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## Moody's lowers view on Connecticut bonds on low reserve funds

By STEPHEN SINGER AP Business Writer

**Hartford** - Moody's Investors Service lowered its outlook Tuesday on Connecticut's general obligation bond rating to negative from stable, saying the state's prospects of replenishing depleted reserves are slim.

The rating service also said Connecticut's costs to repay debt are high relative to its budget and that the cost of state pension and other retirement benefits relative to the budget are among the highest in the United States.

The lower outlook is a signal to investors and others who buy state bonds that Connecticut's obligations have become riskier due to the state's budget troubles. Moody's warned that it could take more drastic action - lowering Connecticut's rating, which would lead to higher interest rates for state lending, and pushing up the state's borrowing costs.

"In the absence of a clearly articulated plan to achieve meaningful improvement in the state's pension funded ratios and reduce its fixed costs, as well as progress toward adequate reserve levels, Connecticut's rating could be downgraded," Moody's said.

Connecticut has about \$14 billion in bonds, the rating agency said.

Moody's affirmed Connecticut's Aa2 rating, saying it expects revenue to improve as the state emerges from the recession.

Gov. Dannel P. Malloy's budget chief, Benjamin Barnes, said the budget worked out by the governor and the legislature takes steps to stabilize the state's finances.

Malloy and the legislature approved a mix of tax increases and spending cuts to close a \$3.5 billion deficit for the budget year beginning July 1. On Tuesday, Malloy proposed nearly 5,500 layoffs of state employees as another part of the deficit-reduction plan.

"The budget does not use gimmickry or one-time solutions to close the deficit ... it takes a balanced and progressive approach in asking for sacrifice across various income levels and it presents a real and honest assessment of what changes are needed in our employment and retirement benefit costs," he said in a statement.

The Republican leader of the state Senate criticized the fiscal policies of the Democratic governor and Democratic majority in the legislature.

"Gov. Malloy and state legislators had the opportunity during this past legislative session to make true fiscal reforms that would have shown the credit rating agencies that we

intend to address our fiscal crisis and long-term liabilities in a responsible manner," said Sen. John McKinney, R-Fairfield. "We missed that opportunity."

Moody's said Connecticut grappled with the impact of the recession and lower tax revenue by tapping into its rainy day fund and relying on one-time sources of money such as federal stimulus checks. However, the rating agency said state officials are now trying to balance the budget without one-time fixes.

Still, Connecticut's reserve fund will probably remain unfunded for the next several years, leaving the state with less flexibility to handle sudden drops in revenue, Moody's said.

The weak economic recovery also could hurt Connecticut's finances, Moody's said. Connecticut, which is among the wealthiest states in the nation, is particularly dependent on high-income earners to generate income tax revenue, Moody's said. As a result, continued uncertainty in the recovery of financial markets has an "exaggerated impact" on state revenue from personal income taxes, it said.

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