

## CREDIT OPINION

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## Town of West Hartford, CT

### Update to credit analysis

#### Summary

The Town of West Hartford's (Aa1 stable) credit profile reflects its robust economy highlighted by strong ongoing development and healthy resident income and full value per capita. The economy is also boosted by its location within the greater Hartford MSA, which is approximately equidistant to New York City and Boston. The town's credit profile also benefits from a capable management team that has implemented prudent financial policies and practices resulting in stable, though narrow cash and reserves. These metrics are below average relative to national medians despite being consistent with typical levels for a Connecticut town. West Hartford's credit position also incorporates its somewhat elevated long-term liabilities and heightened but manageable fixed costs.

On February 20, 2023, Moody's published a press release assigning an Aa1 issuer rating and downgrading the town's outstanding GOULT ratings to Aa1. This action resolved a review for initiated with the release of the US Cities and Counties methodology.

#### Credit strengths

- » Strong economy with sound income and wealth metrics
- » Stable financial position
- » Funded pension bond reserve fund

#### Credit challenges

- » Reserves are well below national Aa1 medians
- » Elevated long term liabilities for the rating category

#### Rating outlook

The stable outlook is informed by our expectation that the town's solid management team will continue to produce stable operations and gradual reserve growth while implementing a sizeable capital plan.

#### Factors that could lead to an upgrade

- » Sustained improvement of available reserves and cash
- » Appreciable decline in leverage and annual fixed costs
- » Increased median household income or full value per capita

## Factors that could lead to a downgrade

- » Material decline of resident wealth
- » Sustained reduction of available cash and reserves
- » Strong increase in liabilities leading to sizeable increase in fixed costs

## Key indicators

Exhibit 1

### West Hartford (Town of) CT

	2019	2020	2021	2022	Aaa Medians
<b>Economy</b>					
Resident income ratio (%)	161.6%	156.0%	N/A	N/A	173.2%
Full Value (\$000)	\$9,605,647	\$9,876,620	\$10,107,519	\$10,870,763	\$8,668,233
Population	63,063	63,023	N/A	N/A	36,139
Full value per capita (\$)	\$152,318	\$156,715	N/A	N/A	\$225,444
Economic growth metric (%)	N/A	-2.0%	-1.9%	N/A	-0.6%
<b>Financial Performance</b>					
Revenue (\$000)	\$347,133	\$356,870	\$362,008	\$378,560	\$101,271
Available fund balance (\$000)	\$56,864	\$58,655	\$65,080	\$92,303	\$60,284
Net unrestricted cash (\$000)	\$89,913	\$89,446	\$115,224	\$147,418	\$85,080
Available fund balance ratio (%)	16.4%	16.4%	18.0%	24.4%	62.5%
Liquidity ratio (%)	25.9%	25.1%	31.8%	38.9%	89.9%
<b>Leverage</b>					
Debt (\$000)	\$139,675	\$147,031	\$145,385	\$469,807	\$71,359
Adjusted net pension liabilities (\$000)	\$508,896	\$623,664	\$567,198	\$254,680	\$120,889
Adjusted net OPEB liabilities (\$000)	\$271,729	\$355,512	\$351,835	\$287,908	\$14,025
Other long-term liabilities (\$000)	\$33,093	\$31,048	\$33,628	\$32,610	\$3,650
Long-term liabilities ratio (%)	274.6%	324.3%	303.3%	276.0%	257.7%
<b>Fixed costs</b>					
Implied debt service (\$000)	\$10,838	\$10,184	\$10,529	\$10,197	\$4,843
Pension tread water contribution (\$000)	\$23,256	\$23,347	\$27,005	N/A	\$3,247
OPEB contributions (\$000)	\$12,551	\$16,099	\$16,741	\$17,178	\$517
Implied cost of other long-term liabilities (\$000)	\$2,348	\$2,413	\$2,223	\$2,359	\$244
Fixed-costs ratio (%)	14.1%	14.6%	15.6%	15.0%	11.3%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Hartford-East Hartford-Middletown, CT Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

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

## Profile

The Town of West Hartford is located in Hartford County in central Connecticut, immediately west of the City of Hartford (Ba2 positive).

