

CREDIT OPINION

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West Hartford (Town of) CT

Update to credit analysis

Summary

The credit profile of the [Town of West Hartford](#) (Aaa, stable) reflects the town's substantially sized tax base and strong income indicators, which have both remained healthy and not materially impacted by the pandemic. The town's key economic strength remains its robust local housing market that benefits from being equidistant from New York City and Boston. Former residents from each of those cities have helped to sustain very strong housing prices and sales volume. The town also benefits from its position near Hartford and the institutional presence of the state capitol. The town maintains a stable financial position that in fiscal 2021 saw actual revenues and expenditures in line with budgeted expectations and a minor general fund operating surplus prior to transfers. As with many Connecticut Aaa-rate cities, West Hartford's reserve position is below the median for the rating category, and avoiding any material reduction to fund balance will be key to maintaining the rating. Beneficially, approximately 80% of the town's revenues are derived from stable and predictable property tax receipts and the town also maintains significant reserves outside the general fund that can be used to support operations. For fiscal 2022, the Town currently projects small increase to reserves. Our view of the town's credit also reflects its elevated debt and pension profile.

Credit strengths

- » Sizable tax base with sound income and wealth metrics
- » Stable financial position
- » Funded pension bond reserve fund

Credit challenges

- » Reserves are below Aaa medians
- » Elevated long term liabilities

Rating outlook

The stable outlook reflects the expectation that the town will continue to benefit from tax base expansion, leading to growing property taxes to support fiscal stability.

Factors that could lead to an upgrade

- » N/A

Factors that could lead to a downgrade

- » Declines in reserves
- » Significant decreases in the tax base or income or wealth levels
- » Underperformance of pension assets leading to decreased funded ratio or increased required contributions resulting in loss of budgetary flexibility

Key indicators

Exhibit 1

West Hartford(Town of) CT

West Hartford (Town of) CT	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value (\$000)	\$8,634,838	\$8,907,859	\$9,605,647	\$9,876,620	\$10,107,519
Population	63,360	63,127	63,063	63,063	63,063
Full Value Per Capita	\$136,282	\$141,110	\$152,318	\$156,615	\$160,276
Median Family Income (% of US Median)	176.0%	177.8%	179.1%	179.1%	179.1%
Finances					
Operating Revenue (\$000)	\$307,022	\$321,924	\$309,948	\$331,600	\$332,682
Fund Balance (\$000)	\$25,376	\$29,086	\$29,633	\$34,692	\$33,969
Cash Balance (\$000)	\$47,292	\$53,171	\$47,582	\$48,540	\$50,986
Fund Balance as a % of Revenues	8.3%	9.0%	9.6%	10.5%	10.2%
Cash Balance as a % of Revenues	15.4%	16.5%	15.4%	14.6%	15.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$150,455	\$147,085	\$139,675	\$135,210	\$134,160
3-Year Average of Moody's ANPL (\$000)	\$389,044	\$420,547	\$444,250	\$512,913	\$560,885
Net Direct Debt / Full Value (%)	1.7%	1.7%	1.5%	1.4%	1.3%
Net Direct Debt / Operating Revenues (x)	0.5x	0.5x	0.5x	0.4x	0.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	4.5%	4.7%	4.6%	5.2%	5.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.3x	1.4x	1.5x	1.7x

Source: US Census Bureau, West Hartford (Town of) CT's financial statements and Moody's Investors Service

Profile

West Hartford is located in central Connecticut, adjacent to the City of Hartford (Ba2 positive). The town has approximately 63,360 residents and population has been relatively stable over the last decade.

Detailed credit considerations

Economy and tax base

The town's tax base is sizeable and will remain on a moderate growth trajectory. This is supported by solid growth in building permits, which rebounded to nearly 6,200 in 2021 after two years of decline in 2019 and 2020. This includes a 300 unit housing development, which underscores the strength of the local housing and development market. In addition, the town has returned to pre-pandemic residential and commercial vacancy rates, which has helped give rise to an 11% increase in residential home values.

