

RatingsDirect®

Summary:

Orange, Connecticut; General Obligation

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Credit Profile

US\$8.6 mil GO bnds ser 2021 A due 06/01/2041

<i>Long Term Rating</i>	AAA/Stable	New
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US\$4.76 mil GO rfdg bnds ser 2021B due 07/15/2033

<i>Long Term Rating</i>	AAA/Stable	New
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Orange Twn GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Orange, Conn.'s \$8.6 million series A general obligation (GO) bonds (federally taxable) and its \$4.8 million series B GO refunding bonds issue of 2021. In addition, S&P Global Ratings affirmed its 'AAA' long-term rating on Orange's previously issued GO bonds. The outlook is stable.

We rate Orange higher than the federal sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario, due to 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 2020, local property taxes generated approximately 87% of general fund revenue, demonstrating a lack of dependence on central government revenue. (See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.)

The town's full faith credit secures the bonds. Proceeds of the series A will support Orange's land acquisition of the Race Brook Country Club. Proceeds of the series B will refund the town's outstanding series 2012R and series 2013 bonds for interest-cost savings.

Credit overview

The rating reflects the town's continued strong budgetary performance, with a fifth consecutive surplus result in fiscal 2020 and an anticipated surplus for fiscal 2021. The strong performance has helped spur growth in the fund balance to over 20% for the past two years. The annual other postemployment benefit (OPEB) liability costs remain manageable for the town, with combined pension and OPEB costs of 3.2% of annual expenses, providing additional support for the stable outlook.

The rating further reflects our opinion of Orange's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the

total governmental fund level in fiscal 2020;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 36.9% of total governmental fund expenditures and 9.5x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 3.9% of expenditures and net direct debt that is 42.9% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 65.0% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We consider Orange's social risks in line with the sector. We believe the town's governance and environmental risks relative to Orange's economy, management, financial measures, and debt and liability profile are all in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating or revise the outlook if the town's budgetary performance were to deteriorate or fixed costs were to rise leading to reduced budgetary flexibility or liquidity.

Credit Opinion

Very strong economy

We consider Orange's economy very strong. The town, with an estimated population of 13,914, is located in New Haven County in the New Haven-Milford MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 148% of the national level and per capita market value of \$217,493. Overall, the town's market value grew by 1.6% over the past year to \$3.0 billion in 2021.

Orange is a mature residential community, with residential properties accounting for nearly 72% of the tax base. Total growth in the tax base continues to remain stable, averaging approximately 2.2% annually over the past five years.

While the town is primarily residential, the area continues to experience ongoing commercial development.

Management highlighted that economic development is continuing, with the opening of the FedEx distribution facility, new construction of a Veteran Affairs Medical Center, and expansion in Aurora Products Inc. manufacturing facilities.

In addition to growth in Orange's commercial activity, residents benefit from access to Interstate 95, the Wilbur Cross and Merritt parkways, and Route 1 to access the New Haven and Hartford, Conn., areas. With continued growth in the tax base and economic activity, the county unemployment rate has recovered from the initial pressures of the onset of the COVID-19 pandemic. The New Haven County unemployment rate peaked at 11.7% in July 2020 but has since recovered to 8.5% as of March 2021. Overall, we expect Orange's economy to remain very strong during our outlook period.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Orange has established a capital planning committee to assist management and the board of finance with long-term capital planning. It does have a basic five-year capital plan. In addition, management presents monthly reports on budget-to-actual revenues and expenditures; follows state guidelines on investments, which limits investments to short-term money market funds and certificates of deposit (CDs), and reports on holdings and earnings monthly; informally targets 3.5%-4.0% of expenditures for debt service; and requires reserves of 12.5% of expenditures.

Strong budgetary performance

Orange's budgetary performance is strong in our opinion. The town had surplus operating results in the general fund of 2.8% of expenditures, and slight surplus results across all governmental funds 1.5% in fiscal 2020.

We adjusted the total governmental funds performance to reflect one-time spending of bond proceeds on capital outlay.

