S&P Global
Ratings

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Summary:
West Hartford, Connecticut; General Obligation

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Summary:

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Credit Profile		
US$15.0 mil GO bnds ser 2023A due 01/15/2038		
Long Term Rating	AAA/Stable	New
West Hartford Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to West Hartford, Conn.'s series 2023A 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

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 2022 bonds will finance various capital projects.

Credit overview

Highlighting West Hartford's general creditworthiness are its very strong financial management and sustained financial strength over the past decade. The town has actively managed its long-term liabilities and has maintained available reserves and liquidity at very strong levels. It issued pension obligation bonds (POBs) in 2021 to fund its pension system unfunded actuarially accrued liability, and continues to make progress in funding its other postemployment benefit (OPEB) liability. The town reduced the discount rate of the pension plan to a more conservative 6.25% and established a pension bond reserve to manage outyear volatility. Providing credit stability over our outlook horizon are the town's strong financial position and proactive management with a track-record of strong performance through various economic and business cycles.

The 'AAA' long-term rating for the town reflects our view of West Hartford's:

- Strong and diverse tax base with higher-than-average residential incomes and per capita market values, and participation in a broad and diverse metropolitan statistical area (MSA) economy;
- Robust budgeting framework and strong financial policies and practices under our Financial Management Assessment (FMA) methodology, and strong Institutional Framework score;
- Strong budgetary performance over the past decade and maintenance of very strong reserves and liquidity; and
- A weak debt burden reflecting the recent POB issuance; however, current fixed costs are steady and stable, with no

significant future bond issuance plans.

Environmental, social, and governance

We have analyzed the town's environmental, social, and governance (ESG) risks relative to West Hartford's economy, budgetary outcomes, management, and debt and long-term liability profile, and view them to be credit neutral within our analysis.

Outlook

The stable outlook reflects our view that the town will maintain its strong overall financial performance throughout the two-year outlook horizon, supported by a strong economic base and manageable debt and retirement costs.

Downside scenario

We could lower the rating should the town's budgetary performance and reserves unexpectedly deteriorate, leading to a significant weakening of reserves or liquidity to levels no longer commensurate with those of similarly rated peers.

Credit Opinion

Very strong local economic base benefiting from the broader regional economy within the broader Hartford-West Hartford-East Hartford MSA

We believe the town's convenient location remains beneficial for future tax base growth. Although the tax base is primarily residential, West Hartford hosts a substantial local commercial base and is a regional retail and restaurant destination. The local economy also features employers in government, health care, higher education, and manufacturing. The town continues to experience solid residential and commercial development activity, contributing to a steady increase in building permit revenue and tax base growth. Due to the desirability of the community's service base, the town's real estate environment has been robust, with strong appreciation in values. While economic performance has been solid the past few years, we anticipate growth will slow given the broader economic outlook (see "Economic Outlook U.S. Q1 2023: Tipping Toward Recession," published Nov. 28, 2022, on RatingsDirect.) Nevertheless, the regional economy in Hartford County is well-diversified and has proved resilient in past recessions.

Strong budgetary assumptions, monitoring, and capital planning highlight managements strengths

A key area of credit strength is the town's financial management. Financial assumptions are realistic and well grounded. Management uses historical data to forecast annual revenue and expenditure assumptions, but also considers current conditions. Throughout the year, management monitors the budget regularly, reporting budget-to-actual results to the town council monthly. West Hartford also maintains a strong focus on capital and financial planning, as evidenced by its 12-year comprehensive capital improvement program (CIP) that identifies capital and nonrecurring capital expenditures, and its five-year financial forecast that it updates as part of its budget development process. The forecast features analysis of key revenue and expenditure assumptions and tests budget performance under various conditions.

The town is in the process of revising its formal reserve policy to increase the current level of unrestricted fund balance to 16% of audited general fund expenditures. The current policy is for unassigned fund balance to stay between 7.5% and 15% of general fund expenditures. Should funds fall below 7.5%, the town will take necessary steps to restore unassigned fund balance to, or above, the minimum target level. West Hartford also adheres to a formal investment policy with reports of earnings and holdings sent regularly to the town council.

