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Ratings

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Summary:
West Hartford, Connecticut; General Obligation

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Summary:

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Credit Profile		
US$13.0 mil GO bnds ser 2018A dtd 01/25/2018 due 01/15/2033		
Long Term Rating	AAA/Stable	New
West Hartford Twn GO		
Long Term Rating	AAA/Stable	Affirmed
West Hartford Twn GO bnds ser 2016A dtd 02/11/2016 due 01/15/2031		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating and stable outlook to the Town of West Hartford, Conn.'s series 2018A general obligation (GO) bonds. At the same time, S&P Global Ratings 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 West Hartford will use bond proceeds for athletic field improvements, upgrades to town buildings, and a radio system replacement, among other capital projects.

West Hartford's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), the town has a predominately locally derived revenue source, with 89% of general fund revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

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);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance that we expect will improve in the near term from its fiscal 2016 level of 14.6% of operating expenditures;
- Very strong liquidity, with total government available cash at 20.3% of total governmental fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 6.1% of expenditures and net direct debt that is 40.3% of total governmental fund revenue, as well as rapid amortization, with 81.9% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Very strong economy

We consider West Hartford's economy very strong. The town, with an estimated population of 63,191, is located in Hartford County in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 159% of the national level and per capita market value of $140,904. Overall, the town's market value grew by 4.2% over the past year to $8.9 billion in 2018. The county unemployment rate was 5.3% in 2016.

The town is a residential suburb of the City of Hartford that enjoys good access, via Interstate 84, to the region's diverse employment base. Although the tax base is primarily residential, West Hartford maintains 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, closed its West Hartford campus in 2017 to 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 because 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 its largest employer with 2,000 employees. The next largest employers are West Hartford itself with just under 2,000 employees, the Hospital at Hebrew Health Care (700), and Legrand Products (500).

West Hartford continues to experience development activity contributing to tax base growth, with the opening of its first boutique hotel in addition to several restaurants; the redevelopment of the former Sears property into a shopping center; and a number of large-scale residential developments. As such, officials are expecting sustained tax base growth because new projects are waiting for approval and building permits are up substantially since 2012. Therefore, we do not foresee a weakening of West Hartford's economy in our outlook period.

Very strong management

We view the town's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

In our view, town management is conservative in its revenue and expenditure assumptions with regular efforts to determine whether these will deviate from West Hartford's long-term trends. Management regularly monitors budgetary performance, ensuring adjustments are made in a timely manner, and sends budget-to-actual updates to the town council monthly. West Hartford recently introduced a long-term financial forecast, mapping out revenue and expenditures for the next five years. Town officials plan to update the document annually. We believe the town maintains a strong focus on capital planning, as 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 complies with state guidelines but does not report investment performance and holdings to the council regularly. The town also recently introduced a reserve policy that mandates town officials maintain an annual minimum unrestricted fund balance in the general fund of 7.5% of expenditures, and no more than 15%. The policy also states that if funds should fall below 7.5%, the town should take all necessary steps to restore it as soon as practical.

Strong budgetary performance

West Hartford's budgetary performance is strong in our opinion. We believe the management team has taken proactive measures to protect the budget from any shortfall associated with the midyear cuts to state aid. In 2017, the state reduced municipal aid by $400,000 and made an additional $430,000 cut to capital aid.

Despite these reductions, town officials report a sizeable surplus due to conservative budgeting for property taxes and an unused contingency for sewer payments. At the end of the year, the town transferred $3.2 million to the capital nonrecurring fund, and increased general fund reserves by $753,000.

We use 2016 results as a base year in assessing operating performance. In 2016, the town had balanced operating results in the general fund of 0.2% of expenditures, and slight surplus results across all governmental funds of 0.7%. In our calculation of budgetary performance, we remove one-time capital items in which bond proceeds were received in another year. We do not make an adjustment for one-time revenue associated with the Charter Oak School project.

West Hartford's general fund operating results have been stable over the past three years, at 0.3% for both 2014 and 2015. The favorable budgetary performance in 2016 is a result of higher-than-expected property tax and charges for services. 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 16% of revenues. Service charges and other ancillary revenues account for the remaining amounts.

