

## CREDIT OPINION

22 January 2016

### New Issue

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## West Hartford (Town of), CT

New Issue - Moody's assigns Aaa to West Hartford, CT's General Obligation Bonds, Series 2016A

### Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the town of West Hartford's (CT) \$14 million General Obligation Bonds, Series 2016A. Moody's maintains a Aaa rating on approximately \$135 million of outstanding long-term debt. The outlook is stable.

The Aaa long-term rating reflects West Hartford's robust economy and sizeable tax base, favorably located just outside the state capital. The rating also incorporates the town's historically stable financial position with adequate reserve levels. Further, the rating factors in the town's above average wealth and income levels, manageable pension and OPEB liabilities, and slightly elevated debt burden with rapid principal retirement.

### Credit Strengths

- » Historically stable financial position
- » Large, growing, diverse tax base
- » Strong income and wealth indicators
- » Demonstrated willingness to address pension and OPEB liabilities
- » Strong management characterized by conservative budgeting practices, formal fiscal policies and long-term capital planning

### Credit Challenges

- » Slightly elevated debt burden

### Rating Outlook

The stable outlook reflects our expectation that West Hartford will maintain a satisfactory financial position due to conservative budgeting practices and adherence to formal fiscal policies. Further, the outlook reflects our view that West Hartford will continue to benefit from ongoing commercial and residential development.

### Factors that Could Lead to an Upgrade

- » Not applicable

## Factors that Could Lead to a Downgrade

- » Erosion of reserves resulting in decreased financial flexibility
- » Increased debt levels beyond current projections
- » Material declines in tax base or socioeconomic profile

## Key Indicators

Exhibit 1

West Hartford (Town of) CT	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 7,137,414	\$ 7,244,492	\$ 8,400,921	\$ 9,035,909	\$ 9,156,173
Full Value Per Capita	\$ 112,812	\$ 114,505	\$ 132,783	\$ 142,820	\$ 144,720
Median Family Income (% of US Median)	N/A	166.1%	166.1%	166.1%	166.1%
Finances					
Operating Revenue (\$000)	\$ 234,343	\$ 255,901	\$ 259,557	\$ 267,153	\$ 274,642
Fund Balance as a % of Revenues	10.4%	8.3%	8.2%	8.6%	8.7%
Cash Balance as a % of Revenues	12.5%	8.7%	11.8%	16.6%	16.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 145,095	\$ 96,820	\$ 133,085	\$ 140,830	\$ 149,280
Net Direct Debt / Operating Revenues (x)	0.6x	0.4x	0.5x	0.5x	0.5x
Net Direct Debt / Full Value (%)	2.0%	1.3%	1.6%	1.6%	1.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.7x	0.9x	1.1x	N/A
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	2.6%	2.8%	3.2%	N/A

\*Operating Revenue, Fund Balance as a % of Revenues, and Cash Balance as a % of Revenues reflect the combined General Fund and Debt Service Fund

Source: Moody's Investors Services

## Detailed Rating Considerations

### Economy and Tax Base: Large, Diversified Tax Base with Favorable Growth Prospects

The town's sizeable \$9.2 billion equalized net grand list (ENGL) will likely remain stable with moderate growth expected over the medium term. The town's ENGL expanded at a compounded annual growth rate of 4.1% over the last five years capturing property value appreciation as well as some residential and commercial growth. West Hartford is characterized by a diverse economic base (75% residential, 16% commercial and industrial) with low taxpayer concentration of under 5% for the top ten taxpayers.

Major employers within the town include higher education institutions, manufacturing firms, and health care facilities. The top taxpayer is an entity that owns the Blue Back Square development. Blue Back Square is a mixed-use private/public development located in the town center. The project was completed in spring 2009 and highlights include two parking garages, 70 high-end residential condominiums, and several major retailers. The Blue Back Square site has also spurred ancillary development, including the construction of a boutique 114-room luxury hotel that is slated to open in 2017.

West Hartford remains well-poised for growth moving forward. Highlighting demand across the town are approximately 320 residential rental units under construction at various sites, and the completion last year of a class A office building, two retail stores, and 3 multi-unit residential sites. In addition, the town reports a number of other projects, that have been approved or are pending approval, that will contribute to the future growth of the town.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

Wealth and income levels are well above average with per capita and median family incomes representing 169% and 166% of the nation, respectively. Housing values in the town are strong as evidenced by a robust equalized value per capita of \$144,720 (167% of the US median). Due to its favorable location, the town's unemployment rate (3.5%, November 2015) remains below the state and the nation (both at 4.8%).

