

# RatingsDirect®

---

## Summary:

# Tolland, Connecticut; General Obligation

### Primary Credit Analyst:

Anthony Polanco, Boston + 1 (617) 530 8234; [anthony.polanco@spglobal.com](mailto:anthony.polanco@spglobal.com)

### Secondary Contact:

Thomas J Zemetis, New York + (303) 721-4278; [thomas.zemetis@spglobal.com](mailto:thomas.zemetis@spglobal.com)

## Table Of Contents

---

Rationale

Outlook

Related Research

## Summary:

# Tolland, Connecticut; General Obligation

### Credit Profile

US\$9.34 mil GO bnds ser 2018 due 05/15/2043

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

## Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Tolland, Conn.'s series 2018 general obligation (GO) bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge secures the bonds.

We understand officials plan to use series 2018 bond proceeds to fund various capital improvement projects and finance the town's bond anticipation notes permanently.

Tolland's GO bonds are eligible for a rating above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the town has a predominately locally derived revenue source with 68% of general fund revenue from property taxes; it also has independent taxing authority and treasury management from the federal government.

The rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total-governmental-fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 16.7% of total-governmental-fund expenditures and 2.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt-and-contingent-liability position, with debt service carrying charges at 7.7% of expenditures and net direct debt that is 68.8% of total-governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 68.7% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

### **Very strong economy**

We consider Tolland's economy very strong. The town, with an estimated population of 14,935, is in Tolland County in the Hartford-West Hartford-East Hartford MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 140% of the national level and per capita market value of \$122,121. Overall, market value has grown by 0.9% during the past year to \$1.8 billion in fiscal 2018. The county unemployment rate was 4.4% in 2016.

Tolland is a residential community, 20 miles northeast of Hartford and 90 miles southwest of Boston, Mass. on Interstate 84. Residents find employment predominantly in the financial services and industrial, government, and higher-education sectors. Leading employers include the town itself; Gerber Garment Technologies; and Woodlake at Tolland, a nursing home.

The town serves as the primary access point to University of Connecticut's main campus, 10 miles southeast. The town has completed zoning regulations for a technology campus zone on Route 195, the main thoroughfare to the university, to provide economic-development opportunities for technology or research businesses with relationships with the university. Tolland approved an 87-unit multifamily development adjacent to the zone.

Tolland adopted regulations in the Tolland Village area to encourage retail, residential, and business growth. It also recently completed a feasibility study that indicates there is a market for restaurants, apartments, and a hotel in the area. The town's commercial sector also continues to see some growth with new restaurants, flooring shops, two fitness centers, and a storage facility opening.

The town has also seen an increase in property tax abatements during the past few years due to crumbling foundations for a few properties. Officials indicate abatements have averaged about 48 per year during the past two years; reductions in assessments have averaged about \$75,000 for each parcel. Any property that has applied for the abatement, which is allowable for up to five years, will have the abatement removed once it makes repairs. While officials estimate the 2018 grand list could see small decreases in real estate value due to abatements, they indicate that the number of parcels is relatively small and that the town has adjusted its mill rate accordingly to reflect these changes annually and not have an effect on finances.

There is also no taxpayer concentration with the 10 leading taxpayers accounting for 5.8% of total assessed value. Overall, we expect the economy will likely remain very strong.

### **Very strong management**

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Management is conservative in its revenue and expenditure assumptions, which are rooted in historical trends, current budgetary needs, and long-term financial projections. Tolland's long-term financial plan for revenue and expenditures currently projects three years out. It also has a five-year capital improvement plan (CIP). The CIP, tied to the budget, clearly identifies intended funding sources for specified capital projects.

Tolland's investment-management policy calls for reports on holdings and earnings quarterly to the town council, which is also involved in budgetary surveillance; management provides the council with quarterly reports on

budget-to-actual results. Tolland maintains a comprehensive debt-management plan, complemented by a policy with defined affordability measures. The town caps debt per capita at \$3,800 and debt service at 10%. Finally, management's reserve policy has ties to budgetary needs, maintaining unassigned fund balance at 10%-15% of expenditures.

### **Strong budgetary performance**

Tolland's budgetary performance is strong, in our opinion. The town had operating surpluses of 1.7% of expenditures in the general fund and 2.2% of expenditures across all governmental funds in fiscal 2017. General fund operating results have been stable during the last three fiscal years, with a result of 0.8% of expenditures in fiscal 2016 and 0.1% in fiscal 2015.

Fiscal 2017 results include adjustments for recurring transfers and large one-time capital expenditures paid for with bond proceeds outside of the general fund. Management attributes the fiscal 2017 surplus primarily to conservative budgeting that led to strong tax collections, increased building permits, and higher-than-budgeted charges for services revenue. The town also realized cost savings of more than \$528,000 with the majority from lower-than-budgeted expenditures from the school department.

