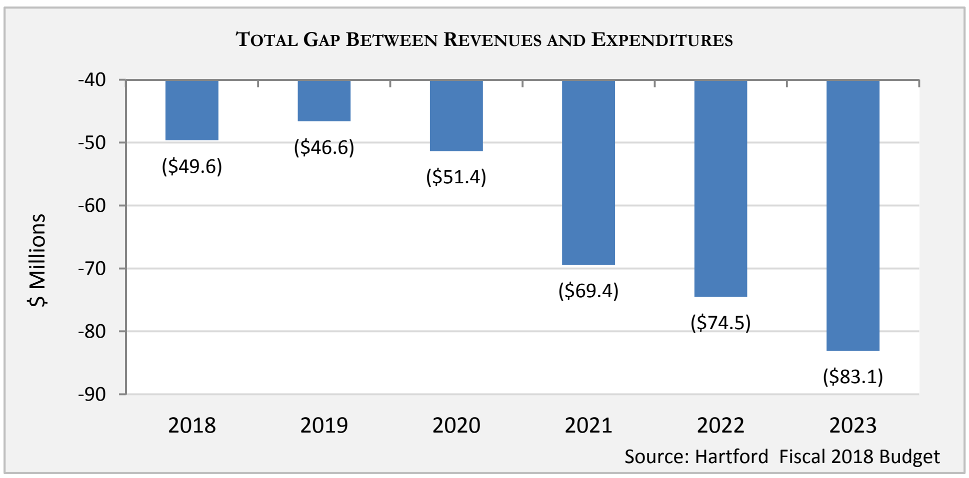
As we approach the last few months of 2017, the City of Hartford finds itself facing a potential liquidity shortfall that could result in a default as soon as November. Last week, positive news that bond insurers were willing to support a debt refinancing was overshadowed by Governor Malloy's veto of the state's budget, leaving Hartford's solvency in limbo. Below we provide a brief overview of Hartford's current predicament, recent developments, and the potential impact Hartford's distress could have on the State of Connecticut and other local governments.

How Did Hartford Get to this Point?

Revenue Growth Has Been Non-Existent….	…As Expenditures Continue to Increase
• Socioeconomics are weak – poverty rate is 33.4% v. 12.7% nationally. • Nearly 50% of property is tax-exempt and remaining tax base has been stagnant over last decade. • Half of the City's revenues come from state aid. State's own challenges have resulted in flat funding growth.	• A large percentage of Hartford's expenditures are fixed, leaving little discretionary power. • Left with few options, Hartford continues to borrow to fill budget gaps. • Debt service costs are expected to climb from $30mm in 2016 to $57mm in 2019.

As expenditures far exceed revenues, Hartford faces a $50 million shortfall in the current budget. That gap is projected to reach $83 million by 2023.



Recent Developments

On September 25th, bond insurers Assured Guaranty and Build America Mutual, which wrap nearly 80% of Hartford's debt, announced that they were willing to support a debt refinancing that would provide the City with lower costs for 15 years. If completed as proposed, the debt refinancing provides breathing room for Hartford, but it does not entirely solve the City's fundamental challenges. To set Hartford on a path of sustainable operations, the City will most likely require increased state aid and labor concessions, in addition to the debt restructuring.

Impact on Connecticut

If Hartford faces a serious liquidity crunch in the next few months, particularly if the State's budget impasse continues, the market could penalize the State of Connecticut with potentially higher borrowing costs. However, similar events over the last few years (Detroit/Michigan, Harrisburg/Pennsylvania, Atlantic City/New Jersey) provide examples of stressed local governments that ultimately fail to drive significant credit deterioration at the state level.

In the event that Hartford experiences a serious credit event, we believe that the largest impact will be felt by other challenged local governments in Connecticut. This "contagion risk" reinforces our preference for local governments that benefit from strong tax bases, above average socioeconomics, robust financial reserves, and reliance on diverse revenue sources.