FitchRatings

Connecticut Local
Government Ratings Update

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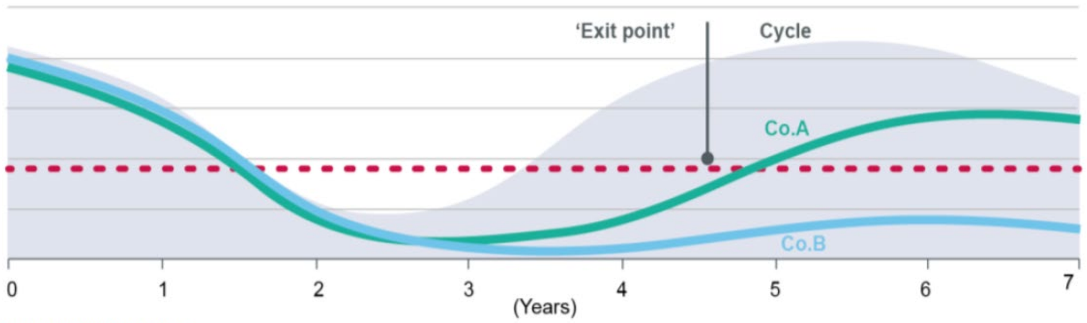
Fitch Ratings Public Finance
Rating Philosophy and Process

- Credit ratings are forward-looking opinions on ability to meet financial commitments
- These opinions are expressed through application of a rating criteria

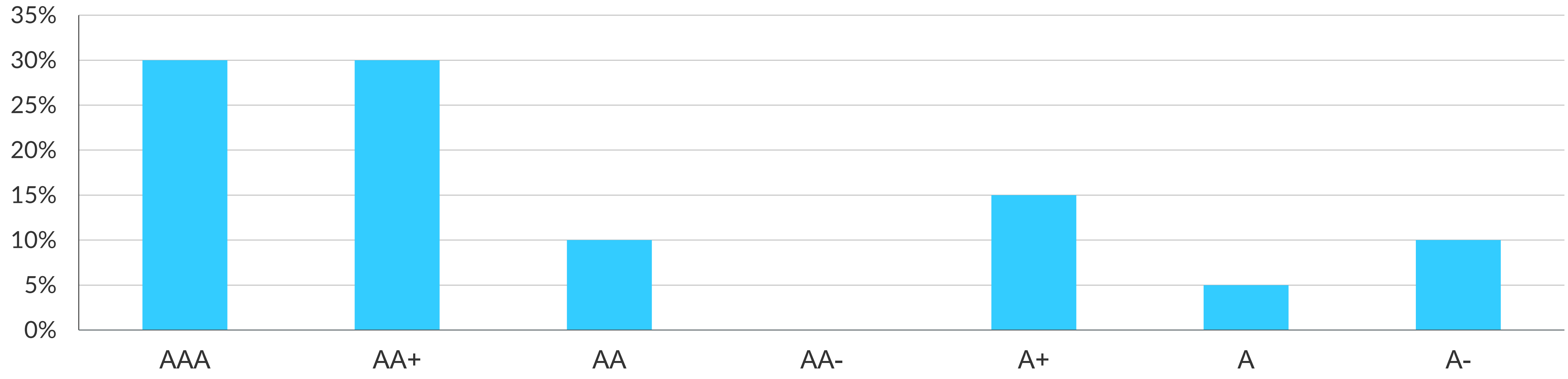
- Ratings are "through-the cycle"
  - Ratings should not necessarily change due to a moderate revenue downturn if the credit profile is expected to recover to prior levels in a recovery
  - Fundamental shifts in most cases which are not deemed temporary can change a credit profile and rating



Source: Fitch Ratings

Fitch Ratings Public Finance
Connecticut Ratings Overview

Rating Distribution of Connecticut City and Town General Obligation Ratings



Distribution reflects generally strong financial resilience with variation driven by economic , liability, and reserve levels metrics.
Source: Fitch Ratings

Fitch Ratings Public Finance
Current Factors Influencing Ratings Analysis - Tailwinds

Positive Factors that have supported CT issuer financial profiles over last few years:

- Vibrant real estate activity increased tax base valuations
- Population trends improved following pandemic
- Improved levels of reserves and liquidity following pandemic, due in part to federal ARPA moneys, improved property tax revenues, real estate transfer fees and investment income
- Prior low-interest rate bond refundings lowered debt service costs
- State aid generally positive for cities and towns and school districts
- Increased spending mitigating cyber risks

As a result, most Connecticut issuers Fitch rates are positioned to manage future risks

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Current Factors Influencing Ratings Analysis - Headwinds

What we are seeing today as influencing local government issuers:

- Growth in insurance and salary costs driving budgets
- Higher education costs not covered by state aid
- Slower real estate activity due to lower supply, moderating of tax base growth
- Federal policy uncertainty (tariffs, regulations, programs, deportation) could impact near-term economic growth;
- Change in funding for long-standing federal and state aid programs
- Downsizing of federal government employees, corporate restructurings, AI transition raising unemployment and lowering personal income levels
- Potential deportation increasing population loss and labor shortages

