Rating Action: MOODY'S DOWNGRADES STATE OF CONNECTICUT GENERAL OBLIGATION BONDS TO Aa3 FROM Aa2 RATING AND ASSIGNS STABLE OUTLOOK

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RATING ACTION AFFECTS APPROXIMATELY $14.6 BILLION IN OUTSTANDING G.O. DEBT

New York, January 20, 2012 --

Moody's Investors Service has downgraded the State of Connecticut's general obligation bond rating to Aa3 from Aa2, affecting approximately $14.6 billion in outstanding general obligation bonds. Concurrently, Moody's has downgraded the state's general fund obligations to A1 from Aa3, bonds supported by a Special Capital Reserve Fund (SCRF) make-up provision to Aa3 from Aa2, and the University of Connecticut General Obligation Bonds (State Debt Service Commitment) to Aa3 from Aa2. The outlook is stable, revised from negative.

SUMMARY RATINGS RATIONALE

The rating downgrade is based on Connecticut's high combined fixed costs for debt service and post employment benefits relative to the state's budget; pension funded ratios that are among the lowest in the country and likely to remain well below average; and depleted reserves with slim prospects for near-term replenishment. Connecticut's state employees retirement system (SERS) and teachers retirement system (TRS) had funded ratios of 44% and 61%, respectively, as of June 30, 2010. The state has committed to paying the full actuarially determined annual required contribution (ARC) for both systems, and some pension and healthcare reforms were achieved in last year's round of union negotiations. A new valuation is expected to be published soon incorporating the reform measures. However, funded ratios are not likely to improve significantly until closer to the end of the remaining amortization periods -- 21 years for SERS and 25 years for TRS. Connecticut's combined fixed costs for debt service, pension, and other post employment benefits (OPEB) are already high and, absent significant further reforms, will continue to consume an increasingly larger portion of the state's budget.

Following the 2001 recession, Connecticut rebuilt its rainy day fund, the budget reserve fund (BRF), to a healthy $1.4 billion, although the unreserved, undesignated General Fund balance (UUFB) remained deeply negative on a GAAP basis due to decades-old liabilities that have never been repaid. Over the course of the recent recession, Connecticut depleted its BRF and issued deficit bonds to fill budget gaps. The state plans to use surplus funds to retire the deficit bonds two years ahead of schedule. However, this reduces the amount of funds that may be available to rebuild reserves in the near term. The current biennial budget includes funds to begin addressing the negative UUFB, and Connecticut plans to start budgeting on a GAAP basis in fiscal 2014.

The Aa3 rating with a stable outlook incorporates our expectation that Connecticut's revenue trends should improve as it emerges from the recession, and the state will maintain its new commitment to structural budget balance and addressing its negative GAAP basis unreserved undesignated General Fund balance (UUFB).

STRENGTHS:

*Historical application of operating surpluses to the BRF, which totaled nearly $1.4 billion at the end of fiscal years 2007 and 2008

*Early repayment of deficit bonds issued during the prior recession years, fiscal years 2002 and 2003

*Commitment to structural budget balance in current biennium

*Wealthiest state in the nation with per capita personal income levels well above national levels

CHALLENGES:

*Fixed costs for debt, pension, and other post employment benefits (OPEB) relative to budget are among the highest in the nation

*Very low funding ratios for pension systems

*Vulnerability to financial market fluctuations due to effect on capital gains for very high wealth residents and employment in the financial services sector

*Weak GAAP-basis balance sheet due to negative UUFB and depletion of rainy day fund

Outlook

The outlook for Connecticut is stable reflecting the positive steps the state is taking to address its long-standing balance sheet weakness and reduce its fixed post employment benefit costs through pension reforms. We expect that Connecticut's revenue trends should improve as it emerges from the recession, and the state will maintain its new commitment to structural budget balance and replenishing its rainy day fund over time.

WHAT COULD MOVE THE RATING UP

*Achievement and maintenance of higher GAAP-basis combined available reserve levels

*Established trend of structural budget balance

*Evidence of stronger economic performance

*Reduced debt ratios relative to Moody's 50-state median and lower fixed annual costs.

*Significantly improved funding of pension and post-retirement liabilities,

WHAT COULD MOVE THE RATING DOWN

*Lack of improvement in available reserve levels

*Reversion to significant one-time budget solutions, including deficit financings

*Substantial revenue weakness driven by delayed economic recovery

*Cash flow strain stemming from reduced liquidity

*Significant increase in fixed costs as percent of budget

The principal methodology used in this rating was Moody's State Rating Methodology published in December 2004. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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