

CREDIT OPINION

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New Issue

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Contacts

Joseph Manoleas 212-553-7106
 Associate Analyst
 joseph.manoleas@moodys.com

Cristin Jacoby 212-553-0215
 VP-Senior Analyst
 cristin.jacoby@moodys.com

Southampton Union Free School District

New Issue – Moody's Assigns Aaa to Southampton UFSD's (NY) \$15.7M GO Refunding Bonds, 2017

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to Southampton Union Free School District's \$15.7 million School District Refunding Serial Bonds - 2017. Moody's maintains the Aaa rating on approximately \$22 million in additional Moody's-rated General Obligation (GO) debt. Post-sale, the district will have \$37.7 million in GO debt outstanding.

The Aaa rating reflects the district's strong financial position characterized by a multi-year history of structurally balanced operating performance, an affluent and sizable tax base and a low debt profile.

Credit Strengths

- » Robust and expanding tax base
- » Strong income and wealth levels
- » Balanced financial operations
- » Low debt burden

Credit Challenges

- » Revenue-raising ability constrained by statewide property tax cap

Rating Outlook

Outlooks are typically not assigned to ratings with this amount of debt outstanding.

Factors that Could Lead to a Downgrade

- » Sustained operating imbalance and significant depletion of reserves
- » Deterioration of the district's tax base and demographic profile
- » Significant increase in debt burden

Key Indicators

Exhibit 1

Southampton Union Free School District, NY	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$ 20,824,801	\$ 20,610,778	\$ 20,649,507	\$ 21,005,370	\$ 22,137,049
Full Value Per Capita	\$ 2,054,336	\$ 2,118,053	\$ 2,082,653	\$ 2,039,950	\$ 2,149,854
Median Family Income (% of USMedian)	169.2%	162.7%	165.5%	154.2%	154.2%
Finances					
Operating Revenue (\$000)	\$ 58,183	\$ 58,168	\$ 61,984	\$ 62,442	\$ 65,245
Fund Balance as a % of Revenues	17.8%	17.4%	15.7%	15.0%	15.8%
Cash Balance as a % of Revenues	36.9%	40.8%	39.3%	37.0%	39.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 48,100	\$ 49,179	\$ 46,633	\$ 44,528	\$ 41,939
Net Direct Debt / Operating Revenues (x)	0.8x	0.8x	0.8x	0.7x	0.6x
Net Direct Debt / Full Value (%)	0.2%	0.2%	0.2%	0.2%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.9x	1.5x	1.5x	1.6x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.2%	0.4%	0.5%	0.5%	0.4%

2017 Full Value: \$23.7 billion; Post-sale the district will have \$40.9M in net direct debt
Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Large Growing Tax Base in Suffolk County with High Wealth and Income Levels

Moody's expects the district's large and affluent \$23.7 billion (2017 full value) tax base to continue to benefit from its positioning as a high-end second-home community in Suffolk County (A3 negative). The district has a year-round population of 10,297, according to the 2015 American Community Survey, that more than triples in the summer season. The district's tax base proved extraordinarily resilient through the recent recession, showing year-over-year tax base contraction in only one year since 2010 and growing by 27% since that year. Through 2017, the district's tax base has expanded at a five-year average annual rate of 2.6%, and future growth levels consistent with this historic pattern are expected in the near term. While minimal development in the district will contribute only modestly to the district's taxable base over the near term, we anticipate the strong demand for existing housing to drive growth in valuations moving forward.

Notably, the district has an extraordinarily high full value per capita of \$2.3 million, reflecting the concentration of high-value second homes. Median family income is a strong, but relatively more modest 154% of national levels, reflecting the lower wealth levels of year-round residents. The district's median home value of \$920,500 is 515% of the national median.

Financial Operations and Reserves: Strong Financial Position with Stable Operations

The district's financial position will remain strong in the coming years given its ample reserve and liquidity positions and strong operating performance. 2016 marked the fourth consecutive operating surplus for the district that brought total Operating Fund (General Fund) balance to \$26.9 million or 41% of revenues. Of this fund balance amount a large portion is designated as reserved for capital, but even when netting out the approximately \$23 million in reserves designated for capital the district's 2016 available Operating Fund balance is a still healthy 15.8% of revenues. In fiscal 2017 the district levied property taxes to the state-mandated levy cap, and current projections for year-end shows the district running another operating surplus that will grow total fund balance by \$1 million to approximately \$28 million. While the district has not received voter approval for its 2018 budget, management anticipates levying property taxes either to or slightly below the state-mandated levy cap and ultimately breaking even in fiscal 2018.

