



# CONNECTICUT'S BROKEN CITIES:

Laying the conditions for growth in  
poor urban communities

By Stephen D. Eide

Senior Fellow, Manhattan Institute

JANUARY 2017



MANHATTAN  
INSTITUTE



## *Letter from the Yankee Institute*

*For too long, some of Connecticut's largest cities have languished. Not only do their residents suffer from high rates of poverty and crime, the cities have also endured periods of serious fiscal insecurity. Everyone in Connecticut has an interest in seeing our urban areas revitalized, but the reasons for the cities' struggles – and therefore the solutions to them – are under dispute. Although many attribute urban challenges to insufficient tax revenues, this report demonstrates that there are significant problems with how city leaders have chosen to spend taxpayer dollars – particularly when it comes to employee retirement benefits.*

*This report – produced in partnership with Manhattan Institute for Policy Research – is especially timely given that the city of Hartford will likely face bankruptcy unless the state intervenes in the coming months. That is why the solutions offered here by author Stephen Eide are so important: If state lawmakers treat Hartford's problems as though they merely stem from a lack of revenue, the city will continue to struggle to achieve long-term fiscal health. But if the issues identified in this report are acknowledged and addressed responsibly by both local and state leaders -- for example, by reforming binding arbitration laws - it will help every Connecticut municipality achieve greater fiscal stability.*

# I. Executive Summary

Connecticut's major poor cities now face significant fiscal challenges. The budgets of Bridgeport, Hartford, New Haven, and Waterbury are weaker than they were prior to the 2008-9 recession. To varying degrees, retirement benefit costs have escalated, reserves have been depleted and services slashed. Employee headcounts are down even while tax rates are on the rise. Taxpayers are paying more but getting less, and some cities are nearing insolvency.

This report will analyze these four cities' fiscal conditions and consider what the most appropriate solutions should be.

## Findings include:

- Connecticut's four major poor cities owe about \$4.8 billion in retirement-benefit related obligations, according to official estimates. Costs associated with servicing these obligations are rising more rapidly than revenues, creating a "crowd out" effect in budgets. Had Hartford's and New Haven's pension costs risen at the same rate as property tax revenues over the decade prior, they would have had about \$36.8 million in additional revenues to devote to basic municipal services in FY15.
- All four spend heavily on health insurance for retired workers, a benefit that has been almost completely phased out in private industry. The four cities' annual expense on retiree medical is \$120 million and the unfunded liability is \$2.7 billion.
- Along with retirement benefit costs, these cities' fiscal flexibility is currently restricted for four additional reasons. First, all four now employ fewer workers than before the last recession. Declining headcounts raise questions about service quality levels and the practicality of further spending reductions. It is much easier to eliminate positions than to reduce salaries and/or benefits.

- Second, their mill rates rank among the highest in the state, and have been rising in recent years.
- Third, all four have reduced their reserves and/or increased their bonded debt burden over the last decade.
- Fourth, poverty is highly concentrated in these cities. Since 1970, generally their populations have declined and the number of people living in poverty has risen. The impoverished, weak character of their local economies means both that they have limited ability to absorb tax increases and are unlikely to grow their way out of their debt struggles.
- Though all four cities are fiscally weak, Hartford stands out for its high mill and poverty rates, and its escalating deficits.

## Recommendations are as follows:

- State government is almost certainly going to have to get involved in the case of Hartford. In the near term, Bridgeport, Waterbury and New Haven will not need extraordinary assistance in the way that Hartford will. All these cities have problems, but only Hartford is in a state of crisis.
- The persistent weakness of the urban Connecticut economy means that state and local leaders should focus more directly on fiscal, rather than economic, policy. Government has far more control over employee salaries and benefits than middle class jobs and outside investment.
- Any revenue-based solution, at the state or local level, should be accompanied by spending-related reforms.

## II. Introduction

The budget and debt struggles of Connecticut state government are now almost as notorious as those of New Jersey and Illinois. State government has finished both of the last two fiscal years in the red and, according to the most recent official projections, deficits of at least \$1.5 billion, or 8 percent of the general fund, are expected in each of the next two fiscal years.<sup>1</sup> Connecticut routinely ranks at or near the top in national surveys of states' bonded and retirement benefit debt burdens.<sup>2</sup> Connecticut is among the most productive, best-educated, and highest-income states.<sup>3</sup> But its recent low growth trends<sup>4</sup> raise questions about whether Connecticut will be able to rely on economic activity alone to resolve its current debt and deficit challenges.

The fiscal condition of Connecticut's major cities is more fragile than that of state government. Bridgeport, Hartford, New Haven and Waterbury all have poverty rates above the statewide level and lower bond ratings than state government's Aa3. As explained in recent reports by Moody's and Standard & Poor's, these cities' high reliance on state aid makes them unusually exposed to state government's budget challenges.<sup>5</sup> The average Connecticut locality relies on the state for 22 percent of its revenues, but for Bridgeport, Hartford and

New Haven, this figure is 47 percent, on average.<sup>6</sup> All four have been included in the state Department of Economic and Community Development's list of "distressed municipalities" for over fifteen years.<sup>7</sup> In recent budget cycles, they have had to rely on various "one-time" maneuvers, such as tapping into their reserves, to bring revenues in line with expenditures.

To an even greater degree than the state, Connecticut's major cities are desperate for growth. But after decades of economic development attempts by local officials, more outside investment and middle-class jobs remain elusive. Accordingly, more radical proposals, such as regionalization, state oversight, and bankruptcy are now under discussion in both the state capital and city halls. Both Bridgeport and Waterbury were placed under state oversight within the past thirty years and the former narrowly avoided bankruptcy.

These four cities are home to roughly 500,000 residents, or 14 percent of the state's population. They educate over 15 percent of Connecticut's public school children.<sup>8</sup> The fiscal challenges of these localities deserve the attention of state lawmakers. However, what the state should do, or can do, given its own fiscal situation, are complicated questions.

## III. Budget I

### (Pensions, OPEB, Taxes, Government Employment)

Pension costs are widely understood to be a leading cause of Connecticut state government's struggles.<sup>9</sup> They are also a problem for its major urban centers.

1 Keith M. Phaneuf, "In gloomiest forecast yet, deficit in next budget creeps up to \$1.5B," CT Mirror, November 18, 2016.

2 "Financial State of the States 2015," Truth in Accounting, September 19, 2016; Alicia H. Munnell and Jean-Pierre Aubry, "The Funding of State and Local Pensions: 2015-2020," Center for Retirement Research at Boston College, June 2016, Appendix.

3 "Connecticut Economic Competitiveness Diagnostic Summary Results Presentation to Commission for Economic Competitiveness," April 8, 2016, McKinsey Associates for the Business Council of Fairfield County Foundation, p. 29; Connecticut at Risk: Will the State Navigate to Prosperity?, Connecticut Center for Economic Activity, April 2013, p. 18ff; *Connecticut Coalition for Justice in Education Funding v. Rell*, Superior Court, Judicial District of Hartford, September 7, 2016, "Appendix One: Fact Findings," "1. Positive findings about Connecticut Schools," p. 1ff.

