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Ratings

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Summary:

Milford, Connecticut; General Obligation; Note

Primary Credit Analyst:
Anthony Polanco, Boston + 1 (617) 530 8234; anthony.polanco@spglobal.com

Secondary Contact:
Kimberly Barrett, Centennial (1) 303-721-4446; Kimberly.Barrett@spglobal.com

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Credit Profile		
US$23.635 mil GO BANs dtd 11/04/2019 due 11/03/2020		
Short Term Rating	SP-1+	New
US$9.68 mil GO bnds ser 2019 due 11/01/2039		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Milford, Conn.'s series 2019 general obligation (GO) bonds. At the same time, we affirmed our 'AA+' long-term rating on the city's outstanding GO debt. The outlook is stable.

We also assigned our 'SP-1+' short-term rating to the city's series 2019 GO bond anticipation notes (BANs) and affirmed our 'SP-1+' rating on its existing short-term debt.

The long-term rating reflects Milford's overall strong budget monitoring framework, which has yielded consistent and positive budgetary performance over the last three audited fiscal years. As a result, the city's overall stable operating trends and adoption of more comprehensive policies support its maintenance of very strong flexibility and liquidity. We believe the city is likely to incur substantial bonding plans over the next five years, but its bonds and notes are structured to retire debt at a rate equal to new debt issuances, which should support our view of its manageable debt profile. However, we note the city does maintain sizable pension and OPEB obligations and has not made its full annual pension contribution, which we believe will lead to higher future retirement contributions and pose long-term credit risk.

Milford's full faith and credit pledge, payable from the levy of an unlimited ad valorem tax on all taxable property in the city, secures the bonds and notes.

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

We understand that officials intend to use proceeds from the series 2019 bonds to permanently finance a portion of outstanding notes and to provide new financing for various public improvement projects. At the same time, we understand that officials intend to use proceeds from the series 2019 notes to provide temporary financing for construction and improvements related to various public improvement, school, and sewer projects.

The rating reflects our opinion of the following factors for Milford, specifically its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);

- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 25.7% of total governmental fund expenditures and 3.7x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 7.0% of expenditures and net direct debt that is 74.9% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but 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. With an estimated population of 50,561, the city is located in New Haven County, in the broad and diverse New Haven-Milford, CT MSA. The city has a projected per capita effective buying income of 136% of the national level and per capita market value of $185,820. Overall, the city's market value was stable over the past year, at $9.4 billion in 2020. The county unemployment rate was 4.4% in 2018.

Milford is a predominantly residential community, with a substantial commercial and industrial sector that supports its overall strong underlying wealth and income indicators. Residential properties make up 67% of the city's net taxable grand list, while industrial and commercial property account for 20%.

In addition, Interstate Highway 95 and State Route 15 (commonly referred to as the Merritt/Wilbur Cross Parkway) traverse the city, connecting residents with regional employment opportunities in surrounding labor markets. Although the state has struggled to regain its economic footing and the New Haven-Milford MSA's GDP remained flat between 2010 and 2018, Milford's overall economic and employment conditions have remained stable relative to those of the state and regional labor market.

Municipal government, education, and health care sectors anchor Milford's employment base, which also features manufacturing, commercial/retail and professional services. In addition to the city and board of education (1,298 employees combined), Subway World Headquarters (1,016), Bridgeport Hospital (500), and Schick (500) make up the city's leading employers. The city reports overall stability among its leading employers and taxpayers in recent years. Due to its large residential and diversified business composition, its 10 leading taxpayers account for 7.6% of total AV, representing a very diverse tax base, in our opinion.

Management reports there are numerous residential and commercial developments occurring across the city. This includes the building of several new hotels and new multifamily residential developments that have contributed to an increase in building permit fees and value over the past year. The city's downtown area continues to grow as new businesses, including retail locations and restaurants, have opened. New apartments and mixed-use developments have also been constructed in the city's downtown area as demand grows for transit-oriented living. The city's Boston

Post Road area also continues to expand with the opening of new restaurants, apartment buildings, and shops. Overall, given the city's access to the New Haven MSA and various developments which continue to support growth in its grand list, we expect its economy to remain very strong.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key budget development practices include management's use of at least three years of historical data to forecast annual revenue and expenditure assumptions, and to identify outlying line items. In preparation of its annual budget, management reviews each department's annual operation requests and prioritizes operating expenditures. Due to uncertainty of state aid in the past several years, finance officials consult state publications to conservatively estimate revenue from this source. It also monitors grand list growth to estimate changes in local tax revenue and mill rate. However, the city has not been able to budget for its full actuarially determined pension contribution over the last three years or made any midyear budgetary amendments to meet this requirement. During each fiscal year, the city monitors the budget regularly, reporting budget-to-actual results to the mayor monthly, who can propose amendments to the budget as necessary. Furthermore, Milford adheres to state statutes governing investments and reports earnings and holdings in its annual audit.

