

Town of Tolland, Connecticut

Proposed Debt Management Plan Fiscal Years 2023 to 2027



February 10, 2022

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Managing Director



Executive Summary

Existing and Authorized-But-Unissued Debt

As of February 2022, the Town has outstanding tax-supported long-term debt outstanding of approximately \$34 million, and \$10,615,000 of short-term Notes that mature on September 15, 2022. Authorized-but-unissued debt totals \$10,441,827.

Proposed Debt Issuance Plan

Actual and proposed capital projects for fiscal years ending 2023 through 2027 total \$24,510,000.

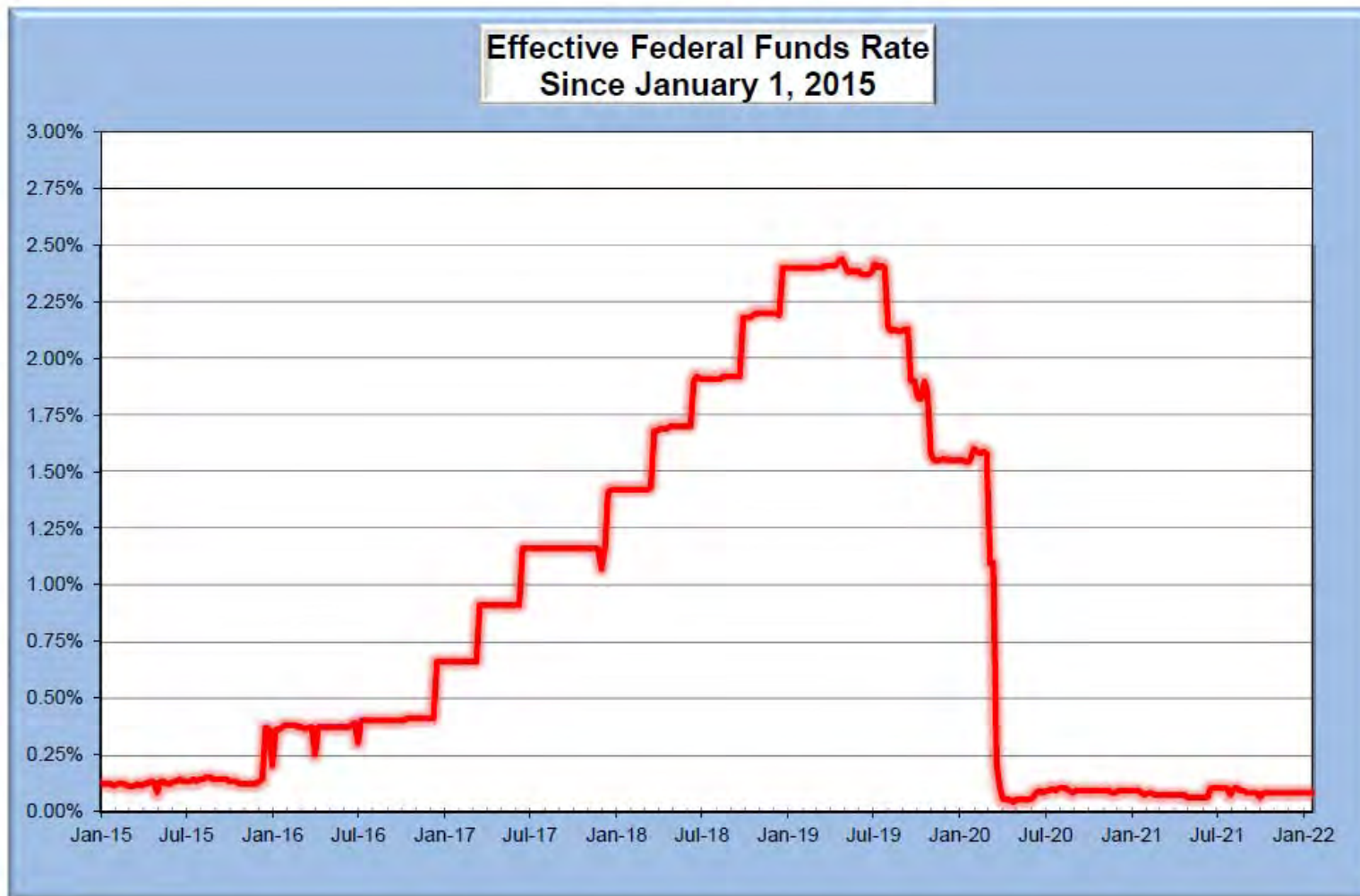
	Remaining Authorized But Not Issued	Capital Needs From CIP FY 21-22 Plan	Total Cash Needs
Year 1 - FY 2022-23	\$ 8,628,000	1,777,000	\$ 10,405,000
Year 2 - FY 2023-24	820,000	1,725,000	2,545,000
Year 3 - FY 2024-25	790,000	1,995,000	2,785,000
Year 4 - FY 2025-26	0	6,555,669	6,555,669
Year 5 - FY 2026-27	203,827	2,015,504	2,219,331
			-
	\$ 10,441,827	\$ 14,068,173	\$ 24,510,000
	Amount Issued		
YEAR 1	10,405,000	Issue Bonds - Sept 2022	
YEAR 2	2,545,000	Issue BANS - Sept 2023	
YEAR 3	5,330,000	Issue Bonds - Sep 2024	
YEAR 4	6,555,000	Issue BANS - Sept 2025	
YEAR 5	8,775,000	Issue Bonds - Sep 2026	
	\$ 24,510,000	Total amount Bonded	

