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The Curious Case of Hartford: How Can a State Rescue a Debt-trapped City?

The common misconception with local government debt was that all the debt issued by the local government was backed by its full tax authority; so, if there is ever a loss in revenue or general fund deficit, the municipality will simply increase the taxes to fill that deficit. Then, Detroit, MI and Stockton, CA happened, delivering a rude awakening for many investors who simply thought local governments can never go bankrupt. For Detroit and Stockton, there was little to no state intervention to help their municipalities and it eventually led to two of the biggest municipal bankruptcies in the history of the United States. However, there have been other examples, like Atlantic City, NJ, where the City has been under major financial strain to meet even its short-term obligations and the state (New Jersey) intervened to provide the much-needed help to prevent bankruptcy.

Recently, investors and municipal debt markets witnessed something quite similar: the State of Connecticut's intervention into its capital city, Hartford, and its finances to provide much-needed financial relief. This eventually led to a four-notch credit rating boost for Hartford City debt from CCC (junk) to A (investment grade).

In this article, we will take a closer look at the State of Connecticut's intervention, its short- and long-term impacts, and what it means for other municipality General Obligations (GOs) in a similar situation.

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