

RatingsDirect®

Summary:

Tolland, Connecticut; General Obligation; Note

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Credit Profile

US\$9.17 mil GO BANs dtd 09/15/2022 due 09/14/2023

<i>Short Term Rating</i>	SP-1+	New
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US\$2.64 mil GO bnds, issue of 2022 ser 2022A due 09/15/2037

<i>Long Term Rating</i>	AAA/Stable	New
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Tolland GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Tolland, Conn.'s approximately \$2.64 million series 2022A general obligation (GO) bonds and its 'SP-1+' short-term rating to the town's roughly \$9.17 million GO bond anticipation notes (BANs).
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's existing GO debt.
- The outlook is stable.

Security

The town's full-faith-and-credit pledge secures the bonds and BANs. The short-term rating reflects our opinion of the town's general creditworthiness and market-risk profile, which we consider low. The low market-risk profile reflects our view of the town's strong legal authority to issue long-term debt to take out the BANs and ongoing disclosure to market participants.

Officials intend to use series 2022 bond and BAN proceeds to finance school-facility and road improvements and purchase a new firetruck.

Credit overview

Tolland's very strong local economy, benefiting from participation in a broad and diverse metropolitan statistical area (MSA), supports the rating. We think consistent financial performance, which has allowed for the maintenance of very strong reserves backed by a manageable debt-and-liability profile, proves rating stability.

The rating reflects our opinion of the town's:

- Very strong local economy, primarily residential property tax base, with increasing commercial development;
- Consistent finances, supporting very strong reserves;
- Robust, very strong management with strong financial-management policies and practices under our Financial Management Assessment (FMA) methodology and strong Institutional Framework, which continues to support strong finances; and

- Moderate debt with limited retirement-plan liability due to a lack of a defined-benefit pension plan.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to Tolland's economy, management, financial measures, and debt-and-liability profile; we view them as neutral in our credit analysis.

Outlook

The stable outlook reflects S&P Global Ratings view of Tolland's plan to maintain balanced financial operations and sustain very strong reserves in-line with the adopted policy.

Downside scenario

We could lower the rating if financial performance were to deteriorate, leading to a continuous reduction of reserves and weakening of budgetary flexibility, particularly if pressured by large state aid reductions.

Credit Opinion

A stable residential tax base, benefiting from participation in the MSA

Tolland is 20 miles northeast of Hartford and 90 miles southwest of Boston on Interstate 84. The town benefits from participation in the Hartford-West Hartford-East Hartford MSA, which we consider broad and diverse. The MSA presents employment opportunities in the financial-services, industrial, government, and higher-education sectors. Leading employers include Tolland itself; Gerber Garment Technologies; and Woodlake at Tolland, a nursing home. Tolland is a primarily residential community. Management is focusing on nonresidential zoning changes, an improved fee-and-permit structure, and a regional economic marketing effort to draw new business and development to town. Building permit values have increased during the past few years due to projects, such as a recently approved 270-unit apartment complex.

The continued maintenance of strong reserves, backed by positive financial operations

For analytic consistency, we have adjusted for recurring transfers and the use of bond proceeds for capital outlay. In fiscal 2021, revenue and expenditures performed better than budgeted. The town relies primarily on property taxes, which generated 74% of general fund revenue in fiscal 2021. Property tax collections remained strong, in our view, at more than 99%. Tolland realized expenditure savings due to special education and student transportation, as well as savings due to COVID-19-related library and senior-center closures. Tolland's American Rescue Plan Act of 2021 (ARPA) allocation is approximately \$4.4 million. The town formed a subcommittee to guide the use of ARPA funds, and recommendations include funding for mental-health services to address community needs and several one-time items of the capital-improvement plan (CIP) originally funded by debt or other reserves.

The town reports fiscal 2022 revenue largely in-line with the budget. Tax revenue exceeded the budget again due primarily to the strength of motor-vehicle revenue. The adopted budget also included reduced state-education aid; however, after adopting the budget, the town learned the state would not reduce this amount. Tolland made transfers into the education-reserve and tax-stabilization funds. Management expects final results will not reflect a change in reserves, and we expect the town will likely maintain reserves at more than 15% of expenditures.