Long-term Interest Rates – Past 54 Years

Ten Year U.S. Treasury Yield - January 1968 to February 2022 (54 Years)




Short-term Interest Rates



Town Bond Ratings

Standard & Poor's & Fitch Rating Scales



Highest	<u>AAA</u>	AAA
	<u>AA+</u>	AA+
	<u>AA</u>	AA
	<u>AA-</u>	AA-
	<u>A+</u>	A+
	<u>A</u>	A
	<u>A-</u>	A-
	<u>BBB+</u>	BBB+
	<u>BBB</u>	BBB
Lowest	<u>BBB-</u>	BBB-

Major Rating Assessment Categories

- 1) Management Practices – 25%
 - Fiscal Discipline and Ability to Plan, Monitor and Manage Government Finances
- 2) Economy & Demographics – 30%
 - Unemployment Rate, Housing Values
- 3) Financial Performance – 25%
 - Fund Balance Levels & Budgetary Discipline
- 4) Debt Management – 10%
 - Debt % of Budget, Debt % of Grand List
- 5) Long-term Liabilities – 10%
 - Pension & OPEB (Retirement Health Care)

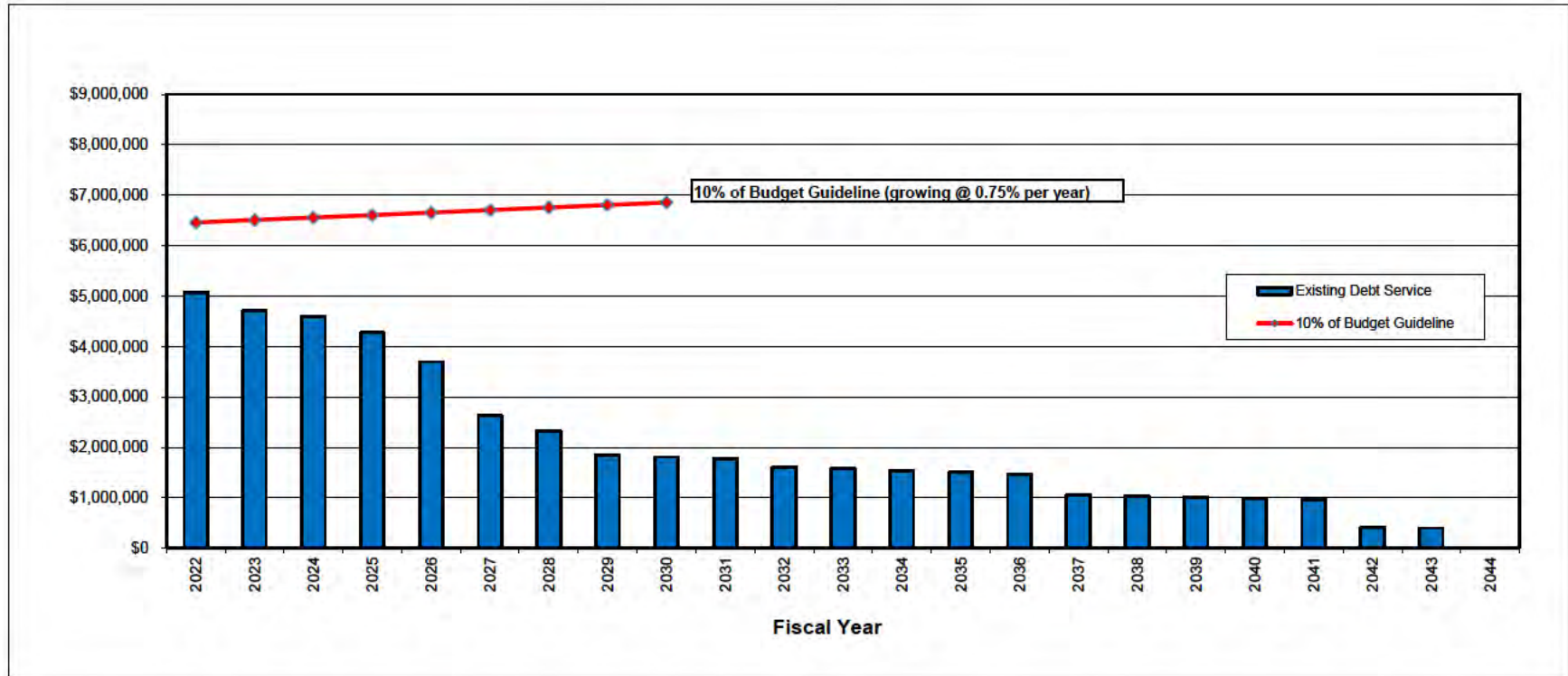
Importance of Fund Balance

- The Town's demographic profile is healthy but below average compared to other "AAA" rated municipalities in Connecticut and across the country
- The Town is over-achieving with its AAA bond rating due to strong management practices and current fund balance levels