4 Peter E. Gunther, Fred Carstensen, William E. Waite, "Flat Lining: Connecticut's Disappearing Economic Growth," Connecticut Center of Economic Analysis, The Connecticut Economic Outlook June 2015.

5 "Connecticut Budgetary Pressures and Dim Economic Growth Dampen Local Government Credit," Standard & Poor's, October 20, 2016; "Property Taxes Insulate Most Connecticut Municipalities From State Fiscal Issues," Moody's Investors Service, May 19, 2016.

6 "Property Taxes Insulate Most Connecticut Municipalities From State Fiscal Issues," p. 1. 34 percent of Waterbury's revenue comes from the state ("Mayor's Proposed Budget for the Fiscal Year End June 30, 2017, Budget 2016-17, Submitted on March 31, 2016," Office of Waterbury Mayor Neil M. O'Leary, p. 12).

7 Source: <http://www.ct.gov/ecd/cwp/view.asp?a=1105&q=251248>.

8 "Large Cities: Disproportionate Burden," Connecticut Conference of Municipalities, 2016, p. 16.

9 "Governor Dannel P. Malloy 2016 State of the State Address," Office of Dannel P. Malloy, February 3, 2016, p. 2-3; "Fiscal Accountability Report FY17 - FY20," Connecticut General Assembly Office of Fiscal Analysis, November 15, 2016, p. 1.

**Figure 1: Pension System Conditions among Connecticut's Major Poor Cities, FY15**

|   | Hartford Municipal Employees Retirement Fund | New Haven Police and Fire | New Haven City Employees | City of Waterbury Retirement System | Bridgeport Municipal Employees Retirement System | Bridgeport Closed Plans | Total       |
|---|--|---------------------------|--------------------------|-------------------------------------|--|-------------------------|-------------|
| Funded Ratio                                  | 77.0%  | 47.0%                     | 36.3%                    | 68.7%                               | N/A  | 38.60%                  |             |
| Discount Rate                                 | 7.75%  | 8.00%                     | 8.00%                    | 8.20%                               | 8.00%  | 3.8%-7%                 |             |
| Net Pension Liability                         | \$310,401                                    | \$364,665                 | \$286,388                | \$188,952                           | \$63,021   | \$313,653               | \$1,527,081 |
| Outstanding Pension Obligation Bonds          | N/A  | N/A                       | N/A                      | \$272,645                           | N/A  | \$264,870               | \$537,515   |
| Active Employees                              | 2,319  | 634                       | 910                      | 1,693                               | 2,180  | 0                       |             |
| Retirees and Beneficiaries                    | 3,092  | 1,282                     | 1,144                    | 2,341                               | 1,794  | 974                     |             |
| Inflows (Employer and Employee Contributions) | \$56,234                                     | \$33,133                  | \$22,161                 | \$22,950                            | N/A  | \$12,326                |             |
| Outflows (Benefit Payments)                   | \$98,654                                     | \$49,651                  | \$29,565                 | \$48,892                            |  | \$40,711                |             |
| % Risky Assets                                | 70.0%  | 76.5%                     | 84.0%                    | 73.0%                               | 62.0%  | 73.7%                   |             |

Source: CAFRs, State MERS report; figures are in thousands

**Figure 1** sketches out the basic features of the pension systems of Hartford, New Haven, Bridgeport and Waterbury.<sup>10</sup> All have promised far more in benefits than they have on hand (New Haven's funded ratios are extremely low); all have systems with fewer active members than retirees; and all are paying out more in benefits than they are taking in in contributions. Including the pension obligation bonds that Bridgeport and Waterbury issued to backfill their liabilities, these four cities are currently saddled with more than \$2 billion in pension obligations.

10 Note on **Figure 1**: Bridgeport is still responsible for maintaining four "closed" systems (Public Safety Plan A Investment and Pension Trust [Plan A], Police Retirement Plan B, Firefighters' Retirement Plan B, and Janitors' and Engineers' Retirement Plan) in which no active employees are enrolled. All active Bridgeport workers' pension benefits are managed through the statewide Municipal Employees' Retirement System. The figures for "Risky Assets" are derived from an author calculation based on how much of each system's investment portfolio is allocated to equities, real estate and alternative investments. The figures for the systems' "funded ratio" and "net pension liability" are a direct function of their "discount rate." Many finance experts believe that public pension systems' discount rates are overly optimistic, thus concealing the true extent of systems' underfunding. The City of Waterbury Retirement System's 8.2 percent, in particular, is well above industry standard for public plans. However, in **Figure 1**, no attempt has been made to recalculate systems' liabilities based on a more conservative discount rate.

Pension costs have been rising much more rapidly than revenues. **Figure 2**<sup>11</sup> illustrates that, if Hartford and New Haven had seen pension costs rise at the same rate as property tax revenues, they would have

11 Bridgeport and Waterbury were left out of the "crowd out" calculation in **Figure 2** because much of their annual pension expense is associated with debt service on large pension obligation bond issuances (\$300 million in 2000 in the case of Bridgeport, \$313 million in 2009 in the case of Waterbury). Unlike an actuarially-recommended annual pension contribution by an employer sponsor, debt service on a pension obligation bond does not fluctuate based on market gains and losses.

**Figure 2: "Crowd Out" Effect in Hartford and New Haven, FY06-15**

|  | Hartford              |               | New Haven             |               |
|--|-----------------------|---------------|-----------------------|---------------|
|  | Property tax Revenues | Pension Costs | Property tax Revenues | Pension Costs |
| FY06   | \$208,241             | \$13,913      | \$171,147             | \$22,125      |
| FY15   | \$260,640             | \$43,708      | \$249,969             | \$42,853      |
| % Change   | 25.2%                 | 214.2%        | 46.1%                 | 93.7%         |
| FY15 pension cost, if pension costs had risen at the same rate as property tax revenues? |                       | \$17,414      |                       | \$32,315      |
| Difference   |                       | \$26,294      |                       | \$10,538      |

Source: CAFRs and author calculations; figures are in thousands

**Figure 3: OPEB Debt and Annual Costs, FY15, Connecticut's Major Poor Cities**

|                         | Hartford  | New Haven | Westbury  | Bridgeport  | Total       |
|-------------------------|-----------|-----------|-----------|-------------|-------------|
| OPEB expense            | \$12,995  | \$28,708  | \$44,706  | \$33,345    | \$119,755   |
| OPEB Unfunded Liability | \$276,059 | \$440,751 | \$987,693 | \$1,003,337 | \$2,707,841 |

Source: CAFRs; figures are in thousands

had an additional \$26.3 million and \$10.5 million in revenues, respectively, to spend on municipal operations in FY15.<sup>12</sup>

Pension costs were an important factor in state government's decision to take over Waterbury's finances in the early 2000s. The Waterbury Retirement System at that time had a funded ratio in the single digits. Retirement benefit burdens have been at issue in most of the recent municipal bankruptcies across the nation: Stockton, Vallejo and San Bernardino in California; Detroit, Michigan; and Central Falls, Rhode Island. Like these five cities, Waterbury, Hartford, New Haven and Bridgeport are poor cities that still provide their workers with a defined benefit pension, a form of compensation that has been gradually phased out of the private sector.<sup>13</sup> However weak the local budget and tax base may become, and however much a given pension fund may see its investments underperform, a defined benefit plan's employer sponsor, which in the public context ultimately means the taxpayer, must guarantee that pension promises are honored throughout employees' retirement years.

