S&P Global
Ratings

# RatingsDirect®

## Summary:
# Milford, Connecticut; General Obligation; Note

**Primary Credit Analyst:**
Christian Richards, Boston (1) 617-530-8325; christian.richards@spglobal.com

**Secondary Contact:**
Carolyn McLean, New York (1) 212-438-2383; carolyn.mclean@spglobal.com

## Table Of Contents

**Summary:**

# Milford, Connecticut; General Obligation; Note

| Credit Profile | | |
|---|---|---|
| US$23.795 mil GO BANs ser 2017 dtd 11/06/2017 due 11/05/2018 | | |
| *Short Term Rating* | SP-1+ | New |
| US$18.735 mil GO bnds Iss ser 2017 due 11/01/2037 | | |
| *Long Term Rating* | AA+/Stable | New |
| Milford GO | | |
| *Long Term Rating* | AA+/Stable | Affirmed |

## Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Milford, Conn.'s issue of 2017 general obligation (GO) bonds and affirmed its 'AA+' long-term rating on the city's existing GO debt. Additionally, we assigned our 'SP-1+' short-term rating to Milford's 2017 GO bond anticipation notes (BANs). The outlook, where applicable, is stable.

The short-term rating reflects our view that Milford maintains a very strong capacity to pay principal and interest when the notes come due. The city maintains what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

The ratings reflect our view of a pledge of the city's full-faith-credit-and-resources and an agreement to levy ad valorem property taxes without limit to rate or amount secures the bonds.

We understand that officials will use the bond proceeds to permanently finance existing BANs. They will also provide new money for school and sewer projects and public improvements as will the new BAN proceeds.

The long-term rating reflects S&P Global Ratings' assessment of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 13.6% of operating expenditures;
- Very strong liquidity, with total government available cash at 27.4% of total governmental fund expenditures and 4.2x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 6.5% of expenditures and net direct debt that is 88.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

### Very strong economy

We consider Milford's economy very strong. The city, with an estimated population of 50,877, is a primarily residential community on the Connecticut shore, approximately 48 miles southwest of Hartford and 30 miles northeast of Stamford, in New Haven County. It is in the New Haven-Milford MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 139% of the national level and per capita market value of $183,629. Overall, market value grew by 1.8% over the past year to $9.3 billion in 2018. The county unemployment rate was 5.5% in 2016.

Milford benefits from its location along Interstate 95 and State Route 15, commonly known as the Merritt/Wilbur Cross Parkway, which provides easy access to the surrounding communities.

Leading employers include the Milford Board of Education (1,319 employees) and the city itself (538); Subway (979), the food franchiser's world headquarters; Milford Hospital (723); and Schick (500). The city's mayor and management team reported a recent uptick in new development and business, with over 300 new business starts in calendar year 2016. They report that new growth was able to offset approximately $2.5 million in tax increases last year, and helped reduce the mill rate to 27.73 from 27.84.

About 67% of Milford's tax base is residential while 20% is commercial and industrial property. Given the historic stability of the city's economic base, along with new growth and access to a broad and diverse MSA, we expect the city's economic profile to remain very strong over the next two years.

### Adequate management

We view the city's management as adequate, with "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

In February 2017, the city formally adopted several long-standing administrative financial management policies. Among those, it formalized a reserve policy, which, in addition to requiring a minimum 5% unassigned general fund balance, also contains replenishment and reporting clauses. Additionally, the city adopted a formal debt policy, which sets limits and contains requirements for uses, structure, and reporting. It also adopted a formal pension funding policy.

Beyond the newly adopted policies, which management has historically administratively implemented, the city regularly monitors revenue and expenditures and reports monthly to the mayor. Assumptions in the budget regarding revenues and expenditures are generally conservative, as evidenced by approximately balanced historical financial results. While the city does not maintain formal financial projections, a five-year capital improvement plan (CIP) is annually updated with identified projects and funding sources. The city's investment policy is consistent with state guidelines with holdings reviewed at least annually during the audit process.

### Strong budgetary performance

Milford's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund of 1.1% of expenditures, and balanced results across all governmental funds of negative 0.1% in fiscal 2016. General fund operating results of the city have been stable over the last three years, with results of negative 0.2% in 2015 and negative 0.5% in 2014.

We adjusted total governmental funds results to account for the use of bond proceeds to fund nonrecurring expenditures from the capital nonrecurring, sanitary sewer, and the school facilities funds. We also adjusted both total governmental funds and general fund results to account for the deferred pension payment of $1.8 million. The city had previously reduced its discount rate, which consequently increased outstanding liabilities and annual contributions. It had intended to phase in its full annually determined contribution (ADC) over the following three fiscal years. However, the city further reduced its discount rate for the upcoming actuarial valuation, which will lengthen the timeframe over which it phases in fully paying its ADC.

