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Summary:

West Hartford, Connecticut; General Obligation

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Summary:

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Credit Profile		
US$14.0 mil GO bnds ser 2016A dtd 02/11/2016 due 01/15/2031		
Long Term Rating	AAA/Stable	New
West Hartford Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating and stable outlook to the Town of West Hartford, Conn.'s 2016A general obligation (GO) bonds.

At the same time, Standard & Poor's affirmed its 'AAA' rating on the town's GO debt outstanding. The outlook is stable.

A pledge of the town's full faith and credit secures the bonds. We understand the town will use bond proceeds to finance improvements to town and school infrastructure.

The rating reflects our assessment of the following factors for the town:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 15% of operating expenditures;
- Very strong liquidity, with total government available cash at 29.0% of total governmental fund expenditures and 4.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 6.2% of expenditures and net direct debt that is 42.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 93.3% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Very strong institutional framework score.

Very strong economy

We consider West Hartford's economy very strong. The town, with an estimated population of 63,464, is located in Hartford County in the Hartford-West Hartford-East Hartford, Conn., MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 148% of the national level and per capita market value of $134,830. Overall, the town's market value was stable over the past year at $8.6 billion in 2016. The county unemployment rate was 6.9% in 2014.

The town is a residential suburb of Hartford that enjoys good access, via Interstate 84, to the region's diverse employment base. Although the tax base is primarily residential, the town does maintain a sizable commercial base and is considered the retail center for the region. The University of Connecticut-Hartford, the town's seventh largest employer with 386 employees, is planning to close its West Hartford campus in 2017 and consolidate onto its downtown property, thus opening a sizable tract of tax-exempt property for a potential, taxable development. Town officials are not expecting the consolidation to negatively affect the local economy, as the downtown campus is less than five miles away. The town also remains home to the University of St. Joseph and the University of Hartford, which is the town's largest employer with 2,035 employees. The next largest employers are the town itself with 1,959 employees, the Hospital at Hebrew Health Care (704), and St. Mary's Nursing Home (601). West Hartford continues to experience development activity contributing to tax base growth with material residential and commercial projects completed in 2015 and a boutique hotel slated to open in 2017. As such, officials are expecting sustained tax base growth in the future as new projects are waiting for approval and building permits are up substantially since 2012. In addition, West Hartford plans to undertake a revaluation in fiscal 2018 that is projected to increase residential values further.

Strong management

We view the town's management as strong, with "good" financial policies and practices under our FMA methodology. We revised the town's FMA to "good" from "strong, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. We based the revision on our understanding that the town lacks a formal reserve policy and long-term financial plan. Management is conservative in its revenue and expenditure assumptions with regular efforts to determine whether revenues or expenditures will deviate from the town's long-term trends, and it regularly monitors budgetary performance, ensuring adjustments are made in a timely manner, and sends budget to actual updates to the town council monthly. Although West Hartford does not perform any long range revenue and expenditure forecasting, we believe the town maintains a strong focus on capital planning, evidenced by its 12-year capital improvement plan, which management reviews yearly, and sets the parameters for debt and nondebt financing of all capital projects. The town has a debt management policy that limits debt service to no more than 10% of the budget and an amortization schedule with no less than 65% of principal being retired over 10 years. West Hartford maintains an independent investment policy that is compliant with state guidelines and reports investment performance and holdings to the council monthly. Although the town lacks a formal reserve policy, its practice has been to limit use of reserves to emergency spending.

Strong budgetary performance

West Hartford's budgetary performance is strong in our opinion. The town had balanced operating results in the general fund of 0.3% of expenditures, and surplus results across all governmental funds of 3.7% in fiscal 2015. General fund operating results of the town have been stable over the last three years, with a result of 0.3% in 2014 and a result of 0.4% in 2013.

The favorable budgetary performance stems from conservative budgeting and higher-than-expected property tax and state aid revenue. We believe West Hartford maintains a stable and predictable revenue profile with property taxes comprising 82% of general fund revenues. Property tax collections are also strong and stable. State aid accounts for a low 8% of revenues. Service charges and other ancillary revenues account for the remaining amounts.

After adjusting for recurring transfers and bond proceeds, officials attribute the town's 2015 operating surplus to positive variances across the board, given stronger tax revenue than budgeted as well as material savings in education.