Over the near term, Connecticut cities' pension costs are likely to continue to increase for two reasons: their systems are underfunded and they allocate 60-80 percent of their pension funds to "risky" assets: equities, real estate, and alternative investments

(**Figure 1**). In order to keep pace with existing amortization schedules, and avoid minimizing how much they must ask from taxpayers to keep benefits generous, government pension funds project an annual rate of investment return of 7.5-8 percent a year for the portfolio as a whole, and about 10 percent for equities. Though the past two years have been times of growth for the economy, investment markets have underperformed. The average public pension returned 1.07 percent in FY16 and 3.43 percent in FY15.<sup>14</sup> Thus, costs are rising. In future years, many investment experts project annual equity returns within the 3-7 percent range.<sup>15</sup>

**Figure 3** shows liability and cost figures related to retiree medical insurance, a benefit offered by all four governments. Collective spending on "OPEB"—"other post-employment benefits"—reached \$120 million in FY15 and these cities' unfunded liabilities were, in sum, estimated at \$2.7 billion. In the current fiscal year, Waterbury is paying more for health benefits for retired workers (\$41.6 million) than for current workers (\$38.4 million).<sup>16</sup> Like defined benefit pensions, retiree health insurance has been gradually phased out of the private sector while remaining common among state and local governments. According to federal data, fewer than 10 percent of private firms in Connecticut that provide health insurance offer it to their retired workers.<sup>17</sup>

12 Unless otherwise noted, all data in this report are drawn from comprehensive annual financial reports (CAFRs), the most recent of which, in the case of all four cities, is for FY15. Though CAFR data always have a significant lag (fiscal year 2017 is currently underway), they have the advantages of being audited and standardized across localities.

13 According to the Bureau of Labor Statistics, 85 percent of state and local government workers have access to a defined benefit pension, compared with only 18 percent of workers in private industry. "National Compensation Survey: Employee Benefits in the United States, March 2016," US Department of Labor, September 2016.

14 Source: Wilshire Trust Universe Comparison Service.

15 "The Funding of State and Local Pensions: 2015-2020," Table 3.

16 "Mayor's Proposed Budget for the Fiscal Year End June 30, 2017, Budget 2016-17, Submitted on March 31, 2016," Office of Waterbury Mayor Neil M. O'Leary, p. 25.

17 Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends, 2015 Medical Expenditure Panel Survey-Insurance Component, Table II.A.2.h(2015), "Percent of private-sector establishments that offer health insurance by health insurance offers to retirees by State: United States, 2015."

All four cities have struggled with deficits in recent years. Even if Hartford Mayor Luke Bronin is able to win the \$15.5 million in concessions he is seeking from city unions during the current fiscal year, Hartford still faces a structural deficit of \$30 million in FY18, projected to rise to about \$80 million by FY22.<sup>18</sup> New Haven ended two recent years in deficit.<sup>19</sup> Bridgeport faced a \$20 million deficit for the current fiscal year.<sup>20</sup> Waterbury's FY17 deficit was \$25.7 million, or over 6 percent of projected revenues. Waterbury's retirement benefit-related costs amounted to \$83.7 million in FY17, or more than three times the city's deficit. That is, instead of a \$25.7 million deficit, Waterbury would have had an almost \$60 million surplus were it not burdened by retirement benefit debt costs.<sup>21</sup>

Using official estimates, when the liability and debt numbers from **Figures 1 and 3** are combined, and figures for Waterbury and Bridgeport's pension obligation bond issuances are included, Connecticut's four major poor cities owe about \$4.8 billion in retirement benefit-related debt and obligations (\$1.5 billion in pension underfunding, \$540 million in outstanding pension obligation bonds, and \$2.7 billion in OPEB underfunding).

To keep pace with rising fixed costs, cities have the choice of reducing services or raising taxes. Connecticut's poor cities have been doing both. Because, unlike Massachusetts and California, there is no property tax cap in Connecticut, nor is there a local income or sales tax, setting the mill rate is the most important revenue power city officials can exercise. Property taxes provide close to 60 percent of local government general revenues in Connecticut.<sup>22</sup> **Figure 4** shows that three out of the four cities have higher mill rates than they

**Figure 4: Recent Mill Rate Trends, Connecticut's Major Poor Cities, FY06-17**

|      | Hartford | New Haven | Waterbury | Bridgeport |
|------|----------|-----------|-----------|------------|
| FY06 | 60.82    | 42.53     | 53.96     | 40.32      |
| FY07 | 64.82    | 44.85     | 55.49     | 42.28      |
| FY08 | 63.39    | 42.21     | 55.49     | 41.28      |
| FY09 | 68.34    | 42.21     | 39.92     | 38.74      |
| FY10 | 72.79    | 42.21     | 39.92     | 39.64      |
| FY11 | 72.79    | 43.90     | 41.82     | 39.64      |
| FY12 | 71.79    | 43.90     | 41.82     | 41.11      |
| FY13 | 74.29    | 38.88     | 41.82     | 41.86      |
| FY14 | 74.29    | 40.80     | 56.98     | 42.20      |
| FY15 | 74.29    | 41.55     | 58.22     | 42.20      |
| FY16 | 74.29    | 41.55     | 58.22     | 42.20      |
| FY17 | 74.29    | 41.55     | 60.21     | 54.37      |

Source: CAFRs and state Office of Policy and Management

did in FY06 and that New Haven, the fourth, has raised its mill rate over the course of FY13-15.<sup>23</sup> State Office of Policy and Management data show that, in FY17, Hartford, Waterbury and Bridgeport ranked 1, 2, and 3, respectively, in mill rates among Connecticut municipalities.<sup>24</sup> Waterbury's mill rate would be 40 percent lower—36.3 as opposed to the current 60.21—if not for its retirement benefit liability costs.<sup>25</sup>

**Figure 5** shows recent trends in government employment. Connecticut relies on its local governments to provide police, fire, public works, library and elementary and secondary educational services to residents, all of which are funded at least in part by local revenues. Though these four cities account for only 14 percent of the population,

18 "City of Hartford, FY2017 Adopted Budget," Office of Hartford Mayor Luke Bronin, July 1, 2016, p. 4-3.

19 "Adopted Budget Fiscal Year 2016/2017 Approved by the Board of Alders June 6, 2016," Office of New Haven Mayor Toni N. Harp, p. 8-7 to 8-8.

20 "FY2016-2017 Adopted General Fund Budget City of Bridgeport, Connecticut, Mayor's Adopted Budget for Fiscal Year July 1, 2016 to June 30, 2017," Office of Bridgeport Mayor Joseph P. Ganin, p. 9.

21 "Mayor's Proposed Budget for the Fiscal Year End June 30, 2017, Budget 2016-17, Submitted on March 31, 2016," p. 3 and 25.

