S&P Global Ratings

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Summary:

West Haven, Connecticut; General Obligation

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Table Of Contents

Summary:

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Credit Profile		
US$20.545 mil GO bnds ser 2021 due 09/15/2051		
Long Term Rating	BBB/Positive	New
West Haven GO		
Long Term Rating	BBB/Positive	Outlook Revised

Rating Action

S&P Global Ratings revised its outlook on West Haven, Conn.'s general obligation (GO) debt to positive from stable. At the same time, we have assigned our 'BBB' long-term rating to the city's $20.5 million series 2021 GO bonds and affirmed our 'BBB' rating on its existing GO debt.

West Haven's full faith and credit pledge secures the GO debt. Bond proceeds will be used for various capital projects, with the largest portion for its share of a school construction project. We note the city is also issuing $6.05 million in bond anticipation notes (BANs), which we were not asked to rate, but included in our analysis.

Credit overview

The outlook revision reflects improved performance based on structural budgetary changes and stronger budgetary controls evidenced by positive operations in both 2020 and 2021, despite the challenges posed by the pandemic. Notably, the city has benefited from state oversight and through state restructuring grants; however, its financial position has been improving quicker than anticipated, when compared to the original five-year financial plan it adopted. The management team has been diligent in raising revenues and making budgetary modifications to ensure structural balance in the coming years. We believe there is a one-in-three chance we could raise the rating If the city continues to demonstrate positive operations and structural balance without the need for restructuring grants from the Municipal Accountability Review Board (MARB).

Further supporting the affirmation of the rating are positive operations in 2020 and in 2021, despite the negative effects of the COVID-19 pandemic. The city was able to respond to the pandemic despite its challenging budgetary environment. Furthermore, West Haven's local economy continues to experience ongoing residential and commercial development, which supports property taxes, its main revenue source.

The rating also reflects West Haven's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Weak management conditions, despite standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could weaken in the near term relative to fiscal 2020, which closed with a slight operating deficit in the general fund but a slight operating surplus at the total

governmental fund level in fiscal 2020;

- Very weak budgetary flexibility, with an available fund balance in fiscal 2020 of 1.9% of operating expenditures, as well as limited capacity to reduce expenditures and limited capacity to raise revenues due to consistent and ongoing political resistance;
- Strong liquidity, with total government available cash at 8.6% of total governmental fund expenditures and 96.2% of governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 9.0% of expenditures and net direct debt that is 48.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 70.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social and governance factors

We have assessed the city's environmental, social, and governance (ESG) factors. We consider its social risks in line with those of the sector. Although rising sea levels pose a long-term risk for the city, we believe management continues to plan and implement resiliency efforts to help reduce the potential effects. Thus, we have analyzed the city's environmental factors and determined they are in line with our view of the sector standard for coastal communities. Governance factors have introduced risk in the past, but due to the oversight provided by state's MARB, we believe continued improvements to internal and financial controls will align governance factors with the sector as a whole over time.

Positive Outlook

Upside scenario

Should the city continue to improve its financial position (including its general fund reserves) through positive general fund performance without state support and continue achieving its planned cost-saving initiatives, we could raise the rating. In addition, any upward rating movement would also require the city to continue conservatively budgeting for revenues and expenditures while maintaining, at a minimum, standard management policies and procedures without state oversight.

Return to stable scenario

If West Haven were to experience weak operating results in fiscal 2022, due to the inability to align revenues and expenditures, thereby pressuring its liquidity position, we could lower the rating.

Credit Opinion

Adequate economy

We consider West Haven's economy adequate. The city, with a population of 54,856, is in New Haven County in the New Haven-Milford MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 85.0% of the national level and per capita market value of $70,807. Overall, market value grew by 1.3% over the past year to $3.9 billion in 2021. The county unemployment rate was 8.0% in 2020.

