MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Update

Rate this Research

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Sharon (Town of) MA

Update - Moody's confirms Sharon, MA's GO at Aa3

Summary Rating Rationale

Moody's Investors Service has confirmed the Town of Sharon, MA's general obligation unlimited tax (GOULT) and general obligation limited tax (GOLT) at Aa3. Concurrently, we have removed the rating from under review, as our confirmation resolves this action. Moody's placement of the rating under review on July 5, 2017 was prompted by a lack of fiscal 2016 audited financial information, which we have since received. This rating action affects all of the town's $74.2 million in outstanding debt.

The Aa3 rating reflects the satisfactory yet improving 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 not usually 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	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 2,986,889	$ 2,894,551	$ 2,894,551	$ 2,895,867	$ 2,895,867
Full Value Per Capita	$ 169,527	$ 163,018	$ 161,897	$ 160,926	$ 158,365
Median Family Income (% of US Median)	225.0%	221.9%	220.3%	220.2%	220.2%
Finances					
Operating Revenue ($000)	$ 73,433	$ 74,547	$ 77,117	$ 77,213	$ 79,760
Fund Balance as a % of Revenues	5.9%	4.6%	2.3%	6.7%	8.6%
Cash Balance as a % of Revenues	13.7%	12.9%	10.7%	15.3%	15.9%
Debt/Pensions					
Net Direct Debt ($000)	$ 57,962	$ 56,473	$ 54,155	$ 73,655	$ 67,864
Net Direct Debt / Operating Revenues (x)	0.8x	0.8x	0.7x	1.0x	0.9x
Net Direct Debt / Full Value (%)	1.9%	2.0%	1.9%	2.5%	2.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.6x	0.7x	0.9x	1.0x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.4%	1.9%	2.4%	2.7%	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 April 26, 2017, we have received the town's audited fiscal 2016 financial statements. The Detailed Rating Considerations have been updated to included recent financial operations but there is no new material information since the last credit opinion.

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 3.5% (May 2017) remains well below the commonwealth (4.1%) and US (4.1%).

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 2016 audited financials met unaudited results received during the last rating review and report an operating surplus of $1.7 million attributed to positive variances in both revenues and expenditures. The surplus increased the available General Fund balance (committed, assigned and unassigned) to $6.9 million, or an improved 8.6% of revenues. The primary revenue source is property taxes (79% of 2016 revenues) while the largest costs are education (52% of 2016 expenditures) and employee benefits (17%).

Based off estimates from management, we expect fiscal 2017 to result in another stable year. 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

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use of free cash for operations. The town has voted to appropriate $2.4 million for an elementary school roof replacement but expects to replenish this amount with a state subsidy and positive operations. Year-to-date operations are trending favorably and the town forecasts a modest surplus. The town expects maintaining undesignated fund balance between $5-6 million at year end.

The fiscal 2018 budget increases by $2.1 million and is covered by a 2.3% increase in the tax levy. Going forward, we expect management's 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 2016 represented $12.7 million or a healthy 15.9% of revenues.

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

The net direct debt burden of 2.1% of equalized value 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 $12 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 2016 debt service represented an above average 12.7% 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 $3.8 million in 2016, representing a manageable 4.8% of General Fund expenditures. The 2016 three-year average Moody's Adjusted Net Pension Liability, under Moody's methodology for adjusting reported pension data, is $76.8 million, or a favorable 0.96 times General Fund revenues and 2.65% 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 2016, representing $2.2 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 2016 including debt service, required pension contributions and retiree healthcare payments, represented $13.3 million or 20% 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

All of the town's outstanding bonds are secured either by the town's general obligation limited tax pledge (for which debt service has not been exempt from the levy limitations of Proposition 2 1/2) or the town's general obligation unlimited tax pledge.

Use of Proceeds

N/A

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.moodys.com for a copy of this methodology.

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