S&P Global
Ratings

RatingsDirect®

Summary:

Sharon, Massachusetts; General Obligation

Primary Credit Analyst:
Dylan Lindow, Boston +1 6175308033; dylan.lindow@spglobal.com

Secondary Contact:
Melissa Stoloff, Boston (1) 617-530-8030; melissa.stoloff@spglobal.com

Table Of Contents

Summary:

Sharon, Massachusetts; General Obligation

Credit Profile		
US$3.415 mil GO municipal purp loan of 2024 bnds due 06/01/2044		
Long Term Rating	AA/Stable	New
Sharon GO		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Sharon, Mass.' $3.415 million series 2024 general obligation (GO) municipal-purpose bonds.
- At the same time, we affirmed our 'AA' long-term rating on the town's GO debt outstanding.
- The outlook is stable.

Security

Sharon's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds. We rate the limited-tax GO debt based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria, published Nov. 20, 2019, on RatingsDirect. We rate the limited-tax GO debt on par with our view of Sharon's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no resource-fungibility limitations, supporting our view of its overall ability and willingness to pay debt service.

Bond proceeds will finance various capital needs, including water main replacements, roadways projects, and equipment purchases. Sharon is issuing $5 million in bond anticipation notes (BANs) concurrently with the bonds, which we have not been asked to rate but do include in our total debt calculations.

Credit overview

Sharon is a primarily residential community south of Boston. With access to a broad and diverse metropolitan statistical area (MSA), Sharon maintains a growing tax base, with household incomes that are extremely strong and well above U.S. averages. The town's well-embedded and robust financial management policies and practices have consistently led to predictable and generally positive fiscal year-end budgetary variance results. However, a credit weakness is the city's pension plan, which we consider built from weak assumptions, and its larger other postemployment benefits (OPEB) liability, which is funded on a pay-as-you-go basis, which we believe are susceptible to escalating costs that may cause budget pressure in the long term. Additionally, debt outstanding remains elevated relative to revenue, which we expect will continue through the near term.

The 'AA' rating further reflects our view of Sharon's:

- Robust local economy, reflecting strong income metrics and a growing tax base;
- Strong operating results, supporting maintenance of strong reserve levels, while overall liquidity levels remain very strong;
- Good financial policies and practices under our Financial Management Assessment (FMA), with a strong institutional framework score; and
- Elevated debt levels, with growing pension and OPEB costs.

Environmental, social, and governance

We assessed Sharon's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile, and determined that they are neutral in our credit rating analysis. While we view governance as neutral in our credit rating analysis, Sharon participates in a cost-sharing, multiple-employer pension plan (CSME), which limits its ability to directly control contribution cost trajectory, hindering its flexibility and oversight of plan benefits and assumptions.

Outlook

The stable outlook reflects our belief that the town will continue to post positive operating results, supported by its mature tax base.

Downside scenario

We could lower the rating if management is unable to maintain structural balance, resulting in what we view as a period of sustained weak budgetary performance and flexibility.

Upside scenario

We could consider a positive rating action if Sharon maintains balanced financial performance while growing its available reserves to very strong levels in line with those of higher-rated state peers, coupled with addressing long-term liabilities and future capital while layering in new debt.

Credit Opinion

Very strong income and wealth, with direct access to the greater Boston MSA

Sharon is an affluent residential suburb about 25 miles south of Boston. Its location along major roadways and a commuter-rail station provides residents with easy access to Boston and Providence regional employment centers. While the town is mainly residential (92% of assessed value [AV]), officials indicate the commercial sector continues to grow. Construction has started on a mixed-use development and a brand-new Costco along Route 1 that is slated to be finished this fall. Along with these developments, the town anticipates additional commercial developments within the town limits. AV has grown by 10.4% and 10.0% in fiscal years 2023 and 2024, respectively, likely driven by housing price appreciation because the town is mostly built out.

Robust longstanding policies and practices

Sharon uses three years of revenue and trend data when developing its budget, and we consider budgetary assumptions generally conservative. Management makes quarterly reports on budget-to-actual and investment results to the town board. It annually updates a formal five-year capital improvement plan that identifies funding sources, which we consider well-incorporated into the budgeting process. Formal investment management and reserve policies limit unassigned fund balance to 5%-10% of general fund revenue, and historically, it has adhered to this policy. There is no formal multiyear financial forecast. The town maintains a debt management policy that includes management's target of maintaining debt service below 5% of expenditures, net of exempt debt service, and total debt outstanding plus authorized but not issued to remain under the town's overall debt limit (borrowing capacity), as per Massachusetts General Law (MGL), chapter 44, section 10.

