

Moody's Rating Report - Jan 2008.txt

From: Jim Francis  
Sent: Wednesday, January 30, 2008 9:44 AM  
To: Jim Francis  
Subject: FW: Moody's Final Report

MOODY'S ASSIGNS Aaa TO WEST HARTFORD'S (CT) \$15M G.O. BONDS, SERIES 2008A

TOTAL OF \$160.9 MILLION IN RATED DEBT OUTSTANDING, INCLUDING CURRENT OFFERING

West Hartford (Town of) CT  
Municipality  
Connecticut

Moody's Rating

Issue	Rating
General Obligation Bonds, Series 2008A	Aaa
Sale Amount	\$15,000,000
Expected Sale Date	01/30/08
Rating Description	General Obligation

NEW YORK, January 29, 2008 -- Moody's Investors Service has assigned a Aaa rating to the Town of West Hartford's \$15 million General Obligation Bonds, Series 2008A. Concurrently, Moody's has affirmed the Aaa rating on the town's outstanding general obligation debt, affecting \$145.9 million in bonds. The bonds are secured by the town's general obligation unlimited tax pledge. Proceeds will finance various capital projects, the largest of which is for street improvements and upgrades to the police station. The rating assignment and affirmation of Moody's highest rating reflects the town's sizeable and diverse equalized net grand list (ENGL), satisfactory financial reserves bolstered by reserved retained earnings in the health insurance fund, and manageable debt burden governed by a comprehensive 12-year capital plan. The rating also considers the town's socioeconomic indices that trend below state and national medians for Aaa-rated municipalities.

SIZEABLE AND DIVERSE EQUALIZED NET GRAND LIST

Moody's anticipates that the town's substantial \$9.2 billion ENGL will continue to grow at a moderate rate due to ongoing residential and commercial developments. The town boasts a diverse economic base (70% residential, 16% commercial /industrial) and major employers within the town include a variety of higher education institutions, manufacturing firms and health providers as well as a substantial commercial sector. Additional employment opportunities are found in the financial and manufacturing sectors in the surrounding communities of Hartford (rated A2/stable outlook), Farmington (rated Aa1) and Bloomfield (rated Aa3). The town's tax base growth expanded at an average annual rate of 8.8% over the last five years capturing property value appreciation as well as some residential growth and commercial activity. This is below average when compared to the state's growth rate which increased at an annual average 10.4% over the same time frame. The effect of the October 2006 revaluation is being phased in over five years with 2008 seeing a 21.2% increase.

Management projects significant growth in the ENGL over the medium term given the Blue Back

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Square site, a \$198.8 million mixed-use private/public development in the town center. The project is 80% completed and some highlights of this substantial project entail two parking garages, 70 high-end residential condominiums, big box retailers Barnes and Noble and Crate and Barrel, and the Cheesecake Factory Restaurant. Using proceeds from a previous \$48.8 million bond sale, the project also incorporates improvements to the town hall and library, as well as streets, sidewalks, and public areas. The project is expected to increase the assessed value by an extraordinary 3.2%, generating \$2.8 million annually in general property taxes when it is completed. The Blue Back Square site has also spurred ancillary development, including a new Whole Foods Market, refurbishment of existing commercial properties and various residential projects.

Wealth levels in West Hartford, though above state medians, fall below Aaa medians, as reflected in the \$153,004 ENGL per capita. The Connecticut Aaa median ENGL per capita is a significant \$385,924. The per capita (PCI) and median family incomes (MFI), as a percent of the nation, are also significantly below similarly rated credits at 155% and 156%, respectively. The Aaa median PCI and MFI as a percent of the nation is a higher 272% and 251%, respectively. Moody's believes that this wealth profile is offset by the town's considerable economic redevelopment in the town center, coupled with a very strong management team and fiscal stability.

### **POLICIES PROVIDE STABLE AND COMFORTABLE LEVELS OF FINANCIAL FLEXIBILITY; ADDITIONAL RESERVES MAINTAINED OUTSIDE GENERAL FUND**

Moody's believes that the town's consistently stable financial position will be maintained largely due to the policies followed by a seasoned management team. The town has generated four consecutive operating surpluses since fiscal 2004, increasing the undesignated General Fund balance to \$15.4 million (a satisfactory 7.5% of General Fund revenues) in fiscal 2007 from \$11.2 million (6.7% of General Fund revenues) three years prior. The increase reflects the town's consistently conservative budget practices--specifically in regards to investment earnings, property tax collection assumptions, and anticipated state aid grants -- coupled with strict spending controls. At the current level, the undesignated general fund balance is just slightly below the Connecticut Aaa median of 7.7%.

The fiscal 2008 operating budget included \$5.4 million in additional expenses related to health insurance, other post employment benefits and contractual services. The budget was balanced through increased intergovernmental revenue and \$781,185 of appropriated General Fund balance. Of note, appropriating General Fund balance as revenue to balance the budget is not a common practice for the town. After having posted a \$2 million operating surplus in fiscal year 2007, management elected to provide property tax relief in order to mitigate the impact of the October 1, 2006 revaluation. Additionally, officials did not incorporate the typical \$1.0 million in pay-as-you go capital expenditures and small contingency line item. As a result, the town does not have as much financial flexibility as in prior years, however, the town's financial position remains sound due to available reserves held outside the General Fund. These reserves include the Other Post Employment Benefits reserve (\$9 million), Capital Non-Recurring fund (\$900,000) and Utility reserve (\$800,000). Several months into the fiscal year, management reports revenues and expenditures are in line with projections and expect to maintain the undesignated General Fund balance within the town's target of 7.5% of General Fund revenues.