## Detailed credit considerations

### Economy: Strong economy highlighted by healthy resident income, very competitive housing market and ongoing commercial development

The town's economic strength is also anchored, in part, by high resident income and low unemployment at levels that are materially stronger than the metro area as a whole. As a highly desired community within the greater Hartford area, the town captures high

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earning professionals at a much higher rate than the City of Hartford or the town of East Hartford. As such, it maintains the benefits of being adjacent to the capital absent the economic and social challenges attendant to central Hartford.

West Hartford's economy is driven by its proximity to the state capital of Hartford and near equidistance to New York City and Boston. This location helped drive a strong surge in housing demand that remains in effect. The town reports that only approximately 20 homes are currently for sale as opposed to an inventory that is typically in the hundreds. This spike in demand has generated a corresponding rise in building permits, which in 2022 increased by 22% to 6,868 as management reports that current and projected new development is its highest ever.

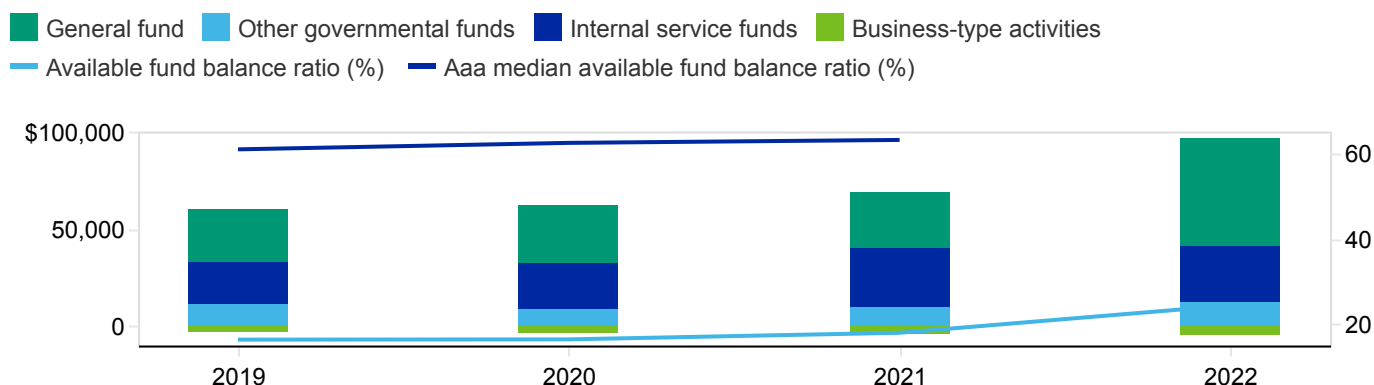
The surge in development has not been limited to residential growth as industrial space vacancy has fallen to just 1.9% as versus a normal rate of approximately 5%.

#### Financial operations: Below average but stable finances that benefit from strong management team

The town continues to maintain available reserves and liquidity that are typically narrow for a Connecticut town but nonetheless stable and consistent reflecting both the quality of management and reliability of the revenue base, which consists largely of property taxes drawn from a well sized base. West Hartford also benefits from strong revenue raising ability against a sizeable tax base. Connecticut local governments tend to have financial ratios lower than US medians because they generally derive a majority of revenues from stable property taxes and their financials typically incorporate school operations which are predictable.

Exhibit 2

#### Fund Balance



Source: Moody's Investors Service

We anticipate that management will continue to produce consistent financial operations owing, in part, to its conservative budget practices and formal financial policies. In February, the town adopted a fund balance policy to gradually increase the unassigned general fund balance to 16% of expenditures over the next several years. The town also maintains policies governing its 12 year capital program, which is incorporated into the rolling five year general fund operating forecast. The town maintains a practice of conservatively budgeting for 100% fulfillment of vacant positions and captures savings as some jobs remain open. Savings garnered from this approach will likely continue in fiscal 2023 as inflation and competition from other towns are increasing the challenge of hiring new staff.

