S&P Global
Ratings

Research

Summary:

West Hartford, Connecticut; General Obligation

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Credit Profile		
US$20.285 mil GO rfdg bnds ser 2019B due 10/01/2025		
Long Term Rating	AAA/Stable	New
West Hartford Twn GO		
Long Term Rating	AAA/Stable	Affirmed
West Hartford Twn GO bnds ser 2016A dtd 02/11/2016 due 01/15/2031		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to West Hartford, Conn.'s series 2019B general obligation (GO) refunding bonds. At the same time, we affirmed our 'AAA' rating on the town's GO debt. The outlook is stable.

The rating reflects West Hartford's overall strong budget monitoring and planning framework, which has yielded consistent and positive budgetary performance over the last three audited fiscal years. As a result, the town's overall stable operating trends supported its maintenance of strong flexibility and liquidity to guard against recent state-level fiscal pressures. We expect West Hartford to maintain a steady pace of economic growth, proactive management environment, and a manageable debt profile over the two-year outlook period. The state fiscal environment, however, is less predictable and could lead to significant cuts in state aid and expose the district's elevated fixed costs related to low-funded pension and other postemployment benefit (OPEB) liabilities, potentially challenging finances and overall credit fundamentals beyond the outlook period.

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 series 2019B bonds and outstanding GO debt.

West Hartford's GO debt is eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), West Hartford has a predominantly locally derived revenue source, with approximately 79.5% of general fund revenue coming from property taxes. The town also has independent taxing authority and independent treasury management from the federal government.

We understand officials intend to use proceeds from the series 2019B bonds to refund the town's existing 2009 GO bonds for interest savings.

The rating reflects our opinion of the following factors for West Hartford, specifically its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);

- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2018;
- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 12.7% of operating expenditures;
- Very strong liquidity, with total government available cash at 18.7% of total governmental fund expenditures and 3x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 6.3% of expenditures and net direct debt that is 39.3% of total governmental fund revenue, as well as rapid amortization, with 77.6% of debt scheduled to be retired in 10 years, but a large pension and OPEB obligation; and
- Strong institutional framework score.

Very strong economy

We consider West Hartford's economy very strong. The town, with an estimated population of 63,360, encompasses 22.2 square miles in Hartford County in the Hartford-West Hartford-East Hartford MSA, which we consider broad and diverse. It has a projected per capita effective buying income of 164% of the national level and per capita market value of $141,710. Overall, market value grew by 0.8% over the past year to $9 billion in 2019.

West Hartford is a largely developed and suburban residential community, bordering Hartford. Interstate Highway 84 traverses the town, connecting residents with its diverse regional employment base. Although the tax base is primarily residential, West Hartford hosts a substantial local commercial base and is considered a retail and restaurant destination for the region. The local economy also features employers in the government, health care, higher education, and manufacturing sectors. With an estimated local unemployment rate of just 3.4% in 2017, we believe the town's unemployment characteristics compare favorably relative to the county's (4.8%), the state's (4.7%), and the nation's (4.4%) averages.

Due to the desirability of the community's service base, the town experienced steady appreciation in real estate values; median home prices are estimated a $320,000, which compares favorably to county and state home median values. West Hartford also continues to experience diversified residential and commercial development activity contributing to a steady increase in building permit revenue and tax base growth. Notably, Ideanomics--a financial technology company--purchased the 58-acre former University of Connecticut campus, and the company expects to file its permitting applications in 2019. The $283 million redevelopment proposal will include a mixed-use Fintech village with office, research and development, retail, and residential space. When complete, the village is estimated to host 15 companies and generate 330 jobs. In addition, several ongoing commercial will continue to expand West Hartford retail offerings and a number of large-scale residential developments are in various stages of planning and construction.

Therefore, due to the overall strength and diversity of the town's local tax base and its embeddedness in the broader regional economy, we expect West Hartford's economic profile to remain very strong over the two-year outlook period.

