S&P Global Ratings

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Summary:

Orange, Connecticut; General Obligation

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Credit Profile		
US$4.5 mil GO bnds ser 2018 A due 07/15/2038		
Long Term Rating	AAA/Stable	New
US$3.12 mil GO rfdg bnds ser 2018 B due 08/15/2025		
Long Term Rating	AAA/Stable	New
Orange Twn GO bnds		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Orange, Conn.'s issue of 2018 general obligation (GO) bonds series A and B. In addition, we affirmed our 'AAA' long-term rating on Orange's previously issued GO bonds. The outlook is stable.

A pledge of the town's full faith credit secures the bonds. Proceeds for the series A bonds will be used toward road paving, bridge repairs, and other capital projects. Proceeds for the series B will refund outstanding series 2010 bonds for interest savings.

We rate the town of 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 2016, local property taxes generated 89% 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 rating 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 operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 23.5% of total governmental fund expenditures and 5.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.5% of expenditures and net direct debt that is 40.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of

market value and rapid amortization, with 65.2% of debt scheduled to be retired in 10 years; and

- Strong institutional framework score.

Very strong economy

We consider Orange's economy very strong. The town, with an estimated population of 13,775, is south of New Haven in New Haven County. It is in the New Haven-Milford MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 160% of the national level and per capita market value of $204,034. Overall, market value grew by 1.3% over the past year to $2.8 billion in 2018. The county unemployment rate was 5.0% in 2017.

Orange is a primarily an affluent suburban, residential community. The town's economic makeup is primarily residential, benefiting from new developments in the region. The town anticipates new commercial and residential development centered on a new MetroNorth railroad station, which is currently in the design phase. Management anticipates construction of roughly 200 residential units, with a 1,000-space garage alongside the new station. In addition, officials expect additional development on three nearby sites due primarily to the proximity to the new station. Ongoing redevelopment of farm property and expansion of existing businesses should further boost the town's already very strong market values.

The town's largest employers include Yale University (1,600 employees) and the utility companies United Illuminating (1,036) and Southern Connecticut Gas (282).

We expect Orange's economy to remain very strong over the next two years. Building permit activity has recently risen above its five-year average, and should contribute to additional tax base growth. The new transportation infrastructure will expand access for the already well-connected community, which is also on Interstate-95, the Wilbur Cross and Merritt parkways, and Route 1.

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 new 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. Additionally, 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 operating surpluses of 2.2% of expenditures in the general fund and 2.9% across all governmental funds in fiscal 2017. General fund operating results of the town have been stable over the last three years, with results of 0.9% in 2016 and 2.4% in 2015.

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

The town has done very well over the past several years. Management expects to end fiscal 2018 with a $2 million general fund surplus, reflecting positive revenue variances and proactive expense management. In light of the state's fiscal challenges and uncertainty regarding state aid distribution, the town conservatively assumed intergovernmental revenues for the year. Once the state adopted its budget in late 2017, the town received more aid than what was budgeted. The 2018 result will be the town's fourth consecutive general fund surplus net of transfers.

We expect Orange will maintain strong budgetary performance in fiscal years over the medium term, due to the predominance of locally derived revenue sources, anticipated new growth, and management's conservative budgeting practices. Budgetary growth from long-term liabilities is manageable, and the town has locked up its major collective bargaining contracts through 2019.

The 2019 budget totals $70 million and is a 2.8% increase over the previous year. Property taxes make up 93% of budgeted revenues, while state aid amounts to a modest 2.6%. The town's revenue sources are generally very stable with property tax collection rates in excess of 99% since fiscal 2011.

Very strong budgetary flexibility

Orange's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 18% of operating expenditures, or $12.4 million.

While the town remains concerned with the ongoing state-level budget process and the potential for future reductions in state aid, it expects to maintain very strong reserves and to not appropriate fund balance over the next two fiscal years. It has demonstrated a track record of carefully managing its reserves and overall budgetary flexibility. It is our expectation that Orange will continue to make the necessary revenues and expenditure adjustments to preserve its very strong available fund balance. The town maintains a formal reserve policy limiting general fund balances to no less than 12.5% of expenditures. The town has historically kept reserves above its policy minimum.

Very strong liquidity

In our opinion, Orange's liquidity is very strong, with total government available cash at 23.5% of total governmental fund expenditures and 5.2x governmental debt service in 2017. 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. It has consistently had very strong liquidity and we do not anticipate a change to these ratios, consistent with our view of its strong performance.

The town's investments are limited to short-term investments such as CDs and money market funds, which we consider safe and liquid investment vehicles.

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 4.5% of total governmental fund expenditures, and net direct debt is 40.7% of total governmental fund revenue. Overall net debt is low at 1.7% of market value, and approximately 65.2% 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 $30.6 million of total direct debt outstanding with no additional debt plans over the next few years.

Orange's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 3.0% of total governmental fund expenditures in 2017. Of that amount, 1.5% represented required contributions to pension obligations, and 1.4% represented OPEB payments. The town made its full annual required pension contribution in 2017.

Orange has two defined-benefit plans, which were both closed to new members as of Jan. 1, 2000. New employees, including police, are covered by a defined-contribution plan. As of June 30, 2017, Orange has a collective net pension liability of $12.4 million. The police plan has a fiduciary net position as a percentage of the total pension liability of 63%, while the town plan is 71%. The town fully funds the actuarially determined contribution (ADC) annually. 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 the state treasurer, so any pension liability in the fund is a state liability.

Orange funds OPEBs on a pay-as-you-go basis. The town has an OPEB unfunded liability of $30.5 million. In fiscal 2017, it paid $1,040 million, or 38.0% of its OPEB annual ADC, for current OPEB benefits. We do not currently view the town's pension and OPEB costs as a significant credit pressure, but our view could change should its net liability and annual contributions rise significantly.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

We lowered our predictability subfactor twice during the past 15 months based on our view that local governments are operating in a less predictable environment when budgeting and forecasting state revenue. This action resulted from delayed passage of the state's biennial budget in 2017, which slowed payments to local governments, led to a period of significant budgetary stress, and forced municipalities to adopt 2018 budgets amid significant uncertainty. While we view the state's creation of the Municipal Accountability Review Board (MARB) in 2017 as a formal system support mechanism for identifying fiscal distress and providing assistance to municipalities, we continue to monitor MARB's efficacy and its potential effect on the legal and practical environment in which local governments operate in Connecticut. (For more information, please see the article, titled "Connecticut Rating Actions Do Not Affect Strong Institutional Framework Score On Local Governments," published April 19, 2018.)

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Orange's very strong economy, which is supported by very strong liquidity and budgetary flexibility, as well as strong budgetary performance. Budgetary pressure could develop if the state's financial situation worsens, or if the town were to see increased OPEB pay-as-you-go costs. We do not expect our rating to change over our two-year outlook horizon.

However, we could lower the rating if liquidity and budgetary performance and flexibility were to deteriorate.