

# **Bond Case Briefs**

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## **Connecticut Lawmakers Approve Budget That Rescues Hartford.**

- **City's bonds gain as aid eases the risk of default, bankruptcy**
- **Senate, House approve it with enough support to override veto**

Connecticut lawmakers ended a four-month impasse over the budget by approving steps to close the state's \$3.5 billion deficit and provide nearly \$50 million keep Hartford from collapsing into bankruptcy.

The House of Representatives and the Senate both passed the spending bill Thursday with enough support to ensure it won't be struck down by Governor Dannel Malloy.

The plan closes the deficit in part by eliminating sales-tax transfers to a municipal aid fund, raising hospital taxes and reducing earned income tax credits for the poor. It also extends a financial rescue to the state capital, Hartford, whose mayor has said it could be forced to seek bankruptcy as soon as next month if the state didn't provide such help. The budget would give the city as much as \$48 million a year, enough to cover almost all of its deficit.

"We provide stabilization for the capital city of Hartford, avoiding, I pray, a bankruptcy that will reverberate well beyond the city," said Senator John Fonfara, a Democrat who represents parts of Hartford.

The rescue plan, which was cobbled together last week, has pushed up the price of Hartford bonds, with securities due in 2023 rising to an average of 83 cents on the dollar over the last two days from as little as 67 cents earlier this month. That pared the losses that came after Mayor Luke Bronin raised the specter of a potential bankruptcy and credit-rating companies cut its debt deeper into junk because of the risk of a default.

If Hartford went bankrupt, it would be the biggest U.S. city to do so since Detroit's collapse four years ago. Hartford, where a third of its 123,000 residents live in poverty, faces a \$50 million deficit, nearly 10 percent of its budget. The shortfall is projected to rise to \$83 million by 2023.

"We wish to express our sincere thanks to the legislative leaders of both political parties, who came together across party lines and embraced a responsible, collaborative approach," Bronin, Treasurer Adam Cloud and City Council President Thomas "TJ" Clarke II said in a joint statement.

"We cautioned against a short-term fix or Band-Aid, and our legislative leaders agreed, providing tools that make a sustainable solution possible."

The city will work with its "stakeholders" to stabilize and revitalize Hartford, they said.

In a statement shortly after the vote, the governor's office said a review of the legislature's budget had "already uncovered egregious problems" with the hospital tax that could put the spending plan out of balance by more than \$1 billion.

“Staff will continue to analyze the bill, weighing its merits and faults, so that the governor can arrive at an informed and carefully considered decision regarding his support,” said Kelly Donnelly, a spokeswoman for Malloy.

The budget would lend the state’s backing for a refinancing of Hartford’s debt and provide \$20 million annually to cover interest payments. Refinancing some of the city’s \$620 million debt would allow it to avoid a spike in interest and principal payments starting in 2021 by extending maturity dates on the securities. The budget also creates a \$28 million restructuring fund that Hartford could tap.

In an effort to deter Hartford from filing for bankruptcy, a step that would have to be approved by the state, the budget prohibits Connecticut from providing debt service assistance to any municipality that does so.

Assured Guaranty Ltd. and Build America Mutual Assurance Co., which insure more than half of Hartford’s bonds, have offered to assist the city by guaranteeing a refinancing. Local insurance companies Hartford Financial Services Group Inc., Travelers Cos. and Aetna Inc. have pledged to give the city \$10 million a year for five years as part of a “comprehensive and sustainable solution for Hartford.”

Connecticut has previously lent its commitment to pay debt service to a parking garage, convention center and science museum in Hartford. The state is rated A1 by Moody’s and A+ by S&P Global Ratings and Fitch Ratings.

The state aid package won’t be a “cure all” for the capital, said Tim Heaney, senior managing director at Newfleet Asset Management in Hartford, which does not own the city’s debt.

“I don’t think \$40 million is enough to wipe all their problems away,” Heaney said.

Hartford’s problems partly lie in its revenue structure, he said. About half of property is tax-exempt, and changing that would be contentious, he said. “If the state were to alter that payment process, then would the state do that for other cities?” he said.

Connecticut’s aid to Hartford comes with strings attached. The budget would also establish a Municipal Accountability Review Board composed of representatives of the governor, the treasurer and labor that would have the power to review Hartford’s budgets, bond issues and collective bargaining agreements.

“Hartford’s got to know, this is your shot — don’t screw it up,” said Republican Senate Pro Tem Len Fasano.

## **Bloomberg Markets**

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