S&P Global
Ratings

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Summary:

Hartford, Connecticut; Appropriations; General Obligation

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Credit Profile		
Hartford GO		
Long Term Rating	BBB/Negative	Downgraded
Hartford Stadium Auth, Connecticut		
Hartford, Connecticut		
Hartford Stadium Auth (Hartford) APPROP		
Long Term Rating	BBB-/Negative	Downgraded

Rationale

S&P Global Ratings has lowered its rating on Hartford, Conn.'s general obligation (GO) bonds four notches to 'BBB' from 'A+' and also lowered its rating on the Hartford Stadium Authority's lease revenue bonds to 'BBB-' from 'A'. The downgrade reflects the city's ongoing structural imbalance and our opinion about its lack of a credible plan to restore balanced operations and address sizable out-year budget gaps. The negative outlook reflects the uncertainty regarding the city's ability to enact deficit mitigation measures coupled with the significant budget gaps the city projects for the next five years.

The rating reflects the city's structural imbalance and our opinion of its lack of a credible plan to return to balanced operations. The fiscal 2017 budget is imbalanced, relying on the use of reserves and labor concessions that have not been realized. Currently, it is also unclear how the city intends to adequately address its significant out-year budget gaps in excess of $30 million in 2018 and $50 million in subsequent years. The rating further reflects our weak view of management conditions. The outlook is negative due the uncertainty regarding the city's ability to restore structural balance and sizable budget deficits are expected to continue, potentially putting the city's liquidity position at risk.

The city's GO debt is secured by its full faith and credit to levy ad valorem taxes on all taxable property within its jurisdiction without limit as to rate or amount.

The Hartford Stadium Authority's lease revenue bonds are secured by a lease agreement between the city and the authority. Payments by the city to the authority are absolute and unconditional, subject to annual appropriation, and not contingent on the completion or occupancy of the project or the receipt of park-related revenue. A debt service reserve fund is in place funded at 50% of maximum annual debt service (MADS), which we believe protects against late budget adoption. The rating on the bonds reflects the appropriation risk of the obligation.

The 'BBB' rating reflects the following credit characteristics, particularly Hartford's:

- Adequate economy, with projected per capita effective buying income (EBI) at 55.0% and market value per capita of $42,384, though that benefits from access to a broad and diverse metropolitan statistical area (MSA) and a local

stabilizing institutional influence;
- Weak management conditions, despite "standard" financial policies and practices under our financial management assessment (FMA) methodology;
- Weak budgetary performance, with operating deficits in the general fund and at the total governmental fund level in fiscal 2015;
- Very weak budgetary flexibility, with an available fund balance that we expect will decrease in the near term from its fiscal 2015 level at 3.8% of operating expenditures, as well as limited capacity to raise revenues due to consistent and ongoing political resistance;
- Very strong liquidity, with total government available cash at 21.8% of total governmental fund expenditures and 4.1x governmental debt service for fiscal 2015, as well as access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 5.3% of expenditures, net direct debt at 69.8% of total governmental fund revenue, and high overall net debt at greater than 10% of market value; and
- Very strong institutional framework score.

Adequate economy

We consider Hartford's economy adequate. The city, with an estimated population of 124,775, is in Hartford County in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. It also benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita EBI of 55.0% of the national level and per capita market value of $42,384. Overall, market value grew by 2.2% over the past year to $5.3 billion in 2017. The county unemployment rate was 5.9% in 2015.

Hartford is the state capital and the largest employment center in Connecticut. The city benefits from the stabilizing presence of a large government workforce as it hosts over 53,000 government jobs. As the state capital, a considerable amount of property is considered tax-exempt from real estate taxes. We note that despite the county's 5.9% unemployment rate, the city's has tracked significantly higher in excess of 10% the past five years. The Bureau of Labor and Statistics reported a preliminary July 2016 unemployment rate of 10.8% for the city. In addition, despite the city being a major employment center, most of the per capita wealth lies in outlying suburbs.

The city is also dominated by the insurance and aerospace industries, with both Aetna and The Hartford based there. On July 3, 2015, Aetna and Humana announced a $37 billion merger transaction. The Department of Justice has raised an antitrust challenge with a trial expected to begin December 2016.

Weak management conditions

We view the city's management conditions as weak, despite "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Our weak view of management conditions is based on our opinion that the city is structurally imbalanced without a credible plan to correct things. Until such a plan is adopted and implemented the city maintains strong budgetary performance, our view is not likely to change.

