

RatingsDirect®

Summary:

Edgartown, Massachusetts; General Obligation

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Credit Profile

US\$2.075 mil GO mun purp loan of 2022 bnds dtd 11/09/2022 due 11/01/2032

Long Term Rating

AAA/Stable

New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Edgartown, Mass.' series 2022 general obligation (GO) municipal purpose loan, totaling about \$2.1 million.
- The outlook on the rating is stable.

Security

Edgartown's full-faith-and-credit-GO pledge secures the bonds. We understand the town has voted to exclude debt service on the bonds from the Proposition 2 1/2 levy limits; therefore, we base the rating on the town's unlimited-tax GO pledge. Officials intend to use bond proceeds to permanently finance existing bond anticipation notes.

Credit overview

Edgartown is a wealthy residential and resort community located in the state's prestigious island of Martha's Vineyard. While the town's local economy maintains an important tourist component and its tax base consists of highly valued second and primary homes, the town has a small year-round population and economic activity has remained stable over the last few years. In addition, the town reserve levels are very strong due to balanced financial operations, coupled with strong financial policies and plans, a low debt burden, and manageable retirement costs.

The rating also reflects our view of the town's:

- Extremely strong tax base, with very high wealth and income metrics and a local economy centered around tourism;
- Positive financial operations and very strong reserves due to a stable operating environment;
- Strong management with formalized policies and plans; and
- Manageable debt burden and fixed costs, although we view its other postemployment benefits (OPEB) liability as large.

Environmental, social, and governance

Edgartown's location on the island exposes it to potential coastal flooding risks, and its shoreline is at risk of coastal erosion. The town participates in the state's Municipal Vulnerability Preparedness grant program. As part of the program, the town was able to complete a climate change vulnerability study that allowed it to identify its most vulnerable areas and take action to mitigate the risks in those areas. The town also has municipal dredge, which has led to the town to conduct an aggressive beach nourishment program. We also understand management plans to add a

climate resiliency aspect to all of its capital programs. We have evaluated Edgartown's social and governance risk relative to its economy, financial measures, management, and debt and long-term liability profile, and view them as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view of the town's extraordinary strong residential tax base and stable tourism industry. We expect the town's reserve levels will at least remain at current levels, given the town's history of consistent positive budgetary performance and no plans to draw down on fund balance. We also expect its debt burden and retirement costs to remain manageable and not have a material impact on the town's finances. As such, we do not expect to change the rating within the outlook period.

Downside scenario

If the town were to reduce significantly fund balance levels due to negative financial operations as a result of misaligning revenues and expenses, coupled with increases in retirement costs, we could lower the rating.

Credit Opinion

Residential community with a very strong tax base located in one of the state's wealthiest regions

Edgartown is a rich residential and resort community located in the island of Martha's Vineyard off the coast of Cape Cod. The town's economy, like many others on the island, is centered on real estate and tourism. While the town has a general year-round population of more than 4,000, this number increases exponentially in the summer months as tourists and second-home residents visit the island. According to management, the town's tourist season has lengthened over the last few years to include more months in the spring and autumn as more recreational activities and events take place. We understand local residents are generally employed throughout the island's various small and medium-sized businesses that support the tourism industry, as well as the regional school district. Given the strong tourism and real estate activity in the last decade throughout the town and island, average incomes for residents have increased significantly, according to officials. Many of the town's residential properties are also made up of very expensive primary and secondary homes that are typically owned by high net-worth owners. Officials indicate there have been no major taxpayer delinquencies in the last few years and real estate activity remains high, given the town's desirable location and prestige coupled with very low property tax rates. Assessed values have consistently improved over the last decade, with average growth of 4.3% in the last three years. While the housing market has receded from historically high levels, we expect that the strength of the town's tax base will continue to support operations against future economic uncertainty.

Very strong reserve levels supported by positive financial operations

We adjusted fiscal 2021 results to account for recurring transfers in and out of the general fund. According to management, the fiscal 2021 positive general fund results were primarily due to the town's conservative budgeting practices, which led to higher-than-anticipated revenues and lower-than-budgeted expenditures. Specifically, the town had a notable increase in various local receipts, such as hotel/motel taxes and charges for services. It also experienced savings across different areas of the budget, including, but not limited to, education, employee benefits, public safety,

and public works costs. Prior to this, the town also ended fiscal 2020 and 2019 with positive financial performance. Property taxes make up about 74% of general fund revenues, followed by intergovernmental at 10%.

