Tolland, Connecticut

New Issue Report

Ratings

Long-Term Issuer Default Rating	AAA

New Issue

$9,340,000 General Obligation Bonds, Issue of 2018	AAA

Outstanding Debt

General Obligation Bonds	AAA

Rating Outlook

Stable

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New Issue Summary

Sale Date: May 15 via competition.

Series: $9,340,000 General Obligation Bonds, Issue of 2018

Purpose: To retire maturing notes issued to finance various school and town projects.

Security: Tolland's (the town) full faith and credit and unlimited taxing authority.

Analytical Conclusion

The 'AAA' GO bond rating and Issuer Default Rating reflect the town's low long-term liability burden and exceptional financial operations, supported by high levels of revenue-raising authority and solid expenditure flexibility. The town does not have responsibility for a defined benefit plan for employees or retirees, which distinguishes it from most other local governments rated by Fitch Ratings. These positive credit attributes position Tolland to withstand potential challenges associated with a future moderate economic downturn and Fitch's expectation for slow natural revenue growth.

Economic Resource Base: The town is a residential community located in central Connecticut about 20 miles northeast of Hartford and 90 miles southwest of Boston. Its census population was 14,791 in 2017, reflecting 13% growth since 2000 despite modest decreases the past few years. Wealth levels exceed state and national averages.

Key Rating Drivers

Revenue Framework: 'aa'
The bulk of operating revenues is derived from property taxes levied on a predominantly residential and affluent tax base. Fitch expects growth prospects for revenues to generally track the level of inflation going forward based on weak post-recession tax base appreciation and potential reductions in future state aid. Connecticut municipalities have unlimited taxing authority.

Expenditure Framework: 'aa'
The vast majority of the general fund budget pays for education. Future spending growth is expected to mirror revenue performance similar to historical results. Fixed carrying costs are low and management maintains moderate control over wages and benefits in labor contracts, providing solid expenditure flexibility.

Long-Term Liability Burden: 'aaa'
The town's long-term liability burden represents a very manageable 5% share of resident personal income, owing to conservative debt management and minimal retiree benefit obligations. Fitch does not expect the burden to change materially.

Operating Performance: 'aaa'
Generally conservative budgeting and steady revenue performance with moderate tax rate increases have allowed revenues to keep pace with spending growth, yielding relatively stable financial results with periodic surpluses. Reserves have been consistently maintained within the town's prudent formal fund balance target, currently between 10% and 17% of spending, a more than sufficient reserve cushion relative to scenario-estimated revenue volatility.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	4/30/18
AAA	Upgraded	Stable	10/11/16
AA+	Revised	Stable	4/30/10
AA	Upgraded	Stable	8/16/06
AA–	Affirmed	Positive	8/15/05
AA–	Affirmed	Stable	11/15/04
AA–	Assigned	—	5/20/02

Rating Sensitivities

Management Practices: Fitch expects the ratings to remain stable in the absence of a shift in management practices and/or policy and resultant weakening of the town's long-term operating profile.

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. Unemployment rates have traditionally been below state and national averages.

Revenue Framework

Property taxes are the town's main source of revenue, making up close to 70% of general fund revenues. State municipal aid accounts for the bulk of remaining general fund sources and is subject to periods of volatility linked to state budgetary pressures and policy action. Fitch expects the natural pace of revenue growth to track inflation over time, although it is vulnerable to further slowing. Tax base growth has been slow and there is only a modest level of new development currently planned or underway. In addition, the town and schools are vulnerable to declines in state aid.

The town's most recent five-year statutorily required tax-base revaluation, completed Oct. 1, 2014 (effective for fiscal 2016) reflected a 3.5% drop linked to post-recessionary housing and commercial property value declines. Given this softening in tax base performance and new construction activity, Fitch expects slow general fund revenue growth to continue as the state makes efforts to stabilize its financial condition and Tolland's efforts to improve economic development come to fruition. Management continues to dedicate resources towards economic development and looks to promote investment opportunities for research and technology businesses, especially those with relationships with UConn. Town planning and zoning regulations and requirements have recently been modified to help encourage new economic development efforts. A lack of future natural revenue growth could make expenditure growth more difficult to accommodate without policy action.

The town has independent legal ability to raise property taxes without limit. The annual budget is subject to voter approval, but proposals are presented on an appropriation basis, thereby ensuring sufficient revenues to meet voter-approved spending levels. The town has a sound history of budget approval.

Expenditure Framework

Tolland is responsible for the provision of public education, the cost of which is funded by a combination of local contributions and state aid. Low fixed carrying costs for debt service and retiree benefits and a moderate control over labor costs provide a solid level of spending flexibility.

Education spending accounted for 74% of fiscal 2017 general fund expenditures followed by public works at 7%. Total spending has increased at a manageable pace in recent years maintaining alignment with revenue performance. Future spending requirements are not expected to change materially from historical patterns.

Related Research
Fitch Rates Tolland, CT's $9MM Ser 2018 GO Bonds 'AAA'; Outlook Stable (April 2018)

Related Criteria
U.S. Public Finance Tax-Supported Rating Criteria (April 2018)

The town maintains a solid level of spending flexibility, due largely to low debt and retiree benefit costs at 8% of total governmental spending. The metric is primarily driven by debt service and incorporates the town's aggressive approach to debt repayment (74% of principal is repaid within 10 years, inclusive of this issue). The town provides a defined contribution pension plan for general employees. These costs are not included in the above metric but equated to less than 1% of total fiscal 2017 governmental spending. The lack of a defined benefit plan provides for an element of spending flexibility most Fitch-rated local governments do not have.

