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S&P Drops Connecticut GO Debt Rating to 'A' from 'A-plus'

NEW YORK (Reuters) – S&P Global Ratings on Friday lowered Connecticut’s roughly \$18.5 billion of general obligation debt outstanding to A from A-plus, citing concerns about the state’s increased debt ratio.

The New England state is one of the wealthiest in the country, but its credit rating is among the lowest due to budget problems, underfunded pensions, high debt levels and a dim economic outlook.

“Under our state rating criteria, when a majority of our debt ratios exceeds certain thresholds, our criteria adds an extra one-notch downward adjustment to our overall indicative state rating score,” S&P said in a statement.

The downgrade should serve to motivate the state’s general assembly to swiftly bring the current-year’s budget, which is in a deficit, into balance, Connecticut Office of Policy and Management spokeswoman Meg Green said in an email.

“Governor (Dannel Malloy) proposed specific ways to do exactly this in December and February, while avoiding raids on the rainy day fund, and we hope to see swift action by the legislature to avoid further harm to our credit rating,” Green said.

“It’s important to note that Connecticut’s budget situation and historic underfunding of long term liabilities, not this recent action, are driving the state’s rating,” she added.

The office of Governor Dannel Malloy was not immediately available for comment.

The so-called credit spread for 10-year Connecticut general obligation bonds over Municipal Market Data’s benchmark triple-A yield scale has widened since the beginning of the year from 73 basis points to 88 basis points as of Thursday.

On the same day of the downgrade, S&P said it was upgrading the general obligation debt of Hartford, Connecticut’s financially struggling capital city, several notches to A from CCC based on the municipality’s recently struck deal with the state.

Hartford’s city council last month approved a program to have the state pay its \$540 million of general obligation debt as part of a broader oversight plan that helped the city avoid bankruptcy.

“While we know Hartford’s problems can’t be solved overnight, and there is still much more work to be done to stabilize the city and state’s financial futures, this is a positive sign for our capital city,” Green said.

S&P also said it was assigning a BB-plus issuer rating to Hartford.

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