

CREDIT OPINION

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New Issue

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West Hartford (Town of) CT

New Issue - Moody's Assigns Aaa to West Hartford, CT's GO Bonds; Outlook Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the town of West Hartford's (CT) \$17 million General Obligation Bonds, Series 2017A. Concurrently, Moody's has affirmed the Aaa rating on approximately \$133 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 overall 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
- » Uncertainty surrounding state aid funding

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. However, weakening of reserves or wealth and income levels or increases in leverage (pension or debt) would put pressure on the town's rating.

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	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$ 7,244,492	\$ 8,400,921	\$ 9,035,909	\$ 9,156,173	\$ 9,323,512
Full Value Per Capita	\$ 114,706	\$ 132,632	\$ 142,531	\$ 144,720	\$ 147,365
Median Family Income (% of US Median)	166.1%	164.8%	169.8%	169.8%	169.8%
Finances					
Operating Revenue (\$000)	\$ 255,901	\$ 259,557	\$ 267,153	\$ 274,642	\$ 284,762
Fund Balance as a % of Revenues	8.3%	8.2%	8.6%	8.7%	8.9%
Cash Balance as a % of Revenues	8.7%	11.8%	16.6%	16.9%	16.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 96,820	\$ 133,085	\$ 140,830	\$ 149,280	\$ 148,675
Net Direct Debt / Operating Revenues (x)	0.4x	0.5x	0.5x	0.5x	0.5x
Net Direct Debt / Full Value (%)	1.3%	1.6%	1.6%	1.6%	1.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.7x	0.9x	1.1x	1.2x	1.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.6%	2.8%	3.2%	3.5%	4.0%

June 30th year end. Financial metrics reflect the General Fund and Debt Service Fund. Fund balance reflects available fund balance.

Source: Town's audited financial statements, Moody's Investors Services

Detailed Rating 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 or full value expanded at a compounded annual growth rate of 5.5% over the last five years capturing property value appreciation as well as some residential and commercial growth. The town's assessed value has had a long track record of continuous growth and this trend is anticipated to continue in fiscal 2018 as the town is in the process of completing a state mandated revaluation. The town expects a strong 5.4% growth in real property, driven by robust growth in the commercial properties. West Hartford is characterized by a diverse economic base (75% residential, 16% commercial and industrial) with low taxpayer concentration of 4.8% of assessed value 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 the Spring of this year.

West Hartford remains well-poised for growth moving forward. Highlighting demand across the town are five residential projects comprised of 342 units that were completed in 2016. In addition, the town reports a number of other projects, that have been approved, are pending approval, or are under construction that will contribute to the future growth of the town. This includes the \$100+ million, 310 unit Arcadia Crossing multi-family housing project which was approved in January 2016.

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 for the most updated credit rating action information and rating history.

Wealth and income levels are below the medians for Aaa rated municipalities. Per capita and median family incomes represent 171% and 170% of the nation, respectively. Housing values in the town are strong as evidenced by a robust equalized value per capita of \$147,365 (166% of the US median). As the wealth and income levels are at the low end of the range for similarly rated credits, deterioration of these metrics would put downward pressure on the town's credit profile. Due to its favorable location, the town's unemployment rate (2.6%, November 2016) remains below the state (3.7%) and the nation (4.4%).

Financial Operations and Reserves: Stable Finances; Strong Management and Policies Support Rating

The town's financial position will likely 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 remain 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 (81.5% of 2016 revenues) provides an additional layer of financial flexibility and is favorably incorporated into the rating.

In fiscal 2015, year end results were favorable with an \$850,000 addition to Operating Funds 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. Total Operating Funds balance increased to \$24 million, or an adequate 8.7% of revenues.

The town maintained stable operations in fiscal 2016, increasing its Operating Funds balance by \$1.3 million. The town achieved positive expenditure variances in the General Fund from the amended budget in education (\$747,000), debt and sundry (\$668,000). Property taxes exceeded the final budgeted amounts by over \$500,000 while state and federal aid was nearly \$400,000 less than accounted for in the final budget. Notably, amendments were made to the adopted budget during the fiscal year, increasing the total appropriations by \$5.5 million, much of which was used to transfer current year operating surpluses to various funds for capital, debt service, and utilities. Absent these transfers, many of which were discretionary in nature, the surplus would have been over \$5 million. Fiscal year end available Operating Funds reserves were \$25.2 million or 8.9% of revenues.

The town's fiscal 2017 budget grew 3.9% over the adopted fiscal 2016 budget and includes a 2.5% increase in the property tax levy (current year) and does not include the use of fund balance or one time revenues. Growth drivers include a 3.5% increase in education spending and a \$2.6 million increase in pension payments due to updated actuarial assumptions including a lower discount rate. Although the town is facing incremental fiscal pressure from state aid cuts and a set aside of \$1.8 million, in fiscal 2018, for the town's portion of a reserve fund for the Hartford County Metropolitan District, CT (Aa2 negative), the town has indicated that between positive variances and expenditure reduction plans, they intend to absorb all of these additional costs. The MDC reserve was created in the event Hartford, a financially distressed city, would miss its July and October quarterly sewer charges. The payment to the reserve fund would not be due until October and if Hartford made its payments, the reserve would be returned to the town. Year to date the town's operating performance is favorable relative to the amended budget and the town is implementing various cost saving measures. Currently management conservatively estimates a surplus, however management has indicated in the event the surplus in the General Fund is insufficient to cover the MDC reserve, the town would utilize funds outside of the General Fund to cover any shortfall.

In addition to Operating Funds reserves, the town's financial position is strengthened by available reserves held outside those two operating funds. These reserves include the Retiree Health Reserve (\$11.9 million), Capital Non-Recurring Fund (\$3.8 million), Self-Insured Reserve (\$1.6 million), and a Utility Reserve (\$1.3 million). Including these funds with the available Operating Funds, the town's fiscal 2016 reserve balance was \$43.8 million, or a satisfactory 15.4% of revenues. Maintenance of healthy reserve levels outside of the Operating Funds is a key consideration in our rating given the below average General Fund balance.

LIQUIDITY

Operating Fund liquidity was stable in fiscal 2016 with net cash at \$46.4 million or a satisfactory 16.3% of revenues

Debt and Pensions: Affordable Debt Levels; Manageable Pension and OPEB Liabilities

West Hartford's direct debt burden of 1.6% (of ENGL) is elevated for the rating level and further increases in the debt burden would cause us to reassess the rating. However, these debt levels are manageable given the town's rapid principal payout of 86% 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 \$209 million through fiscal 2028 with \$170 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 which limits debt service to a manageable 10% of General Fund expenditures, however the town targets 8% or less. Fiscal 2016 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 2.9% (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 17% 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 \$17.9 million in fiscal 2016, or approximately 6.3% of General Fund expenditures. While the reported funding ratio is 43% 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 town's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$369.4 million, or an average 1.3 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 2016 the town funded 96% of the annual required contribution for Other Post-Employment Benefits (OPEB). The annual required contribution of \$11.3 million was equal to 4% of total expenditures. The town's 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 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.

Legal Security

The bonds are a general obligation of the town.

Use of Proceeds

The proceeds of the bonds will be used to finance various town and school capital projects including a radio system replacement project, road projects and town building improvements.

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 December 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

West Hartford (Town of) CT

Issue	Rating
General Obligation Bonds, Series 2017A	Aaa
Rating Type	Underlying LT
Sale Amount	\$17,000,000
Expected Sale Date	02/02/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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