West Haven is along the Interstate 95 corridor, west of New Haven. The city is home to Yale University's West Campus as well as the University of New Haven. Metro North Railroad completed a new station in there in 2013, which provides rail access to nearby Stamford and New York City.

The city has experienced continued growth in its assessed value (AV), and recently completed a revaluation, growing AV by over 11%. Several long-standing economic development projects are moving forward despite the current recessionary period. One such project is The Haven, a $200 million luxury fashion outlet mall that is expected to generate $2.1 million in taxes at full buildout. Partial demolition of existing properties has started as all properties were acquired. The Acorn Group, responsible for The Atwood-University Commons, among other developments, is continuing to develop mixed-used properties with full residential occupancy. The Yale New Haven Regional operations center has been completed and has additional acres for future development. The city is seeking to generate economic activity in various areas through opportunity zones and transit-oriented planning and zoning regulations.

West Haven continues to apply and receive grants for various economic and infrastructure improvements, with the most recent for $5 million in sustainability improvement for Beach Street, which is anticipated to stimulate additional development for underutilized properties in the area. The city has also received state grants for brownfield studies for former school buildings for remediation, which in time may provide an additional opportunity for development.

Unemployment remains above its average, but we note it has come down over the past few months as the economic recovery has taken hold. Strengthening of the macroeconomic environment is likely to also support continued growth in the tax base. For more information on S&P Global Ratings' economic view, see "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," published June 24, 2021, on RatingsDirect. Local employers have remained stable; the Veterans Administration Hospital is the largest employer, with a staff of 2,000. The city, which employs about 1,200, is also a major employer, as are the University of New Haven, Yale University, and Walmart.

Weak management condition

West Haven continues to revise and evaluate its budgeting assumptions with support from MARB. Although the city remains dependent on the restructuring grants to achieve a balanced budget and operating results, it continues to revisit and adjust its budgeting assumptions every year, including budgeting for fewer restructuring grants and increases in its contingency fund, making changes to its health care plans, and no longer assuming certain reimbursements for the school department for special education. As part of its MARB designation, West Haven is required to submit monthly financial reports to the state and city council, which it has done over the past two years. It also maintains the ability to adjust the budget midyear.

West Haven remains a Tier III-designated city under MARB. Under this designation, the board officially oversees the city's budget, including the ability to require rate increases and oversight of vendor and labor contracts. For more information regarding the city's Tier III designation under MARB, please see "Connecticut Approves Restructuring Funds For West Haven, But Credit Quality Depends On Executing Five-Year Recovery Plan," published Nov. 5, 2018. While we view the state's involvement in the city's finances as a stabilizing factor that should aid in producing positive financial results, this oversight and dependence on state funds to achieve balanced operations over the past few years also weakens our view of West Haven's management conditions.

The city annually prepares a five-year financial forecast, as required by MARB. While the plan is comprehensive and is updated annually, we believe the city's budgetary environment will continue to challenge its ability to fully implement the plan year to year. However, should West Haven continue to implement its long-term financial plan or any modifications that may be made to its annual budgets, our view of its financial planning could strengthen. The city also maintains a five-year capital improvement plan (CIP) that is updated annually, but funding sources are limited. Management follows state debt management and investment requirements and reports investment holdings to the council annually. The city is not in compliance with a reserve policy of a 5% target, which was in its balanced budget ordinance. The balanced budget ordinance also requires rate increases over a three-year period to equalize negative operating results.

Adequate budgetary performance

The city had slight deficit operating results in the general fund of 0.5% of expenditures, but a slight surplus result across all governmental funds 1.0% in fiscal 2020. While we expect West Haven to have at least balanced operating results, we do not expect results to be as favorable as they had been in 2020.

We have adjusted city's year-end results for recurring transfers and removed the MARB grants from its operating results. In our opinion, without the inclusion of the grant funds, the city is still facing structural imbalances, given its dependence on these short-term funds to achieve positive financial operations. However, it is our view, that its five-year financial plan provides a roadmap to structurally balanced operations.