22 Source: author calculation based on Census of Government Finance data.

23 Waterbury did revaluations in 2007 and 2012, Hartford in 2006, Bridgeport in 2015 (not complete by the FY15 CAFR) and New Haven in 2011.

24 Source: <http://www.ct.gov/opm/cwp/view.asp?Q=385976>

25 "Mayor's Proposed Budget for the Fiscal Year End June 30, 2017, Budget 2016-17, Submitted on March 31, 2016," p. 19 and 25.

**Figure 5: Change in Workforce, FY06-15, Connecticut's Major Poor Cities**

|                   | Hartford | New Haven | Waterbury | Bridgeport |
|-------------------|----------|-----------|-----------|------------|
| FY06              | 5,289    | 6,686     | 3,795     | 1,476      |
| FY07              | 5,217    | 6,905     | 3,771     | 1,528      |
| FY08              | 5,178    | 6,827     | 3,789     | 1,530      |
| FY09              | 4,598    | 4,045     | 3,811     | 1,467      |
| FY10              | 4,481    | 3,964     | 3,826     | 1,354      |
| FY11              | 4,568    | 3,961     | 3,669     | 1,336      |
| FY12              | 4,650    | 3,888     | 3,660     | 1,342      |
| FY13              | 4,763    | 3,978     | 3,692     | 1,305      |
| FY14              | 4,987    | 4,081     | 3,776     | 1,297      |
| FY15              | 4,930    | 3,968     | 3,745     | 1,337      |
| % Change, FY06-15 | -6.8%    | -40.7%    | -1.3%     | -9.4%      |

Source: CAFRs

they account for over half the state's murders and robberies.<sup>26</sup> These four cities' educational performance measures trail state averages.<sup>27</sup>

Robust staffing levels alone do not ensure a competent municipal government. But it takes an extremely talented manager to reduce crime and improve test scores while also slashing the budget. Moreover, many of the ways in which the public defines service quality, such as low class sizes and rapid response times, require a sufficient government workforce. The public simply will not tolerate staffing levels below a certain point, so the more a workforce is reduced, the closer a city approaches an effective condition of "service delivery insolvency." Although increased spending on benefits has been a leading cause of these headcount reductions—as New Haven's headcount has declined by 40 percent (Figure 5), its spending on retirement and medical benefits has increased by 45 percent on an inflation-adjusted basis<sup>28</sup>—reducing staff is much easier than cutting compensation.

**Figure 6: Trends in Reserves and Bonded Debt, Connecticut's Major Poor Cities, FY06-15**

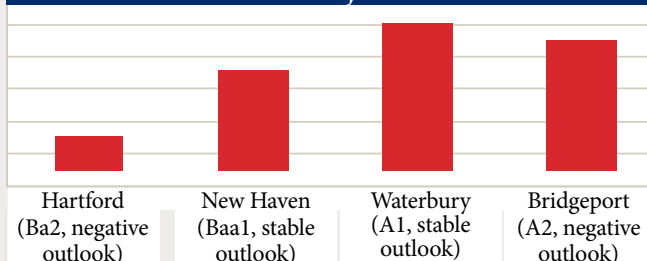
|            | Fund Balance, FY15 | Change in Fund Balance, FY06-15 | Debt Per Capita, FY15 | % Change in Debt Per Capita, FY06-15 |
|------------|--------------------|---------------------------------|-----------------------|--------------------------------------|
| Hartford   | \$21,926           | -34.0%                          | \$4,653               | 77.9%                                |
| New Haven  | \$1,726            | -86.7%                          | \$4,017               | 1.6%                                 |
| Waterbury  | \$22,635           | 16.1%                           | \$4,336               | 135.3%                               |
| Bridgeport | \$13,713           | -52.4%                          | \$4,423               | -20.0%                               |

## IV. Budget II

### (Debt, Reserves, and Bond Rating)

Most of Connecticut's major cities have all drawn down their reserves from where they were ten years ago, and most have also increased their bonded debt burdens (Figure 6). In a May 2016 report, Moody's raised specific concerns about the low levels of reserves among Hartford, Bridgeport and New Haven, and their being *highly leveraged* with debt per capita in excess of \$4,000, well above the state average of \$2,324.<sup>29</sup> Some cities have recently faced dramatic run-ups in debt service costs. Between FY16 and FY18, Hartford's debt service expenses are projected to increase from \$23 million to \$45 million, and then reach \$60 million

**Figure 7: Moody's Bond Rating Connecticut's Major Poor Cities**



26 "Large Cities: Disproportionate Burden," p. 24

27 "Large Cities: Disproportionate Burden," pp. 16-20.

28 "Adopted Budget Fiscal Year 2016/2017 Approved by the Board of Alders June 6, 2016," Office of New Haven Mayor Toni N. Harp, P. 8-22 and author calculation.

29 Emphasis added. "Property Taxes Insulate Most Connecticut Municipalities from State Fiscal Issues," Moody's Investors Service, May 19, 2016.



in FY21.<sup>30</sup> New Haven's debt service costs more than doubled between FY02 and FY09.<sup>31</sup>

Citing "limited operating flexibility, exacerbated by weak and declining reserves and rising costs (including debt service and pension payments) over the next several years," Moody's recently "super-downgraded" Hartford to Ba2, a junk, speculative or below-investment grade rating (the Moody's ratings scale is shown in the **Appendix**).<sup>32</sup> Less than one percent of the local governments rated by Moody's are below-investment grade.<sup>33</sup> Hartford also has a negative outlook, connoting the likelihood of further downgrades "over the medium term."<sup>34</sup> At Baa1, New Haven is itself only three downgrades away from junk as well.

Waterbury is the highest-ranked among all four cities. It is the only one whose reserves have increased over the past decade. Its bonded debt is up due to the issuance of \$313 million in pension obligation bonds in 2009. A recent report by Kroll Ratings judged "the financial condition of Waterbury as strong based on a history of balanced financial operations and maintenance of a stable reserve position in the General Fund."<sup>35</sup> Waterbury has an extremely checkered financial history and uncertain future, as is the case with all poor old industrial cities. But its ability to maintain at least a modicum of fiscal stability should serve as a model for Hartford and other localities now faced with unsustainable deficits.

Relying on reserves to balance a city budget is, in the words of the state Municipal Financial Advisory Commission, a "stop-gap" maneuver. In a recent letter to Hartford Mayor Luke Bronin, the agency

warned that the city will only achieve fiscal stability when it ceases its practice of "budgets adopted based upon stop-gap solutions."<sup>36</sup> In Mayor Bronin's own estimation, "70% to 100%" of Hartford's recent deficit-mitigation efforts have depended on "one-time fixes."<sup>37</sup> Notable examples, aside from tapping into reserves, include funding retirement benefit obligations by transferring a city park to its pension fund, and selling the Church Street Garage and devoting the proceeds to the city's General Fund.<sup>38</sup>

## V. Poverty

Over recent decades, Hartford, Bridgeport, New Haven and Waterbury officials' attempts at economic development have been unrelenting. Their efforts are documented in the introductory section of every comprehensive annual financial report, and numerous revitalization plan documents stored in local libraries. However, they have only met with modest success.

