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HARTFORD STADIUM AUTHORITY LEASE REVENUE BONDS, SERIES 2015A (CT)
CUSIP 416465AK8, 4.00% Coupon Due February 1, 2042

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Bonds were issued in 2015 to build this 6000 seat stadium for the Hartford Yard Goats, a “AA” minor league baseball team. It was expected to be completed for opening day in 2016, but cost overruns and faulty construction problems have made even a 2017 opening day doubtful. While the stadium looks ready to go, hundreds of defects have been discovered, making operation unsafe. The surety company, Arch insurance, has now taken over the project, hired new contractors and believes that the ballpark will be operable on opening day in the Spring of 2017. Arch insures the project, but does not guarantee debt service. If Arch cannot complete on time, the city would probably be able to recover some damages from Arch, which would not guarantee timely debt repayment.

The bonds are backed by a promise to appropriate funds to repay debt by the city. That obligation is not a general obligation of the city, and a failure by the city council to include payment in future budgets is not enforceable.

In better times, when city finances were more stable, investors believed that the city would ensure the success of the stadium. Now, Hartford’s new first-year mayor has indicated publicly that the city may soon be insolvent. This raises doubt about the city’s contingent backstop to appropriate funds to repay debt. The stadium is not expected to be self-supporting (meaning stadium operations will not be sufficient to repay this debt), so repayment depends on transfers from Hartford’s General Fund.

Hartford has the typical characteristics of an older northeastern city:

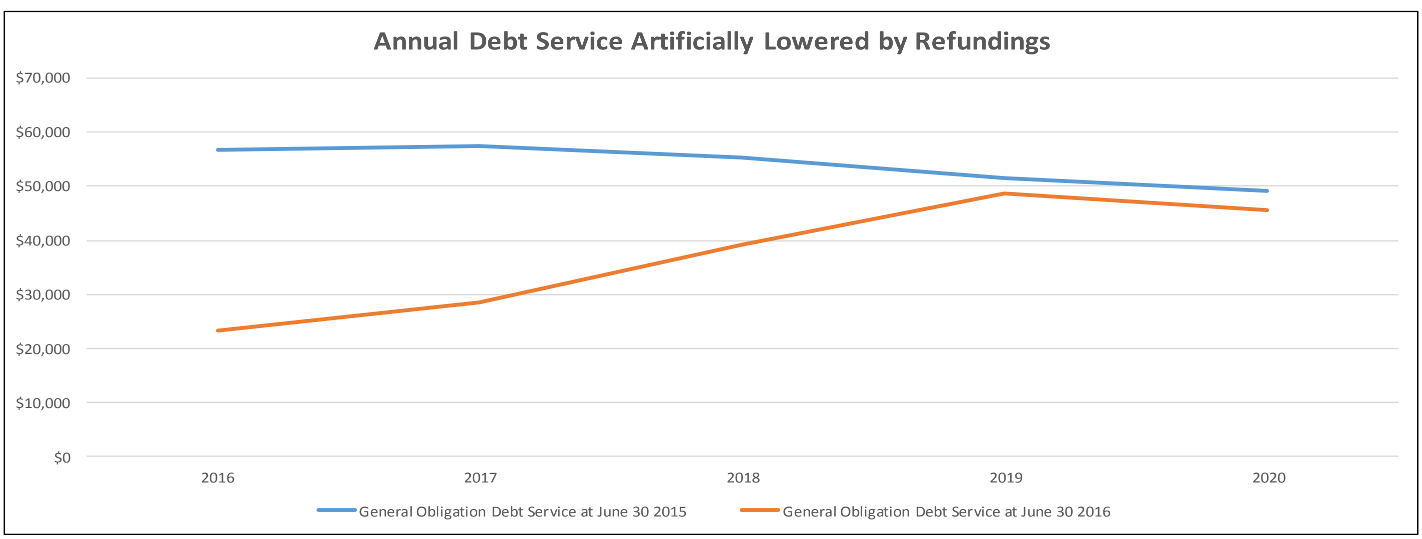
- Population loss of 21% since 1970’
- High unemployment within the city (although the surrounding region fares much better);
- Below average income
- Older housing stock (50% of city housing was built before 1949, compared to only 30% for the state).

On the other hand, Hartford has three large stable insurance companies that account for about 10% of all taxable properties. In addition, as the center of state government it has a base of public employees (which fluctuates depending on the fiscal situation of Connecticut).

Hartford’s bond ratings have been under pressure for years. In 2010, its general obligation bonds were rated as high as “Aa3” by Moody’s. Recurring deficits and financial gimmicks to balance the budget have caused Moody’s to downgrade their rating to “Baa1”. Standard and Poor’s last month lowered Hartford’s ratings by four notches, to “BBB” from “A+”. S&P is the only bond rater with a rating on the ballpark project, which is now “BBB-“, just barely above “junk bond rating” status.

HARTFORD GENERAL FUND AND DEBT SERVICE FINANCIAL OPERATIONS 2012 TO ESTIMATED 2016					
FY Ending June 30 ($000)					
	2012	**2013**	**2014**	**2015**	**2016 est.**
Total Revenue	**$573,734**	**$549,643**	**$557,361**	**$566,606**	**$533,815**
Property Tax	$277,245	$255,546	$256,765	$262,364	$265,682
Intergovermental Aid	280582	$280,695	$286,236	$289,332	$244,231
Total Expenditures	**$532,626**	**$521,577**	**$552,418**	**$571,021**	**$533,815**
Education	$283,987	$284,008	$283,006	$283,995	$284,008
Benefits	$64,501	$66,941	$86,898	$85,692	$65,693
Sundry	$22,523	$15,068	$36,636	$63,000	$36,028
Debt Service	$36,004	$33,402	$20,157	$9,728	$23,365
Excess of Revenue vs. Expense	**$41,108**	**$28,066**	**$4,943**	**-$4,415**	**$0**

In recent years, the city has balanced its budget by debt refundings, which reduced near term payments for 3 years, while pushing the skipped payments to later years. The city has increased its outstanding debt by 87%, but these maneuvers have actually decreased budget payments by 39%. One positive factor: the city’s debt is still paid fairly rapidly, with about 50% paid within 10 years, so this could continue to be a source of budget balancing in future years.



A default by Hartford on these bonds would irreparably damage Hartford's ability to borrow money. In addition, default on bonds by the state capital's city would bring further embarrassment to the State of Connecticut, which has seen its own bonds being downgraded this year.

While debt payments on the $63 million stadium bonds are only about $4.2 million per year, the city's recent actions and announcements of pending insolvency put these bonds at risk. Because the stadium is not an essential service for Hartford, it raises the question of whether Hartford would cease bond payments in order to conserve cash to pay for more important services, like public safety..

These bonds are not suitable for conservative investors. However, they may represent an income opportunity at today's low prices since the city's rating downgrades of the last month by S&P and Moody's. Ultimately, investors would have to believe that the state would somehow intervene if default risk increases. That is not an unreasonable assumption.

About the Author

RICHARD P. LARKIN, Stoever Glass & Co., Inc.

Richard Larkin, a recognized 41 year industry veteran, has joined SG & Co. as Director of Municipal Credit Analysis. Mr. Larkin began his career in credit rating analysis at Standard & Poor's in 1975. After rising through the ranks in various analytical and management positions, Dick left S&P as its Chief Municipal Rating Officer, responsible for municipal rating policy, practices, governance and criteria

"Dick is a unique resource to Stoever Glass' municipal clients. His knowledge in specific issues and areas of the municipal bond industry aids our representatives and their clients in making educated decisions, in a sector where this type of research is unique," said Roland Stoever of Stoever Glass.