

Bond Case Briefs

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Hartford, With Its Finances in Disarray, Veers Toward Bankruptcy.

HARTFORD — By many measures, Connecticut appears to be brimming with wealth. The state is known for its Gold Coast, populated with chief executives and hedge fund billionaires and specked with mansions on spacious estates. Then there are the suburbs that draw families with placid neighborhoods and high-achieving public schools.

But the state capital is teetering on the brink of bankruptcy, and the turbulence rocking Hartford has served as a stark reminder of the gulf between the affluent enclaves that drive Connecticut's wealth and its larger cities that have long grappled with high crime, underperforming schools and unsure financial footing.

The problems in Hartford are similar to some other cities across the United States that have sought relief through bankruptcy: its tax base and population have shrunk and its pension obligations and debts have piled up. City officials, who are confronting a budget deficit approaching \$50 million, have already made deep cuts in services, sought concessions from labor unions representing public employees and have taken steps, such as hiring lawyers, to position the city to be able to file for bankruptcy.

At the same time, Hartford has looked to the state for help, only to find that financial situation is also in disarray. The state, which has a deficit of about \$3.5 billion, started the fiscal year on July 1 without a budget after months of wrangling in the State Legislature and a resolution could be weeks away.

"It's one thing to persuade people around the state that cities matter," said Luke Bronin, Hartford's mayor. "It's another thing to get the Legislature to adopt a budget that includes very deep and painful cuts, but includes support for Connecticut cities."

Connecticut has the greatest degree of income inequality of any state, according to Daphne A. Kenyon, an economist who studies local taxation at the Lincoln Institute of Land Policy, a research institute in Cambridge, Mass. That, she said, has translated into an extreme in "haves" and "have-nots" among its municipalities.

Cities and towns in Connecticut rely to an unusual degree on property taxes to finance their operations, a system that works well for more affluent communities, like Greenwich and Darien. But it is proving disastrous for a city like Hartford, which has one of the highest property tax rates in the state, but still cannot raise enough money to pay for basic government operations. Last year, state grants and assistance covered about half of the city's \$566 million budget.

Hartford, with a population of about 125,000, has a bounty of hospitals, colleges and government buildings, and a downtown of office towers filled with corporate tenants who contribute to the city's distinction of being an important insurance center.

The city's boosters have pointed to what they see as optimistic signs: the University of Connecticut

is expanding its downtown campus and the creation of two high-rise residential developments. On a recent warm summer evening, patrons packed downtown restaurants, families strolled through the sprawling Bushnell Park and a gaggle of young people skateboarded in Heaven, a graffiti-plastered skate park tucked along an interstate.

Still, it does not take long to find signs of distress.

In a symbolic blow, Aetna, the insurance giant that has been based in Hartford for over 150 years, announced in May that it would be moving its headquarters to New York City, while holding on to its colonial revival building and many of its employees.

Beyond the city's core, blocks are dotted with blighted buildings, some appearing to be overtaken by nature. Residents complain of parks that are poorly maintained and have expressed concern over violent crime. The Police Department is significantly understaffed, officials said, having lost more than 100 officers in recent years. The city's library system recently announced the closure of three of its branches and other cuts have threatened community events, like parades and festivals.

The mayor said city leaders have been trying to strike a painful balance.

"We're not afraid to do difficult things," Mr. Bronin, a Democrat, said. "We're not afraid to touch third rails while we do it."

He added, "What we've tried to do is find that line where we've cut deeply because we know that the times demand it but we're not cutting so deep that we fail to deliver our basic responsibilities."

But even those onerous cuts may not be enough to relieve the situation. The state's inability to balance the budget comes at a particularly challenging time, as state aid that would normally arrive in September has been held up, and the city faces a \$27 million debt payment in October.

Hartford also has a fundamental tax problem: It is home to government buildings and other properties it has no power to tax, making up just over half the real estate in the city. Connecticut accounts for that by promising to compensate the capital for the forgone property taxes, but in practice, the flow of money has been unreliable. The mayor described the city as being in a situation that forces an urban center to operate with a tax base similar to that of a suburb. "And it's a structure not built to work," Mr. Bronin said.

In July, Moody's Investors Service downgraded Hartford's debt after the city disclosed that it had hired a law firm to advise it on a possible debt restructuring. Both Moody's and Standard & Poor's now rate Hartford's debt in the junk range, signaling a greater likelihood of some sort of default on bond payments. Mr. Bronin has said he hopes to meet with the city's bondholders and persuade them to voluntarily accept lower payments.

Some contend that filing for bankruptcy is inevitable and is the city's best option. But there is also a pervasive sense in the city, especially among public employee labor unions, that bankruptcy could have devastating consequences and should be vigorously avoided.

"You're talking about the capital city," said Shellye Davis, a co-president of the Hartford Federation of Paraprofessionals, who has worked for 26 years in the city's public schools system. "That would affect everything around us."

It is possible for a city to negotiate lower bond payments without going into bankruptcy. But municipal bankruptcy gives cities much greater leverage to negotiate the debt relief they believe they need.

"I don't think it should be entertained lightly, and I don't think it is being entertained lightly," Gov. Dannel P. Malloy, a Democrat, said of bankruptcy, adding, "This is a critical period of time for them. I think they were right to hire counsel and I think they were right to understand what their options are."

Hartford would be the first state capital to file under Chapter 9 of the federal bankruptcy code. (Harrisburg, the Pennsylvania capital, tried to declare bankruptcy in 2011, but state lawmakers there passed a bill to thwart the case from proceeding.)

Mr. Malloy has also proposed legislation that would put Hartford under state supervision.

Hartford is certainly not the first among Connecticut's larger cities to veer toward bankruptcy; the state bailed out Waterbury in 2001 and a decade earlier, Bridgeport sought bankruptcy protection but it was blocked in court. "We've never had a municipality go bankrupt," said the State House majority leader, Matt Ritter, a Democrat representing Hartford. "If it really came to that, I'd like to think that Connecticut has a moral obligation to avoid the bankruptcy of any of its towns."

But as state lawmakers struggle to come to an agreement over the budget, aid to towns and cities rests at the heart of the discord. Lawmakers have been debating fairness, with wealthier communities arguing that they should not have to support poorer municipalities. The state's aid to local schools is especially contentious, with a judge ordering an overhaul last year.

The financial limbo has created a level of uncertainty that some fear will only add to Hartford's troubles, clouding perceptions of the city, hampering much needed growth and overshadowing positive things they see happening here. "With all this momentum, having that fog or haze — a major fog or haze — which is the threat of looming bankruptcy is not good," said Shawn Holloway, 44, a housing inspector who has lived in Hartford his entire life. "There should be some better choices."

THE NEW YORK TIMES

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AUG. 15, 2017