In America, poor, former industrial urban areas overwhelmingly tend to stay poor.<sup>39</sup> Three out of four of Connecticut's major cities, over recent decades, have seen their populations decline (Waterbury's increased slightly) and all four have seen their poor populations rise, producing greater concentrations of poverty (**Figure 8**). At present, 36.3 percent of the state's poor residents live in one of these four cities.<sup>40</sup> Virtually all public schoolchildren in Bridgeport and Hartford qualify for free or reduced price lunch.<sup>41</sup> Most of Connecticut's homeless population is concentrated in these four cities.<sup>42</sup>

30 "Letter to the Honorable Luke Bronin," Municipal Finance Advisory Commission, October 31, 2016.

31 "Adopted Budget Fiscal Year 2016/2017 Approved by the Board of Alders June 6, 2016," Office of New Haven Mayor Toni N. Harp, p 8-22.

32 "Update - Moody's Downgrades Hartford, CT's GOs to Ba2 from Baa1; Outlook Remains Negative," Moody's Investor's Service, October 7, 2016.

33 "Four US municipal defaults in 2015; overall credit quality stabilizing at lower levels but pension risk looms," Moody's Investors Service, May 31 2016.

34 "Rating Symbols and Definitions," Moody's Investors Service, December 2016

35 Jenny Maloney, Gopal Narsimhamurthy, and Kate Hackett, "City of Waterbury, CT Local Government G.O. Rating Report," Kroll Bond Rating Agency, November 6, 2016, p. 5.

36 "Letter to the Honorable Luke Bronin," Municipal Finance Advisory Commission, October 31, 2016.

37 "Presentation: Mayor Bronin's Recommended Budget for Fiscal Year 2017," Office of Hartford Mayor Luke Bronin, p. 8.

38 "City of Hartford, FY2017 Adopted Budget," p. 2-1—2-4; "Comprehensive Annual Financial Report City of Hartford Connecticut, Mayor-Council Form of Government For the Fiscal Year July 1, 2014 to June 30, 2015," Department of Finance, City of Hartford, January 28, 2016, p. 41.

39 Joe Cortright and Dillon Mahmoudi, "Lost in Place: Why the persistence and spread of concentrated poverty—not gentrification—is our biggest urban challenge," City Observatory City Report, December 2014.

40 Source: author calculation based on 2010-14 American Community Survey data.

41 "Large Cities: Disproportionate Burden," p. 11.

42 "Large Cities: Disproportionate Burden," p. 6.

**Figure 8: Change in Poor Population and total Population, Connecticut's Major Cities, 1970-2014**

|                      | Hartford          |            | New Haven         |            | Waterbury         |            | Bridgeport        |            |
|----------------------|-------------------|------------|-------------------|------------|-------------------|------------|-------------------|------------|
|                      | Number in Poverty | Population | Number in Poverty | Population | Number in Poverty | Population | Number in Poverty | Population |
| 1970                 | 25,961            | 158,017    | 22,809            | 137,707    | 10,302            | 108,033    | 18,033            | 156,542    |
| 1980                 | 32,704            | 136,392    | 27,021            | 126,109    | 14,258            | 103,266    | 28,338            | 142,546    |
| 1990                 | 36,397            | 139,739    | 25,481            | 130,474    | 12,922            | 108,961    | 23,463            | 141,686    |
| 2000                 | 35,741            | 121,578    | 27,613            | 123,626    | 16,774            | 107,271    | 24,920            | 139,529    |
| 2010-14              | 40,519            | 125,211    | 32,122            | 130,553    | 26,122            | 109,887    | 33,600            | 146,680    |
| % Change, 1970-2014  | 56.1%             | -20.8%     | 40.8%             | -5.2%      | 153.6%            | 1.7%       | 86.3%             | -6.3%      |
| 2010-14 Poverty Rate | 34.4%             |            | 26.4%             |            | 24.2%             |            | 23.6%             |            |

*Source: Census Bureau*

At 34.4 percent, Hartford's poverty rate is 8th highest in the nation among cities with populations above 100,000.<sup>43</sup> According to the recent town-level estimates by the state's departments of Labor and Economic and Community Development, Hartford's unemployment rate is not only the sole locality hovering close to the double-digits, but ranks last among all 169 localities in Connecticut.<sup>44</sup> In addition to increasing demands for services, poverty restricts a locality's ability to raise revenues. Further mill rate increases in Hartford, where only 23.5 percent of occupied housing units are owner-occupied,<sup>45</sup> would tempt many landlords to abandon their properties if they believed they could not raise rents to offset the increased tax burden. City government is, if anything, even warier of what the effect of mill rate increases would be on business owners, who are already bearing a disproportionate burden on account of Hartford's "split" tax system.

43 Source: author calculation based on 2011-14 American Community Survey data. Only Flint MI (100, 569 pop., 41.6 percent), Detroit MI (695,437 pop., 39.8 percent), Cleveland OH (392,114 pop., 35.9 percent), Gainesville FL (126,65 pop., 35.8 percent), Brownsville TX (179,834 pop., 35.7 percent), Dayton OH (141,776 pop., 35.3 percent), and Syracuse NY (144,648 pop., 35.1 percent) are poorer.

44 "The Connecticut Economic Digest, Vol. 21, No. 11," Connecticut Department of Labor & the Connecticut Department of Economic and Community Development, November 2016, p. 20.

45 Source: author calculation based on 2010-14 American Community Survey data.

Whereas residential property owners are assessed at 32 percent of market value, commercial property owners' "assessment ratio" is 70 percent.<sup>46</sup>

But poor cities are by no means doomed to insolvency. Industrial decline following World War II was the experience of hundreds of urban areas across the northeast and Midwest, yet the vast majority of these cities have not gone bankrupt. Most cities with a poverty rate above the national average (15.6 percent-Connecticut's is 10.5 percent) manage each year to balance their budgets and provide basic services. Worcester (pop. 182,511, poverty rate 22 percent, Aa3 (stable outlook)) and Lowell (108,491 pop., poverty rate 19.1 percent, A1 (stable outlook)) are relatively poor, mid-sized New England cities that share with Connecticut's major poor cities a history of industrial decline and a significant reliance on the property tax. And yet they face no imminent prospect of state intervention. Syracuse, New York's poverty rate is slightly higher than Hartford's (35.1 percent v. 34.4 percent) but Moody's rates it at A1 (stable), much higher than Hartford's current Ba2 (negative).

