

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's downgrades Hartford, CT's GO to A2 from A1; outlook negative

Global Credit Research - 02 Oct 2014

Assigns A2 to \$82M GO Bonds; MIG 2 to \$50M GO BANs

New York, October 02, 2014 --

Moody's Rating

Issue: General Obligation Bond Anticipation Notes; Rating: MIG 2; Sale Amount: \$50,000,000; Expected Sale Date: 10-30-2014; Rating Description: Note: Bond Anticipation

Issue: General Obligation Bonds, Series 2014B; Rating: A2; Sale Amount: \$82,000,000; Expected Sale Date: 10-30-2014; Rating Description: General Obligation

Opinion

Moody's Investors Service has downgraded to A2 from A1 the rating on the City of Hartford's (CT) outstanding general obligation bonds, affecting approximately \$352 million of outstanding debt. The outlook is negative. Concurrently, Moody's has assigned an A2 rating to the city's \$82 million of General Obligation Bonds, Series 2014 B. Moody's has also assigned a MIG 2 rating to \$50 million General Obligation Bond Anticipation Notes (BANs), dated October 28, 2014 and due October 27, 2015.

The bonds are secured by the city's general obligation unlimited tax pledge. Proceeds from the bonds and notes will be used to finance various city and school capital projects.

SUMMARY RATINGS RATIONALE

The downgrade to A2 incorporates the weakened financial position, characterized by narrow reserve levels that are expected to decline further following a sizeable anticipated deficit in fiscal 2014. The downgrade also factors the expectation that the city will remain challenged to restore fiscal stability in the near term due to an ongoing reliance on one-time revenue sources for operations, limited revenue raising ability, and diminished flexibility for future expenditure reductions. The rating also incorporates the sizeable liabilities for pension, OPEB, and debt, as well as the city's standing as the state capital and an important regional economic center.

The negative outlook reflects the possibility for downward rating action should the city fail to stabilize and augment its slim reserve levels over the near term.

The MIG 2 rating is based on the city's long-term credit quality, as reflected in the rating and outlook. As per Moody's BAN methodology, note ratings are capped at MIG 2 for issuers rated A2 with a negative outlook and below.

STRENGTHS

-- State capital and regional employment center

CHALLENGES

-- Low wealth and high unemployment

-- Stagnant property values

-- Narrow reserve levels, with anticipated operating deficit in fiscal 2014

-- Continuing revenue weakness and increasing expenditure demands, including pension contributions

WHAT COULD MAKE THE RATING GO UP

- Rebuilding of reserves to levels consistent with higher rating categories
- Established trend of structurally balanced operations
- Significant improvement in socioeconomic indices
- Sizeable tax base growth

WHAT COULD MAKE THE RATING GO DOWN

- Continued reliance on one-time revenue sources
- Protracted structural budget imbalance
- Reduction of General Fund balance
- Deterioration of the city's tax base and demographic profile

RATING METHODOLOGIES

The principal methodology used in the long term rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the short term rating was US Bond Anticipation Notes published in April 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies

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