

# RatingsDirect®

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## Summary:

# Chatham, Massachusetts; General Obligation

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## Summary:

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### Credit Profile

US\$11.675 mil GO mun purp loan bnds ser 2022 due 06/15/2037

*Long Term Rating* AAA/Stable New

Chatham GO

*Long Term Rating* AAA/Stable Affirmed

Chatham GO muni purpose loan of 2020 bnds

*Long Term Rating* AAA/Stable Affirmed

### Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Chatham, Mass.' roughly \$11.675 million series 2022 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

Chatham's full-faith-and-credit pledge secure the 2022 bonds and existing debt. A portion of the town's debt and this issuance is 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 Chatham's general creditworthiness, as expressed in our rating on its unlimited-tax GO bonds. We rate the limited-tax GO debt based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019, on RatingsDirect.

Chatham's GO bonds are eligible to be rated above the sovereign because we think the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, the town has a predominately locally derived revenue source with about 71% of general fund revenue derived from property taxes with independent taxing authority and treasury management from the federal government.

Officials intend to use series 2022 bond proceeds to finance various municipal improvements and refund all, or a portion, of Chatham's series 2012 bonds.

### Credit overview

Chatham maintains, what we consider, a very strong economy and property tax base, supported by a large number of second homes and a healthy tourism industry that has returned to pre-COVID-19 levels. Chatham maintains strong liquidity and a stable revenue mix that relies largely on property taxes, which it has historically collected at a rate above 98%. The town's pension and other postemployment benefit (OPEB) liabilities somewhat offset these strengths. Management has demonstrated a willingness to increase the tax levy. When needed, it can exceed Proposition 2 1/2 limitations through electorate-approved exclusions. Management has established a dedicated funding source for OPEB through a 1.5% surcharge on tax bills. We do not currently expect to change the rating within the next two years.

The rating reflects our view of the town's:

- Stable economy, benefiting from participation in the Barnstable metropolitan statistical area (MSA);
- Strong financial management under our Financial Management Assessment (FMA) methodology, indicating financial practices are strong, well embedded, and likely sustainable, coupled with a strong Institutional Framework;
- Consistently strong budgetary performance, supporting growing available fund balance; and
- Manageable debt costs and pension and OPEB obligations.

### **Environmental, social, and governance**

Due to the coastal nature of the town along the Atlantic Ocean, we consider Chatham's environmental risk elevated compared with the sector as a whole but in-line with its peer coastal communities. The town proactively managed this risk with the hiring of an exclusive director of natural resources to assist with resiliency efforts, including hazard-mitigation planning, investment-waterfront infrastructure, and grants to assist with elevation-planning-flood reduction. We consider Chatham's social risks in-line with the sector standard. Furthermore, we view governance risks relative to Chatham's economy, management, financial measures, and debt-and-liability profile as in-line with the sector standard.

## **Stable Outlook**

### **Downside scenario**

We could lower the rating or revise the outlook to negative if budgetary performance were to deteriorate due to pressure from increasing fixed costs or other factors, leading to reserves that do not compare with 'AAA' rated municipalities.

## **Credit Opinion**

### **A stable economy with access to the Barnstable MSA**

Chatham is about 90 miles south of Boston at Cape Cod's elbow. The town is approximately 94% residential with some Atlantic Ocean waterfront, and it is an affluent community with resorts and second homes. There is extensive waterfront development along the town's 67 miles of coastline. Chatham has a year-round population of 5,988 that grows to about 30,000 during the summer. Management notes that due to COVID-19, it has seen more year-round residents.

The 10 leading taxpayers represent 2.7% of total assessed value, and residential properties make up most of the leading taxpayers. The two leading taxpayers are a resort and country club. Employment is seasonal, so Barnstable County unemployment increased to 21.8% in April 2020 due to COVID-19. Tourism has rebounded since 2020, and county unemployment was 4.8% in December 2021. However, our view of the economy has moved to strong from very strong due to elevated unemployment in 2020; still, we do not view this as an ongoing credit pressure because employment has since recovered.

