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Ratings

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Summary:
West Hartford, Connecticut; General Obligation

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Credit Profile		
US$17.0 mil GO bnds ser 2020A due 01/15/2035		
Long Term Rating	AAA/Stable	New
West Hartford Twn GO		
Long Term Rating	AAA/Stable	Affirmed
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Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to West Hartford, Conn.'s series 2020A 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.

Security and use of proceeds

West Hartford's full faith and credit pledge, payable from the levy of an unlimited ad valorem tax on all taxable property in the town, secures the bonds and GO debt outstanding.

Proceeds from the series 2020 bonds will fund several capital projects outlined in the town's capital improvement plan (CIP). The bonds are level principal amortization maturing in 15 years, in accordance with its debt management policies.

Credit overview

West Hartford has a very strong set of financial policies and controls that are institutionalized and embedded into its overall financial management, and, in our view, is a key factor contributing to its ability to sustain budgetary balance through a period of slow economic growth statewide and past state aid revenue pressures. We expect the town to maintain a steady pace of modest economic growth and a manageable debt profile over the two-year outlook period. In our view, these factors will allow it to maintain strong flexibility and liquidity to guard against potential state-level fiscal pressures, which we note remains a budgetary consideration, particularly if economic deterioration occurs. We note the town maintains elevated fixed costs related to low-funded pension and other postemployment benefit (OPEB) liabilities, potentially challenging finances and overall credit fundamentals beyond the outlook period. However, management maintains a record of accomplishment in addressing these challenges and costs so as not to affect its overall financial position. Officials have been proactive over several years in the management of these long-term legacy liabilities.

West Hartford's GO debt is 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), West

Hartford has a predominantly locally derived revenue source, with approximately 84% of general fund revenue coming from property taxes. The town also has independent taxing authority and independent treasury management from the federal government.

The rating reflects our opinion of the following factors for West Hartford, specifically its:

- 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 2019;
- Strong budgetary flexibility, with an available fund balance in fiscal 2019 of 13.6% of operating expenditures;
- Very strong liquidity, with total government available cash at 17.8% of total governmental fund expenditures and 2.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 6.6% of expenditures and net direct debt that is 39.5% of total governmental fund revenue, as well as rapid amortization, with 81.6% of debt scheduled to be retired in 10 years, but a large pension and 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 63,360, is a largely developed and suburban residential community, bordering Hartford in Hartford County. It is in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 170% of the national level and per capita market value of $143,771. Overall, market value was stable over the past year at $9.1 billion in 2020.

Interstate Highway 84 traverses the town, connecting residents with a diverse regional employment base. Although the tax base is primarily residential, West Hartford hosts a substantial local commercial base and is a retail and restaurant destination for the region. The local economy also features employers in government, health care, higher education, and manufacturing. With an estimated average local unemployment rate of just 2.9% (January through September 2019), we believe the town's unemployment characteristics compare favorably with the county's, the state's, and the nation's averages.

Due to the desirability of the community's service base, the town has experienced steady appreciation in real estate values; the median home prices have ticked up modestly to $315,000, which is above the county and state home median values.

West Hartford also continues to experience diversified residential and commercial development activity, contributing to a steady increase in building permit revenue and tax base growth. Notably, Ideanomics--a financial technology company--purchased the 58-acre former University of Connecticut campus. The $283 million redevelopment proposal will include a mixed-use fintech village with office, research and development, retail, and residential space. When complete, the village projects to host 15 companies and generate 330 jobs. Remediation and demolition of the site is underway. In addition, several ongoing commercial projects will continue to expand West Hartford retail offerings, and a number of large-scale residential developments are in various stages of planning and construction.

Overall, credit conditions as they pertain to the macroeconomic environment are stable and we do not anticipate any deterioration over our two-year outlook period. Therefore, due to the overall strength and diversity of the town's local tax base and its embeddedness in the broader regional economy, we expect West Hartford's economic profile to remain very strong.

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.

Demonstrating the town's key budgeting practices is management's use of three-to-five years of historical data to forecast annual revenue and expenditure assumptions. In preparing its annual budget, management conducts a line-item review of each department's annual operation request; prioritizes operating expenditures, including future debt service and long-term liability costs; and incorporates changes in contractual obligations. Due to uncertainty of state aid in recent years, finance officials conservatively estimate revenue from this source, and management solicits department input on local fees and charges for services.

During each fiscal year, management monitors the budget regularly, reporting budget-to-actual results to the town council monthly. Furthermore, West Hartford adheres to its formal investment policy and reports earnings and holdings monthly to the town council. The town also has a comprehensive five-year financial forecast in its budget development process, which features analysis of key revenue and expenditure assumptions and tests budget performance under various conditions; this allows the town to manage decisions and changes related to future operations, capital projects, and debt service.

