

RatingsDirect®

Summary:

Town of Sharon, Massachusetts; General Obligation

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Credit Profile

US\$6.975 mil GO mun purp loan bnds ser 2019 due 02/15/2039

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| <i>Long Term Rating</i> | AA/Stable | New |
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Sharon GO

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| <i>Long Term Rating</i> | AA/Stable | Affirmed |
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Rationale

S&P Global Ratings assigned its 'AA' rating to Sharon, Mass.' series 2019 general obligation (GO) bonds and affirmed its 'AA' rating on the town's existing debt. The outlook is stable.

The town's full-faith-and-credit pledge secures the bonds, subject to limitations of Proposition 2 1/2. We rate the limited-tax GO debt on par with our view of Sharon's general creditworthiness, since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources, which supports our view of the town's overall ability and willingness to pay debt service. Officials plan to use proceeds for various capital improvement projects.

The rating reflects our view of Sharon's strong management, very strong economy with a wealthy tax base and access to the Boston metropolitan statistical area (MSA), and overall stable financial operations over the past few years. We believe the town's increasing retirement costs, as a result of low funding ratios of its retirement plans and large unfunded liabilities, and additional debt plans will continue to pressure the budget and limit the rating in the long term. At the same time, we expect the town to continue to manage these fixed costs and future debt burden while improving reserves.

The town's general creditworthiness supports our view of its:

- Very strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2018 of 6.7% of operating expenditures;
- Very strong liquidity, with total government available cash at 13.6% of total governmental fund expenditures and 148.4% of governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 9.2% of expenditures and net direct

debt that is 66.8% of total governmental fund revenue, and significant medium-term debt plans and a large pension and other postemployment benefits (OPEB) obligation, but low overall net debt at less than 3% of market value and rapid amortization, with 72.5% of debt scheduled to be retired in 10 years; and

- Strong institutional framework score.

Very strong economy

We consider Sharon's economy very strong. The town, with an estimated population of 18,217, is located in Norfolk County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 202% of the national level and per capita market value of \$191,085. Overall, the town's market value grew by 1.7% over the past year to \$3.5 billion in 2019. The county unemployment rate was 3.3% in 2017.

Sharon is an affluent suburban community about 20 miles south of downtown Boston. Residents benefit from a robust transportation infrastructure that includes convenient highway access to the Route 128 and Interstate 495 corridor and a Massachusetts Bay Transit Authority commuter rail stop in downtown Sharon with direct stops to Boston and Providence, R.I. The town's property tax base continues to grow due to a healthy real estate market and some modest economic development.

Sharon Gallery, a major 90-acre commercial and residential development, is still under construction with substantial infrastructure in place, according to officials. In addition, leases with two new tenants at the development, a hotel and a supermarket, are in the final stages of negotiation and they are expected to break ground within the next few months. Across the street from this development, about 192 affordable housing units are expected to be completed by summer 2019. Other developments include Whitney Place, an assisted living facility, and a new recreational marijuana facility that is expected to be completed this summer, which officials estimate could generate about \$1.5 million in sales tax revenue as part of the host agreement with the owner. In addition, Sharon is in the process of creating a new master plan to address town needs and improvements in order to further support future developments.

Due to healthy assessed value growth during the past three fiscal years and strong economic indicators, supported by Sharon's access to the Boston MSA, we expect the town's economy will likely remain very strong.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The town's budgeting assumptions are, in our view, conservative, coupled with multiyear historical trend analysis and quarterly reporting of budget-to-actual results and investments to the town board. Management maintains a formal five-year capital improvement plan that identifies funding sources and that it updates annually. The town's formal investment and reserve policy limits unassigned fund balance to 5%-10% of general fund revenue, which the town has adhered to historically. There is no formal multiyear financial plan or debt-management policy aside from management's target of maintaining debt service below 5% of expenditures.

Strong budgetary performance

Sharon's budgetary performance is strong, in our opinion. The town had slight operating surpluses of 1.0% of expenditures in the general fund and of 0.8% across all governmental funds in fiscal 2018. General fund operating results have been stable over the past three years, with a result of 2.1% in 2017 and a result of 2.2% in 2016.

Fiscal 2018 results include adjustments for recurring transfers, one-time capital expenditures, and a one-time large transfer from the general fund to the capital project fund to fund a feasibility study for a new high school project. Exclusive of the one-time transfer to its capital project fund, Sharon realized balanced operations primarily due to higher-than-budgeted revenues of more than \$237,000 and savings across the budget, including employee benefits, general government, and health and human services.

