STANDARD & POOR'S

# PUBLIC FINANCE

# Hartford, Connecticut

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| ***Credit Profile*** | | |
|---|---|---|
| ***US$35. mil GO grant antic nts ser 2009 due 04/15/2010*** | | |
| Short Term Rating | SP-1+ | New |
| ***US$12.765 mil GO bnds ser 2009 due 11/15/2018*** | | |
| Long Term Rating | A/Stable | New |
| ***US$5. mil GO BANs ser 2009B due 04/15/2010*** | | |
| Short Term Rating | SP-1+ | New |
| ***Hartford GO*** | | |
| Long Term Rating | A/Stable | Affirmed |

## *Rationale*

Standard & Poor's Ratings Services assigned its 'A' rating, and stable outlook, to Hartford, Conn.'s series 2009 general obligation (GO) refunding bonds, and affirmed its 'A' rating, with a stable outlook, on the city's existing GO debt. We also assigned our 'SP-1+' rating to the city's GO bond anticipation notes (BANs) and GO grant anticipation notes (GANs).

The rating on the BANs reflects our assessment of the city's fundamental credit strengths and its demonstrated market access.

The rating on the GANs reflects the strong city-projected coverage of GANs at their April 15, 2010 maturity—which is a high point in the city's general fund cash level—along with additional available liquidity from nongeneral fund cash. Coverage of the GANs at maturity by the city's projection of general fund cash is more than 5x, and coverage increases to more than 7x when alternate liquidity is included. The GANs have been authorized by the city council, and Hartford has the ability to renew the notes into a subsequent fiscal year if state school construction grants are not received in the then-current fiscal year. However, city officials project that the GANs will be retired on April 15, 2010, with state grants. The GANs are being issued to maintain school construction funding despite a delay in construction grants from the state due to a late passage of the state budget. The projects for which the GANs are being issued have already received state approval for 95% of their projected cost, and the state is expected to issue authorize bonds to fund these grants; these state construction grants have historically been stable. If the city were to use its available cash to retire the GANs without the receipt of the state grant, its operating cash flow could be strained, but we believe that strain would be temporary.

The ratings also reflect our opinion of Hartford's:

- Good general fund financial position at the end of fiscal 2008, although officials project a second consecutive drawdown in fiscal 2009 that would leave reserves at an adequate level; and
- Fully funded pension plan as of July 2008, which is somewhat unusual for Connecticut municipalities.

In our view, these strengths are mitigated by Hartford's:

- Low income levels and high unemployment; and
- Reliance on state aid.

The bonds and notes are backed by the city's full faith and credit GO pledge. The BANs can also be retired by the issuance of long-term bonds. The GANs can be retired with state grant proceeds for four capital projects that officials project will total $66 million in fiscal 2010, and can be renewed into a subsequent fiscal year as GANs. Officials will use bond proceeds to refund debt outstanding and will use note proceeds for school construction and other capital projects.

Hartford is the state capital and the largest employment center in the state, hosting more than 115,000 jobs. Three large companies are headquartered in the city (Aetna, The Hartford, and United Technologies Corp.), and Northeast Utilities has announced plans to relocate its headquarters to the city. However, the vacancy rate for class A office space in the city rose to 19% in the second quarter of 2009. The city's unemployment rate is consistently above state and national levels, and the July 2009 rate was very high at 13.9%, up from the 10.9% annual 2008 rate.

The city's assessed value, or grand list, increased slightly for fiscal 2010—after a decline of about 5% in fiscal 2009—to $3.51 billion. The city-estimated market value is $5.62 billion, or $46,000 per capita, which we consider adequate. The tax base is diverse, with the 10 largest taxpayers accounting for 23% of assessed valuation. Income levels for city residents are low in our opinion, with household effective buying income (EBI) equal to 60% of the nation, and per capita EBI equal to 58%.

Hartford's financial position is currently good in our opinion, although results have been inconsistent, and officials project a second consecutive deficit for fiscal 2009. The unreserved fund balance decreased by $6.6 million in fiscal 2008 to $27.9 million, or 4.7% of expenditures, after three consecutive annual increases. The deficit was due primarily to a shortfall in revenues, including property taxes and interest income as well as the city's failure to realize a plan to sell some tax receivables. For fiscal 2009, officials project an additional deficit of $12.0 million, again attributed to shortfalls of local revenues, along with some real estate sales that the city budgeted for fiscal 2009 but did not occur. This deficit projection would have been larger if Hartford had not implemented expenditure cuts such as a 120-person staff reduction and fee and permit increases. The city's largest general fund revenue source is state aid, which city officials project will end fiscal 2009 at budgeted levels and will increase slightly for fiscal 2010.

The overall net debt burden is moderately high compared to market value, in our view, at 8.2%, but moderate per capita, at $3,360. The debt service carrying charge in fiscal 2008 was 6%, which we consider moderate. The city's 10-year capital improvement plan for fiscals 2009-2018 is in our view large at $758 million, although most of the projects are school projects for which the city expects state support of approximately 90%. Hartford's pension fund remains fully funded as of July 2008, the latest valuation date.

## Outlook

The stable long-term rating outlook anticipates that the city will get state school construction grants on a timely basis, in order to retire the GANs and preserve its cash position. Although management projects that it could comfortably pay the GANs from internal cash alone, the city's cash position would be weakened if internal cash resources were used to take out the GANs without receipt of state grants. However, the state has a history of making grant payments to localities within the fiscal year.

## Finances

The largest general fund revenues are property taxes (45% of fiscal 2008 general fund revenues), state education aid (36%), and state payments in lieu of taxes (8%). The largest expenditures are education (52%) and public safety (14%). The city's internal service fund—which accounts for its self-insured benefits funds—ended the year with a fund balance of negative $36.8 million, after a $5.6 million decline. The fiscal 2010 budget is balanced without any appropriation of fund balance, and included savings from the staff reductions. Officials maintain a goal to bring the fund balance to at least 7.5% of expenditures, but do not expect to be at that level by the end of fiscal 2010. Hartford's management practices are considered "strong" under Standard & Poor's Financial Management Assessment, indicating that practices are strong, well embedded, and likely sustainable.

## Related Research

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Short-Term Debt," June 15, 2007

| Ratings Detail (As Of 21-Sep-2009) | | |
|---|---|---|
| ***Hartford GO (ASSURED GTY)*** | | |
| Unenhanced Rating | A(SPUR)/Stable | Affirmed |
| ***Hartford GO (FGIC)*** | | |
| Unenhanced Rating | A(SPUR)/Stable | Affirmed |
| Hartford GO | | |
| Unenhanced Rating | A(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.