Orange's performance remained stable despite headwinds from the pandemic during fiscal 2020, with the town reporting a fifth consecutive surplus. Management noted the fiscal 2020 surplus performance was driven primarily by continued strong property tax collections of over 99% despite providing delays for payments in the fourth quarter as allowed by the governor. Total revenues for the year came in approximately \$1.3 million favorable to budget aided by stable real property tax collections as well as growth in licenses, permits, fees, and fines due to continued construction/renovation activity in the town. Expenses remained in line, coming in approximately \$748,000 favorable to budget helped by savings in culture and recreation due to the postponement of events because of stay-at-home orders.

For fiscal 2021, the town remained conservative in its practices and adopted a \$73.7 million budget, approximately 2.21% higher than fiscal 2020's budget. To date, performance is continuing to trend positively, with all property taxes collected for the year and an expectation to end the year with a \$500,000-\$1 million surplus. Orange is in the process of finalizing its fiscal 2022 budget, proposing a \$76.1 million budget, approximately 3.2% higher than fiscal 2022.

While the town is eligible to receive approximately \$4 million in American Rescue Plan Act funding, it is not including these funds in the budget. As more guidance is released about approved uses for the funding, the town will formalize plans but anticipates using the funds for eligible capital projects.

With the continued growth in the tax base and resumption of economic activity, we expect Orange will maintain strong budgetary performance during our outlook period.

Very strong budgetary flexibility

Orange's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 22% of operating expenditures, or \$16.8 million.

With the trend of consecutive surplus performance, the town's fund balance continues to grow, remaining over 20% for

the past two years Orange maintains a formal reserve policy limiting general fund balances to no less than 12.5% of expenditures. It has historically kept reserves above its policy minimum. With the surplus performance anticipated for fiscal 2021 and no plans in the near term to use fund balance, we anticipate Orange's budgetary flexibility will remain very strong.

Very strong liquidity

In our opinion, Orange's liquidity is very strong, with total government available cash at 36.9% of total governmental fund expenditures and 9.5x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

Orange is a regular market participant, having issued GO bonds frequently over the past several years. We understand the town has not entered into any bank loans, direct purchase debt, or contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. Orange's investments are limited to short-term investments such as CDs and money market funds, which we consider safe and liquid investment vehicles. Overall, the town has consistently had very strong liquidity and we do not anticipate that to change during our outlook period.

Very strong debt and contingent liability profile

In our view, Orange's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.9% of total governmental fund expenditures, and net direct debt is 42.9% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, and approximately 65.0% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following this issuance, Orange will have approximately \$35.1 million of total direct debt outstanding. The town's debt financed capital plans remain limited over the next few years.

Pension and OPEB:

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for Orange despite lower funding levels and our expectation that costs will increase.
- We anticipate higher contributions will likely remain affordable given the strength of Orange's revenue base.
- Although, OPEB liabilities are funded on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs, the town has legal flexibility to alter OPEB benefits, which we view as a potential means to mitigate escalating costs should they modify benefits.

Orange participates in the following plans as of June 30, 2020:

- Town Plan: 62% funded, with a net pension liability of \$4.3 million.
- Police Officers Plan: 49.5% funded, with a net pension liability of \$16.6 million.
- A defined-benefit health care plan that provides medical and dental benefits to retirees and their spouses: 0% funded, with an OPEB liability of about \$41.2 million.

The town's combined required pension and actual OPEB contributions totaled 3.2% of total governmental fund

expenditures in 2020. Of that amount, 1.9% represented required contributions to pension obligations, and 1.2% represented OPEB payments. In our view, a discount rate of 6.25% for both plans is in line with our 6.00% guideline and Orange continues to make efforts to lower the discount rate. The town also closed the plans in 1999 and moved employees hired since that date to a defined contribution plan, which we view as a positive credit factor. In addition to its two administered pension plans, Orange's teachers are covered by the state's Teachers' Retirement Fund, a multiple-employer pension plan administered and funded by Connecticut.

With respect to OPEB, the town has not established a trust and continues to contribute enough to satisfy the obligation on a pay-as-you-go basis.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments

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.

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