

RatingsDirect®

Summary:

Milton, Massachusetts; General Obligation; Note

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Credit Profile		
US\$12.487 mil GO BANs dtd 02/16/2023 due 08/20/2023		
<i>Short Term Rating</i>	SP-1+	New
US\$8.56 mil GO mun purp loan ser 2023 dtd 02/16/2023 due 02/15/2043		
<i>Long Term Rating</i>	AAA/Stable	New
Milton GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Milton, Mass.' anticipated \$8.56 million series 2023 general obligation (GO) municipal purpose bonds.
- At the same time, S&P Global Ratings assigned its SP-1+ rating to the town's approximately \$12.487 million GO bond anticipation notes (BANs).
- Finally, S&P Global Ratings affirmed its 'AAA' rating on the town's outstanding GO debt.
- The outlook is stable.

Security

Milton's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds. Despite limitations imposed by the commonwealth's levy-limit law, we do not make a rating distinction between the limited- and unlimited-tax GO pledge because of the town's operating flexibility under the levy limit. We rate the limited-tax GO debt based on our view of the town's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no resource fungibility limitations, supporting our view of the town's overall ability and willingness to pay debt service.

The BANs are secured by Milton's full-faith-and-credit pledge, exempted from Proposition 2 1/2 limitations. The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Milton has very strong capacity to pay principal and interest when the BANs come due. We further view the town's market risk profile as low because it has strong legal authority to issue long-term debt to take out the BANs and regularly provides disclosure to market participants.

Proceeds will be used for fire station design and construction and general capital needs.

Credit overview

Milton is an affluent residential town whose wealth indicators have benefited from high housing demand in greater Boston. It expects to post its fourth consecutive general fund surplus in fiscal 2022 and grow its strong fund balances.

Milton has large other postemployment benefit (OPEB) liabilities, but management costs remain low, and the town expects to begin pre-funding its OPEB trust after fiscal 2026, when its single employer pension plan is fully funded. Further supporting the rating is its strong budget monitoring and long-term planning practices.

The rating reflects our view of Milton's:

- Affluent residential economy bordering Boston;
- Strong budgetary performance;
- Regular budget monitoring and comprehensive financial planning; and
- Low debt service costs, but large OPEB liabilities.

Environmental, social, and governance

We view the town's environmental, social, and governance (ESG) risks as neutral within our credit rating analysis.

Outlook

The stable outlook reflects our expectation that Milton will continue to produce balanced operating results and proactively manage its long-term liabilities.

Downside scenario

We could lower the rating if Milton is unable to continue making progress toward funding its long-term liabilities, or if its reserves decreased, either due to structural imbalance or a one-time expenditure, without a plan to restore them.

Credit Opinion

Demand for housing drives market value growth in affluent Boston suburb

Milton, which borders Boston to the south, is an affluent residential community with a small commercial tax base. Residential properties account for 96% of the tax base. Its location on two major interstate highways and proximity to major employment centers have contributed to its very strong wealth and income indicators. The town continues to focus on expanding residential developments, given the high demand for housing throughout greater Boston that has also contributed to the town's strong market value growth. The town has approved 12 developments yet to be completed, totaling 613 new residential units--mostly multifamily units--and 6,250 square feet of commercial space. We expect Milton's economy to remain very strong.

Higher-than-anticipated revenues, healthcare savings drive strong budgetary performance

For analytical consistency, we adjusted performance to account for recurring transfers into the general fund from the town's enterprise accounts, as well as for one-time revenues. In addition, we adjusted total governmental performance to reflect the expenditure of previously received bond proceeds. Milton has generated positive operating results in four consecutive years, including unaudited 2022 projections. Management attributes the town's \$1.5 million fiscal 2021 surplus in part to new growth, motor vehicle taxes, meals tax, and licenses and permits exceeding more-conservative-than-usual projections due to the pandemic. Additionally, the town realized savings due to

vacancies and by replacing departing employees with new hires at lower salaries. In fiscal 2022, these revenue and expenditure trends continued contributing to a positive result. Additionally, the town realized \$1.1 million in unexpected savings on healthcare premiums. The fiscal 2023 budget totaled \$133.8 million, and the town appropriated an additional \$389,000 in December needed to fund unexpected increases in utility and other operating costs due to high inflation. The town received \$8.2 million in American Rescue Plan Act funds, which it used to fund infrastructure and other capital items, COVID-19 response costs, and provide small business aid.

S&P Global Economics now expects full-year U.S GDP growth to be negative 0.1% for 2023, with the likelihood of a shallow recession in the first half of this year, which could limit the town's revenue raising capabilities and pressure costs. However, we view Milton's conservative budgeting practices and reliance on less economically sensitive revenue sources, such as property taxes (68.7%), as strengths that provide operations stability. We expect Milton to produce at least balanced operating results during the outlook period. For more information on S&P Global Economics' view, see "Economic Outlook U.S. Q1 2023: Tipping Toward Recession", published Nov. 28, 2022, on RatingsDirect.

Milton finished fiscal 2021 with a \$13.3 million available fund balance, and we understand the town's fund balances increased further in fiscal 2022. Management plans to use as much as \$2.8 million of its fund balance in fiscal 2023 for non-recurring expenditures, but we still expect the fund balance to remain a level we consider strong. Adding further support to the strong flexibility is Milton's demonstrated track record of overriding the tax levy when needed, suggesting strong community support in managing budgetary growth and service delivery. We anticipate Milton's liquidity will remain very strong.

