Two Credit Agencies Drop Hartford's Ratings Further Into Junk Status

S&P Global Ratings and Moody's Investors Services dropped Hartford, Connecticut's credit rating nearly to the bottom of their rating schedules on Tuesday, one day after Mayor Luke Bronin said no to the city's two bond insurers who offered to refinance the city's debt further out into the future.

Explained S&P, "[Our] downgrade to CC ['highly vulnerable'] 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."

A default is simply the nonpayment of a principal or interest payment on time. A distressed exchange is an exchange, under duress, of presently owned bonds for new ones with a lower face value and/or a longer repayment period. A redemption — a paying off of the city's bonds at face value before they are due — is out of the question for Hartford. The city is facing a budget shortfall of $50 million, with $60 million and more due in principal and interest payments before the end of the year.

Moody's Investors Services agrees: "The negative outlook reflects ongoing risks from the absence of a plan to restore the city's financial health and uncertainty of state support given the [state's] ongoing budget impasse." Moody's added it dropped Hartford's rating further into the cellar due to "an increased likelihood of default as early as November."

When promises are made but plans to pay for them aren't kept, eventually the mathematics takes over. As Mayor Bronin said last year:

> For too long, Hartford failed to make tough choices. Past administrations borrowed liberally. To make things easier in the short run, they refinanced debt, pushing payments into the future. The bill is now coming due.

On Monday, the day before the agencies made their announcements, Bronin had an opportunity to do just that — extend the city's debt payments into the future — and he passed. The city's two bond insurers, Assured Guaranty and Build America Mutual, offered to stretch out payments on $300 million insured by them from 15 years to 30 years. This would, they said, reduce the annual payments in the interim, giving Bronin some breathing room and time to sort things out. But Bronin said no: "I appreciate Assured's willingness to have constructive discussions [but] this administration is not interested in putting off this challenge to another mayor or another generation to fix."

Bronin asked for help from the state, but Connecticut itself is in desperate financial trouble, as well. All Bronin wanted was $40 million to tide things over, but the state is $3 billion in debt, and state legislators are two months behind in creating their own budget.

Hartford has run out of road. As taxes have risen — the taxes on a relatively modest residence worth $300,000 are an eye-popping $22,000 a year — the city's tax base has predictably started melting away. First, General Electric, which was a fixture in Hartford for generations, moved to Boston. And then Aetna, which has been in Hartford since before the Civil War(!), announced it was moving as well.

In a word, Hartford is about to become Detroit. That city ran out of road years ago and finally gave itself over to a manager who had enough authority to single-handedly force all interested parties to the table to divvy up what was left of the city: Bondholders took a dreadful haircut, pensioners saw their retirement checks cut in half, or more, and service providers hoping to get their back bills paid received only pennies on the dollar. Detroit had some help from a clever idea of raising money from citizens interested in keeping its art from being auctioned off. Millions were raised with that effort, and Detroit's collection of art remains in place.

Today Detroit is no longer the blighted city with abandoned buildings (they have been torn down and replaced), street lights that don't work (they have been replaced), and deficient emergency services (they have been upgraded so it no longer takes an hour for ambulances to respond to 911 calls). It is slowly working its way back into the good graces of the credit-rating agencies, having learned (for the moment at least) the dangers of making promises without making provisions to keep them.

Just as Detroit learned, Hartford can no longer kick the can down the road. Hartford, just like Detroit, has run out of road.

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