



RATING ACTION COMMENTARY

Fitch Affirms Tolland, CT's GO Bonds at 'AAA'; Outlook Stable

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Fitch Ratings - New York - 23 Aug 2023: Fitch Ratings has affirmed Tolland, CT's Long-Term Issuer Default Rating (IDR) and outstanding series 2012A, 2012B and 2018 general obligation bonds (GOs) at 'AAA'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅		PRIOR ⇅
Tolland (CT) [General Government]	LT IDR	AAA Rating Outlook Stable	AAA Rating Outlook Stable
	Affirmed		
Tolland (CT) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	AAA Rating Outlook Stable
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)

SECURITY

The bonds are backed by Tolland's full faith and credit and unlimited taxing authority.

ANALYTICAL CONCLUSION

The 'AAA' GO bond rating and IDR reflect Fitch's expectation that Tolland will maintain a high level of fundamental financial flexibility through future downturns, consistent with a history of the town's exceptional financial operations. A low long-term liability burden, unlimited legal ability to raise property taxes and solid expenditure flexibility contribute to the town's strong financial profile. The town does not have responsibility for a defined benefit plan for employees or retirees, which distinguishes Tolland from most other local governments that Fitch rates.

Economic Resource Base

Tolland is a residential community located in central Connecticut about 20 miles northeast of Hartford and 90 miles southwest of Boston. The town benefits from its proximity to the University of Connecticut's main campus. The town's 2020 estimated population of 14,500 was slightly below 2010 levels. Wealth levels exceed state and national averages.

KEY RATING DRIVERS

Revenue Framework: 'aa'

The bulk of operating revenues are derived from property taxes levied on a predominantly residential tax base. The town continues to dedicate resources towards economic development including rezoning efforts to encourage investment. Fitch expects moderate future revenue growth in line with long-term rates of U.S. inflation based on new development planned or underway and property value appreciation. Anchoring the revenue framework assessment is unlimited taxing authority.

Expenditure Framework: 'aa'

The natural pace of spending growth is expected to be marginally above that of revenues. The majority of the general fund spending pays for education. Fixed carrying costs for debt service, pensions, and other post-employment benefits (OPEB) are low at 7% of fiscal 2022 total governmental expenditures. The town maintains adequate control over wages and benefits in labor contracts, supporting solid expenditure flexibility.

Long-Term Liability Burden: 'aaa'

The town's outstanding debt represents a low 4% of residents' estimated personal income. Fitch anticipates Tolland's long-term liability burden will remain low due to moderate future debt needs. Tolland does not offer a defined benefit plan and the board of education

employees participate in the state-administered pension plan for which the state has funding responsibilities.

Operating Performance: 'aaa'

Fitch expects Tolland to manage through periods of economic decline while maintaining a sound financial cushion based on its superior level of budgetary flexibility in the form of solid expenditure and unlimited taxing authority. Management has maintained a combined available fund balance of 17%-20% in recent years, which is in line with or above its fund balance policy of maintaining a general fund balance of 10% to 17% of general fund operating expenditures.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable for 'AAA' ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A sustained period of revenue growth below inflation;

--An inability to maintain balanced general fund operations leading to notable declines in general fund reserves;

--Growth in long-term liabilities at or above 10% of personal income.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CURRENT DEVELOPMENTS

Tolland has maintained healthy general fund reserves in excess of 14% of spending and transfers out since 2014. Fiscal 2022 (FYE June 30) operations included a modest draw on general fund reserves of \$422 thousand or a de minimis 0.6% of spending. Management originally budgeted a \$1.3 million fund balance appropriation, but better than budgeted revenue and expenditure performance reduced the use of reserves. The fiscal 2022 unrestricted general fund balance was \$12.4 million or 19% of spending.

The fiscal 2023 adopted general fund budget assumed a 3% increase yoy and included increases in property tax revenues and state and federal grants primarily for education. Recent tax base growth has enabled the town to cut the millage rate 1.4% to 36.58 mills, while still budgeting increases in property tax collections. The fiscal 2023 budget included the use of \$268 thousand in fund balance (0.4% of spending) and \$255 thousand in general fund contributions to the capital improvement fund. Preliminary results indicate that the town will end the year instead with a \$1 million surplus due to investment income performance and additional state aid.

The fiscal 2024 adopted general fund budget of \$61.5 million reflects a 3% yoy spending increase and a mill rate increase of 2.05%. The town has again budgeted a modest use of fund balance of \$200 thousand or 0.3% of spending. Given Tolland's conservative budgeting, Fitch anticipates that the town will likely perform better than budgeted and in line with historical experience. Fiscal 2023 spending drivers include higher health insurance costs, funding increases for education and general fund contributions for capital improvements. Tolland received approximately \$4.3 million in ARPA funds, which are being used to support various infrastructure projects and equipment purchases.

The town issued \$9 million in BANs in 2022, which are expected to be paid from state education grant proceeds with \$6.7 million anticipated to be paid off this year and \$2 million next year. The town is planning to issue GO bonds of just under \$5 million in September of 2023 (not rated by Fitch).

CREDIT PROFILE

Residents are employed in the central Connecticut area, primarily in the financial services, industrial, governmental and higher education sectors. Tolland is located within 10 miles of the main campus of the University of Connecticut at Storrs (UConn) and within commuting distance of metropolitan Hartford. Per capita personal income levels exceed those of both the state and the nation, and average unemployment rates have typically trended below state and national averages.

Tolland recently granted special permit approval to a 240-unit luxury apartment complex, which is currently under construction. Management continues to actively manage new economic development efforts to promote tax base growth and has been experiencing new building permit activity. [Zillow.com](https://www.zillow.com) reports an estimated 26% increase in median home values from September 2020 to June 2023.

Criteria Variation

None

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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APPLICABLE CRITERIA

[U.S. Public Finance Tax-Supported Rating Criteria \(pub. 04 May 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 ([1](#))

ADDITIONAL DISCLOSURES

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Tolland (CT)

EU Endorsed, UK Endorsed

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