

# RatingsDirect®

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## Summary:

# Sharon, Massachusetts; General Obligation

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### Credit Profile

US\$4.075 mil GO muni purp loan of 2023 ser 2023 due 02/15/2043

*Long Term Rating* AA/Stable New

Sharon GO

*Long Term Rating* AA/Stable Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to Sharon, Mass.' \$4.1 million series 2023 general obligation (GO) bonds
- At the same time, we affirmed our 'AA' rating on the town's existing GO debt.
- 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 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, road and bridge projects and equipment purchases.

### Credit overview

The town of Sharon is a suburban residential community south of Boston; its location along major roadways and a commuter-rail station provide residents with easy access to numerous regional employment centers. The local economy is supported by a stable property tax base and its assessed value, which is approximately 92% residential, continues to grow due to a healthy real estate market even as rising mortgage rates are beginning to slow down demand across the regional economy. Although the town is mainly residential, commercial development includes a Costco and mixed-use facility that are expected to begin construction in the spring of this year.

The town's well-embedded and robust financial management policies and practices have consistently led to predictable and generally positive operating results. Fiscal 2022 ended with a \$2 million surplus mostly due to favorable revenue performance that exceeded budget targets. The town is about mid-way through fiscal 2023 and so far, both revenues and expenditures are on track with budgets. Sharon's solid financial performance has supported consistent reserve levels; while the town could use some of its reserves for capital projects, we expect it will continue to adhere to its fund balance policy and maintain reserves between 7% to 10% of budget.

Somewhat offsetting these strengths is the town's weaker debt profile; after this issuance Sharon will have

approximately \$157.4 million in outstanding debt, including about \$10.5 million in self-supporting debt in the water fund. The town has previously elected to exclude \$106.5 million of its debt from Proposition 2 1/2 limitations, with the largest portion (\$91 million) for its school project. Sharon expects to issue about \$2.5 million annually for capital maintenance and is also planning for a water treatment plant, which will be partially funded by federal funds and the town plans to apply for a state SRF loan for the remaining \$7 million. Another credit weakness is Sharon's large pension and other postemployment benefit (OPEB) obligation and our expectation that costs will escalate as the pension system works toward full funding by fiscal 2032. We recognize that management is working to mitigate these risks by pre-funding its OPEB obligations, with an annual increase to contributions, however the weak assumptions, high discount rate and aggressive funding schedule could increasingly pressure operations.

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

- Stable local economy with direct access to the Boston metropolitan statistical area (MSA);
- Good financial policies and practices under our Financial Management Assessment (FMA), highlighted by formal five-year capital planning, coupled with a strong institutional framework score;
- Consistently positive year-end results, with strong flexibility and very strong liquidity levels; and
- Elevated debt levels with growing pension and OPEB costs.

### **Environmental, social, and governance**

We assessed Sharon's environmental, social and governance 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 the town's solid history of financial performance, along with its mature local tax base.

### **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 consider a positive rating action if reserve levels were to improve to very strong coupled with positive financial performance, helping offset the town's large unfunded pension and OPEB liabilities, or if unfunded retirement liabilities were to decrease meaningfully.

## Sharon, Massachusetts Key Credit Metrics

	Most recent	Historical information		
		2022	2021	2020
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	179	179	189	200
Market value per capita (\$)	240,160	217,548	202,670	200,995
Population			18,181	18,205
County unemployment rate(%)			5.1	
Market value (\$000)	4,366,348	3,955,240	3,684,746	3,659,122
Ten largest taxpayers % of taxable value	5.3			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		2.0	0.3	0.7
Total governmental fund result % of expenditures		2.4	0.8	0.7
<b>Strong budgetary flexibility</b>				
Available reserves % of operating expenditures		10.5	8.9	9.4
Total available reserves (\$000)		10,709	8,701	8,553
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		21	28	23
Total government cash % of governmental fund debt service		252	284	289
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Very weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		8.4	9.8	7.9
Net direct debt % of governmental fund revenue	134			
Overall net debt % of market value	3.6			
Direct debt 10-year amortization (%)	65			
Required pension contribution % of governmental fund expenditures		3.5		
OPEB actual contribution % of governmental fund expenditures		1.4		
<b>Strong institutional framework</b>				

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

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