Reflective of West Hartford's proactive nature, the town is addressing energy costs to mitigate future expenditure pressures. Some implemented strategies include the installation of energy management systems, separate heating and cooling systems, the establishment of contracts with alternative energy suppliers and the establishment of a utility reserve. Further, the town established an OPEB reserve in 1985, nearly 13 years prior to the Government Accounting Standards Board requirement. Since it is not

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in a legislatively established trust, the monies, if necessary, can be used to offset General Fund expenditures. The town did not make a retiree health insurance contribution from the general fund for fiscal years 2003 and 2004, but continued to pay such claims from the health care reserve. Additionally, the town only partially funded the actuarially determined annual required contribution in fiscal 2005 and 2006. As a result, the town reduced the OPEB reserve to \$11.8 million in fiscal 2006 from its peak position of \$30 million in fiscal 1999. The town plans to draw this reserve to a minimum of \$6.1 million in fiscal 2010-lower than the previously expected floor of \$12 million due to unanticipated retiree claims. At this point, the funding for the OPEB reserve beyond fiscal 2009 is unknown since management is currently reviewing the option of establishing an OPEB trust. The town's current unfunded liability is \$87 million. In order to reduce future OPEB costs significant plan adjustments such as increased normal retirement age and employee contributions have been implemented for approximately 22% of the nonpublic safety unionized workforce.

The pension fund is expected to improve markedly given favorable negotiations with unionized employees with regard to the normal retirement age for new employees, coupled with the continuation of the complete funding of the annual required contribution (ARC). Fiscal 2003 represented the first time in 12 years that necessitated an ARC as the town pension had been funded in excess of 100% prior to that time. Given the investment environment in fiscal 2003 coupled with a change in the actuarial valuation method in fiscal 2005, the town pension system funding ratio slipped to 79.6% as of January 2005. Unfavorable asset allocations led to another decline in the funding ratio in the subsequent year to 75.2%. Going forward, management expects improved funding ratios as the previously mentioned contract negotiations are expected to reduce the actuarial accrued liability.

#### DIRECT DEBT BURDEN EXPECTED TO MODERATE

Moody's expects the town's slightly above average 1.7% (of ENGL) direct debt burden will moderate over time due to a combination of the town's healthy principal payout of 68.1% retired within 10 years, carefully planned future borrowing and continuing ENGL growth. Further, the debt service for the \$48.8 million G.O. bonds issued for the construction of Blue Back Square is expected to be paid from revenues generated by the new parking structures and special services district taxes.

Reflecting the strength of the community's strategic planning efforts, West Hartford maintains a 12-year capital improvement plan totaling \$144.5 million that has provided an important framework for identifying the timing and financial resources necessary to meet capital needs.

The town is a member of the Metropolitan District Commission (MDC), a special district in Hartford that provides water and sanitary services to eight member towns. The town's overall debt increases to a moderate 2.1% (of ENGL) when incorporating overlapping debt associated with the MDC. The MDC has been cited by the U.S Environmental Protection Agency and the United States Department of Justice for overflows from the sewer systems. The abatement plans call for new sewers, removal of storm water flows during storm events, and additional treatment capacity at a cost of \$2.1 billion over the next 17 years. Each of the eight member towns has overwhelmingly approved an \$800 million authorization to begin stage one of the project. Of note, the total cost of this initial authorization has the potential to be reduced substantially through receipt of both state and federal loans. This debt is not expected to place fiscal strain on the town's General Fund operations since the project will be funded through user surcharges on the individual customer's quarterly bills.

#### KEY STATISTICS:

2006 Population: 60,700

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Equalized Net Grand List: \$9.2 billion

Equalized Net Grand List Per Capita: \$153,004

Median Family Income: \$77,865 (156 % of the nation, 119% of Connecticut)

Per Capita Income: \$33,468 (155% of the nation: 116% of Connecticut)

FY07 General Fund Balance: \$16.9 million (8.3% of General Fund Revenues)

FY07 Unreserved General Fund Balance: \$16.1 million (7.9% of General Fund Revenues)

Available Reserves (includes Unreserved General Fund Balance and OPEB reserve): \$26.1 million (12.7% of General Fund Revenues)

Overall Debt Burden: 2.1%

Adjusted Debt Burden: 2.0%

Payout of Principal (10 years): 68.1%

Post-sale parity debt outstanding: \$160.9 million

**ANALYSTS:**

Alexandra J. Lerma, Analyst, Public Finance Group, Moody's Investors Service  
Conor McEachern, Backup Analyst, Public Finance Group, Moody's Investors Service  
Edith Behr, Senior Credit Officer, Public Finance Group, Moody's Investors Service

**CONTACTS:**

Journalists: (212) 553-0376

Research Clients: (212) 553-1653

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