

# RatingsDirect®

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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 2024A due 01/15/2039

<i>Long Term Rating</i>	AAA/Stable	New
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West Hartford Twn GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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## Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to West Hartford, Conn.'s \$15 million general obligation (GO) bonds, series 2024A.
- 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 2024 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. Providing credit stability over our outlook horizon is the town's stable financial position and track record of strong performance through various economic and business cycles. The fiscal 2023 draft audited general fund result was positive with management doing well controlling costs and producing favorable budgetary variances, increasing available reserves to 9.9% of operating expenditures. For fiscal 2024, the town is anticipating another sizable operating surplus as it works toward gradually increasing its general fund reserve balance to its revised fund balance policy of 16% of operating expenditures, levels more in line with state 'AAA' medians.

Factors supporting the 'AAA' rating 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 strong reserves and liquidity with the goal to increase them further over the coming years; and
- 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 West Hartford's environmental, social, and governance (ESG) risks relative to its 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**

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. Q2 2024: Heading For An Encore," published March 26, 2024, 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 management's 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, it 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 recently revised its formal reserve policy to increase the current level of unrestricted fund balance to 16% of audited general fund expenditures. Any amounts above policy targets the town will use to bolster reserves in other funds. Management has established a credible plan to reach the new target over the coming years.

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 for capital-related borrowing, 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 policy does exclude the 2021 pension bonds from the debt benchmark measurement. The town has historically monitored and sustained debt management practices in accordance with this policy. West Hartford also adheres to a formal investment policy with reports of earnings and holdings sent regularly to the town council.

### **Conservative budgeting practices, strong overall reserves, and stable revenue 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 \$32.2 million, or 9.9% of operating expenditures in 2023. While not fully included in our scored reserve ratios, it has also traditionally allocated surpluses into various other reserve accounts, which indirectly alleviates reliance on available general fund balance and contributes to its very strong liquidity position. In aggregate, West Hartford maintains roughly \$26.2 million spread across several funds like the retiree health fund (\$14.9 million), capital nonrecurring fund (approximately \$4.5 million balance), and the debt service bond premium (about \$3.5 million) reserves. Additionally, the pension reserve fund, used to help manage outyear volatility in its pension costs, maintains a balance of \$27.4 million. In total, we calculate it maintains roughly \$85.9 million in total reserves, or 26.5% of expenditures.

The fiscal 2024 budget totals \$331.4 million, an increase of 4.4% over the previous year. The budget did not assume any unscheduled draws on reserves and overall performance remains consistent with previous years. 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%. Management indicates budget-to-actual results are currently on target to achieve a budgetary surplus upward of \$5.0 million.

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

West Hartford has approximately \$434.8 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. According to the latest actuarial the net pension liability is \$39.2 million with a 93.5% net pension-funded ratio. The discount rate of the pension plan is 6.5%, and the town 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, 2023, its net OPEB liability totaled \$235 million and was 7.1% 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
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	153			
Market value per capita (\$)	163,726			
Population		63,023	62,287	62,519
County unemployment rate(%)		4.3		
Market value (\$000)	10,318,494	9,236,109	9,090,563	9,097,612
Ten largest taxpayers % of taxable value	4.7			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		8.3	(0.3)	0.9
Total governmental fund result % of expenditures		8.0	(0.7)	1.1
<b>Strong budgetary flexibility</b>				
Available reserves % of operating expenditures		14.4	14.3	13.8
Total available reserves (\$000)		45,510	47,298	44,947
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		27	24	18
Total government cash % of governmental fund debt service		246	386	309
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		11.0	6.2	5.8
Net direct debt % of governmental fund revenue	115			
Overall net debt % of market value	6.2			
Direct debt 10-year amortization (%)	52			
Required pension contribution % of governmental fund expenditures		7.7		

**West Hartford, CT -- Key credit metrics (cont.)**

	<u>Most recent</u>	<u>Historical information</u>		
		<b>2022</b>	<b>2021</b>	<b>2020</b>
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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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