

RatingsDirect®

Summary:

Orleans, Massachusetts; General Obligation; Note

Primary Credit Analyst:

Krystal Tena, New York + 1 (212) 438-1628; krystal.tena@spglobal.com

Secondary Contact:

Christian Richards, Washington D.C. + 1 (617) 530 8325; christian.richards@spglobal.com

Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

Orleans, Massachusetts; General Obligation; Note

Credit Profile

US\$14.973 mil GO BANs due 01/27/2023		
<i>Short Term Rating</i>	SP-1+	New
US\$12.555 mil GO mun purp loan bnds ser 2022 due 10/15/2041		
<i>Long Term Rating</i>	AAA/Stable	New
Orleans Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Orleans Twn GO BANs due 01/27/2023		
<i>Short Term Rating</i>	SP-1+	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Orleans, Mass' \$12.555 million 2022 general obligation (GO) bonds and its 'SP-1+' short-term rating to the town's \$14.973 million 2022 GO bond anticipation notes (BAN). At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's existing GO bonds and 'SP-1+' BANs. The outlook, where applicable, is stable.

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Orleans maintains a 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 ongoing disclosure to market participants.

Orleans' full-faith-and-credit pledge secures the new and outstanding GO bonds and BANs. Town voters approved to exempt the debt authorizations included in the 2022 BAN issuance. A portion of the 2022 bond issuance and debt outstanding are subject to Proposition 2 1/2 limitations; however, we do not make a rating distinction because we rate the limited obligation at the same level as our view of Orleans' 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 Obligors' Creditworthiness," published Nov. 20, 2019.

Officials plan to use the bond and BAN proceeds to finance various capital projects across the town, with the bonds and BANs each also rolling over existing notes of \$4 million and \$14.5 million, respectively.

Credit overview

Orleans' credit quality reflects our view of the town's very strong economy, with extremely high wealth metrics, and is continued to be supported by a healthy real estate market. The county's unemployment in the county rose in 2020, but this was not due to a material economic weakness. Social distancing and shut-down measures designed to slow the spread of COVID-19 resulted in a spike in unemployment, which has since moderated, ranging between 5% to 6% over the last six months. To assess the current economic climate more accurately, we applied a criteria exception to better

evaluate Orleans' economic score, using the average of the monthly unemployment rates excluding the months of April through July. In addition, we believe the town's very strong management and budgetary flexibility, with available reserves increased to 22.7% of expenditures in fiscal 2021, provide further rating stability. In our opinion, the town has a very weak debt and contingent liability profile with combined pension and other postemployment costs continuing to grow and an anticipated doubling of its debt through voter approved debt exclusions; however we recognize that the town has some financial flexibility, vis-à-vis its relatively low tax rate and wealthy tax base, to absorb additional debt without pressuring budgetary performance.

The rating reflects our opinion of Orleans':

- Wealthy and residential economy, with seasonal tourism;
- Consistent and prudent financial management policies and practices, and a strong institutional framework score;
- Financial profile that has only strengthened with the pandemic; and
- Very weak debt and contingent liability profile with an expectation to approximately double its debt over the next two years.

Environment, social, and governance

Environmental risks are higher than average for the sector, in our opinion, because of Orleans' direct exposure to Cape Cod Bay and the Atlantic Ocean. We expect rising sea levels, ongoing stormwater management needs, and related environmental risks stemming from the town's location could potentially pressure finances or the tax base in the long term. We view Orleans' governance risks as being generally in line with those of peers, although pension funding discipline and assumption choices will likely lead to elevated costs for the town. The town's social factors are in line with the sector standard.

Stable Outlook

Downside scenario

We could lower the rating should the town take on additional debt that materially affects its balance sheet, in particular if the town's general economic conditions deteriorate impacting budgetary performance and leading to weakened financial flexibility.