West Hartford's formal debt management policy 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 and does acknowledge the policy will require some revisions following the issuance of the POBs.

Conservative budgeting practices, strong overall reserves, and stable revenues support strong budgetary performance over the next few years despite growing costs

West Hartford has maintained consistent positive financial operations during the decade, which we attribute to conservative budgeting. Since 2010, the town has grown unassigned general fund balance to $28.6 million, or 9.2% of operating expenditures. While not fully included in our scored reserve ratios, it has also traditionally allocated surpluses into various reserves accounts, which indirectly alleviates reliance on available general fund balance and contributes to its very strong liquidity position. In aggregate, West Hartford maintains roughly $25.6 million spread across several funds like the retiree health ($14.6 million), capital nonrecurring fund (approximately $3.0 million balance), and the debt service bond premium (about $4.0 million) reserves. Additionally, for fiscal 2022, the town deposited roughly $26.5 million into a pension bond reserve fund to help manage outyear volatility of its pension costs. In total, we calculate it maintains roughly $80.8 million in total reserves, or 25.9% of expenditures.

The town benefits from an overall stable and strong property tax base, which generated approximately 87% of general fund revenue. Tax collections remain strong, exceeding 99%. The fiscal 2023 budget totals $317.3 million, an increase of 2.8% over the previous year. The budget did not assume any unscheduled draws on reserves and overall performance remains consistent with previous years. Management indicates budget-to-actual results are currently on target to achieve a budgetary surplus upward of $2.3 million.

Manageable debt profile with limited future debt plans that will materially affect current ratios

West Hartford has approximately $456 million of total direct debt outstanding, including the POBs. Our assessment of the town's overall net debt includes its proportionate share of overlapping debt--totaling $94.1 million--related to the Metropolitan District Commission, a special district in Hartford County providing water and sanitary sewer services to eight member towns. While the debt burden is comparatively weak following the POB issuance, fixed costs remain steady, and will not materially change over the next few years. As outlined in West Hartford's 12-year CIP, it expects to issue upward of $20 million in bonds annually over the next several years for capital-related purposes.

Proactive management of long-term liabilities will lead to manageable cost escalations

The town participates in the West Hartford Contributory Retirement System. The fiscal 2022 audit reports that the net pension liability is $119.3 million with an 80.3% net pension funded ratio. However, the town deposited the last installment of the pension bond proceeds into the trust (approximately $65 million) after the fiscal year ending date, which increased the funded ratio to 93% per the town's draft valuation report. As noted, management reduced the discount rate of the pension plan to a more conservative 6.25% and established a pension bond reserve fund to manage market volatility.

The town also provides medical benefits to eligible retirees and covered dependents. As of June 30, 2022, its net OPEB liability totaled $230 million and was 5.9% funded. The town is making progress in addressing its OPEB liability, and we note costs remain low. 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. We note the town's retiree health reserve provides additional budgetary flexibility to manage these costs.

Rating above the sovereign

Under our criteria, "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013, we rate West Hartford higher than the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario, based on its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention.

West Hartford, CT -- Key Credit Metrics

	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	161			
Market value per capita ($)		148,283	145,946	145,518
Population			62,287	62,519
County unemployment rate(%)			6.5	
Market value ($000)	9,922,402	9,236,109	9,090,563	9,097,612
Ten largest taxpayers % of taxable value	4.9			
Strong budgetary performance				
Operating fund result % of expenditures		8.3	(0.3)	0.9
Total governmental fund result % of expenditures		8.0	(0.7)	1.1
Strong budgetary flexibility				
Available reserves % of operating expenditures		14.4	14.3	13.8
Total available reserves ($000)		45,510	47,298	44,947
Very strong liquidity				
Total government cash % of governmental fund expenditures		27	24	18
Total government cash % of governmental fund debt service		246	386	309
Very strong management				
Financial Management Assessment	Strong			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		6.8	6.2	5.8
Net direct debt % of governmental fund revenue	118			
Overall net debt % of market value	6.8			
Direct debt 10-year amortization (%)	46			
Required pension contribution % of governmental fund expenditures		7.7		

West Hartford, CT -- Key Credit Metrics (cont.)				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
OPEB actual contribution % of governmental fund expenditures		4.9		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022