46 Source: "Hartford Tax Rate History" at <http://www.hartford.gov/assessment>.

## VI. Bankruptcy

As mentioned above, all four of Connecticut's major poor cities are officially considered "distressed" by state government. Municipal insolvency has been a recurring concern in Connecticut over the last three decades. In early 1988, Bridgeport's mayor disclosed that the city faced a budget deficit in excess of \$51 million, a significant sum even by modern standards, and appealed to the state legislature for assistance. State government authorized the city to sell \$60 million in deficit financing bonds and also guaranteed a portion of the debt.<sup>47</sup> As a condition for this assistance, the Bridgeport Financial Review Board, whose 11 members were mostly appointed by the state, was imposed.<sup>48</sup>

By June of 1991, the city's fiscal crisis was still unresolved and local and state officials were unable to agree on a solution. Gov. Lowell Weicker wanted Bridgeport to raise taxes whereas Mayor Mary Moran wanted access to the remaining bond proceeds. Moran filed for bankruptcy in June 1991. State government vigorously protested the city's petition—then-attorney general Richard Blumenthal argued the case in court. Judge Alan Shiff of the U.S. Bankruptcy Court sided with the state and rejected Bridgeport's bankruptcy petition on the grounds that it was not technically insolvent, which is a requirement to become a municipal debtor under federal law.

Moran initially appealed, but she lost her bid for reelection and her successor Joseph Ganim dropped the case. Bridgeport eventually gained access to the bond proceeds. In the words of Eric Henzy, an attorney at Reid and Riege, PC and then-law clerk for the bankruptcy court, "[Bridgeport] lost the chapter 9 case, but in some sense the city won the war." Bridgeport emerged from insolvency with a more efficient city administration in place. With

the assistance of the local business community, the city enacted an extensive audit and restructuring of municipal operations. Among other changes, the number of departments reporting directly to the mayor were reduced from 34 to seven.<sup>49</sup> The Bridgeport Financial Review Board was dissolved in 1995.<sup>50</sup>

Waterbury also faced significant fiscal challenges in the early 1990s, for which it had to seek special state legislation to authorize deficit financing bonds.<sup>51</sup> An oversight board with mild supervisory powers was put in place.<sup>52</sup> Waterbury's fiscal crisis was still unresolved in December 2001, when the city was forced to issue short-term debt to meet payroll and was downgraded to junk.<sup>53</sup> The state imposed another, much stronger oversight panel and provided a \$40 million cash bailout and guarantees on \$100 million in debt-financing bonds<sup>54</sup> "to save [the city] from financial collapse."<sup>55</sup> The "Waterbury Financial Planning and Assistance Board" was given "broad authority over the City's financial affairs."<sup>56</sup> It could approve or reject new budgets and union contracts and was given some leeway from arbitration law<sup>57</sup> though it could not unilaterally abrogate or supersede existing contracts.<sup>58</sup>

Unsustainable personnel costs, due to both an outsized workforce and overly generous salary

47 Saul Spiegel, Judith Lohman, and John Rappa, "State Financial Oversight Boards," Connecticut Office of Legislative Research, November 29, 2000.

48 Sara R. Burns, *The Drowning of a Seaside City: Bridgeport's Ride to Bankruptcy*, (Self-published, 2012); George R. Dunbar, *Back from Broke: The Fall and Rise of Bridgeport*, (Self-published, 1993).

49 Back from Broke, p. viii; "Final Report Three-Year Management Improvement Plan," Bridgeport Operations Improvement Project, Management Advisory Committee, June 1989; "A Report to the Community, 1988 1993," Management Advisory Committee, 1993.

50 "State Financial Oversight Boards."

51 "State Financial Oversight Boards."

52 Jon McKenna, "Waterbury, Conn., Will Test the Waters With Note Sale," *The Bond Buyer*, November 26, 1996.

53 "City of Waterbury Collective Bargaining Contract Comparisons and Analyses," Robinson & Cole, LLP., February 7, 2001, p. iv.

54 Paul Zielbauer, "Final Bailout Law Means Relief And Sacrifice In Waterbury," *New York Times*, March 10, 2001; Wayne Peacock, "Connecticut Ready to Take Over Waterbury's Troubled Finances," *The Bond Buyer*, February 14, 2001; "Comprehensive Annual Financial Report of the City of Waterbury Connecticut, Fiscal Year Ended June 30, 2002," p. 15.

55 "City of Waterbury Collective Bargaining Contract Comparisons and Analyses," p. ii.

56 "Comprehensive Annual Financial Report of the City of Waterbury Connecticut, Fiscal Year Ended June 30, 2002," p. 3-4.

57 Paul Zielbauer, "House Passes Waterbury Bailout Bill," *New York Times*, March 9, 2001.

58 Judith Lohman and John Moran, "Waterbury Financial Oversight Board's Labor Powers," Connecticut Office of Legislative Research, May 13, 2005.

and benefit packages, were seen as a major cause of Waterbury's fiscal struggles at this time. In 2001, the City of Waterbury Retirement System reported a funded ratio of about 4 percent and pension benefits were being funded out of the city's annual budget. Over the years, Waterbury officials had failed to contribute in accord with the actuarially-recommended amounts, and they used pension fund assets to pay for retiree healthcare benefits.<sup>59</sup> Shortly after taking power, the oversight board successfully pushed for a 30 percent tax increase, causing Waterbury's mill rate to rise from 74.6 to 97.7.<sup>60</sup> The oversight board was lifted in 2006.<sup>61</sup>

Bridgeport, Waterbury and New Haven at present are far more fiscally stable than Hartford. Mayor Bronin's administration projects deficits of over \$20 million in FY18 and \$50 million in FY19. These deficits come after a \$48.5 million deficit for the current FY17 budget.<sup>62</sup>

Since assuming office in early 2016, Mayor Bronin has proposed a range of proposals to reduce spending and/or raise new revenue. Last legislative session, he recommended that state government impose an oversight board.<sup>63</sup> The "Hartford Financial Sustainability Commission" would have had final say over collective bargaining contracts on a going forward basis,<sup>64</sup> but was not enacted due to a lack of support from the city's legislative delegation and the statehouse more generally.<sup>65</sup> Hartford in 2017 might be in worse fiscal condition than Bridgeport was 25 years ago and Waterbury 15 years ago. At present, Bridgeport, Waterbury and New Haven

would not meet municipal bankruptcy's eligibility requirements, but Hartford might.

Municipal bankruptcy can have advantages, most notably debt reduction. Hartford would be much better positioned if it had more room in its budget to invest in its future. In the current fiscal year, FY17, Hartford is devoting over \$70 million in general fund spending to pensions and debt service. This sum is projected to increase by over \$20 million FY18, but it could be reduced substantially via bankruptcy.<sup>66</sup> It would also gain leverage to restructure collective bargaining contracts, which determine how and how much the city spends on salaries and benefits for current workers, the largest expense of the budget.

The main disadvantages of bankruptcy are the process' uncertainty and costs. Though the city takes the lead in designing the bankruptcy plan, the federal judge and creditors have significant influence over how deeply the debt can be cut and the length of the process. After filing for Chapter 9 in summer 2012, San Bernardino, California only recently had its exit plan approved. Bankruptcy places a range of enormous demands on a city government, from fielding press requests from national media outlets to the extensive financial and legal work the process requires. Both "Main Street" and "Wall Street" creditors can be expected to avail themselves of first-rate professional services firms. A municipal debtor must follow suit, if it expects to get the better of its creditors. Detroit's bankruptcy, which most considered well-managed, cost \$170 million in professional services fees.<sup>67</sup>

Much depends on state government. In its approach to municipal bankruptcy, Connecticut is considered a "conditional authorization" state;<sup>68</sup> no Chapter 9 petition may proceed without "the express prior

59 "Comprehensive Annual Financial Report of the City of Waterbury Connecticut, Fiscal Year Ended June 30, 2002," p. 56; "City of Waterbury Collective Bargaining Contract Comparisons and Analyses," Robinson & Cole, LLP, February 7, 2001, p. iii ff.

