

Fitch Rates CHESLA State-Supported Rev Bonds 'AA-'; Outlook Negative

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings assigns an 'AA-' rating to the following Connecticut Higher Education Supplemental Loan Authority (CHESLA):

--\$23 million CHESLA state supported revenue bonds (CHESLA Loan Program), 2014 series A.

The bonds are expected to sell via negotiated sale on May 7.

In addition, Fitch affirms the ratings on outstanding parity bonds of CHESLA issued under the 1990 resolution.

The Rating Outlook is revised to Negative from Stable.

SECURITY

State supported revenue bonds issued under the 1990 resolution are special obligations of the authority secured by education loan repayments and a special capital reserve fund (SCRF) equal to maximum annual debt service (MADS). In the event of a draw on the fund, the state deems appropriated from its general fund an amount necessary to replenish the SCRF.

KEY RATING DRIVERS

RATING LINKED TO STATE GO: The 'AA-' rating on bonds carrying a SCRF, including CHESLA's 1990 resolution bonds, reflect the state's pledge to fund the SCRF without requiring further legislative approval. Thus SCRF bonds' credit quality is linked to the state's 'AA' general obligation (GO) rating.

NEGATIVE OUTLOOK BASED ON BUDGET VULNERABILITY: The Negative Outlook on the SCRF bonds, as with the state's own GO bonds, reflect the state's reduced fiscal flexibility at a time of lingering economic and revenue uncertainty. The adopted budget for the current biennium relied on one-time items and anticipated little near-term progress in rebuilding fiscal flexibility. Recent revenue momentum, if it continues, may allow the state to materially improve its reserve position.

HIGH WEALTH LEVELS: Connecticut is the nation's wealthiest state as measured by per capita personal income. Economic recovery has been slow and uneven since the recession, and the state's large and important finance sector continues to weaken.

CYCLICAL REVENUES AND SPENDING PRESSURE: State revenue performance is cyclical, while high fixed costs limit its ability to respond during revenue downturns.

HISTORICAL WILLINGNESS TO BUILD BALANCES: During past economic recoveries the state has demonstrated a willingness and ability to rapidly repay deficit borrowing and rebuild its rainy day balance. The current slow recovery has hampered rebuilding of reserves in the current biennium.

HIGH DEBT: Tax-supported debt is high for a U.S. state. Most GO bonds, excluding GO bonds issued to fund the teachers' retirement system, amortize rapidly.

SIGNIFICANT PENSION OBLIGATIONS: Unfunded liabilities for employees are significant, including for state employee and teacher pensions. The state fully funds actuarially calculated pension contributions and maintains a fixed amortization date. Additionally, the state has taken steps to reform retirement pension and health liabilities.

RATING SENSITIVITIES

RATING LINKED TO STATE CREDIT QUALITY: The rating is sensitive to changes in

the state's GO bond rating, to which this rating is linked.

CREDIT PROFILE

The 'AA-' rating on bonds carrying a SCRF reflects the 'AA' rated GO credit quality of the State of Connecticut. The SCRF mechanism is a longstanding means for the state to provide additional security for various state authorities and municipalities on a contingent basis. Approximately \$3.6 billion in debt is outstanding carrying SCRF pledges, issued by a range of state entities.

Use of a SCRF is legislatively authorized and overseen by the state's treasurer. Bonds issued under CHESLA's 1990 resolution carry a SCRF sized at MADS. In the event of a draw to cover principal or interest, the authority covenants to certify the insufficiency to the state budget director and treasurer, and an amount to replenish the SCRF is deemed appropriated on or before Dec. 1 without further legislative approval.

Connecticut's GO rating, at 'AA,' reflects its vast wealth and income resources, tempered by a comparatively high burden of debt, retirement liabilities and other fixed costs. The Negative Outlook is based on the state's inability in its adopted fiscal 2014-2015 budget to return to more structurally sustainable budgeting and rebuild flexibility at a time of unusually slow economic and revenue recovery.

The biennium budget was balanced only through a number of non-recurring resources, including refinancing the outstanding economic recovery notes (ERNs) that were used to fund deficits in the last recession. Improved revenue collections in early 2014 and below budget expenditures have materially expanded the forecast fiscal 2014 surplus, despite the continued slow overall growth of the state's economy and uncertainty about revenues through the remainder of the fiscal year. The governor has proposed directing most of the forecast surplus to replenishing its reserves and reducing liabilities, steps which Fitch believes would improve the state's fiscal flexibility.

For further information on the State of Connecticut, please see Fitch's press release dated March 4, 2014, 'Fitch Rates \$400MM Connecticut GO Bonds 'AA-'; Outlook Negative,' at 'www.fitchratings.com'.

Additional information is available at ' www.fitchratings.com '

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from IHS Global Insight.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. State Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033

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