S&P Global Ratings

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Summary:

Southampton Town, New York; General Obligation

Primary Credit Analyst:
Lauren Freire, New York + 1 (212) 438 7854; lauren.freire@spglobal.com

Secondary Contact:
Felix Winnekens, New York + 1 (212) 438 0313; felix.winnekens@spglobal.com

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Summary:

Southampton Town, New York; General Obligation

Credit Profile		
US$10.167 mil pub imp serial bnds ser 2022B due 03/01/2028		
Long Term Rating	AAA/Stable	New
US$4.195 mil pub imp rfdg (serial) bnds ser 2022A due 03/01/2028		
Long Term Rating	AAA/Stable	New
Southampton Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Southampton, N.Y.'s roughly $4.195 million series 2022A public improvement refunding bonds and roughly $10.167 million series 2022B public improvement bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's general obligation (GO) debt.

The town's faith-and-credit pledge secures the bonds.

Officials intend to use series 2022A bond proceeds to refund certain maturities and series 2022B bond proceeds to finance ongoing capital projects. In addition to the series 2022A and 2022B bonds, the town is issuing bond anticipation notes (BANs) we are not rating.

Southampton's GO bonds are eligible to be rated above the sovereign because we think the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, 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 treasury management from the federal government.

Credit overview

Southampton's credit profile is characterized by, what we consider, very strong reserves and liquidity and consistently positive operating performance, supported by strong management policies and practices under our Financial Management Assessment (FMA) methodology. The extremely strong property tax base has experienced assessed value (AV) growth. The town's economy benefits from ongoing strong tourism activity with property tax and other revenue having outperformed budgeted estimates.

The rating reflects our view of the town's:

- Incredibly wealthy tax base;
- Strong management and strong Institutional Framework;

- Strong financial performance with very strong budgetary flexibility and liquidity; and
- Manageable debt, pension, and other postemployment benefit (OPEB) costs.

Environmental, social, and governance

We have analyzed social and governance risks relative to Southampton's economy, financial management, financial measures, and debt-and-liability profile and have determined both are in-line with our view of the sector standard. As an oceanfront community, Southampton continues to monitor the effects of rising sea levels and what effect they have on the tax base, beach, infrastructure, and equipment. The town maintains four special taxing districts, known as beach-erosion-control districts, the two largest being Bridgehampton and Sagaponack. Taxpayers in these specific districts have approved two bond issues to combat beach erosion, paid from a tax levy on taxpayers. The town works in conjunction with the Army Corps of Engineers to improve beaches. The town expects a new beach-erosion project will occur within the next two years. In addition, since 1998, Southampton has maintained a community-preservation fund, which is designed to finance land purchases to stave off developments and maintain open space and farmland, as well as protect exposed coastal land.

Management supports the fund with a 2% tax on a majority of real estate sales within the town's jurisdiction. Management could issue bonds it will repay through the fund's life with the 2% tax revenue; it, however, must meet certain requirements before this occurs. Southampton has bought land to preserve it and limit redevelopment on open space. We note the town maintains sizable general fund reserves, roughly 50% of expenses, which we think provides an additional cushion for its acute risk related to severe weather events. It has also adopted Federal Emergency Management Agency guidelines for zoning, flood maps, and building standards to ensure new construction conforms to best practices. We think these extensive measures will help Southampton to protect its tax base and remain resilient during rising sea levels, as well as the higher frequency of adverse weather-related events; we, however, consider environmental risks elevated compared with noncoastal communities.

Stable Outlook

Downside scenario

Although unlikely, in our view, we could lower the rating if financial pressure were to occur from a significant severe-weather event that management cannot respond to in a timely manner or if management were to take an aggressive or overly optimistic budgeting approach, leading to a more-than-nominal reserve decrease.

Credit Overview

A popular resort destination with a sizable tax base, large component of second homes

The approximately 138-square-mile Southampton is in eastern Suffolk County on Long Island's South Fork. The town continues to experience property value growth due to its desirability as an Atlantic beachfront community. AV has grown to $74.04 million, and full valuation for fiscal 2022 has grown by roughly $375 million. Officials expect fiscal 2023 estimated full value could exceed $90 billion based on an increased real estate market during COVID-19.

Southampton has tax base developments, including a restoration of Canoe Place Inn; a new $300 million Stony

Brook/Southampton Hospital; and developments in Hampton Business District and Shinnecock Canal Maritime Park, Ludlam Avenue Park, Speonk Commons, and Shinnecock Commercial Fishing Dock. Additional tax base development includes a solar array at the North Sea landfill. Based on the town's desirability, we expect it will likely maintain a very strong economic profile as ongoing residential and commercial developments continue.

Strong management policies and practices with a focus on long-term planning

Our assessment includes the following factors, specifically management's:

- Conservative revenue and expenditure assumptions that use, at least, five years of historical trend analysis and outward-looking projections for operations;
- Monthly reports on general fund and major fund budget-to-actual results to the town council, which it could revise over the course of the year;
- Presentation of a two-year budget model that estimates expected revenue and expenditures for all major funds;
- Annual review and adoption of a five-year capital-improvement plan with listed projects and funding sources;
- Investment-management policy consistent with state guidelines, with the town comptroller and deputy comptroller reviewing holdings and earnings monthly;
- Formal debt-management policy that limits debt use 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, as of March 2017; and
- Formal reserve policy to maintain a general fund balance at each fiscal year-end equal to no less than 17% of the total respective ensuing year's operating budget for cash flow and any economic contingencies.