Milford also maintains a strong focus on capital planning, evidenced by a comprehensive five-year capital improvement plan (CIP) that identifies projects and costs across all departments. The city updates its CIP annually and details pay-as-you-go funding, intergovernmental grants, and bond financing of all capital projects. However, the city does not maintain a formal long-term financial forecast.

In fiscal 2017, the city formalized several long-standing administrative financial management practices into written city policies, including a debt management and fund balance policy. The formal reserve policy calls for unassigned fund balance to be maintained at a minimum of 5% of annual operating expenditures, which the city uses to mitigate financial risk and manage cash flows in the event of a revenue shortfall and unexpected changes in expenditures. In addition, the city maintains a formal debt management policy, which features local debt affordability limitations and management incorporates a debt service affordability analysis in its annual budget process.

Strong budgetary performance

Milford's budgetary performance is strong in our opinion. The city had balanced operating results in the general fund of 0.5% of expenditures, and slight surplus results across all governmental funds of 0.8% in fiscal 2018. General fund operating results of the city have been stable over the last three years, with a result of 1.7% in 2017 and a result of 1.1% in 2016.

For analytical consistency, we adjusted fiscal 2018 total governmental funds results to account for the use of bond proceeds to fund 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 $3.5 million. The city previously reduced its discount rate, which consequently increased outstanding liabilities and annual contributions. Milford intended to phase in its full actuarially determined contribution (ADC) over a three-year period.

However, it further reduced its discount rate in the upcoming actuarial valuation, which will likely lengthen the timeframe for phasing in full payment of its ADC. While pension costs remain manageable, ongoing deferral of annual pension contributions could have medium- to long-term implications under a more constrained budgetary environment.

According to management, the fiscal 2018 general fund surplus was primarily due to higher-than-budgeted revenues and savings in expenditures. Officials indicate state aid came in on budget during fiscal 2018, even with the midyear statewide reductions, due to the city budgeting very conservatively on state grants, including education cost-sharing funds. In addition, given the state budget impasse during the year, Milford instituted a spending freeze, which led to savings in expenditures. It also realized higher-than-budgeted building permit fees, property taxes, and ambulance fees, which all helped support the city's surplus for the year. For fiscal 2019, management estimates to have ended the year with a $4.5 million general fund surplus, which it attributes to overall conservative budgeting that led to positive revenue and expenditure variances during the year.

The city adopted a balanced $216.6 million fiscal 2020 budget, which represents a 3% increase from the previous year and a $9.3 million fund balance appropriation, which it has historically made. The budget includes increases in debt service, public safety, education, and public services among other areas. However, due to growth in the net taxable grand list, Milford was able to reduce its mill rate to 27.71 mills from 27.74 mills. Although it is early in the current budget year, officials generally expect local revenues to outperform the budget, and the city will continue to identify and adjust expenditures as necessary to produce at least balanced results at fiscal year-end.

Despite its recent history of deferring annual pension contributions, we expect Milford to maintain strong budgetary performance over the next several years, largely due to its embedded budgeting development framework, coupled with its manageable expenditure profile. In addition, the city benefits from an overall stable property tax base, which generated approximately 79% of general fund revenue in fiscal 2018, followed by intergovernmental at 15%, which includes state payments toward teachers pension contributions. In addition, tax collections have remained strong, with collections exceeding 98% over the past three years.

Very strong budgetary flexibility

Milford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 18% of operating expenditures, or $41.9 million.

Although management has historically budgeted for appropriations of fund balance for tax rate stabilization, the city has typically outperformed its budget expectation and reported positive operating results at fiscal year-end. For fiscal 2019, it estimates to have ended with a $4.5 million increase in available reserves. Based on management's general expectation that Milford will maintain at least balanced operations for fiscal 2020, with no planned draws on reserves over the next two years, we do not expect its available fund balance to fall below current levels.

Furthermore, the city's formal reserve policy stipulates that it maintain an unassigned fund balance of at least 5% of annual operating expenditures, a target it has historically met and sustained. Therefore, we expect the city's flexibility to remain very strong over the next two years.

Very strong liquidity

In our opinion, Milford's liquidity is very strong, with total government available cash at 25.7% of total governmental fund expenditures and 3.7x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

The city's strong access to external liquidity is demonstrated by its regular issuance of GO bonds and notes over the past 20 years. Furthermore, the city does not engage in an aggressive use of investments that could add significant volatility to its liquidity position. It is also 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, Milford is likely to maintain its very strong liquidity over the near term.