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Current Factors Influencing Ratings Analysis

Fitch Ratings outlook for local governments:

- Expectation for economic growth to slow; labor market conditions, income and GDP growth levels all weaken but remain positive this year
- Consumer spending moderates as tariffs lead to increased costs for goods, an increase in unemployment rates, and a pull back in spending
- Outside of wage and benefits pressures, local government spending demands are being driven by higher education costs/mandates, affordable housing, mental health and community safety
- Most local governments possess sufficient financial resilience, liquidity and budgetary control to address these challenges
- Governments may need to consider revenue increases (outside of property taxes) and/or reductions in services or staffing to maintain structural balance

Fitch Ratings Public Finance
New Local Government Rating Criteria

New criteria released April 2nd, 2024

Scope:

- Applies to GO bonds, leases/appropriation-backed, dedicated tax bonds
- The concept of an Issuer Default Rating (IDR) remains in place and is equivalent to the general obligation bond rating

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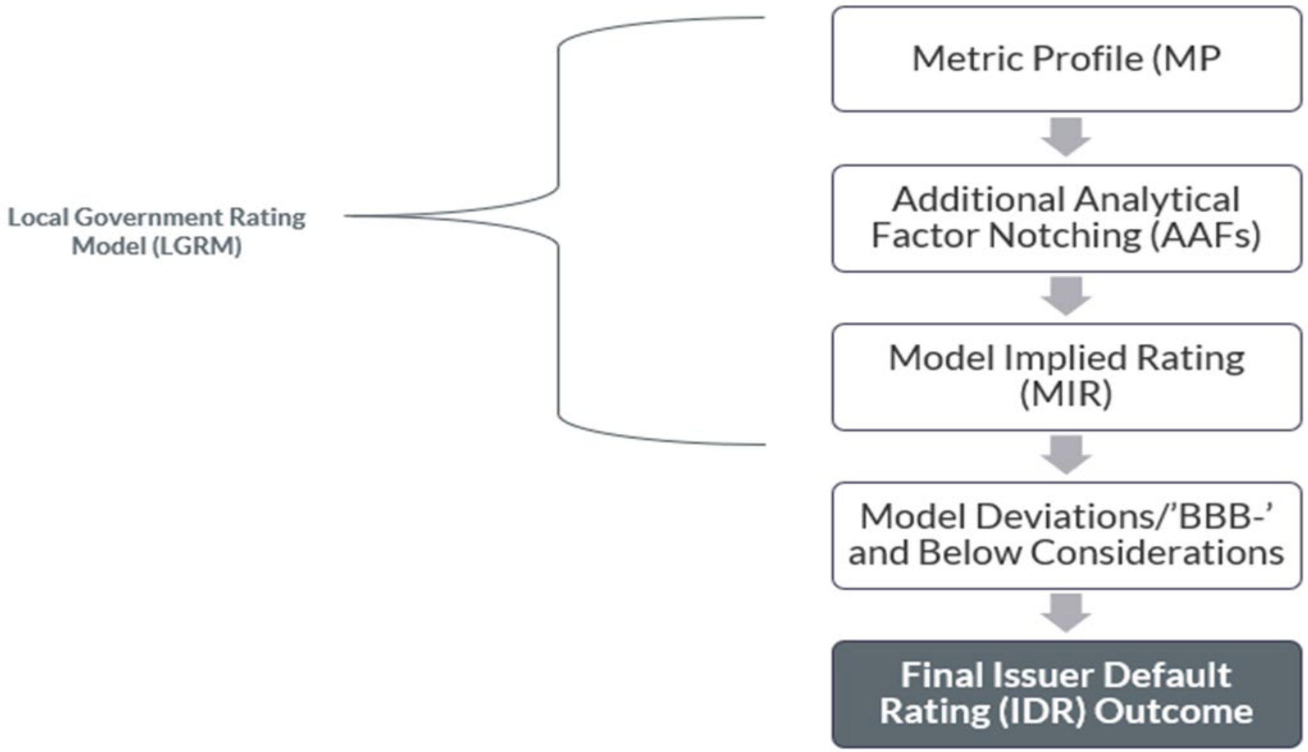
New Local Government Rating Criteria

What is new?	What is the same?
• Model-based approach, with fixed metric weightings for greater rating clarity	• Importance of analytical judgement remains vital within the final criteria and model
• Notch-specific ratings communicated numerically to show ‘headroom’ within rating category	• Rating of dedicated tax bonds such as sales tax revenue bonds has not changed and remains the same as prior criteria
• An interactive external version of the model allows market participants to run scenario and see peer analysis	• Core credit factors considered remain broadly similar, we still look at: • Budgetary flexibility • Financial operating performance • Long-term liability levels • Economic base

