Research Update:

Connecticut Series 2026B Senior-Lien Special Tax Obligation Bonds Assigned 'AA' Rating

November 5, 2026

Overview

- S&P Global Ratings assigned its 'AA' long-term rating to Connecticut's $1.2 billion series 2026B senior-lien special tax obligation (STO) bonds.
- At the same time, we affirmed our 'AA' long-term rating and underlying rating on the state's senior-lien STO bonds outstanding.
- The outlook is positive.

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Rationale

Security

Once revenue has begun to be deposited in the state's transportation fund (STF), there is 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. Pledged revenue deposited to the STF includes:

- A portion of the state's general retail sales and use tax, as specified under state statutes;
- Motor fuels taxes (including gasoline, special fuels, and motor carrier road taxes);
- Taxes on oil companies;
- Motor vehicle receipts (registration fees for motor vehicles, license, permit, and fee revenue); and
- Other transportation-related receipts, funds, and money.

The amended indenture (dated Nov. 1, 2024) eliminated the requirement, for future bonds, to deposit one-12th of the principal and interest required over the next 12 months with the state electing, on a series-by-series basis, the timing of debt service deposits with the trustee, including up to the date they are due. The series 2026B will elect to require monthly deposits to the trustee for principal and interest requirements. The amended indenture removed a debt service reserve fund (DSRF) requirement, although a DSRF may be established for future series. The series 2026B bonds will not maintain a DSRF.

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Bond proceeds will finance various projects of the Connecticut Department of Transportation's (DOT) transportation infrastructure program.

Credit highlights

The 'AA' rating incorporates our view of Connecticut's very strong economic fundamentals, anchored by a large statewide taxing base from which pledged revenue is collected, and the diverse composition of pledged revenue deposited into the STF that has exhibited low volatility across economic cycles. While we anticipate that Connecticut will continue to issue debt to fund its transportation infrastructure program, the state has demonstrated active management of the STF, both in its sizing of debt issuances associated with the DOT's large transportation capital program and in its periodic expansion of revenue deposited to the fund, which we believe will continue to provide debt service coverage (DSC) of above 2x.

STF pledged revenue (S&P Global Ratings-calculated) increased 5% in 2026 and is estimated to rise 14% in 2027, primarily attributable to transfers from prior years' surplus amounts. Excluding the transfers, the state projects pledged revenue for coverage purposes will increase modestly by 1.4% in 2027, 0.7% in 2028, 0.4% in 2029, and 1.7% in 2030. DSC is projected to remain above 2x, and we view the state's revenue estimates as reasonable. The forecast includes $4.5 billion in additional issuances between 2027-2030, and issuance plans could be modified if necessary to maintain sufficient coverage.

The state reported a STF surplus of $36 million (1.6% of STF total net revenue) in fiscal 2026 and estimates it will produce a $210 million surplus in fiscal 2027. However, structural outyear gaps could materialize in fiscal years 2028-2030 as revenue growth slows and debt service requirements increase with additional issuances. Assuming no revenue enhancements or adjustments to the state's prospective transportation bond financing needs, the Office of Policy and Management projects a revenue to expenditure imbalance that will need to be addressed per the state's constitutional requirement to adopt a balanced budget. Therefore, a key credit consideration will be the state's ability to identify alternative and sustainable revenue sources and raise revenue when necessary to fund the state's transportation infrastructure program and maintain coverage.

Key considerations in our assessment of the credit quality of the pledged STF revenue include the following:

- Connecticut has a very strong and diverse statewide economic base of more than 3.6 million people generating pledged revenue, coupled with incomes that rank among the highest in the U.S.
- Sales, motor fuel, and other motor vehicle activity has historically demonstrated low volatility of pledged STF revenue, coupled with the state's regular forecasting of conditions within the fund and its history of implementing periodic increases to motor fuel tax rates, fees, and allocations of pledged revenue or approval of new revenue streams dedicated to the STF.
- Healthy and generally stable senior-lien pro forma maximum annual debt service (MADS) coverage is above 2x.
- There are good bond provisions and Connecticut has a strong commitment to its transportation program, including a 2x additional bonds test for both first- and second-lien bonds and the establishment of a 2x rate covenant, which we view as credit-stabilizing factors and likely to limit coverage dilution as the state funds additional transportation debt issuances in its capital improvement plan.