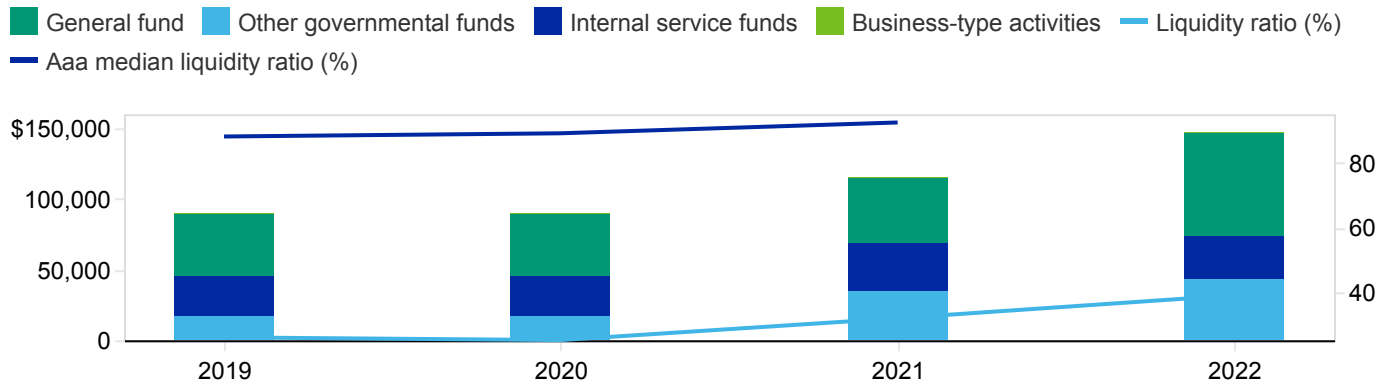
The general fund comprises approximately 90% of total governmental funds and 80% of general fund revenues are derived from property taxes. The fiscal 2022 available fund balance was 25%. Outside of the general fund, the town does not show any material deficits in its non-major funds. The town also operates two pools and two golf courses (business-type activities), which in fiscal 2022 produced a \$2.6 million operating surplus. The town projects that fiscal 2023 will produce an approximate \$2.2 million general fund surplus that will be attributable to strong tax collection of 99.4%. The robust rate of collection combined with a 12% increase to the grand list following a revaluation, prompted the city to reduce the mill rate by 1.74 to 40.68. The town will also benefit from a \$5.2 million grant from the state to offset a reduction in the motor vehicle tax rate. Management does not forecast a reduction to reserves over the next five years through fiscal 2028.

### Liquidity

The town's fiscal 2022 available liquidity is a broader 38%, which is also significantly lower than the national median but in line with typical state performance. We anticipate that cash will remain solid over the long term.