Introduction – Model Framework Overview



LGRM Correspondence Table

IDR	Metric Profile/Model Implied Rating Numerical Value
AAA	10
AA+	9
AA	8
AA–	7
A+	6
A	5
A–	4
BBB+	3
BBB	2
BBB– and below	1

Source: Fitch Ratings

Local Government Rating Criteria
Key Rating Drivers

Key Rating Driver	
Financial Profile	• Considers legal ability to raise revenues (for Connecticut credits this is assessed as "High" due to unlimited taxing authority) • Considers Expenditure Control (for majority of Connecticut issuers this is assessed as "Midrange"); considers contentious labor union negotiations which could weaken assessment • Financial Resilience – considers level of unrestricted reserves* ➢ 10% of spending or higher needed for 'aaa' assessment ➢ 7.5%-10%; 'aa' assessment ➢ 5%-7.5%; 'a' assessment ➢ 2.5%-5%; 'bbb' assessment *Sum of general fund committed, assigned and unassigned Above ranges for reserves assumes 'high' revenue control and 'midrange' expenditure control

Local Government Rating Criteria
Key Rating Drivers

Key Rating Driver	
Demographic and Economic Strength	• Population Trend (10 year median of yoy change) • Adjusted Median Household Income • Annual Unemployment Rate as % of National Rate • Percentage of Residents with Bachelors Degree or Higher • Economic Concentration • Population Size

Local Government Rating Criteria
Key Rating Drivers

Key Rating Driver	
Long Term Liability Burden	• Direct Debt + Net Pension Liability as % of Personal Income • Direct Debt + Net Pension Liability as % of Gov't Revenues • Carrying Costs = Debt Service + Pension and OPEB Contributions compared to Total Gov't Expenditures

Local Government Rating Criteria
Additional Analytical Factors

Analysts may apply full rating notch adjustments (+/-) to capture relevant rating considerations that cannot fully be quantified in a model. Notching Categories Include:

- Financial Profile
  - high market value per capita over $300,000
  - litigation risks
  - reliance on use of nonrecurring support
  - poor management practices
- Economic and Demographic Strength
  - taxpayer concentration
- Long-Term Liability Burden
  - inadequate pension contributions
  - very high OPEB liabilities
  - unusual debt structures

Version 1.2.0-2023

Issuer	Sample County	Financial Profile	0
Fiscal Year	2022	Demographic and Economic Strength	0
		Long-Term Liability Burden	0
		AAF Notching Total [4]	0
Metric Profile (excludes Additional Analytical Factors (AAF))	9.78	**Model Implied Rating**	9.78
Metric Profile Mapping (excludes Additional Analytical Factors (AAF))	AA+	**Model Implied Rating Mapping**	AA+

Issuer Position Within AA+ Rating

AAA | AA

Strong AA+	Mid AA+	Low AA+
10 to 9.67	9.67 to 9.33	9.33 to 9

Metric	Metric: Metric Level	Metric: Percentile	Metric: Weight	Composite: Percentile / Value	Composite: Assessment	Composite: Weight
Financial Profile						
Financial Resilience Components						
Available Reserves (FB/Expenditures: 5-Year Low) (%)	30.0				aaa	35%
Revenue Control Assessment	High					
Expenditure Control Assessment	Midrange					
Budgetary Flexibility	High Midrange					
Financial Resilience	aaa	-	100%			
Lowest Cumulative 3 Year Revenue Performance (+/-) since 2008 (%)	-1.0				Strong	0%
Revenue Volatility [1]	0.1	70%	100%			
Demographic and Economic Strength						
Trend						
Population Trend (%) [2]	0.9	47%	100%	47%	Midrange	8%
Level						
Unemployment Rate as a Percentage of National Rate (%) [5]	86.1	68%	33%	71%	Strong	26%
Population w/ Bachelor's Degree and Higher (%) [2]	33.0	58%	33%			
MHI as a % of the Portfolio Median [2]	149.8	88%	33%			
Concentration & Size						
Population Size [2][3]	115,000	100%	50%	100%	Strongest	9%
Economic Concentration [2][3] (%)	40.0	100%	50%			
Long-Term Liability Burden						
Liabilities /Personal Income (%)	5.0	53%	35%	44%	Midrange	21%
Liabilities /Governmental Revenues (%)	150.0	64%	25%			
Carrying Costs / Governmental Expenditures (%)	19.0	24%	40%			

Fitch Ratings Public Finance
State of Connecticut – GO Bond Ratings

- Fitch upgraded Connecticut's GO rating to 'AA' (Sept. 2025)
- Drivers: improved revenue growth prospects; robust budget management; stronger reserves; offset by an elevated liability burden (debt plus net pension liabilities) and high fixed costs
- Other agency ratings: S&P: 'AA-' Moody's: 'Aa2' Kroll: 'AA+'

DC-XXXX / PW no.

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