THE BOND BUYER

Connecticut governor proposes 'debt diet'

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Gov. Ned Lamont has proposed reducing Connecticut's borrowing by 39%, or hundreds of millions of dollars annually.

Calling it a "debt diet," Lamont told the Waterbury Regional Chamber on Tuesday that such a move could save the state up to $2 billion over a decade.

"We cannot put Connecticut's future on the credit card," said Lamont, who will present his budget proposal to the General Assembly on Feb. 20. "As we get ready to release a budget that will reshape and stabilize Connecticut's financial future, it is essential we look at our state's borrowing."

Between 2012 and 2019, the state averaged roughly $1.59 billion of bond authorizations per year. Lamont said his budget would sharply scale that back, bringing annual bond authorizations to $960 million — a reduction of nearly $600 million, or 39%.

High debt and legacy costs and budget imbalance have put Connecticut in the crosshairs of the capital markets. All four bond-rating agencies downgraded the state over the past two years, citing budget imbalance and high legacy costs.

Moody's Investors Service rates Connecticut general obligation bonds A1, while S&P Global Ratings and Fitch Ratings rate them A and A-plus, respectively. Kroll Bond Ratings Agency assigns its AA-minus rating. Kroll assigns a negative outlook, the others stable.

Lamont said he and the Office of Policy and Management will adjust and restructure the capital budget, which typically includes large-scale projects such as school construction and other major infrastructure upgrades. This will not affect projects under construction, the governor said.

According to Lamont, Connecticut will continue to make key investments in transportation infrastructure by matching the authorization levels over the last eight years. He also intends to request new authorizations for municipal projects to serve as catalysts for growth and a stronger investment in information technology.

The governor, who also chairs the state Bond Commission, has also canceled the January and February scheduled meetings of the panel, saying Connecticut should limit its bonding agenda to critical needs and at affordable levels.

Connecticut's budget struggles aren't limited to the state government. Capital city Hartford and West Haven are under a state oversight program.

According to Moody's, short-term fixes such as debt restructurings and pension underfunding are not sustainable for them.

"Aging population, limited labor force growth and stagnant tax bases limit economic growth and present long-term challenges for financially challenged cities," Moody's said in a report that examined Hartford, West Haven, Bridgeport, New Haven, New Britain, Waterbury and Hamden.

"These cities have faced several credit challenges in recent years, including negative demographic trends, anemic economic expansion, modest tax base increases, and rising fixed costs," said Moody's.

Hamden, New Haven and New Britain, according to Moody's, have restructured debt to trim debt service payments short-term by increasing payments in the long term.

Each but Waterbury and New Haven have eased budgetary pressure by contributing less than the actuarial determined contribution to their pension plans, Moody's added. Some have also used fund balances to plug budget gaps.

Moody's rates Waterbury A2; New Haven and Bridgeport Baa1; Hamden and New Britain Baa2; West Haven Baa3; and Hartford B2. Hamden, New Haven and West Haven have negative outlooks, the others stable.

Statewide demographic indicators signal long-term economic challenges, said Moody's.

They include an aging population, limited labor force growth and stagnant tax bases that limit economic growth.