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CREDIT OPINION
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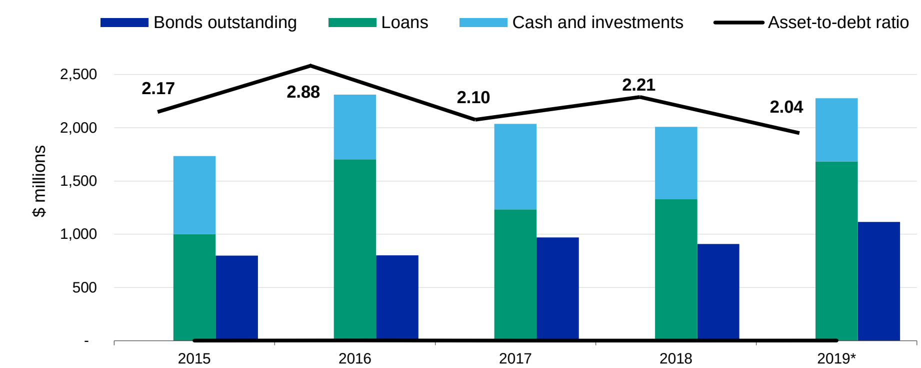
Connecticut (State of) State Revolving Fund

Update to credit analysis

Summary

Connecticut's State Revolving Fund (Aaa stable) combined drinking water and clean water programs will maintain the highest credit quality due to very high over-collateralization that results in a 48% default tolerance. Further supporting the program's strength is high credit quality and diversity of loan portfolio and solid management and governance.

Exhibit 1
Connecticut State Revolving Fund maintains very high over-collateralization after new issuance



*projected as of June 30th
Source: Moody's Investors Service

Credit strengths

» Very strong default tolerance of 48% continues to be the core strength of the program. To date, no borrower in the clean water and drinking water portfolio has defaulted.

» Solid legal framework which includes cross-collateralization of programs where each series of bonds has all available moneys in the SRF program as sources of payment. In this "available but not pledged" structure, moneys can only be used to pay bond debt service or make new loans, though the majority of funds are not pledged to bondholders.

» High credit quality of the loan portfolio which can withstand event risk or credit deterioration of any single participant.

» Well-established track record of program management and governance is demonstrated by rigorous underwriting and proactive monitoring.

Credit challenges

» Counterparty risk because a portion of the reserve funds are invested with entities that are rated lower than A1/P-1 required for a Aaa-rated program. However, cash flow projections, including the default tolerance, assume certain haircuts to investment held by these counterparties.

Rating outlook

The stable outlook reflects high default tolerance and projected revenues to meet full and timely bond debt service.

Factors that could lead to an upgrade

» Not applicable.

Factors that could lead to a downgrade

» Significant decline in program's default tolerance or deterioration of loan pool's credit quality and/or diversity.

Key indicators

Exhibit 2

Connecticut State Revolving Fund

	2015	2016	2017	2018	2019*
Bonds outstanding	800	801	970	909	1,115
Loans	1,002	1,703	1,232	1,329	1,685
Cash and investments	731	607	805	680	592
Asset-to-debt ratio	2.17	2.88	2.10	2.21	2.04
Default tolerance	49%	n/a	46%	n/a	48%
Number of unique borrowers	111	106	101	105	103
Percentage of top 5	47%	42%	54%	54%	50%
Percentage of pool below 1%	19%	14%	15%	14%	16%

Default tolerance calculated at time of new bond issuance

Sources: Moody's Investors Service, Connecticut (State of)

Profile

The Connecticut State Revolving Fund consists of (i) a wastewater pollution control revolving fund program (Clean Water) established by the State under the federal Water Quality Act of 1981, and (ii) the drinking water revolving fund program established by the State under the 1996 amendments to the Safe Drinking Water Act. Federal capitalization grants and state matching funds are used to provide loans to qualifying clean and drinking water projects.

Legal security

All bonds issued under the General Bond Resolution dated December 17, 2002 are special obligations of the State of Connecticut and solely payable from all available moneys in the State Revolving Fund, including loan repayments and income or principal of any other assets or investments necessary to pay bond debt service.

