Rating Action: Moody's Downgrades West Haven, CT's GO Bonds to Baa2; Outlook Revised to Stable

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New York, August 05, 2016 -- Summary Rating Rationale

Moody's Investors Service has downgraded to Baa2 from Baa1 the City of West Haven, CT's general obligation debt, affecting $91.5 million of outstanding rated debt. The outlook has been revised to stable from negative. The downgrade to Baa2 reflects the continued negative General Fund balance, which has carried a deficit balance since fiscal 2005. Although deficit financing bonds will cure the majority of the deficit, the city projects that fiscal 2016 operated at a loss and fund balance will remain negative. The city also has three other governmental funds that remain in deficit. The rating also incorporates the sizeable but declining $3.8 billion tax base that benefits from two universities, and an above average and increasing debt burden.

Rating Outlook

The change in outlook to stable from negative reflects the approval of the deficit financing bonds which will help stabilize liquidity. And although budget pressures remain, the city has taken positive steps to restore structural balance, such as adopting a formal fund balance policy, budgeting revenues more conservatively, and enacting the first mill rate increase since 2006.

Factors that Could Lead to an Upgrade

Trend of balanced operations and positive

General Fund balance

Proven ability to balance expenditures with recurring revenues

Material improvement in the other governmental funds that are currently in deficit

Factors that Could Lead to a Downgrade

Structurally imbalanced operations leading to material declines in fund balance or liquidity

Strained liquidity that results in need for cash flow borrowing

Adverse decision by the state that does not allow pension amortization to be extended to 18 years

Significant growth in debt burden that exceeds projections

Legal Security

Not applicable.

Use of Proceeds

Not applicable.

Obligor Profile

West Haven is city with a population of 56,000 located on the southern coast of Connecticut on Long Island Sound, approximately 40 miles southwest of Hartford (Baa1 negative).

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.