

Rating Action: Moody's upgrades Middleton, MA's issuer and GOLT ratings to Aa1

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New York, January 24, 2023 -- Moody's Investors Service has upgraded the Town of Middleton, MA's issuer and the outstanding general obligation limited tax (GOLT) ratings to Aa1 from Aa2. The issuer rating reflects the town's ability to repay debt and debt-like obligations without consideration of any pledge, security, or structural features. This action concludes the review for possible upgrade initiated on November 3, 2022 in conjunction with the release of the US Cities and Counties Methodology. The town has approximately \$73.3 million in debt outstanding as of June 30, 2022.

RATINGS RATIONALE

The upgrade to Aa1 of Middleton's issuer rating reflects a strong local economy located within commuting distance to Boston, MA (Aaa stable). Also supporting the rating are the town's very high resident income and wealth levels, strong financial position, manageable long-term liabilities and below-average fixed costs. The upgrade also incorporates the reduced emphasis on tax base size and inclusion of all governmental funds and business-type activities (Electric Light Fund) into the credit analysis under the new US Cities and Counties Methodology.

The Aa1 rating on the town's GOLT bonds is the same level as the issuer rating because the town has pledged its full faith, credit and taxing authority for repayment of the bonds. The town also has the ability to override the tax levy limit under Proposition 2 1/2.

The town's strong and growing economy is bolstered by a resident income equal to 203.1% of the US median household income adjusted for regional price parity. The full value per capital of \$261,272 is very strong and the tax base is mostly residential. Given the town's close proximity to Boston, the residential housing market remains solid and is expected to continue to generate positive tax base growth.

The financial position is likely to remain strong and stable in the near term given conservative budget management. Fiscal 2022 audited financials reflect available fund balance of \$29.9 million across all governmental funds and the enterprise fund, representing a strong 49.3% of revenues. The fiscal 2022 liquidity included the bond issuance in the amount of \$62.4 million, leading to a significant increase of the liquidity ratio to 164.1% of revenues. After netting out the bond issuance, the liquidity remains strong at 61.0% of revenues. Governmental funds generate 75% of total revenue with property taxes representing 71% of fiscal 2022 total governmental funds. The enterprise fund (Electric Light Fund) maintains a strong operating performance, with electric revenue accounting for 24.6% of total revenues. Fiscal 2023 operations are currently trending on budget, management expects modest fund balance increase in fiscal 2023 and stable operation for enterprise fund. Additionally, the town was allocated to receive approximately \$2.9 million ARPA funding, which will be used for infrastructure improvements.

Middleton's leverage is expected to remain manageable given no additional debt plans and a moderate fixed costs ratio. Fiscal 2022 audit reflects a significant increase in total debt burden due to the issuance of 2021 bonds. The total long-term liabilities remain manageable at 262.7% of total revenue. The fixed costs ratio, though is below-average at 6.3% of revenue, it is expected to increase due to new issuance. By the end of fiscal 2022, total debt was \$77.7 million, accounting for 53% of total liabilities. Moody's adjusted net pension and adjusted net OPEB liabilities represent 39.7% and 15.1% of total liabilities, respectively. The town participates in the Essex Regional Contributory Retirement System, a multi-employer defined benefit pension plan. The plan is scheduled to be fully funded by 2036 and currently uses a 7% discount rate with annual contributions increasing over 6.5% annually. The town deposits about \$100,000 per year into its OPEB trust in addition to pay-go contributions towards that liability.

RATING OUTLOOK

Outlooks are usually not assigned to local governments with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Declining in leverage level
- Continued trend of stable financial operations
- Significant growth in the tax base

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Material increase in leverage
- Deterioration of reserves and liquidity
- Decreased economic growth or resident incomes and wealth

LEGAL SECURITY

The bonds are backed by the town's full faith and credit general obligation limited tax pledge given that not all the debt service has been voted by the town as excluded from the tax levy limitations of Proposition 2 1/2.

PROFILE

The town of Middleton is located in Essex County in the North Shore region of Massachusetts, approximately 15 miles north of Boston. As of 2020, the town had 9,952 residents.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties Methodology published in November 2022 and available at <https://ratings.moodys.com/api/rmc-documents/386953>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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