In 2020, West Haven saw negative revenue variances in several categories, the largest in MARB funds as the state did not fully fund its original budgeted amount because the city's local revenues outperformed budgeted expenses. The city saw positive variances in investment income and property tax collections, while charges for services decline-primarily due to the effects of the first wave of the pandemic. On the expense side, budgeted expenses were under budget by roughly $3.6 million, with the savings in benefits, as the city benefited from six months on the state's Partnership 2.0 benefit plan, while also seeing savings in general government and educational expenses. West Haven was anticipating $4.1 million in MARB funding, but with better-than-anticipated results, it only received $3.1 million, which bolstered year-end results because the city would have ended with negative results without that funding. Its main source of revenue is property taxes at 56.9%, followed by intergovernmental revenue at 39.7%.

Current expectations for fiscal year 2021 are for another MARB-supported surplus,-albeit smaller than previous years, as COVID-19 did have an effect on operations. Current revenue estimates show property tax collection and other revenues outperformed budgeted levels, while some state aid was not received during the 2021 year. Historically the city has been able to generate multimillion-dollar expenditure variances, but in 2021, it anticipates roughly $655,000 in expenditure savings. It was able to receive some reimbursement for COVID-19-related expenses, although the remainder--roughly $671,000 in expenses--has not yet been reimbursed. Despite the overall increase in expenses, the city was still able to keep the $600,000 contingency to build its fund balance.

West Haven's 2022 budget of $165.5 million is a slight increase in spending of 0.06%. The budget includes in the effects of revaluation of the grand list, which translated into a reduction in mill rate for real estate and personal property. It is important to note that the city has not included MARB funding in the 2022 budget. It anticipated an increase of $1.6 million in a tier payment in lieu of taxes (PILOT) agreement, in addition to an increase in conveyance taxes as it continues to see increased real estate activity. On the expense side, the education department is level funded, while debt service and the contingency line item slightly decreased. Increases in public works, safety, and library expenses are included in the budget. We note the city was allocated $29 million in American Rescue Plan (ARP) funds, and is currently in the planning stages for the use of that money. We anticipate the city will be able to maintain at least balanced operations, as it has shown a recent track record of conservative budgeting practices.

Very weak budgetary flexibility

West Haven's budgetary flexibility is very weak, in our view, with an available fund balance in fiscal 2020 of 1.9% of operating expenditures, or $3.2 million. Impairing budgetary flexibility, in our view, is limited capacity to both reduce expenditures and raise revenues due to consistent and ongoing political resistance.

The city's 2020 fund balance was supported by its restructuring grants. Based on its expectation for 2021, we anticipate another increase in fund balance, although we do not anticipate that the increase in fund balance would change our overall view of budgetary flexibility. Management continues to explore avenues for costs savings; however, these opportunities are focused on ways the city can streamline operations without affecting staffing levels or city services. We believe that making additional expenditure cuts remains challenging. In addition, we believe West Haven's revenue-raising flexibility will be tested, given that the city has not consistently raised its mil rate in the past. If management demonstrates a more consistent approach to raising revenues, in line with forecasts, we could revise our opinion, and our view of the city's flexibility may improve.

Strong liquidity

In our opinion, West Haven's liquidity is strong, with total government available cash at 8.6% of total governmental fund expenditures and 96.2% of governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

In the previous year, the city's liquidity position significantly improved over the previous two years as a result of deficit financing during the year and stronger operating performance aided by the restructuring grants. We note that the liquidity position, adjusted for restricted cash in outside funds, has grown but remains below 2018 levels. We expect West Haven's cash and liquidity position will remain stable and increase as the city continues to achieve balanced operating results. Management has not issued any tax anticipation notes in the past three years. West Haven did not delay its property tax collection during 2020, and 2021, but elected to reduce the late payment fee to avoid any disruption in cash flow.

