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INVESTORS SERVICE

CREDIT OPINION

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✓ Rate this Research

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West Hartford (Town of) CT

Update to credit analysis

Summary

West Hartford, CT (Aaa stable) benefits from a large and growing tax base with a strong resident income and wealth profile. The town's reserves are below state and national medians but have been stable and the town maintains additional financial flexibility with reserves outside its operating funds. Debt and pension liabilities are slightly elevated but will remain manageable due to long-term planning and proactive management of pension and OPEB liabilities.

Credit strengths

- » Large, growing tax base with sound income and wealth metrics
- » Stable financial position
- » Proactive management of pension and OPEB liabilities

Credit challenges

- » Reserves are below state and national Aaa medians
- » Low pension funded ratio and large unfunded liability

Rating outlook

The stable outlook reflects the expectation that the town's financial position will remain stable given conservative budgeting practices and formally adopted policies. The town's tax base will benefit from ongoing development projects, which will support property tax revenue growth. The outlook also incorporates the town's proactive management of long-term liabilities and the expectation that the pension plan's funded ratio will continue to increase.

Factors that could lead to an upgrade

» N/A

Factors that could lead to a downgrade

- » Declines in reserves
- » Increased debt burden beyond current projections
- » Failure to reduce unfunded pension liability
- » Significant declines in tax base or resident income or wealth profile

Key indicators

Exhibit 1

West Hartford (Town of) CT	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$8,556,847	\$8,591,093	\$8,634,838	\$8,981,615	\$9,605,647
Population	63,288	63,187	63,360	63,268	63,268
Full Value Per Capita	\$135,205	\$135,963	\$136,282	\$141,961	\$151,825
Median Family Income (% of US Median)	171.7%	176.4%	176.0%	176.0%	176.0%
Finances					
Operating Revenue (\$000)	\$274,642	\$284,762	\$307,022	\$321,924	\$309,948
Fund Balance (\$000)	\$24,027	\$25,207	\$25,376	\$29,086	\$29,633
Cash Balance (\$000)	\$46,385	\$46,407	\$47,292	\$53,171	\$47,582
Fund Balance as a % of Revenues	8.7%	8.9%	8.3%	9.0%	9.6%
Cash Balance as a % of Revenues	16.9%	16.3%	15.4%	16.5%	15.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$149,280	\$148,675	\$150,455	\$147,085	\$139,675
3-Year Average of Moody's ANPL (\$000)	N/A	\$369,387	\$389,044	\$422,710	\$448,975
Net Direct Debt / Full Value (%)	1.7%	1.7%	1.7%	1.6%	1.5%
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 (%)	N/A	4.3%	4.5%	4.7%	4.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.3x	1.3x	1.3x	1.4x

Source: Moody's Investors Service, town CAFRs

Profile

West Hartford is located in central Connecticut, adjacent to the City of Hartford. The town has approximately 63,268 residents and population has been relatively stable over the last decade.

Detailed credit considerations

Economy and tax base: large tax base with ongoing development

The town's sizeable \$9.6 billion equalized net grand list (ENGL) will remain stable with moderate growth expected over the medium term. The ENGL has expanded at a compound annual rate of 1.3% over the last five years capturing property value appreciation as well as some residential and commercial development. The town has experienced grand list (or assessed value) growth in at least 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 5.7% of the grand list.

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West Hartford's tax base will continue to expand given several development projects currently underway, including several retail and commercial developments and the \$283 million redevelopment project of the former University of Connecticut campus. Several apartment and single family developments have begun construction and will contribute to growth moving forward. Building permits have remained strong in recent years, supporting grand list growth.

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 169.5% and 176% of national levels, respectively. Housing values in the town are strong as evidenced by a robust equalized value per capita of \$151,825. The town's unemployment rate of 2.6% as of November 2019 is below the state and national rate of 3.3%.

Financial operations and reserves: stable, but narrow, reserve position

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. Given below average reserve levels, maintenance of the current rating 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 84.1% of 2018 revenues, provides additional financial flexibility.

In fiscal 2019, operations were relatively balanced, ending with \$29.6 million in available fund balance representing 9.6% of operating revenues. In addition to its available operating fund balance, the town maintains \$23 million in available reserves in other funds.

The town's fiscal 2020 budget represents a 3% increase over the prior year's budget and includes a 0.8 mill rate increase. Budgetary growth is largely driven by increased pension and OPEB funding. The budget does not include the use of any fund balance.

Going into 2021, the town continues to look for cost saving measures, review best practices and explore regional agreements for capital needs and shared services. The town also maintains a five year fiscal plan, which projects balanced budgets through fiscal 2025. 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 2019 with net cash at \$47.6 million representing a satisfactory 15.4% of revenues.

Debt and pensions: moderate long-term liabilities and fixed costs; proactive funding of OPEB liabilities

West Hartford's direct debt burden of 1.4% 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, current and projected debt levels are manageable given the town's rapid principal payout with 86% 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 \$210.6 million through fiscal 2031 with \$161.4 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 2019 debt service costs were 7.3% 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 3.7% 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 derivative agreements.

PENSIONS AND OPEB

West Hartford's unfunded pension and retiree healthcare (OPEB) liabilities are larger than its debt and, though manageable at this time could become a credit pressure in the future.

The town maintains a single employer, defined benefit plan for all employees. The town's Moody's adjusted net pension liability (ANPL), based on a 3.5% discount rate, is \$508.9 million, or 1.6 times operating revenues or 5.6% of full value. By comparison, the town's reported net pension liability, based on a 7.1% discount rate, is \$264.8 million. The town pays 100% of the actuarial determined contribution annually and contributions in recent years have met or been slightly below our "tread water" indicator¹.

