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Ratings

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Summary:

Chatham, Massachusetts; General Obligation

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Table Of Contents

Credit Highlights

Outlook

Related Research

Summary:

Chatham, Massachusetts; General Obligation

Credit Profile		
US$8.0 mil GO mun purp loan of 2023 bnds due 06/15/2043		
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

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Chatham, Mass.' roughly $8 million general obligation (GO) municipal-purpose loan of 2023 bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the town's existing GO debt.
- The outlook is stable.

Security

Chatham's full-faith-and-credit pledge secure the series 2023 bonds and existing debt. A portion of 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, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019, on RatingsDirect.

Officials intend to use series 2023 bond proceeds to fund various water-and-wastewater infrastructure-improvement projects.

Credit overview

Chatham is on Cape Cod, approximately 90 miles south of Boston. Chatham is a primarily residential community with a year-round population of 5,988 that grows to about 30,000 during the summer. The town has 67 miles of coastline, and it is an affluent community with resorts and second homes. Property taxes generate 71% of general fund revenue, followed by charges for services at 10% and hotel taxes at 5%. Fiscal 2022 results continued a trend of surplus performances for the fifth-consecutive fiscal year. Management attributes the robust surplus to its cautious budgeting and continued strength in seasonal revenue, specifically short-term rentals.

The fiscal 2023, $44.9 million budget is a 6.8% increase over fiscal 2022, the town's first growth budget since the onset of Covid-19. The fiscal 2023 budget included seven new positions of the 20 identified by the town prior to COVID-19, as well as wage adjustments for seasonal employees. Officials report revenue at 134% of budgeted amounts and expenses largely in-line with expectations, which should lead to a surplus similar to fiscal 2022.

The adopted fiscal 2024, $47.9 million budget is a 6.5% increase over fiscal 2023, continuing the town's approach to optimizing staffing, including eight new full-time-equivalent positions.

Subsequent to this series 2023 issuance, Chatham will have roughly $88 million of total direct debt outstanding. Chatham was facing pressure from the commonwealth and Environmental Protection Agency to replace existing private septic systems with a public wastewater system. In 2009, the town began a $210 million plan to install sewer lines throughout the community and expand its treatment plant. Chatham plans to issue $10 million-$15 million of debt every two years until the project is complete in 2040. Chatham participates in Barnstable County Contributory Retirement System (BCCRS), which is 75% funded, with an $18.343 million proportionate net pension liability as of Dec. 31, 2022. After abnormally strong returns, we expect the funded ratio to decrease in the upcoming year due to recent market returns. BCCRS' discount is 6.9%, which is higher than our 6% guideline. It also maintains a single-employer, defined-benefit, health-care plan, which is 16% funded, with a $17.4 million net liability as of June 30, 2022. 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 rating reflects our view of Chatham's:

- Stable economy with participation in the Barnstable metropolitan statistical area, which we consider broad and diverse, with tourism and employment that has improved after COVID-19;
- Strong budgetary performance and growing reserves, supported by strong property tax revenue;
- Very strong management with strong financial-management practices, policies under our Financial Management Assessment (FMA) methodology--indicating financial practices are strong, well embedded, and likely sustainable--and strong Institutional Framework score; and
- Manageable direct debt that will increase with planned issuances and pension and OPEB liabilities we expect will remain manageable during the next few fiscal years but could add some pressure to the budget over the long term.

Environmental, social, and governance

Due to Chatham's coastal nature along the Atlantic Ocean, we consider environmental risk elevated compared with the sector but in-line with its coastal peer communities. The town has proactively managed this risk with the hiring of a director of coastal 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 and governance risks neutral in our credit-rating analysis.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Chatham will likely maintain strong budgetary performance, supporting very strong reserves, while continuing to manage long-term liabilities.

Downside scenario

We could lower the rating if budgetary performance were to deteriorate, leading to reserves decreasing to levels not comparable with 'AAA' rated municipalities.

Rating above the sovereign

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, "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 from property taxes with independent taxing authority and treasury management from the federal government.

Chatham, Massachusetts key credit metrics

	Most recent	--Historical information--		
		2022	2021	2020
Very strong economy				
Projected per capita effective buying income (EBI) (%) of U.S.	172.3			
Market value per capita ($)	1,675,555			
Population			5,919	5,943
County unemployment rate(%)			6.7	
Market value ($000)	9,917,612	8,235,004	7,479,607	
10 largest taxpayers as a % of taxable value	2.8			
Strong budgetary performance				
Operating fund result as a % of expenditures		11.3	7.1	2.2
Total governmental fund result as a % of expenditures		12.7	4.6	(1.1)
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		41.1	36.4	31.4
Total available reserves ($000)		18,727	16,326	13,934
Very strong liquidity				
Total government cash % of governmental fund expenditures		46.9	25.9	22.8
Total government cash % of governmental fund debt service		306.2	190.7	198.9
Very strong management				
Financial Management Assessment	Strong			
Weak debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		15.3	13.6	11.5
Net direct debt as a % of governmental fund revenue	162.6			
Overall net debt as a % of market value	1.0			
Direct debt 10-year amortization (%)	60.1			
Required pension contribution as a % of governmental fund expenditures		4.9		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		2.6		
Strong Institutional Framework				

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
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 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
- 2022 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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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