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Restructuring Debt Or Bankruptcy: Hartford Meets Resistance Either Way.

Wherever they turn, Hartford officials are meeting trouble trying to figure out how to repay millions of dollars in debt.

As S&P Global Ratings cut Hartford's general obligation bonds by four notches Tuesday, to 'CC' from 'B-,' it said it could reduce it even more, to 'D,' if the city "executes a bond restructuring or distressed exchange or files for bankruptcy."

In a distressed exchange, a borrower proposes that debt holders agree to be repaid less of the loan's principal in exchange for moving up in payment priority.

S&P said it would consider any "distressed offer" to be "tantamount to default."

"In our view the potential for a bond restructuring or distressed exchange offering has solidified with the news that both bond insurers are open to supporting such a measure in an effort to head off a bankruptcy filing," S&P said.

Representatives of Assured Guaranty, the insurer that covers the largest share of Hartford bonds, have said they would help the city restructure its debt — reducing immediate contributions by stretching its payments further into the future. That means, in effect, that Assured would be willing to continue insuring Hartford's debt after a refinancing — a necessary condition, considering the city's threats of bankruptcy.

If Hartford were to default or otherwise fail to make its debt payments, the bond insurance companies would be responsible for making missed payments. That's why Assured and the other insurer covering Hartford's debt, Build America Mutual, offered to help in a refinancing.

But despite the comments by S&P, it's not clear whether a restructuring based on such a refinancing deal would mean bondholders would end up being repaid less.

Mayor Luke Bronin and lawyers with Greenberg Traurig, the firm hired by the city to explore bankruptcy, held a brief conference call with bondholders and insurers Monday. Hartford faces $545 million in outstanding general obligation debt.

City officials said that call could be a first step in discussions about restructuring its debt.

Bronin declined Wednesday to discuss details about restructuring.

Michael Stanton, head of strategy and communications at Build America Mutual, one of the two primary companies that insures Hartford's municipal bonds, outlined ways Hartford could avoid bankruptcy. BAM urged the city to avoid such a move, saying it would cause "irreparable harm" to the city, residents, the state and other municipalities.

Stanton said Hartford could take advantage of legislation allowing it to sell bonds that stretch out its obligations over 30 years, up from bond sales that pay off over 20 years.

He said a 30-year term is “very commonplace” in the municipal bond market, which cities tap to raise money for projects such as public buildings that last for 30 years or more.

“This is a transaction the city could execute in the public municipal bond markets today, with no additional legislation, nor a Chapter 9 bankruptcy filing,” Stanton said.

Hartford also could sell new “refunding bonds” and use the money it raised to pay off current debt, he said.

Bronin sent a letter to Gov. Dannel P. Malloy and legislators this month threatening to pursue bankruptcy if Hartford didn’t get its needed state aid by early November. He has asked for at least $40 million more from the state this year.

Democrats had set aside $40 million to $45 million in their spending plan, but a Republican budget was approved by lawmakers instead, with $7 million in additional funding for the capital city.

An even deeper cut in bond ratings could make it tougher for Hartford to tap bond markets for financing and drive up interest rates demanded by lenders. To help keep the interest rate on the new bonds as affordable as possible, Build America Mutual and Assured Guaranty, told city officials they would be willing to participate in guaranteeing the payments on those bonds to new investors, if such a guarantee is “economically helpful,” Stanton said.

Assured Guaranty also warned against bankruptcy. A “consensual agreement among stakeholders offers the city a better path forward than bankruptcy,” it said.

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by Stephen Singer

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