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Summary:

Connecticut Green Bank; General Obligation Equivalent Security

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Credit Profile		
US$23.609 mil solar home renewable energy credit green liberty bnds (Climate Bond Certified) ser 2021 due 11/15/2036		
Long Term Rating	A/Stable	New
Connecticut Green Bank, Connecticut		
State of Connecticut, Connecticut		
Connecticut Green Bank (Connecticut) (Climate Bond Certified)		
Long Term Rating	A/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'A' long-term rating to the Connecticut Green Bank's Solar Home Renewable Energy Credit (SHREC) series 2021 (taxable) Green Liberty bonds and affirmed our 'A' rating on existing state-supported Green Liberty bonds outstanding. The outlook is stable.

The Green Bank is issuing approximately $23.6 million of bonds to refinance expenditures of the bank to its Residential Solar Incentive Program (RSIP) and fund a special capital reserve fund (SCRF). The bonds are secured by revenues received under the indenture (including SHREC receivables) and funds on deposit in the SCRF.

We base the rating on the security provided by the SCRF and application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Jan. 22, 2018, on RatingsDirect). We consider this a general operating pledge and in accordance with our criteria, generally rate these obligations on par with our view of the obligor's general creditworthiness, in this case, the State of Connecticut.

Credit overview

The reserve fund is the ultimate layer of security and will only be accessed if the revenues received under the indenture are insufficient to meet debt service requirements. This reserve fund, which is required to equal maximum annual debt service (MADS), is funded from bond proceeds. According to the terms of the indenture, the reserve fund is held by the trustee. If the reserve fund is depleted to pay debt service, funding from the state is "deemed to be appropriated" to restore the reserve to MADS. Appropriation and payment of these funds are not subject to further legislative approval, according to bond counsel. As a result, S&P Global Ratings has historically rated SCRF-enhanced issues on par with its general obligation (GO) rating on Connecticut. The Green Bank's obligation to fund debt service is absolute and unconditional.

The Green Bank is a quasi-public organization created in 2011 as a successor to the Connecticut Clean Energy Fund with a focus on financing clean energy initiatives, including renewable energy, energy efficiency, energy storage, alternative fuel vehicles, and infrastructure. It is not a department, institution, or agency of the state, but the state treasurer serves as an ex-officio board member.

Environmental, social, and governance factors

We consider Connecticut to have elevated social risks compared to the sector given its aging population and higher cost of living. These demographic trends could present long-term credit risks to the state's economic and budgetary performance. Environmental risks are considered above those of other states due to its 618 miles of coastline along Long Island Sound. Connecticut's shoreline roads and communities are at risk from rising sea levels. However, we view the state's governance risks as being in line with the sector and it has historically maintained a strong management and policy framework to respond to developing risks. (For more information, see "ESG U.S. Public Finance Report Card: Tri-State Region Governments And Not-For-Profit Enterprises," Oct. 28, 2020.)

Stable Outlook

Upside scenario

We may raise the rating if the state is able to maintain near-term structural balance and strong reserve levels, while continuing its commitment to reduce its long-term debt burden. We currently estimate that the majority of our debt ratios may remain at least one-third higher than the threshold triggering our one-notch lower rating over our outlook horizon. This threshold was first triggered at the end of fiscal 2017.

Downside scenario

Should the state rely on significant one-time measures to address its structural gap or if it sees its reserves deteriorate to low levels as they were before implementation of the volatility transfer, we may lower the rating. We also note that the state's three-year average pension funding ratio is close to our threshold of 40%, and may result in further downward rating action if pension funding levels deteriorate.

Credit Opinion

Through the RSIP, the Green Bank offers incentives to homeowners and third-party owners to install solar panels. In exchange for its incentives, the Green Bank receives all rights and title to SHRECs generated and sells the SHRECs generated to the state's two investor-owned utilities (Eversource and United Illuminating) under a master purchase agreement at a predetermined price over a 15-year tranche lifetime. Eversource must purchase 80% of SHRECs and United Illuminating 20% within each tranche. The utilities' obligation to purchase future tranches ends no later than the earlier of the Green Bank's deployment of 350 megawatts of qualifying residential solar photovoltaic installations (in which case the Green Bank must notify the utilities that goal has been met) or Dec. 31, 2022 (maximum of six tranche delivery terms).

The SHRECs supporting this bond issuance (Tranche 4) will be generated from 6,929 systems with a SHREC purchase price of $47 per SHREC with projected revenues of approximately $36.7 million over the life of bonds.

While the Green Bank is not dissolvable through bankruptcy, SHREC payments are made by the utilities, and not customers or third-party owners. While the utilities have a greater likelihood to make SHREC payments to the Green Bank, there can be no assurance that one or both of the utilities will not become insolvent as neither utility is bankruptcy remote. Additional risk exists if customer defaults on payments to the utilities increase, affecting the financial performance of the utilities, or performance of residential systems generating the SHRECs and consequently, expected revenues are worse than projected. The Green Bank also relies on public sources of funding to maintain operations and may be affected by a variety of political and economic factors.

If underlying risks of the transaction were to mount, and the Green Bank received insufficient payments to meet debt service requirements from the transaction or its public sources of funding, we expect the state's SCRF backing will be sufficient to remedy any deficiencies. Pursuant to Connecticut General Statutes (16-245mm), the aggregate amount of Green Bank bonds secured by SCRF may not exceed $100 million and, in our opinion, limit the state's contingent liability exposure from the Green Bank. As of Feb. 1, 2021, Connecticut had $5.3 billion of SCRF-secured debt outstanding, $4.7 billion of which was issued by the Connecticut Housing Finance Authority. In our opinion, the state has not exhibited any political or administrative risks to suggest it would not support SCRF-backed obligations if needed.

State of Connecticut proposed 2022-2023 biennial budget

The governor's proposed fiscal 2022-2023 biennial general fund budget totals $20.5 billion and $21.1 billion, respectively, a 2.2% and 3.0% increase over the prior year. The state continues to exercise strong budgeting practices based on statutory changes that include a revenue cap limiting revenue assumptions (99% in 2022 and 98.7% in 2023) and its volatility cap of required transfer to its budget reserve fund (BRF) or rainy day fund. Absent the receipt of federal aid, the state was estimating using $775 million in fiscal 2022 and $975 million in fiscal 2023 from its reserves. However, even with the use of $775 million from the BRF in fiscal 2022, the state estimates it would still have reserves of 13.4% of its general fund budget going into fiscal 2023.

While the state's revenue profile has improved and the receipt of unrestricted federal aid is expected, the fiscal 2022-2023 enacted biennium budget will be a key consideration for upward rating potential. In particular, how it intends to use federal aid, address its long-term debt burden, and stabilize its special transportation fund. The governor previously proposed tolls that failed to achieve legislative support and is now proposing a "highway use" revenue source based on the weight of the vehicle and number of miles driven.

For more information, continue to our summary analysis on Connecticut, published Dec. 7, 2020, on RatingsDirect.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020