In 2018, the town budgeted $7 million in contingency funds in the event state aid came in lower than anticipated or sewer expenses rose. West Hartford received $6.9 million less in state aid based on the governor's proposal and November holdbacks. Revenues and expenditures are trending better than budget, and town management is projecting a $3.1 million year-end surplus. The positive operating results are due to an expanded tax base, higher motor vehicle taxes, and savings in public works.

West Hartford is continuing its conservative budgetary practices in 2019 budget, and is reviewing all operations for opportunities to consolidate services. Town management plans to budget a $2.2 million contingency to offset possible reductions in state aid.

Based on conservative budgeting and robust out-year planning, we expect the town's budgetary performance to remain strong.

Very strong budgetary flexibility

West Hartford's budgetary flexibility is very strong, in our view, with an available fund balance that we expect could improve in the near term from its fiscal 2016 level of 14.6% of operating expenditures, or $41.2 million. The available fund balance includes $21.5 million (7.7% of expenditures) in the general fund and $19.6 million (7.0% of expenditures) that is outside the general fund but legally available for operations. These funds are held in the internal service funds account.

Based on 2017 operating results, we expect reserves to improve to $45 million, or 16.7% of general fund expenditures. In 2018, the town plans to transfer $3.2 million to the general fund from the capital nonrecurring expenditures fund to increase general fund reserves. We do not expect this transfer to impact our assessment of budgetary flexibility, as we already account for these reserves in the available fund balance.

Given West Hartford's track record of six operating surpluses in the past seven fiscal years, coupled with positive results projected for 2018, we expect the town to continue modestly building on its fund balance in the future. Further enhancing our view of the stability of West Hartford's fund balance is the town's recently introduced reserve policy that sets a minimum reserve level at 7.5% of expenditures.

Very strong liquidity

In our opinion, West Hartford's liquidity is very strong, with total government available cash at 20.3% of total governmental fund expenditures and 3.3x governmental debt service in 2016. 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 West Hartford has not entered into any bank loans, direct-purchase debt, or contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. It has consistently had very strong liquidity and we do not anticipate a change to these ratios, consistent with our view of the town's strong performance.

Strong debt and contingent liability profile

In our view, West Hartford's debt and contingent liability profile is strong. Total governmental fund debt service is 6.1% of total governmental fund expenditures, and net direct debt is 40.3% of total governmental fund revenue. Approximately 82% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

In accordance with West Hartford's comprehensive 12-year capital improvement plan, the town plans to go to the debt markets for an additional $30 million by fiscal 2020 year-end. It expects to retire all current debt outstanding by 2035.

In our opinion, a credit weakness is West Hartford's large pension and OPEB obligation. The town's combined required pension and actual OPEB contributions were 8.9% of total governmental fund expenditures in 2016. Of that amount, 5.6% represented required contributions to pension obligations, and 3.4% represented OPEB payments. West Hartford made its full actuarial determined contribution in 2016 and 2017. The pension plan's funded ratio is 42.2%.

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 42.2% (based on Governmental Accounting Standards Board Statement 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 $263 million in fiscal 2019, mostly as a result of a discount rate revision to 7.25% from 7.50%.

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 55% by 2029.

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 six years. The annual OPEB cost to amortize the liability over 30 years was $11.3 million in fiscal 2016, of which the town contributed 96%, or $10.8 million. As of July 2015, the date of the most recent valuation, the OPEB unfunded actuarial accrued liability totaled $148 million and was 0.48% funded.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

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 its predictable operating profile contributing to strong financial performance. We believe the town's very strong management practices will mitigate any pressure relating to state aid cuts and an increased assessment to the Hartford Metropolitan District. While we recognize that several companies have left the Hartford area, resulting in muted job growth, we have not seen an impact on West Hartford. Demand for housing remains strong, and developers continue to expand commercial offerings. We further believe that forward planning and conservative assumptions will shelter the budget from significant costs relating to low-funded pension and OPEB systems. 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 West Harford fail to do so or should budgetary pressures arise that force the town to draw down on reserves to weaker levels.

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
- 2017 Update Of Institutional Framework For U.S. Local Governments
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017