.7% of budgeted FY 2027 appropriations. The BRF balance in excess of the 18% reserve limit at FYE 2026 is projected to amount to approximately $1.41 billion which is expected to be deposited toward unfunded liabilities by the end of the 2026 calendar year, supplementing the $3.62 billion actuarially determined employer contribution (ADEC) identified for FY 2027, and marking a seventh consecutive year of pension contributions in excess of the ADEC.

The State's General Fund (GF) is estimated to have ended FY 2026 with a $526 million surplus. Gross GF receipts are estimated to have increased by a modest 1.1% YoY to $26.3 billion following firmer growth in the preceding year. Estimated personal income and pass-through entity tax proceeds are estimated to have exceeded the revenue volatility cap by $1.4 billion, with this excess directed to the BRF, resulting in projected GF revenues available for appropriation of $25.0 billion, an increase of approximately 4.6% YoY. Total appropriations are projected to have increased 3.7% YoY to $24.4 billion.

The enacted mid-biennium adjusted budget for FY 2027 is balanced. Revenues are projected to increase by a modest 1.0% YoY to $25.2 billion weighted down by a 1.2% decline in net PIT and pass-through entity tax receipts based on what have historically proven to be conservative assumptions. Appropriations are up 0.7% YoY to $24.9 billion. The most notable revenue policy change is a restructuring of the hospital provider tax and supplemental payment framework which moved both taxes and payments out of the General Fund.

The present unallocated balance of the FCRF ($263 million) provides a substantial buffer to respond to additional federal funding reductions and cost shifts in FY 2027 arising from HR 1 and related federal policy changes. Among its many provisions, HR 1 will, over several years, tighten eligibility and work requirements for social welfare programs including Medicaid and the Supplemental Nutrition Assistance Program (SNAP), shift a greater share of SNAP administrative and benefit costs to states, and constrain Medicaid financing through reductions in allowable provider taxes. Connecticut expects the Medicaid eligibility changes alone to reduce enrollment by approximately 65,000 by June 30, 2027, with many of the fiscal effects becoming more fully phased in through the following biennium. Separately, the expiration of enhanced federal premium tax credits has reduced federal support for health insurance purchased through the State's exchange, increasing State funding requirements to maintain premium assistance; approximately $115 million of the Federal Cuts Response Fund has already been allocated to offset the loss of these subsidies. The State has not provided a comprehensive year-by-year estimate of the aggregate budgetary impact, and several of the most significant provisions will phase in over multiple years, including SNAP benefit cost sharing beginning in federal FY 2028 and reductions in the Medicaid provider-tax safe harbor through federal FY 2032. KBRA views the State's advance provisioning of substantial resources to address these federal funding pressures as supportive of its financial flexibility.

Connecticut's resource base is strong but slow growing. Wealth levels remain very high, with per capita personal income of $98,879 at 129% of the national average in 2025. In contrast, 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. Statewide employment recovered well from the pandemic and exceeded the prior high by 2024, but seasonally adjusted August 2026 employment was down by a notable 3.9% YoY versus overall U.S. employment which was only down 0.3%. The seasonally adjusted unemployment rate in Connecticut at 5.1% as of August 2026 is above that of the U.S. at 4.1%.

The State has high debt levels, but this partly reflects its practice of issuing G.O. 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) were 21.1% of general government expenditures in FY 2025, which KBRA views as high. Debt amortization is favorable with 81% of G.O. 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 actions reflect the following key credit considerations:

Credit Positives

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- State is estimated to have completed FY 2026 with a BRF balance exceeding the statutory cap at 18% of GF 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.

Credit Challenges

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- Below average gross state product, population, and employment growth underscore structural economic/demographic challenges.
- 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 HR 1 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.

Rating Sensitivities

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

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- Structural operating deficits in the GF.
- Further relaxation of the fiscal guardrails.
- Sustained weakening in the State's employment base and economic activity.

Key Ratios

State of Connecticut – G.O.	
Per Capita Personal Income (2025) (in dollars)	$98,879
as a % of U.S.	129%
Population (2025)	3,688,496
Growth 2010 to 2025	3.0%
Real GDP, % Change 2015 to 2025	
Connecticut	0.9%
New England	1.8%
United States	2.4%
Budget Reserve Fund Balance ($ in millions)	
FYE 2021	$3,112
FYE 2022	$3,313
FYE 2023	$3,316
FYE 2024	$4,105
FYE 2025	$4,827
FYE 2026 (Estimated)[1]	$4,477
Direct Debt (2/1/2026) ($ 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

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 Risk Assessment can be found in prior KBRA reports, the most recent of which is dated April 27, 2026.