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West Hartford (Town of) CT

Update to credit analysis

Summary

West Hartford (Aaa stable) benefits from a large, growing tax base with strong resident income and wealth levels. While the town's reserves are narrow relative to peers, fund balance and cash has been very stable in recent years and the town maintains additional financial flexibility outside of the general fund. The town's long-term liabilities are slightly elevated and will be negatively impacted by an upcoming pension obligation bond issuance by increasing the risk of underperformance of assets and, in turn, increased fixed costs.

Credit strengths

» Sizable tax base with sound income and wealth metrics

» Stable financial position

» Manageable long-term liabilities

Credit challenges

» Reserves are below Aaa medians

» Future issuance of pension obligation bonds will increases town's risk to market volatility

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

Key indicators

Exhibit 1

West Hartford (Town of) CT	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value ($000)	$8,591,093	$8,634,838	$8,981,615	$9,605,647	$9,876,620
Population	63,187	63,360	63,127	63,063	63,360
Full Value Per Capita	$135,963	$136,282	$142,279	$152,318	$155,881
Median Family Income (% of US Median)	176.4%	176.0%	177.8%	179.1%	179.1%
Finances					
Operating Revenue ($000)	$284,762	$307,022	$321,924	$309,948	$331,600
Fund Balance ($000)	$25,207	$25,376	$29,086	$29,633	$34,692
Cash Balance ($000)	$46,407	$47,292	$53,171	$47,582	$48,540
Fund Balance as a % of Revenues	8.9%	8.3%	9.0%	9.6%	10.5%
Cash Balance as a % of Revenues	16.3%	15.4%	16.5%	15.4%	14.6%
Debt/Pensions					
Net Direct Debt ($000)	$148,675	$150,455	$147,085	$139,675	$135,210
3-Year Average of Moody's ANPL ($000)	$369,387	$389,044	$420,547	$444,250	$516,052
Net Direct Debt / Full Value (%)	1.7%	1.7%	1.6%	1.5%	1.4%
Net Direct Debt / Operating Revenues (x)	0.5x	0.5x	0.5x	0.5x	0.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	4.3%	4.5%	4.7%	4.6%	5.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.3x	1.3x	1.4x	1.6x

Source: Moody's Investors Service, town audits

Profile

West Hartford is located in central Connecticut, adjacent to the City of Hartford (Ba3 stable). The town has approximately 63,360 residents and population has been relatively stable over the last decade.

Detailed credit considerations

Economy and tax base: growing tax base with additional development planned

The town's sizeable $9.9 billion equalized net grand list (ENGL) will remain stable with moderate growth expected over the medium term. The ENGL has expanded at a compound annual rate of 2.9% over the last five years capturing property value appreciation as well as some residential and commercial development. The town has experienced grand list (or assessed value) growth in at least each of the last 10 years, notably not experiencing any declines throughout the recession.

West Hartford's tax base will continue to expand given several commercial and residential development projects currently underway. Building permits have remained strong in recent years and median home prices continue to increase, despite economic challenges related to the pandemic.

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 represents 179.1% of national levels, respectively. Housing values in the town are strong as evidenced by a robust equalized value per capita of $156,615. Unemployment is elevated compared to historic numbers because of the pandemic (5.4% as of December 2020), but remains below state (7.5%) and national (6.5%) rates.

Financial operations and reserves: narrow but stable reserves

Following at least six years of general fund surpluses, the town's financial position is adequate and will remain stable due to prudent budget management and adherence to several formally adopted fiscal policies. Operating funds (general fund and debt service fund) reserves, however, are below the median for similarly rated credits. Given below average reserve levels, maintenance of the current rating is dependent upon continued stable operating performance, upkeep of current reserve levels (including funds outside the operating funds) and strong, robust fiscal practices. The reliance on stable and predictable property tax receipts, which represented 80.2% of 2020 operating revenue, provides additional financial flexibility.

The town reported a $3.1 million surplus in fiscal 2020, largely due to educational savings, increasing general fund balance to $30.1 million, or 9.2% of revenue. The town maintains additional reserves outside of the general fund, totaling $27.5 million, providing notably additional flexibility.

The town's fiscal 2021 amended budget represents under a 2% increase over the prior year's budget. The budget includes a $1.5 million fund balance appropriation to offset a flat tax rate.

Going into 2022, the town continues to look for cost saving measures, including investing in energy savings capital projects, review best practices and explore regional agreements for capital needs and shared services. The town also maintains a five year fiscal plan, which projects balanced budgets through fiscal 2025. Future rating reviews will consider the town's ability to maintain a stable reserve position relative to rising expenditures.

Liquidity

Operating fund liquidity was sound in fiscal 2020 with net cash at $48.5 million representing a satisfactory 14.6% of revenues.

Debt and pension: manageable long-term liabilities; forthcoming pension obligation bond will increase town's market risk

West Hartford's direct debt burden of 1.4% of ENGL is slightly elevated for the rating level and will increase in the coming months with the planned issuance of up to $356 million in pension obligation bonds (see “Pension and OPEB” section below).

Reflecting the strength of the community's strategic planning efforts, West Hartford maintains a 12-year capital improvement plan. The plan totals $261.8 million through fiscal 2032 with $203.6 million forecasted to be debt-funded (does not include pension obligation bonds). 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. Fiscal 2020 debt service costs were 6.3% of operating revenue.

The town is a member of the Hartford County Metropolitan District, a special district that provides water and sewer services to eight member towns. The town's overall debt increases to a moderate 3.3% of ENGL when incorporating overlapping debt associated with the MDC.

Legal security

The town's general obligation debt is payable from the town's unlimited ad valorem taxing power.

Debt structure

All of the town's debt is fixed rate. Payout is average with 84% of principal repaid in 10 years.

Debt-related derivatives

The town is not party to any derivative agreements.

Pensions and OPEB

The town maintains a single employer, defined benefit plan for all employees. While the town has proactively lowered the discount rate in recent years and plans to continue reducing it by at least 12.5 basis points per year, the funded ratio remains low at 40.3% as of July 1, 2020. The town's Moody's adjusted net pension liability (ANPL), based on a 2.70% discount rate, is $623.7 million, or 1.9 times operating revenues or 6.3% of full value. By comparison, the town's reported net pension liability, based on a 6.99% discount rate, is $316.2 million.

The town plans to issue up to $365 million in pension obligation bonds in the spring to fully fund the plan on a reported basis. While the issuance will increase pension assets substantially, the town will face increase vulnerability to market volatility, and potentially increased required contributions, in the event that assets do not meet investment return assumptions. In conjunction with the issuance, the town has created a Pension Bond Reserve Fund and will deposit an amount equal to the fiscal 2022 required contribution ($26.9 million) into the fund to offset potential increases annual contributions or POB debt service. The town's rating could face negative credit pressure in the event that assets do not meet return expectations and fixed costs increase significantly.

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 polices, 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.

Exhibit 2

West Hartford (Town of) CT

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$9,876,620	Aa
Full Value Per Capita	$156,615	Aaa
Median Family Income (% of US Median)	179.1%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	10.5%	A
5-Year Dollar Change in Fund Balance as % of Revenues	3.2%	A
Cash Balance as a % of Revenues	14.6%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	0.6%	A
Notching Factors:[2]		
Other Scorecard Adjustment Related to Finances: Reserves outside the GF; stable operations		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 (%)	1.4%	Aa
Net Direct Debt / Operating Revenues (x)	0.4x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	5.2%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.5x	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, Moody's Investors Service

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