

RatingsDirect®

Summary:

Hartford, Connecticut; Appropriations; General Obligation

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(Editor's Note: We are republishing this report, originally published Sept. 27, 2017, to clarify our understanding that the bond insurers are open to a traditional bond refinancing but not a bond restructuring or distressed exchange. A corrected version follows.)

Credit Profile		
Hartford GO <i>Long Term Rating</i>	CC/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (BAM) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford Stadium Auth, Connecticut		
Hartford, Connecticut Hartford Stadium Auth (Hartford) APPROP <i>Long Term Rating</i>	CC/Watch Neg	Downgraded, On CreditWatch Negative

Rationale

S&P Global Ratings has lowered its rating four notches to 'CC' from 'B-' on Hartford, Conn.'s general obligation (GO) bonds and Hartford Stadium Authority's lease revenue bonds. The ratings remain on CreditWatch with negative implications, where they were placed on May 15, 2017.

At this rating level and due to the characteristics of the city's appropriation-supported debt, we believe its appropriation and GO debt share similar risk and have therefore made no notching distinction. We could differentiate the GO and appropriation ratings again in the future based on our view of their relative vulnerability to nonpayment. The downgrade to 'CC' reflects our opinion that a default, a distressed exchange, or redemption appears to be a virtual certainty.

S&P Global Ratings could take additional action to lower the rating to 'D' if the city executes a bond restructuring or distressed exchange, or files for bankruptcy. Under our criteria, we would consider any distressed offer where the investor receives less value than the promise of the original securities to be tantamount to a default. We understand from the bond insurers that they are open to a traditional bond refinancing in an effort to head off a bankruptcy filing, but not a distressed exchange or bond restructuring where investors receive less value than the promise of the original securities.

However, the mayor's public statement citing a desire to not refinance, but supporting the need to restructure even if the state budget provides necessary short-term funds further supports our view that a restructuring is a virtual

certainty. In our view, the city is vulnerable to payment interruptions due to its near-term liquidity crisis. The downgrade also considers the ongoing state impasse in adopting a budget and providing the necessary liquidity support for the city in a timely manner to avoid a payment disruption. The downgrade reflects the likelihood that there will not be any agreement on a bipartisan budget before Oct. 1, when planned municipal cuts are scheduled to take effect.

The state of Connecticut is facing its own fiscal challenges, entering the fiscal year without an enacted budget. With no budget resolution in place, the governor recently revised an executive order designed to keep the government operating in balance for the fiscal year. To eliminate the state's 2018 projected deficit, the governor reduced total aid to municipalities by a significant amount; Hartford would stand to lose about \$49 million in payments in lieu of taxes and municipal revenue sharing grant payments it otherwise would receive in October. The city's is scheduled to repay short-term tax anticipation notes (TANs) on Oct. 31, and has the next debt service payment scheduled for Nov. 15.

Although we do not see a bankruptcy filing by the city as likely, should a debt exchange proceed, given the state budgetary impasse, and the uncertainty surrounding any exchange offer, the risk of a bankruptcy filing remains as city officials have publicly indicated they are actively considering bankruptcy. The fact that the city hired a bankruptcy attorney in July 2017 lends credence to the idea that bankruptcy is potentially on the table. On Sept. 25, the city met with bondholders to discuss future repayment options. Such a meeting, regardless of the outcome, indicates a public desire to adjust debts and to have met with creditors; both of which are elements of eligibility to file for Chapter 9 bankruptcy. Although state law still requires approval from the governor, and consent from the treasurer and general assembly, this action heightens the likelihood that Hartford will formally begin that process.

Hartford's budgetary performance has been weak for several years, and the management environment remains constrained due to a structurally imbalanced budget with no credible corrective plan. The city's fiscal 2017 general fund balance is projected to close with a negative balance of \$9.9 million on a generally accepted accounting principles basis, or about 1.8% of general fund expenditures. Hartford's adopted fiscal 2018 (fiscal year-end June 30) budget totals \$612 million, an increase of roughly 10.8% from the previous year. Despite a 3% increase in general fund revenues, the budget gap remains sizable at \$49.6 million, or about 8% of budgeted expenditures. Beyond the current fiscal year, Hartford faces significant fiscal challenges with rising fixed costs and limited revenue-raising ability. Based on its projected budget, the gap expected for fiscal 2019 is in excess of \$49 million (more than 8% of estimated expenditures) and increases to more than \$69 million by 2021.

Along with the operational challenges mentioned, the city's weak budgetary performance has severely eroded liquidity. The decline in cash resulted in Hartford having to issue TANs in fiscal 2017 to cover operating expenditures through October in anticipation of property taxes and state revenues (a period which crosses fiscal years).

CreditWatch

S&P Global Ratings expects to resolve its CreditWatch action on the long-term rating within 90 days. We believe there is a one-in-two likelihood of another downgrade if the city were to file for bankruptcy or pursue a restructuring that offers bondholders less than the original promise of the bonds. Although unlikely, if timely budget adoption translates

into stabilized liquidity, no exchange occurs, and a credible plan toward long-term structural support is identified, we could remove the ratings from CreditWatch. Over time, upward rating movement will depend on the city's ability to achieve and sustain structural balance.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of September 27, 2017)		
Hartford GO (AGM) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (AGM) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (AGM) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (AGM) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (AGM) (SECMKT) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (ASSURED GTY) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (BAM) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (BAM) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (BAM) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative

Ratings Detail (As Of September 27, 2017) (cont.)		
Hartford GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO (BAM) (SEC MKT) <i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative
Hartford GO		
<i>Unenhanced Rating</i>	CC(SPUR)/Watch Neg	Downgraded, On CreditWatch Negative

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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