West Hartford also maintains a strong focus on capital planning, as evidenced by its 12-year comprehensive CIP that identifies capital and nonrecurring capital expenditures. The town updates its CIP annually and details pay-as-you-go funding requirements, intergovernmental grants and reimbursements, and debt financing of all capital projects. Furthermore, management has historically met and sustained reserves in accordance with its fund balance policy. The formal policy calls for unassigned fund balance to stay between 7.5%-15% of general fund expenditures to manage financial resources to maintain current service levels in the event of unexpected revenue shortfalls or unpredicted one-time expenditures. In accordance with the policy, should funds fall below 7.5%, the town will take necessary steps to restore unassigned fund balance to at or above the minimum target level.

West Hartford also sustains a formal debt management policy, which stipulates the use of certain debt instruments and reporting requirements. The policy formalizes measurable debt benchmarks and metrics, including annual debt service that will be no more than 10% of general fund expenditures and that debt amortization will not be less than 65% of principal being retired over 10 years. The town has historically monitored and sustained debt management practices in accordance with this policy.

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 slight surplus results across all governmental funds of 0.9% in fiscal 2019. General fund operating results of the town have been stable over the last three years, with results of 0.2% in 2018 and 0.2% in 2017.

We expect West Hartford to maintain strong budgetary performance over the next several years, largely due to its comprehensive budgeting development and monitoring framework, as well as its forward-looking expenditure and fixed-cost planning. The town's forward-looking budget projection shows stable performance through 2025--with reasonable and prudent assumptions related to tax base growth, state aid, and pension and OPEB contributions.

Like many municipalities in Connecticut, the school budget accounts for a significant portion (approximately 61% for fiscal 2019) of West Hartford's general fund expenditures. We understand that the town exhibits a collaborative relationship between its board of education and municipal government to develop, monitor, and make timely adjustments to the budget, which we view positively.

Furthermore, changes in the tax rate have been consistent and timely to match West Hartford's expenditure needs. The town benefits from an overall stable and strong property tax base, which generated approximately 84% of general fund revenue in fiscal 2019. In addition, tax collections have remained strong, exceeding 99% since 2011. Intergovernmental (state) sources represent the second-highest share of general fund revenue at 13% (including on-behalf pension contributions), while charges for services constitute about 1.8%. Although statutory aid accounts for almost one-fifth of West Hartford's general fund revenue, we believe the town has exhibited the willingness to adjust the budget midyear if necessary to maintain at least balanced operations, particularly during times of state fiscal uncertainty.

The fiscal 2020 budget is balanced, with no use of one-time revenues or fund balance, and totals $296 million, an increase of 2.9% over the previous year. The budget assumes level state aid from the previous year, and an increase in the tax levy of 1% (0.8 mills). Currently, management is projecting balanced operations in line with previous years. Beyond our outlook period, we recognize growing pension and OPEB liabilities as an ongoing budget challenge for the town, although we understand it has undertaken significant reforms and long-term planning, including a 10-year pension and OPEB funding plan to increase predictability of these costs over time and reduce unfunded liabilities.

Strong budgetary flexibility

West Hartford's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2019 of 13.6% of operating expenditures, or $41.6 million. The available fund balance includes $26.8 million (8.7% of expenditures) in the general fund and $14.9 million (4.9%) that is outside the general fund but legally available for operations.

Although it has operated in a less certain statutory aid environment in recent years, West Hartford has demonstrated the ability, when necessary, to raise local revenue from its robust property tax base and appropriate fund balance for contingency purposes to alleviate pressure on its general fund. As a result, the town has outperformed revenue and expenditure projections in each of the past three years, increasing reserves roughly 24% in that time. As noted above, further enhancing our view of the stability of West Hartford's fund balance is the town's formal reserve policy that sets a minimum reserve level at 7.5% of expenditures.

While our assessment factors in committed fund balances, we note that the town has traditionally committed recent surpluses as stabilization reserves to its capital nonrecurring expenditure fund (approximately $5.3 million), debt service fund (about $1.5 million), utility service fund ($1.7 million), and tax overpayments reserve ($0.9 million). We generally view these other governmental fund reserves as part of the overall reserve capacity of the town, which indirectly alleviates reliance on available general fund balance or transfers to address potential volatility in budgetary performance.

In addition, we believe that, in keeping with its traditionally conservative budgeting practices, West Hartford will likely continue to budget for balanced operations annually, and it will make intrayear expenditure and revenue adjustments to outperform the budget at year-end. Based on the town's projections to finish fiscal 2020 with a surplus and to maintain, at least, balanced operating results annually, we believe West Hartford will sustain reserves at strong levels over the next two years.

Very strong liquidity

In our opinion, West Hartford's liquidity is very strong, with total government available cash at 17.8% of total governmental fund expenditures and 2.6x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

West Hartford is a regular market participant that has issued debt periodically over the past 20 years, including GO bonds. Furthermore, with the majority of cash invested in liquid money market funds, certificates of deposit, and the state investment pool, which maintain maturities of less than one year, we believe its investments are not aggressive.