Credit Opinion

Wealthy residential town with a large portion of second homes and a seasonable economy

Orleans, located in Barnstable County, has a population of about 5,600 and is primarily a residential resort community with a substantial portion of second homes owned by seasonal summer residents. Residential properties make up 92% of the town's property tax base, accounting for a seasonal population of 22,000, while its permanent population has remained relatively stable over the last several years. Leading employers include Super Stop & Shop, Shaw's Market, and TJ Maxx. The top 10 taxpayers make up less than 3% of total assessed value of the town. In line with the region, the Barnstable county unemployment rate spiked during the pandemic to a high of 21.5% in June 2020; however, the

rate has moderated since and has hovered between 5% and 6% over the past six months. We expect unemployment to remain at or below this level over the outlook period but will continue to monitor for sustained increases.

The housing market in Orleans has remained very strong, with assessed values increasing a cumulative 11% between 2020 and 2022. Similarly, building permit values rebounded to pre-pandemic levels in 2021 totaling \$43 million, after a dip in fiscal 2020 due to the pandemic. The town is in the midst of an economic development study in an effort to attract new businesses and is looking to expand attractions during the 'off-season'. Given the town's economic composition and very strong economic metrics that continue to trend positively, we do not expect for Orleans to experience economic pressure over the outlook period.

Formalized and adhered to financial management policies and practices

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

In our opinion, strengths include management's:

- Conservative assumptions used for budgeted revenue and expenditures;
- Strong oversight of monitoring progress compared with the budget during the year;
- Long-term financial plan; and
- A five-year capital improvement plan.

The town has recently updated its reserve policy, which now targets minimum general operating reserve balances of 15%-19% of the general fund annual operating budget. Orleans also maintains a debt management policy that targets debt-to-expenditures at 15% and net general fund debt service to expenditures at 10%.

The town participates in the Cape Cod Commission as well as state programs to strengthen its climate resiliency, with coastal resiliency projects funded with state grants that target areas susceptible to storm surges. In addition, the U.S. Department of Agriculture has awarded the town \$1 million for storm water runoff infrastructure projects.

The town is also taking steps to mitigate cyber risk.

Strong financial profile supported by prudent budgeting and a growing fund balance

The town has demonstrated positive financial performance over the last three years, which has strengthened its overall financial profile, including a growth in reserves, which we expect to remain consistent over the near term.

Fiscal 2021 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. Its fiscal 2021 budget totaled \$39.3 million, a 2.1% increase over its fiscal 2020 budget, and was developed using conservative assumptions in response to fiscal and economic uncertainty caused by the pandemic. Its actual results outperformed budgeted estimates, including stronger than projected sales tax and property tax revenues. The town did not have to make significant pandemic-related expenditures, and as a result, total pandemic grants/reimbursements were approximately \$300,000. However, its shift to remote work allowed for a savings of

approximately \$1 million, which added cushion to the town's positive performance for fiscal 2021.

For fiscal 2022, the budget totaled \$37.7 million and included continued conservative measures for revenues and expenditures. Expenditures were reduced by 4.7%, including decreases in non-school salaries and increases in fringe benefits, pensions, and state/county assessments. A primary driver of the decrease is the inclusion of five new enterprise funds that are primarily funded by fees, which creates flexibility under the town's tax levy capacity. Budget-to-actuals suggest that revenues are currently on target to exceed projections, with local tax revenues and building permits outperforming budgeted estimates. Furthermore, the town expects to receive a total of \$606,000 in American Rescue Plan Act funding, of which it already received half, in addition to an estimated \$1.2 million allotment from the county; the town has not yet determined to what projects/programs the funds will be allocated.

The town maintains very strong flexibility as its fund balance has increased in recent years. The town recently revised its fund balance policy, requiring reserves to be between of 15%-19% of expenditures, instead of 5%. The town's tax rate, currently at \$7.20 per \$1,000 of AV, is on the lower end relative to Massachusetts communities, and has decreased since 2019. Generally, we consider this is a positive credit factor as it provides the town ample capacity to take on moderate additional debt plans.

As the town has demonstrated ability and willingness to budget prudently and conservatively during the pandemic, strengthening its overall financial profile, yielding positive results and a growth in fund balance, and we expect this trend to continue.

