

## CREDIT OPINION

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# Westport (Town of) CT

## Update to credit analysis

### Summary

The Town of Westport, CT (Aaa stable) benefits from a large, growing tax base with very strong resident income and wealth levels. The town's financial position is stable, supported by conservative budget management and formal fiscal policies. Pensions and OPEB are well funded and the town's debt burden is low, resulting in manageable fixed costs.

### Credit strengths

- » History of satisfactory reserve levels
- » High wealth and income levels
- » Strong funding of pension and OPEB liabilities

### Credit challenges

- » Ongoing uncertainty surrounding state revenues and on-behalf pension payments

### Rating outlook

The stable outlook reflects our expectation that the town will remain fiscally sound given conservative budgeting practices and will continue to benefit from its sizeable tax base and above average wealth levels. The outlook also factors in the expectation that long-term liabilities will continue to be manageable.

### Factors that could lead to an upgrade

- » N/A

### Factors that could lead to a downgrade

- » Reductions of available reserves leading to a loss in financial flexibility
- » Substantial deterioration in tax base or weakening of socioeconomic profile
- » Material growth in long-term liabilities

## Key indicators

Exhibit 1

Westport (Town of) CT	2014	2015	2016	2017	2018
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$14,803,064	\$16,108,614	\$16,602,815	\$15,522,450	\$16,088,222
Population	27,055	27,343	27,511	27,777	28,042
Full Value Per Capita	\$547,147	\$589,131	\$603,497	\$558,824	\$573,719
Median Family Income (% of US Median)	275.5%	316.6%	331.1%	335.0%	335.0%
<b>Finances</b>					
Operating Revenue (\$000)	\$212,343	\$215,348	\$219,173	\$225,596	\$230,305
Fund Balance (\$000)	\$37,303	\$36,593	\$39,437	\$37,479	\$35,347
Cash Balance (\$000)	\$43,316	\$37,477	\$44,566	\$43,982	\$39,937
Fund Balance as a % of Revenues	17.6%	17.0%	18.0%	16.6%	15.3%
Cash Balance as a % of Revenues	20.4%	17.4%	20.3%	19.5%	17.3%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$121,613	\$108,846	\$100,942	\$94,137	\$103,185
3-Year Average of Moody's ANPL (\$000)	\$99,560	\$108,422	\$120,650	\$130,249	\$132,356
Net Direct Debt / Full Value (%)	0.8%	0.7%	0.6%	0.6%	0.6%
Net Direct Debt / Operating Revenues (x)	0.6x	0.5x	0.5x	0.4x	0.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.7%	0.7%	0.7%	0.8%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.5x	0.6x	0.6x	0.6x

Source: Moody's Investors Service

## Profile

Westport is a very affluent residential community located in Fairfield County, approximately 50 miles from midtown Manhattan. The town has an estimated population of 28,042.

## Detailed credit considerations

### Economy and Tax Base: Growing tax base with very strong income and wealth metrics

Westport's tax base will remain stable due to its very strong demographic profile and favorable location in Fairfield County. The \$16 billion equalized net grand list (ENGL, or full value) is sizable and well above the national and state medians for Aaa rated cities and towns. The five year compounded annual growth rate in full value of 2.4% is sound.

The town has reported moderate growth in its net taxable grand list, or assessed values, over the last three years following a 7.7% increase in 2017 due to reassessment. Officials report several new multifamily developments underway, which will support continued tax base growth.

Reflecting the strong property values in this affluent residential community, the town's ENGL per capita is a very substantial \$573,719, more than twice the medians for Aaa Connecticut towns. Similarly, estimated per capita and median family income are also significantly above average at 349.1% and 335% of national figures, respectively. Due to its location in Fairfield County and easy access to major employment centers, the jobless rate at 3.6% (January 2019) was lower than both the state and national averages (4.7% and 4.4%, respectively).

### Financial Operations and Reserves: Stable financial position

Westport's financial position will remain healthy given its history of financially stable operations, conservative budgeting practices and target fund balance policy. In fiscal 2018, the town reported a \$1.9 million decrease in general fund balance largely due to transfers to the capital nonrecurring fund, as revenues actually exceeded budgeted projections. Despite the operating deficit, the general fund

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balance of \$35.5 million represents a sound 15.4% of revenues, a figure below the national median but slightly above the Connecticut Aaa median. Similarly, operating fund (general and debt service funds) reserves are adequate at \$36.5 million, or 15.9% of revenues.

The fiscal 2019 budget increased by 1% and included a \$3.6 million reserve appropriation. Officials currently project upwards of a \$2.3 million increase in general fund balance due to revenues over budget.

Favorably, the town is not highly exposed to potential revenue fluctuations from state level fiscal challenges as less than 1% of fiscal 2018 revenues were derived from intergovernmental aid. Further, state aid revenue assumptions in the Board of Finance's recommended budget for fiscal 2019 are conservative.

Healthy reserve levels in the capital nonrecurring fund (\$8.2 million) and internal service funds (\$2.2 million) provide an additional layer of financial flexibility for the town.

## LIQUIDITY

Operating funds' net cash balance was satisfactory at \$44 million or 19.5% of fiscal 2017 revenues.

### Debt and Pensions: Manageable debt and pension burdens

The town's net direct debt burden (pro-forma including the 2019 issuance) of 0.6% of ENGL is in line with the national median for similarly rated credits and will continue to be low in the coming years given a rapid 10-year amortization of 83.2% of principal and manageable debt issuance plans consisting of approximately \$68 million over the next four fiscal years.

## DEBT STRUCTURE

All of the town's debt is fixed rate.

## DEBT-RELATED DERIVATIVES

The town is not party to any derivative agreements.

## PENSIONS AND OPEB

Westport's willingness to aggressively address its pension and other post employment benefit liabilities is a key credit strength. Westport contributes to five retirement plans for its employees. In fiscal 2018, the actuarial determined contribution (ADC) was \$16.1 million for all five plans, or 6.9% of operating expenditures.

The town's fiscal 2018 adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$105.7 million, representing 0.7 times operating revenues, which is significantly lower than the national median for Moody's-rated credits of approximately 1.5 times. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

Positively, the town closed recently settled negotiations with its municipal employee union and new hires will participate in a 401(k), which is projected to save the town \$12 million over 20 years. Additionally, the town established a hybrid plan for the fire union and is currently in negotiations with the police union to create a similar plan. Each plan change is estimated to save \$38 million over 20 years.

For teachers, the town participates in the State of Connecticut Teachers' Retirement System (TRS). Employer contributions to the TRS, which are covered by on behalf payments made by the state, totaled \$20.9 million in 2018. When including the town's share of the TRS ANPL to the adjusted liabilities of the town managed plans, the ANPL increases to \$450 million, representing a high 2.8% of full value and 1.9 times revenues.

As of the July 1, 2018 valuation, OPEB unfunded liability is \$82 million and the plan was 43% funded, a notably high percentage relative to most municipalities in Connecticut and nationwide, many of which fund OPEB on a strictly pay-go basis. In fiscal 2018, the town made a \$9.9 million contribution to the plan.

Fixed costs (comprised of pension, OPEB and debt service) are a moderate 17.4% of expenditures and include full funding of the OPEB annual required contribution.

### Management and Governance

The town benefits from proactive management that practices conservative budgeting and adheres to formal policies to ensure fiscal stability. The Board of Finance targets an unassigned general fund balance of 9%-11%, a target that the town has exceeded in the last five years.

Connecticut Cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Connecticut cities' major revenue source, property taxes, is not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Connecticut has public sector unions and additional constraints, which limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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