Moody's
INVESTORS SERVICE

CREDIT OPINION
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Southampton (Town of) NY

Update to credit analysis

Summary

Southampton (Aaa stable) benefits from a large tax base that includes a large number of high value second homes. Given the town's location, and the significant number of high end waterfront homes, the town is exposed to environmental risks such as rising sea levels, hurricane and other storms. The town also benefits from strong fiscal management, ample reserves and liquidity, and a minimal debt and pension burden.

Credit strengths

» Large tax base that continues to grow

» Ample reserves and liquidity

» Manageable debt burden

Credit challenges

» Exposure to environmental risks

Rating outlook

The stable outlook reflects the expectation that the town will maintain solid financial performance and its tax base will remain extremely large and diverse.

Factors that could lead to a downgrade

» Significant erosion of assessed value

» Sizeable decline in available reserves

» Significant increase in debt and pension profile

Key indicators

Exhibit 1

Southampton (Town of) NY	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$55,225,279	$55,022,618	$55,698,279	$57,714,211	$60,685,009
Population	57,180	57,180	57,730	57,803	58,024
Full Value Per Capita	$969,545	$962,270	$964,806	$998,464	$1,045,860
Median Family Income (% of US Median)	140.9%	140.9%	145.7%	148.0%	146.8%
Finances					
Operating Revenue ($000)	$79,494	$80,484	$82,893	$86,017	$88,097
Fund Balance ($000)	$17,660	$18,553	$21,624	$26,046	$27,834
Cash Balance ($000)	$26,637	$19,047	$24,751	$32,211	$38,105
Fund Balance as a % of Revenues	22.2%	23.1%	26.1%	30.3%	31.6%
Cash Balance as a % of Revenues	33.5%	23.7%	29.9%	37.4%	43.3%
Debt/Pensions					
Net Direct Debt ($000)	$151,208	$139,885	$131,026	$124,704	$115,347
3-Year Average of Moody's ANPL ($000)	$90,463	$106,674	$129,226	$134,923	$145,285
Net Direct Debt / Full Value (%)	0.3%	0.3%	0.2%	0.2%	0.2%
Net Direct Debt / Operating Revenues (x)	1.9x	1.7x	1.6x	1.4x	1.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.2%	0.2%	0.2%	0.2%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.1x	1.3x	1.6x	1.6x	1.7x

Source: Moody's Investors Service; audited financial statement

Profile

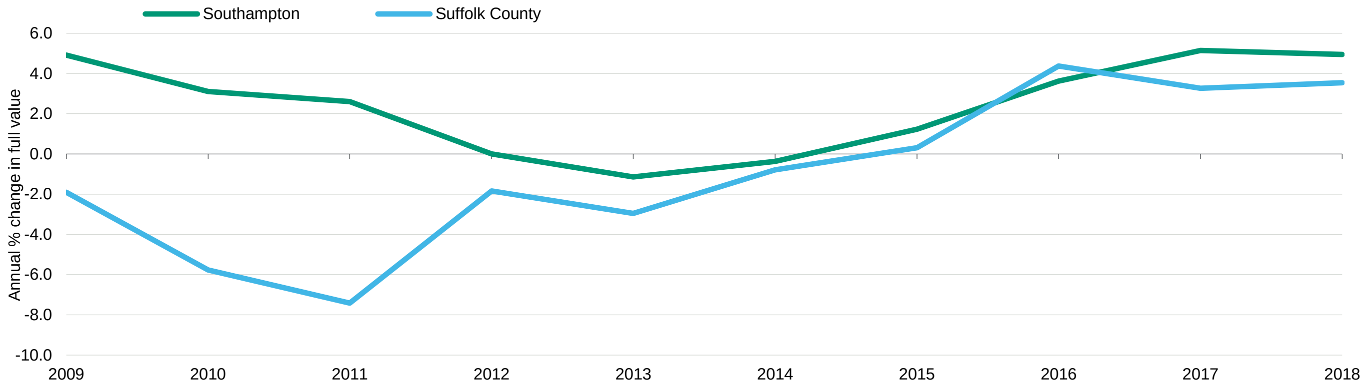
The Town of Southampton, located on Long Island in Suffolk County (Baa1 stable), has a year-round population of 58,024 (2017 American Community Survey) which town officials estimate at least doubles during the summer months.

Detailed credit considerations

Economy and Tax Base: Large diverse tax base supports Aaa rating

The town's tax base will continue to grow in the near-term given ongoing development and continued improvements to the current housing stock. The fiscal 2020 preliminary full value is approximately $73.5 billion making it the largest town in Suffolk by full value. Unlike many of it's neighboring towns, Southampton's full value has increased every year but one since 2008.