60 "State board rejects city budget," June 7, 2001, The Associated Press; "State panel approves 30 percent tax increase in Waterbury," Associated Press, June 29, 2001.

61 Jenny Maloney, Gopal Narsimhamurthy and Kate Hackett, "City of Waterbury, CT Local Government G.O. Rating Report," Kroll Bond Rating Agency, November 6, 2016, p. 14.

62 "City of Hartford, FY2017 Adopted Budget," p. 2-1—2-4.

63 Luke Bronin, "Bronin: Hartford Needs State Power To Right Sinking Ship," Hartford Courant March 17, 2016.

64 Jenna Carlesso, "Draft Of Bill Shows Hartford Would Seek 'Financial Sustainability' Panel, Power To Reopen Union Talks," Hartford Courant, March 16, 2016.

65 Jenna Carlesso, "Hartford Council Breaks With Bronin On Finance Bill," Hartford Courant, April 4, 2016.

66 "City of Hartford FY2017 Adopted Budget," Office of Mayor Luke Bronin, July 1, 2016, p. 5-1 and 28-1.

67 Nathan Bomey, "Judge Rhodes approves Detroit bankruptcy fees," Detroit Free Press, February 12, 2015.

68 James E. Spiotto, Ann E. Acker, and Laura E. Appleby, *Municipalities in Distress?: How States and Investors Deal with Local Government Financial Emergencies* (James E. Spiotto and Chapman and Cutler LLP 2012), Appendix B.

written consent of the Governor.”<sup>69</sup> Not only must the state authorize any bankruptcy petition before it can proceed, it would have to decide whether to impose some sort of state oversight or takeover regime before or after the petition was filed, or perhaps even in lieu of allowing the petition. New Jersey Gov. Chris Christie recently installed an emergency manager in Atlantic City to forestall bankruptcy. An overhaul of municipal operations, which was an important legacy of both Bridgeport and Waterbury’s experiences with insolvency, is more easily directed by state appointees than federal judges during bankruptcy proceedings.

Because bankruptcy could raise borrowing costs for other Connecticut municipalities through a so-called “contagion” effect, state government could face pressure to prevent bankruptcy or ensure its prompt resolution. Under any scenario, Hartford may need a bailout to restore solvency. Approval of Detroit’s bankruptcy plan would not have been possible if not for the \$200 million that Michigan’s Republican-controlled state government contributed to backfill the city’s depleted pension system.<sup>70</sup>

## VII. Regionalization

In public policy circles, “regionalization” of one variety or another has been discussed since the development of the suburbs and the emergence of the crisis of America’s central cities. Pushes for regionalization are often prompted by an immediate need to bolster city budgets, but at a deeper level they are founded in criticisms of the fragmented nature of American local government for being inefficient and unfair. Examples of notable politicians who have recently voiced the need for more regional cooperation include Illinois Gov. Bruce Rauner and New York Gov. Andrew Cuomo.<sup>71</sup>

69 Source: <https://www.cga.ct.gov/2001/pub/Chap117.htm#sec7-566.htm>.

70 See Nathan Bomey, *Detroit Resurrected*, (W. W. Norton & Company 2016), Chapter 14.

71 “Delivering Efficient, Effective, and Streamlined Government to Illinois Taxpayers,” Task Force on Local Government Consolidation and Unfunded Mandates, Office of Governor Bruce Rauner December 17, 2015;

The regionalization question has taken on special intensity in Connecticut of late. This is the result of its having been promoted by Mayor Bronin and the Connecticut Conference of Municipalities,<sup>72</sup> and the Connecticut Superior Court’s recent decision in *Connecticut Coalition for Justice in Education Funding v. Rell*.<sup>73</sup> Though that decision was not specifically a call for regionalization, many, including Moody’s, believe that it may lead to diverting more revenues away from suburban areas to central cities.<sup>74</sup> Some urban politicians have claimed that *Rell* gives them “leverage” over suburban areas.<sup>75</sup>

Regionalization can come in various forms. Bronin has suggested a regional sales tax or shared service agreements.<sup>76</sup> For regionalization to play any significant role in stabilizing city budgets in Connecticut, it would have to entail a redistribution of wealth from suburban areas and/or their residents to cities, beyond that which is already in place through existing state aid programs. In FY17, Connecticut state government distributed \$4.5 billion in municipal aid, an increase of \$300 million from FY15.<sup>77</sup> Much of this sum was raised, via income and sales taxes, from suburban areas.

Four objections may be raised about regionalization as a solution to Connecticut cities’ fiscal struggles. First, it would not be prudent to move forward with any dramatic redistribution push while the state budget situation remains uncertain. Though Gov. Dannel Malloy has downplayed talk of any new major tax increases during the next budget

72 “...these cities are regional hubs for economic development, health care, and culture. If these hubs fail, the suburbs around them will also plummet,” “Large Cities: Disproportionate Burden,” p. 3

73 *Connecticut Coalition for Justice in Education Funding v. Rell*, Superior Court, Judicial District of Hartford, September 7, 2016.

74 “Connecticut’s Landmark Court Decision on School Funding Looks to Benefit Financially Troubled Cities,” Moody’s Investor’s Service, September 15, 2016.

75 Michael Lee-Murphy, “As a Pinched Hartford tries to Relieve the Pressure, Proposed Fixes Could Ripple Out Across the State,” *Connecticut Magazine*, October 21, 2016.

76 Jenna Carlesso, “Bronin Makes Rounds In Push For Regional, Legislative Solutions To Budget Crisis,” *Hartford Courant*, September 30, 2016; Paul Burton, “Hartford Mayor, Staring at Insolvency, Wants Regional Solution,” *The Bond Buyer*, September 19, 2016.

77 “Connecticut State Budget: FY 16 & FY 17 Budget,” Office of Fiscal Analysis, Connecticut General Assembly, p. 555-8.

cycle,<sup>78</sup> more revenue may be called for in light of the state's extraordinary debt and deficit struggles. If suburban taxpayers may be called on to balance the state's budget, now may not be the right time to increase their tax burden for the benefit of Hartford city government as well. Connecticut's total tax burden already ranks second among states<sup>79</sup>; liberal organizations rate Connecticut's tax progressivity in the middle.<sup>80</sup>

Second, a fragmented local government landscape is not inherently inefficient. Several studies by the demographer Wendell Cox have found "a strong relationship between *smaller* local government units and *lower* taxes and spending...larger local governments tend to be *less* efficient, not more."<sup>81</sup> New York's city administration provides municipal services for 8.5 million residents, or more than twice the population of Connecticut, and yet concerns over waste and inefficiency are persistent. Municipal mergers are not known for producing major savings, as salaries and benefits, the largest expenses of urban and suburban localities, tend to rise to the highest level.