Weak debt and contingent liability profile

In our view, Milford's debt and contingent liability profile is adequate. Total governmental fund debt service is 7.0% of total governmental fund expenditures, and net direct debt is 74.9% of total governmental fund revenue. Overall net debt is low at 2.1% of market value, which is in our view a positive credit factor.

Following the current bond and note issuance, Milford will have approximately $193.9 million in total direct debt outstanding, of which $23.6 million is in BANs. The city plans to issue $15 million-$18 million annually in additional debt over the next two years as part of its capital improvement plan. Although the city's long-term capital plan features a $30 million project line-item for new police headquarters, management notes that it is in preliminary planning to assess the project's scope and costs, and the expected authorization and issuance will likely be beyond the two-year outlook horizon. Despite a potentially significant amount of future issuance over the next five years, we believe the city will likely sustain capacity to absorb future debt issuances based on efforts to retire debt at an equal rate to new debt issuances.

In our opinion, a credit weakness is Milford's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Milford's combined required pension and actual OPEB contributions totaled 9.4% of total governmental fund expenditures in 2018. Of that amount, 3.8% represented required contributions to pension obligations, and 5.6% represented OPEB payments. The city made 63% of its annual required pension contribution in 2018.

The city administers a single-employer, defined benefit plan for eligible employees, the City of Milford Retirement System. For fiscal 2018, the retirement system fiduciary net position as a percentage of the total pension liability was 84.79%. While the city had historically contributed 100% of its ADC, a reduction in the assumed rate of return to 7.75% from 8% more than doubled its ADC as of fiscal 2015. The city lowered it further to 7.5% as of the July 1, 2016 valuation dates. While there is an actuarial plan in place to reach full funding, the city continues to pay less than its full ADC, thereby deferring these costs. In addition, certain assumptions, including amortization using a level percentage of pay, will result in negative funding progress in the near term. Although we view the city's lowering the discount rate to measure these liabilities in the past as positive, we believe its inability to fully fund the resulting ADC somewhat offsets this. Milford plans to gradually phase in the required contribution, increasing annual payments by 15% until the full actuarial contribution is reached annually. It has also instituted reforms with a few of the collective bargaining units to increase the years of service requirement to 25 from 20, increase employee contributions, and exempt overtime costs from calculation of the pension formula, which management believes could limit substantial fluctuations of pension-related costs over time. As of the 2018 audit, the city's net pension liability was approximately $62.3 million. Milford contributed about 65% of its annual actuarially determined contribution in fiscal 2019 and budgeted about 70% in fiscal 2020 according to management.

The city also provides OPEB funded on a pay-as-you go basis. It established a trust fund in order to pre-fund OPEB benefits. As of fiscal 2018, the city's unfunded liability totaled $178.2 million. Officials indicate the city's trust fund balance is currently at about $8 million, which equates to a 4.5% funded ratio.

Although the city's pension and OPEB liabilities currently remain manageable, we believe its current pension costs and unfunded liability are somewhat understated, given its history of deferring pension contributions. As a result, we believe its retirement costs will continue to increase and its exposure associated with its pension and OPEB liabilities will rise, thereby adding pressure to the budget.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our expectation that Milford will sustain good financial practices and policies that contribute to generally strong and predictable budgetary performance and continued maintenance of its strong budgetary flexibility. The outlook also reflects our view of the city's overall very strong underlying wealth and income levels, which will likely ensure credit stability. For these reasons, we do not expect to change the rating within our two-year outlook horizon.

Downside scenario

We could lower the rating if budgetary performance deteriorates due to substantial increases in pension and OPEB costs or otherwise, leading to a significant decline in available reserves or liquidity to levels commensurate with those of lower-rated peers.

Upside scenario

If Milford maintains consistently positive financial performance that supports sustained improvement in its reserves, while also demonstrating consistent funding of its full annual pension contributions, and exhibiting improved wealth and income levels that are commensurate with those of higher-rated peers, we could raise 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

Ratings Detail (As Of October 18, 2019)

Ratings Detail (As Of October 18, 2019) (cont.)		
Milford GO		
Long Term Rating	AA+/Stable	Affirmed
Milford GO		
Long Term Rating	AA+/Stable	Affirmed
Milford GO BANs dtd 11/04/2019 due 11/03/2020		
Short Term Rating	SP-1+	Affirmed
Milford GO BANs due 11/04/2019		
Short Term Rating	SP-1+	Affirmed

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 S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.