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Ratings

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Summary:

Chatham, Massachusetts; General Obligation

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Summary:

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Credit Profile		
US$9.495 mil GO mun purp loan of 2024 bnds due 10/15/2043		
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.' $9.5 million general obligation (GO) series 2024 municipal purpose 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 bonds and existing debt. A portion of this issuance is subject to Proposition 2 1/2 limitations. However, we do not make a rating distinction because we rate the limited obligation on par 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.

Bond proceeds will fund various water-and-wastewater infrastructure improvement projects.

Credit overview

Chatham is a wealthy residential community on Cape Cod, with a local economy that centers around summer tourism and second homes due to its waterfront location and 67 miles of coastline. The town's assessed valuation has increased by 37% over the last two years, primarily driven by rapidly rising home values in a strong housing market and renovations to existing properties. While the housing market may temper from historically high levels, we expect that the strength of the town's tax base and its status as a tourism destination will continue to support overall operations.

Chatham has a longstanding positive financial trend supported by stable revenues. Property tax is the town's primarily general fund revenue source followed by local receipts; seasonal revenue only comprises about 9% of revenue sources but continues to perform strongly compared to budgets. Fiscal 2023 ended with a general fund surplus following a 2% increase to local room occupancy tax to support housing and education needs; we have also adjusted results to account for a one-time $3.8 million payment from Harwich for the town's shared wastewater system. Fiscal 2024

year-to-date results are trending positively with one month remaining, with results indicating a roughly $6 million budgetary surplus. We expect the town will maintain positive budgetary results for the next two years given its predictable revenue profile and ability to incorporate budgetary adjustments as needed. Chatham has increased available reserves by $7 million over the last three years, which provides the town with additional flexibility to respond to potential severe weather events if needed. Officials do not anticipate drawing on fund balance over the near term, and we expect the town will maintain positive financial results and further add to fund balance levels.

Chatham will have about $141 million in total debt outstanding, including about $30 million in interim MCWT notes; this issuance provides additional funds for Chatham's plan to install sewer lines throughout the community and expand its treatment plant. 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; the town began its $210 million plan in 2009 to address these concerns. Officials still plan to issue $10 million-$15 million every two years until the project is complete in 2040. In addition, we do not view Chatham's combined $41 million retirement liabilities as an immediate source of credit pressure due to overall low associated costs that make up about 7% of expenditures; while we anticipate costs will escalate as the pension plan works toward fully funding the liability by 2035, we also expect management will make budgetary adjustments as needed to incorporate the costs and view the dedicated surcharge to fund its other postemployment benefits liability as a positive.

The rating reflects our view of Chatham's:

- Residential coastal local economy with substantially high wealth and income metrics that is boosted by summer tourism and second homes;
- Robust budgetary results leading to growing reserves above 40% of expenditures, further supported by strong property tax revenue;
- Well-embedded financial policies and practices, including robust and comprehensive multi-year and capital planning along with a suite of formal reserve, debt management and investment policies--and strong institutional framework score; and
- Elevated debt burden and moderate debt service costs that will increase with planned issuances over the long-term to complete infrastructure projects, along with combined retirement costs that 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

Chatham's location on Cape Cod and its coastline along the Atlantic Ocean exposes it to potential coastal flooding and severe weather event risk similar to its coastal peer communities. The town has proactively managed this risk by pursuing coastal resiliency grants; implementing its 2018 hazard mitigation plan that is currently being updated; and hiring a director of coastal resources to oversee these various resiliency efforts. We consider Chatham's social and governance risks neutral in our credit-rating analysis.

Outlook

The stable outlook reflects our view of Chatham's robust residential tax base with a stable tourism component that will likely support ongoing positive financial performance.

Downside scenario

We could lower the rating if budgetary performance weakens, leading to sustained draws on reserves to levels no longer comparable with 'AAA' rated peers, or if planned additional debt were to materially pressure financial operations given debt levels are already above peer medians.

Rating above the sovereign

Chatham's 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		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	172		176	173
Market value per capita ($)	1,905,770	1,627,973	1,351,773	1,263,661
Population			6,092	5,919
County unemployment rate(%)			4.7	
Market value ($000)	11,609,948	9,917,612	8,235,004	7,479,607
Ten largest taxpayers % of taxable value	2.5			
Strong budgetary performance				
Operating fund result % of expenditures		11.7	11.3	7.1
Total governmental fund result % of expenditures		15.7	12.7	4.6
Very strong budgetary flexibility				
Available reserves % of operating expenditures		46.5	41.1	36.4
Total available reserves ($000)		23,270	18,727	16,326
Very strong liquidity				
Total government cash % of governmental fund expenditures		33	47	26
Total government cash % of governmental fund debt service		281	306	191
Very strong management				
Financial Management Assessment	Strong			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		11.8	15.3	13.6
Net direct debt % of governmental fund revenue	207			

Chatham, Massachusetts--key credit metrics (cont.)				
	Most recent	**Historical information**		
		2023	**2022**	**2021**
Overall net debt % of market value	1.2			
Direct debt 10-year amortization (%)	46			
Required pension contribution % of governmental fund expenditures		4.3		
OPEB actual contribution % of governmental fund expenditures		3.4		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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