

Summary:

**Orange Town, Massachusetts; General
Obligation; Note**

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Credit Profile		
US\$10.0 mil GO BANs dtd 12/18/2024 due 12/18/2025		
Short Term Rating	SP-1+	New
Orange Twn GO		
Long Term Rating	AA+/Stable	Current
Underlying Rating for Credit Program	AA-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Orange Town, Mass.' \$10 million series 2024 bond anticipation notes (BANs).
- At the same time, S&P Global Ratings affirmed its 'AA-' underlying rating on the town's outstanding debt based on the application of its "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.
- The outlook is stable.

Security

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the town's bonds outstanding. The BANs are not subject to Proposition 2 1/2, but the town's full-faith-and-credit pledge secures the BANs. We rate the town's limited-tax GO debt on par with our view of Orange's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no resource fungibility limitations supporting our view of its overall ability and willingness to pay debt service. The short-term rating reflects our high-investment-grade long-term rating on the town and Orange's low market risk profile. Pursuant to our BAN criteria, we have assessed the town's market risk as low, due to the town's strong market access, information availability, and takeout authorization. Anticipated takeout debt will be eligible to participate under Massachusetts Qualified Bond Act's Chapter 44A.

Officials intend to use series 2024 BAN proceeds to renew the town's existing BANs, originally issued to pay construction costs for the elementary school project.

Credit overview

The rating reflects the town's track record of conservative budgeting and strong budgetary performance with a focus on growing reserves. Recent diverse tax base development has strengthened the property tax base, but key economic metrics remain weaker than those of peers commonwealth-wide. In our opinion, pressure from education and health benefit costs and pension and other postemployment benefits (OPEB) could negatively affect operations in future years. However, we expect management will likely make the necessary adjustments to maintain balanced operations.

The rating further reflects our view of Orange's:

- Stable local economy characterized by a primarily residential tax base with a growing manufacturing component;
- Balanced operations in the past few years, with positive financial results estimated for fiscal 2024 with some emerging pressure due to increased costs and slowing revenue growth with consistent available reserve levels;
- Conservative budgeting assumptions with monthly budget-to-actuals reporting and some capital planning, but no long-term financial forecasting and no adopted policies in some key areas;
- Manageable fixed costs despite elevated debt levels on a per capita basis, primarily due to debt to support school capital needs with currently manageable pension and OPEB contribution costs; and
- For more information on our institutional framework assessment for Massachusetts municipalities, see "Institutional Framework Assessment: Massachusetts Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

We have evaluated environmental, social, and, governance factors related to Orange's economy, financial measures, management, and debt and long-term liability profile; we view them as credit neutral within our analysis.

Outlook

The stable outlook reflects our expectation that management will maintain at least balanced operating results and reserves at least at current levels.

Downside scenario

We could lower the rating if budgetary performance or reserves were to decrease significantly due to capital project costs, increased operating costs, or fixed-cost growth pressure associated with long-term liabilities.

Upside scenario

We could raise the rating in response to improved local economic indicators, coupled with continued stable budgetary performance and increased reserves.

Credit Opinion

Economy

Orange is a primarily residential community in central Massachusetts, about 40 miles from Springfield and Worcester. Orange's household incomes are below county and national levels and weaker than those of some peers, constraining our view of the local economic profile. Changes in zoning have allowed for denser residential development on existing parcels; this has helped to support tax base growth of more than 30% over the last three years. The town continues to see residential, commercial, and industrial growth, though it noted growth has slowed. The town created a dedicated economic development role last year and is working to market the town to prospective employers and developers and work with existing companies to retain and expand their operations. Recently, Rodney Hunt Inc., a significant employer in the town, has announced a plan to refurbish its facility to expand manufacturing capacity.

Financial performance, reserves, and liquidity

Orange has produced surplus results in each of the last several years, primarily due to strong property tax revenues, which are the town's primary revenues source. Management reports that the town produced a slight surplus again in fiscal 2024. The town's fiscal 2025 budget was balanced with the elimination of some positions, as the town is seeing revenue growth slow and is facing rapid increases in health benefit and school assessment costs. Management expects this pressure to persist over the next couple of years, and is looking at ways to generate additional revenue including through fee adjustments. Through conservative budgeting and consistent revenue growth, fund balance has grown consistently during the past few fiscal years, and the town has no plans to appropriate fund balance. We anticipate balanced-to-positive performance as management continues streamline operations and seek additional revenue flexibility.

