S&P Global
Ratings

RatingsDirect®

Research Update:

Connecticut Debt Rating Outlook Revised To Positive On Pension Liability Reduction, Budgetary Balance, Reserves

September 24, 2026

Overview

- S&P Global Ratings revised the outlook to positive from stable and affirmed its 'AA-' rating on the State of Connecticut's general obligation (GO) debt and debt secured by a special capital reserve fund, which we view to be on par with that of the state GO rating as state-supported GO-equivalent securities, including various issues by the Connecticut Housing Finance Authority, the Connecticut Health & Educational Facilities Authority, the University of Connecticut, and the Connecticut Green Bank.
- Concurrently, we revised the outlook to positive from stable and affirmed our 'AA' rating on the state's senior-lien special tax obligation (STO) bonds, our 'A+' rating on the state's appropriation-secured debt, and our 'A-' rating on obligations secured by the state's moral obligation.
- We also assigned our 'AA-' rating with a positive outlook to Connecticut's proposed $800 million 2026 series C GO bonds, $330 million 2026 series D GO bonds, $225 million 2026 series E (forward delivery) GO bonds, and $300 million 2026 series B taxable GO bonds.
- Finally, we affirmed our 'SP-1+' short term rating on the University of Connecticut's GO bond anticipation notes (BANs) and our 'AA-/A-1' dual rating on the state's series 2016C GO bonds and on the Capital Region Development Authority's series 2004B bonds, with liquidity support provided by Bank of America N.A.
- The outlook revision reflects our view of Connecticut's commitment to reducing its high unfunded pension liabilities while sustaining budgetary balance and healthy reserves. The outlook revision also reflects our expectation that the state will maintain its commitment to fiscal balance and reducing long-term liabilities in the next fiscal biennium, while not significantly altering the guardrails it established to support budget predictability and fiscal balance, lower unfunded pension liabilities, and limit annual debt issuance.

Primary Contact

Rob M Marker
Denver
1-303-721-4267
Rob.Marker
@spglobal.com

Secondary Contact

Thomas J Zemetis
New York
+ 1 (212) 4381172
thomas.zemetis
@spglobal.com

Rationale

Security

The state's full faith and credit and taxing power secure its GO debt. We also rate certain special obligations of Connecticut for which the state pledges legally available funds to make debt service payments on behalf of various public authorities, institutions, and municipalities. These funds are deemed appropriated by the state and do not require annual legislative approval, which we view as equivalent to Connecticut's GO pledge. The state's full faith and credit and taxing power also secure the University of Connecticut's BANs.

We rate the state's appropriation debt that is subject to biennial legislative approval one notch below the GO rating to reflect appropriation risk. We rate the moral obligation bonds three notches below the GO rating to reflect the state's contingent obligation to replenish draws on the debt service reserve fund established for the bonds. Finally, the short-term component of the dual rating reflects the short-term rating on Bank of America N.A., which provides enhancement for the bonds in the form of a standby bond purchase agreement.

Deposits to the state's transportation fund (STF) secure the STO bonds. Once revenue begins to be deposited to the state's transportation fund (STF), there will be a first lien on (and a constitutional dedication of) the revenue collected statewide that secures the bonds. Pledged revenue is deemed appropriated and does not require further legislative approval for the payment of debt service. Because the state collects the pledged revenue, we view the rating on the STO bonds as linked to Connecticut's creditworthiness and have established a one-notch rating differential between the GO rating and our rating on the STO bonds under our priority-lien tax revenue debt criteria, Oct. 22, 2018. For further information, see our report on Connecticut's senior-lien STO bonds, May 21, 2026.

Proceeds from the bonds will fund general government projects authorized under various bond acts of the state and refund bonds outstanding for cost savings.

Credit highlights

Connecticut's commitment to statutory provisions that reduce budget volatility and to proactive budget management to sustain structural balance beyond the current biennium, particularly as extraordinary federal funds diminish and some program costs shift back to the state, will remain important to long-term credit quality.

