

Research Update:

# Chatham, MA GO Municipal-Purpose Loan of 2025 Bonds Assigned 'AAA' Rating

April 23, 2025

## Overview

- S&P Global Ratings assigned its 'AAA' rating to Chatham, Mass.' \$8.185 million general obligation (GO) municipal-purpose loan of 2025 bonds.
- At the same time, we affirmed our 'AAA' rating on the town's existing GO debt.
- The outlook is stable.
- The rating reflects the application of our "Methodology for Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.

## Rationale

### Security

Chatham's faith-and-credit pledge secures the bonds. This issuance is excluded from Proposition 2-1/2, though some of the town's existing rated debt is subject to the commonwealth levy-limit laws. We do not make a rating distinction between Chatham's limited-tax debt and its general creditworthiness because our analysis of its financial and economic conditions already includes the statutory limitation imposed on its revenue-raising ability.

### Credit highlights

Chatham's general creditworthiness is supported by its affluent local economy that centers around summer tourism, with a large second-home presence, and its consistent operating surpluses reflecting steady local revenue growth and cautious budgeting assumptions. We expect the town's reserves will remain favorable relative to peers despite a large planned drawdown, further supporting the rating.

We anticipate that Chatham will maintain generally balanced-to-positive operations, with positive variance from local receipts and expenditure savings continuing to more than offset reserve use for nonrecurring needs. Surpluses of greater than \$3 million are expected in both

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fiscal years 2024 and 2025, but in fiscal 2026, management plans to draw down \$10 million in reserves--rather than the \$2 million to \$4 million typically appropriated--for senior center and transfer station projects. While Chatham's fund balance will likely decrease in fiscal 2026, management has no plans for additional significant drawdowns, despite its reserve policy target of only 6%-10% of general fund expenditures, net of debt service. Therefore, we expect Chatham's reserves will remain above average on a percentage basis compared to similarly rated peers in the commonwealth.

We view Chatham's debt and liabilities profile as a credit weakness, though overstated on per capita basis because of its significant secondary home market. Like many Cape Cod communities, Chatham is implementing a long-term plan to replace private septic systems with public wastewater to reduce nitrogen loading that is damaging the coastal ecosystem. The town plans to borrow \$10 million-\$15 million every two years, largely through low-interest Massachusetts Clean Water Trust (MCWT) loans, until the project is complete in 2040 and also plans an approximately \$20 million issuance for PFAS remediation in town wells. We currently view carrying charges as manageable and view the town's unused levy capacity as a strength, enabling it to significantly increase property tax revenue without voter approval if necessary to support escalating fixed costs. However, additional direct debt beyond current expectation could pressure the rating.

The rating further reflects our view of Chatham's:

- Desirability as a summer destination and extremely large tax base, primarily composed of secondary homes;
- Consistent operating surpluses based on predictable property tax revenue (69%) and cautious budgetary assumptions; and reserves that will likely remain above average despite a planned drawdown;
- Thorough budget process with cautious assumptions, regular monitoring, and ongoing communication with the regional school district, supporting consistent surplus results; capital and long-term financial planning that inform reserve use and debt issuance plans when coupled with a debt management policy targeting debt service subject to Proposition 2-1/2 limitations at a maximum of 10% of general fund expenditures;
- Direct debt of \$139 million following this issuance, including approximately \$37 million in MCWT interim notes and ongoing borrowing needs for wastewater infrastructure; and
- Liabilities through participation the Barnstable County Retirement System (64% funded, \$26 million net pension liability) and its own other postemployment benefits (23% funded, \$14 million net liability) that could escalate due to poor funded ratios, though costs are currently manageable; see "Pension Spotlight: Massachusetts," published June 17, 2024, for more information.
- We anticipate the operating environment for Massachusetts municipalities will remain stable. For more information, see "Institutional Framework Assessment: Massachusetts Local Governments," published Sept. 11, 2024.

## Environmental, social, and governance

Chatham's location on Cape Cod and its coastline along the Atlantic Ocean expose 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 from the commonwealth to bolster its infrastructure, prioritizing its most vulnerable roads, implementing

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its 2018 hazard mitigation plan that is currently being updated, and hiring a coastal resources director to oversee these various resiliency efforts. We consider Chatham's social and governance risks neutral in our credit-rating analysis. The town has also taken steps to mitigate cyber risk.

### Rating above the sovereign

Chatham's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. The town has a predominately locally derived revenue source, with independent taxing authority and treasury management from the federal government.

## Outlook

The stable outlook reflects our expectation that Chatham will maintain generally balanced operations and a healthy fund balance position that will remain comparable with that of 'AAA' peers despite a planned drawdown in fiscal 2026.

### Downside scenario

We could lower the rating if Chatham's reserves materially decreased beyond expectation without a plan to restore them, or if its debt and liabilities profile unexpectedly weakened. We could also do so if the town were to experience a contingency event drastically weakening local property market values or requiring substantial drawdowns.

### Chatham, Massachusetts--Credit summary

<b>Institutional framework (IF)</b>	<b>2</b>
Individual credit profile (ICP)	1.78
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.65
Debt and liabilities	3.25

### Chatham, Massachusetts--Key credit metrics

	<b>Most recent</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Economy</b>				
Real GCP per capita % of U.S.	--	93	93	91
County PCPI % of U.S.	--	132	130	131
Market value (\$000s)	--	9,917,612	8,235,004	7,479,607
Market value per capita (\$)	--	1,451,429	1,351,773	1,263,661
Top 10 taxpayers % of taxable value	--	2.8	2.7	2.8

**Chatham, Massachusetts--Key credit metrics**

	Most recent	2023	2022	2021
<b>Economy</b>				
County unemployment rate (%)	--	4.4	4.8	6.1
Local median household EBI % of U.S.	--	124	136	118
Local per capita EBI % of U.S.	--	161	176	173
Local population	--	6,833	6,092	5,919
<b>Financial performance</b>				
Operating fund revenues (\$000s)	--	55,401	50,196	46,981
Operating fund expenditures (\$000s)	--	49,517	44,673	44,269
Net transfers and other adjustments (\$000s)	--	(14)	(587)	478
Operating result (\$000s)	--	5,870	4,936	3,190
Operating result % of revenues	--	10.6	9.8	6.8
Operating result three-year average %	--	9.1	6.3	3.6
<b>Reserves and liquidity</b>				
Available reserves % of operating revenues	--	42.0	37.3	34.8
Available reserves (\$000s)	--	23,270	18,727	16,326
<b>Debt and liabilities</b>				
Debt service cost % of revenues	--	10.2	13.6	13.0
Net direct debt per capita (\$)	20,349	13,567	15,089	15,693
Net direct debt (\$000s)	139,048	92,705	91,920	92,885
Direct debt 10-year amortization (%)	61	-	--	--
Pension and OPEB cost % of revenues	--	7.0	7.0	6.0
NPLs per capita (\$)	--	3,838	3,015	3,676
Combined NPLs (\$000s)	--	26,225	18,365	21,761

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.

**Ratings List**

**New Issue Ratings**

US\$8.135 mil GO mun purp loan bnds ser 2025 due 05/15/2045

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### Ratings List

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#### Current Ratings

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#### Local Government

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Chatham, MA Limited Tax General Operating Pledge	AAA/Stable
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Chatham, MA Unlimited Tax General Obligation	AAA/Stable
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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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