

Bond Case Briefs

Municipal Finance Law Since 1971

In America's Richest State, the Capital Flirts With Bankruptcy.

- **Hartford hires law firm to explore 'all options' available**
- **Officials haven't ruled out filing for bankruptcy protection**

The hedge-fund enclave of Greenwich, on the Connecticut Gold Coast, is about 100 miles and a world away from the state capital.

But the fiscal crisis in Hartford, the historic center of the American insurance industry, is fast becoming more representative than mansions or yachts of the wealthiest state in the U.S. The city is edging closer than ever to the breaking point, waiting for the financially troubled state government to step in.

It may seem crazy that a place as rich as the Nutmeg State, which counts among its residents hedge-funds masters like Ray Dalio and Steven A. Cohen and legions of Wall Street bankers, could be in such fiscal trouble. Last year, the per-capita income there was \$71,033, the highest in the nation, according to the U.S. Bureau of Economic Analysis.

For all that, state-worker pensions have been underfunded for decades. Tax increases aimed at closing deficits have put a strain on an economy struggling from the loss of high-paying finance jobs, leaving it among the few that still haven't recovered from the recession. The hedge fund industry fell on hard times, with about 1,060 shuttering globally last year. UBS Group AG abandoned the world's largest trading floor in Stamford after the financial crisis, and the Royal Bank of Scotland downsized its office there. Pension, debt and health-care costs just kept growing.

"There's a limit to how much you can tax and there's a limit to how much you can cut before you damage the viability and attractiveness of the city," Mayor Luke Bronin said in May. "Right now, from a fiscal standpoint, you have a capital city fighting with its hands behind its back."

Like many other local governments across the country, Hartford — city of Mark Twain and the young John Pierpont Morgan — has been grappling with budget problems for years. On the same day that Illinois lawmakers finally scraped together a long-overdue budget, Hartford hired the law firm Greenberg Traurig LLP to evaluate its options, which include bankruptcy. It would be the first prominent U.S. municipality to seek protection from its creditors since Detroit did so in 2013.

As for Connecticut, it faces a projected two-year deficit of \$5 billion that lawmakers haven't figured out how to close, even though the new fiscal year began on July 1.

In Hartford, the woes have been piling up for a while. Like Puerto Rico, which filed a record-setting bankruptcy in May, or even Greece, the city came to the edge in the usual way: slowly, then suddenly. The population declined 23 percent between 1960 and 2000 and has remained stagnant ever since. A third of its residents live in poverty, a higher share than in Baltimore or Newark. From 2010 to 2014, the metropolitan area saw the fifth-biggest decline in employers in the nation, according to the Economic Innovation Group, a Washington-based public policy organization.

Hartford's tax base of about \$4.1 billion is about two-thirds that of neighbor West Hartford, which has far fewer residents, because half of the property — state buildings, hospitals, universities, non-profit agencies — is tax-exempt. Hartford has the highest property tax rate in the state and faces a \$50 million deficit, nearly 10 percent of its budget. The city's credit rating may be downgraded deeper into junk by Moody's Investors Service.

Uninsured Hartford bonds maturing in 2024 traded at yields of more than 6 percent in late June, compared with about 4.4 percent in January, as investors' jitters mounted. The city has \$672 million in debt, including \$228 million of uninsured bonds, according to data compiled by Bloomberg. It also guarantees about \$70 million in debt for a minor-league baseball stadium downtown.

Governor Dannel Malloy and Republican and Democratic leaders in the legislature agree the bankruptcy of the state's capital isn't another negative headline they need. General Electric Co. has decamped from Fairfield to Boston, and last week Aetna Inc. said it was moving its corporate headquarters from Hartford, where it has been since 1853, to New York. About 250 jobs are going with it, though thousands will stay in town.

"The state needs a budget that supports Hartford, its residents and its employers," said Chris McClure, a spokesman for Malloy. "In the absence of action by the General Assembly on a budget vote, it's entirely appropriate that the city explore all its options and prepare for every contingency."

Greenberg Traurig's team will be led by Nancy Mitchell, a co-chair of the firm's restructuring practice, the city said in a statement. When Hartford was soliciting proposals from firms that specialize in bankruptcy, Council President Thomas Clarke told the local newspaper that looking into court protection from creditors would only be a last ditch option.

"They will be working with us to examine all options for putting the city of Hartford on a sustainable path," the mayor said in a statement. "As we start a new fiscal year without a state budget and with significant uncertainty, we will have the advice and counsel of an experienced and highly respected restructuring firm."

In 2016, Bronin, a Democrat, took over a city that had been delaying its fiscal reckoning by pushing debt payments into the future, draining reserves and resorting to one-time measures, such as selling a parking garage, while its debt swelled by 52 percent from 2011 to 2015, according to Moody's figures.

Since taking office, he's cut 100 jobs and renegotiated leases and energy contracts. Bronin's been less successful in getting concessions from unions: The city's fiscal 2017 budget assumed \$16.5 million of concessions, the bulk of which haven't materialized.

Hartford managed to strike a deal with its firefighters that saves about \$4 million a year through 2020 by freezing pay increases, increasing pension contributions, lowering salaries for new hires and requiring employees to pay more for health care.

The city could renegotiate labor contracts and cut debt and pensions in bankruptcy, as a handful of cities have done since the recession. But it would need the governor's consent to file for Chapter 9.

Bronin is lobbying for the state to fully fund a program that compensates local governments for revenue lost to tax-exempt properties, which alone would provide enough money to close next year's deficit, and has joined with cities pushing to raise Connecticut's 6.35 percent sales tax to 6.99 percent to provide more aid.

He also persuaded Hartford Financial Services Group Inc., Travelers Cos. and Aetna to pledge \$50

million to the city over five years as part of a “comprehensive and sustainable solution for Hartford.”

Bloomberg Politics

By Martin Z Braun

July 7, 2017, 2:00 AM PDT

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com