

CREDIT OPINION

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Sharon (Town of) MA

Update to credit analysis

Summary

Sharon (Aa3) has a satisfactory financial position with improving reserves and liquidity, strong tax base with high wealth and income levels, and manageable debt and pension liabilities.

Credit strengths

- » Stable tax base with strong wealth and income levels

Credit challenges

- » Stabilizing annual financial operations and improving reserves
- » Revenue raising limitations of Proposition 2 1/2

Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Trend of balanced financial operations with a significant increase in reserves
- » Reduction in the debt burden
- » Material growth in the tax base

Factors that could lead to a downgrade

- » Large operating deficit resulting in a decline in reserves
- » Large increase in the debt burden
- » Significant deterioration in the tax base or demographics

Key indicators

Exhibit 1

Sharon (Town of) MA	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$2,894,551	\$2,894,551	\$2,895,867	\$2,895,867	\$3,353,753
Population	17,538	17,619	17,756	17,879	17,995
Full Value Per Capita	\$163,018	\$161,897	\$160,926	\$158,365	\$183,406
Median Family Income (% of US Median)	221.9%	220.3%	220.2%	220.2%	220.2%
Finances					
Operating Revenue (\$000)	\$74,547	\$77,117	\$77,213	\$79,760	\$91,010
Fund Balance (\$000)	\$3,424	\$1,808	\$5,157	\$6,887	\$8,831
Cash Balance (\$000)	\$9,608	\$8,228	\$11,828	\$12,721	\$14,386
Fund Balance as a % of Revenues	4.6%	2.3%	6.7%	8.6%	9.7%
Cash Balance as a % of Revenues	12.9%	10.7%	15.3%	15.9%	15.8%
Debt/Pensions					
Net Direct Debt (\$000)	\$56,473	\$54,155	\$73,655	\$67,864	\$64,826
3-Year Average of Moody's ANPL (\$000)	\$53,920	\$69,002	\$79,454	\$76,812	\$70,088
Net Direct Debt / Operating Revenues (x)	0.8x	0.7x	1.0x	0.9x	0.7x
Net Direct Debt / Full Value (%)	2.0%	1.9%	2.5%	2.3%	1.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.7x	0.9x	1.0x	1.0x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.9%	2.4%	2.7%	2.7%	2.1%

As of June 30 fiscal year end

Source: Moody's Investors Service; Sharon's audited financial statements

Profile

The town is primarily residential with a population of 17,995 and is located 21 miles southwest of Boston.

Detailed credit considerations

Economy and Tax Base: Stable Valuation with Strong Wealth and Income Levels

Sharon's \$3.4 billion tax base (2018 equalized value) will remain stable over the medium term as the town continues to benefit from a strong housing market that is attributed to its favorable regional location and strong school district. Fiscal 2018 assessed value increased 3.9%, improving the five year compound annual growth to 4.6%. The latest two-year state certification of equalized value increased by a healthy 15.4% in 2017, which is above the town's pre-recession level of \$3.1 billion. Additionally, we expect the residential town (95% of assessed value) to benefit from the largest commercial development project (Sharon Gallery) in town history. The project includes 95 acres of mixed use space that will generate over \$3 million in annual tax revenues once complete.

The wealth levels continue to be strong with a median family income equal to 220% of the US median. Also, the unemployment rate of 2.9% (October 2017) remains well below the commonwealth (3.3%) and US (3.9%).

Financial Operations and Reserves: Stability Expected To Continue Over Near Term With Improved Reserves

The town's financial position will remain stable over the near term as the town continues to budget conservatively with no use of free cash for operations. Fiscal 2017 ended with a \$1.9 million General Fund operating surplus, driven primarily by a one time, \$1.1 million capital asset sale, and by favorable variances of both expenditures and revenues. The positive operations represented the town's third consecutive surplus and increased available fund balance to \$8.8 million, or a healthy 9.7% of operating revenues. This is a significant improvement over fiscal 2014 levels, when General Fund balance was \$1.8 million, or a narrow 2.3% of revenues.

The fiscal 2018 budget increases by \$2.1 million and was balanced with a 2.3% tax levy increase and no use of free cash for operations. Year-to-date operations are trending favorably and the town forecasts a modest surplus. Going forward, we expect management's commitment to a structurally balanced operating budget to lead to a healthier financial position over the medium term.

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The primary revenue source is property taxes (70.6% of 2017 revenues) while the largest costs are education (57.7% of 2017 expenditures) and employee benefits (15.1%).

LIQUIDITY

Cash and investments at the end of fiscal 2017 represented \$14.4 million or a healthy 15.8% of revenues.

Debt and Pensions: Above Average Liabilities Are Expected to Remain Manageable

The net direct debt burden of 2.2% of equalized value is above average for the rating category but will likely remain manageable given prudent debt management and a large portion of the debt (73%) being excluded from the levy limitations of Proposition 2 ½. The town anticipates future issuance of \$2 to \$3 million annually as part of its five-year capital plan. Sharon will also begin a design phase for a possible renovation or replacement to the high school which could materially increase the debt burden and be a rating driver in the future.

DEBT STRUCTURE

All of the town's debt is fixed rate with 73.8% of principal retired within ten years. Fiscal 2017 debt service represented an above average 9.9% of expenditures.

DEBT-RELATED DERIVATIVES

Sharon is not party to any derivative agreements.

PENSIONS AND OPEB

The town contributes to the Norfolk Regional Retirement System, a multi-employer cost-sharing plan. The town is required to fully fund its required contribution, which was \$3.7 million in 2017, representing a manageable 4.1% of operating expenditures. The 2017 three-year average Moody's Adjusted Net Pension Liability, under Moody's methodology for adjusting reported pension data, is \$70.1 million, or a favorable 0.77 times operating revenues. Plan forecasts indicate full funding by 2032.

The town offers post-employment healthcare benefits to some of its retirees. The town contributed \$2.7 million towards its annual OPEB cost in fiscal 2017, representing 41% of the total cost. As of the valuation report dated July 1, 2016, the unfunded OPEB liability totaled \$74.3 million.

Total fixed costs in 2017 including debt service, required pension contributions and retiree healthcare payments, represented \$15.2 million or 17% of expenditures.

Management and Governance

Town management has improved its financial policies going forward by limiting the use of free cash and other reserves to capital and one-time uses. The town continues to maintain a five year capital plan.

Massachusetts Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts cities major revenue source, property taxes, are subject to the Proposition 2 1/2 cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. However, Massachusetts has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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