Management prioritizes budget monitoring and long-term planning

Milton's new town administrator has management experience from other Massachusetts municipalities, and its new finance director recently rejoined the town after working in its finance department until 2020. Milton continues to conduct revenue and expenditure forecasting, using five years of historical data to inform the budget. Departmental heads are consulted regarding trends seen in their respective departments that might affect revenues or expenditures. Budget-to-actual results are reviewed monthly, while investment performance and holdings are reported to the board quarterly. Milton's most recent five-year financial plan covers fiscals 2024 to 2028 and provides detailed projections for each revenue stream and expenditure category, including one-time expenses with federal funds. Historically, the town has maintained a five-year capital improvement plan (CIP), but the town's fiscal 2023 plan covers only three years. New town management intends to resume producing five-year CIPs, and we reviewed a draft copy of a fiscal 2024-2028 CIP that includes long-term revenue and financing strategies. Milton does not maintain a formal reserve policy; however, it adheres to the Massachusetts Department of Revenue's best practices. The issuer has taken steps to mitigate cyber risk.

The institutional framework score for Massachusetts municipalities is strong.

Medium-term debt plans, but debt service costs will likely remain low

Following this issuance, Milton will have \$53.6 million in total direct debt, \$7.6 million of which we consider self-supporting, and will have issued \$15.5 million of the \$32.3 million voter-approved debt exclusion for construction of three fire stations. In August, Milton plans to issue approximately \$9 million of the remaining \$16.8 million

authorized, with the rest in future years. Additionally, the town is considering issuing \$7.5 million for land acquisition and expects to issue about \$3 million to \$5 million annually for general capital needs during the outlook period. Our amortization rate calculation does not consider any of the town's \$15.5 million in short-term debt scheduled to be amortized within 10 years, although we understand the town plans to permanently finance its BANs outstanding and begin principal repayments in three to four years. Despite an increase in direct debt, we expect the town's debt service costs to remain low.

Pension/OPEB

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for Milton, given current management costs, despite low OPEB funding levels and our expectation that OPEB costs will increase.
- Although the town established an OPEB trust for the associated liabilities, the obligations are funded on a pay-as-you-go basis, which given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs. The town has legal flexibility to alter OPEB benefits, which we view as a potential means to mitigate escalating costs should they modify benefits.

Milton participates in the following plans as of June 30, 2021:

- Milton Contributory Retirement System: 95.3% funded, with a net pension liability of \$8.3 million, as of Dec. 31, 2020. If all pension assumptions are met, the town has a funding schedule to fully fund the pension liability by fiscal 2026.
- A single-employer, defined-benefit health care plan that provides health insurance benefits to retirees and their spouses: 0.91% funded, with a net OPEB liability of \$164.0 million, as of June 30, 2022.

With Milton meeting 100% of pension ADCs, contributions exceed both static funding and minimal funding progress. In our view, a discount rate of 7.25% for the town's plan remains above our 6% guideline, which we consider elevated and believe it could lead to contribution volatility.

Milton also administers a single-employer defined-benefit health care plan. It previously established an OPEB trust to pre-fund benefits. Milton's recently adopted OPEB trust funding plan states the town's goal is to appropriate at least \$2.5 million to the OPEB trust annually once its pension plan is fully funded and increase its contribution by 2.5% each year. Although Milton's unfunded OPEB liability is high, management remains proactive in managing those costs and the liability, and the costs as a percentage of expenditures remain somewhat manageable. If pension and OPEB costs as a percentage of expenditures continue to increase and there is no significant change to the funding status of each respective plan, we could negatively adjust this factor.

Rating above the sovereign

Milton's GO bonds and notes 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. The city has a predominately locally derived revenue source, with 68.7% of governmental activity revenue derived from property taxes, with independent taxing authority and independent treasury management from the federal government.

Milton, Mass.: Key Credit Metrics

	Most recent	Historical information		
	2021	2020	2019	
Very strong economy				
Projected per capita EBI % of U.S.	177			
Market value per capita (\$)	257,766			
Population	27,781	27,874	27,909	
County unemployment rate(%)	5.1			
Market value (\$000)	7,161,002	6,572,991		
Ten largest taxpayers % of taxable value	3.9			
Strong budgetary performance				
Operating fund result % of expenditures	1.2	0.2	0.7	
Total governmental fund result % of expenditures	2.8	0.3	0.9	
Strong budgetary flexibility				
Available reserves % of operating expenditures	10.5	9.7	10.1	
Total available reserves (\$000)	13,290	11,749	11,520	
Very strong liquidity				
Total government cash % of governmental fund expenditures	23	15	17	
Total government cash % of governmental fund debt service	746	426	561	
Strong management				
Financial Management Assessment	Good			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures	3.1	3.6	3.1	
Net direct debt % of governmental fund revenue	31			
Overall net debt % of market value	0.6			
Direct debt 10-year amortization (%)	59			
Required pension contribution % of governmental fund expenditures	4.9			
OPEB actual contribution % of governmental fund expenditures	3.7			
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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