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Summary:

Southampton, New York; General Obligation

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Table Of Contents

Rationale

Outlook

Related Research

Summary:

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Credit Profile

US\$10.61 mil pub imp serial bonds ser 2018 dtd 06/19/2018 due 05/15/2033

<i>Long Term Rating</i>	AAA/Stable	New
Southampton Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the town of Southampton, N.Y.'s series 2018 public improvement general obligation (GO) bonds. At the same time, we affirmed our 'AAA' rating on the town's existing GO debt. The outlook is stable.

The town's faith-and-credit pledge to levy ad valorem taxes on all the taxable real property within its borders, subject to certain statutory limitations, secures its GO bonds. The series 2018 bonds will be used to finance various capital projects, specifically for infrastructure, park and beach improvements, and public safety and technology improvements.

Southampton's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," the town has a predominately locally derived revenue source, with 55.5% of governmental activity revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

The rating reflects our view of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2016, which closed with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 39% of operating expenditures;
- Very strong liquidity, with total government available cash at 22.0% of total governmental fund expenditures and 2.2x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 10.2% of expenditures and net direct debt that is 76.0% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 85.7% of debt scheduled to be retired over 10 years; and

- Strong institutional framework score.

Very strong economy

We consider Southampton's economy very strong. The town, with an estimated population of 57,834, is located in Suffolk County in the New York-Newark-Jersey City, N.Y.-N.J.-Pa. MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 136% of the national level and per capita market value of \$1.1 million. Overall, the town's market value grew by 5.0% over the past year to \$63.7 billion in 2018. The county unemployment rate was 4.3% in 2016.

The town encompasses an area of approximately 138 square miles and is located on the south fork of Long Island, in the eastern portion of Suffolk County. With significant water access, the town remains a popular resort area, with the local economy augmented by farming and fishing. Within the town, development and re-development continues and has aided in consistent property tax growth.

Assessed values are 100% of the town's full valuation and have increased the past four years to \$63.7 billion for fiscal 2018. Assessed value has increased 14% over the past four years and is expected to increase to \$67.07 billion in fiscal 2019. The full value is roughly 22% of the full valuation for Suffolk County. The town continues to see improved property values due to its desirability as an Atlantic beachfront community. Over the past year, the town continues to see non-residential developments, including restoring the Canoe Place Inn and a 37-unit townhouse development in the hamlet of Hampton Bays, the construction of the Sandy Hollow Workforce Housing project, and the construction of the Ponquogue Beach Pavilion; all of which should continue to add to the tax base.

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

We have included the following factors in our assessment, specifically the town's:

- Conservative revenue and expenditure assumptions that use at least five years of historical trend analysis and outward-looking projections for operations;
- Monthly reporting of general fund and major fund budget-to-actuals to town council, which it may revise over the course of the year;
- Presentation of a two-year budget model that estimates expected revenues and expenditures for all major funds;
- Annual review and adoption of a five-year capital improvement plan with listed projects and funding sources;
- Investment policy consistent with state guidelines, with holdings and earnings reviewed monthly by the town comptroller and deputy comptroller;
- Formal debt management policy limiting uses of debt to capital financing, adopting state guidelines on maximum indebtedness, and limiting debt service expenditures supported by local real property taxes to no more than 15% of aggregate budgetary appropriations as well as the establishment of a debt reduction policy for capital projects (March of 2017); and
- Formal reserve policy to maintain a fund balance in its general fund at the end of each fiscal year equal to no less

than 17% of the total respective ensuing year's operating budget for cash flow purposes and any economic contingencies.

Strong budgetary performance

Southampton's budgetary performance is strong in our opinion. The town had surplus operating results in the general fund of 9.9% of expenditures, but a deficit result across all governmental funds of negative 7.0% in fiscal 2016, which includes the Community Preservation Fund. Our assessment accounts for the fact that we expect budgetary results could improve from 2016 results in the near term.

Fiscal 2016 closed with its third consecutive operating surplus of \$3.6 million as a result of ongoing conservative budgeting practices that resulted in under expenditures and increases in mortgage tax revenues.