Management is taking steps to mitigate exposure to cybersecurity risk.

A history of strong budgetary performance with very strong liquidity, budgetary flexibility

We have adjusted budgetary performance for capital expenses and reoccurring transfers. Fiscal 2020 ended with a sizable surplus with the town experiencing significant expenditure savings. Certain revenue--such as departmental income, fines, and forfeitures--and investment income were slightly underbudget. However, an overall increase in state aid and $3.9 million in overall expenditure savings somewhat offset this weakness. We note the town experienced a spike in year-round population, but it absorbed increased service demands within the budget and still ended fiscal 2020 with a surplus. Property taxes generate 61.5% of general fund revenue and state aid accounts for 24.4%.

Preliminary fiscal 2021 results include a sizable surplus across all town funds with town forecasts showing townwide unassigned fund balance increasing by roughly $9 million. The town saw a significant increase in mortgage taxes as home sales increased during 2021. In addition, more economically sensitive revenue came back as summer visitors and economic activity increased in fiscal 2021. Management expects to follow its debt-reduction policy and move a portion of surplus into a debt-service fund to help pay down debt service, which could reduce the overall surplus; we, however, expect a strong operating performance.

The fiscal 2022 budget grew to $199.1 million, including $4.6 million in appropriated fund balance across all funds. The town received $5.1 million in American Rescue Plan Act of 2021 funds; management plans to use the first tranche of this funding in fiscal 2022. We expect that through strong management and financial policies, as well as dependence on property tax revenue, Southampton will likely maintain a strong budgetary performance during the two-year outlook.

A formal policy to maintain general fund balance equal to no less than 17% of the total respective ensuing year's operating budget at fiscal year-end supports budgetary flexibility. Based on preliminary fiscal 2021 results, we expect reserves will likely grow and remain at levels we consider very strong. The fiscal 2017 policy calls for maintaining 75% of general fund surpluses to pay down existing debt, limiting fund-balance growth to levels exceeding the fund-balance policy. We expect fund balance will likely not materially change during the two-year outlook.

While not considered available, Southampton maintains a consolidated public fund to preserve open space and farmland as part of Long Island's five East End towns, financed by a 2% tax on most real estate sales. For fiscal 2020, the fund's restricted balance was $87.7 million. Based on the sizable number of real estate tractions in 2021, management expects this balance will increase sharply.

Management confirms it does not currently have any contingent-liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Although the state allows for, what we view as, permissive investments, we do not consider Southampton's current investments aggressive with the majority in Federal Deposit Insurance Corp.-insured accounts. The town has consistently had, what we consider, very strong liquidity; we do not expect these ratios to change.

Debt is manageable

After this issuance, Southampton will have roughly $101 million in debt outstanding, including $4.7 million in BANs. The town has $48 million in authorized, but unissued, debt remaining. Historically, it has used capital projects funded through annual cash contributions and GO bond issuances. To be conservative in our amortization calculations, we do not include the $4.7 million in BANs in the 10-year period; the town expects to pay them off with grant proceeds and other funding and not permanently finance them.

Pension and OPEB

We do not view pension and OPEB liabilities as an immediate credit pressure for Southampton due to our opinion of current strong plan funding and limited escalating cost-trajectory risk.

However, significant OPEB liabilities, funded on a pay-as-you-go basis, which--due to claims-volatility and medical-cost and demographic trends--are likely to lead to escalating costs and could create budgetary pressure during the next few fiscal years.

As of Dec. 31, 2020, Southampton participates in:

- New York State Employees' Retirement System, which was 86.39% funded, with a proportionate share of the net pension liability equal to $24.5 million;
- New York State Police & Fire Retirement System, which was 84.86% funded, with a proportionate share of the net pension liability equal to $22. 5 million; and
- Southampton's defined-benefit health-care plan that provides retiree health care for employees and their dependents, which was 0% funded, with an OPEB liability of $334.3 million.

Strong Institutional Framework

The Institutional Framework score for New York municipalities is strong.

Southampton Town, New York Select Key Credit Metrics				
	Most recent	--Historical information--		
		2020	2019	2018
Very strong economy				
Projected per capita effective buying income as a % of U.S.	131.1			
Market value per capita ($)	1,273,272			
Population		58,133	58,449	57,542
County unemployment rate(%)		8.5		
Market value ($000)	74,019,131	73,357,937	67,002,258	
10 leading taxpayers as a % of taxable value	1.5			
Strong budgetary performance				
Operating fund result as a % of expenditures		8.3	1.1	1.5
Total governmental fund result as a % of expenditures		5.8	(10.4)	18.7
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		50.0	40.7	40.9
Total available reserves ($000)		20,321	16,543	16,107
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		27.1	21.1	30.1
Total government cash as a % of governmental fund debt service		322.6	205.9	237.0
Very strong management				
Financial Management Assessment	Strong			
Very strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		8.4	10.2	12.7
Net direct debt as a % of governmental fund revenue	55.0			
Overall net debt as a % of market value	0.9			
Direct debt 10-year amortization (%)	78.6			
Required pension contribution as a % of governmental fund expenditures		4.1		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		3.9		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

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
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt,

Local Government GO Ratings, And State Ratings, Oct. 7, 2019

- 2021 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020