The fiscal 2018 budget totals \$55.6 million and includes a \$400,000 fund-balance appropriation, which the town has done historically. Tolland currently estimates, at worst, it could see a decrease in fund balance of about \$309,000 due mainly to lower-than-budgeted revenue, particularly state-education cost-sharing grants. Management indicates that while revenue is slightly underbudget, it continues to identify savings across various areas of the budget, including public-safety and school-department costs, which it expects will help make up for budgetary shortfalls. Management does not expect any department to exceed its appropriation.

For fiscal 2019, the town's proposed budget represents a 0.81% increase over fiscal 2018. Officials indicate they have budgeted more conservatively for education cost-sharing grants. Due to recent conversations with the state, the town expects to receive more than \$500,000 than what is currently budgeted; we understand the town will not seek to modify this revenue item accordingly in its final budget. Therefore, we expect budgetary performance will likely remain strong.

Property taxes account for 68% of general fund revenue followed by intergovernmental revenue at 31%. Tax collections remain strong, averaging 99% over the past three years.

### **Very strong budgetary flexibility**

Tolland's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 16% of operating expenditures, or \$10 million.

Reserves improved in fiscal 2017 because of positive financial operations. For fiscal 2018, the town currently estimates it, at worst, could see a decrease of fund balance of about \$310,000 due to lower-than-budgeted state revenue, particularly state-education cost-sharing grants. However, the town is actively working to mitigate this; management expects it might not fully realize the drawdown as it continues to see savings across the budget, ending fiscal 2018 with balanced operations.

The town also maintains a formal reserve policy that limits unassigned fund balance to a minimum 10%-15% of the

budget, which the town adheres to historically. We estimate that even with the included drawdown, budgetary flexibility will likely remain very strong. Although not expected, if the town were to experience a higher-than-expected drawdown, we could change our assessment of the town's budgetary flexibility.

### **Very strong liquidity**

In our opinion, Tolland's liquidity is very strong, with total government available cash at 16.7% of total-governmental-fund expenditures and 2.2x governmental debt service in fiscal 2017. In our view, the town has strong access to external liquidity if necessary.

We believe regular debt issuance supports the town's strong access to external liquidity. The majority of Tolland's cash and investments are in money markets and certificates of deposit. The town does not have any variable-rate or direct-purchase debt. It has consistently maintained very strong liquidity, and we expect our assessment of liquidity will likely remain unchanged during the outlook period.

### **Very strong debt-and-contingent-liability profile**

In our view, Tolland's debt-and-contingent-liability profile is very strong. Total-governmental-fund debt service is 7.7% of total-governmental-fund expenditures, and net direct debt is 68.8% of total-governmental-fund revenue. Overall net debt is low at 2.6% of market value and approximately 68.7% of direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following this issuance, Tolland has about \$48 million of total direct debt outstanding. The town currently plans to issue about \$13 million in new debt during the next two years to three years for various capital improvement projects.

Tolland's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 0.7% of total-governmental-fund expenditures in fiscal 2018. Of that amount, 0% represented required contributions to pension obligations and 0.7% represented OPEB payments. The town exceeded its full annual required pension contribution in fiscal 2018.

Tolland contributes to a defined-contribution plan for all employees, except teachers. Teachers participate in the Connecticut State Teachers' Retirement System; the town does not contribute to this plan.

For OPEB, Tolland paid more than its required contribution in fiscal 2017, which totaled \$507,996. The town's OPEB liability was actuarially valued at \$4.6 million at July 1, 2016. Tolland has an OPEB trust fund with a current balance of \$1.08 million at June 30, 2017, which represents a funded ratio of 29%. Due to the high OPEB funded ratio and limited liabilities, we expect retirement costs will likely remain manageable.

### **Strong institutional framework**

The institutional framework score for Connecticut municipalities remains strong.

We lowered our predictability sub factor twice during the past 15 months based on our view that local governments are operating in a less predictable environment when budgeting and forecasting state revenue. This action resulted from delayed passage of the state's biennial budget in 2017, which slowed payments to local governments, resulted in a period of significant budgetary stress, and forced municipalities to adopt 2018 budgets amid significant uncertainty. (For more information, please see the article, titled "Connecticut Rating Actions Do Not Affect Strong Institutional

Framework Score on Local Governments," published April 19, 2018, on RatingsDirect.)

## Outlook

The stable outlook reflects S&P Global Ratings' opinion of the town's very strong budgetary flexibility, supported by strong budgetary performance. We think the town's forward-thinking management, with detailed financial planning and forecasting and strict adherence to reserve benchmarks, gives us confidence it will likely sustain strong credit characteristics for many years. We believe what we consider the town's very strong economy, supported by its access to the Hartford MSA, and debt-and-contingent-liability profile, with limited retirement liabilities, further support the rating.

Therefore, we do not expect to change the rating within our two-year outlook period. However, if performance were to become imbalanced, pressured by budgetary challenges on the state level, we could lower the rating.

## 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
- 2017 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.