Our assessment of the city's otherwise "standard" FMA includes our view of budgeting practices that have included conservative property tax estimations; however, prior budgets have included optimistic assumptions regarding one-time revenues and other savings. The council receives monthly budget-to-actual reports and may amend the budget throughout the year through ordinances. The city prepares a five-year capital budget with identified sources and uses. The capital budget was significantly reduced during the 2017 budget process with no borrowing expected this fiscal year. Five-year financial forecasts are also prepared, showing sizable revenue and expenditure gaps in the out years. An investment policy is in place, though periodic reporting is not a current practice, holdings are reviewed at least annually. The city does have a debt management policy to limit debt service to 10% of expenditures. While it maintains a reserve policy, current reserves are below the policy target of 7.5% of expenditures.

Weak budgetary performance

Hartford's budgetary performance is weak, in our opinion. The city had operating deficits at negative 1.6% of expenditures in the general fund and negative 5.8% across all governmental funds in fiscal 2015.

For fiscal 2015, the budget was balanced with $14.4 million of revenue from the sale of a parking garage with actual revenues at $3.1 million below the final budget while expenditures were $11.9 million below it. We adjusted to remove the one-time revenues from the audited results.

The fiscal 2016 budget was adopted based on revenues and expenses of $533.8 million, which included one-time deficit mitigation measures of $16 million from health and technology reserves and health care savings. Management expects fiscal 2016 results will show a general fund drawdown of $9.6 million, based on revenues underperforming by about $3.8 million due primarily to an asset sale bringing in less than expected and expenditures $5.8 million over budget due to overtime and other benefit costs.

Prior to any adjustments, the fiscal 2017 gap was $48.5 million (8.8% of expenditures) net of an increase of $13.4 million in revenues offset by $61.9 million in expenditure increases.

The 2017 adopted budget relies on $8.4 million of appropriated reserves, $16.5 million in labor concessions, $18.6 million in expenditure reductions, and a $5 million transfer of land to the pension fund. Management reports that when including the unrealized labor concession savings, $8.4 million in appropriated fund balance, $4.7 million from a legal judgment currently under appeal, and $1.4 million in debt service increases, the current budgetary gap is $31 million (5.5% of expenditures). In our opinion, the city could likely realize some savings to close this gap, but a negative result for the year is likely.

All of the city's general government employee contracts have expired most recently as of June 30, 2016 and are currently under negotiation. The Hartford Municipal Employees Association expired June 30, 2013 and is currently in arbitration.

Beyond the current year, the city faces significant fiscal challenges with rising fixed costs and limited revenue-raising ability. Based on the adopted budget, the gap expected for fiscal 2018 is $32.7 million (5.6% of estimated expenditures) and increases to $77.3 million in 2022 (12.1% of estimated expenditures). These gaps are significant and, in our opinion, the city has limited means to correct these imbalances. While Hartford is seeking additional state support and legislative action, there is significant implementation risk as to whether such measures will be achieved and implemented in a timely manner. In our opinion, the city faces significant final pressure, resulting in a structural imbalance and without a credible plan in place to address it.

Very weak budgetary flexibility

Hartford's budgetary flexibility is very weak, in our view, with an available fund balance that we expect could decrease in the near term from its fiscal 2015 level of 3.8% of operating expenditures, or $21.9 million. Weakening budgetary flexibility, in our view, is limited capacity to raise revenues due to consistent and ongoing political resistance.

The city's revenues are primarily derived from intergovernmental revenues (state aid) at 51%, followed by property taxes at 46% for fiscal 2015. Since fiscal 2013, the mill rate on property taxes has not increased from the rate set at 74.29 (a mill is equal to $1.00 of tax revenue for each $1,000 of assessed value). The property tax burden is recognized as one of the highest in the state and, in our opinion, there is political resistance to raising this rate substantively to offset any fiscal imbalance.

In our opinion, given the expected $9.6 million drawdown for fiscal 2016, the use of $8.4 million of reserves in fiscal 2017, and the current budget gap, we expect flexibility will likely deteriorate to negative levels on a GAAP basis when audited results are produced for fiscal 2017.