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

As the town has demonstrated ability and willingness to budget prudently and conservatively during the pandemic, strengthening its overall financial profile, yielding positive results and a growth in fund balance, and we expect this trend to continue.

Significant medium term debt plans and a large and poorly funded pension plan burden the liabilities profile

With this issuance, the town will have about \$67.5 million in total direct debt outstanding. Over the next two fiscal years, the town anticipates issuing approximately \$57 million in debt, most of which will be zero interest loans to fund the design and construction for a wastewater facility project. This amount will essentially double the town's debt, and we have incorporated this into our analysis.

Pension and other postemployment benefits (OPEB):

- In our opinion, a credit weakness is Orleans' large pension and OPEB obligation, particularly given the pension systems' low funded ratio. While the town is currently managing these costs, we believe it has a limited ability to control future pension liability growth.
- We believe some of the assumptions used to build the town's pension actuarially determined contribution are based on what we view as weak assumptions and methodologies, which we believe increases the risk of unexpected

contribution escalations.

- Although OPEB liabilities are funded on a pay-as-you-go basis, costs remain low despite the large liability, and we expect the town will continue adding to its OPEB trust fund.

The town participates in the following plans as of June 30, 2021:

- Barnstable County Contributory Retirement System: 62.3% funded, with a net pension liability of \$22 million.
- A defined benefit health care plan that provides lifetime health care and life insurance for eligible retirees and their spouses: 16.3% funded, with a net OPEB liability of about \$20.4 million.

The town made 100% of its annual required pension contribution in 2021. Contributions are expected to increase by 5.80% per year on a level percent-of-pay amortization basis. The adopted funding schedule in 2020 extended the period to achieve full funding to 2037 from the original 2035. Additional analysis and detail of the Barnstable County Pension Plan is detailed in the Pension Spotlight: Massachusetts piece. In addition, the town participates in the Massachusetts Teachers' Retirement System. The state recognizes the full liability and makes all payments on behalf of the town for the school department. We do not currently anticipate the state passing costs or liabilities on to local governments.

Orleans pays OPEB on a pay-as-you-go basis. In 2018, the town voted in favor of a permanent override to fully fund the OPEB liability over 30 years. The amount was for \$450,000, which the town will contribute annually to the trust in excess of normal costs. As of June 2021, the balance of this fund totaled approximately \$3.3 million; Orleans' net OPEB liability is \$17.03 million. We believe management's proactive approach to funding OPEB mitigates costs from substantially increasing and affecting budgetary performance.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Orleans, Massachusetts Key Credit Metrics				
	Most recent	Historical information		
		2020	2019	2018
Strong economy				
Projected per capita EBI % of U.S.	141			
Market value per capita (\$)	829,461			
Population		5,645	5,663	5,614
County unemployment rate(%)		7.3		
Market value (\$000)	4,682,305	4,209,989		
Ten largest taxpayers % of taxable value	2.8			
Very strong budgetary performance				
Operating fund result % of expenditures		0.6	2.0	(0.7)
Total governmental fund result % of expenditures		5.1	5.6	1.3
Very strong budgetary flexibility				
Available reserves % of operating expenditures		14.2	13.3	13.4

Orleans, Massachusetts Key Credit Metrics (cont.)

	Most recent	Historical information		
		2020	2019	2018
Total available reserves (\$000)		5,677	5,179	4,758
Very strong liquidity				
Total government cash % of governmental fund expenditures		21	21	23
Total government cash % of governmental fund debt service		118	115	179
Very strong management				
Financial Management Assessment	Strong			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		17.7	18.3	12.8
Net direct debt % of governmental fund revenue	148			
Overall net debt % of market value	1.5			
Direct debt 10-year amortization (%)	50			
Required pension contribution % of governmental fund expenditures		4.5		
OPEB actual contribution % of governmental fund expenditures		3.2		

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

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of January 12, 2022)

Orleans Twn GO (FGIC) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Orleans Twn GO BANs ser 2021 dtd 02/14/2021 due 02/04/2022		
<i>Short Term Rating</i>	SP-1+	Affirmed

Many issues are enhanced by bond insurance.

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.

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.