Detailed credit considerations

Loan portfolio size and diversity: diverse revenue stream supports credit strength

Revenues from more than 100 unique borrowers in the drinking water and clean water program will be sufficient to pay timely bond debt service. Each borrower pledges its full faith and credit or a dedicated revenue source as security for repayment of the loan. Approximately 75% of pledged loans are backed by a general obligation pledge or a combination of a general obligation pledge and revenue pledge of the borrower based on outstanding loans as of June 2019. The combined program is expected to have $2.2 billion in loans outstanding and commitments through April 30, 2020. The size and diversity of the program's loan portfolio is characterized by 103 unique borrowers, 50% of loan commitments attributed to the top 5 borrowers, and borrowers comprising less than 1% of loan commitments is 16%.

Underlying credit quality and default tolerance: high credit quality of loan pool complements robust default tolerance

We expect the loan portfolio to maintain high credit quality because 65% of the loan portfolio's outstanding principal is with publically-rated borrowers at Aa3 or above. Excess loan revenue and reserve funds enable the program to withstand a 48% default on all outstanding loans and meet bond debt service. The default tolerance analysis (DTA) is considerably strong, though an unlikely scenario based on the historical performance of loans and high credit quality of borrowers. The DTA incorporates haircuts for investment providers whose ratings are below A1, per Moody's methodology. Investment providers include American International Group, Inc. (AIG, Baa1 stable), Bank of America Corporation (A2 stable), Société Générale (A1 stable), and Trinity Funding Company, LLC (Baa1 stable).

Liquidity

The program has strong liquidity benefiting from substantial reserves that are available to pay bond debt service. Approximately 85% of available funds are invested in the Connecticut's short-term interest fund or held in cash.

Legal framework, covenant and debt structure: legal structure provides flexibility and efficiency

The Bonds are issued under Connecticut SRF's general bond resolution dated December 17, 2002 (GBR) and are payable from all available funds in the Revolving Fund, which includes: borrower loan repayments and income or principal revenue from other assets and investments. All funds are available for payment for debt service, but only monies in the pledged fund, debt service fund, bond proceeds fund, and support funds are pledged to bondholders. As a practical matter, all monies in the SRF Program are available to pay debt service because funds may not be transferred out of the program under federal requirements.

Furthermore, loan repayments are deposited into the debt service fund on a monthly basis as they are paid. The GBR does not require a reserve fund, which grants the state the flexibility to determine the required reserve levels with each new series of debt through the use of a supplemental resolution. The SRF Program had approximately $584 million in cash and investments as of April 30, 2019.

In addition, the drinking water programs and clean water programs are cross-collateralized. Both the drinking water program and the clean water program make loans from proceeds of the bonds. Loan repayments from the SRF Program are deposited to the State Revolving Fund General Revenue Bond Program and are available to pay all bonds whether loans were made under the drinking water program or the clean water program. The cross-collateralization has been structured in accordance with the Environmental Protection Agency's regulations.

Debt Structure

Bonds are 100% fixed-rate.

Debt-related derivatives

None.

Pensions and OPEB

Not a material factor in the SRF program's credit quality.

Management and governance: proactive loan monitoring and conservative fiscal policies add strength

Management demonstrates fiscal conservatism and strong management and oversight of borrowers. The loans are proactively monitored through coordination with the State's Office of Policy and Management. The program is jointly managed by the Treasurer's Office and the Departments of Energy and Environmental Protection (DEEP) and Public Health (DPH). The Treasurer's Office is responsible for implementation and management of the fund. DEEP and DPH are responsible for preparing project priority lists and eligibility requirements and for monitoring projects. Moody's views the coordination and insight of these three entities as strengths to the program.

Moody's related publications

Data report

» State revolving funds - US: Key performance indicators, May 6, 2019

Sector comment

» State revolving funds - US: Federal legislation to boost funding for state revolving funds, a credit positive, October 31, 2018

Methodology

» U.S. State Revolving Fund Debt, March 20, 2019

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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