State of Connecticut – G.O.

Issuer: State of Connecticut		
Assigned	**Rating**	**Outlook**
General Obligation Bonds (2025 Series A)	AA+	Stable
General Obligation Refunding Bonds (2025 Series B)	AA+	Stable
Taxable General Obligation Bonds (2025 Series A)	AA+	Stable
Affirmed	**Rating**	**Outlook**
General Obligation Bonds	AA+	Stable

Methodology:

U.S. State General Obligation Rating Methodology

ESG Global Rating Methodology

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Rating Summary: The long-term rating for the State of Connecticut's (the "State") General Obligation Bonds ("Bonds") reflects the State's strong credit profile and its maintenance of certain statutory fiscal guardrails since FY 2018 which have accommodated well-funded reserves and progress in addressing its large unfunded pension liabilities.

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

The State first implemented enhanced statutory fiscal guardrails in FY 2018 which it covenanted to maintain with respect to certain general obligation bondholders through June 30, 2023. Renewed guardrails were enacted and covenanted in FY 2024 that will be in place through at least FY 2028. Among the guardrails is a requirement to annually direct unappropriated general fund balances at fiscal year-end toward the State's budget reserve fund (BRF or rainy day fund) and the maintenance of a revenue volatility cap requiring the most volatile components of personal income tax and pass-through entity tax receipts, in excess of an indexed threshold, to be deposited into the BRF. 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 required to be deposited as supplemental contributions toward the State's unfunded pension liabilities, among other measures. The legislation was passed unanimously by both legislative chambers signaling broad continuing support for the conservative financial practices that have bolstered the State's financial position since FY 2017.

The guardrails resulted in a BRF funded to the statutory limit in each year since FY 2020 and $8.6 billion in supplemental pension contributions between FY 2020 and the FY 2024 post-close transfer. The BRF balance increased from just $213 million at FYE 2017 to a projected $5.91 billion or 25.9% of current FY 2025 appropriations. The BRF balance in excess of the reserve limit at FYE 2025, which KBRA estimates at approximately $1.8 billion, is to be deposited toward unfunded pension liabilities by the end of the 2025 calendar year, supplementing the $3.62 billion actuarially determined employer contribution (ADEC) already appropriated for FY 2025, marking a sixth consecutive year of pension contributions in excess of the ADEC.

The State's general fund is projected to end FY 2025 with a $396 million surplus. Gross general fund receipts are projected to increase by a solid 4.2% YoY to $25.0 billion after moderating slightly in the two prior years due to fading of pandemic-era stimulus. Personal income and pass-through entity tax proceeds are projected to exceed the revenue volatility cap by $1.40 billion, with this excess directed to the BRF, resulting in projected general fund revenues available for appropriation of $23.6 billion, an increase of approximately 4% YoY. Total appropriations are projected to increase 4.7% YoY to $23.2 billion.

The Governor's proposed budget for the FY 2026 to FY 2027 biennium, commencing July 1, 2025, is balanced and proposes $23.8 billion in general fund spending in FY 2026 (up 2.6% from the projected FY 2025 amount) and $25.0 billion in general fund spending in FY 2027 (up 4.8% YoY). Notably, the budget proposes rebasing the volatility cap threshold, which, if approved, would provide an estimated $289 million in additional revenues to the general fund in FY 2026 and $305 million in FY 2027. While KBRA views the proposed change as measured, it does represent a modest weakening of the fiscal guardrails that have been key to the State's improved financial footing since FY 2018 as volatility cap transfers available for the BRF and the accelerated paydown of pensions would be reduced. Additional proposed revenue measures include tweaks to corporate income tax policies that would net an additional $183 million in FY 2026 and $168 million in FY 2027; and a rebase of the hospital user fee and increased federal match receipts on hospital supplemental payments. The latter measure would net a combined $308 million in additional receipts beginning in FY 2027.

Connecticut's economy has recovered well from the pandemic but continues to grow more slowly than the U.S. Real gross state product (GSP) in 2024 was up 6.8% from the 2019 level versus U.S. real gross domestic product (GDP) growth of 12.5% over the same period. Seasonally adjusted employment in February 2025 was 1.4% above the pre-pandemic level which lags U.S. growth of 3.7%. Favorably, the seasonally adjusted unemployment rate in Connecticut at 3.4% as of February 2024 is below that of the U.S. at 4.1%. Wealth levels remain very high, with per capita personal income of $93,235 at 129% of the national average in 2024.

