

RatingsDirect®

Summary:

Sharon Town, Massachusetts; General Obligation

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US\$26.725 mil GO mun purp loan bnds ser 2021 due 02/15/2041

Long Term Rating AA/Stable New

Sharon GO

Long Term Rating AA/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' rating and stable outlook to Sharon, Mass.' roughly \$26.725 million series 2021 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AA' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge secures the bonds, subject to Proposition 2 1/2 limitations. 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.

Officials plan to use series 2021 bond proceeds to fund various capital-improvement projects, refund a portion of series 2011 GO bonds, and permanently finance bond anticipation notes.

Credit overview

Sharon is a primarily residential community south of Boston. The town's well-embedded and robust financial-management policies and practices have consistently led to predictable and generally positive fiscal year-end budgetary variances and generally accepted-accounting-principles-basis results. We posit large unfunded retirement liabilities and increasing debt could pressure the budget during the next few fiscal years, but we expect management will continue to adjust the budget to incorporate these costs.

Although the full effect of COVID-19 on Sharon remains unknown, the stable outlook reflects S&P Global Ratings' view of improving reserves; conservative budgeting; and strong tax base, providing it with a cushion to absorb unexpected revenue decreases or economic stagnation due to COVID-19-related events.

The rating also reflects our opinion of Sharon's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong financial management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with slight operating surpluses in the general fund and at the total governmental-fund level in fiscal 2020;

- Strong budgetary flexibility, with available fund balance in fiscal 2020 at 9.4% of operating expenditures;
- Very strong liquidity, with total government available cash at 22.8% of total governmental-fund expenditures and 2.9x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt-and-contingent-liability position, with debt service carrying charges at 7.9% of expenditures and net direct debt that is 138.9% of total governmental-fund revenue, as well as a large pension and other-postemployment-benefit (OPEB) obligation; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We have evaluated Sharon's ESG factors relative to its economy, financial measures, management, and debt-and-long-term-liability profile. We acknowledge that, absent COVID-19 implications, ESG risks are in-line with the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if available reserves were to weaken due to negative financial performance with no plan to correct and restore fund balance.

Upside scenario

We could raise the rating if reserves were to improve significantly through positive financial performance to help offset, what we view as, large unfunded pension and OPEB liabilities or if unfunded retirement liabilities were to decrease meaningfully.

Credit Opinion

Very strong economy

We consider Sharon's economy very strong. The town, with a population estimate of 18,161, is in Norfolk County in the Boston-Cambridge-Newton MSA, which we consider broad and diverse. Projected per capita effective buying income is 191% of the national level and per capita market value is \$202,893. Overall, market value has grown by 0.7% during the past year to \$3.7 billion in fiscal 2021. County unemployment was 2.5% in 2019, pre-COVID-19.

Residents benefit from a robust transportation infrastructure that includes convenient highway access to the Route 128 and Interstate 495 corridor, as well as a Massachusetts Bay Transit Authority commuter-rail stop in downtown Sharon with direct travel to Boston and Providence, R.I. The tax base continues to grow, primarily reflecting residential base growth, which accounts for 92% of total assessed value (AV). AV has grown by an average of 3.2% during the past two years due to strong regional and local real estate markets.

Officials indicate that aside from a few small businesses closing, COVID-19 has not had much of an effect on the town's local economy. A new marijuana retail shop opened, and a new marijuana-cultivation facility is currently under construction. While mainly residential, officials indicate the commercial sector continues to grow. Sharon Gallery, a

shopping plaza, draws private investment; according to officials, it should continue to grow and expand further.

While we expect the local economy will likely remain stable, we imagine the adverse effects of COVID-19 could potentially have a negative effect on Sharon's economy, especially since S&P Global Economics forecasts a notable short-term decrease in regional and national GDP. (For more information on COVID-19's effect on the U.S. public finance sector, see the articles, titled "Staying Home For The Holidays," published Dec. 2, 2020; "Outlook For U.S. Local Governments: Revenue Pressures Mount And Choices Get Harder," published Jan. 6, 2021; and "Within Reach: How Stimulus Proposals Lift U.S. GDP to Pre-Pandemic Levels," published Feb. 1, 2021, on RatingsDirect.)

Although officials indicate many leading employers have remained operational throughout the pandemic and tax collections remain, what we consider, very strong, we think countywide unemployment, at 6.4% in December 2020 due to COVID-19, could remain elevated if the current economic disruption were to persist or countywide employment were to contract further; this could weaken economic metrics and potentially change our view of Sharon's economy.

Strong management

We view the town's financial 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.

Sharon uses three years of revenue and trend data when developing the 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 it has adhered to this policy 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. Sharon has not been subject to major cybersecurity attacks during the past year.

