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Summary:

Sharon (Town Of), Massachusetts; General Obligation

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Credit Profile

Sharon GO

Long Term Rating

AA/Stable

Affirmed

Rationale

S&P Global Ratings affirmed its 'AA' rating, with a stable outlook, on Sharon, Mass.' general obligation (GO) debt.

The town's full-faith-and-credit pledge, subject to limitations of Proposition 2-1/2, secures the bonds. We rate the limited-tax GO debt on par with our view of Sharon's general creditworthiness.

The rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total-governmental-fund level in fiscal 2017;
- Strong budgetary flexibility, with an available fund balance in fiscal 2017 of 9.7% of operating expenditures;
- Very strong liquidity, with total government available cash at 13.4% of total-governmental-fund expenditures and 149.7% of governmental debt service, and access to external liquidity we consider strong;
- Adequate debt-and-contingent-liability position, with debt service carrying charges at 8.9% of expenditures and net direct debt that is 57.7% of total-governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 73.4% of debt scheduled to be retired within 10 years, but significant medium-term debt plans and a large pension and other-postemployment-benefit (OPEB) obligation; 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 in Norfolk County in the Boston-Cambridge-Newton MSA, which we consider 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 \$187,828. Overall, market value has grown by 3.9% during the past year to \$3.4 billion in fiscal 2018. 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 see growth due to a healthy real estate market and some modest economic development.

Sharon Gallery, a major 90-acre commercial and residential development, is under construction; according to officials, once complete, it will significantly contribute to the tax base. Officials expect a large portion of the project to be complete within the next 18 months with full buildout within the next four years to five years. Other developments include the completion of Whitney Place, an assisted-living facility, and a new medical marijuana facility currently under construction.

Sharon is also looking to lease some of its property for solar-array development. 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 that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. We now view the town's management conditions as strong due to it formalizing and adhering to key policies and procedures, including capital improvement planning and investment and reserve policies.

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 adheres 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 operating surpluses of 2.1% of expenditures in the general fund and 2.4% of expenditures across all governmental funds in fiscal 2017.

Fiscal 2017 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. Officials attribute the fiscal 2017 surplus primarily to local receipts coming in overbudget and lower-than-expected expenditures, including snow-and-ice removal. The town had better-than-budgeted revenue for charges for services; excise taxes; and licenses and permits, among others. Prior to this, Sharon had a \$1.7 million general fund surplus in fiscal 2016 due to favorable revenue performance and cost-savings across the budget.

The town currently expects to end fiscal 2018 with a surplus of about \$700,000 since revenue and expenditures are on target. Therefore, we expect budgetary performance will likely remain strong.

The adopted fiscal 2019 budget totals \$78.8 million, a 2% increase over the fiscal 2018 budget, with no use of fund balance. Property taxes account for 71% of revenue followed by intergovernmental revenue at 22%. 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.

Strong budgetary flexibility

Sharon's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2017 of 9.7% of operating expenditures, or \$8.7 million.

The town has increased reserves annually during the past three fiscal years due to positive financial performance. For fiscal 2018, the town currently expects to increase available reserves by approximately \$700,000. The fiscal 2019 budget does not include any use of fund balance. Therefore, we expect budgetary flexibility will likely remain strong.

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

Very strong liquidity

In our opinion, Sharon's liquidity is very strong, with total government available cash at 13.4% of total-governmental-fund expenditures and 149.7% of governmental debt service in fiscal 2017. 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.

Adequate debt-and-contingent-liability profile

In our view, Sharon's debt-and-contingent-liability profile is adequate. Total-governmental-fund debt service is 8.9% of total-governmental-fund expenditures, and net direct debt is 57.7% of total-governmental-fund revenue. Overall net debt is low at 1.7% of market value and approximately 73.4% of direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. Negatively affecting our view of the town's debt profile is its significant medium-term debt plans.

The town has about \$69 million in total direct debt outstanding. Officials currently expect to issue about \$8 million of additional debt during the next year for various capital improvement projects. Management is also completing a feasibility study for a high school renovation. Although still in the preliminary stages, the town currently estimates its share of the project at about \$50 million after reimbursement from Massachusetts School Building Authority; it could issue debt for the project within the next two years to three years.

In our opinion, Sharon's large pension and OPEB obligation is a credit weakness. Sharon's combined required pension and actual OPEB contribution totaled 6.5% of total-governmental-fund expenditures in fiscal 2017. Of that amount, 3.7% represented required contributions to pension obligations and 2.8% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2017. The funded ratio of the largest pension plan is 61.6%.

Sharon contributes to a cost-sharing, multiemployer, 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 \$31.2 million with 61.6%

funded at Dec. 31, 2016, based on an assumed rate of return of 8%, which was higher than the national average of 7.35%. We believe this weak funding ratio is due to numerous years of underfunding, aggressive assumptions, and weak market performance.

Due to the funded ratio and, what we view as, optimistic assumptions on investment returns, we believe contributions will likely continue to rise during the next few fiscal years. While the town is currently managing these costs, we believe Sharon has a limited ability to control future pension-liability growth.

Sharon also provides OPEB to retirees. The town maintains an OPEB trust to prefund the liability, which we view positively. At July 1, 2016, the most recent actuarial valuation, management reported a \$74.3 million OPEB liability. The town has traditionally funded OPEB through pay-as-you-go financing. Its OPEB trust currently has a balance of \$325,798. Officials plan to add between \$300,000 and \$400,000 to the trust annually. While pension and OPEB costs remain manageable, we expect these costs will likely continue to increase, potentially pressuring the budget due to low-funded ratios, large long-term liabilities, and optimistic assumptions on investment returns for the pension.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Sharon's very strong economy with access to the Boston MSA. We believe what we consider the town's strong management conditions and budgetary performance that has led to strong budgetary flexibility further support the rating. However, we think the town's large long-term liabilities and low-funded ratios for pensions, coupled with what we view as optimistic assumptions for the retirement plan, currently limit the rating. Therefore, we do not expect to change the rating within the two-year outlook period.

Upside scenario

If Sharon were to continue to improve reserves through positive financial performance to help offset, what we view as, increasing pension and OPEB 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
- 2017 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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