

CREDIT OPINION

1 May 2019

 Rate this Research

Contacts

Robert Weber +1.212.553.7280
 VP-Senior Analyst
 robert.weber@moodys.com

Thomas Jacobs +1.212.553.0131
 Senior Vice President/Manager
 thomas.jacobs@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

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.

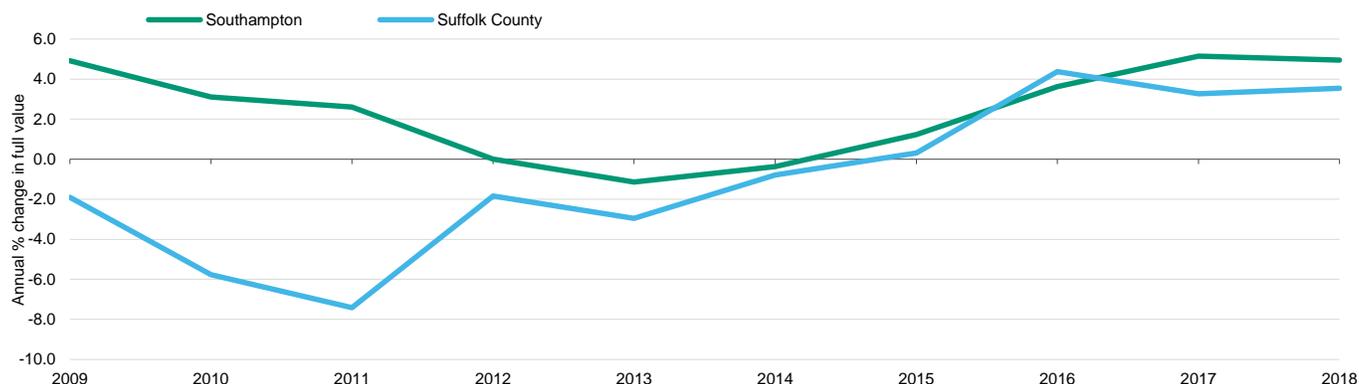
Detailed credit considerations

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 its neighboring towns, Southampton's full value has increased every year but one since 2008.

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.com for the most updated credit rating action information and rating history.

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 its 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 its reserve position and will remain strong in the near-term.

Debt and Pensions: Declining debt burden

The town has reduced its 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.

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

Contacts

Robert Weber +1.212.553.7280
VP-Senior Analyst
robert.weber@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454