### **Well-established financial policies and overall strong financial management**

Management maintains a five-year capital-needs budget it updates yearly and a 10-year facilities-maintenance plan. In building a budget, management performs a trend analysis that considers five years of historical data. It also conducts financial forecasting to identify revenue and expenditure trends and support the capital budget. Budget assumptions are generally conservative, and management monitors performance monthly. Chatham adheres to a fund-balance policy that sets unassigned fund balance at least at 10%-15% of total annual expenditures. Chatham's formal debt-management policy limits debt to 5% of equalized valuation and total debt service to 10% of expenditures.

Chatham's extensive coastline presents risk associated with climate resiliency; management has worked to plan around and mitigate these risks, particularly through leveraging the Center for Coastal Studies' expertise and enhancing its own eligibility for commonwealth and federal grant funds. The town refers to its 2018 hazard-mitigation plan to guide overall climate-resiliency efforts. In addition, it completed an assessment that maps storm tide pathways in August 2018 to plan for and mitigate inland flooding.

In July 2019, it completed a coastal-resiliency and management assessment to proactively plan for projects to improve resiliency along the east-facing mainland. In September 2019, the Massachusetts Office of Energy & Environment Affairs designated Chatham a municipal-vulnerability-preparedness community due to its completion of the community-resiliency-building-planning process; this designation allows Chatham to apply for commonwealth grants to fund the implementation of priority projects.

A five-year capital-improvement plan incorporates numerous projects that address coastal resiliency across departments, including the harbormaster, natural resources, and coastal-resiliency departments. Chatham is in the preliminary planning and assessment stages of climate-resiliency efforts; it continues to identify project funding to mitigate these risks, which we view as positive. We will continue to monitor Chatham's progress in climate-resiliency planning and projects.

### **Consistent, stable finances support very strong reserves**

In fiscal 2021, Chatham continued its trend of surplus performances for the fourth consecutive fiscal year. The fiscal 2021 budget level-funded expenditures to the extent possible to maintain service, which resulted in a 6% increase over the fiscal 2020 budget. The fiscal 2021 budget included no additional staffing or programs, as well as reduced revenue forecasts. Property taxes generate 71% of general fund revenue, followed by charges for services at 10% and hotel taxes at 5%. However, fiscal challenges were not as strong as the town believed.

Room taxes were especially strong, coming in more than \$2 million overbudget, due partially to the implementation of the town's tax on short-term rental properties. Chatham also benefited from meals tax revenue that was higher than budgeted. Available reserves have grown by more than \$13 million during the past 10 fiscal years. Management does not expect it will need to use fund balance during the next few fiscal years because fiscal 2021 results continued surplus results. We expect budgetary performance will likely continue during the next two fiscal years.

Officials approved the fiscal 2022 budget, totaling \$42 million, which was level funded to the fiscal 2021 budget, with exceptions for fixed costs and contractual obligations. Management reports that expenses have been consistent with the budget and revenue collections have been higher than budgeted. Chatham is eligible to receive approximately \$626,000 in direct aid from the American Rescue Plan Act of 2021; while the town does not currently plan to use these

funds for operating expenses, it will use them for one-time expenses, including water-and-sewer projects.

Officials are developing the fiscal 2023 budget with the intent to ramp up initiatives paused due to COVID-19 and revisit workload and service-capacity challenges. They expect the budget to be 6% higher than fiscal 2021 and include seven new full-time positions to carry out services consistent with town goals. Management identified these positions before the onset of COVID-19 but delayed the hiring process. Chatham is also increasing seasonal-employee wages. Management determined revenue assumptions by estimating revenue at 85% of fiscal 2021 levels.

### **A stable debt profile despite additional debt plans**

Subsequent to this issuance, Chatham will have roughly \$93 million of total direct debt outstanding. Like all Cape Cod communities, Chatham was facing pressure from the commonwealth and Environmental Protection Agency to replace existing private septic systems with a public wastewater system to reduce nitrogen levels in the ecosystem. In 2009, the town embarked on a \$210 million plan to install sewer lines throughout the community and expand its treatment plant. It frontloaded much of the debt to take advantage of financing options under recent economic stimulus packages. The town plans to issue \$10 million-\$15 million every two years until the project is complete in 2040. All wastewater project debt is through debt exclusions, which requires a two-thirds vote of Chatham residents.

