FitchRatings

Public Finance
Tax-Supported
U.S.A

Sharon, Massachusetts

Ratings

Long Term Issuer Default Rating	AA

New Issue

$97,860,000 General Obligation Municipal Purpose Loan of 2020 Bonds	AA

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (January 2020)

Related Research

Fitch Rates Sharon, MA's $98MM Series 2020 GO Bonds 'AA'; Outlook Stable (January 2020)

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New Issue Summary

Sale Date: Feb. 4 competitively.

Series: $97,860,000 General Obligation Municipal Purpose Loan of 2020 Bonds

Purpose: To finance the town's local share of the construction costs associated with a new high school project, a new library and other town and school-related projects.

Security: General obligations of the town backed by its full faith and credit. Property taxes levied by the town are subject to limitation by the Proposition 2 1/2 statute, unless voters approve the exclusion of debt service on the bonds from the limitation. The library and high school projects associated with the series 2020 bonds were approved by voters and the associated debt service is exempt from the limitations of Proposition 2 1/2.

Fitch expects the town of Sharon to maintain an adequate level of fundamental financial flexibility throughout economic cycles, based on its practice of rebuilding reserves during periods of economic growth. The town's solid financial profile reflects solid revenue growth prospects from a growing property tax base and increasing but still manageable fixed costs for debt and retiree benefits. Outstanding debt more than doubles after this issuance (up by 136%); however, long-term liabilities for debt and pensions are expected to remain moderate based on future capital needs, expected debt issuances, and growth in the resource base. The town has a practice of fully funding its actuarially determined pension contributions, and OPEB liabilities are manageable.

Economic Resource Base: The town of Sharon is a wealthy suburb of Boston, located in Norfolk County with an estimated 2018 census population of close to 19,000, up 7.6% since 2010. The town is located approximately 20 miles southwest of Boston and is easily reachable via the MBTA train stop in town. Providence, RI is also within commuting distance, roughly 26 miles south of Sharon. The town's quality school system and lower-cost housing options outside of Boston have contributed to moderate population and tax base growth over the past decade.

Key Rating Drivers

Revenue Framework: 'aa': Fitch expects the town to realize continued solid revenue growth based on anticipated increases in the value of its tax base combined with continued moderate increases in its tax levy. The town's independent legal ability to raise revenues is somewhat constrained by the state's Proposition 2 1/2 law, which limits annual tax levy increases to 2.5% each year exclusive of new tax base growth as well as debt service for voter approved debt. Any unused levy capacity can be carried forward to future years. The town has traditionally maintained ample excess levy capacity, providing it with the ability to offset expected modest revenue volatility

Expenditure Framework: 'aa': Fitch expects the natural pace of spending growth to be in line with to slightly above revenue growth over time. Carrying costs for long-term liabilities claim a moderate proportion of governmental spending and should remain moderate even with the current and future debt issuances and changes in annual pension contributions. Fitch believes that management has the flexibility and willingness to cut spending as necessary during economic downturns and employee contract terms are not overly burdensome.

Long-Term Liability Burden: 'aa': Sharon's long-term liability burden for debt and Fitch-adjusted net pension liabilities (NPL) is moderate at 10% of personal income after issuance of the series 2020 bonds. Fitch anticipates the burden to remain moderate based on expected future debt, changes in the NPL and an expected increase in personal income over time. Management fully funds its actuarially determined pension contributions, and principal amortization rates are about average.

Operating Performance: 'aaa': The town's steady revenue growth and conservative budgeting practices have led to a restoration of reserves to solid levels. Fitch considers the town's financial resilience to future downturns to be sound based on the very strong gap-closing ability in the form of solid spending control and high legal revenue-raising ability as well as solid reserves.

Rating Sensitivities

Changes in Long-term Liability Burden: A notable and sustained decrease in Sharon's long-term liabilities as a percentage of the resource base could lead to positive rating movement.

Changes in Fixed Cost Spending: An increase in fixed-cost spending for debt service and retiree obligations beyond Fitch's expectations could pressure the rating.

Financial Flexibility: A shift in revenue growth and corresponding uptick in expenses leading to a sustained reduction in reserve levels outside of an economic downturn would be viewed negatively.

Credit Profile

The town's residents are highly educated compared to state and national metrics, supporting the above-average wealth levels and low unemployment rates. Sharon's fiscal 2020 taxable assessed value (TAV) is $3.7 billion or a high $193,000 per capita. The tax base is primarily residential with a small commercial and industrial component representing roughly 5% of the total assessed value. Economic activity consists largely of wholesale and retail trade and service industries.

Revenue Framework

The primary source of general fund revenues is property taxes, which represent roughly 80% of fiscal 2020 budgeted revenues. Intergovernmental revenues, primarily for education, are the second largest source at roughly 13% of revenues. Motor vehicle excise taxes represent another 4% of revenues.

