

NEW HAVEN INDEPENDENT



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Moody's Goes "Negative" On New Haven

BY **Paul Bass** | JUL 14, 2011 12:48 PM

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A credit ratings agency slapped the city with a gloomy "outlook" as officials prepare to sell \$44.5 million in new bonds.

The downgrading of the city's "outlook" came Wednesday in a report from Moody's Investor Services. It means Moody's sees city bonds as a potentially riskier investment, based on its predictions of New Haven's financial future.

Read the report [here](#).

Moody's concluded that New Haven government is keeping too little money in reserve and is carrying too much debt for a city its size.

It also shared a concern expressed by Mayor John DeStefano in budget negotiations with city unions: that New Haven faces too heavy a pension burden.

Acting City Controller Mike O'Neil said Thursday that officials were pleased about a more important decision Moody's made—to keep the city's bond rating at A1. That affects how much it costs the city to borrow money. Three major ratings agency recently issued reports on the city's financial condition as a precursor to a July 20 bond issue. All three kept the overall rating the same, O'Neil noted. (Standard & Poor's set it at A-, Fitch at A+.)

"We're encouraged on the whole," O'Neil said.

The downgrading of an "outlook" sends a note of caution to investors and a warning to city budget-makers. While the bond rating indicates that Moody's sees New Haven as still a good investment, the "outlook" downgrade indicates that it might not stay that way.

O'Neil was asked if the outlook change would affect the upcoming bond sale, which would support a host of projects including school construction.

"We won't know until we have the sale on the 20th what it means," he replied. "It depends on the bidders and how they feel. They will have access to a lot of information about the city. They'll have more than the two or three pages that each of the ratings agencies" published.

Democratic mayoral candidate Jeffrey Kerekes called the Moody's report "a condemnation of the DeStefano administration."

"And I'll tell you why," Kerekes said. "We're really getting hit because we raided the rainy day fund, the emergency fund. This wasn't an emergency. He passed a previous year's budget knowing there were holes in it. He's been doing that for years, passing budgets with holes in it."

"Given the current crises facing the national, state and municipal budgets, this should come as no surprise," chimed in Democratic mayoral candidate Clifton Graves. "But what is troubling is that Mr. DeStefano [at his recent re-election announcement stated](#) that New Haven was doing great. He clearly needs a reality check."

Trouble Signs

The ratings report offers an independent expert overview of government finances.

In that overview, Moody's noted several areas of concern:

- The city projected a \$6 million deficit for the fiscal year that ended June 30.
- The "undesignated portion" of the city's financial reserves fund—i.e. the rainy day fund—dropped this past year

from \$16.1 million to a "slim" \$9.1 million, or 2 percent of overall revenues.

- The general city government pension accounts were just 52 percent funded at the fiscal year's end, and police and fire funds a mere 45 percent. (The numbers in 2008: 59 and 61 percent.) The mayor has been calling for modifications in pension plans to stabilize the funds and prevent future deficits.
- City government's "Internal Service Funds"—which covers workmen's compensation and self-insurance for lawsuits—had a \$16.5 million deficit. That's better than the previous year's \$21.6 million shortfall. But with uncertain future lawsuit payments looming, notably in the *Ricci* firefighters' case, Moody's is skeptical of improvement.
- New Haven's adjusted 6.1 percent debt burden, much of it coming from school construction projects, "is well above the median level for similarly-sized cities."

"The city's ability to maintain stable fiscal operations is expected to remain challenged given its currently narrow reserve levels, a projected fiscal 2011 operating shortfall, increasing pension contributions, and a still sizable deficit in the Internal Service Fund," the report stated.

Improving Signals

The conversation between Moody's and city officials took place in late June, after the city released its monthly financial report for May. That report had two negative surprises: a seven-figure dip in expected building permit revenue for the year and word that the state was delaying millions of dollars in education reimbursements.

Since that report came out, the city has gotten word that that education money will in fact probably arrive from the state before the end of August, according to Acting Controller O'Neil. That means the city would be able to pay outstanding bills from the just-ended fiscal year in time to have it count toward that fiscal year's deficit.

Read the city's May financial report [here](#).