The rating reflects our view of Connecticut's structurally balanced financial performance and record budget reserve fund (BRF) balance, which, in our view, has been achieved through proactive management practices, including long-term financial forecasting to identify potential budget gaps and financial controls to manage expenditure growth and potential cyclical revenue pressures. The state's favorable economic metrics, specifically high per capita income and gross state product, support our view of Connecticut's underlying credit quality. While incomes and production remain well above national averages, they have fallen in relation to the U.S. for over a decade, which, in our view, is primarily related to corporate downsizing, strategic relocations, and a loss of finance employment. Also, high debt and underfunded pension and other postemployment benefits (OPEB) liabilities, which make up a large share of its budget, remain a credit pressure. These liabilities could limit budgetary flexibility as the state navigates potentially slower economic and revenue growth conditions.

Fiscal 2026 concluded with results that continued to demonstrate the state's ability to reduce its high unfunded pension liability through volatility cap transfers while maintaining reserves and budgetary balance. The results included a $1.44 billion volatility cap transfer dedicated to paying down pension liabilities, alongside a $411.7 million transfer to the early childhood education endowment (ECEE). To date, the state has made $11.5 billion in supplemental pension transfers, resulting in nearly $1 billion in annual pension cost savings. While pension funding remains low and the decision to raise the volatility cap threshold may reduce the scale of future potential paydowns, we take a positive view of the progress in reducing unfunded liabilities.

The governor's fiscal 2027 budget revisions, which were signed on May 26, 2026, reflect a disciplined approach to the biennial budget cycle, including a 1.9% decrease in appropriations. To support key policy priorities, the volatility cap threshold was raised by $813.7 million in fiscal 2026 only. These funds are earmarked for municipal education grants, support for the ECEE, a transfer to help with fiscal 2027 budgetary balance, and a transfer to the state's federal cuts response fund. Following these transfers, the response fund is expected to hold $263 million to mitigate the impact of reduced federal support. For fiscal 2027, the state expects a $1.53 billion volatility cap transfer and a $451.8 million ECEE transfer. OPM’s most recent letter to the comptroller (September 2026) estimates a fiscal 2027 operating surplus of $380 million, and the BRF is expected to remain funded at its statutory 18% cap through 2027.

Economic fundamentals remain favorable and Connecticut continues to benefit from its broad and diverse economic base. However, the state continues to navigate the long-term trend of its income and production metrics falling relative to national averages.

The 'AA-' rating reflects our view of Connecticut's:

- Income and gross state product per capita metrics that continue to rank among the highest in the U.S., fueled by a broad and diverse economic base across the financial services, education and health services, defense manufacturing, and professional and business services sectors.
- Financial predictability embedded in its institutional framework, albeit with some restricted flexibility to adjust spending as a result of a high fixed-cost burden.
- Active management, with monitoring of revenue and expenditures, including monthly reporting and consensus revenue forecasting three times annually, and authority of the executive branch to make midbiennium adjustments to the budget.
- Record budget reserves, with expectations that balances in the BRF will be maintained at approximately 18% of net general fund appropriations at least through the fiscal 2026-2027 biennium; and
- Very high debt, pension, and OPEB liabilities, which could impede resolution of potential future structural budget gaps.
- For information on Connecticut's general creditworthiness, see our report, April 28, 2026.

Outlook

The positive outlook reflects our view that there is at least a one-in-three chance that we could raise the rating during the outlook period.

Downside scenario

We could revise the outlook to stable if the state fails to maintain its focus on structural stability or if its commitment to strong financial controls or to preserving high reserve and liquidity diminishes. We could also revise the outlook to stable if debt and liabilities increase to levels we deem less sustainable.

Upside scenario

We could raise the rating if Connecticut maintains its established fiscal guardrails in future budget cycles, further reduces unfunded pension liabilities without materially increasing debt, and demonstrates budget stability and healthy reserves.