General fund revenues increased at a compound annual growth rate of 2.9% for the 10-year period of 2009 through 2019 exceeding inflation. The growth was due to increases in the tax base from new development and changes in housing values, as well moderate tax levy increases. When Fitch adjusts the revenue growth to exclude policy actions, the trend in growth still exceeds inflation but is below the rate of GDP.

The town's TAV experienced declines through the recession, but has experienced notable growth since fiscal 2013 due to a combination of new development and appreciation in property values. TAV has shown a CAGR of 4.3% from fiscal 2013 through fiscal 2020 and the current fiscal 2020 value exceeds the town's peak TAV prior to the recession. Fitch expects the trend of growth to continue to exceed inflation due to the strong regional economy, new development underway and changes in housing values.

Pursuant to state law, Proposition 2 1/2 limits the town's ability to levy property taxes by imposing a "levy ceiling," an absolute cap on the level of property taxation, set at 2.5% of the overall property tax valuation (primary limit), and a levy limit that restricts the annual growth in taxation to a 2.5% increase over the previous year's levy plus the value of new growth (secondary limit). Taxation in excess of the levy limit requires voter approval.

Management has typically levied below the ceiling. Any excess in levy capacity is carried forward and available for use at any time. For fiscal 2020, the town levied $2 million (2.2% of general fund revenues) below the secondary limit, the additional amount that may be levied without voter approval. Fitch expects the town to retain the financial flexibility that this cushion affords going forward based on management's conservative budgeting practices and continued growth in the tax base.

The town received voter approval to exempt from Proposition 2 1/2 limitations the debt service associated with a new high school and library for which the series 2020 bonds are being issued. Of the town's total outstanding governmental debt following this issuance, approximately 78% is exempt from Prop 2 1/2 limitations as a result of voter approval.

Rating History -IDR and GO Bonds

Rating	Action	Outlook/ Watch	Date
AA	Assigned	Stable	1/29/20

Expenditure Framework

Education is the largest category of expenses at roughly 50% of budgeted general fund expenses, followed by public safety and public works spending.

General fund expenditure growth has historically been in line with to slightly above revenue growth, and Fitch expects growth to continue at this pace. Future drivers of spending will be related to debt service and town and school employee salaries and benefits.

Carrying costs for debt service, pension and OPEB contributions were moderate for fiscal 2019, representing 13% of total governmental spending. Debt service costs associated with the series 2020 bonds and additional debt of $25 million-$30 million expected to be issued next fiscal year are projected by Fitch to increase the spending metric to a level closer to 18% of governmental spending, which Fitch still considers to be in the moderate range.

Moderate growth in pension and OPEB contributions will likely continue, with changes to be offset by overall growth in the expenditure base that should not materially impact the metric. Borrowing following fiscal 2021 is projected to be very manageable as the town's major facilities, including a public safety building, town hall, and other school projects have already been completed, negating the need for additional large debt issuances for some time.

Changes to labor contracts are subject to collective bargaining; however, according to management, no minimum manning provisions apply and management has the ability to reduce staff if necessary. Management's ability to reduce other service expenditures and a practice of funding the school department over and above the state minimum requirement provide additional levels of expenditure flexibility.

Long-Term Liability Burden

Long-term liabilities for governmental debt, including the series 2020 bonds and Fitch-adjusted net pension liabilities, are moderate at 10% of residents' estimated personal income. Fitch expects the long-term liability burden to increase slightly but remain moderate based on future debt plans, changes in net pension liabilities and expected growth in personal income levels over time. The pace of principal amortization is average at 57% over ten years, including the series 2020 bonds. Governmental debt represents roughly three-quarters of the metric.

The town is a member of the Norfolk Contributory Retirement System, a cost-sharing multiple employer defined benefit pension plan; essentially all non-teacher employees participate in the plan. In the town's most current audited financial statements for fiscal 2019, the town reported a NPL of $38 million based on a 7.75% investment rate of return (IRR). The reported assets to liabilities ratio was 58%. Using a Fitch-adjusted 6% IRR the assets to liabilities ratio equated to a lower 48% with an estimated NPL of $56 million. The town's pension funding schedule assumes full amortization of the outstanding unfunded actuarial liability through 2030, 10 years earlier than what is permitted by the Commonwealth of Massachusetts. Teachers participate in the state-administered Teachers' Retirement System, for which the town has no liability or contribution requirements.

The town's unfunded net OPEB liability totaled $85 million as of June 30, 2019 equal to close to 4% of personal income. Management established an OPEB trust in 2015 and has been increasing its budgeted annual contributions since that time. The balance in the OPEB trust was $0.9 million at fiscal end 2019 and the fiscal 2020 budget includes a $350,000 contribution to the trust.

