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Report: Other Cities Not Likely to Follow Hartford's Financial Path.

A variety of factors have led Hartford down the path of financial hardship, but it is a route not likely to be followed by other cities in the state, according to a report by Fitch Ratings.

The report, titled "Connecticut City Review: Hartford Weaknesses Not Common," outlines the capital city's financial state and compares it to that of other cities in the state of similar size and demographics: Bridgeport, New Haven, Waterbury and New Britain.

The comparable cities maintain stable ratings with New Haven and New Britain having A- grades, Bridgeport an A and Waterbury a AA-. The other Fairfield County cities — Danbury, Stamford, Norwalk and Greenwich — all have a AAA grade from Fitch Ratings.

Meanwhile, Hartford teetered on the brink of bankruptcy last year before being bailed out by the state budget that was finally passed in late October.

Fitch does not rate Hartford, but the other two major credit rating agencies — Moody's and Standard & Poor's — rate the state's capital city in the junk range.

A city or town's credit rating is an indicator to potential investors about the quality of bonds or other debt securities offered by the municipality.

"The surprise (of the report) was the extent of the deterioration of Hartford's financial position," said Kevin Dolan, director in Fitch's U.S. Public Finance group. "The level of debt ramped up quickly and there wasn't the revenue to support it. You don't typically see that in other Connecticut towns — at least not to that magnitude."

The other cities analyzed stand apart from Hartford because of their financial flexibility, deeper reserves, ability to obtain employee labor concessions and other factors.

"Fitch does not believe that the Connecticut cities that Fitch rates are on the path that led Hartford to its recent crisis," the report reads.

How Hartford got there

There are many reasons Hartford is in financial dire straits.

Because it is the state's capital city and has a number of state buildings in its downtown, Hartford has an inordinate number of properties that are tax-exempt. In fact, Hartford does not collect taxes on nearly half the properties in the city.

Property taxes are a main source of revenue for municipalities and, indeed, for Hartford it is the second-largest source of revenue. The city has argued it should be reimbursed more for its tax-exempt situation because the city provides services to those properties.

To combat that loss of revenue, Hartford has raised taxes to the point it has the highest property tax rate in the state for fiscal 2017. It nearly doubled the rate between 2001 and 2005, and continued to slowly increase property taxes through 2013.

Hartford has squeezed about as much as it can out of its taxable properties, the report reads.

"Hartford has little practical ability to raise rates given steep increases since 2001 and the challenged economic base," according to the report, which also notes that one-third of the population has a wealth level below the poverty line.

Dolan added the high tax rate "makes it less desirable to live there or start a business there and causes property values to drop."

Hartford has also seen its population decline over the last several decades and its median household income is 44 percent of state levels.

While the other cities in the report negotiated employee benefit concessions following the recession, Hartford had only limited success.

"Annual pension expenses are expected to continue to rise due to aggressive investment return assumptions," the report reads. The Fitch analysis shows annual carrying costs for debt services, pension contributions and other employee benefits to be about 15 percent of total city spending in 2016, compared to 7 percent in 2010.

Long-term liabilities for city and school projects contributed to Hartford's financial decline, as well, with outstanding debt up nearly 66 percent since 2012.

Throughout much of 2017, it looked as though Hartford was headed toward declaring bankruptcy. It turned to the state for help, but the state budget had its own financial difficulties. When the state finally passed a budget in late October, it included an additional \$40 million for Hartford.

The funding may have held off bankruptcy, but the financial challenges persist.

"Enactment of the state budget improves near-term clarity of municipal revenue and expenditure assumptions; however, the reprieve for local governments may prove temporary," the Fitch report reads. "The state's finances continue to be stressed, and local aid cuts are sure to continue to be part of budget balancing discussions."

Other cities stable

While potential investors see Hartford surrounded in red flags, New Haven, Waterbury, New Britain and Bridgeport all received stable outlooks from Fitch Ratings.

New Haven feels pressure from growing pension and debt service costs, but the city has increased its tax base through new development and associated construction fees. New Haven's tax rate of 38.7 mills is significantly lower than Hartford's 74.3.

Waterbury, which has seen financial hardships in the past, is on stable footing due to solid reserves, strong financial policies and consistent revenue, the report said. New Britain has "relatively stable revenue" and "adequate expenditure flexibility," as well as strong reserve levels.

The Fitch report said Bridgeport, while dealing with spending pressures, mitigated budget imbalances by cutting costs, refunding debt, increasing the tax rate and receiving state aid.

“Such actions helped restore balanced operations and management is making efforts to increase fund balance,” reads the report. “Fitch expects economic development underway and planned to lead to gradual growth in the tax base over the next several years.”

High-functioning schools, location, housing stock, quality of life, commercial development and high incomes are among the factors that contribute to other Fairfield County cities receiving AAA ratings.

“There has been a considerable amount of new development in the last few years (in Fairfield County) and we expect moderate development to continue,” Dolan said.

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By Chris Bosak

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cbosak@hearstmediact.com; 203-731-3338

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