

# RatingsDirect®

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## Summary:

# Sharon, Massachusetts; General Obligation

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## Summary:

# Sharon, Massachusetts; General Obligation

### Credit Profile

US\$4.665 mil GO mun purp loan of 2022 bnds ser 2022 due 02/15/2042

*Long Term Rating* AA/Stable New

Sharon GO

*Long Term Rating* AA/Stable Affirmed

## Rating Action

S&P Global Ratings assigned its 'AA' rating, with a stable outlook, to Sharon, Mass.' roughly \$4.6 million series 2022 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. Bond proceeds will be used to fund various capital projects.

### 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 (GAAP)-basis results. We expect the town's expanding tax base and focus on maintaining positive operations will help offset the pressure of the town's large unfunded retirement liabilities and increasing debt. We anticipate these cost pressures could strain the budget during the next few fiscal years, but we expect management will continue to adjust the budget to incorporate these costs.

The rating also reflects our view of the town's:

- Very strong, growing local economy with direct access to the Boston metropolitan statistical area (MSA);
- Financial policies, with a focus on long-term planning and a strong institutional framework;
- Consistently positive year-end results, with strong flexibility and very strong liquidity levels; and
- Elevated debt levels with growing pension and other postemployment benefits (OPEB) costs.

### Environmental, social and governance

We have evaluated Sharon's environmental, social, and governance (ESG) factors relative to its economy, financial measures, management, and debt and long-term liability profile. We believe the town's environmental and social factors are in line with the sector standard. 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. As a result, we believe the town's governance risk relative to risk management, culture, and oversight is elevated when compared with peers that do not operate within these constraints. While we do not view CSMEs as inherently risky, Norfolk County Retirement System is governed by weak methodologies and requires an aggressive funding schedule to meet full funding prior to fiscal year 2040, as required by the state. We believe this risk could add operating pressure to the town, given our expectations for higher contribution requirements. (For more information, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020, and "ESG Brief: ESG Pension And OPEB Analysis In U.S. Public Finance," published Oct. 7, 2021.)

## **Stable Outlook**

### **Upside scenario**

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

### **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.

## **Credit Opinion**

### **Direct access to the greater Boston MSA supports additional residential and commercial development**

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. 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. Recently, the town began permits for a brand-new Costco off of Route 1. Along with the Costco development, the town anticipates additional commercial development in close proximity. The town is also working on its zoning regulations to ensure they are up to date and can accommodate new and atypical commercial developments that may come to Sharon.

### **Longstanding codified policies and practices**

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; 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 MGL Chapter 44 Section 10. Sharon has not been subject to major cyber security attacks during the past year.

**Strong operating results support maintenance of strong reserve levels, while overall liquidity levels remain very strong**

Over the last few years, Sharon maintained tighter expenditure control and achieved lower-than-budgeted expenditures across various departments, including employee benefits, public safety, and general government savings. We understand that while officials conservatively lowered local receipt assumptions for fiscal 2021, such as excise taxes, actual results were slightly lower than budgeted. However, the town outperformed its budgeted revenues by roughly \$301,000. Property taxes generate 82% of general fund revenue, followed by intergovernmental revenue at 11%.

The fiscal 2022 budget totals \$93.5 million, a 3.8% increase over fiscal 2021. Officials indicate that revenue assumptions were slightly increased, but not at a level higher than pre-pandemic levels. The town lowered its actual rate to 19.75, but through property tax base growth, its property tax levy grew by \$2.8 million to \$78.1 million. We note the town was allocated \$5.5 million in American Rescue Plan Act funding, and is finalizing plans for its use. Overall, management indicates budget-to-actual results are currently tracking the budget favorably; it does not expect to end fiscal 2022 with negative financial operations.

Management attributes the increase in available reserves (assigned and unassigned fund balance) to \$8.7 million in fiscal 2021 to positive financial performance. For fiscal 2022, it does not currently expect to draw down reserves or significantly add to them.

Sharon also maintains about \$3.3 million of unused levy capacity, or about 3.5% of fiscal 2022 budgeted expenditures. Moving forward, we expect the town will continue to maintain its reserve position in concern with its outstanding policies and will maintain its additional taxing flexibility.

Our view of liquidity excludes cash we consider restricted, but includes general fund investments. 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.

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

After this issue, the town will have roughly \$158.1 million in debt outstanding. Of its total outstanding, the town maintains roughly \$10.0 million in self-supporting debt. The town has elected to exclude \$107.6 million of its debt, with the largest portion its school project.

We understand that the town could issue an additional \$25-\$30 million over the next few years to close out its school and library projects, along 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.

### Growing pension and OPEB costs will likely pressure future budgets

- 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 \$66.7 million, and the trust was 3.00% funded at June 30, 2021.
- As of June 30, 2020, Sharon participates in Norfolk County Retirement System, a cost-sharing, multiple-employer system, which was 70.2% funded, with a \$30.2 million proportionate share of the net pension liability.

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 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.

### Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

	Most recent	Historical information		
		2021	2020	2019
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	181			
Market value per capita (\$)	217,261			
Population		18,205	18,161	
County unemployment rate(%)		8.3		
Market value (\$000)	3,955,240	3,684,746	3,659,122	
Ten largest taxpayers % of taxable value	6.2			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		0.3	0.7	2.3
Total governmental fund result % of expenditures		0.8	0.7	1.1
<b>Strong budgetary flexibility</b>				
Available reserves % of operating expenditures		8.9	9.4	8.9

## Sharon--Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Total available reserves (\$000)		8,701	8,553	7,927
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		28	23	17
Total government cash % of governmental fund debt service		284	289	202
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Very weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		9.8	7.9	8.3
Net direct debt % of governmental fund revenue	126			
Overall net debt % of market value	3.8			
Direct debt 10-year amortization (%)	61			
Required pension contribution % of governmental fund expenditures		4.1		
OPEB actual contribution % of governmental fund expenditures		1.8		

**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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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