

RatingsDirect®

Summary:

Melrose, Massachusetts; General Obligation; Note

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Credit Profile

US\$9.027 mil GO BANs dtd 09/21/2023 due 08/22/2024

<i>Short Term Rating</i>	SP-1+	New
Melrose GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Melrose GO mun purp loan		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Melrose GO (AMBAC)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings we assigned our 'SP-1+' short-term rating to Melrose, Mass.' \$9 million general obligation (GO) bond anticipation notes (BANs)
- At the same time, we affirmed our 'AA+' rating on the city's existing GO debt.
- The outlook, where applicable, is stable.

Security

Melrose's full-faith-and-credit pledge secures the bonds and notes, subject to Proposition 2 1/2 limitations. We do not make a rating distinction because we rate the city's limited-tax obligation at the same level as our view of Melrose's general creditworthiness based on the application of our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019.

The short-term note rating reflects our criteria for evaluating and rating BANs. Melrose 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. Proceeds will be used to fund various capital projects.

Credit overview

Melrose continues its strong performance fueled by conservative budgeting, supported by a taxbase that grew by more than \$1 billion since 2019. However, rising fixed costs, specifically its pension and other postemployment benefits (OPEB) coupled with limited taxing flexibility, could increase budgetary pressures. A lack of more formalized long-term planning, specifically related to capital needs and finances, and consistent updates also constrain the rating. Melrose is an affluent community, seven miles north of Boston, with residential property accounting for more than 95% of its property tax base.

Fiscal 2022 year-end results continue their positive trend of operations, with a \$2.8 million surplus. Management attributes this to conservative budgeting, and expenditure savings. The city is in the process of closing out fiscal 2023 and anticipates another surplus propelled by strong local receipts and expenditure savings. The city absorbed rising costs in its budget through strong revenues and savings in salaries and benefits. The fiscal 2024 budget is \$101.1 million, a 5.9% increase from the previous budget. The city raised property taxes, while also receiving increased state aid, which helped combat rising costs. Based on its track record, we anticipate Melrose will maintain its very strong budgetary flexibility and liquidity over the outlook period.

After this BANs issuance, the city will have \$52 million in debt outstanding, a portion of which we consider self-supporting. The city's future debt plans include a \$10 million issuance for a library project, which we do not view as significant. Melrose is asking voters for a debt exclusion for a \$95 million public safety complex, which will occur in the next few months. Since this debt is still preliminary, we do not view it as having a material impact but it could pressure future debt scores as the debt is issued, if approved. The city participates in the Melrose Contributory Retirement: 71% funded, \$43.0 million net pension liability and a single-employer other postemployment benefits (OPEB) plan, which is .6% funded, with an unfunded liability of \$164.2 million. Management transfers \$50,000 a year from its general fund and transfers \$22,000 from its proprietary funds to cover its OPEB plan. We view the city's pension and OPEB levels as a credit weakness and source of pressure given the potential for contribution volatility.

The rating also reflects our view of Melrose's:

- Residents have direct access to employment centers in Boston, Cambridge, and other surrounding communities. Management anticipates its tax base will continue to expand, with various residential and commercial properties fueled by multi-use projects;
- Good financial management policies and practices, with a focus on conservative budgeting, an anticipated update capital plan with help from outside consultants, a formalized long-term financial plan under development, and a strong institutional framework score;
- Strong budgetary performance, highlighted by conservative budgeting, with reserves growing to levels that we consider very strong while maintaining very strong liquidity levels; and
- Manageable fixed costs, despite elevated pension and OPEB expenses propelled by weaker funded ratios.

Environmental, social and governance

We evaluated Melrose's environmental, social, and governance (ESG) factors relative to the city's economy, financial measures, and management, and its debt and long-term liability profile. We consider the city's social risks to be neutral in our credit rating analysis. In addition, we view its governance and environmental risks as neutral considerations.

Outlook

The stable outlook reflects our view that management's continued conservative budgeting will support balanced operations, supported by very strong economy and reserves.

Downside scenario

If the city cannot maintain structural balance, resulting in reserves deteriorating to levels that we no longer consider very strong or strong, we could lower the rating.

Upside scenario

If the city maintains its current credit characteristics and reduces its long-term retirement liabilities and costs and implements stronger management policies, specifically related to long term planning, we could raise the rating.

Melrose, Mass.--Key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	170.5			
Market value per capita (\$)	237,664			
Population		28,851	28,496	28,722
County unemployment rate(%)		3.1		
Market value (\$000)	6,856,830	6,508,565	6,076,979	
Ten largest taxpayers % of taxable value	7.5			
Strong budgetary performance				
Operating fund result % of expenditures		2.8	3.8	3.9
Total governmental fund result % of expenditures		2.7	2.9	3.5
Very strong budgetary flexibility				
Available reserves % of operating expenditures		19.5	17.1	14.7
Total available reserves (\$000)		19,549	17,739	14,482
Very strong liquidity				
Total government cash % of governmental fund expenditures		21.2	17.9	20.2
Total government cash % of governmental fund debt service		486.9	369.0	389.3
Strong management				
Financial Management Assessment	Good			
Strong debt and long-term liabilities				
Debt service % of governmental fund expenditures		4.4	4.8	5.2
Net direct debt % of governmental fund revenue	38.6			
Overall net debt % of market value	0.7			
Direct debt 10-year amortization (%)	67.9			
Required pension contribution % of governmental fund expenditures		5.4		
OPEB actual contribution % of governmental fund expenditures		4.4		
Strong institutional framework				

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments

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