

RatingsDirect®

Summary:

Orleans, Massachusetts; General Obligation; Note

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Table Of Contents

Credit Highlights

Outlook

Related Research

Summary:

Orleans, Massachusetts; General Obligation; Note

Credit Profile

US\$23.14 mil GO BANs ser 2024 dtd 01/26/2024 due 01/25/2025		
<i>Short Term Rating</i>	SP-1+	New
Orleans Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Orleans Town GO BANs ser 2024 dtd 01/26/2024 due 01/25/2025		
<i>Short Term Rating</i>	SP-1+	Current
Orleans Twn GO BANs ser 2022 dtd 01/27/2023 due 01/26/2024		
<i>Short Term Rating</i>	SP-1+	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to the town of Orleans, Mass.' \$23.14 million 2024 general obligation (GO) bond anticipation notes (BANs).
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's previously issued GO debt and its 'SP-1+' rating on the town's short-term debt maturing in January 2024.
- The outlook, where applicable, is stable.

Security

Orleans's full faith and credit secures the BANs and previously issued GO debt. A portion of this issuance is subject to Proposition 2 1/2 limitations, but we make no rating distinction because we rate the limited obligation at the same level as our view of Orleans's general creditworthiness. We rate the limited-tax GO debt based on the application of our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligor's Creditworthiness," published Nov. 20, 2019, on RatingsDirect.

Officials will use BAN proceeds to retire BANs outstanding maturing in January 2024 and fund a variety of townwide projects, including phase three of a comprehensive wastewater project.

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Orleans maintains very strong capacity to pay principal and interest when the BANs come due. The town 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 BANs and is a frequent issuer that regularly provides disclosure to market participants.

Credit overview

The rating reflects our view of the town's very strong economy, maintenance of healthy fund balances and steady operating results during the past several fiscal years, and strong financial management policies and procedures that help guide budgetary decisions year to year. Orleans, located in Barnstable County, is primarily a residential resort

community with a substantial portion consisting of seasonal summer residents' second homes. Residential properties make up about 93% of the property tax base, accounting for a seasonal population of 22,000, while the permanent population has remained relatively stable over the past several years at roughly 6,000. Orleans maintains a very strong local economy, supported by a healthy real estate market and access to the Barnstable metropolitan statistical area. Given the town's economic composition and very strong economic metrics that continue to trend positively, we do not expect Orleans to experience economic pressure over the outlook period.

We believe very strong management and strong budgetary flexibility, with available reserves at about 29% of expenditures based on fiscal 2023 audit results, provide further rating stability. The town has posted positive operational results since fiscal 2019, largely as a result of higher-than-budgeted property tax and building permit revenue. Strong property tax growth led to a \$1.2 million addition to available fund balance (for a total of \$12.1 million) in 2023 (the most recent audited year), and officials do not intend to spend down reserves in 2024. Management reports of possible one-time uses of accumulated reserves beyond 2024, but anticipates remaining above the policy-mandated general stabilization and free cash reserve of 15% to 19% combined. We expect no significant deterioration in cash, and thus we expect that liquidity will remain very strong.

With this issuance, the town will have about \$110.2 million in total direct debt outstanding. About half of the 2024 BANs will be permanently financed next year, according to officials, and the town expects to borrow about \$29 million through the Massachusetts Clean Water Trust in the near term. We anticipate this amount of debt to increase the total direct debt outstanding by about 25%, and we have incorporated this into our analysis. In our opinion, Orleans' large pension and OPEB obligation is a credit weakness, particularly given the pension systems' low funded ratio. Although the town is managing these costs, we believe it has a limited ability to control pension liability growth. Overall, we view the debt-and-contingent-liability profile as weak, but we believe debt and debt issuance will likely remain affordable because of the wealthy tax base as well as management's and taxpayers' commitment to appropriate tax levy adjustments.

The rating further reflects our opinion of Orleans':

- Wealthy residential tax base with access to a broad and diverse metropolitan statistical area;
- Formalized and well-embedded financial management policies and a strong institutional framework score;
- Strengthened financial profile and consistent budgetary performance with operational surpluses since fiscal 2019 and sustained very strong reserves and liquidity; and
- High net direct debt as a percentage of revenue, though it is expected to remain absorbable, with overall net debt expected to stay below 3% of market value.

Environment, social, and governance

Physical environmental risks are elevated, in our opinion, because of the town's location on Cape Cod and its direct exposure to the Atlantic Ocean. Over the long term, we anticipate that rising sea levels, ongoing stormwater management needs, and related environmental risks stemming from the town's location could pressure finances or the tax base. However, the town has leveraged state and local county grants to aid its infrastructure upgrades to mitigate this risk. In addition, we view governance risks as generally in line with those of peers, although pension funding

discipline and assumption choices will likely lead to elevated costs. We consider social risks neutral within our credit rating analysis.

Outlook

The stable outlook reflects our expectation that the town will continue to produce at least break-even results while maintaining a very strong available fund balance, supported by strong local economic indicators that we do not anticipate will materially weaken.

Downside scenario

We could lower the rating if the town experienced sustained negative budgetary performance, leading to weakened flexibility or reduced liquidity to levels we no longer consider commensurate with the rating.

Orleans, Massachusetts-Key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	157			
Market value per capita (\$)	1,077,213			
Population		5,810	5,605	
County unemployment rate (%)		4.7		
Market value (\$000)	6,258,605	5,797,513	4,682,305	
Ten largest taxpayers % of taxable value	2.5			
Strong budgetary performance				
Operating fund result % of expenditures		3.2	5.3	8.1
Total governmental fund result % of expenditures		12.4	14.8	13.4
Very strong budgetary flexibility				
Available reserves % of operating expenditures		29.0	28.8	22.1
Total available reserves (\$000)		12,111	10,915	8,935
Very strong liquidity				
Total government cash % of governmental fund expenditures		34	38	20
Total government cash % of governmental fund debt service		283	265	126
Very strong management				
Financial Management Assessment	Strong			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		12.0	14.4	16.1
Net direct debt % of governmental fund revenue	170			
Overall net debt % of market value	1.8			
Direct debt 10-year amortization (%)	38			
Required pension contribution % of governmental fund expenditures		4.2		
OPEB actual contribution % of governmental fund expenditures		2.8		

Orleans, Massachusetts-Key credit metrics (cont.)

	<u>Most recent</u>	<u>Historical information</u>		
		2023	2022	2021
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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