Operating Performance

Fitch expects the town will maintain adequate reserve levels throughout economic cycles relative to its historically stable revenue performance and a strong level of inherent budget flexibility in the form of substantial revenue-raising authority and solid expenditure control. Growth in reserves has occurred during this period of economic expansion to closer to 10% of spending from a low point of 2% in fiscal 2013 when a portion of reserves were used to subsidize operations. Management currently targets a general fund reserve level of 5%-10% of spending.

Management's tools to mitigate revenue declines during an economic downturn include instituting spending controls and reductions in staff to help reduce the reliance on reserves. Management has successfully built up reserves the past several years and has maintained a sound level of excess levy capacity to help mitigate potential budget pressure that could occur during a future downturn.

At fiscal end 2019, the general fund experienced a net operating surplus of approximately $2 million (2.3% of spending) reflective of a combination of positive revenue variances, namely from licenses, permits and investment income, and departmental spending below budget. The unrestricted general fund balance improved to roughly $8 million or a sound 9% of spending.

The fiscal 2020 final revised operating budget is $85.5 million, up approximately $2 million YOY. The primary expense drivers were school spending and employee benefits. Management reports preliminary results through the first six months are positive compared to budget.

The town adopted the provisions of the Massachusetts Community Preservation Act in 2004 and levies a 1% property surcharge on its tax levy. The provisions of the CPA were approved by residents and the revenues are restricted for the acquisition and preservation of land for recreational use, open space, and affordable housing as well as the acquisitions and rehabilitation of historic resources. The CPA fund balance was $4.2 million at fiscal end 2019.

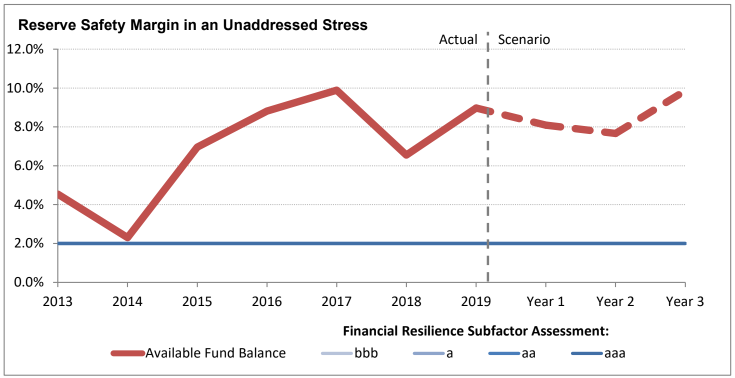
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of ‘3’ - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Sharon (MA)

Scenario Analysis



Analyst Interpretation of Scenario Results:

Fitch expects the town will maintain adequate reserve levels throughout economic cycles relative to its historically stable revenue performance and a strong level of inherent budget flexibility in the form of substantial revenue raising authority and solid expenditure control. Growth in reserves has occurred during this period of economic expansion to closer to 10% of spending from a low point of 2% in fiscal 2013 when a portion of reserves were used to subsidize operations. Management currently targets a general fund reserve level of 5%-10% of spending.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	2.5%	4.7%
Inherent Budget Flexibility		Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2013	2014	2015	2016	2017	2018	2019	Year 1	Year 2	Year 3
Total Revenues	73,986	76,563	76,599	79,182	90,633	86,578	90,331	89,428	91,622	95,907
% Change in Revenues	-	3.5%	0.0%	3.4%	14.5%	(4.5%)	4.3%	(1.0%)	2.5%	4.7%
Total Expenditures	75,489	78,681	73,889	78,056	89,091	85,805	88,654	90,427	92,236	94,081
% Change in Expenditures	-	4.2%	(6.1%)	5.6%	14.1%	(3.7%)	3.3%	2.0%	2.0%	2.0%
Transfers In and Other Sources	561	554	853	679	604	801	776	769	788	824
Transfers Out and Other Uses	-	1	239	100	228	4,513	405	413	421	430
Net Transfers	561	554	614	579	376	(3,712)	372	356	366	395
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(943)	(1,564)	3,324	1,704	1,919	(2,938)	2,049	(644)	(248)	2,221
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(1.2%)	(2.0%)	4.5%	2.2%	2.1%	(3.3%)	2.3%	(0.7%)	(0.3%)	2.3%
Unrestricted/Unreserved Fund Balance (General Fund)	3,424	1,808	5,157	6,887	8,831	5,918	7,992	7,348	7,101	9,321
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	3,424	1,808	5,157	6,887	8,831	5,918	7,992	7,348	7,101	9,321
Combined Available Fund Bal. (% of Expend. and Transfers Out)	4.5%	2.3%	7.0%	8.8%	9.9%	6.6%	9.0%	8.1%	7.7%	9.9%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.