Other post-employment benefits (OPEB) spending is minimal. The low carrying cost metric is somewhat offset by more limited spending flexibility related to education and personnel.

Union contracts are subject to arbitration but a decision may be rejected by a two-thirds vote by town council. A new arbitration panel would then be appointed by the state and their subsequent decisions are required to take into consideration the financial capability of the employer.

Long-Term Liability Burden

The town's long-term liability burden is a low 5% of resident personal income. Liabilities are constituted entirely of the town's direct debt and capital lease obligations which total $47 million. Future debt needs include approximately $13 million in new debt to be issued over the next five years, which is planned to be structured to keep annual debt service costs level for the next eight fiscal years before descending. The town's conservative debt management practices, rapid amortization rates and manageable capital needs indicate that the burden will remain stable over the next several years.

Tolland does not provide any defined pension benefits for general employees, instead funding a defined contribution plan at 6% of payroll. Teachers participate in the state administered Connecticut State Teachers' Retirement System for which employers have no responsibility for funding. OPEB represents a modest burden on the local resource base. Management has contributed 100% or more of the OPEB annual required contribution over the past few years.

Operating Performance

The town has maintained a strong level of financial resilience, with reserves comfortably above Fitch's reserve safety margin for a 'aaa' assessment. For details, see Scenario Analysis, page 5.

Reserve levels remained strong throughout the recession, and management has continued adding to its financial cushion with surplus results in three of the past four fiscal years. General fund reserves equaled an ample 16% of spending in fiscal 2017 following a $1.1 million net operating surplus (1.7% of spending) as a result of conservative budget assumptions on the city and school side, a milder winter than expected, and employee attrition savings. The town has historically maintained reserves at the upper end of its target fund balance range of 10% to 17% of general fund spending and expects to remain at this level in future years.

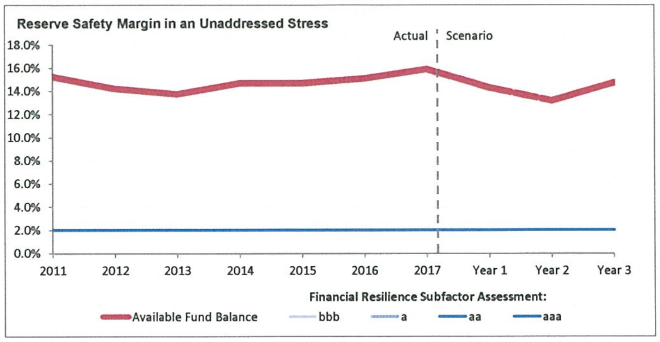
The fiscal 2018 budget was down slightly compared to the prior year's budget and included a 0.85% mill rate increase. The budget anticipates a decrease in state and federal grants of close to $1 million, including a reduction in education cost sharing grants. The tax millage increase, growth in the tax base and a budgeted use of $400,000 of fund balance offset these decreases. Town expenditures were down modestly and education funding was held flat. Projections for year-end assume a conservative assumption for state hold backs of education aid requested by the governor. If this were to occur management is projecting a modest deficit of around $300,000.

The fiscal 2019 budget is still in preliminary stages but the proposed budget represents a moderate increase over the fiscal 2018 budget primarily attributable to an increase in education funding. Departmental spending will generally be held flat and conservative assumptions have been made for state aid. Another, moderate increase in the mill rate is included in the proposal. Fitch believes that the town's affluent tax base can support current and future tax rate increases as needed to offset continued slow growth in the tax base.

Tolland (CT)

Scenario Analysis

v. 2.0 2017/03/24



Analyst Interpretation of Scenario Results:

The town has maintained a strong level of financial resilience, with reserves comfortably above Fitch's reserve safety margin for a 'aaa' assessment. General fund reserves are sufficient to weather the simulated revenue decline in a moderate economic downturn scenario. Management maintains discretionary reserve funds outside of the general fund which provide additional financial resilience. The town's superior level of inherent budget flexibility is representative of solid expenditure flexibility and its unlimited legal ability to raise revenues if necessary.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	2.4%	4.8%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2011	2012	2013	2014	2015	2016	2017	Year 1	Year 2	Year 3
Total Revenues	51,852	55,823	56,290	57,368	57,670	59,776	64,133	63,492	65,026	68,135
% Change in Revenues	-	7.7%	0.8%	1.9%	0.5%	3.7%	7.3%	(1.0%)	2.4%	4.8%
Total Expenditures	50,993	55,470	56,171	56,694	57,475	58,735	62,876	64,133	65,416	66,724
% Change in Expenditures	-	8.8%	1.3%	0.9%	1.4%	2.2%	7.0%	2.0%	2.0%	2.0%
Transfers In and Other Sources	43	141	60	-	87	88	121	120	123	128
Transfers Out and Other Uses	387	266	311	186	286	652	297	303	309	315
Net Transfers	(344)	(125)	(251)	(186)	(199)	(564)	(176)	(183)	(187)	(187)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	515	228	(132)	488	(4)	476	1,081	(825)	(576)	1,224
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	1.0%	0.4%	(0.2%)	0.9%	(0.0%)	0.8%	1.7%	(1.3%)	(0.9%)	1.8%
Unrestricted/Unreserved Fund Balance (General Fund)	7,811	7,898	7,736	8,336	8,466	8,942	10,024	9,199	8,623	9,847
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	7,811	7,898	7,736	8,336	8,466	8,942	10,024	9,199	8,623	9,847
Combined Available Fund Bal. (% of Expend. and Transfers Out)	15.2%	14.2%	13.7%	14.7%	14.7%	15.1%	15.9%	14.3%	13.1%	14.7%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.