

## CREDIT OPINION

26 April 2017

### New Issue

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## Sharon (Town of) MA

### New Issue - Moody's Assigns Aa3 to Sharon MA's GOLT Bonds

#### Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 rating to the Town of Sharon, MA's \$3.7 million General Obligation Municipal Purpose Loan of 2017 Bonds. Moody's maintains a Aa3 rating on the town's outstanding general obligation bonds.

The Aa3 rating reflects the satisfactory financial position, strong tax base with high wealth and income levels, and manageable debt and pension liabilities.

#### Credit Strengths

- » Stable tax base with strong wealth and income levels

#### Credit Challenges

- » Stabilizing annual financial operations and improving reserves
- » Revenue raising limitations of Proposition 2 1/2

#### Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

#### Factors that Could Lead to an Upgrade

- » Trend of balanced financial operations with a significant increase in reserves
- » Reduction in the debt burden
- » Material growth in the tax base

#### Factors that Could Lead to a Downgrade

- » Large operating deficit resulting in a decline in reserves
- » Large increase in the debt burden
- » Significant deterioration in the tax base or demographics

## Key Indicators

Exhibit 1

| Sharon (Town of) MA   | 2011         | 2012         | 2013         | 2014         | 2015         |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>Economy/Tax Base</b>   |              |              |              |              |              |
| Total Full Value (\$000)  | \$ 2,986,889 | \$ 2,986,889 | \$ 2,894,551 | \$ 2,894,551 | \$ 2,895,867 |
| Full Value Per Capita   | \$ 170,310   | \$ 169,527   | \$ 163,018   | \$ 161,897   | \$ 160,926   |
| Median Family Income (% of US Median)                                     | 221.6%       | 225.0%       | 221.9%       | 220.3%       | 220.2%       |
| <b>Finances</b>   |              |              |              |              |              |
| Operating Revenue (\$000)   | \$ 69,208    | \$ 73,433    | \$ 74,547    | \$ 77,117    | \$ 77,213    |
| Fund Balance as a % of Revenues   | 6.4%         | 5.9%         | 4.6%         | 2.3%         | 6.7%         |
| Cash Balance as a % of Revenues   | 17.9%        | 13.7%        | 12.9%        | 10.7%        | 15.3%        |
| <b>Debt/Pensions</b>  |              |              |              |              |              |
| Net Direct Debt (\$000)   | \$ 49,672    | \$ 57,962    | \$ 56,473    | \$ 54,155    | \$ 73,655    |
| Net Direct Debt / Operating Revenues (x)                                  | 0.7x         | 0.8x         | 0.8x         | 0.7x         | 1.0x         |
| Net Direct Debt / Full Value (%)  | 1.7%         | 1.9%         | 2.0%         | 1.9%         | 2.5%         |
| Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)   | N/A          | 0.6x         | 0.7x         | 0.9x         | 1.0x         |
| Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%) | N/A          | 1.4%         | 1.9%         | 2.4%         | 2.7%         |

As of June 30 fiscal year-end; Full Value = Equalized Value

Source: Moody's Investors Service and town's audited financials

## Recent Developments

Since our last credit opinion dated February 8, 2016, the unaudited fiscal 2016 financial reports indicate a healthy operating surplus. The audit is expected to be released in the next 30 days. The tax base continues to grow with another increase in the 2017 annual assessed value and the 2017 equalized value certification reflected a strong increase of over 15% from 2015. Please see the Detailed Rating Considerations for full details.

## Detailed Rating Considerations

### Economy and Tax Base: Stable Valuation with Strong Wealth and Income Levels

Sharon's \$3.4 billion tax base (2017 equalized value) will remain stable over the medium term as the town continues to benefit from a strong housing market that is attributed to its favorable regional location and strong school district. Fiscal 2017 assessed value increased 5.2%, improving the five year compound annual growth to 4%. The latest state certification of equalized value increased by a healthy 15.4%, which is above the town's pre-recession level of \$3.1 billion. Additionally, we expect the residential town (95% of assessed value) to benefit from the largest commercial development project (Sharon Gallery) in town history. The project includes 95 acres of mixed use space that will generate over \$3 million in annual tax revenues once complete.

The wealth levels continue to be strong with a median family income equal to 220% of the US median. Also, the unemployment rate of 2.9% (February 2017) remains well below the commonwealth (4.2%) and US (4.9%).

