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Summary:

Milton, Massachusetts; General Obligation; Note

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Credit Profile		
US\$21.81 mil GO fire station bnds ser A dtd 08/29/2024 due 08/15/2054		
Long Term Rating	AAA/Stable	New
US\$2.925 mil GO mun purp loan bnds ser B dtd 08/29/2024 due 02/15/2039		
Long Term Rating	AAA/Stable	New
Milton GO mun purp ln		
Long Term Rating	AAA/Stable	Affirmed
Milton GO BANs		
Short Term Rating	SP-1+	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Milton, Mass.' roughly \$21.8 million series A general obligation (GO) fire station bonds and its roughly \$2.9 million series B GO municipal purpose loan of 2024 bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the town's outstanding GO debt and its 'SP-1+' rating on the town's outstanding bond anticipation notes, maturing Aug. 30, 2024.
- The outlook, where applicable, is stable.

Security

Milton's full-faith-and-credit pledge secures the bonds. The series A bonds have been exempted from Proposition 2 ½ limitations while the series B bonds are subject to the limitations. 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 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.

Series A proceeds will retire outstanding notes issued for fire station construction. Series B proceeds will fund various capital needs.

Credit overview

Milton's general creditworthiness is supported by its affluent residential economy and cautious budgeting practices, leading to balanced-to-positive operations and maintenance of strong reserves.

Following five consecutive operating surpluses, Milton expects roughly balanced results in fiscal 2024, with about \$4 million in positive revenue and expenditure variance offset by fund balance use for capital and recurring purposes, including \$1.6 million to support operations. The fiscal 2025 budget totals \$146.5 million and uses approximately \$1.6 million in reserves for ongoing purposes. Notably, school department expenditures increased 9%, driven in part by special education costs and integration of services funded with federal funds into the operating budget; this cost

increase was partially offset by reduced pension costs.

One budget uncertainty is Milton's labor contracts, which expire following fiscal 2025, and the tax levy is 99.9% of the maximum allowed by Proposition 2 1/2 limits, limiting flexibility to significantly increase property taxes in future years without voters approving an operating override. Management is considering asking voters to approve an override for fiscal 2026 depending on expected expenditure growth. We anticipate that Milton's management will make budgetary adjustments as necessary to maintain balanced operations, but if the town's performance materially deteriorates on a sustained basis, we could lower the rating.

Milton plans to issue roughly \$22 million for smaller fire station projects over the next two years and considering constructing a \$173 million middle school. We do not believe increased debt service would pressure operations because the two fire station and school construction projects are contingent on voters excluding debt service from Proposition 2 1/2 levy limits. Milton's recently adopted OPEB trust funding plan states that the town's goal is to appropriate at least \$2.5 million to the OPEB trust annually, less pension amortization costs, since the town's unfunded pension liability was fully amortized in fiscal 2024.

The rating reflects our view of Milton's:

- Predominantly residential base (96% of assessed value) with the greater Boston area, nearly 400 residential units in various stages of construction, and its noncompliance with a state requirement to rezone to permit additional multifamily housing, which has resulted in a court case that will be heard by the commonwealth's supreme judicial court this fall;
- Breakeven operations and maintenance of strong fund balance expected in 2024, but limited flexibility under Proposition 2 1/2 levy limits and expiring labor contracts after fiscal 2025;
- Use of historical data in conservative budgeting practices, monthly budget-to-actual review, a comprehensive investment policy and quarterly holdings reports to elected officials, a five-year capital improvement plan that includes long-term revenue and financing strategies, a debt management policy, steps to mitigate cyber risk, a strong institutional framework score, and no reserve policy but adherence to commonwealth best practices; and
- Approximately \$56 million in direct debt following this issuance, \$8 million of which we consider self-supporting, manageable debt service and single-employer pension plan costs, but a large OPEB liability (\$126 million) funded on a pay-as-you-go basis that could pose long-term budgetary pressure.

Environmental, social, and governance

We view Milton's risk management, culture, and oversight risks as somewhat elevated due to its noncompliance with the MBTA Communities Act (MGL c. 40A, Section 3A), which requires certain municipalities to rezone to permit additional multifamily housing units based on their public transportation access. On Feb. 14, 2024, Milton voted to overturn the elected town meeting's compliant zoning plan. The commonwealth has withheld roughly \$400,000 in various grants due to the town's noncompliance, and the state attorney general is suing the town to compel compliance with the zoning requirements. The case will be heard this fall by the Massachusetts Supreme Judicial Court. Milton's major sources of state aid, including education aid, are unaffected. While the town will continue losing access to various grant programs while it fails to comply with the MBTA Communities Act, and may face fines if it loses the case, we view the potential for lost state aid leading to material financial pressure as unlikely. We view the

town's environmental and social factors as neutral in our rating analysis.

Rating above the sovereign

Milton'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. The city has a predominately locally derived revenue source, with 72% of operating revenue derived from property taxes, with independent taxing authority and independent treasury management from the federal government.

Outlook

The stable outlook reflects our expectation that Milton will continue to produce balanced operating results and adjust its budget when necessary.

Downside scenario

We could lower the rating if Milton is unable to make 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.

Milton, Massachusetts--key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	172			
Market value per capita (\$)	306,641	283,791	251,997	236,600
Population		28,588	28,417	27,781
County unemployment rate(%)			3.3	
Market value (\$000)	8,766,263	8,113,005	7,161,002	6,572,991
Ten largest taxpayers % of taxable value	3.7			
Strong budgetary performance				
Operating fund result % of expenditures		2.8	1.2	1.2
Total governmental fund result % of expenditures		3.8	3.2	2.8
Strong budgetary flexibility				
Available reserves % of operating expenditures		14.3	12.1	10.5
Total available reserves (\$000)		18,428	14,787	13,290
Very strong liquidity				
Total government cash % of governmental fund expenditures		25	26	23
Total government cash % of governmental fund debt service		882	782	746
Strong management				
Financial Management Assessment	Good			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		2.9	3.3	3.1
Net direct debt % of governmental fund revenue	30			
Overall net debt % of market value	0.5			

Milton, Massachusetts--key credit metrics (cont.)

	<u>Most recent</u>	<u>Historical information</u>		
		2023	2022	2021
Direct debt 10-year amortization (%)	57			
Required pension contribution % of governmental fund expenditures		5.3		
OPEB actual contribution % of governmental fund expenditures		3.5		

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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