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- There is a close linkage to the Connecticut general obligation (GO) rating. In our view, any rating action on the state's general creditworthiness could have a corresponding effect on our rating on the state's STO bonds.
- For information on Connecticut's general creditworthiness, see our report, Sept. 24, 2026.
- For additional details on Connecticut's STO bonds, see our report, May 21, 2026.

Because the state collects the pledged revenue, we view the rating on the transportation revenue bonds as linked to Connecticut's creditworthiness. In our establishment of a one-notch upward limitation on the transportation revenue bond rating compared with the state GO rating, we factored Connecticut's provision of critical public services into our analysis. In 2018, Connecticut voters approved a state constitutional amendment that directs any funding sources to the STF, including motor fuels and oil company and sales tax revenue, as long as the law authorizing the state to collect or receive such revenue remains in existence. The amendment added state constitutional restrictions on the use of pledged transportation revenue once deposited to the STF in accordance with state statute against potential diversion of a portion of the pledged revenue stream. However, we believe this does not mitigate the exposure of the STO rating from the operating risk of the state, as collector of the pledged taxes, to the extent that we would expand our one-notch upward limitation from the state rating. Additionally, Connecticut does not, in our view, benefit from a limited scope of operations or extraordinary expenditure flexibility, which we believe still exposes it to some operating risk in the collection and distribution of pledge revenue.

Outlook

Given the linkage between the bonds and the state's general creditworthiness, the positive outlook reflects the positive outlook on the state, that is supported by its commitment to reducing the high unfunded pension liabilities while sustaining budgetary balance and healthy reserves. The outlook 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.

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 reserves and liquidity diminishes. We could also revise the outlook to stable if pledged revenue significantly declines, resulting in coverage meaningfully below forecast.

Upside scenario

The close linkage to the state's GO creditworthiness limits the rating on the STO bonds to no more than one notch above Connecticut's general creditworthiness. Therefore, an upgrade on the state GO bonds would likely result in an upgrade on the STO bonds.

Connecticut--Key credit metrics

	Metric
Economic data	
Economy	Very Strong

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Connecticut--Key credit metrics

	Metric
EBI level per capita % of U.S.	119
Statewide revenue base	Yes
Population (obligor)	3,688,212
Population (MSA)	Not Applicable
Financial data	
Revenue volatility	Low
Coverage and liquidity	Strong - Very Strong
Baseline coverage assessment	ABT
MADS coverage (x)	2.46
MADS year	2028
Annual debt service coverage (x)	2.50
2-year pledged revenue change (%)	7.92
Bond provisions	
ABT (x)	2.00
ABT type	MADS
ABT period	Historical
DSRF type	None
Obligor relationship	
Obligor linkage	Close
PL rating limit (number of notches above OC)	1

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. MSA--Metropolitan statistical area. MADS-Maximum annual debt service. ABT--Additional bonds test. DSRF--Debt service reserve fund. PL--Priority lien. OC--Obligor creditworthiness.N/A--Not available. 3-pronged test--MADS, 10% of principal, or 125% of average annual debt service.

Ratings List	
New Issue Ratings	
US$1,200,000,000 State of Connecticut, Special Tax Obligation Bonds, Transportation Infrastructure Purpose, 2026 Series B, dated: Date of Delivery, due: July 1, 2047	
Long Term Rating	AA/Positive
Ratings Affirmed	
States	
Connecticut, CT Special Transportation Fund Revenues	AA/Positive

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.

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