- What is the debt service cost if the town gets downgraded from AAA to AA+

DATE	Debt Service with AAA @ 2.25%	Debt Service with AA+ @ 2.40%	Savings
06/30/2023	275,737.50	300,247.50	24,510.00
06/30/2024	1,767,637.50	1,815,427.50	47,790.00
06/30/2025	1,739,962.50	1,785,292.50	45,330.00
06/30/2026	1,707,343.75	1,750,218.75	42,875.00
06/30/2027	1,679,781.25	1,720,206.25	40,425.00
06/30/2028	1,652,218.75	1,690,193.75	37,975.00
06/30/2029	1,624,656.25	1,660,181.25	35,525.00
06/30/2030	1,597,093.75	1,630,168.75	33,075.00
06/30/2031	1,569,531.25	1,600,156.25	30,625.00
06/30/2032	1,541,968.75	1,570,143.75	28,175.00
06/30/2033	1,514,406.25	1,540,131.25	25,725.00
06/30/2034	1,486,843.75	1,510,118.75	23,275.00
06/30/2035	1,459,281.25	1,480,106.25	20,825.00
06/30/2036	1,431,718.75	1,450,093.75	18,375.00
06/30/2037	1,404,156.25	1,420,081.25	15,925.00
06/30/2038	1,376,593.75	1,390,068.75	13,475.00
06/30/2039	1,349,031.25	1,360,056.25	11,025.00
06/30/2040	1,321,468.75	1,330,043.75	8,575.00
06/30/2041	1,293,906.25	1,300,031.25	6,125.00
06/30/2042	1,266,343.75	1,270,018.75	3,675.00
06/30/2043	1,238,781.25	1,240,006.25	1,225.00
Total	\$30,298,462.50	\$30,812,992.50	\$514,530.00