Strong budgetary performance leading to maintenance of reserves

Sharon's conservative budgeting, predictable revenues, and expenditures control have led to strong surplus operating results in each of the last two fiscal years. Officials' tight control and maintenance of expenditures below the budget have also helped achieve these surpluses. The town saw savings in various departments, including public safety, public works, and general government. In addition, the town outperformed its budget revenues by roughly $2.8 million, propelled by investment income coming in $1.2 million over what was originally budgeted. Property taxes generate 74% of general fund revenues, followed by intergovernmental revenue at 18%.

The fiscal 2024 budget totals $102.5 million, a 5.6% increase over fiscal 2023. The most recent quarterly report indicates fiscal 2024 is tracking well compared with budget. Sharon has built up available reserves over the last five years, though available reserves remain below-average compared with state and national peer medians at its current rating level. For fiscal 2024, it does not currently expect to draw down reserves or significantly add to them. Providing additional flexibility is $3.2 million of unused levy capacity. We expect the town will continue to maintain its reserve position in compliance with its outstanding policies and maintain its additional taxing flexibility.

Elevated debt levels, though a majority is not subject to Proposition 2 1/2

After this issue, the town will have roughly $154.4 million in debt outstanding, of which roughly $8.6 million is self-supporting debt. The town has elected to exclude $107.7 million of its debt from property tax limitations, with the largest portion its school project.

We understand that the town plans to issue an additional $3 million in fiscal 2025 to close out its library project, along with $3 million to $5 million annually for capital projects. We do not expect this to have a material effect on our view of the town's debt profile.

Growing pension and OPEB costs will likely pressure future budgets

- Despite manageable retirement costs, we think low pension funding, aggressive assumptions, and large OPEB liabilities collectively result in a liability profile that is likely to pressure the operating budget, particularly if Sharon does not meet assumptions.
- While we consider the use of an actuarially determined contribution (ADC) a positive, we think some assumptions used to build the pension ADC reflect what we view as slightly weak assumptions and methodologies, which we imagine will likely increase unexpected contribution escalation risk.
- Sharon funds OPEB liabilities on a pay-as-you-go basis, but it prefunds the obligation. Its net OPEB liability was

$97.6 million, and the trust was 3.09% funded at June 30, 2023.

- As of June 30, 2023, Sharon participates in Norfolk County Retirement System, a cost-sharing, multiple-employer system, which was 68.6% funded, with a $33.3 million proportionate share of the net pension liability.

In our opinion, the discount remains high at 7.75%, along with aggressive mortality tables and optimistic payroll-growth assumptions. The system made progress in both our static- and minimum-funding progress calculations, indicating it addressed current costs and unfunded liabilities. We consider the system's closed six-year amortization schedule a positive, leading to full funding by 2031, ahead of the state's 2040 pension funding deadline. However, we think that to meet this timeline, the system maintains assumptions we consider more likely to lead to contribution volatility. We note that the town is prefunding the OPEB liability in a trust and, consistent with many municipalities in the state, expects to shift payments from pension to OPEB once the pension plan is fully funded. However, in the interim we expect costs and liabilities to trend upward.

We believe pension and OPEB costs are currently manageable, but total liability and funding assumptions are likely to lead to contribution volatility and increasing costs. If costs were to remain low and the pension system were to adopt increasingly conservative assumptions, along with making material funding progress with its OPEB liability, our view of the retirement profile could improve.

Sharon, Massachusetts--Key credit metrics				
	Most recent	**Historical information**		
		2023	**2022**	**2021**
Very strong economy				
Projected per capita EBI % of U.S.	181			
Market value per capita ($)	257,916			
Population			18,617	18,181
County unemployment rate (%)			3.3	
Market value ($000)	4,801,619	4,366,348	3,955,240	
Ten largest taxpayers % of taxable value	4.8			
Strong budgetary performance				
Operating fund result % of expenditures		3.6	2.0	0.3
Total governmental fund result % of expenditures		2.6	2.4	0.8
Strong budgetary flexibility				
Available reserves % of operating expenditures		11.7	10.5	8.9
Total available reserves ($000)		12,309	10,709	8,701
Very strong liquidity				
Total government cash % of governmental fund expenditures		31	21	28
Total government cash % of governmental fund debt service		346	252	284
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		8.9	8.4	9.8

Sharon, Massachusetts--Key credit metrics (cont.)				
	Most recent	Historical information		
		2023	2022	2021
Net direct debt % of governmental fund revenue	105			
Overall net debt % of market value	3.0			
Direct debt 10-year amortization (%)	68			
Required pension contribution % of governmental fund expenditures		3.9		
OPEB actual contribution % of governmental fund expenditures		2.1		
Strong institutional framework				

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

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.