For fiscal 2022, the town estimates to have ended with another general fund surplus, also due to conservative budgeting. Due to the estimated general fund surplus, officials indicate the town was able to increase its unassigned fund balance to about \$12 million, not inclusive of stabilization reserves, which represents an increase of about \$1.5 million compared with fiscal 2021. As such, we expect the town to continue to maintain its very strong reserve position. The fiscal 2023 budget totals \$45.9 million, which represents a 2.6% increase over the prior year. We understand there were no major changes in the 2023 budget compared with fiscal 2022, with most of the increase going toward public works. The town has also set up a capital stabilization fund, currently totaling about \$2 million, to help fund ongoing capital projects. No fund balance was appropriated into the fiscal 2023. As a result, we expect the town's budgetary performance to remain strong.

Edgartown does not have any contingent liquidity risk from financial instruments with payment provisions that change on certain circumstances, nor does it use any investment vehicles that we consider permissive.

Very strong management conditions with robust policies and planning

The town's budgeting assumptions are generally conservative in nature, and a 10-year historical trend analysis is conducted when developing the budget. Budget-to-actuals are presented to the governing body on a monthly basis. The town also maintains a formal five-year revenue and expenditure forecast and a five-year capital improvement plan, both of which are updated annually. It also has a formal investment policy with monthly reporting on holdings, a formal debt management policy that limits debt service to no more than 10% of expenditures, and formal reserve policy that limits general stabilization to no less than 5% of budget, with an overall reserve target of 10%-15% of expenditures. The reserve policy also limits its fire truck stabilization reserves to no less than \$250,000 and its capital stabilization at a minimum of 2% of budget.

The institutional framework score for Massachusetts municipalities is strong.

Favorable debt burden with manageable fixed costs

With this issuance, the town will have about \$10.6 million in total direct debt outstanding. We understand the town plans to issue about \$20 million for a new fire station over the next three years. While we expect this debt to remain manageable for the town, we expect its debt metrics to weaken as a result of the anticipated debt. In addition, officials indicate Martha's Vineyard Regional School District, which the town is a member of, plans to undertake a new school building construction project in the next few years, although final costs have not been determined at this time.

Pension and OPEB:

- Although we do not view pension and OPEB liabilities as an immediate source of credit pressure for Edgartown, given its manageable costs, we view its OPEB liability as large. However, the town has set up a trust fund and is actively funding this liability, which we view as positive.
- Pension and OPEB costs will likely rise, but we expect the town will continue to proactively manage the liabilities.

The town participates in the following plans:

- Dukes County Retirement System: 89.8% funded, with a \$6.2 million net pension liability.
- A single-employer defined-benefit health care plan: 6.33% funded, with a \$53.3 million net OPEB liability.

Contributions toward the pension plan exceeded both our minimum funding progress and static funding progress metrics, which we view as positive. However, the 7.5% discount rate exceeds our 6% guideline, which could lead to contribution volatility. We also expect costs will escalate as the pension plan works toward full funding. In our view, the town's pension and OPEB liabilities will likely continue to increase, but we acknowledge town officials have been proactively managing them.

Management has also taken steps to reduce its long-term unfunded OPEB liability. The town established an OPEB trust fund in 2010 and contributes to the fund in excess of the pay-as-you-go contribution; the trust has an estimated balance of \$3.4 million as of June 30, 2022. The town has budgeted to contribute \$350,000 into the fund for fiscal 2023.

Ratings above the sovereign

Edgartown is eligible to be rated above the sovereign because we believe 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 predominantly locally derived revenue source, supporting our view that debt repayments is at limited risk of negative sovereign intervention.

Edgartown--Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	158			
Market value per capita (\$)	2,487,311			
Population		4,264	4,274	4,252
County unemployment rate (%)		6.5		
Market value (\$000)	10,605,892	9,854,166	9,399,980	
Ten largest taxpayers % of taxable value	4.0			
Strong budgetary performance				
Operating fund result % of expenditures		14.1	9.4	3.8
Total governmental fund result % of expenditures		9.3	10.8	12.6
Very strong budgetary flexibility				
Available reserves % of operating expenditures		35.1	27.8	17.6
Total available reserves (\$000)		14,181	11,219	7,054
Very strong liquidity				
Total government cash % of governmental fund expenditures		43	42	30
Total government cash % of governmental fund debt service		1112	967	685
Very strong management				
Financial Management Assessment	Strong			

Edgartown--Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		3.8	4.3	4.4
Net direct debt % of governmental fund revenue	19			
Overall net debt % of market value	0.1			
Direct debt 10-year amortization (%)	71			
Required pension contribution % of governmental fund expenditures		3.9		
OPEB actual contribution % of governmental fund expenditures		3.1		

Strong institutional framework

EBI--Effective buying income. OPEB--Other postemployment benefits.
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

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