In addition, we understand West Hartford has not entered into bank loans, direct-purchase debt, or contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. Given its strong overall cash position and historically stable budgetary environment, we believe West Hartford's liquidity profile should remain very strong.

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 6.6% of total governmental fund expenditures, and net direct debt is 39.5% of total governmental fund revenue. Approximately 81.6% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

West Hartford has approximately $135.2 million of total direct debt outstanding. Our assessment of the town's overall net debt takes into account its proportionate share of overlapping debt--totaling $215 million--related to the Metropolitan District Commission, a special district in Hartford County to provide water and sanitary sewer services to eight member towns. As outlined in West Hartford's 12-year CIP, it expects to issue about $27 million in bonds over the next two years. The town expects to retire all current debt outstanding by 2035. Therefore, due to what we believe to be rapid amortization of existing debt--management generally strives to retire debt at an amount equal to the amount that it will issue--we do not expect West Hartford's direct debt profile to change materially over the near term.

Pension and other postemployment benefits

- In our opinion, a credit weakness is West Hartford's large pension and OPEB obligation, particularly given the pension system and OPEB trust low funded ratios.
- While the use of an actuarially determined contribution (ADC) is a positive, we believe some of the assumptions previously used to build the pension ADC reflect what we view as slightly weak assumptions and methodologies, which increases the risk of unexpected contribution escalations.
- Although OPEB liabilities are reasonably well funded, and costs remain low, we believe there is a large liability and those will likely continue and increase.
- We view this a long-term challenge, but recognize management's efforts in reviewing the pension and OPEBs' underlying assumptions and making prudent changes to mitigate the town's exposure of these liabilities.

As of June 30, 2019, the town participates in the following pension plan:

- West Hartford Contributory Retirement System: 44.4% funded with a $264.8 million net pension liability.

West Hartford's combined required pension and actual OPEB contributions totaled 10.8% of total governmental fund expenditures in 2019. Of that amount, 7.0% represented required contributions to pension obligations, and 3.7% represented OPEB payments. The town made its full annual required pension contribution in 2019. It funds 100% of pension ADCs, but we note that the town met our static funding metric in the most recent year but did not meet the minimum funding progress calculation, indicating that the system is addressing current costs but not fully making headway addressing its unfunded liabilities. Moreover, the plans' 27-year, closed amortization, and its level 2.5% of payroll amortization could result in slow funding progress. In our view, a discount rate above 6.5% could lead to contribution volatility.

We acknowledge management has been proactively managing these liabilities by modifying the actuarial assumptions, including the mortality tables and the discount rate. Indeed, the town is likely to continue to reduce the discount rate (currently at 6.99%) by 0.125 points per year for the next three years.

These changes have been prudent, although the unfunded liability has increased as a result, reflecting these more conservative assumptions. Management has developed a 10-year pension funding forecast and implemented various adjustments to its pension plan for employees over the past several years, including extending the retirement age, increasing employee contributions, and developing a hybrid pension plan for all town unions (except public safety). West Hartford plans to continue meeting 100% of its pension requirements each year and projects its pension funding will improve to roughly 50.8% by 2031.

The town also provides medical benefits to eligible retirees and covered dependents. West Hartford contributes the full normal cost for current employees hired since 2003 in addition to prefunding its OPEB liabilities in an OPEB trust fund; the total net position of the trust fund was $7.2 million as of June 30, 2019. It also maintains a retiree health reserve, which had a balance of $13.3 million as of June 30, 2019. The annual OPEB cost to amortize the liability over 30 years was $14.2 million in fiscal 2019, of which the town contributed 88%.

As of June 30, 2019, its net OPEB liability totaled $173 million and was 4% funded. We believe West Hartford continues to actively manage its pension and OPEB liabilities through comprehensive long-term planning, full funding of the ADC on an actuarial basis, and through its working relationship with collective bargaining units.

While we expect long-term liability costs to remain manageable in the current budget environment, should investment returns fall short of assumptions that increase future contribution costs and stress its finances, we could modify our view of the town's debt and financial profiles.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our view of West Hartford'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 increases to pension and OPEB liabilities. Demand for housing remains strong, and developers continue to expand commercial office and retail offerings. We further believe that forward planning and conservative assumptions will sustain a more predictable budget environment that anticipates growth in costs relating to low-funded pension and OPEB plans. For these reasons, we do not expect to change the rating within the two-year outlook period.

Downside scenario

Although we expect the town to address its substantial retirement liabilities in a meaningful way, we could lower the rating should growth in fixed costs associated with debt, pension, and OPEBs overcrowd other general fund expenditures or outpace revenue, leading to a deterioration in budgetary performance and weakened reserves.