The State has high debt levels, but this partly reflects its practice of issuing general obligation 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 20.4% of general government expenditures in FY 2024, which KBRA views as high. Debt amortization is favorable with about 78% of general obligation 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 rating actions reflect the following key credit considerations:

Credit Positives

- State is projected to complete FY 2025 with a BRF balance exceeding the statutory cap at 18% of general fund appropriations and is positioned to direct surplus resources toward supplemental pension contributions for a sixth consecutive year.
- Strong financial management framework and recent extension of enhanced statutory fiscal guardrails through at least FY 2028 position the State for strong operating results.
- Strong wealth levels with the second highest per capita personal income level among all states.

Credit Challenges

- Lower relative growth in the economic indicators of population, employment, and gross state product, although there are recent signs of growth in population.
- 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.

Rating Sensitivities

▪ Significant improvement in the funded ratios for the State's pension systems.	+
▪ Structural operating deficits in the general fund. ▪ Further relaxation of the fiscal guardrails. ▪ Sustained weakening in the State's employment base and economic activity.	-

Rating Highlights	
Per Capita Personal Income (2024) (in dollars)	$93,235
as a % of U.S.	*129%*
Population (2023)	3,675,069
Growth 2010 to 2024	*2.7%*
Real GDP, % Change 2014 to 2024	
Connecticut	1.1%
New England	1.0%
United States	3.7%
Budget Reserve Fund Balance ($ in millions)	
FYE 2020	$3,013
FYE 2021	$3,112
FYE 2022	$3,313
FYE 2023	$3,316
FYE 2024	$4,105
FYE 2025 (Projected)[1]	$5,905
Direct Debt (2/1/2025) ($ in millions)	$25,411
Net Pension Liability ($ in millions)	$34,740
Fixed Costs as a % of Governmental Expenditures (FY 2024)	20.4%

(1) Projected balance prior to post-close transfers which would bring balance back in compliance with the statutory cap at 18% of approprations.

Rating Determinants (RD)	
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 can be found in prior KBRA reports, the most recent of which is dated September 20, 2024.

RD 3: Financial Performance and Liquidity Position Update

Figure 1

General Fund Revenues and Expenditures
Budgetary Modified Cash Basis (FYE June 30) (dollars in millions)