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Demonstrating the town's key budgeting practices is management's use of three-to-five years of historical data to forecast annual revenue and expenditure assumptions. In preparation of its annual budget, management conducts a line-item review of each department's annual operation request; prioritizes operating expenditures, including future debt service and long-term liability costs; and incorporates changes in contractual obligations. Due to uncertainty of state aid in recent years, finance officials conservatively estimate revenue from this source, and management solicits department input on local fees and charges for services.

During each fiscal year, management monitors the budget regularly, reporting budget-to-actual results to the town council monthly. Furthermore, West Hartford adheres to its formal investment policy and reports earnings and holdings monthly to the town council. The town also has a comprehensive five-year financial forecast in its budget development process, which features analysis of key revenue and expenditure assumptions and tests budget performance under various conditions; this allows the town to manage decisions and changes related to future operations, capital projects, and debt service.

West Hartford also maintains a strong focus on capital planning, evidenced by its 12-year comprehensive capital improvement plan (CIP) that identifies capital and nonrecurring capital expenditures. The town updates its CIP annually and details pay-as-you-go funding requirements, intergovernmental grants and reimbursements, and debt financing of all capital projects. Furthermore, management has historically met and sustained reserves in accordance with its fund balance policy. The formal policy calls for unassigned fund balance to be maintained between 7.5% and 15% of general fund to manage financial resources to maintain current service levels in the event of unexpected revenue shortfalls or unpredicted one-time expenditures. In accordance with the policy, should funds fall below 7.5%, the town will take necessary steps to restore unassigned fund balance to at or above the minimum target level.

The town also sustains a formal debt management policy, which 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 shall 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.

Strong budgetary performance

West Hartford's budgetary performance is strong, in our opinion. The town reported slightly positive operating results in the general fund of 0.2% of expenditures, as well as a surplus across all governmental funds of 1.2% in fiscal 2018. West Hartford's general fund operating results have been stable and positive over the last three years, with resulted of 0.2% in fiscal 2017 and 0.2% in fiscal 2016. For analytical consistency, we adjust operating results for recurring net transfers out from the general fund to other governmental funds, as well as capital outlay expenditures paid with bond proceeds.

We expect West Hartford to maintain strong budgetary performance over the next several years, largely due to its comprehensive budgeting development and monitoring framework, as well as its forward-looking expenditure and fixed-cost planning. Projections for fiscal 2019 suggest the town will produce another general surplus of $2.7 million, adding to available reserves.

Like many municipalities in Connecticut, the school budget accounts for a significant portion (approximately 65.9% for fiscal 2018) of West Hartford's general fund expenditures; we understand that the town exhibits a collaborative relationship between its board of education and municipal government to develop, monitor, and make timely adjustments to the budget in a less predictable state aid environment. As we note in our commentary, titled "Not Just An Academic Exercise: New England School District, Municipalities Benefit From Integrated Financial Reporting" (published Sept. 20, 2018), we generally view active collaboration between school district and local municipalities positively.

Furthermore, changes in the tax rate have been consistent and timely to match West Hartford's expenditure needs. The town benefits from an overall stable and strong property tax base, which generated approximately 79.5% of general fund revenue in fiscal 2018. In addition, tax collections have remained strong with collections exceeding 99.2% over the past five years. Intergovernmental (state) sources represent the second-highest share of general fund revenue at 18.1% (including on-behalf pension contributions), while charges for services constitute about 1.8%. Although statutory aid comprises nearly one-fifth of the town's general fund revenue, we believe the town has exhibited ample capacity to adjust budgetary performance to maintain at least balanced operations, particularly during an extended period of state fiscal uncertainty and material state aid reductions.

Due to the state's budget impasse entering the 2018-2019 biennium, West Hartford appropriated about $7 million in state aid contingency funds to mitigate potential statutory aid cuts. At fiscal year-end, however, West Hartford reported state aid reductions totaling $6.74 million (largely education cost sharing grants). It demonstrated ample capacity within its budget in fiscal 2018 to absorb these cuts and produce a nearly $3.68 million surplus, or 0.2% of general fund expenditures. West Hartford achieved this positive operating result through a combination of discretionary and non-departmental spending reductions, coupled with hiring freezes in the town and school budget. In addition, the town reported positive revenue variances from property taxes and miscellaneous departmental revenue.