Officials currently plan to retire about 60% of current debt during the next 10 years, which we view as average amortization. Chatham does not currently have any variable-rate or direct-purchase debt, reducing contingent-liquidity-risk exposure.

### **Manageable pension and OPEB costs**

While we view pension and OPEB obligations as manageable, we think they could present a budgetary challenge during the next few fiscal years due to:

- The Barnstable County Contributory Retirement System's (BCCRS) below-average funding;
- The pension actuarially determined contributions built from, what we view as, weak assumptions and methodologies; and
- The expectation costs will likely increase during the next few fiscal years.

Although Chatham funds OPEB liabilities on a pay-as-you-go basis--which, due to claims-volatility and medical-cost and demographic trends, is likely to lead to escalating costs--it has legal flexibility to alter OPEB, which we view as a potential means to mitigate escalating costs should they modify benefits.

As of June 30, 2021, Chatham participates in:

- BCCRS, which is 67% funded, with a net pension liability of \$22 million; and
- Chatham's defined-benefit health-care plan that provides health- and dental-insurance benefits for eligible retirees and their dependents and beneficiaries, which is 15.69% funded, with a net OPEB liability of about \$16.9 million.

The pension plan's funding schedule achieves full funding in 2035. BCCRS' discount is 7.15%, which is still above our 6% guideline. We expect costs will likely continue to increase faster than budgetary growth and remain elevated. (For more information, see the article, titled "Pension Spotlight: Massachusetts," published Oct. 14, 2020.) The annual

increase and, in our opinion, aggressive discount adds cost-escalation risk due to market volatility.

Chatham provides OPEB to retirees. As of June 30, 2020, the most recent actuarial valuation, it reported a \$16.9 million total OPEB liability. Chatham's OPEB trust fund valuation is currently \$3.1 million. It made full contributions in fiscal 2021. In addition, Chatham approved a 1.5% tax-bill surcharge to fund the OPEB liability; the first payment in fiscal 2021 added approximately \$500,000 to the OPEB trust.

### Strong Institutional Framework

The Institutional Framework score for Massachusetts municipalities is strong.

Chatham, Massachusetts Select Key Credit Metrics				
	Most recent	--Historical information--		
		2021	2020	2019
<b>Strong economy</b>				
Projected per capita effective buying income as a % of U.S.	165.6			
Market value per capita (\$)	1,243,770			
Population		6,621	5,943	6,002
County unemployment rate(%)			10.2	
Market value (\$000)	8,235,004	7,479,607	7,406,456	
10 leading taxpayers as a % of taxable value	2.7			
<b>Strong budgetary performance</b>				
Operating fund result as a % of expenditures		7.1	2.2	1.9
Total governmental fund result as a % of expenditures		4.6	(1.1)	1.4
<b>Very strong budgetary flexibility</b>				
Available reserves as a % of operating expenditures		36.4	31.4	28.3
Total available reserves (\$000)		16,326	13,934	12,386
<b>Very strong liquidity</b>				
Total government cash as a % of governmental fund expenditures		25.9	22.8	25.7
Total government cash as a % of governmental fund debt service		190.7	198.9	175.5
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Adequate debt &amp; long-term liabilities</b>				
Debt service as a % of governmental fund expenditures		13.6	11.5	14.7
Net direct debt as a % of governmental fund revenue	154.8			
Overall net debt as a % of market value	1.1			
Direct debt 10-year amortization (%)	60.7			
Required pension contribution as a % of governmental fund expenditures		4.3		
OPEB actual contribution as a % of governmental fund expenditures		2.4		
<b>Strong Institutional Framework</b>				

Data points and ratios may reflect analytical adjustments.

## **Related Research**

- 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
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2021 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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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