The adopted fiscal 2023 budget represents a 2.25% increase over the fiscal 2022 budget. The fiscal 2023 budget maintained all town services and included an expected wage increase for most employees and increased revenue due to continued tax base growth and higher state-education aid. The budget includes a fund-balance appropriation that other budgets have included; however, the town expects that it will not be required to use this appropriation and that it will report breakeven results for fiscal 2023.

Tolland has not entered into any bank loans, direct-purchase debt, or contingent-liquidity risk from financial instruments with payment provisions that change upon the occurrence of certain events.

Strong financial-management policies and practices, including long-term financial, capital planning

Management's conservative revenue and expenditure assumptions reflect current budgetary needs and long-term financial projections. The budget process also includes three years of revenue and expenditure trends. Tolland's long-term financial plan for revenue and expenditures currently projects four years out, updated annually. Management provides the town council with quarterly reports on budget-to-actual results.

The town's five-year CIP has ties to the budget and clearly identifies funding for specified capital projects. The CIP informs debt issuance. Tolland's investment-management policy calls for quarterly holdings-and-earnings reports to the town council. Tolland maintains a comprehensive debt-management plan, including affordability measures. The town caps debt per capita at \$3,800 and debt service at 10%. Finally, the reserve policy has ties to budgetary needs, maintaining unassigned fund balance at 10%-15% of expenditures.

The Institutional Framework score for Connecticut municipalities is strong.

Manageable debt with additional debt plans as part of the CIP

Subsequent to the series 2022 bond and BAN issuance, Tolland will have approximately \$43.6 million in direct debt outstanding. The town expects to issue additional new-money debt during the next few years as part of the CIP, which we do next expect will alter our view of the debt profile. This debt should total approximately \$18 million. Tolland also expects to finance more pay-as-you-go capital needs, supported by ARPA funds during the next couple of years.

Pension and OPEB

We do not view pension and OPEB liabilities as an immediate credit pressure for Tolland due to limited liabilities and current funding of those liabilities. Management mostly attributes retirement liabilities to OPEB liabilities. Tolland does not currently have any local defined-benefit pension plans. Town employees, except teachers, participate in a defined-contribution plan; teachers participate in Connecticut State Teachers' Retirement System, and the town neither contributes to this plan nor recognizes plan liabilities.

The total OPEB liability is about \$3.2 million, which is approximately 55% funded, resulting in a net OPEB liability of about \$1.4 million. Tolland did not meet the actuarially determined contribution in fiscal 2021 due to reduced claims attributed to medical-procedure deferrals. Due to funding, low carrying charges, and limited unfunded liabilities, we do not view OPEB as a credit pressure.

Rating above the sovereign

Tolland's GO bonds are eligible to be rated above the sovereign because we think it can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And

Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, Tolland has a predominantly locally derived revenue source with 75% of general fund revenue from property taxes, coupled with independent taxing authority and treasury management from the federal government.

Tolland, Connecticut Select Key Credit Metrics

	Most recent	--Historical information--		
		2021	2020	2019
Very strong economy				
Projected per capita effective buying income as a % of U.S.	141.3			
Market value per capita (\$)	128,026			
Population		14,891	14,877	14,859
County unemployment rate(%)		5.1		
Market value (\$000)	1,906,433	1,821,904		
10 leading taxpayers as a % of taxable value	6.0			
Strong budgetary performance				
Operating fund result as a % of expenditures		(0.2)	3.4	0.2
Total governmental fund result as a % of expenditures		0.7	2.6	1.2
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		19.1	19.8	17.1
Total available reserves (\$000)		11,971	12,227	10,180
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		15.1	15.9	18.0
Total government cash as a % of governmental fund debt service		242.5	253.8	219.8
Very strong management				
Financial Management Assessment	Strong			
Strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		6.2	6.3	8.2
Net direct debt as a % of governmental fund revenue	47.1			
Overall net debt as a % of market value	2.2			
Direct debt 10-year amortization (%)	54.9			
Required pension contribution as a % of governmental fund expenditures		0		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		0.1		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2021 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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