Although still unaudited, fiscal 2017 is estimating another surplus of \$2.15 million; further increasing total available general fund reserves to \$15.5 million or 41.7% of expenditures. Again, management attributes the surplus to the aforementioned reasons.

Fiscal 2018 revenues and expenditures are trending on target with budget and is estimating, at least, a break even close to the year. However, certain line items, such as interest income are trending slightly above budget. There was no tax increase for fiscal 2018 and the town has remained in compliance with the state levy limits. With conservative budgeting practices and several formal fiscal policies, we do not expect the town's budgetary performance to weaken in the near term.

Very strong budgetary flexibility

Southampton's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 39% of operating expenditures, or \$13.9 million.

Flexibility is supported by a formal policy to maintain a fund balance in the general fund at the end of each fiscal year equal to no less than 17% of the total respective ensuing year's operating budget. Fund balance levels continue to improve rising to \$13.86 million in fiscal 2016 or 38.6% of expenditures. Furthermore, fiscal 2017 unaudited results project another operating surplus--increasing available general fund reserves to an estimated \$15.6 million or 41.7% of expenditures.

While not considered available, we note the town maintains a community preservation fund to preserve open space and farmland as part of the five East End towns of Long Island. The fund is financed by a 2% tax on most real estate sales. For fiscal 2016, the restricted balance was \$75.3 million. A portion of the fund will likely be drawn upon in the near term for water projects.

Very strong liquidity

In our opinion, Southampton's liquidity is very strong, with total government available cash at 22.0% of total governmental fund expenditures and 2.2x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

We believe the town's strong access to external liquidity is supported by its regular debt issuances, including GO bonds. Management has confirmed it has no contingent liquidity risks from financial instruments with payment

provisions that change upon the occurrence of certain events. Though the state allows for what we view as permissive investments, we believe the town does not currently have aggressive investments with the majority of its investments in FDIC-insured accounts. The town has consistently had very strong liquidity and we do not anticipate a change to these ratios.

Strong debt and contingent liability profile

In our view, Southampton's debt and contingent liability profile is strong. Total governmental fund debt service is 10.2% of total governmental fund expenditures, and net direct debt is 76.0% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, and approximately 85.7% of the direct debt is scheduled to be repaid within 10 years, which are positive credit factors, in our view.

The town has limited future capital needs, with capital projects funded through annual cash contributions and GO bond issuances. Future debt issuances, although not yet planned for, are anticipated to continue in similar amounts that have been issued in the past.

Southampton's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 6.7% of total governmental fund expenditures in 2017. Of that amount, 4.1% represented required contributions to pension obligations, and 2.6% represented OPEB payments. The town made its full annual required pension contribution in 2017.

Southampton participates in the New York State & Local Employees' Retirement System (NYSERS), and the New York State Police & Firemen Retirement System (PFRS). In prior years, the town had deferred a portion of pension costs. However, due to the significant operating surpluses achieved in 2013, the town designated a portion of such surpluses to pay down the previously amortized portion of the contribution to the Retirement System. As of Dec. 31, 2013, the town no longer has amortized amounts due to the Retirement System. As of Dec. 31, 2016, it reported a liability of \$15.5 million for NYSERS and \$12.8 million for PFRS, for its proportionate share of net pension liabilities. Both systems use a 7.0% discount rate. NYSERS has a funded ratio of 94.7% while PFRS is 93.5% funded, as of March 31, 2017.

The town also provides OPEBs on a pay-as-you-go basis. Its unfunded liability, as of Dec. 31, 2016, was \$172.8 million.

Strong institutional framework

The institutional framework score is strong.

Outlook

The stable outlook reflects our expectation that the rating will not change over the two-year outlook horizon. The outlook also reflects our opinion of a town that has very strong economic factors likely to be maintained. The town's management is strong, with no changes anticipated that would likely have a negative impact on the rating. Although unlikely, in our view, financial pressure that management is unable to respond to in a timely manner, or an aggressive or overly optimistic budgeting approach leading to a more-than-nominal reserves decline, could pressure the ratings.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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