

RatingsDirect®

Summary:

Tolland, Connecticut; General Obligation; Note

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Credit Profile

US\$10.57 mil GO bnds ser 2020A due 09/15/2040		
<i>Long Term Rating</i>	AAA/Stable	New
US\$4.505 mil GO BANs ser 2020 dtd 09/17/2020 due 09/16/2021		
<i>Short Term Rating</i>	SP-1+	New
US\$2.25 mil GO rfdg bnds ser 2018B due 08/01/2040		
<i>Long Term Rating</i>	AAA/Stable	New
Tolland GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Tolland, Conn.'s series 2020A general obligation (GO) bonds and 2020B GO refunding bonds. At the same time, we assigned our 'SP-1+' short-term rating to the town's 2020 GO bond anticipation notes (BANs). We also affirmed our 'AAA' long-term rating on the town's existing GO debt. The outlook, where applicable, is stable.

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

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, the town maintains a very strong capacity to pay principal and interest when the BANs come due. It maintains what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the BANs and is a frequent debt issuer that regularly provides ongoing disclosure to market participants.

Proceeds of the 2020A bonds will fund a variety of capital projects. Proceeds of the 2020B bonds will refund two series of outstanding GO debt for a present value savings. The BAN issuance provides cash-flow funding for a school project as the town awaits the final state project audit and reimbursement for costs.

Credit overview

Tolland entered the national recession triggered by the outbreak of COVID-19 with very strong budgetary reserves and flexibility, with a very strong management environment. While tax base growth has been relatively flat, the town continues to produce annual surpluses. Additionally, it has very low retirement and debt carrying charges. 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 76% of general fund revenue from property taxes. It also has independent taxing authority and treasury management from the federal government.

While we note significant uncertainty around certain revenue shortfalls and potential state aid cuts that could weaken the town's performance in fiscal year 2021 and beyond, we understand management has already taken measures to cushion the effects of potential revenue shortfalls and has additional measures at its disposal that it could implement should significant cuts happen. Lending further stability to the rating and the outlook are the town's very strong liquidity and stable revenue mix, with the predominant revenue stream of property taxes, which have historically been collected upward of 99% during the fiscal year payable. That said, given that there is still much uncertainty related to the potential effects of COVID-19 and the ensuing recession on the town's finances, we will continue to monitor for any material adverse effects throughout the outlook period. For more information on the coronavirus' effect in U.S. Public Finance, please see our reports titled "The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions" (published April 2, 2020) and "The U.S. Faces A Longer And Slower Climb From The Bottom" (published June 25, 2020).

The long-term rating further reflects our assessment 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;
- Adequate budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 18.0% of total governmental fund expenditures and 2.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 8.2% of expenditures and net direct debt that is 85.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

We evaluated the town's environmental, social, and governance (ESG) factors relative to its economy, financial measures, management, and debt and long-term liability profile. We acknowledge that, absent the implications of COVID-19, we consider the town's social risks in line with those of the sector. We view environmental risks and their potential effect on taxable properties average relative to peers. Management, however, has been proactive in addressing risks by working to obtain grants through the state's Municipal Vulnerability Preparedness Program. We view its governance risks as in line with the sector.

Stable Outlook

Downside scenario

If revenues and expenditures were to become imbalanced, particularly if pressured by large reductions in state aid, leading to declining reserves, we could lower the rating

Credit Opinion

Very strong economy

We consider Tolland's economy very strong. The town, with a population of 14,859, is in Tolland County, 20 miles northeast of Hartford and 90 miles southwest of Boston on Interstate 84. It is in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 149% of the national level and per capita market value of \$122,613. Overall, market value fell by 0.5% over the past year to \$1.8 billion in 2021. The county unemployment rate was 3.3% in 2019.

Tolland is a residential community, whose inhabitants 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.