### Financial Operations and Reserves: Stability Expected To Continue Over Near Term With Improved Reserves

We expect the financial position to remain stable over the near term as the town continues to budget conservatively with no use of free cash for operations. The fiscal 2015 audited financials report an operating surplus of \$3.3 million attributed to positive variance in both revenues and expenditures. The surplus includes one-time revenues of \$2 million from the sale of cell tower leases. The surplus increased the available General Fund balance (committed, assigned and unassigned) to \$5.2 million, or a more satisfactory 6.7% of revenues. The primary revenue source is property taxes (77% of 2015 revenues) while the largest costs are education (52% of 2015 expenditures) and employee benefits (17%).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

The fiscal 2016 audit is delayed and is expected to be released in the next 30 days. Unaudited results indicate another operating surplus in the General Fund of approximately \$2.6 million due to positive variance of \$1.7 million in revenues and \$900,000 in departmental turnbacks. The surplus is estimated to increase available reserves to \$6.5 million or over 8% of revenues.

The fiscal 2017 budget increased by \$2 million or 2.6% from 2016 driven by education and employee benefits. The budget is balanced with a 2.5% tax levy increase and no use of free cash for operations. The town does expect to appropriate \$2.3 million in free cash for capital needs but is expected to replenish with a state subsidy and positive operations. Year-to-date operations are trending favorably and the town forecasts a modest surplus.

The proposed fiscal 2018 budget increases by \$2.1 million and covered by a 2.3% increase in the tax levy. Going forward, we expect managements commitment to a structurally balanced operating budget to lead to a healthier financial position over the medium term.

#### LIQUIDITY

Cash and investments at the end of fiscal 2015 represented \$11.8 million or a healthy 15.3% of revenues. Fiscal 2016 unaudited results indicate an improved cash position compared to 2015.

#### Debt and Pensions: Above Average Liabilities Are Expected to Remain Manageable

The net direct debt burden of 2.1% of equalized value (including the current issuance) is above average for the rating category but will likely remain manageable given prudent debt management and a large portion of the debt (61.5%) being excluded from the levy limitations of Proposition 2 1/2. The town anticipates future issuance of \$2-3 million annually as part of its five-year capital plan. Additionally, the town will vote in the fall to replace the town hall with an estimated cost of \$9-11 million. Sharon will also begin a design phase for a possible renovation or replacement to the high school which could materially increase the debt burden and be a rating driver in the future.

#### DEBT STRUCTURE

All of the town's debt is fixed rate with 75% of principal retired within ten years. Fiscal 2015 debt service represented an above average 10.9% of expenditures.

#### DEBT-RELATED DERIVATIVES

Sharon has no derivatives.

#### PENSIONS AND OPEB

The town contributes to the Norfolk Regional Retirement System, a multi-employer cost-sharing plan. The town is required to fully fund its required contribution, which was \$3.1 million in 2015, representing a manageable 4.2% of General Fund expenditures. The 2015 three-year average Moody's Adjusted Net Pension Liability, under Moody's methodology for adjusting reported pension data, is \$79.4 million, or a favorable 1.03 times General Fund revenues and 2.74% of equalized value. Plan forecasts indicate full funding by 2032.

The OPEB liability is funded on a pay-as-you-go basis, and the town contributed 33% of its annual OPEB cost in 2015, representing \$2.1 million. The town also makes annual contributions towards an OPEB trust. The total unfunded liability is \$71.3 million as of the July 1, 2014 valuation report.

Total fixed costs in 2015 including debt service, required pension contributions and retiree healthcare payments, represented \$13.3 million or 18% of expenditures.

#### Management and Governance

Town management has improved its financial policies going forward by limiting the use of free cash and other reserves to capital and one-time uses. The town continues to maintain a five year capital plan.

Massachusetts towns have an institutional framework score of "Aa," or strong. Revenues are highly predictable due to a heavy reliance on property taxes. Towns have a moderate revenue-raising ability given the Proposition 2 1/2 levy limit. Expenditures primarily consist of personnel costs, as well as education costs for cities that manage school operations, and are highly predictable given state-mandated school spending guidelines and employee contracts. Towns have a moderate expenditure reduction ability given the high presence of collective bargaining contracts, offset by low fixed costs in most cases.

## Legal Security

The bonds are secured by the town's general obligation limited tax pledge as debt service has not been exempt from the levy limitations of Proposition 2 1/2.

## Use of Proceeds

Proceeds will fund various capital projects of the town.

## Obligor Profile

The town is primarily residential with a population of 17,756 and is located 21 miles southwest of Boston.

## Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 2

### SHARON (TOWN OF) MA

| Issue   | Rating                         |
|---|--------------------------------|
| General Obligation Municipal Purpose Loan of 2017 Bonds | Aa3                            |
| Rating Type   | Underlying LT                  |
| Sale Amount   | \$3,696,000                    |
| Expected Sale Date                                      | 05/02/2017                     |
| Rating Description                                      | General Obligation Limited Tax |

Source: Moody's Investors Service

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