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

The strong tax base growth in the past decade has resulted in the district reducing its tax rate while continuing to levy to or close to the state cap. From 2009 to 2017 the district's tax rate has fallen from \$2.50 per \$1,000 in assessed valuation to \$2.26 per \$1,000 in assessed valuation. The district's primary revenue sources are local property taxes (80.8%), followed by tuition revenue (14.7%). The district receives funding for accepting high school students from neighboring Tuckahoe CSD, which does not offer schooling for grades 9-12, and separately for accepting students from the nearby Shinnecock Indian Nation.

LIQUIDITY

The district's net cash position at the close of fiscal 2016 was \$25.9 million, or a strong 39.6% of revenues. The district is an annual issuer of tax anticipation notes (TANs), which we do not rate, for cash flow needs prior to receipt of its tax levy. In 2016 the district issued \$18 million in TANs.

Debt and Pensions: Manageable Debt and Pension Burdens

The district's direct debt burden of 0.17% of full value will remain stable in the near term given no planned future issuance. Amortization of principal is rapid, with 84% retired within ten years. Debt service for the district comprised a manageable 7% of fiscal 2016 Operating Fund expenditures.

DEBT STRUCTURE

All of the district's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The district is not party to any derivative agreements.

PENSIONS AND OPEB

The district participates in the New York State Teachers Retirement System (TRS) and the New York State and Local Employees Retirement System (ERS), two multi-employer, defined benefit retirement plans sponsored by the State of New York (Aa1 stable). For fiscal 2016, employer contributions to the plans totaled \$4.8 million, or a moderate 7.3% of general fund revenues.

The district's three-year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$80.5 million, or a manageable 1.23 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. We determined the district's share of liability for the state-run plans in proportion to its contributions to the plans.

The district provides other post-employment benefits (OPEB) to retirees, the cost of which will remain modest given the financing of OPEB on a pay-go basis. Fiscal 2016 OPEB contributions of \$1.3 million accounted for only a modest 2% of operating revenues. Total fixed costs, including annual debt service, pension, and OPEB costs, comprised a manageable 16% of fiscal 2016 operating expenditures.

Management and Governance

Management continues to budget conservatively and take proactive measures to maintain structural balance. The management team also maintains a 5-year expenditure forecast.

New York School Districts have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. New York School Districts operate within a state-imposed property tax cap, which limits their ability to increase their operating levy by the lesser of 2% or CPI. This cap cannot be overridden at the local level, but can be overridden with 60% voter approval. Unpredictable revenue fluctuations tend to be low, or less than 5% 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.

Legal Security

Debt service on the bonds is secured by the district's general obligation ad valorem tax pledge.

Use of Proceeds

The Bonds are being issued to refund the district's School District Serial Bonds – 2008 which mature in the years 2018 to 2028.

Obligor Profile

The district is located on the east end of Long Island in the Town of Southampton in Suffolk County, New York, approximately 90 miles east of New York City. The district has a population currently estimated at 10,297 and a land area of approximately 52 square miles. The district includes the Incorporated Village of Southampton and the unincorporated hamlet of Water Mill.

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.

Ratings

Exhibit 2

Southampton Union Free School District, NY

Issue	Rating
School District Refunding Serial Bonds - 2017	Aaa
Rating Type	Underlying LT
Sale Amount	\$15,730,000
Expected Sale Date	04/15/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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Maria H. Smith

From: Anthony Nash [anash@capmark.org]
Sent: Tuesday, April 11, 2017 1:26 PM
To: Maria H. Smith
Subject: Moody's Aaa NY School Districts

Follow Up Flag: Follow up
Flag Status: Flagged

Maria,

NY school districts rated 'Aaa' by Moody's are:

Southampton UFSD
Mamaroneck UFSD
Byram Hills CSD
Chappaqua CSD
Rye City SD
Scarsdale UFSD
Great Neck UFSD

Best regards,

Anthony J. Nash
Vice President
Capital Markets Advisors, LLC
11 Grace Avenue, Suite 308
Great Neck, New York 11021
Phone: (516) 487-9817
Fax: (516) 487-2575
anash@capmark.org