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Ratings

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Summary:

Orleans, Massachusetts; General Obligation

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Credit Profile		
US$29.0 mil GO mun purp loan bnds ser 2017 due 09/15/2037		
Long Term Rating	AAA/Stable	New
Orleans Twn GO		
Long Term Rating	AAA/Stable	Affirmed
Orleans Twn GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

S&P Global Ratings assigned its 'AAA' rating to Orleans, Mass.' series 2017 general obligation (GO), municipal-purpose loan bonds. We also affirmed our 'AAA' rating on the town's existing GO debt. The outlook is stable.

We rate Orleans higher than the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario, based on its predominantly, locally derived revenue base, and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2016, local property taxes generated 81% of revenue, demonstrating a lack of dependence on central government revenue.

Officials plan to use series 2017 bond proceeds to refund current outstanding bond anticipation notes (BANs), previously issued to fund various capital projects throughout the town. The largest projects include the construction of a new police station and DPW central garage.

The town's full faith and credit pledge, subject to limitations of Proposition 2-1/2, secure the bonds. Despite limitations imposed by the commonwealth's levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit. We understand the town's voters have chosen to exclude a portion of the bonds and BANs from the primary levy limit of Proposition 2-1/2.

The rating reflects our opinion of the town's:

- Very strong economy, with projected per capita effective buying income (EBI) at 157% of the national level and market value per capita of $676,910;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 36.6% of total governmental fund expenditures and 4.7x governmental debt service, and access to external liquidity that we consider strong;

- Weak debt and contingent liability position, with debt service carrying charges at 7.1% of expenditures and net direct debt that is 166% of total governmental fund revenue, and significant medium-term debt plans and a large pension and other postemployment benefit (OPEB) obligation, but low overall net debt at less than 3% of market value and rapid amortization, with 68.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Orleans' economy very strong. The town, with an estimated population of 5,666, is in Barnstable County. It has a projected per capita EBI of 157% of the national level and per capita market value of $676,910. Overall, market value grew by 2.9% over the past year to $3.8 billion in 2017. The county unemployment rate was 6.3% in 2015.

Located on Cape Cod, the town is primarily a residential resort community with a substantial portion of second homes owned by seasonal summer residents. Accounting for the town's seasonal population at 22,000 residents, market values are strong at $174,335 per capita. The town's economic profile will remain strong as it will continue to benefit from a strong real estate environment in and around Barnstable County. Given its desirable location, with ample waterfront and coastline properties, the town continues to experience high-end residential waterfront development. Building permit activity remains strong and stable at roughly $30 million in total value annually.

Very strong management

We view the town's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

We believe the town maintains best practices we believe critical to supporting credit quality; we recognize these are well-embedded in the government's daily operations and practices. Formal policies support many of these activities, adding to the likelihood that they will continue and transcend changes in the operating environment and personnel.

In our opinion, strengths include management's:

- Strong revenue and expenditure assumptions in the budgeting process;
- Strong oversight of monitoring progress compared to the budget during the year;
- Long-term financial plan; and
- Five-year capital improvement plan.

Orleans also maintains debt management and a reserve policy that essentially fixes available reserves at 5% of general fund expenditures, with surpluses above 5% returned to the taxpayers to reduce tax bills in subsequent years.

Strong budgetary performance

Orleans' budgetary performance is strong, in our opinion. The town had operating surpluses of 3.7% of expenditures in the general fund and 8.3% across all governmental funds in fiscal 2016.

In our calculation of budgetary performance, we account for capital outlay financed through bond proceeds. We believe the town maintains a stable and predictable revenue profile that is largely independent of commonwealth and federal revenue. Property taxes generate 81% of revenue, and we consider collections strong and stable.

For fiscal 2017, the town is estimating a slight reduction to fund balance. This is largely planned as it committed funds for capital and other ancillary reasons. For the most part, recurring revenues matched recurring expenditures.

The 2018 budget totals $33.5 million and is up 4.7% annually. Based on consistent operating performance over the past several years, we expect the town to achieve balanced operations performance in 2018.

Very strong budgetary flexibility

Orleans' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 16% of operating expenditures, or $4.5 million.

Despite the estimated use of committed reserves in fiscal 2017, unassigned and assigned general fund balances are anticipated to improve to $5.0 million. We therefore expect the fund balance to remain very strong. The town has a formal policy that sets minimum free cash at 5%, but it continually manages well above those thresholds. For fiscal 2018, we expect Orleans to produce balanced operations, resulting in available reserves that remain in line with current levels.

Very strong liquidity

In our opinion, Orleans' liquidity is very strong, with total government available cash at 36.6% of total governmental fund expenditures and 4.7x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

We do not currently expect any deterioration in the town's cash levels; therefore, we expect liquidity to remain very strong. The town is a frequent issuer of GO debt. It confirmed it does not currently have any contingent liquidity risk from financial instruments, with payment provisions that change on the occurrence of certain events. Orleans' portfolio is not aggressive in its use of investments.

Weak debt and contingent liability profile

In our view, Orleans' debt and contingent liability profile is weak. Total governmental fund debt service is 7.1% of total governmental fund expenditures, and net direct debt is 166.7% of total governmental fund revenue. Negatively affecting our view of the town's debt profile is its significant medium-term debt plans. Overall net debt is low at 1.2% of market value, and approximately 68.1% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The town remains committed to addressing nitrogen levels in area waterways, which--for Cape Cod communities already involved in wastewater cleanup--has led to sizable increases to their debt levels. Over the next several years, Orleans plans on issuing debt for wastewater, although plans remain fluid. For now, total direct debt is $58.3 million, approximately $3.3 million of which is BANs outstanding.

In our opinion, a credit weakness is Orleans' large pension and OPEB obligation. Orleans' combined required pension and actual OPEB contributions totaled 9% of total governmental fund expenditures in 2016. Of that amount, 5.7% represented required contributions to pension obligations, and 3.4% represented OPEB payments. The town made its full annual required pension contribution in 2016. The funded ratio of the largest pension plan is 58.1%.

Orleans contributes to the Barnstable County retirement system, which is a cost-sharing, multiemployer, defined-benefit pension plans. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement nos. 67 and 68, the town's proportionate share of the net pension liability was about $20.1 million, with 58.1% funded as of fiscal 2015 based on an assumed rate of return of 7.75%. Due to the low funded ratio, we believe contributions will continue to rise over the next few fiscal years.

The town also provides OPEBs to retirees. As of the most recent actuarial valuation, it reported a $23.5 million OPEB liability as of June 30, 2014. Orleans has traditionally funded this through pay-as-you-go financing; it paid $1 million into the fund in fiscal 2016. The town opened a target stabilization fund for OPEB expenses in 2012. The current balance of the fund after the fiscal 2017 payment is $770,000. As per policy, the town will continue to add $150,000 annually to the trust.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our view of Orleans' focus on maintaining very strong operating flexibility. We believe the town's strong management and rather predictable operating profile should translate into sustained balanced operations during the next two years. The regional economic outlook is improving, which should aid in tax base stability and cater to a balanced operating environment. If the town's financial performance were to deteriorate, causing a drawdown on reserves, or fixed costs substantially increase to levels no longer commensurate with a 'AAA' rating, we could 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