

# RatingsDirect®

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## Summary:

# Tolland, Connecticut; General Obligation; Note

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## Summary:

# Tolland, Connecticut; General Obligation; Note

### Credit Profile

US\$4.965 mil GO bnds ser 2023 due 09/15/2043

<i>Long Term Rating</i>	AAA/Stable	New
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US\$2.11 mil GO BANs dtd 09/14/2023 due 09/13/2024

<i>Short Term Rating</i>	SP-1+	New
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Tolland GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Tolland GO BANs

<i>Short Term Rating</i>	SP-1+	Affirmed
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Tolland GO BANs dtd 09/14/2023 due 09/13/2024

<i>Short Term Rating</i>	SP-1+	Affirmed
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### Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Tolland, Conn.'s approximately \$4.965 million series 2023 general obligation (GO) bonds and its 'SP-1+' short-term rating to the town's approximately \$2.1 million GO bond anticipation notes (BANs).
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating and 'SP-1+' short-term rating on the town's existing GO debt and notes outstanding.
- 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 2023 bond and BAN proceeds to finance various capital projects and school facility and road improvements, and to provide funds for a firehouse improvement project.

### Credit overview

Tolland is a predominantly residential area that maintains very strong economic characteristics and benefits from participation in a broad and diverse metropolitan statistical area (MSA). The town's financial performance has stayed steady over several years, which has allowed for the maintenance of very strong reserves. The town also maintains a manageable debt and liability profile, with limited capital needs into the future. The town has very little pension and other postemployment benefits (OPEB) liabilities and its costs are very low and manageable.

The 'AAA' rating reflects our opinion of the town's:

- Very strong local economy and primarily residential property tax base, with increasing commercial development;
- Consistent and stable finances, supporting very strong reserves;
- Robust, very strong management with strong financial management policies and practices under our Financial Management Assessment (FMA) methodology and a strong institutional framework, which continues to support strong finances; and
- Low debt burden, with minimal retirement plan liabilities 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, and 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 and a low debt burden in line with the town's policies.

### **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.

## **Credit Opinion**

### **Stable residential tax base, benefiting from participation in the MSA**

Tolland is a primarily residential community, 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. Management is focusing on nonresidential zoning changes, an improved fee and permit structure, and a regional economic marketing effort to attract new business and development. Building permit values have increased during the past few years due to projects, such as a recently approved 270-unit apartment complex. We expect the town's tax base to continue improving from current base trends.

### **Continued maintenance of strong reserves, backed by positive financial operations**

The town relies primarily on property taxes, which generated 79% of budgeted general fund revenue in fiscal 2022. Property tax collections remained strong, in our view, at more than 99%. Tolland's financial performance has been generally strong. In addition to its very strong reserve balances, the town maintains flexibility in its budget, given its robust pay-as-you-go capital program, supported by a dedicated capital and nonrecurring reserve fund. The current balance in the fund is upward of \$1 million; this, coupled with prudent budgeting practices, provides the town the discretion and ability to make budgetary changes to maintain steady operating performance, particularly during times of economic disruption, as evidenced through the pandemic. Tolland's American Rescue Plan Act of 2021 (ARPA)

allocation was approximately \$4.4 million, and of that amount roughly \$2.5 million remains unexpended. The town formed a subcommittee to guide the use of ARPA funds, with recommendations including 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 has not utilized any funds within its operating budget.

The town reports fiscal 2023 revenue exceeded the budget and expenses remained in line with estimates. Currently, the town projects a budgetary surplus of \$1.0 million. Tax revenue again exceeded the budget, and the town benefited from higher investment earnings, state aid, and local receipts. Tolland made transfers into the tax stabilization funds and capital nonrecurring funds pursuant to its ordinance governing excess state revenues. Management expects 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 2024 budget represents a 3.08% increase over the fiscal 2023 budget. The budget maintained all town services and support to the board of education. The tax levy increase is in line with years past at 2.05%. The budget includes a fund-balance appropriation that previous budgets have also included; however, we believe that the town will report balanced operating results, as has been the case in the past, driven by its conservative assumptions.

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 2023 bond and BAN issuance, Tolland will have approximately \$44.6 million in direct debt outstanding. The town expects to issue additional new-money debt during the next few years as part of the CIP. The town does not have any sizable bond issuances planned that will materially alter our view of the debt profile. 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 because of its 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 the Connecticut State Teachers' Retirement System, and the town neither contributes to this plan nor recognizes plan liabilities.

The total OPEB liability is about \$3.1 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 because of reduced claims attributed to medical-procedure deferrals. As a result of current 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--Key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	143			
Market value per capita (\$)	128,102			
Population		15,155	14,891	14,877
County unemployment rate (%)	3.8			
Market value (\$000)	1,941,379	1,837,154	1,821,904	1,831,234
Ten largest taxpayers % of taxable value	5.8			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures	-0.6	-0.2		3.4
Total governmental fund result % of expenditures	0.2	0.7		2.6
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures	17.3	19.1		19.8
Total available reserves (\$000)	11,391	11,971		12,227
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures	22	15		16
Total government cash % of governmental fund debt service	283	243		254
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Very strong debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures	7.9	6.2		6.3
Net direct debt % of governmental fund revenue	61			
Overall net debt % of market value	2.3			
Direct debt 10-year amortization (%)	67			
Required pension contribution % of governmental fund expenditures	0.0			

**Tolland--Key credit metrics (cont.)**

	<b>Most recent</b>	<b>Historical information</b>		
		<b>2022</b>	<b>2021</b>	<b>2020</b>
OPEB actual contribution % of governmental fund expenditures		0.2		

**Strong institutional framework**

EBI--Effective buying income. OPEB--Other postemployment benefits.  
Data points and ratios may reflect analytical adjustments.

## Related Research

- 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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