

# RatingsDirect®

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## Summary:

# Eastham, Massachusetts; General Obligation

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## Summary:

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### Credit Profile

US\$10.276 mil GO mun purp loan of 2023 bnds ser 2023 due 11/01/2043

*Long Term Rating* AA+/Stable New

Eastham GO bnds

*Long Term Rating* AA+/Stable Affirmed

Eastham GO muni purp loan bnds

*Long Term Rating* AA+/Stable Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to Eastham, Mass.' approximately \$10.276 million general obligation (GO) municipal purpose loan of 2023 bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the town's outstanding GO debt.
- The outlook, where applicable, is stable.

### Security

Eastham's full faith-and-credit pledge secures the notes. Voters elected to exclude a portion of the debt service on the bonds from the limitations of Proposition 2½. The town's full faith and credit pledge, subject to Proposition 2½ limitations, secures a portion of the bonds, and we note that some of Eastham's existing GO debt that we rate is also excluded from Proposition 2½ limitations. Despite commonwealth levy limit laws, we do not make a rating distinction between Eastham's limited-tax GO pledge and the town's general creditworthiness because our analysis of its financial and economic conditions already includes the tax limitation imposed on its revenue-raising ability.

Proceeds from the bonds will be used to permanently finance bond anticipation notes (BANs) issued for land acquisition and to provide new money for wastewater improvement design and harbor dredging.

### Credit overview

Eastham is an outer Cape Cod community located between Provincetown, at the end of Cape Cod, and Barnstable. The town is a residential resort community and about one-fourth of its land is part of the Cape Cod National Seashore. The town has a significant number of second homes and a short-term rental market supported by tourism,; the summer population is about five times the year-round population.

Eastham has demonstrated a record of strong financial performance and is expecting its seventh consecutive general fund surplus in the fiscal year ending June 30, 2023. Recent results have been supported by strength in local receipts, including property taxes, which are the town's primary revenue source, but also in short-term rental tax revenues, which the town plans to devote to an upcoming wastewater infrastructure project. In addition, the town's approach to budgeting resulted in over \$2 million in appropriation savings and, in developing the budget, the town budgets for no

more than 85% of the prior year's local revenue receipts, which allows for variances throughout the year. Recent performance has allowed for robust growth in the town's reserves, which have grown from about \$2.8 million in 2018 to over \$10 million. We expect that management's approach to budgeting and the growth of local revenues will allow the town to continue to produce at least breakeven results and make continued contributions to the fund balance.

Following this issuance, Eastham will have approximately \$99.7 million in debt outstanding. The townwide water system project is nearing completion, with about \$13 million in borrowing remaining; issuance to support this project has led to elevated debt service costs and an increase in net direct debt. Like other Cape Cod communities, Eastham faces pressure from the state and federal Environmental Protection Agency (EPA) to reduce nitrogen in surrounding waterways. The town is also preparing for a wastewater improvement project, the scope of which is still being determined, and currently expects additional borrowing of about \$90 million in no-interest loans from the Commonwealth. While this borrowing is still a few years out, it may contribute to the town's elevated debt, which constrains upward rating movement.

The rating further reflects our view of Eastham's:

- Stable, primarily residential tax base benefiting from the Cape Cod tourism industry, which has rebounded from the disruption of COVID-19; the presence of second homes; and a recent increase in population and building permit activity;
- A record of positive operating performance due to revenue strength and budget management that has supported robust growth in reserves over the past five years;
- A strong institutional framework score, coupled with strong financial policies and practices under our Financial Management Assessment methodology, including three-year trend analysis when developing the budget; monthly budget-to-actual reporting; a five-year revenue and expense forecast; a five-year capital improvement plan; formalized debt policy with quantitative restrictions; and a reserve policy that targets unassigned fund balance at 10% of expenditures; and
- Elevated debt burden due to recent issuance to support infrastructure programs, with plans to issue additional debt, and with retirement liabilities that include \$14 million net pension liability as part of the Barnstable County Retirement Association and a \$31.3 million unfunded other postemployment benefits (OPEB) liability.

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

Due to Eastham's location along the Atlantic Ocean, we consider its physical risks elevated. The town has proactively managed this risk through hazard-mitigation planning, investment in waterfront infrastructure, and use of grant funding to address stormwater needs. We consider Eastham's social and governance risks neutral in our credit-rating analysis.

## **Outlook**

The stable outlook reflects our expectation that Eastham will maintain balanced-to-positive operations during the outlook period.

**Downside scenario**

We could lower the rating if rising debt and rising pension or other costs weaken the town's budgetary performance, leading to a draw on reserves.

**Upside scenario**

Although it is unlikely over the outlook horizon, we could raise the rating if the town's debt-and-liability metrics were to improve while other credit factors, including very strong reserves and very strong management, remained constant.

<b>Eastham, Massachusetts--Key credit metrics</b>				
	<b>Most recent</b>	<b>Historical information</b>		
		<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Strong economy</b>				
Projected per capita EBI % of U.S.	142.9			
Market value per capita (\$)	820,288			
Population		5,168	5,006	4,996
County unemployment rate (%)		4.7		
Market value (\$000)	4,239,250	3,400,302		
Ten largest taxpayers % of taxable value	1.5			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		4.8	9.9	4.5
Total governmental fund result % of expenditures		6.9	23.3	3.8
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		29.0	28.7	12.7
Total available reserves (\$000)		10,389	9,398	4,026
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		66.5	68.4	21.6
Total government cash % of governmental fund debt service		1,284.3	1,774.2	169.1
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Very weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		5.2	3.9	12.8
Net direct debt % of governmental fund revenue	233.5			
Overall net debt % of market value	2.3			
Direct debt 10-year amortization (%)	47.0			
Required pension contribution % of governmental fund expenditures		5.0		
OPEB actual contribution % of governmental fund expenditures		2.9		
<b>Strong institutional framework</b>				
<b>EBI--Effective buying income. OPEB--Other postemployment benefits.</b>				

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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