### **Financial Operations and Reserves: Stable Financial Position Supported by Prudent Budgeting Practices**

The town's financial position will remain stable due to prudent budget management and adherence to several formal fiscal policies. In fiscal 2015, the town recognized its fifth General Fund surplus in the last six years, with a \$850,000 addition to fund balance. The surplus operations was partly attributable to a \$1.2 million favorable education expenditure variance, as well as strong collections of property taxes and higher than anticipated receipt of state funds. At year end, total General Fund balance increased to \$21.0 million, or an adequate 7.7% of revenues. Unassigned General Fund balance increased to \$20.6 million, or 7.6% of revenues. While General Fund balance remains below the median for similarly rated credits, we believe that the town's prudent budget management and reliance on stable and predictable property tax receipts (82% of 2015 revenues) provides an additional layer of financial flexibility.

The town's fiscal 2016 adopted budget included a 2.5% increase in spending and was balanced with a 2.5% property tax rate increase and no use of one-time revenues or fund balance. Similar to prior years, contributing factors for the budget growth were increased contributions for Other Post Employment Benefit (OPEB) and pension costs. The town is projecting to finish the current fiscal year with a surplus.

In addition to General Fund reserves, the town's financial position is strengthened by available reserves held outside the General Fund. These reserves include the Retiree Health Reserve (\$11.1 million), Capital Non-Recurring Fund (\$1.9 million), Self-Insured Reserve (\$1.5 million), and a Utility Reserve (\$1.1 million). Including these funds, the town's fiscal 2015 available reserve balance was \$36.3 million, or a satisfactory 13.4% of revenues.

#### **LIQUIDITY**

The town's net cash position in its operating funds (General Fund and Debt Service Fund) was a healthy \$46.4 million or 16.9% of revenues.

### **Debt and Pensions: Manageable Long-Term Liabilities**

West Hartford's direct debt burden of 1.6% (of ENGL) is slightly elevated. However these debt levels are manageable given the town's rapid principal payout of 86.5% retired within 10 years and prudent future borrowing plans. Reflecting the strength of the community's strategic planning efforts, West Hartford maintains a 12-year capital improvement plan. The plan totals \$192 million through fiscal 2027 with \$159 million forecasted to be debt-funded. The long-term capital plan provides an important framework for identifying the timing and financial resources necessary to meet the town's capital needs.

The town is a member of the Hartford County Metropolitan District (Aa1 stable), a special district in Hartford that provides water and sanitary services to eight member towns. The town's overall debt increases to a moderate 2.7% (of ENGL) when incorporating overlapping debt associated with the MDC.

#### **DEBT STRUCTURE**

All of the town's debt is fixed rate and amortizes over the long-term.

#### **DEBT-RELATED DERIVATIVES**

West Hartford is not party to any derivative transactions.

#### **PENSIONS AND OPEB**

The town maintains a single-employer defined benefit pension plan for its retirees. The town's ARC for the plan was \$17.7 million in fiscal 2015, or approximately 6.5% of General Fund expenditures. The town's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$290.7 million, or an average 1.1 times General Fund revenues (3 year average). Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

In fiscal 2015 the town funded 93.4% of the annual required contribution for Other Post-Employment Benefits (OPEB). The annual required contribution of \$9.8 million was equal to 3.6% of total expenditures. The town's current unfunded OPEB liability is approximately \$119 million.

### Management and Governance: Strong Management and Sound Long-Term Planning

Connecticut cities and towns have an institutional framework score of "Aa," or strong. Revenues are highly predictable and stable, due to a large reliance on property taxes. Cities additionally benefit from high revenue-raising ability due to the absence of a statewide property tax cap. Expenditures primarily consist of personnel costs as well as education costs for those cities that manage school operations, and are highly predictable due to state-mandated school spending guidelines and employee contracts that dictate costs. Expenditure reduction ability is moderate as it is somewhat constrained by union presence.

Town management employs prudent, conservative budgeting and fiscal management practices including formal financial policies and long-term capital plans.

### Legal Security

The bonds are general obligations of the town.

### Use of Proceeds

The proceeds of the bonds will be used to finance various capital improvement projects related to town and school facility improvements, streets and storm water management, technology, and energy conservation projects.

### Obligor Profile

West Hartford is located in central Connecticut, adjacent to the City of Hartford. The town has an estimated population of 63,396.

### Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

### Ratings

Exhibit 2

#### WEST HARTFORD (TOWN OF) CT

Issue	Rating
General Obligation Bonds, Series 2016A	Aaa
Rating Type	Underlying LT
Sale Amount	\$14,000,000
Expected Sale Date	01/28/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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