Very strong liquidity

In our opinion, Hartford's liquidity is very strong with total government available cash equal to 21.8% of total governmental fund expenditures and 4.1x governmental debt service in 2015. In our view, the city has strong access to external liquidity. In our opinion, it has demonstrated strong market access by regularly issuing GO bonds and bond anticipation notes (BANs) in the past. However, we note that continued fiscal distress and further deterioration of the city's finances could lead us to revise our opinion of market access in the future. The city has noted some timing issues related to receipt of state aid on a quarterly basis and disbursements of funds to its school district on a monthly basis. Should state aid disbursements become an issue, the city is likely to issue revenue anticipation notes.

In September 2016, a judge found the city did not adequately compensate displaced families between January 2010 and September 2015. The $6.25 million judgement would require the city to pay out $4.7 million this fiscal year. However, we understand the city has appealed the decision.

We note that in 2014, the city entered into a direct-purchase obligation with Bank of America N.A. that was refunded in April 2016. The city's cash is otherwise conservatively invested, consistent with state guidelines.

Weak debt and contingent liability profile

In our view, Hartford's debt and contingent liability profile is weak. Total governmental fund debt service is 5.3% of total governmental fund expenditures, and net direct debt is 69.8% of total governmental fund revenue. Negatively affecting our view of the city's debt profile is its high overall net debt of 15.2% of market value.

The 2017 capital improvement plan totaled $281 million with the adopted budget reducing the capital investment authorization from the previously planned $110 million to $48.6 million. The budget assumes the city will not issue any new debt this fiscal year, and that any capital improvements in 2017 will use unspent bond proceeds and grant funding.

Hartford's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 6.5% of total governmental fund expenditures in 2015. Of that amount, 5.1% represented required contributions to pension obligations, and 1.4% represented OPEB payments. The city made its full annual required pension contribution in

2015.

There are four defined-benefit pension plans for employees of the city. Two are single-employer plans, one is a cost-sharing multiemployer plan with the State of Connecticut, and one is a plan with the State of Connecticut for certified teachers in which the city is a noncontributing employer and has no associated liability.

The oldest existing single-employer plan is closed; the city pays retirement and survivor benefits to pensioners under an unfunded program basis which covered city employees hired before the current City of Hartford Municipal Employees' Retirement Fund (City MERF) went into effect on May 1, 1947. There were 87 retirees covered by this plan as of the actuarial valuation dated July 1, 2014. The city's funding policy is to make contributions equal to the benefit payments for the year.

City MERF, the existing single-employer plan, had a plan fiduciary net position as a percentage of total pension liability of 76.98% for fiscal 2015. The city has contributed 100% of its actuarially determined contribution for the past five years.

The city pays 100% of its required contribution to the State of Connecticut Municipal Employees' Retirement System (MERS). Its proportionate share reflects a plan fiduciary net position as a percentage of total pension liability of 90.48% for fiscal 2015. The city contributes 100% of the actuarially determined contribution as set by the state.

The city's provides OPEBs. The actuarial accrued liability as of the last valuation (July 1, 2013), totaled $276.1 million and was entirely unfunded. The plan is funded on a pay-as-you go basis.

Very strong institutional framework

The institutional framework score for Connecticut municipalities is very strong.

Outlook

The negative outlook reflects the ongoing uncertainty regarding Hartford's ability to adopt and implement a credible plan to restore structural balance. Without such a plan in place, the city will continue to face sizable budget gaps materially affecting its financial position and if not timely addressed, significantly affect its liquidity. Any upward rating movement would depend on the city's ability to adopt and implement a plan to return to structural balance.

Continued downward rating action is possible if budget shortfalls are not addressed soon and liquidity worsens. Should liquidity materially deteriorate, we could further lower the rating. We will continue to monitor the city's fiscal position over the next year as it works to resolve its structural imbalance, but there is a one-in-three likelihood of negative ration action within the one year outlook period.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 27, 2016
- 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 23, 2016)		
Hartford GO (AGM)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (AGM)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (AGM)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (AGM)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (ASSURED GTY)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM) (SECMKT)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM) (SECMKT)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM) (SECMKT)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM) (SECMKT)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM) (SECMKT)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM) (SECMKT)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM) (SECMKT)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM) (SECMKT)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO (BAM) (SEC MKT)		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded
Hartford GO		
Unenhanced Rating	BBB(SPUR)/Negative	Downgraded

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Ratings Detail (As Of September 23, 2016) (cont.)

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.