The city posted a positive result in fiscal 2016 and anticipates a larger surplus when fiscal 2017 final results are reported; it is currently projecting a $9 million surplus. Management attributes this to a combination of factors, including a hiring freeze, a sale of delinquent tax liens, and better-than-budgeted revenues in both property and nonproperty tax revenues. In fiscal 2018, the hiring freeze remains, and the city budgeted for a potential decrease in intergovernmental revenues in the form of state-aid payments. The 2018 budget reduced anticipated state aid by $2.5 million, the majority of which is education cost-sharing grants and payments-in-lieu-of-taxes. Management reports that it believes Milford will ultimately be held harmless under an adopted state budget resolution, but if this is not the case, it is reviewing options with regard to revenue to address any shortfalls. Additionally, management is prepared to use reserves to fund a state-aid shortfall. In fiscal 2016, intergovernmental revenues accounted for approximately 12% of general fund revenues, while local property taxes were 82%. The governor's executive order, which the state is currently operating under, would reduce the city's state aid by approximately 6% of total general fund revenues in fiscal 2018, relative to the fiscal 2017 state budget. While the state budget situation remains uncertain, the combination of demonstrated new growth, along with management's forward-looking approach, as evidenced by the ongoing hiring freeze, demonstrates that the city is prepared if the budget stalemate is not resolved soon. Additionally, the anticipated 2017 surplus would offset the loss of state-aid in fiscal 2018. For these reasons, we anticipate that Milford's budgetary performance will remain strong over the next two years.

### Strong budgetary flexibility

Milford's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 13.6% of operating expenditures, or $28.8 million.

Milford's mayor and board of aldermen adopted a long-standing administrative policy of maintaining a minimum 5% of the current year's budget in the unassigned fund balance. Available reserves, however, have been maintained in excess of this target. In fiscal 2016, the city added $4.7 million to available reserves.

While the 2017 budget included a $3.5 million appropriation of fund balance for tax rate stabilization, which the city has historically done in the budget, management is reporting another year of positive operating results on an unaudited basis. The anticipated $9 million surplus would increase available reserves. However, given management's plan to draw on reserves as necessary to alleviate state-aid shortfalls, which in fiscal 2018 would total $13.7 million under the governor's executive order, any increase in available fund balance may be partially or wholly offset by a spend-down of reserves. Given the city's maintenance of strong available fund balance each of the past three audited years, and management's plan to not rely entirely on fund balance in offsetting potential lost state aid, we expect that the city's budgetary flexibility will remain at least strong throughout the next two years.

### Very strong liquidity

In our opinion, Milford's liquidity is very strong, with total government available cash at 27.4% of total governmental fund expenditures and 4.2x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

In our view, the city has strong access to external liquidity if necessary. Milford has demonstrated such access through recent GO bond and BAN issuances. It does not engage in an aggressive use of investments that could add significant volatility to its liquidity position. In addition, it is not exposed to variable-rate or privately placed debt that could result in undue contingent liabilities through acceleration events or interest rate risk. Therefore, in our opinion, it is likely to maintain its very strong liquidity.

### Strong debt and contingent liability profile

In our view, Milford's debt and contingent liability profile is strong. Total governmental fund debt service is 6.5% of total governmental fund expenditures, and net direct debt is 88.5% of total governmental fund revenue. Overall net debt is low at 2.0% of market value, which is, in our view, a positive credit factor.

Following this issuance, the city will have approximately $190 million in total direct debt, of which $24 million is from this BAN issuance. Additionally, it expects to retire $1.9 million in outstanding notes with grant funding. In the past, Milford has generally expected to issue $10 million to $15 million in debt annually to maintain level debt service. The additional debt issuances are offset by the city's current annual amortization over the same period. At this time, management reports that it is uncertain about future debt offerings, as it reviews the current financial situation against the city's needs. The city may issue for a new police headquarters project at a cost of about $20 million, but the expected authorization and issuance of this project is beyond our two-year horizon.

Milford's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 8.0% of total governmental fund expenditures in 2016. Of that amount, 2.9% represented required contributions to pension obligations, and 5.1% represented OPEB payments. The city made 73% of its annual required pension contribution in 2016.

The city administers a single-employer defined plan for eligible employees, the City of Milford Retirement System. It also makes monthly contributions to the State Survivors' Plan based on an amount invoiced by the state. As of the 2016 audit, the retirement system fiduciary net position as a percentage of the total pension liability was 80.74%. While the city has historically contributed 100% of its ADC, a reduction in the assumed rate of return to 7.75% more than doubled its ADC beginning with fiscal 2015. As previously noted, the city has further reduced its discount rate to 7.5%, as of the next valuation. It plans to phase in the required contribution, increasing annual payments by 15% until the fully actuarial contribution is reached. As of the 2016 audit, the city's net pension liability was approximately $75 million, which should rise with the next valuation. While Milford has seen its net pension liability rise and funded ratio decrease due to the updated actuarial assumptions, we do not view this as a credit concern at this time. We expect that the city will continue to adjust its budget to fully phase in ADC payments in a timely manner.

The city also provides OPEBs funded on a pay-as-you go basis. It established a trust fund to being pre-funding OPEB benefits. As of July 1, 2014, the trust had a funded ratio of 3.24% and an unfunded liability of $122 million.

### Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

## Outlook

The stable outlook reflects our view of Milford's strong budgetary performance contributing to strong budgetary flexibility and very strong liquidity. Continued economic growth lends further stability to the rating. Given the city's strong reserves and budgetary performance, and willingness to adjust expenditures and revenues, we expect it will be able to adjust to a potential loss of state-aid resulting from the ongoing state budget situation. We do not expect to change the rating in our two-year outlook horizon.

### Upside scenario

We could consider a positive rating action should economic metrics improve to those in line with peers of a higher rating, Milford adheres to more formal policies and procedures, and the city maintain its budgetary performance and flexibility.

### Downside scenario

We could lower the rating should budgetary performance weaken, due to loss of state-aid, budgetary structural imbalance, or increased pension/OPEB costs, resulting in the reduction of reserves to those in line with lower rated peers. Additionally, material deterioration in the city's local economy, resulting in lower income and wealth metrics, could cause us to lower the rating.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.