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Connecticut's Tax Delinquency Crisis: Risks to Bondholders and Opportunities in Infrastructure Bonds.

Connecticut's fiscal health is at a crossroads, with unresolved tax delinquency issues, legislative gridlock over revenue policies, and sector-specific financial strain threatening its creditworthiness and investor confidence. For municipal bondholders, these risks create a nuanced landscape—requiring a sharp focus on asset-specific resilience while avoiding exposure to systemic vulnerabilities tied to the state's tax scaffolding. Here's how to navigate the risks and seize opportunities.

The Tax Delinquency Time Bomb

Connecticut's property tax delinquency system, with its archaic 18% annual interest rate (set during the 1980s high-inflation era), has become a flashpoint. While lawmakers push to lower this rate to 8-12%, municipal leaders warn this could reduce revenue by hundreds of millions annually. The stakes are high: if delinquent tax collections falter, it could erode budget surpluses that are already projected to shrink as federal aid declines.

The state's \$2.3 billion surplus for FY2024—its second-highest ever—masks vulnerabilities. Sales tax growth has stalled, and corporate tax revenues are stagnant. Meanwhile, a proposed 1.75% capital gains surcharge on high earners (set to expire in 2029) is seen as a temporary fix for funding a child tax credit. If federal Medicaid and education cuts materialize (up to \$880 million annually), the state may face a fiscal squeeze, forcing tough trade-offs between debt service and services.

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