Third, it is a generally-respected principle in public finance that redistribution is better to transact at the state and federal levels (because it's easier for high earners to escape city taxes than state or federal) than on an individual-to-individual basis. Regionalization implies redistribution on a community-to-community basis. The number of Connecticut residents living below the official federal poverty line grew from 217,300, or 6.8% of the state's population, to more than 314,000 or 9.2%, between 1990 and 2010.<sup>82</sup> Though Connecticut's poverty rate remains one of the lowest of all states, its recent increase has outpaced that of the nation

as a whole.<sup>83</sup> Funding social programs for this population, in an era of tight budgets, will not be easy. Redistributive efforts oriented towards poor *individuals* will always be better-targeted than those oriented towards poor communities, since not all residents of poor communities are poor. Indeed, most aren't. Regionalization could indirectly weaken the state's ability to continue to support safety net spending. A number of state safety-net programs are already threatened with cuts in FY17.<sup>84</sup>

Fourth, a poor city can be a solvent city. Massachusetts' local government landscape is similar to Connecticut's: there are 351 municipalities; county government, aside from the justice system, is non-existent; and the property tax is the main source of locally raised revenue. And yet, despite these and many other similarities, the charged debate over municipal insolvency and regionalization is not now taking place in Massachusetts.

Critics who claim that the New England township structure is "antiquated" fail to account for why it is, at this point in American history, that the threat of municipal insolvency looms so large. The number of towns has been *decreasing* in recent decades, from 17,142 in 1962 to 16,360 in 2012, not increasing.<sup>85</sup> What are at historically-unprecedented levels at present are retirement benefit liabilities. As the Obama administration documented more than once in its annual "Economic Report of the President," state and local unfunded public pension liabilities relative to GDP are currently near their post WWI era-peak.<sup>86</sup> The efficiency-based case for regionalization was much stronger before the recent rise of retirement benefit obligations. One way or another, a redistribution of resources from the suburbs to the central cities at present time would go towards paying off pension liabilities.

78 Keith Phaneuf, "Malloy: Next budget will be very lean, without major tax hikes," CT Mirror, November 15, 2016.

79 "Facts & Figures 2016: How Does your State Compare?," Tax Foundation Tables 1, 2.

80 "Who Pays? Institute on Taxation & Economic Policy A Distributional Analysis of the Tax Systems in All 50 States January 2015 Fifth Edition," Institute on Taxation & Economic Policy, January 2015.

81 Wendell Cox, "Regionalism: Spreading the Fiscal Irresponsibility," Newgeography.com, August 24, 2012. Emphasis in the original.

82 "Meeting the Challenge The Dynamics of Poverty in Connecticut," Connecticut Association for Community Action, Connecticut Center for Economic Analysis, BWB Solutions, January 2013, p. 4, 14.

83 "Meeting the Challenge The Dynamics of Poverty in Connecticut," p. 28.

84 Jacqueline Rabe Thomas, "A 10 percent cut to state colleges would be 'devastating,'" CT Mirror.org, November 16, 2016; Jacqueline Rabe Thomas and Arielle Levin Becker, "State agencies offer more painful possibilities for budget cuts," CTMirror.org, November 18, 2016

85 Source: Harold W. Stanley and Richard G. Niemi, Vital Statistics of American Politics 2015-2016, CQ Press, Table 8-7.

86 "Economic Report of the President," Council of Economic Advisors, February 2016, p. 62-4

## VIII. Conclusion and Recommendations

As of December 2016, the American economy is in the midst of an economic expansion that has lasted 90 consecutive months.<sup>87</sup> If these are, by relative standards, the good times, it stands to reason that state and city governments will face much more challenging situations when the economy starts to slow down or contract. Connecticut's major cities are poorly prepared for the next downturn. Both state and local leaders should take action.

On the local level, city officials should focus more on laying the conditions for growth, meaning healthy city budgets, than growth itself. Though their constituents expect them to be active on the economic development front, the truth is that city politicians have far more power to stabilize their budgets than expand the economy. Stabilizing the budget will require reining in current trends in spending on benefits for government employees. This is, to be sure, easier said than done in a state where two-thirds of the public sector workforce is represented by unions.<sup>88</sup> But it is necessary.

These cities' fiscal struggles cannot be considered simply a revenue problem. Possibly state government could help cities in reforming retirement and medical benefit programs by giving local managers more leverage in contract negotiations, such as through reforming binding arbitration laws or removing certain elements of compensation from collective bargaining entirely. State government should not implement any policies aimed at generating more revenues for localities, such as authorizing a regional sales tax, or a state sales tax increase with the revenues dedicated to increasing the reimbursement rate for tax-exempt property, without also acting to facilitate reductions in city spending.

As should be clear from the preceding analysis, the threat of insolvency is far more pressing in Hartford than in the other three cities. In public policy circles, many fiscal experts advocate that states take a broad-based approach to municipal fiscal distress. But, in the near term, there is a strong case to be made that Connecticut state government should focus its fiscal distress efforts on developing a solution that is custom-tailored to Hartford's current struggles. Trying to develop a more general policy aimed at helping poor cities risks becoming a solution in search of a problem, because, for the time being, Waterbury and Bridgeport, and most likely also New Haven, can continue to muddle through without the need for extraordinary support from the state. The same cannot be said for Hartford.

Appendix: Moody's Ratings Scale

|                  |       |             |
|------------------|-------|-------------|
| Investment Grade | Aaa   |             |
|                  | Aa1   |             |
|                  | Aa2   |             |
|                  | Aa3   | Connecticut |
|                  | A1    | Waterbury   |
|                  | A2    | Bridgeport  |
|                  | A3    |             |
|                  | Baa1  | New Haven   |
|                  | Baa2  |             |
|                  | Baa3  |             |
| Junk/Speculative | Ba1   |             |
|                  | Ba2   | Hartford    |
|                  | Ba3   |             |
|                  | B1    |             |
|                  | B2    |             |
|                  | B3    |             |
|                  | Caa-C |             |

<sup>87</sup> Source: <http://www.nber.org/cycles.html>.

<sup>88</sup> Source: [unionstats.com](http://unionstats.com).

## About the Author

Stephen D. Eide is a senior fellow at the Manhattan Institute. His work focuses on public administration, public finance, political theory, and urban policy. His writings have been published in *Politico*, *Bloomberg View*, *New York Post*, *New York Daily News*, *Academic Questions*, *The Weekly Standard*, *Wall Street Journal*, and *City Journal*.

Eide was previously a senior research associate at the Worcester Regional Research Bureau. He holds a B.A. from St. John's College in Santa Fe, New Mexico, and a Ph.D. in political philosophy from Boston College.



## The Yankee Institute for Public Policy

The Yankee Institute develops and advances free-market, limited-government solutions in Connecticut. As one of America's oldest state-based think tanks, Yankee is a leading advocate for smart, limited government; fairness for taxpayers; and an open road to opportunity.

The Yankee Institute for Public Policy is a 501(c)(3) research and citizen education organization that does not accept government funding. All donations are tax-deductible.