The plan is funded at just 40.1% as of July 1, 2019. However, the town has proactively lowered the discount rate in recent years and plans to continue reducing it by at least 12.5 basis points per year for the next three years. Given recent reductions in the discount rate and utilization of updated mortality tables, the town's actuarial required contribution will increase \$1.1 million in fiscal 2021 to \$26.3 million and increase at a more moderate pace thereafter.

The table below summarizes West Hartford's debt and unfunded Pension and OPEB liabilities.

Exhibit 3

2019	(000)	% of Operating Revenues	Discount Rate
Operating Revenue	309,948	n/a	n/a
Reported Unfunded Pension Liability	264,815	85%	7.13%
Moody's Adjusted Net Pension Liability	508,896	164%	3.51%
Reported Net OPEB Liability	173,018	56%	
Moody's Adjusted Net OPEB Liability	271,730	88%	
Net Direct Debt	139,675	45%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	920,301	296.92%	
Pension Contribution	23,880	7.70%	n/a
OPEB Contribution	12,551	4.05%	n/a
Debt Service	22,420	7.23%	n/a
Total Fixed Costs	58,851	18.99%	n/a
Tread Water Gap	n/a	n/a	n/a
Moody's Adjusted Fixed Costs	n/a	n/a	n/a

The town's 2019 tread water gap is not yet available. Over the three prior years, the town contributed an average of 97.6% of the tread water indicator.
Source: Moody's Investors Service, Town CAFRs

The town has established an OPEB trust and continues to increase contributions annually, a credit positive. As of June 30, 2019, the trust totaled \$7.2 million. In fiscal 2019, the town contributed \$12.6 million, which represented 88% of the actuarial determined contribution. Recent increases in OPEB contributions and additions to the trust are credit positives for the town.

Fixed costs are moderate at 19% of operating revenues. Failure to earn the assumed rate of return on pension assets and rising OPEB expense as the number of retirees increases and they age could result in higher fixed costs in the future.

Management and governance

West Hartford's strong financial management is reflected in its adherence to formally adopted financial policies, long term planning and stable financial performance.

Connecticut cities 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 state-wide 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.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 5

West Hartford (Town of) CT

Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$9,605,647	Aa
Full Value Per Capita	\$151,825	Aaa
Median Family Income (% of US Median)	176.0%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	9.6%	A
5-Year Dollar Change in Fund Balance as % of Revenues	2.1%	A
Cash Balance as a % of Revenues	15.4%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	1.0%	A
Notching Factors: ^[2]		
Other Analyst Adjustment to Finances Factor: Reserves outside GF; stable operating performance		Up
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Notching Factors: ^[2]		
Unusually Strong or Weak Budgetary Management and Planning		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.4%	Aa
Net Direct Debt / Operating Revenues (x)	0.4x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	4.7%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.4x	A
Notching Factors: ^[2]		
Other Analyst Adjustment to Debt and Pensions Factor (specify): Contingent risk associated with state pension support		Down
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: US Census Bureau, Moody's Investors Service

Endnotes

- Our "tread water" indicator measures the annual government contribution required to prevent reported net pension liabilities from growing, given the entity's actuarial assumptions. An annual government contribution that treads water equals the sum of employer service cost and interest on the reported net pension liability at the start of the fiscal year. A pension plan that receives an employer contribution equal to the tread water indicator will end the year with an unchanged net pension liability relative to the beginning of the year if all plan assumptions hold. Net liabilities may decrease or increase in a given year due to factors other than the contribution amount, such as investment performance that exceeds or falls short of a plan's assumed rate of return. Still, higher contributions will always reduce unfunded liabilities faster, or will allow unfunded liabilities to grow more slowly than lower contributions.

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MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Aaa to West Hartford, CT's GO Bonds, Ser. 2020; outlook stable

27 Jan 2020

New York, January 27, 2020 -- Moody's Investors Service has assigned a Aaa rating to the Town of West Hartford, CT's \$17 million General Obligation Bonds, Series 2020A. Moody's maintains a Aaa on the town's outstanding parity debt. The outlook is stable.

RATINGS RATIONALE

The Aaa rating reflects the town's sizable and growing tax base, strong resident income and wealth profile, stable financial position and moderate long-term liabilities. While the town's general fund reserves are below state and national medians, this is mitigated by long-term stability in reserves, formally adopted policies and proactive management.

RATING OUTLOOK

The stable outlook reflects the expectation that the town's financial position will remain stable given conservative budgeting practices and formally adopted policies. The town's tax base will benefit from ongoing development projects, which will support property tax revenue growth. The outlook also incorporates the town's proactive management of long-term liabilities and the expectation that the pension plan's funded ratio will continue to increase.

FACTORS THAT COULD LEAD TO AN UPGRADE

- N/A

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Declines in reserves
- Increased debt burden beyond current projections
- Failure to reduce unfunded pension liability
- Significant declines in tax base or resident income or wealth profile

LEGAL SECURITY

The bonds are secured by the town's pledge of its full faith and credit supported by its authority to levy ad valorem property taxes without limit as to rate or amount.

USE OF PROCEEDS

Bond proceeds will fund various capital improvements, including projects for the schools, stormwater management, streets and public safety.

PROFILE

West Hartford is located in central Connecticut, adjacent to the City of Hartford. The town has approximately 63,268 residents and population has been stable over the last decade.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in September 2019. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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