Comments

posted by: cba on July 14, 2011 1:05pm

No one is to blame for this fiscal mess except John DeStefano, since he has been Mayor for a number of terms . It is time to place this professional politician on the unemployment line so he can experience the economic distress that he has been giving to city workers and residents which

posted by: Cinderella on July 14, 2011 1:15pm

Well, here we go. No one will be able to sell any real estate now in this city, in spite of all the renovations and improvements.

Of course, the entire country is now being downgraded by Moody's so I suppose it's all relative.

posted by: robn on July 14, 2011 1:22pm

It's nice to see in this report that the city isn't party to any derivative agreements however, carrying \$474M bond debt which is roughly equal to annual revenue (and 2.5x our property taxes) is quite worrisome.

The report also notes that the city pension fund was funded @60% in 2008, immediately after the financial crisis, but is now funded @50%. How the heck have the fund managers NOT made great returns post-crisis? Other funds have been showing double digit returns in the past 2 years.

posted by: Yaakov on July 14, 2011 2:14pm

Goodbye, DeStefano.

posted by: Atwater on July 14, 2011 2:28pm

@ cba: All citizens of New Haven, who voted for DeStefano, are to blame for this mess. They ignored the obvious writing on the wall for more than a decade and continued to vote for him, time and time again. Now, the poop has hit the fan and everyone runs to blame DeStefano. But, the mayor and the BOA are a reflection of the citizenry, people either too dependant on the government to change it, or people who agree with the liberalistic practice of unfunded "renewal" and gentrification. Either way the city is in real trouble and is quickly running out of parking lots and roads to sell to Yale.

posted by: Noteworthy on July 14, 2011 2:35pm

Mike O'Neil is spewing the same political spin the mayor does - drop the kool-aid and be honest about our bond rating. It has not recovered since the last time it was downgraded. The "A" rating in investor language is one step about a C - and with this negative outlook, once the books are closed for the current fiscal year,

Moody's and others will downgrade all future debt. That's why the city is rushing out the new debt of \$45 million before they close out this year.

It's smoke and mirrors and puts the citizens of this city at great financial peril. We are border line bankrupt and in serious trouble. The city's bond experts recommend no more than \$15 million in new debt a year - which DeStefano routinely ignores. He wanted to borrow \$100 million last year which KerekGreeksand other beat back to \$27 million. This year, the stench that is the school construction debt is starting to leak out of the containment barrels at the BOE.

Another round of wild ... spending was rejected by the state on the new schools. It showed up largely hidden and unexpected in the form of new bond debt of \$18 million to cover what the state wouldn't.

So DeStefano can spin a negative rating all he wants, just like he does CMT scores, it doesn't make it true. This is a major black eye.

And that's before you get to unemployment number over 13% - the real number being something approaching 18%. And we get lip service about jobs. The real question is when will John DeStefano Jr. just tell the truth about the real state of the city?

posted by: Perspective on July 14, 2011 3:07pm

No city is an island and last time I checked the nation was on negative outlook, as was the state, as were lots of places. This is happening here—but also all over. Like the mayor or not, this is not just here, not just local—Trenton, Los Angeles, Rockland County, Miami among others have all received negative outlooks in the last two weeks alone. NHI might want to offer some broader context.

posted by: Blame the Mayor on July 14, 2011 3:26pm

This is yet another reason I took my name.

I remember the king being asked specifically (Nathan Hale School, Mayor's budget meeting 2010) if he was going to raid the rainy day fund next year, the king stammered and handed the question to Larry Rusconi. "No" said Rusconi, "We have no plans to do that"

HAH!, you knew it all along.

VOTE HIM OUT!

KEREKES for MAYOR!

posted by: wholly cow on July 14, 2011 3:59pm

It is all a shell game to New Haven leaders, and the pea is under none of the shells. In fact I think John ate it.

Kerekes has my vote as well.

posted by: SaveOurCity on July 14, 2011 4:18pm

It's time for Johnny D to go. The residents of New Haven need to be educated about the hole the JD has dug for us. Too much spending....too many \$\$ siphoned off in exchange for votes. Do a google check on how many dollars the construction firms that are building the city schools are pouring into Johnny's re-election campaign.

Jeffery K may be inexperienced and may be making claims that will be difficult to execute but at this point, its worth a try.