

RatingsDirect®

Summary:

Tolland, Connecticut; General Obligation

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Summary:

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Credit Profile

US\$7.565 mil GO bnds iss ser 2015 due 10/15/2035

<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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Tolland GO

<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Tolland, Conn.'s 2015 general obligation (GO) bonds and affirmed its 'AAA' long-term rating on the town's parity debt outstanding. The outlook is stable.

The bonds are secured by the town's full faith and credit pledge. We understand bond proceeds will be used to retire existing bond anticipation notes and for road improvements, upgrades to the Tolland Public Library, and a school security installation, among other capital projects.

The rating reflects our opinion of the following factors for the town:

- 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 a slight operating surplus in the general fund and an operating surplus at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 14.7% of operating expenditures;
- Very strong liquidity, with total government available cash of 21.2% of total governmental fund expenditures and 2.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges of 8.3% of expenditures and net direct debt that is 74.3% of total governmental fund revenue and low overall net debt at less than 3% of market value and rapid amortization with 68.4% of debt scheduled to be retired in 10 years; and Strong budgetary flexibility with available reserves at 13.8% of operating expenditures in fiscal 2013; and
- Very strong institutional framework.

Very strong economy

We consider Tolland's economy very strong. The town, with an estimated population of 14,931, is located in Tolland County 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 140% of the national level and per capita market value of \$124,470.

Overall, the town's market value was stable over the past year at \$1.9 billion in 2016. The county unemployment rate was 5.6% in 2014.

Tolland is a residential community, 20 miles northeast of Hartford and 90 miles southwest of Boston on Interstate 84. Residents are employed predominantly in financial services as well as in the industrial, government, and higher education sectors. The town's largest employers include the town itself (498 employees), Gerber Garment Technologies (300), and a nursing home (275).

The town serves as the primary access point to the main campus of the University of Connecticut, which is 10 miles southeast. Town officials are investigating development opportunities to complement Tolland's proximity to campus, including a hotel and further development of the Gateway Design District, a commercial/office/mixed use zone on Route 195.

Tolland undertook an internal revaluation in 2014, resulting in a 3.51% decline in assessed values to \$1.27 billion from \$1.31 billion). Reflecting nationwide trends in the housing market, 89% of the properties in Tolland have decreased in value in the past five years, according to town management. However, management is seeing signs of a rebound in the housing market based on home purchases and building permits. The 10 largest taxpayers represent a very diverse 5.26% of assessed values.

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.

Town management is conservative in its revenue and expenditure assumptions, which are rooted in historical trends, current budgetary needs, and based on long-term financial projections. Tolland has a long-term financial plan for revenues and expenditures, which currently projects three years out, as well as a five-year capital improvement plan (CIP). The CIP clearly identifies intended funding sources for specified capital projects and is tied to the budget. Tolland has an investment management policy and reports on holdings and earnings in quarterly statements to the town council. Town council is also involved in budgetary surveillance and receives quarterly budget-to-actual reports. Tolland maintains a comprehensive debt management plan, which is complemented by a policy with defined affordability measures. Debt per capita is capped at \$3,800 and debt service is capped at 10%. Finally, the town has a reserve policy that is tied to budgetary needs and keeps available reserves at 8%-15% of expenditures.

Strong budgetary performance

Tolland's budgetary performance is strong in our opinion. The town had slight surplus operating results in the general fund of 0.9% of expenditures, and surplus results across all governmental funds of 4.2% in fiscal 2014. General fund operating results of the town have been stable over the last three years, with a result of negative 0.3% in 2013 and a result of 0.2% in 2012.

Our calculations for fiscal 2014 net out a one-time capital expenditure of \$10 million, relating to HVAC and energy improvements. Management said the surplus in the general fund is a result of strong tax collections, increased building permit revenue, and expenditures coming in less than budget. Property taxes are the primary revenue source for Tolland at 68% of revenues, followed by state aid, which accounts for 30%.

The fiscal 2015 budget includes \$334,217 of fund balance for various capital projects. Management expects that only \$209,444 will be needed. The 2016 budget is balanced with an estimated \$54.6 million in expenditures, although the town has budgeted a \$250,000 use of fund balance to offset capital and other one-time contingency expenditures. The 2016 budget is a 2.9% increase over the previous year.

Strong budgetary flexibility

Tolland's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 14.7% of operating expenditures, or \$8.3 million. The town has a fund balance policy to maintain available reserves of 8%-17% of expenditures, to which it has historically adhered. Management does not have any plans to draw down on reserves and aims to maintain the fund balance in the upper limits of the policy threshold. The town has additional reserve funds for cost overruns pertaining to education, utilities, and storms.

Very strong liquidity

Tolland's liquidity is very strong, with total government available cash at 21.9% of total governmental fund expenditures and 268% of debt service. In addition, we believe the town has strong access to external liquidity, having issued GO debt frequently in recent years.

We believe the town's strong access to external liquidity is supported by regular debt issuances. The majority of Tolland's cash and investments are in money markets and CDs. The town has no variable-rate or direct purchase debt. It has consistently maintained very strong liquidity and we expect our assessment of liquidity to remain unchanged during our outlook period.

Strong debt and contingent liability profile

In our view, Tolland's debt and contingent liability profile is strong. Total governmental fund debt service is 8.3% of total governmental fund expenditures, and net direct debt is 74.3% of total governmental fund revenue. Overall net debt is low at 2.5% of market value and approximately 68.4% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following this bond issuance, Tolland has \$46 million of total direct debt outstanding. The town has no immediate plans to issue additional debt.

Tolland's combined pension and OPEB contributions totaled 0.8% of total governmental fund expenditures in 2015. Tolland's pension plan is a defined-contribution plan, which limits the town's pension liabilities, and teachers' pensions are paid by the state. For OPEB, Tolland paid nearly its full required contribution in 2014, which totaled \$483,000. The town's OPEB liability was actuarially valued at \$4.6 million as of July 1, 2014. The town has an OPEB trust fund with a current balance of \$789,028.

Very strong institutional framework

We consider the institutional framework score for Connecticut towns very strong.

Tolland's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "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 derived from property taxes with

independent taxing authority and independent treasury management from the federal government.

Outlook

The stable outlook reflects Standard & Poor's opinion that Tolland will likely continue to report and maintain strong budgetary flexibility over the next two years. We believe an improved economic outlook, predictable operating profile, and very strong liquidity will result in balanced operations. Furthermore, the town's forward-thinking management practices, with detailed financial planning and forecasting as well as strict adherence to reserve benchmarks, gives us confidence that the town will be able to sustain strong credit characteristics for many years into the future. We see very few credit pressures due to limited additional debt needs and a fully funded OPEB liability. However, if performance were to become imbalanced, pressured by budgetary challenges on the state level, we could lower the rating. Given the aforementioned credit strengths, we are unlikely to lower the rating within our two-year outlook horizon.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

- Institutional Framework Overview: Connecticut Local Governments

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