Connecticut--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.20
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.00
Debt and liabilities	6.00

Connecticut--key credit metrics

	2026*	2025	2024	2023
Economy				
State population (000s)		3,688	3,676	3,645
Real GSP per capita ($)		79,446	77,855	77,695
Real GSP per capita as % of U.S.		115	114	116
State PCPI ($)		98,994	95,054	90,177
State PCPI % of U.S.		130	130	129
State unemployment rate (%)		4.0	3.3	3.2
Financial performance - S&P Global Ratings adjusted				
Operating fund revenue (mil. $)	25,225	23,891	22,716	22,823
Operating fund expenditures (mil. $)	24,699	23,481	22,315	22,267
Operating result (mil. $)	526	410	401	556
Operating result as % of revenue	2.1	1.7	1.8	2.4
Reserves and liquidity - S&P Global Ratings adjusted				
Available reserves (mil. $)	4,477	4,827	4,105	3,316
Available reserves as % of operating revenue	17.7	20.2	18.1	14.5
Debt and liabilities				
Net direct debt cost as % of revenue	--	11.4	9.5	8.8
Pension and OPEB cost as % of revenue	--	14.1	14.1	14.7
Total current cost as % of total government revenue	--	25.5	23.6	23.5
Net direct debt (mil. $)	--	24,765	25,112	25,416
Net direct debt per capita ($)	--	6,715	6,832	6,972
Direct debt 10-year amortization (%)	--	78	75	75
Combined NPLs (mil. $)	--	33,716	34,974	38,010
NPLs per capita ($)	--	9,142	9,515	10,427
Combined pension plan funded ratio (%)	--	61.4	59.2	54.4

*Estimated. Financial data may reflect analytical adjustments and is sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in

Connecticut--key credit metrics

	2026*	2025	2024	2023

time and not meant to show year-over-year trends. EBI--Effective buying income. GCP--Gross county product. NPL--Net pension liability. OPEB--Other postemployment benefits. PCPI--Per capita personal income.

Ratings List		
New Issue Ratings		
US$225,000,000 State of Connecticut, General Obligation Refunding Bonds, (Forward Delivery), (2026 Series E), dated: Date of Delivery, due: October 15, 2036		
Long Term Rating	AA-/Positive	
US$300,000,000 State of Connecticut, Taxable General Obligation Bonds, (2026 Series B), dated: Date of Delivery, due: October 15, 2036		
Long Term Rating	AA-/Positive	
US$330,000,000 State of Connecticut, General Obligation Refunding Bonds, (2026 Series D), dated: Date of Delivery, due: October 15, 2036		
Long Term Rating	AA-/Positive	
US$800,000,000 State of Connecticut, General Obligation Bonds, (2026 Series C), dated: Date of Delivery, due: October 15, 2046		
Long Term Rating	AA-/Positive	
Outlook Action		
	To	**From**
Multiple Revenue Stream		
Connecticut, CT General Obligation Equivalent and Connecticut St Univ Sys, CT Unlimited Student Fees	AA-/Positive	AA-/Stable
Connecticut, CT General Obligation Equivalent and University of Connecticut, CT Unlimited Student Fees	AA-/Positive	AA-/Stable
States		
Connecticut Housing Finance Authority CT, General Obligation Equivalent	AA-/Positive	AA-/Stable
Connecticut, CT Appropriation Contract	A+/Positive	A+/Stable
Connecticut, CT General Obligation	AA-/Positive	AA-/Stable
Connecticut, CT General Obligation Equivalent	AA-/Positive	AA-/Stable
Connecticut, CT General Obligation Equivalent State Supported Green Bonds	AA-/Positive	AA-/Stable
Connecticut, CT General Obligation Equivalent State Supported Parking and Energy Fee Rev Bnds	AA-/Positive	AA-/Stable
Connecticut, CT Lease Appropriation	A+/Positive	A+/Stable
Connecticut, CT Moral Obligation	A-/Positive	A-/Stable
Connecticut, CT Special Transportation Fund Revenues	AA/Positive	AA/Stable
Ratings Affirmed		
States		
Connecticut, CT General Obligation BAN	SP-1+	

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.