For fiscal 2019, West Hartford's adopted general fund budget totaled $287.8 million, or a 0.75% increase in annual expenditures. This included a $4.51 million annual increase (or 4.4%) for municipal government and a $4.49 million (2.81%) increase in education expenditures over the prior year's restated budget (following the delayed state budget). Management partly attributes this budgeted expenditure growth to a $2.26 million increase in pension contributions and a scheduled $400,000 increase in retiree health contributions. While we recognize growth post-employment liabilities as an ongoing budget challenge for the community, we understand the town has undertaken significant reforms and long-term planning, including a 10-year pension and 10-year OPEB funding plan to increase predictability of these costs over time and reduce unfunded liabilities.

According to management, the town also instituted a uniform mill rate for real, personal, and motor vehicle property at 41 mills, and the operating budget does not include the use of one-time revenue or fund balance. At the midpoint in the current budget year, officials generally expect local revenues to outperform the budget, and the town expects to identify expenditure savings as necessary to produce positive operating results; financial officials conservatively estimate a $1 million to $1.3 million surplus at fiscal year-end.

Despite potential state fiscal challenges entering the next biennium, which could contribute to future declines to statutory aid to municipalities and growth in long-term liabilities, we believe West Hartford is likely to maintain stable and strong performance over our two-year outlook period.

Strong budgetary flexibility

West Hartford's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2018 of 12.7% of operating expenditures, or $40.5 million. The available fund balance includes $25.9 million (8.1% of expenditures) in the general fund and $14.5 million (4.6%) that is outside the general fund but legally available for operations, reflecting our assessment of its internal service fund reserves.

Although it has operated in a less certain statutory aid environment in recent years, West Hartford has demonstrated the ability, when necessary, to raise local revenue from its robust property tax base and appropriate fund balance for contingency purposes to alleviate pressure on its general fund. As a result, the town has outperformed revenue and expenditure projections in each of the last three years, increasing its available reserves to $25.9 million in fiscal 2018 from $21.5 million in fiscal 2016. Further enhancing our view of the stability of West Hartford's fund balance is the town's formal reserve policy that sets a minimum reserve level at 7.5% of expenditures.

While our assessment does factor in committed fund balances, we note that the town has traditionally committed recent surpluses as stabilization reserves to its capital nonrecurring expenditure fund (approximately $5.5 million), debt service fund (about $1.4 million), utility service fund ($1.2 million), and tax overpayments reserve ($1.04 million). We generally view these other governmental fund reserves as part of the overall reserve capacity of the town, which indirectly alleviates reliance on available general fund balance or transfers to address potential volatility in budgetary performance.

In addition, we believe that, in keeping with its traditionally conservative budgeting practices, West Hartford will likely continue to budget for balanced operations annually, and it will make intra-year expenditure and revenue adjustments to outperform the budget at year-end. Based on the town's projections to finish fiscal 2019 with a surplus and to maintain, at least, balanced operating results annually, we believe West Hartford will sustain reserves at strong levels over the next two years.

Very strong liquidity

In our opinion, West Hartford's liquidity is very strong, with total government available cash at 18.7% of total governmental fund expenditures and 3x governmental debt service in 2018. Further enhancing our view of the town's liquidity position is that West Hartford maintains strong access to external liquidity.

West Hartford is a regular market participant that has issued debt periodically over the past 20 years, including GO bonds. Furthermore, with the majority of cash invested in liquid money market funds, certificates of deposit, and the state investment pool, which maintain maturities of less than one year, we believe the town's investments are not aggressive.

In addition, we understand West Hartford has not entered into bank loans, direct-purchase debt, or contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. Given its strong overall cash position and historically stable budgetary environment, we believe West Hartford's liquidity profile should remain very strong.

