The Office Of
State Treasurer
Denise L. Nappier

News

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State Treasurer Denise L. Nappier Responds To Rating Agency Action

HARTFORD – State Treasurer Denise L. Nappier issued a statement today concerning a rating agency's decision to drop Connecticut's credit rating by one notch.

Moody's Investors Service announced its change to the rating on the State's General Obligation (GO) bonds from Aa2 with a Negative Outlook to Aa3 with a Stable Outlook.

"The decision is certainly disappointing, but not totally unexpected given the negative outlook placed on the State's rating by Moody's last June," Treasurer Nappier said. "In many ways, Moody's action is going in the wrong direction, particularly since Connecticut has made tough decisions to bring structural balance to its operating budget and set in motion a clear path to improve financial stability. Despite these steps forward, this rating agency appears to be judging the State's creditworthiness through the rearview mirror."

Treasurer Nappier said Moody's gave scant consideration to Connecticut taking on GAAP, achieving meaningful savings on pension and health benefits, and vowing to address long-term pension liabilities.

"This change to our credit rating will not deter us from our goals of working to bolster the fiscal strength of Connecticut and funding our long-term liabilities," Treasurer Nappier said. "We will continue to manage the State's debt, cash, and pension assets in a fiscally sound manner, and remain actively engaged with each of the credit rating agencies to ensure that the State's strengths are given appropriate consideration in their analysis."

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Moody's action brings Connecticut's GO rating back to Aa3/Stable where it stood in 2009 prior to an industry-wide municipal credit rating recalibration. "Indeed, the recalibration appears to have been for naught, given that both Fitch and Moody's raised the State's GO rating one notch two years ago, and since then both have taken the ratings back to the original pre-recalibration level," Treasurer Nappier noted. "All this, despite the fact that Connecticut's fiscal condition is far better off than it was in 2009."

Moody's report cites Connecticut's need to improve funding of pension and post-employment liabilities, as well as lower the state's annual costs for funding debt and pension obligations. To this point, Treasurer Nappier said, "Moody's has caught Connecticut in a Catch 22 – we're being penalized for high long-term liabilities, and yet when we take steps to repay those liabilities more quickly, they criticize our high annual fixed costs for funding debt and pensions."

"Moody's is caught up in a labyrinth of mathematical ratios that loses sight of the essential question: How likely is it that Connecticut would ever default on its debt? The answer is, never in a million years!" said Treasurer Nappier.

Given that interest rates are at historic lows, there is no anticipated increase in interest costs of future bond issues associated with Moody's rating action. Treasurer Nappier added, "Since Moody's has had a negative outlook on the State's GO credit since last summer, at least a portion of the rating change is already priced into current interest rate levels on new debt."

Two other major credit rating agencies -- Fitch Ratings and Standard & Poor's – rate Connecticut's GO credit at AA with a Stable Outlook.

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