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. Median family income is a strong 179.1% of the national level. Housing values in the town are strong as evidenced by a robust equalized value per capita of \$160,000.

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.

Financial operations and reserves

The town's financial position is stable though highlighted by reserves that are below the median for the rating level, which is typical for Aaa-rated Connecticut cities. This comparative narrowness of cash and reserves heightens the credit importance of the town maintaining stable and consistent operating performance. Beneficially, approximately 80% of the town's revenues are derived from stable and predictable property tax receipts and the town also maintains significant reserves outside the general fund that can be used to support operations.

Audited results for fiscal 2021 indicate another year of general fund surplus prior to transfers-out for capital projects. On an operating fund basis, inclusive of debt service funds, reserves equaled 10.2% of operating revenue, which was in-line with the 10.5% of fiscal 2020. The cash balance was similarly stable at 15.3% compared to 14.6 in 2020.

For fiscal year 2021, the Town currently projects a small \$200,000 surplus though it will likely produce some expenditures savings to generate a modestly higher surplus.

Debt and pensions

West Hartford's direct debt burden of 1.3% of ENGL is slightly elevated for the rating level.

On July 24, 2021 the town issued \$324 million in pension obligation bonds to fully fund its pension obligations on a reported basis. While the issuance substantially increases pension assets, the town will face increased vulnerability to market volatility and potentially increased required contributions, in the event that assets do not meet investment return assumptions (6.25% discount rate). The town's rating could face negative credit pressure in the event that assets do not meet return expectations and fixed costs increase significantly. However, to reduce the budgetary impacts of such a scenario, the town has created a \$27 million Pension Bond Reserve Fund to mitigate potential increases to annual contributions or debt service.

Reflecting the strength of the community's strategic planning efforts, West Hartford maintains a 12-year capital improvement plan. The plan totals \$331.1 million through fiscal 2033 with \$268.9 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 (excluding payments on pension obligation bonds).

Legal security

The 2022 bonds are general obligations of the Town of West Hartford. The town pledges its full faith and credit, including its ad valorem taxing power, to the payment of principal of and interest on the bonds.

ESG considerations

Environmental

Environmental factors represent a limited risk to West Hartford's credit profile. According to data from compiled by Moody's affiliate Four Twenty Seven, the town is exposed to increasing risk of hurricanes, which can damage infrastructure and affect property values. These exposures are mitigated by the town's revenue and capital raising capacity and federal government support for disaster recovery costs. The town also faces risk of water stress, which could affect economic growth. Water supply issues are mitigated by state and regional water supply initiatives.

Social

Social considerations are key influencers of all local economies, financial and leverage trends and governance stability. Social factors are incorporated into the town's rating by way of wealth (full value per capita) and income (median family income) metrics. The town is proactive in taking steps to prevent and mitigate the impact of cyber events. We consider the coronavirus outbreak to represent social risk under our ESG framework, given the substantial implications for public health and safety.

Governance

Governance is a material consideration for all local government credits. 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 ¹ 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. The two-notch discrepancy between the scorecard indicated rating and the assigned rating reflects the capacity of the city to raise revenues from a wealthy and sizeable resident and tax base.

Exhibit 2

West Hartford (Town of) CT

West Hartford (Town of) CT

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$10,107,519	Aa
Full Value Per Capita	\$160,277	Aaa
Median Family Income (% of US Median)	179.1%	Aaa
Notching Factors: ^[2]		
Institutional Presence		Up
Finances (30%)		
Fund Balance as a % of Revenues	10.2%	A
5-Year Dollar Change in Fund Balance as % of Revenues	2.6%	A
Cash Balance as a % of Revenues	15.3%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	1.4%	A
Notching Factors: ^[2]		
Other Scorecard Adjustment Related to Finances:		Up
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	4.5%	Baa
Net Direct Debt / Operating Revenues (x)	1.4x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	5.5%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.7x	A
Notching Factors: ^[2]		
Other Scorecard Adjustment Related to Debt/Pensions		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, Town of West Hartford's financial statements and Moody's Investors Service

Endnotes

- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(July 2020\)](#) methodology report for more details.

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