Adequate budgetary performance

Sharon's budgetary performance is adequate, in our opinion. The town had slight general fund operating surpluses at 0.7% of expenditures and 0.7% across all governmental funds in fiscal 2020. General fund operating results have been stable during the past three fiscal years with 2.3% of expenditures in fiscal 2019 and 1% in fiscal 2018.

We adjusted budgetary performance to account for recurring transfers into and from the general fund, as well as bond proceeds across total governmental funds. Revenue and expenditures across categories incrementally added to positive budgetary variances and supported positive fiscal year-end operating results.

Management primarily attributes fiscal 2020 positive results to expenditure savings. Due to COVID-19, Sharon maintained tighter expenditure control and achieved lower-than-budgeted expenditures across various departments, including employee-benefit, public-safety, and general-government savings. While some revenue, such as excise taxes, were slightly lower than budgeted, the town made up the difference with expenditure savings and other higher-than-budgeted revenue, such as investment income.

The fiscal 2021 budget totals \$89.9 million, a 5.7% increase over fiscal 2020. We understand officials conservatively

lowered local-receipt assumptions for fiscal 2021 and increased taxes by about 6.9% over fiscal 2020 to 20.43 mills. Officials indicate state revenue is on target for fiscal 2021 because they budgeted a flat amount over fiscal 2020 compared with what the state indicated it would provide. Overall, management indicates budget-to-actual results are currently tracking the budget favorably; it does not expect to end fiscal 2021 with negative financial operations. Property taxes generate 81% of general fund revenue, followed by intergovernmental revenue at 13%.

While we think management will likely continue to make the necessary budgetary adjustments to maintain balanced operations, we imagine the unprecedented widespread effects of COVID-19 will likely have an effect on state revenue and many local economies, including Sharon; in our view, this could potentially result in weaker budgetary performance for fiscal 2021 and beyond.

If management were to maintain balanced financial results during the next two fiscal years, or until we think the threat of stagnating or decreasing revenue due to negative economic shocks has subsided, we could revise our view of budgetary performance to strong.

Strong budgetary flexibility

Sharon's budgetary flexibility is strong, in our view, with available fund balance in fiscal 2020 at 9.4% of operating expenditures, or \$8.6 million.

Management attributes the fiscal 2020 reserve increase to positive financial performance. For fiscal 2021, it does not currently expect to draw down reserves or significantly add to them. Therefore, we expect budgetary flexibility will likely remain strong.

Sharon also maintains about \$2.5 million of unused levy capacity, or about 2.7% of fiscal 2021 budgeted expenditures. We understand management intends to maintain current levy capacity throughout the budgeting process.

Very strong liquidity

In our opinion, Sharon's liquidity is very strong, with total government available cash at 22.8% of total governmental-fund expenditures and 2.9x governmental debt service in fiscal 2020. In our view, the town has strong access to external liquidity if necessary.

Our view of liquidity excludes cash we consider restricted but includes general-fund investments. In our opinion, Sharon has strong access to external liquidity, evidenced by regular GO debt issuance. Sharon does not have any variable-rate or direct-purchase debt. Most investments are in certificates of deposit, U.S. treasury obligations, and government agencies. We expect liquidity will likely remain very strong.

Very weak debt-and-contingent-liability profile

In our view, Sharon's debt-and-contingent-liability profile is very weak. Total governmental-fund debt service is 7.9% of total governmental-fund expenditures, and net direct debt is 138.1% of total governmental-fund revenue.

Following this issuance, the town has roughly \$163 million in total direct debt, about \$8 million of which we consider self-supporting enterprise debt based on coverage during the three most-recent fiscal years. Sharon also expects to receive roughly \$1.9 million in state subsidies.

We understand officials could issue an additional \$25 million-\$30 million during the next few years to closeout school

and library projects, coupled with about \$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.

Pension and OPEB highlights

- Despite manageable retirement costs, we think low pension funding; permissive 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 a positive, we think some assumptions used to build the pension actuarially determined contribution 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 \$88.9 million and the trust was 1.44% funded at June 30, 2020.

As of June 30, 2020, Sharon participates in Norfolk County Retirement System, a cost-sharing, multiple-employer system, which was 64.6% funded, with a \$34.8 million proportionate share of the net pension liability.

Sharon's combined required pension and actual OPEB contribution totaled 5.9% of total governmental-fund expenditures in fiscal 2020: 4% represented required contributions to pension obligations and 1.9% represented OPEB payments.

In our opinion, the discount remains high at 7.75%, along with permissible 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 nine-year amortization schedule a positive, leading to full funding 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 posit 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.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

Summary: Sharon Town, Massachusetts; General Obligation

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