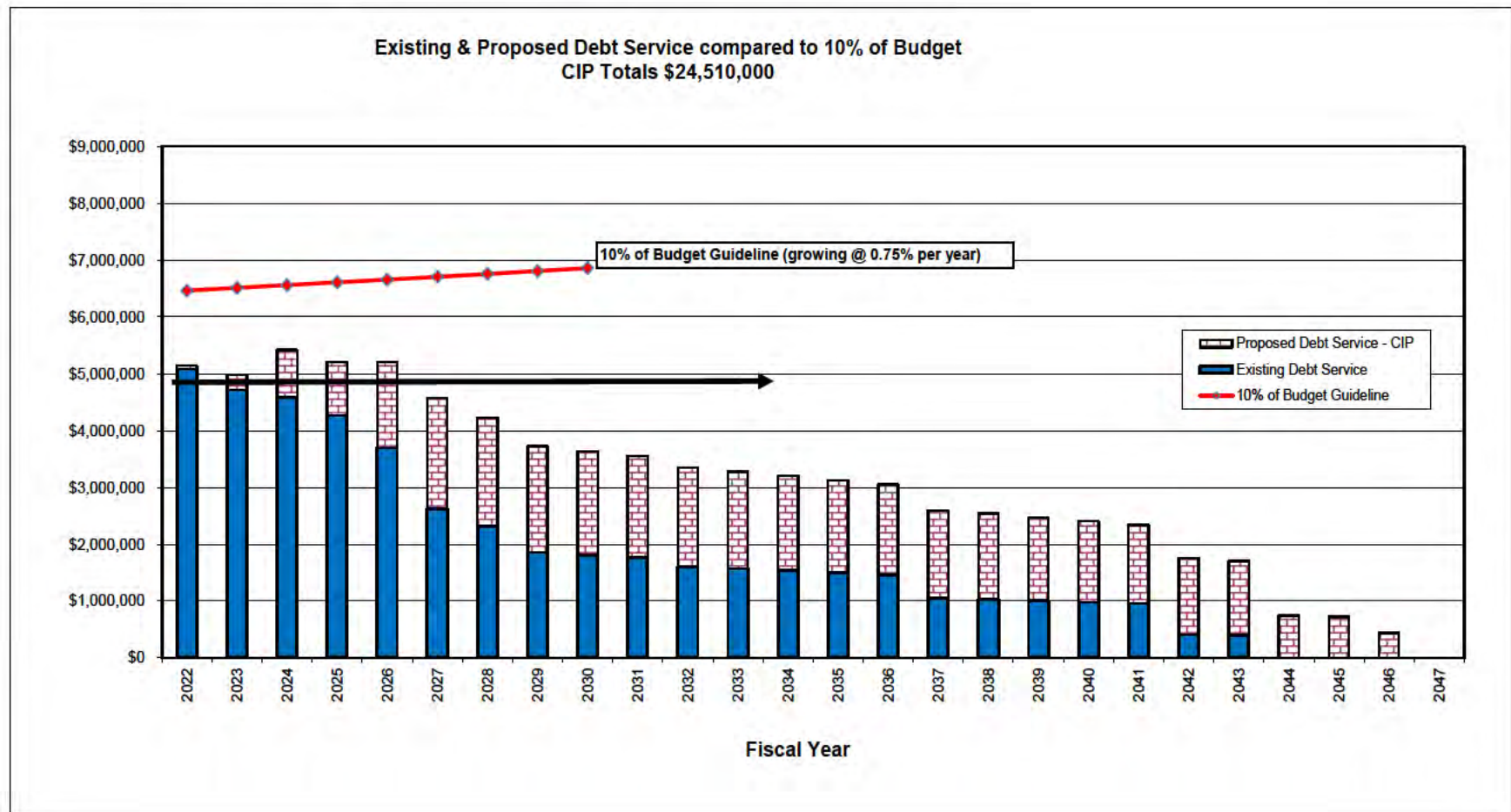
Existing Debt Service

The Town's existing debt service amortizes fairly aggressively. That decrease will help to mitigate the impact of the new debt that will be issued for the Capital Improvement Program.



The Proposed Debt Issuance Plan makes the following assumptions:

- Bonds issues to be issued at a rate of 3.0% and increasing 0.25% for subsequent issues.
- Current Bond rates for Tolland are at 2.25%
- Bond issues are amortized over 20-years
- Growth in the grand list was assumed at 0.75% per year



Projected Impact of the Proposed Capital Plan on the Debt Service Budget

FY 2023 – increase of \$50,000

FY 2024 – increase of \$50,000

FY 2025 – stays flat

FY 2026 – stays flat

FY 2027 – stays flat or decreases

Summary Points

- The Federal Reserve has kept short-term interest rates near zero since the pandemic started in March 2020. However, they are expected to increase rates several times this year.
- Long-term rates hit all-time lows in 2020 and 2021, however long-term rates have started to increase with the current yield on the 10-year U.S. Treasury Bond at close to 2.00%.
- The Town issued \$10,615,000 of short-term BANs at a rate of 0.14% and mature in September of 2022. Plans are to issue bonds in September 2022.
- The Town has above average bond ratings: S&P & Fitch both rate the Town “AAA”. These highest possible ratings will allow the Town to borrow at the lowest possible rate
- Some factors mentioned in the recent S&P and Fitch reports that justify the AAA ratings include: Very Strong Management Practices, Strong Budget Flexibility and Liquidity and Limited Pension and OPEB liabilities.
- The Town has numerous formalized policies that include: Fund Balance, Debt Service and Capital Improvement.
- The Town’s existing debt service amortizes aggressively, which helps to mitigate the impact of the proposed new debt.
- The proposed capital plan totals \$24,510,000 which would put a “moderate” amount of pressure on the Town’s debt service budget. The Town’s use of the debt service fund helps to mitigate the impact of the new debt.
- In order to manage the projected increase in debt service, the Town would need to increase the annual debt service budget for the next 2 years by about \$50,000. *(This could change if rates increase dramatically)*
- The current debt plan is “conservative” meaning, debt is amortized equally over 20-years. We could explore principal deferral or extending the amortization period of the bond issues.