Exhibit 3

#### Cash



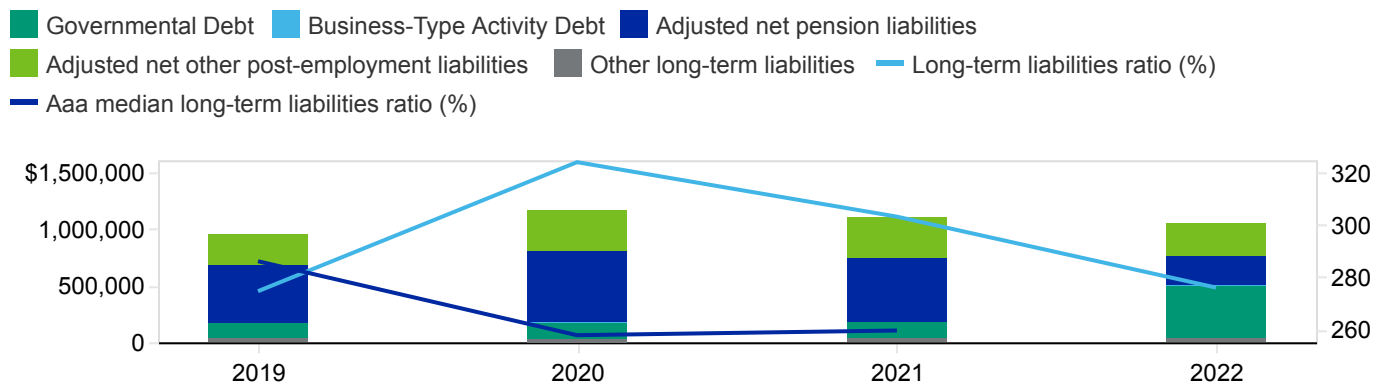
Source: Moody's Investors Service

### Leverage: Moderately elevated long-term liabilities and annual fixed costs

The town's long term liabilities ratio is 276%, which is moderately elevated compared to the national median for Aaa-rated cities and counties (258%) and substantially above the state median (118%). Annual fixed costs are 15% of revenues, which is well above Connecticut state medians but closer to national medians.

Exhibit 4

#### Total Primary Government - Long Term Liabilities



Source: Moody's Investors Service

### Legal security

The town's GO Bonds, including the current 2023 GO bonds are part of a 12-year, \$349.7 million capital improvement plan of which \$286 million is expected to be debt financed. The plan is aimed at providing funding for schools, street reconstruction and resurfacing, technology improvements, and upgrades to municipal buildings.

### Debt structure

All of the town's debt are fixed rate obligations.

**Debt-related derivatives**

The city is not party to any interest rate swaps or other debt related derivative agreements.

**Pensions and OPEB**

West Hartford's debt was driven up significantly when, in July, 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 faces 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). 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.

The town has established an OPEB trust and continues to increase contributions annually, a credit positive.

**ESG considerations**

West Hartford's Credit Impact Score is neutral to low (CIS-2), neutral to low exposure to environmental and social risks and a strong governance profile.

**Environmental**

West Hartford's overall environmental issuer profile score is neutral-to-low (E-2), reflecting relatively low exposure to environmental risks across all categories, including physical climate risk, carbon transition, natural capital, and waste and pollution.

**Social**

West Hartford's S-2 social issuer profile score reflects neutral to low exposure to social risks. The town benefits from a very positive education and health and safety profile, while exposures to risks attendant to demographic shifts, labor and income, housing and access to basic services are neutral to low.

**Governance**

West Hartford's neutral to low governance risk is reflected in a score of G-2. The city benefits from a solid institutional structure, budget management and demonstrated policy effectiveness through its formal fiscal policies. The city also maintains satisfactory transparency and disclosure.

## Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 5

### West Hartford (Town of) CT

	Measure	Weight	Score
<b>Economy</b>			
Resident income ratio	156.0%	10.0%	Aaa
Full value per capita	172,489	10.0%	Aa
Economic growth metric	-1.9%	10.0%	A
<b>Financial Performance</b>			
Available fund balance ratio	24.4%	20.0%	A
Liquidity ratio	38.9%	10.0%	Aa
<b>Institutional Framework</b>			
Institutional Framework	Aa	10.0%	Aa
<b>Leverage</b>			
Long-term liabilities ratio	276.0%	20.0%	A
Fixed-costs ratio	15.0%	10.0%	Aa
<b>Notching factors</b>			
No notchings applied			
Scorecard-Indicated Outcome			Aa3
<b>Assigned Rating</b>			<b>Aa1</b>

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

## Appendix

Exhibit 6

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
<b>Financial performance</b>		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
<b>Leverage</b>		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
<b>Fixed costs</b>		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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