S&P Global Ratings

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Research Update:

Tolland, CT Series 2025 GO BANs Rated 'SP-1+'; GO Debt Affirmed At 'AAA'; Outlook Stable

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Overview

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Tolland, Conn.'s $5.815 million series 2025 general obligation (GO) bond anticipation notes (BANs), payable Nov. 11, 2026.
- We also affirmed our 'AAA' long-term rating on the town's GO debt outstanding.
- The outlook, where applicable, is stable.

Rationale

Security

Tolland's full-faith-and-credit pledge secures the notes and outstanding bonds.

Proceeds from the notes will be used to finance various capital projects.

Credit highlights

Tolland's credit profile is supported by consistent financial performance and stable debt and retirement liabilities, with low annual costs. Although county-level economic output lags the nation, high resident incomes, given property taxes are most of the town’s revenue, provide uplift to our view of the economic profile. Furthermore, the rating reflects a robust management framework that emphasizes long-term planning with well-embedded financial policies. We think these will help maintain ample reserves and low debt metrics as the town plans for operational and capital needs over the outlook period.

The town reports fiscal 2024 and fiscal 2025 revenue exceeded the budget, and expenses were below budgeted levels due to savings related to staff attrition. Currently, the town projects a budgetary surplus of almost $1.0 million in fiscal 2025, before transfers out. Tax revenue again exceeded the budget, and the town benefited from higher investment earnings, state aid, and local receipts. We anticipate the town will likely maintain reserves at more than 15% of revenue in accordance with its fund balance policy, and with fiscal 2025 results, available reserves will likely increase from current levels. Due to a revaluation, the town’s grand list sharply increased in fiscal 2026 but management has kept the tax levy steady by lowering the mill rate. The $63.6 million adopted fiscal 2026 budget includes a fund-balance appropriation that previous budgets also included. However, we believe the town will continue to report balanced operating results, as previously, driven by its conservative assumptions.

The rating further reflects our view of Tolland's:

- Affluent and stable local economy, with household incomes that are significantly higher than those of county and national peers, providing economic uplift. The town benefits from participation in the Hartford regional economy, which presents employment opportunities in the financial services, industrial, government, and higher-education sectors. Building permit values have increased during the past few years due to projects, such as a recently approved 270-unit apartment complex, the town’s largest development yet. We expect the town's tax base to continue improving. Gross county product continues to lag the nation, and we expect that growth in economic output will also still lag the nation.
- Positive operations, including an expected $1 million surplus in fiscal 2025, backed by a reliance on property tax revenue, stable reserves consistent with the policy of at least 10%-17% of expenditure, and a balanced fiscal 2026 budget. Property taxes are approximately 70% of revenue, followed by intergovernmental state aid, which is about 25%.
- Stronger management environment than state peers, with a wide array of policies and practices updated annually and well-tied to the general operating environment. The town has robust budgeting practices with realistic assumptions, monthly reviews of budget-to-actual reports, a comprehensive five-year capital plan with funding sources that is updated annually, and a well-laid out financial plan with assumptions detailed in the budget presentation. Also included in the budget is an investment policy that adheres to state statutes, a reserve policy that sets a stabilization reserve target of 10%-17% of budgeted operating expenditure, and a debt management policy with affordability thresholds including debt per capita capped at $3,800 and debt service at 10%.
- Approximately $39.2 million in direct debt outstanding, after the 2025 BAN issuance. The town expects to issue modest amounts of new-money debt during the next few years as part of the capital improvement plan but forecasts amortization during the same period will keep debt metrics roughly stable. The town does not have any sizable bond issuances planned that will materially alter our view of the debt profile.
- Lack of 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 net other postemployment benefit (OPEB) liability is about $1.1 million. As a result of current funding, low carrying charges, and limited unfunded liabilities, we do not view OPEB as a credit pressure.
- Connecticut municipalities have a generally stable operating framework with significant statutory flexibility to raise local-source revenue for operations. For more information on our institutional framework assessment for Connecticut municipalities, see: "Institutional Framework Assessment: Connecticut Local Governments," Sept. 9, 2024.

Environmental, social, and governance

We view the town's environmental, social, and governance factors as neutral in our rating analysis. Because of Tolland's inland location, storms causing substantial flooding--such as the recent rain event--represent the most significant physical risk.

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," Nov. 19, 2013--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.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the town will maintain balanced financial operations and sustain very strong reserves and a low debt burden in line with its policies.

Downside scenario

We could lower the rating if financial performance deteriorates, leading to a continuous reduction of reserves and weakening of budgetary flexibility.

Tolland, Connecticut--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	1.65
Economy	2.0
Financial performance	2
Reserves and liquidity	1
Management	1.00
Debt and liabilities	2.25

Tolland, Connecticut--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	--	--	54	55
County PCPI % of U.S.	--	--	98	98
Market value ($000s)	--	1,941,379	1,906,433	1,837,154
Market value per capita ($)	--	136,065	131,162	121,224
Top 10 taxpayers % of taxable value	--	6.0	6.0	6.2
County unemployment rate (%)	--	3.2	3.2	3.7
Local median household EBI % of U.S.	--	167	166	165
Local per capita EBI % of U.S.	--	160	148	148
Local population	--	14,268	14,535	15,155

Tolland, Connecticut--key credit metrics

	Most recent	2024	2023	2022
Financial performance				
Operating fund revenues ($000s)	--	70,824	67,454	64,908
Operating fund expenditures ($000s)	--	69,317	66,886	65,166
Net transfers and other adjustments ($000s)	--	(83)	124	(164)
Operating result ($000s)	--	1,424	692	(422)
Operating result % of revenues	--	2.0	1.0	(0.7)
Operating result three-year average %	--	0.8	0.1	0.8
Reserves and liquidity				
Available reserves % of operating revenues	--	18.7	18.0	17.5
Available reserves ($000s)	--	13,228	12,109	11,391
Debt and liabilities				
Debt service cost % of revenues	--	7.3	6.9	7.9
Net direct debt per capita ($)	2,748	2,968	3,373	3,443
Net direct debt ($000s)	39,203	42,352	49,020	52,175
Direct debt 10-year amortization (%)	67	63	--	--
Pension and OPEB cost % of revenues	--	--	--	--
NPLs per capita ($)	--	--	--	--
Combined NPLs ($000s)	--	--	--	--

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$5.815 mil GO BANs dtd 11/12/2025 due 11/11/2026	
Short Term Rating	SP-1+
New Rating	
Local Government	
Tolland, CT Unlimited Tax General Obligation BAN	SP-1+
Ratings Affirmed	
Local Government	
Tolland, CT Unlimited Tax General Obligation	AAA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.