	Actual										Projected		Governor's Proposed		
	2020	Δ YOY (%)	2021	Δ YOY (%)	2022	Δ YOY (%)	2023	Δ YOY (%)	2024	Δ YOY (%)	2025	Δ YOY (%)	2026	Δ YOY (%)	2027
Revenues															
Personal Income Tax	$ 9,398	10.0%	$ 10,340	17.3%	$ 12,132	-7.5%	$ 11,223	-2.7%	$ 11,803	8.4%	$ 12,163	2.8%	$ 12,509	3.9%	$ 13,002
Pass-through Entity Tax	1,242	24.8%	1,550	48.9%	2,308	-11.2%	2,048	-14.9%	1,965	0.5%	2,059	3.7%	2,135	3.8%	2,215
Less: Volatility Cap Deposit	(530)		(1,241)		(3,047)		(1,322)		(1,321)		(1,404)		(990)		(962)
Net PIT and Pass-Through Entity Tax	10,109	5.3%	10,649	7.0%	11,392	4.9%	11,950	9.3%	12,446	7.3%	12,818	6.5%	13,654	4.4%	14,256
Federal Grants (excl. ARPA)	1,797	-16.7%	1,496	29.3%	1,935	3.3%	1,998	6.5%	2,061	-3.7%	1,925	-4.0%	1,848	9.9%	2,031
Sales and Use Tax	4,318	11.0%	4,793	0.5%	4,818	2.6%	4,945	3.8%	5,003	3.2%	5,104	2.5%	5,231	2.5%	5,360
Corporate Income Tax	934	23.4%	1,153	21.5%	1,401	8.2%	1,517	11.0%	1,556	2.9%	1,561	12.8%	1,760	0.2%	1,763
Excise Taxes (Alcohol and Cigarettes)	419	2.6%	430	-5.7%	406	-8.5%	371	-18.5%	331	-12.8%	324	-3.5%	312	-3.9%	300
Indian Gaming Payments	164	39.4%	229	8.7%	249	12.2%	279	22.9%	306	10.6%	309	1.9%	314	4.8%	329
Statutory Transfers from Other Funds	136	-15.8%	115	10.2%	126	-10.9%	113	-21.4%	99	-2.8%	109	-12.3%	96	-1.7%	94
Other	785	112.3%	1,667	-0.2%	1,664	-0.8%	1,652	-45.0%	915	-10.0%	1,487	-37.7%	926	25.1%	1,159
Total Revenues	**19,194**	7.0%	**20,531**	7.1%	**21,991**	3.8%	**22,823**	3.3%	**22,716**	3.6%	**23,635**	2.1%	**24,143**	4.8%	**25,292**
Expenditures															
General Government	635	1.8%	646	16.0%	750	24.6%	934	-45.8%	507						
Public Safety	281	1.3%	284	6.9%	304	13.9%	346	-0.6%	344						
Conservation and Development	172	10.4%	189	23.0%	233	1.5%	237	4.2%	247						
Health and Hospitals	1,203	3.4%	1,244	2.6%	1,276	9.3%	1,395	63.8%	2,285						
Human Services	4,357	-2.3%	4,258	4.4%	4,445	11.8%	4,969	-5.9%	4,676						
Education, Libraries and Museums	5,155	2.9%	5,304	7.4%	5,698	6.4%	6,060	0.9%	6,114						
Corrections and Judicial	2,004	-0.5%	1,994	-4.1%	1,912	11.9%	2,139	1.8%	2,178						
Debt Service	2,205	0.5%	2,216	4.9%	2,325	-5.4%	2,200	-0.7%	2,185						
Other	3,179	3.7%	3,297	12.5%	3,709	5.7%	3,919	8.3%	4,244						
Total Expenditures	**19,189**	1.3%	**19,431**	6.3%	**20,652**	7.5%	**22,199**	2.6%	**22,779**	4.7%	**23,239**	2.6%	**23,839**	4.8%	**24,974**

Source: Annual Financial Reports of the State Comptroller for Actuals;
Office of Policy and Management Letter dated March 20, 2025 for FY 2025 Projections;
and, OPM Credit Presentation dated March 25, 2025 for Governor's Proposed Budget

Figure 2

Budget Reserve Fund Summary Operations
Budgetary Modified Cash Basis (FYE June 30) (dollars in millions)

	2020	2021	2022	2023	2024	2025 Projected
Beginning BRF Balance	$ 2,506	$ 3,013	$ 3,112	$ 3,313	$ 3,316	$ 4,105
Transfers to General Fund	-	-	-	-	-	-
Transfers from General Fund (Outside of Volatility Cap)	39	476	1,261	555	401	396
Volatility Cap Deposit	530	1,241	3,047	1,322	1,321	1,404
Ending BRF Balance Before Statutory Post-Close Transfers to SERS/TRS	**3,074**	**4,730**	**7,420**	**5,190**	**5,038**	**5,905**
as a % of Ensuing FY Net GF Approps.	*15.0%*	*22.8%*	*33.4%*	*22.3%*	*21.1%*	*25.9%*
Statutory Transfer to SERF and TRS Following Year End	(62)	(1,618)	(4,107)	(1,875)	(933)	
Ending BRF Balance After Statutory Post-Close Transfer to SERS/TRS	**3,013**	**3,112**	**3,313**	**3,316**	**4,105**	
as a % of Ensuing FY Net GF Approps.	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*18.0%*	

Source: Annual Reports of the State Comptroller for Actauls;
Office of Policy and Management Letter dated March 20, 2025 for FY 2025 Projection

Bankruptcy Assessment

Under Chapter 9 of the U.S. Bankruptcy Code, state governments are not permitted to petition for protection from creditors, including holders of general obligation debt.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

A discussion of ESG management can be found in prior KBRA reports, the most recent of which is dated September 20, 2024.