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West Hartford (Town of) CT

Update to credit analysis

Summary

The Town of West Hartford, Connecticut (Aaa negative) benefits from a large tax base and strong resident wealth and incomes, an adequate financial position and manageable fixed costs. While the town's reserves are below the median for the rating category, the Aaa rating reflects stable operations, supported by conservative budgeting, proactive management and formal fiscal and debt policies.

Credit strengths

» Historically stable financial position

» Large, growing, and diverse tax base with 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

» Uncertainty surrounding state aid funding

Rating outlook

The negative outlook reflects the expectation that the town will remain challenged to maintain or increase financial reserves, which are already below the median for Aaa rated cities and towns, due to ongoing fiscal pressure at the state level.

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	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$8,400,921	$9,035,909	$9,156,173	$9,323,512	$9,323,512
Population	63,340	63,396	63,288	63,187	63,187
Full Value Per Capita	$132,632	$142,531	$144,675	$147,554	$147,554
Median Family Income (% of US Median)	164.8%	169.8%	171.7%	171.7%	171.7%
Finances					
Operating Revenue ($000)	$259,557	$267,153	$274,642	$284,762	$307,022
Fund Balance ($000)	$21,154	$23,088	$24,027	$25,207	$25,376
Cash Balance ($000)	$30,727	$44,428	$46,385	$46,407	$47,292
Fund Balance as a % of Revenues	8.2%	8.6%	8.7%	8.9%	8.3%
Cash Balance as a % of Revenues	11.8%	16.6%	16.9%	16.3%	15.4%
Debt/Pensions					
Net Direct Debt ($000)	$133,085	$140,830	$149,280	$148,675	$150,455
3-Year Average of Moody's ANPL ($000)	$237,773	$290,699	$317,238	$369,387	N/A
Net Direct Debt / Operating Revenues (x)	0.5x	0.5x	0.5x	0.5x	0.5x
Net Direct Debt / Full Value (%)	1.6%	1.6%	1.6%	1.6%	1.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.9x	1.1x	1.2x	1.3x	N/A
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.8%	3.2%	3.5%	4.0%	N/A

Source: Moody's Investors Service

Profile

West Hartford is located in central Connecticut, adjacent to the City of Hartford. The town has an estimated population of 63,187.

Detailed credit considerations

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

The town's sizeable $9.3 billion equalized net grand list (ENGL) will likely remain stable with moderate growth expected over the medium term. The ENGL expanded at a compounded annual rate of 5.5% over the last five years capturing property value appreciation as well as some residential and commercial growth. The town has a long track record of continuous assessed value growth, including a 4.2% increase in fiscal 2018 following a revaluation. West Hartford is characterized by a diverse economic base (75% residential, 16% commercial and industrial) with low taxpayer concentration with the top ten taxpayers accounting for 5.6% of assessed value.

West Hartford remains well poised for growth moving forward. Highlighting demand across the town are various residential projects, including houses, townhouses and condominiums. Building permits have remained strong in recent years, increasing by nearly 12% in 2016. Future projects will likely include the development of a 58 acre parcel owned by the University of Connecticut, for which the town is working with the university to find a buyer.

Major employers within the town include higher education institutions, manufacturing firms, and health care facilities. Resident wealth and incomes are in line with the national medians for Aaa rated municipalities, but below the median for Aaa rated credits in the state. Per capita and median family incomes represent 171.4% and 171.7% of national levels, respectively. Housing values in the town are strong as evidenced by a robust equalized value per capita of $147,554 (166% of the US median). Due to its favorable location, the town's unemployment rate of 3.3% as of October 2017 is below the state rate of 4.3% and the national rate of 3.9%.

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Financial Operations and Reserves: Stable Finances Supported by Strong Management and Policies

The town's financial position will remain stable due to prudent budget management and adherence to several formal fiscal policies. The operating funds (general fund and debt service fund) reserve levels, however, are below the median for similarly rated credits. The maintenance of the current rating, in light of these below average reserves, is dependent upon continued stable operating performance, upkeep of current reserve levels (including funds outside the operating funds) and strong, robust fiscal practices. The reliance on stable and predictable property tax receipts (77.9% of 2017 revenues) provides an additional layer of financial flexibility.

