Bond Case Briefs

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Any Deeply Indebted City Might Want the Bailout Hartford Got.

- **Connecticut to pay debt service on $755 million of city bonds**
- **Rare for a state to take over bond payments for localities**

It's a deal that might appeal to any U.S. city struggling with a lot of debt. Hartford, Connecticut, won't be on the hook for its $755 million in debt payments, helping it avoid bankruptcy.

Hartford officials approved a plan Monday night that authorizes Connecticut to pay off the city's general-obligation debt, part of a lifeline the state extended to the capital city when it enacted its budget last year. While U.S. states have a history of stepping in to help distressed cities, it's rare for a state to take on debt payments for a locality.

"Our goal is to use this period of stability to continue to push for economic growth that will strengthen the city's financial position down the road," Mayor Luke Bronin said in a telephone interview prior to the vote on Monday.

The Deal

As part of the agreement, the city must provide ongoing financial reports and a rolling three-year fiscal plan to the state treasurer and secretary of the Office of Policy and Management. Hartford's fiscal 2019 budget must be approved by the Municipal Accountability Review Board, which was created by Connecticut in 2017 to help cities experiencing distress.

If the city has a cumulative unassigned general fund balance deficit of 1.5 percent or more than its general fund revenues, then it would trigger higher levels of oversight. Such scrutiny from the state also would be triggered by a default or if the city seeks approval for bankruptcy protection.

The agreement illustrates the lengths that states will go to in order to prevent municipalities from filing for bankruptcy — a rarity in the $3.9 trillion municipal-bond market and something that can cause higher borrowing costs for other localities nearby.

Connecticut has a history of stepping in to help its localities: In 2001, the state established oversight of the city of Waterbury that lasted five years. Connecticut guaranteed deficit financing bonds issued by Waterbury in 2002 and put in place a control board that could cancel union contracts and renegotiate.

In New Jersey, former New Jersey Governor Chris Christie's administration took control of gambling hub Atlantic City's finances in 2016, a move that local officials resisted at the time.

Hartford got "too good of a deal" because the agreement does not include an emergency manager or any sort of state takeover of the city's management, said Stephen Eide, a senior fellow at conservative think-tank the Manhattan Institute who specializes in municipal finances. Cities losing control of their finances as part of a state intervention acts as a deterrent to them pursuing such agreements, he said.

“Every city wants more aid with very few strings attached to it — that is what Hartford got,” Eide said. “I think the state should have taken a firmer hand.”

Precedents Set

Since the recession, more states have created mechanisms for dealing with municipal distress, said Michael Imber, a managing director at EisnerAmper who specializes in municipal distress and restructuring.

“This is what states can choose to do, to help stand up troubled municipal governments,” he said. “And Hartford is certainly a troubled municipal government.”

In 2010, Rhode Island’s legislature passed a law that allows the state to appoint a receiver if a locality is undergoing fiscal emergency. It also allows for the state revenue director to make debt payments if an issuer seems unlikely to pay it, according to a 2017 presentation to the National Conference of State Legislatures. Still, the state can charge those costs against any aid due to the locality.

Ohio added designations in 2011 to identify practices that could result in a declaration of fiscal emergency. Michigan, known for a longtime state law that allows for the placement of an emergency manager, passed laws in 2017 that requires municipalities with underfunded pensions to develop action plans to fix them.

Pennsylvania in 2011 passed legislation establishing a state receivership process to address the fiscal woes of its capital Harrisburg.

Faith and Credit

The Connecticut deal also allows Hartford’s debt to be refinanced using the state’s full faith and credit backing. That step is more commonly used by states: In 1975, New York allowed for the creation of a corporation to issue debt on behalf of New York City, which was on the brink of bankruptcy at the time. Pennsylvania also created a similar mechanism for Philadelphia in 1991 when its largest city was struggling with a financial crisis.

But few, if any, states have taken on the debt load of their cities to provide relief. And doing so adds to the financial burden on Connecticut, which is on the hook for Hartford’s general-obligation bond payments through 2036. The state has been contending with chronic deficits and is ranked as having some of the highest debt on a per-capita basis.

“Strong urban centers are vital to the state’s well-being,” Denise Nappier, Connecticut’s state treasurer, said in an emailed statement. “Declining to help Connecticut’s capital city could have adversely affected the financial health and vibrancy of surrounding towns, while helping Hartford actually might make a potential slippery slope less likely.”

Bronin said he thinks the plan will be beneficial for the state as well. “If we want Connecticut to be economically competitive, we have to have strong, vibrant cities that can help drive that economic growth,” he said.

Rick Mattoon, a senior economist for the Federal Reserve Bank of Chicago, said the state taking on Hartford’s debt will help the city focus on providing essential services. The agreement is likely in the state’s interest, too, he said.

“You want your capital city to be seen as an attractive place,” he said. “Having it continue to decline is certainly not going to help your overall state or regional economy.”

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