

# RatingsDirect®

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## Summary:

# West Hartford Town, Connecticut; General Obligation

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### Credit Profile

US\$21.0 mil GO bnds ser 2015A dtd 02/12/2015 due 01/15/2035

<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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## Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to West Hartford, Conn.'s 2015 general obligation (GO) bonds. Standard & Poor's also affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the town's previously issued GO debt. The outlook on the long-term GO debt is stable.

A pledge of the town's full faith credit secures the bonds. Proceeds will be used to make improvements to town and school infrastructure, initiate construction on the Charter Oak School, and complete storm water management projects, among other capital undertakings.

The rating reflects our assessment of the following factors for the town:

- Participation in a broad and diverse economy with very high wealth and per capital incomes;
- Strong budgetary flexibility with 2014 audited available reserves in excess of 13% of general fund expenditures;
- Strong budgetary performance and stable revenue profile with no appreciable funding interdependence with the state or federal government;
- Very strong liquidity providing very strong cash levels to cover both debt service and operating expenditures;
- Very strong management conditions and strong financial policies;
- Adequate debt and contingent liabilities profile, but bolstered by the town's aggressive amortization and low debt as a percentage of market value; and
- Sizable pension and other postemployment benefit (OPEB) liabilities, although management is proactively managing these.

### Very strong economy

We consider West Hartford's economy very strong. The town, with an estimated 63,312 residents, is a residential suburb of Hartford that enjoys good access, via Interstate 84, to the region's diverse employment base. It is part of the broad and diverse Hartford-West Hartford-East Hartford metropolitan area. The town's projected per capita effective buying income is 159% of the U.S. level. Local unemployment remains favorable, in our view, with estimates from the town at 5.6%. More broadly, unemployment in Hartford County averaged 8.1% in 2013, down from 8.7% in 2012 and 9.4% in 2011.

The tax base is primarily residential but the town does maintain a sizable commercial base and is considered the retail

center for the region. Town officials are expecting \$1.8 million in new growth over the next few years with the addition of a 115-room boutique hotel, the construction of a pharmacy and office building, and a number of residential developments. The University of Connecticut-Hartford is planning to close its West Hartford campus in 2017 and consolidate onto its downtown property, thus opening a sizable tract of tax-exempt property for a potential, taxable development. Town officials are not expecting the consolidation to negatively affect the local economy, as the downtown campus is less than five miles away. The town remains home to the University of St. Joseph and the University of Hartford.

Currently, the estimated full value of the tax base is \$8.5 billion, which translates to a per capita market value in excess of \$133,684. The tax base is very diverse, in our opinion, as the 10 leading taxpayers constitute only 4.8% of assessed value.

### **Strong budgetary flexibility**

In our opinion, the town's budgetary flexibility is strong. West Hartford closed fiscal 2014 with an available general fund balance of \$20 million, equal to 8.1% of expenditures. The town also maintains \$16 million of additional general fund flexibility in its internal service funds. On the whole, we calculate available reserves to be \$36.5 million, equal to 13.8% of expenditures. In the past three fiscal years, available reserves have been managed between 11% and 14% of expenditures. We expect fund balance to remain at its present levels as management limits its use of reserves to emergency spending.

### **Strong budgetary performance**

In 2014, West Hartford realized a general fund surplus of \$762,000, equal to 0.3% of operating expenditures. Across all governmental funds, after adjusting for capital outlay spent from bond proceeds, the town operations were also balanced.

The favorable budgetary performance stems from conservative budgeting and higher-than-expected property tax and state aid revenue. We believe West Hartford maintains a stable and predictable revenue profile with property taxes comprising 81% of general fund revenues. Property tax collections are strong and stable. State aid accounts for a low 16% of revenues. Service charges and other ancillary revenues account for the remaining amounts.

The 2015 budget totals \$250 million, an increase of 3.9% from 2014. Management states that year-to-date revenues are ahead of budget and the town may realize an additional surplus barring any unforeseen expenditure demands.

### **Very strong liquidity**

Supporting the town's finances is what we consider very strong liquidity, with total government available cash at 24.1% of total governmental fund expenditures and at 132% of debt service. Further enhancing our view of the town's liquidity position is that West Hartford maintains strong access to external liquidity. The town is a regular market participant, having issued GO bonds frequently in the past several years, including short-term bond anticipation notes.

### **Very strong management conditions**

The town has a council-manager form of government. In our opinion, the Financial Management Assessment of West Hartford is "strong," indicating management policies and practices are well embedded and likely sustainable. The town is conservative in its revenue and expenditure assumptions with regular efforts to determine whether revenues or

expenditures will deviate from their long-term trends, and it regularly monitors budgetary performance, ensuring adjustments are made in a timely manner. We also believe the town maintains a strong focus on financial and capital planning, evidenced by its 12-year capital improvement plan, which management reviews yearly, and sets the parameters for debt and nondebt financing of all capital projects. The town has a debt management policy that limits debt service to no more than 10% and an amortization schedule with no less than 65% of principal being retired over 10 years. Although the town lacks a formal reserve policy, its practice has been to limit use of reserves to emergency spending.

### **Adequate debt and contingent liabilities profile**

Following this bond issue, West Hartford has approximately \$149.3 million of total direct debt. Overall, the town's total governmental funds debt service is 18.2% of total governmental funds expenditures and net direct debt is 52% of total governmental funds revenue. While debt is at the higher end of our rating spectrum, net debt as a percent of market value is, in our view, low at 2.9% and the town is very aggressive in its debt amortization — both positive credit factors. About 84.5% of debt will be retired over 10 years.

In our view, the town's pension and OPEB liabilities will remain a budget pressure, but we acknowledge management has been proactively managing them. Pension and OPEB costs account for 8.3% of total governmental fund expenditures. Despite having contributed the full annual required contribution (ARC) in each of at least the past six fiscal years, West Hartford's pension system funding ratio has decreased significantly to just 49.7% (based on Governmental Accounting Standards Board Statement 67 [GASB 67]) due to significant pension fund investment losses, coupled with changes to actuarial assumptions such as mortality rates and the discount rate. The current unfunded liability is \$181 million, also based on GASB 67. Management has implemented various adjustments to its pension plan for employees who began working for the town in 2003 and later, including extending the retirement age and increasing employee contributions. The town will continue to pay 100% of its ARC. It contributed \$15.9 million in 2014.

OPEB unfunded actuarial accrued liability is \$119 million with a 0.15% funded ratio. The town currently contributes the full normal cost for current employees hired since 2003 and pays for retirees' benefits on a pay-as-you-go basis. The annual OPEB cost to amortize the liability over 30 years was \$9.1 million in fiscal 2014, of which the town contributed 85%, or \$7.7 million.

### **Very strong Institutional Framework**

We consider the Institutional Framework score for Connecticut cities as very strong. (See "Institutional Framework Overview: Connecticut Local Governments.")

## **Outlook**

The stable outlook reflects our view that West Hartford's strong underlying economy, very strong management, and predictable operating profile should translate into strong budgetary performance and operating flexibility over our outlook horizon. In addition, we anticipate West Hartford maintaining an adequate debt and contingent liabilities profile. Debt service costs, as well as pension and OPEB costs, should remain manageable and not pose an immediate budgetary challenge. However, if annual budget performance deteriorates and if the town fails to manage outstanding

liabilities, we could lower the rating.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

### **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Connecticut Local Governments

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