We expect the town's tax base and underlying wealth and income metrics to remain stable. The town continues to incorporate property tax abatements into its grand list (total assessed value) and budgeting, due to crumbling foundations. The October 2019 grand list included a full revaluation, resulting in a 0.5% decline in the net taxable grand list. Officials indicate this decline is primarily due to abatements and in their absence, they would expect approximately level growth. Management reports several projects underway, which could help boost the grand list in future years. While we do not anticipate revising our view of Tolland's economic profile, we will continue to monitor any effects of the recession on its financial performance.

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 four 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, which includes 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.

Adequate budgetary performance

Tolland's budgetary performance is adequate, in our opinion. The town had balanced operating results in the general fund of 0.2% of expenditures, and slight surplus results across all governmental funds of 1.2% in fiscal 2019. General fund operating results of the town have been stable over the last three years, with results of 1.1% in 2018 and 1.7% in 2017.

Due to the sudden rapid economic deterioration, we have revised our budgetary performance assessment to adequate

from strong. This assessment incorporates heightened near-term uncertainty that exists due to the recessionary pressures related to the COVID-19 pandemic and resulting financial pressures. Over the past three years, the town has consistently produced strong budgetary performance, reflecting surpluses in the general fund. It is expecting another surplus in fiscal 2020 of approximately \$1.3 million, with revenues and expenditure both outperforming the budget.

The 2021 budget is a less than 1% increase from the 2020 adopted budget. While it includes a use of \$500,000 from reserves, we do not expect a drawdown of this size to alter our view of performance or flexibility. In fiscal 2019, local property taxes accounted for about 76% of general fund audited revenue. Intergovernmental aid was about 22%. We believe the town faces potential long- and short-term revenue pressure from state aid reductions. It has begun to incorporate long-term aid reductions into its financial planning and budgeting, but we believe state revenue pressures could lead to additional reductions over the next few years, potentially pressuring municipal budgets statewide, which we consider in our assessment of financial performance.

Very strong budgetary flexibility

Tolland's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 17% of operating expenditures, or \$10.2 million.

The town has consistently maintained very strong available reserves. While it is at the upper bound of its general fund reserve target, we do not expect material deterioration of reserves, particularly as the town expects to add to reserves in 2020. While Tolland is working through potential revenue and expenditure volatility in the current health and economic situation, we expect our view of flexibility will remain very strong.

Very strong liquidity

In our opinion, Tolland's liquidity is very strong, with total government available cash at 18.0% of total governmental fund expenditures and 2.2x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

We believe regular debt issuance demonstrates the town's strong access to external liquidity. The majority of Tolland's cash and investments are in money markets and certificates of deposit, which we do not view as risky. The town does not have any variable-rate or direct-purchase debt. While it could have delayed collections in the current economic environment, we do not believe these will materially affect its cash position or liquidity profile.

Adequate debt and contingent liability profile

In our view, Tolland's debt and contingent liability profile is adequate. Total governmental fund debt service is 8.2% of total governmental fund expenditures, and net direct debt is 85.1% of total governmental fund revenue. Overall net debt is low at 3.0% of market value, which is, in our view, a positive credit factor.

Following this issuance, Tolland has about \$52.4 million of total direct debt outstanding. We expect the town to issue several million dollars in new-money debt annually as part of its capital program, but do not expect that to affect our view of the debt profile. We understand the town does not expect to permanently finance the outstanding BANs, as they are issued in expectation of future state grants, which would reimburse the town for the BANs.

Pension and other postemployment benefits (OPEBs)

Tolland's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 0.5% of total governmental fund expenditures in 2019, all of which was toward OPEBs as the town has no local defined-benefit pension plans. Tolland's employees (except teachers) participate in a defined-contribution plan. Teachers participate in the Connecticut State Teachers' Retirement System; the town does not contribute to this plan nor does it recognize any liability.

For OPEBs, 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.

The town offers OPEBs to eligible employees. Its total OPEB liability is about \$3.5 million. The OPEB liability is approximately 37% funded, resulting in a net OPEB liability of about \$2.2 million. After several years of contributing more than the actuarially determined contribution (ADC), the town did not meet the ADC in 2019; however, given the funded status, low carrying charge, and limited unfunded liability, we do not view OPEBs as a credit pressure.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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