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
Issuer: State of Connecticut		
Special Tax Obligation Bonds, Transportation Infrastructure Purposes, 2026 Series B	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 the 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 B Bonds (the Bonds) will be used to finance various capital improvements under the State's ongoing Transportation Infrastructure Program, including highway and bridge construction and rehabilitation, rail and bus transit improvements, roadway resurfacing, and other state and local transportation infrastructure projects. Notable recent and ongoing projects included in the program include the new Windsor Locks Train Station which opened in October 2026 providing improved connectivity between the CT Rail Hartford Line and Amtrak with Bradley International Airport, as well as the new Enfield Train Station which commenced construction in October 2026 and will provide Metro North Stamford Line service to the area for the first time since 1986.

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 increased 1.1% in the fiscal year ending June 30, 2026 (estimated) to $2.40 billion. Debt service coverage in FY 2026 was strong at 2.68x. Estimated pledged revenues from FY 2026 provide coverage of 2.52x pro forma MADS which occurs in FY 2027.

The Bonds do not feature a debt service reserve requirement but are designated as “Monthly Payment Bonds” and feature a 1/6 interest and 1/12 principal monthly set-aside requirement. The Restated and Amended 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.

The currently offered Bonds are expected to include $100 million of balloon indebtedness maturing on January 1, 2037, which the State anticipates refinancing and amortizing between FY 2042 and 2046. Under the existing indenture, the balloon maturity will be treated as conventional debt, with the full principal amount included in debt service requirements in FY 2037 for purposes of the coverage covenant and additional bonds test. Upon effectiveness of the proposed indenture amendments, which require the consent of holders of at least 60% of outstanding senior bond principal, balloon indebtedness may instead be treated as amortizing over an extended period for purposes of calculating debt service requirements. The State anticipates reaching the required consent threshold as early as calendar year 2028. The proposed structure introduces some refinancing risk, although this is mitigated by the State's superior credit quality and demonstrated market access.

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 $60 million in FY 2026.

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 September 2026 was 5.1%, a level higher than the U.S. average at 4.2%. 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 Special Tax Obligation 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.

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.

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- 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 Actual	2026 Unaudited	2027 Projected
Pledged Revenues and Coverage			
Sales and Use Tax	$878	$896	$920
Oil Companies Tax	298	372	358
Motor Fuels Tax	514	502	505
Motor Vehicle Receipts	275	260	272
Licenses, Permits, Fees	140	134	136
Sales Tax - DMV	114	110	111
Highway User Fee	60	60	62
Other, Net	(57)	(29)	259
Adjustments to Rev. For Coverage Purposes*	140	83	(223)
Total Net Revenues for Coverage Purposes	**2,361**	**2,388**	**2,400**
Debt Service	859	891	947
Debt Service Coverage Ratio	2.75x	2.68x	2.53x
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.		
Additional Bonds Test	Historical and projected annual receipts equivalent to 2.00x pro forma MADS, subject to adjustment for changes to pledged revenue sources. 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 48% will have consented following issuance of the currently offered Bonds.		
DSRF Requirement	2024 and Later Bonds: No DSRF requirement. Pre-2024 Bonds: 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

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 May 20, 2026.

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