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Analyst Contacts:

BOSTON	+1.212.553.1653
Robert Azrin, CFA Vice President - Senior Analyst robert.azrin@moodys.com	+1.617.535.7692

Connecticut Budget Impasse Enters Second Month, a Credit Negative for Local Governments

From [Credit Outlook](#)

Last Tuesday, [Connecticut](#) (A1 stable) entered the second month of fiscal 2018 (which ends 30 June 2018) without an adopted state budget, a credit negative for local governments. With state legislators at an impasse, some small state aid grants are not flowing to local governments. In October, local governments are scheduled to receive a large state aid payment for education. Lacking certainty on the funding amounts, some municipalities may not have set the property tax levy high enough or may be overspending given the possibility of large state funding cuts.

Without a budget, the state is operating under an executive order from Governor Dannel Malloy that reduces state aid for local governments by approximately 25% from appropriated fiscal 2017 levels. The state has not distributed certain small-scale grants and other types of funding that it provided in prior years to local governments, including at least \$30 million in road grants. Although these amounts are a minimal portion of total state municipal aid, severe cuts loom compared with prior years if the budget stalemate continues into the fall.

The first installment of the largest portion of state aid, the education cost-sharing grant, is due in October. Cities and towns will receive some funding, although they may need to make unexpected cuts or take emergency action to raise revenue through supplemental tax hikes once allocation amounts are finalized. Mr. Malloy has the ability to revise the executive order and recently indicated that if the budget impasse continues, he may shift education cost-sharing funds to some weaker municipalities.

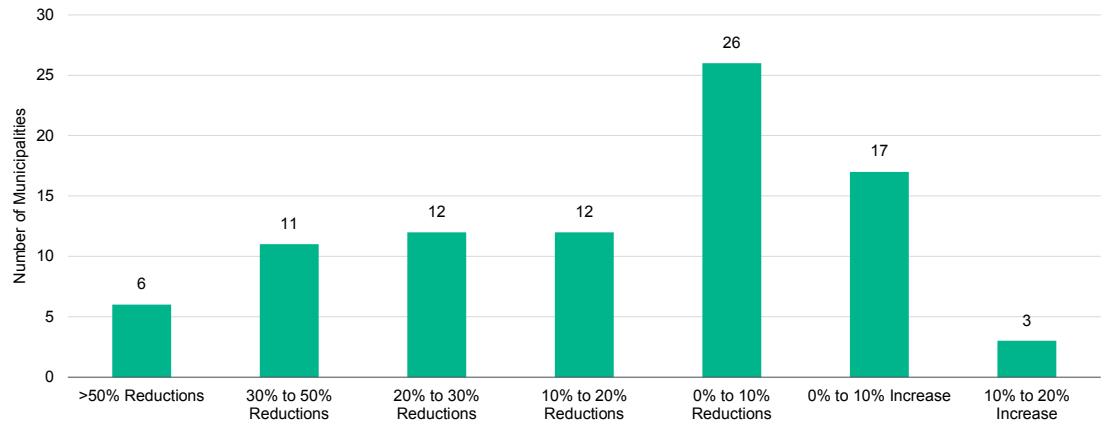
In a sign of prudent management, some municipalities are taking steps to prepare for potential cuts. [Torrington](#) (Aa3 no outlook), for example, is delaying the opening of school by three days to save funds. Some towns have contingency plans in place to address larger-than-budgeted state funding cuts. However, expenditure-cutting flexibility varies significantly. Options include spending freezes, deferring capital spending, leaving vacancies unfilled or tapping reserves. Use of reserves to fill budgetary shortfalls poses a risk to some municipalities because municipal reserve levels in Connecticut are already lower than national medians.

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Many cities and towns prepared budgets anticipating less severe cuts than contained in the governor's executive order. Our review of 87 municipalities with passed fiscal 2018 budgets shows they assumed an average decrease of 15% in state aid from fiscal 2017 levels. Forty-one of the 87 local governments assumed state funding cuts of 10% or more (see exhibit).

Percent Change in Connecticut Municipalities' Budgeted State Aid Assumptions from Fiscal 2017 to Fiscal 2018



Note: Fiscal years end 30 June.
Sources: Municipalities' fiscal 2018 budgets

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Author
Robert Azrin

Production Associate
Gijo James

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