The adopted fiscal 2019 budget totals \$85.9 million, with no use of fund balance. Management indicates budget to actuals are tracking favorably and currently does not expect to end the fiscal year with negative financial operations. We expect the town's budgetary performance to remain strong. Property taxes account for 76% of revenue, followed by intergovernmental revenue at 18%. Tax collections have been strong, averaging 99% during the past three years. While costs remain manageable, we believe pension and OPEB costs could pressure the budget due to large liabilities and low funded ratios.

Adequate budgetary flexibility

Sharon's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2018 of 6.7% of operating expenditures, or \$5.7 million.

The fiscal 2018 drawdown in reserves was primarily attributed to a planned use of reserves to fund a one-time feasibility study for a new high school project instead of issuing debt for it. Management indicates the drawdown was one-time in nature and does not expect any additional reductions in reserves. The fiscal 2019 budget does not include any use of fund balance and the town expects to end the year with an increase in reserves. Therefore, we expect budgetary flexibility will likely remain, at least, adequate.

Sharon also maintains about \$2 million in unused levy capacity that equates to about 2.6% of the budget, which provides the town with additional revenue-raising flexibility. In addition, the town has a formal reserve policy of maintaining unassigned fund balance of 5%-10% of general fund revenue, which it has adhered to historically.

Very strong liquidity

In our opinion, Sharon's liquidity is very strong, with total government available cash at 13.6% of total governmental fund expenditures and 148.4% of governmental debt service in 2018. In our view, the town has strong access to external liquidity if necessary.

Sharon is a regular market participant that has issued debt frequently during the past 20 years, including GO bonds. Sharon does not have any variable-rate or direct-purchase debt. Most of the town's investments are in certificates of deposit, U.S. treasury obligations, and government agencies. We expect liquidity will likely remain very strong.

Weak debt and contingent liability profile

In our view, Sharon's debt and contingent liability profile is weak. Total governmental fund debt service is 9.2% of total governmental fund expenditures, and net direct debt is 66.8% of total governmental fund revenue. Significant

medium-term debt plans negatively affect our view of the town's debt profile. Overall net debt is low at 1.9% of market value, and approximately 72.5% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

With this issuance, the town will have about \$75.9 million in total direct debt outstanding. Officials expect to issue about \$85 million-\$100 million in new debt for the town's share of a new high school project and \$10 million-\$12 million for a library project over the next two to three years. Officials indicate the town has not received authorization yet for these projects and the final amounts could vary. In addition, it expects to issue \$2 million-\$3 million annually for various capital improvement projects. While we understand the final amount of debt Sharon could issue for its high school and library is subject to change, we believe these issuances will elevate the town's current debt metrics and potentially weaken its debt profile. However, due to the very strong and wealthy tax base, we believe its future debt plans should remain relatively affordable.

In our opinion, a credit weakness is Sharon's large pension and OPEB obligation. Sharon's combined required pension and actual OPEB contributions totaled 6.9% of total governmental fund expenditures in 2018. Of that amount, 3.8% represented required contributions to pension obligations, and 3.1% represented OPEB payments. The town made its full annual required pension contribution in 2018. The funded ratio of the largest pension plan is 63.5%.

Sharon contributes to a cost-sharing, multiple-employer, defined-benefit plan administered by Norfolk Contributory Retirement System. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, Sharon's proportionate share of the net pension liability was about \$32.4 million with 63.5% funded at Dec. 31, 2017, based on an assumed rate of return of 7.75%, which was decreased from 8.00% in the last valuation. The system is scheduled to be fully funded by 2029, which is ahead of the state-mandated full funding requirement of 2040.

Sharon also provides OPEB to retirees. The town maintains an OPEB trust to prefund the liability, which we view positively. As of fiscal 2018, the town has a \$74.7 million OPEB liability. The town has traditionally funded OPEB through pay-as-you-go financing. Its OPEB trust has a balance of \$803,238 as of Dec. 31, 2018. Officials plan to add \$300,000-\$400,000 to the trust annually. While we expect pension and OPEB costs will likely continue to increase, potentially pressuring the budget in the long term due to current low funded ratios and large long-term liabilities, we believe these costs should remain manageable.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our opinion of the town's very strong economy with access to the Boston MSA, and stable financial operations with strong management conditions. However, we believe the town's large long-term liabilities and low funded ratio for pensions combined with what we view as optimistic assumptions limit the rating. In addition, while Sharon's planned debt issuances could negatively affect the town's debt profile, we believe the rating will remain stable given its very strong economy and balanced financial operations with strong management conditions.

Therefore, we do not expect to change the rating within the two year outlook horizon.

Upside scenario

Should the town improve reserve levels through positive financial performance in order to help offset what we view as increasing pension and OPEB costs while managing its debt burden and costs, we could raise the rating.

Downside scenario

If available reserves were to weaken due to negative financial performance because of potentially rising fixed costs, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017
- 2018 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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