Exhibit 2
Southampton's full value growth has significantly outpaced Suffolk County as a whole



Source: Official statements

The lack of a significant decline in full value is reflective of the town's strong appeal as a vacation and second home destination. In addition to general housing improvements, ongoing full value growth is driven by new construction across the town. Construction is underway at the Hampton Business District at Gabreski Airport that includes 50 acres of developable land. Additionally, Stony Brook/Southampton Hospital has approved construction of a $250 million new hospital. While there are a number of other projects currently underway, the town's primary focus is to maintain it's appeal as a residential tax base. This objective is reflected in the town's Community Preservation Fund, which is funded by a 2% Mortgage Transfer Tax and is used to purchase land and development rights so that the area continues to have ample open space and farming.

Environmental considerations

Given the substantial waterfront land area, the town is exposed to rising sea levels and is susceptible to hurricanes and other storms. An ongoing US Army Corps of engineers renourishment project is expected to widen the beaches within the town. In addition, a number of waterfront residents created erosion control districts through which they have agreed to tax themselves to fund beach replenishment. We will continue to monitor rising sea levels and other affects of climate change and costs to the town of protecting against them and remediating their impact.

Financial Operations and Reserves: Conservative management drives strong reserves and liquidity

Southampton's financial profile will remain strong in the near term given strong fiscal management and conservative budgeting. The Available Operating Fund (General Fund, Police District Fund, Town Outside Village Fund, and the Highway Fund) ended fiscal 2017 at 31.6% of revenues having grown steadily over the last five years. Management attributes the largely stable operations to predictable revenue streams (property taxes account for 67% of revenues and are guaranteed in full by Suffolk County), comprehensive long-term planning, including two year budgets, multi-year forecasting and strong fiscal policies. Management notes that fiscal 2018 ended relatively flat compared to fiscal 2017. Management overcame a shortfall in mortgage tax revenues through active expense management.

The 2019 budget included appropriation of $1.975 million in fund balance across all Operating Funds. Given management's overall conservatism, it is unlikely all appropriations will be spent in 2019.

LIQUIDITY

The town's liquidity mirrors it's reserve position and will remain strong in the near-term.

Debt and Pensions: Declining debt burden

The town has reduced it's exposure to debt by funding capital on a pay-go basis. Since 2014 the long-term debt outstanding has declined by approximately 40%. Following the issuance of $15 million of new money debt in May 2019, the town's debt burden will be a minuscule 0.17% of full value, amongst the lowest for all towns on Long Island. The town's future borrowings will be consistent with their Capital Improvement Plan and will likely be consistent with current levels.

DEBT STRUCTURE

All debt is fixed rate and amortizes over a twenty year period, consistent with the life of the assets being financed. All general obligation debt is secured by a general obligation pledge as limited by New York State's legislative cap on property taxes (Chapter 97 (Part A) of the Laws of the State of New York, 2011) as well as the pledge of its faith and credit.

DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or other derivative agreements

PENSIONS AND OPEB

While the town had a history of deferring pension payments it has ended that practice and paid off all outstanding loans from the pension fund. The town participates in the New York State and Local Police and Fire Retirement System (PFRS) and New York State and Local Employees Retirement System (ERS), both of which are multi-employer, defined benefit retirement plan sponsored by the State of New York (Aa1 stable). The town made 100% of its 2017 annual required contribution (ARC) to the plan, a total of $7.2 million representing 8.2% of operating revenues. As of fiscal 2017 the town reported a total unfunded pension liability of $22 million. The town's combined three year average adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data, was $145.3 million representing a moderate 1.65 times operating revenues.

Negatively, New York State law does not allow for local governments to fund trusts for retiree health care benefits (OPEB). While legislation to allow local governments to fund such trusts is currently under discussion, the city continues to cover OPEB on a pay-go basis, which in 2017 cost $4.5 million representing 5% of revenues. Absent legislation, or changes to benefits, the town's OPEB liability, which totaled $172.8 million at end of January 1, 2016, will continue to grow, pressuring future budgets.

Fiscal 2017 fixed costs, comprised of pensions, OPEB and debt service, totaled a high but manageable 23% of operating expenditures.

Management and Governance:

Town management is strong, with officials actively working to maintain both the financial stability and desirability as a place to live and vacation through various initiatives. The town conducts property value assessments annually to capture any incremental growth in property values. It also does two-year budgeting and multiyear forecasting and has a codified policy to maintain general fund balance at a minimum 17% of expenditures.

Management notes that while it's general government has not been the victim of a cyber crime, their local access TV network was hacked and shut down for a few days. Management notes there was no financial impact to the town and TV network was up and running in about a week.

New York Cities have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. New York Cities operate within a state-imposed property tax cap, which limits the ability to increase their operating levy by the lesser of 2% or CPI (before adjusting for exemptions and rollovers). However, this cap can be overridden at the local level, without voter approval. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. New York State has public sector unions and the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, or between 5-10% annually.

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