Management

Orange's budgeting assumptions are generally conservative, and while there is some capital planning, formal financial forecasting is not conducted, and the town lacks policies in key areas. Highlights include:

- The town uses revenue and expenditure trend analysis to inform budgetary assumptions. Projections primarily reflect historical trends, and the town uses commonwealth information and its own experience to update annual budgetary assumptions. Management provides monthly budget-to-actual reports to the town board, and amendments can be done at special town meetings.
- The town does not maintain a formal financial forecast, which in our view limits management's ability to identify and prepare for future budget pressures. Capital planning is conducted by each department in conjunction with the town administrator, and the town has a goal of unifying and syncing capital planning as part of the 2026 budget process.
- A formal investment management policy sets limitations on the types of investments, consistent with commonwealth law. Management makes annual investment reports in financial statements. The town has not adopted formal debt management or reserve policies but is engaged with the commonwealth's division of local services to assess policies in these and other areas. Finally, the town has taken steps to mitigate and reduce cyber security risk with ongoing training and commonwealth grants. Following a fraudulent invoice scheme uncovered in late 2023, the town has implemented additional systems and controls to secure payments and verify invoices.

Debt and liabilities

Following the issuance of the notes, Orange has about \$41 million in debt outstanding. Orange has \$18.1 million in authorized, but unissued, debt remaining, primarily for the ongoing school construction project. Permanent financing of the notes is pending final Massachusetts School Building Authority audit, and the town estimates \$6 million to \$7 million in permanent financing.

We do not view pension and OPEB liabilities as a credit pressure for Orange because costs are low; however, we acknowledge lower pension plan funding. While we consider the use of actuarially determined contributions as a credit positive, we posit some assumptions used to build the actuarially determined pension contribution reflect assumptions we view as slightly weak and methodologies we think increase unexpected contribution escalation risk. Although management funds OPEB liabilities on a pay-as-you-go basis, costs remain low despite the large liability. Orange has created an OPEB trust, and it added \$25,000 to the trust in 2024 and anticipates adding \$25,000 to the trust each year

moving forward.

As of June 30, 2023, the town participates in:

- Franklin Regional Retirement System, which is 72.2% funded, with a proportionate share of the net pension liability equal to \$9 million; and
- Orange's single-employer, defined-benefit, health care plan, which it funds on a pay-as-you-go basis, with a total OPEB liability of \$31.3 million.

Table 1

Orange Town, Massachusetts--credit summary	
Institutional framework (IF)	2
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Economy	4.0
Financial performance	2
Reserves and liquidity	2
Management	2.65
Debt and liabilities	3.00

Table 2

Orange Town, Massachusetts--key credit metrics				
	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.	--	--	61	63
County PCPI % of U.S.	--	--	98	99
Market value (\$000s)	--	746,702	663,205	610,311
Market value per capita (\$)	--	98,509	84,885	80,072
Top 10 taxpayers % of taxable value	--	7.3	8.2	8.6
County unemployment rate (%)	--	2.9	3.3	4.7
Local median household EBI % of U.S.	--	87	77	76
Local per capita EBI % of U.S.	--	86	76	75
Local population	--	7,580	7,813	7,622
Financial performance				
Operating fund revenues (\$000s)	--	25,811	23,967	24,055
Operating fund expenditures (\$000s)	--	25,837	23,489	22,911
Net transfers and other adjustments (\$000s)	--	92	--	--
Operating result (\$000s)	--	66	478	1,144
Operating result % of revenues	--	0.3	2.0	4.8
Operating result three-year average %	--	2.3	2.5	1.8
Reserves and liquidity				
Available reserves % of operating revenues	--	15.3	16.2	14.1
Available reserves (\$000s)	--	3,946	3,878	3,403
Debt and liabilities				
Debt service cost % of revenues	--	2.6	0.8	0.7

Table 2

Orange Town, Massachusetts--key credit metrics (cont.)				
	Most recent	2023	2022	2021
Net direct debt per capita (\$)	5,420	5,281	3,755	2,663
Net direct debt (\$000s)	41,084	40,032	29,335	20,296
Direct debt 10-year amortization (%)	31	--	--	--
Pension and OPEB cost % of revenues	--	4.0	4.0	5.0
NPLs per capita (\$)	--	1,193	512	692
Combined NPLs (\$000s)	--	9,046	3,998	5,272

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

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