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Summary:

Milton, Massachusetts; General Obligation; Note

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Credit Profile		
US\$20.15 mil GO BANs dtd 08/30/2023 due 08/30/2024		
<i>Short Term Rating</i>	SP-1+	New
Milton GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Milton GO mun purp ln		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' rating to Milton, Mass.'s anticipated \$20.15 million general obligation (GO) bond anticipation notes (BANs), dated Aug. 30, 2023.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the town's outstanding GO debt.
- The outlook, where applicable, is stable.

Security

Milton's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the notes. We note that \$20.0 million of the notes have been exempted from Proposition 2 1/2 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. 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 to renew outstanding notes and issue new money, primarily for fire station construction.

Credit overview

Milton, an affluent residential Boston suburb, expects to post its fifth consecutive general fund surplus and grow its strong fund balances. In fiscal 2023, management expects \$1.5 million in excess revenue and \$1.0 million in expenditure savings to more than offset budgeted use of \$1.5 million in reserves for non-recurring purposes. However, in fiscal 2024, Milton is funding its \$141.6 million budget using about \$4.0 million in reserves, including about \$650,000 for employee benefits, \$600,000 to preserve education positions previously funded with American Rescue Plan funding, and various capital and non-recurring uses. We understand that the town does not plan to use reserves to fund recurring expenses beyond fiscal 2024; management anticipates asking voters to approve an operating override

for fiscal 2025, which would allow the town to raise the tax levy more than the ordinary amount permitted by commonwealth law and balance the fiscal 2025 budget without one-time funding sources or significant expenditure cuts. Milton's demonstrated track record of overriding the tax levy when needed, most recently in 2017, suggests strong community support in managing budgetary growth and service delivery. Despite its use of fund balance, we believe Milton will maintain generally balanced operations and strong reserves beyond fiscal 2024 due to its predictable revenues, conservative budgeting practices, and detailed five-year financial forecasting, reducing expenditures, if necessary, to maintain balance.

While Milton only plans to issue for minor capital improvements during the next two years, the town is in early planning stages for an \$80 million school construction project. We understand the project will be contingent on voters excluding the issuance from Proposition 2 1/2 limitations, which we believe will allow Milton to manage increase debt service without pressuring operations. Milton has significant 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 if all assumptions are met. Milton previously established an OPEB trust to pre-fund benefits and its 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 once its pension plan is fully funded and subsequently increase its contribution by 2.5% each year. However, we expect pension and OPEB costs to continue to rise, which could lead toward budgetary pressure in the long-term and cause us to negatively adjust this factor.

The rating reflects our view of Milton's:

- Affluent residential town with 12 approved developments yet to be completed, totaling 613 new residential units--mostly multifamily units--and 6,250 square feet of commercial space, reflecting high housing demand throughout the greater Boston area;
- Track record of balanced-to-positive operations, but use of reserves to balance fiscal 2024 budget, with an override vote planned that would increase the town's revenue-raising ability under commonwealth levy limitations, strong reserves, and very strong liquidity;
- Use of historical data in conservative budgeting practices, monthly budget-to-actual review, a comprehensive investment policy recently updated 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, and no reserve policy but adherence to commonwealth best practices, steps to mitigate cyber risk, and a strong institutional framework; and
- Approximately \$55.8 million in direct debt following this issuance, \$7.0 million of which we consider self-supporting, manageable debt service and single-employer pension plan costs, but a large OPEB liability (\$164.0 million) funded on a pay-as-you-go basis that could pose long-term budgetary pressure.

Environmental, social, and governance

We view the town's environmental, social, and governance (ESG) factors as neutral in 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.

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 73.6% of operating revenue derived from property taxes, with independent taxing authority and independent treasury management from the federal government.

Milton, Massachusetts--Key credit metrics

	Historical information			
	Most recent	2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.		168		
Market value per capita (\$)		285,498		
Population		28,417	27,781	27,874
County unemployment rate(%)		3.3		
Market value (\$000)	8,113,005	7,161,002	6,572,991	
Ten largest taxpayers % of taxable value	3.8			
Strong budgetary performance				
Operating fund result % of expenditures		1.2	1.2	0.2
Total governmental fund result % of expenditures		3.2	2.8	0.3
Strong budgetary flexibility				
Available reserves % of operating expenditures		12.1	10.5	9.7
Total available reserves (\$000)	14,787	13,290	11,749	
Very strong liquidity				
Total government cash % of governmental fund expenditures		26	23	15
Total government cash % of governmental fund debt service		782	746	426
Strong management				
Financial Management Assessment	Good			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		3.3	3.1	3.6
Net direct debt % of governmental fund revenue		33		
Overall net debt % of market value		0.6		
Direct debt 10-year amortization (%)		57		
Required pension contribution % of governmental fund expenditures		5.4		

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

	<u>Most recent</u>	<u>Historical information</u>		
	2022	2021	2020	
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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