Strong debt and contingent liability profile

In our view, West Hartford's debt and contingent liability profile is strong. Total governmental fund debt service is 6.3% of total governmental fund expenditures, and net direct debt is 38.6% of total governmental fund revenue. Approximately 81% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

West Hartford has approximately $134.4 million of total direct debt outstanding. Our assessment of the town's overall net debt takes into account its proportionate share of overlapping debt–totaling $160.53 million–related to the Metropolitan District Commission, a special district in Hartford County to provide water and sanitary sewer services to eight member towns. As outlined in West Hartford's 12-year CIP, it expects to issue about $27 million in bonds over the next two years. It expects to retire all current debt outstanding by 2035.

Therefore, due to what we believe to be rapid amortization of existing debt--management generally strives to retire debt at an amount equal to the amount that it will issue--we do not expect West Hartford's direct debt profile to change materially over the near term.

In our opinion, a credit weakness is West Hartford's large pension and OPEB obligation. West Hartford's combined required pension and actual OPEB contributions totaled 9.8% of total governmental fund expenditures in 2018. Of that amount, 6.3% represented required contributions to pension obligations, and 3.5% represented OPEB payments. The town has made its full actuarially determined contribution (ADC) historically, including a $21.6 million contribution for fiscal 2018. It also contributed nearly its full OPEB contribution for fiscal 2018, totaling $12.2 million or 96.1%.

In our view, the town's pension and OPEB liabilities will remain a budget pressure, but we acknowledge management has been proactively managing them. Despite having contributed the full actuarially determined requirement in each of at least the past six fiscal years, West Hartford's pension system funding ratio has decreased significantly to just 44.7% (based on Governmental Accounting Standards Board Statement 68) due to significant pension fund investment losses, coupled with changes to actuarial assumptions such as mortality rates and the discount rate. The unfunded liability is projected to increase to $268.5 million in fiscal 2020, reflecting a revision to its discount rate to 7.125% from 7.25%, a reduced payroll growth assumption to 1.75% from 2%, and updated mortality assumptions as of the July 1, 2018 actuarial valuation. West Hartford's reports that its ADC increased by $2.26 million in fiscal 2019 and is projected to rise again by $1.35 million in fiscal 2020.

Management has developed a 10-year pension funding forecast and implemented various adjustments to its pension plan for employees who began working for the town in 2003 and later, including extending the retirement age, increasing employee contributions, and developing a hybrid pension plan for all town unions (except public safety). West Hartford plans to continue meeting 100% of its pension requirements each year and projects its pension funding to improve to 58% by 2030.

The town also provides medical benefits to eligible retirees and covered dependents. West Hartford currently contributes the full normal cost for current employees hired since 2003 in addition to prefunding its OPEB liabilities in an OPEB trust fund; the total net position of the trust fund was $4.76 million as of June 30, 2018. It also maintains a retiree health reserve, which maintained a balance of $13 million as of June 30, 2018. The annual OPEB cost to amortize the liability over 30 years was $12.2 million in fiscal 2018, of which the town contributed 96.1%. As of June 30, 2018, its net OPEB liability totaled $174.4 million and was 2.66% funded. We believe West Hartford continues to actively manage its pension and OPEB liabilities through comprehensive long-term planning, full funding of the ADC on an actuarial basis, and through its working relationship with collective bargaining units. While we expect long-term liability costs to remain manageable in the current budget environment, should investment returns fall short of assumptions that increase future contribution costs and stress its finances, we could modify our view of the town's debt and financial profiles.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our view of West Hartford's very strong underlying economy as well as our opinion that the town will likely maintain its predictable operating profile, contributing to strong financial performance. We believe its very strong management practices will mitigate any pressure relating to state aid cuts and increases to pension and OPEB liabilities. Demand for housing remains strong, and developers continue to expand commercial office and retail offerings. We further believe that forward planning and conservative assumptions will sustain a more predictable budget environment that anticipates growth in costs relating to low-funded pension and OPEB plans. For these reasons, we do not expect to change the rating within the two-year outlook period.

Although we expect the town to address its substantial retirement liabilities in a meaningful way, we could lower the rating should growth in fixed costs associated with debt, pension, and OPEBs overcrowd other general fund expenditures or outpace revenue, leading to a deterioration in budgetary performance and weakened reserves.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015, Sept. 2, 2015