The city maintains strong external liquidity, demonstrated by its issuance of GO debt and BANs during the past 15 years. Given West Haven's improving cash position and no anticipated drawdowns in the short term, we expect the city's liquidity profile to remain, at least, very strong.

Strong debt and contingent liability profile

In our view, West Haven's debt and contingent liability profile is strong. Total governmental fund debt service is 9.0% of total governmental fund expenditures, and net direct debt is 50.4% of total governmental fund revenue. Approximately 66.5% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city has about $111 million in total direct debt outstanding, including about $11 million in short-term debt. To be conservative, we have excluded the short term debt in our 10-year amortization calculation. We note that currently, the city has $68.9 million in authorized but unissued debt. However, it anticipates it will be un-authorizing unneeded projects, and a vast majority of this unissued debt will not be issued. However, we note that that city's $150 million five-year CIP calls for $69.2 million in debt issuances, with $49.7 million of the total amount for the high school project. The city is also looking into $42.1 million in Clean Water loans, which should be self-supporting.

While we do not expect West Haven's debt profile to change over the next two years, should the city's market values improve or its debt burden increase to where market value per capita falls above 3%, with additional debt issuances, we believe its debt profile could weaken.

Pension and other postemployment benefit (OPEB) highlights:

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for West Haven.
- The city's pension plan contributions are actuarially determined, although with discount rates that could lead to volatility. However, we expect costs to remain affordable.
- We note that police officers and employees hired after 2009 and 2013, respectively, participate in a defined contributory plans.
- Although the city pays OPEB liabilities on a pay-as-you-go basis, it is prefunding benefits through a trust and has made changes to benefits for new hires.

West Haven administers two contributory defined-benefit pension plans as of June 30, 2019:

- The City of West Haven Police Pension Trust Fund, with a net pension liability(NPL) of $28.9 million, and a funded ratio of 79.75%.
- The Allingtown Fire District pension plan, with a NPL of $23.4 million and a funded ratio of 28.2%.
- OPEBs in the form of lifetime retiree and dependent health care benefits: 0.0% funded, with a net OPEB liability of $308.1 million-which a trust has been set up.

West Haven's combined required pension and actual OPEB contributions totaled 5.4% of total governmental fund expenditures in 2020. Of that amount, 2.0% represented required contributions to pension obligations, and 3.4% represented OPEB payments. The city made its full required pension contribution in 2020. We note that the Police Pension Fund had investments that did not perform at historical levels for 2020. Additionally, the city did lower its discount rate for its OPEBs, resulting in the year-over-year increase in the liability.

West Haven has not always funded its actuarially determined contribution (ADC) in the past. However, the city made its full ADC toward the police plan and the required contribution toward the fire plan for 2019, 2020, and 2021. We anticipate it will continue this funding discipline. The city anticipates continuing to overfund the ADC for the Allingtown Fire Plan to increase funding level. The fire plan is anticipating funding 116% of its ADC in 2022. The city is looking into possibly creating a hybrid plan for police to retain officers.

West Haven also provides OPEBs to city and Allingtown Fire District retirees in the form of health insurance. As of June 30, 2020, its unfunded OPEB liability was about $308.1 million; the unfunded liability associated with the

Allingtown Fire District was about $29.4 million. The city funds OPEBs through pay-as-you-go financing. It has set up a trust fund and has budgeted for contributions to the trust as part of its 2021 expenses and 2022 budget. While we believe the city's retirement costs remain manageable and changes to its health insurance plans should reduce its liabilities and overall costs, should these savings and liability reductions not materialize or its pension and OPEB costs increase, our view of its debt and contingent liability profile could weaken.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of September 8, 2021)		
West Haven GO (AGM)		
Unenhanced Rating	BBB(SPUR)/Positive	Outlook Revised
West Haven GO (BAM)		
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Many issues are enhanced by bond insurance.