The 2016 budget was balanced without the use of reserves and management states that year-to-date revenues are ahead of budget and the town may realize an additional surplus barring any unforeseen expenditure demands.

Very strong budgetary flexibility

West Hartford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 15% of operating expenditures, or $41.6 million. The available fund balance includes $20.9 million (7.7% of expenditures) in the general fund and $20.7 million (7.7% of expenditures) that is outside the general fund but legally available for operations.

The town raised taxes 2.9% in fiscal 2015 and 2.5% in fiscal 2016 and maintains $20.7 million of additional general fund flexibility in its internal service funds. In the past three fiscal years, available reserves have grown to 15.4% of expenditures from 12.8%. Given West Hartford's track record of five operating surpluses in the past six fiscal years coupled with positive results projected for 2016, management expects to continue modestly building on fund balance in the future.

Very strong liquidity

In our opinion, West Hartford's liquidity is very strong, with total government available cash at 29.0% of total governmental fund expenditures and 4.7x of governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

Further enhancing our view of the town's liquidity position is that West Hartford maintains strong access to external liquidity. It is a regular market participant, having issued GO bonds frequently in the past several years. We understand the town has neither bank loans nor direct purchase debt. It has consistently had very strong liquidity and we do not anticipate a change to these ratios.

Adequate debt and contingent liability profile

In our view, West Hartford's debt and contingent liability profile is adequate. Total governmental fund debt service is 6.2% of total governmental fund expenditures, and net direct debt is 42.7% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, and approximately 93.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

In accordance with its comprehensive 12-year capital improvement plan, the town plans to go to the debt markets for an additional $42 million by fiscal 2019 year-end. The town expects to retire all current debt outstanding by 2035.

In our opinion, a credit weakness is West Hartford's large pension and OPEB obligation. West Hartford's combined required pension and actual OPEB contributions totaled 9.0% of total governmental fund expenditures in 2015. Of that amount, 6.1% represented required contributions to pension obligations, and 2.9% represented OPEB payments. The town made its full annual required pension contribution in 2015. Based on GASB 68, the funded ratio of the pension plan is 48.5%.

In our view, the town's pension and OPEB liabilities will remain a budget pressure, but we acknowledge management has been proactively managing them. Despite having contributed the full actuarially determined requirement in each of at least the past six fiscal years, West Hartford's pension system funding ratio has decreased significantly to just 48.5% (based on Governmental Accounting Standards Board Statement 68 [GASB 68]) due to significant pension fund investment losses, coupled with changes to actuarial assumptions such as mortality rates and the discount rate. The unfunded liability is projected to increase to $230.6 million in fiscal 2017. Management has implemented various adjustments to its pension plan for employees who began working for the town in 2003 and later, including extending the retirement age, increasing employee contributions, and developing a hybrid pension plan for all town unions. West Hartford plans to continue meeting 100% of its pension requirements each year and projects its pension funding to improve to 53% by 2027. The town also provides medical benefits to eligible retirees and covered dependents. West Hartford currently contributes the full normal cost for current employees hired since 2003 in addition to prefunding its OPEB liabilities in the trust fund and is phasing 100% of its annual required contribution over five years. The annual OPEB cost to amortize the liability over 30 years was $9.9 million in fiscal 2015, of which the town contributed 86%, or $8.5 million. As of July 2013, the date of the most recent valuation, the OPEB unfunded actuarial accrued liability totaled $119 million and was 0.15% funded.

Very strong institutional framework

The institutional framework score for Connecticut municipalities is very strong.

We rate West Hartford's GO bonds above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. Intergovernmental revenue from the federal government accounted for less than 1% of the town's revenue base in fiscal 2015. See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.

Outlook

The stable outlook reflects our view of West Harford's very strong underlying economy as well as our opinion that the town will likely maintain what we consider its predictable operating profile and strong management practices and policies that contribute to strong financial performance and support very strong flexibility and liquidity. Debt service costs, as well as pension and OPEB costs, should remain manageable and not pose an immediate budgetary challenge over our two-year outlook horizon. As such, we do not expect to change the rating within the outlook's two-year period.

Although we expect the town to continue addressing its sizable retirement liabilities in a meaningful way, we could lower the rating should the town fail to do so or should budgetary pressures arise that force West Hartford to draw down on reserves to weaker levels in line with peers at a lower rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Institutional Framework Overview: Connecticut Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.