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West Hartford (Town of) CT

Update to credit analysis following removal of the negative outlook

Summary

West Hartford (Aaa stable) benefits from a sizable tax base with strong resident incomes and wealth, which will continue to expand due to ongoing development and redevelopment projects. The town's financial reserves are adequate and remain stable though below the median for similarly rated towns. Lastly, the town's slightly elevated debt and pension burdens will remain manageable due to long-term capital planning and proactive management of pension and OPEB liabilities.

Credit strengths

» Large, growing, and diverse tax base with strong resident income and wealth profile

» Historically stable financial position

» Strong management characterized by conservative budgeting, formally adopted fiscal policies and long-term capital planning

Credit challenges

» Slightly elevated debt burden

» Large unfunded pension liability

Rating outlook

The stable outlook reflects the expectation that the town's financial position will remain sound given conservative budgeting practices, formally adopted policies and proactive management. Additionally, the town will continue to benefit from tax base growth, which will support growth in property tax revenues. Lastly, the outlook incorporates the proactive steps taken by management to reduce pension liabilities over the long term and the expectation that the plan's funded ratio will continue to improve.

Factors that could lead to an upgrade

- N/A

Factors that could lead to a downgrade

- Erosion of reserves resulting in decreased financial flexibility
- Increased debt burden beyond current projections
- Failure to reduce unfunded pension liability
- Material declines in tax base or resident wealth and income profile

Key indicators

Exhibit 1

West Hartford (Town of) CT	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$8,504,964	$8,556,847	$8,591,093	$8,634,838	$8,981,615
Population	63,396	63,288	63,187	63,268	63,268
Full Value Per Capita	$134,156	$135,205	$135,963	$136,480	$141,961
Median Family Income (% of US Median)	169.8%	171.7%	176.4%	176.4%	176.4%
Finances					
Operating Revenue ($000)	$267,153	$274,642	$284,762	$307,022	$321,924
Fund Balance ($000)	$23,088	$24,027	$25,207	$25,376	$29,086
Cash Balance ($000)	$44,428	$46,385	$46,407	$47,292	$53,171
Fund Balance as a % of Revenues	8.6%	8.7%	8.9%	8.3%	9.0%
Cash Balance as a % of Revenues	16.6%	16.9%	16.3%	15.4%	16.5%
Debt/Pensions					
Net Direct Debt ($000)	$140,830	$149,280	$148,675	$150,455	$147,085
3-Year Average of Moody's ANPL ($000)	$290,699	$317,238	$369,387	$389,044	$422,710
Net Direct Debt / Full Value (%)	1.7%	1.7%	1.7%	1.7%	1.6%
Net Direct Debt / Operating Revenues (x)	0.5x	0.5x	0.5x	0.5x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.4%	3.7%	4.3%	4.5%	4.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.1x	1.2x	1.3x	1.3x	1.3x

Source: Moody's Investors Service

Profile

West Hartford is located in central Connecticut, adjacent to the City of Hartford. The town has approximately 63,187 residents.

Detailed credit considerations

Economy and Tax Base: Large, Diversified Tax Base with Ongoing Development

The town's sizeable $9 billion equalized net grand list (ENGL) will remain stable with moderate growth expected over the medium term. The ENGL expanded at a compounded annual rate of 1.3% over the last five years capturing property value appreciation as well as some residential and commercial growth. The town has experienced assessed value growth in at lease each of the last 10 years, notably not experiencing any declines throughout the recession. West Hartford is characterized by a diverse economic base (75% residential, 16% commercial and industrial). Taxpayer concentration is low with the top ten taxpayers accounting for 5.5% of assessed value.

West Hartford's tax base will continue to expand given several development projects currently underway, including the redevelopment of the 58 acre former University of Connecticut campus and a former Sears property. Several apartment and single family developments in their early stages will contribute to growth moving forward. Building permits have remained strong in recent years, increasing by nearly 4% in 2018.

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 172.8% and 176.4% of national levels, respectively. Housing values in the town are strong as evidenced by a robust equalized value per capita of $141,916. The town's unemployment rate of 3.2% as of September 2018 is below the state rate of 3.8% and the national rate of 3.6%.

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 formally adopted fiscal policies. Operating funds (general fund and debt service fund) reserves, 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, which represented 78.6% of 2018 revenues, provides additional financial flexibility.

In fiscal 2018, operating funds realized a $3.3 million surplus, ending with $29.1 million in available fund balance representing 9% of operating revenues. The surplus was driven by expenditure savings and an unbudgeted $3.3 million transfer to the general fund from the capital fund offsetting a $6.7 million reduction in state funding. 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 stable) in the event Hartford would be unable to make quarterly sewer payments. In addition to its available operating fund balance, the town maintains $25.4 million in available reserves in other funds.

The town's fiscal 2019 budget is in line with the prior year's budget and includes a slight 0.04 mill rate decrease. Budgetary growth is largely driven by increased education spending. The budget included a $5.6 million reduction in state revenues, which is offset by property tax revenue growth. The budget does not include the use of any fund balance.

Going forward into fiscal 2020, the town continues to pursue various cost saving measures and is exploring consolidating some services. The town also maintains a five year fiscal plan, which projects balanced budgets through fiscal 2024. Future rating reviews will consider the town's ability to maintain a stable reserve position relative to rising expenditures.

LIQUIDITY

Operating fund liquidity was sound in fiscal 2018 with net cash at $53.2 million representing a satisfactory 16.5% of revenues.

Debt and Pensions: Manageable Fixed Costs Despite Elevated Unfunded Pension 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 with 87% to be 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 $197.6 million through fiscal 2030 with $148 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 with management targeting 8% or less. Fiscal 2018 debt service costs were 7.4% of general fund expenditures.

The town is a member of the Hartford County Metropolitan District, a special district that provides water and sewer services to eight member towns. The town's overall debt increases to a moderate 3.9% of ENGL when incorporating overlapping debt associated with the MDC.

DEBT STRUCTURE

All of the town's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The town maintains a single-employer defined benefit pension plan for all employees. The town's actuarially determined contribution for the plan was $21.6 million in fiscal 2018 representing approximately 6.8% of operating expenditures. While the reported funding ratio is a low 44.7%, the town has made a number of changes over the past decade, mostly for new employees, to ensure the pension plan liability remains manageable. These changes include extending the retirement age for non-public safety employees, modifying 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 was reduced to 7.25% from 7.5% in fiscal 2019 and will be decreased to 7% in fiscal 2020.

The town's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $429.8 million representing an average 1.3 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 $28.8 million in 2018. Inclusion of the town's share of the TRS ANPL in adjusted liabilities would bring the Town's ANPL to $975 million, representing a high 10.9% of full value and 3.1 times operating revenues. Notably, any changes to the current funding structure would require approval by the state legislature.

In fiscal 2017, the town funded 100% of the annual required contribution for Other Post-Employment Benefits (OPEB). The annual required contribution of $12.2 million represented 3.8% of total expenditures. The town's current unfunded OPEB liability is approximately $174.4 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.

Fixed costs (comprised of debt service, OPEB contributions and required pension payments) will continue to remain moderate but manageable. In fiscal 2018, these costs were 18% of operating fund expenditures. Significant increases in fixed costs or failure to improve the pension plan's funded ratio would lead to negative credit pressure.

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 formally adopted financial policies and long-term capital planning.

Connecticut Cities have an Institutional Framework score of Aa, which is high. 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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