In fiscal 2017, operating funds were relatively balanced, ending with $25.4 million in available fund balance, or 8.3% of operating revenues. In addition to available operating fund balance, the town maintains $23.5 million in available reserves in other funds.

The town's fiscal 2018 budget grew 6.4% over the adopted fiscal 2017 budget and includes a 3.9% increase in the mill rate. Budgetary growth is largely driven by increased education spending. The budget included a $4.6 million reduction in state revenues, although actual cuts to the town based on the state's current budget total $6.8 million. While not included in the original budget, the town plans to transfer $3.2 million from the capital projects fund to the general fund in fiscal 2018. The funds were transferred to the capital projects fund in fiscal 2017 to build a reserve against potential state revenue cuts and increased payments to the Hartford County Metropolitan District (Aa2 negative) in the event Hartford would be unable to make quarterly sewer payments. Since neither of those events occurred. the city will transfer the funds back to the general fund, which should increase fund balance to over 9% by year end.

Going forward into fiscal 2019, the town continues to pursue various cost saving measures and is exploring consolidating some services. The preliminary budget includes a $2.2 million contingency to offset possible reductions in state revenues. Maintenance of the current rating level is dependant upon stable, if not improved, operating performance and reserves in the context of ongoing fiscal pressure at the state level.

LIQUIDITY

Operating fund liquidity was stable in fiscal 2017 with net cash at $47.3 million or a satisfactory 15.4% of revenues.

Debt and Pensions: Manageable Long-term Liabilities

West Hartford's direct debt burden of 1.6% of ENGL is slightly elevated for the rating level and further increases in the debt burden could lead to downward pressure on the rating. However, these debt levels are manageable given the town's rapid principal payout of 82% retired within 10 years, prudent future borrowing plans, and extensive debt policies. Reflecting the strength of the community's strategic planning efforts, West Hartford maintains a 12-year capital improvement plan. The plan totals $199 million through fiscal 2028 with $164 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. Favorably, the town has a debt policy that limits debt service to a manageable 10% of General Fund expenditures, however, the town targets 8% or less. Fiscal 2017 debt service costs were under 7% of General Fund expenditures.

The town is a member of the Hartford County Metropolitan District, a special district in Hartford that provides water and sanitary services to eight member towns. The town's overall debt increases to a moderate 3.8% (of ENGL) when incorporating overlapping debt associated with the MDC.

Fixed costs (comprised of debt service, OPEB contributions and required pension payments) will continue to remain moderate but manageable. In fiscal 2016, these costs were 16.7% of operating fund expenditures.

DEBT STRUCTURE

All of the town's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The town is not party to any debt related derivatives.

PENSIONS AND OPEB

The town maintains a single-employer defined benefit pension plan for its retirees. The town's actuarially determined contribution for the plan was $20.6 million in fiscal 2017, or approximately 6.7% of operating expenditures. While the reported funding ratio is 45.7% in the current fiscal year, the town has made a number of changes over the past decade, mostly for new employees, to ensure the pension plan liability remain manageable. These changes include extending the retirement age for non-public safety employees and modifying the eligibility requirements, reducing the maximum benefit, increasing employee contributions, introducing a hybrid plan for certain employee groups, and elimination of overtime in pension calculation for new firefighters. The discount rate will also be reduced to 7.25% from 7.5% in fiscal 2019.

The town's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $430.1 million, or an average 1.5 times operating revenues. 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.

For its teachers, the town participates in the State of Connecticut Teachers' Retirement System (TRS). Employer contributions to the TRS, which are covered by on behalf payments made by the state, totaled $28.7 million in 2017. When including the town's share of the TRS ANPL to the adjusted liabilities of the city managed plans, the ANPL increases to $959 million, representing a high 10.3% of full value and 3.1 times operating revenues.

In fiscal 2017, the town funded 100% of the annual required contribution for Other Post-Employment Benefits (OPEB). The annual required contribution of $12 million was equal to 4% of total expenditures. The towns current unfunded OPEB liability is approximately $147 million. Similar to the pension, the town has taken steps to keep this liability at manageable levels including the creation and funding of a reserve fund to advance fund the obligation.

Management and Governance: Strong Management Guided by Formal Policies and Rigorous Operating and Capital Planning Procedures

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

Connecticut Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Connecticut cities' major revenue source, property taxes, is not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Connecticut has public sector unions and additional constraints, which limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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