

CREDIT OPINION

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Huntington (Town of) NY

Update to credit analysis

Summary

The Town of Huntington, New York's (Aaa stable issuer and GOLT) sizeable tax base, historically strong demographics including high resident income and wealth, and improved financial position are key credit attributes. The town's debt burden remains below the median for similarly rated credits. Additionally, the town has moderately high long-term liabilities.

Credit strengths

- » Sizeable tax base with high resident wealth and income indices
- » Sound financial position

Credit challenges

- » Property tax cap limitations

Rating outlook

The stable outlook reflects the town's conservative fiscal management practices, which will support continued healthy operating performance and maintenance of a strong financial position.

Factors that could lead to a downgrade

- » Significant decline in reserves or liquidity
- » Material tax base contraction
- » Substantial increase in long-term liabilities

Key indicators

Exhibit 1

Huntington (Town of) NY

	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value (\$000)	\$38,120,693	\$38,513,748	\$40,328,315	\$42,477,523	\$43,324,023
Population	204,011	202,673	201,718	201,205	201,205
Full Value Per Capita	\$186,856	\$190,029	\$199,924	\$211,116	\$215,323
Median Family Income (% of US Median)	186.2%	185.8%	188.2%	189.5%	189.5%
Finances					
Operating Revenue (\$000)	\$174,247	\$178,567	\$186,377	\$188,042	\$198,539
Fund Balance (\$000)	\$26,336	\$31,465	\$39,862	\$46,009	\$58,068
Cash Balance (\$000)	\$55,064	\$50,963	\$69,219	\$63,102	\$94,320
Fund Balance as a % of Revenues	15.1%	17.6%	21.4%	24.5%	29.2%
Cash Balance as a % of Revenues	31.6%	28.5%	37.1%	33.6%	47.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$90,444	\$90,388	\$95,279	\$98,963	\$102,113
3-Year Average of Moody's ANPL (\$000)	\$176,095	\$168,323	\$172,902	\$200,461	\$201,036
Net Direct Debt / Full Value (%)	0.2%	0.2%	0.2%	0.2%	0.2%
Net Direct Debt / Operating Revenues (x)	0.5x	0.5x	0.5x	0.5x	0.5x
Moody's - ANPL (3-yr average) to Full Value (%)	0.5%	0.4%	0.4%	0.5%	0.5%
Moody's - ANPL (3-yr average) to Revenues (x)	1.0x	0.9x	0.9x	1.1x	1.0x

Sources: US Census Bureau, Huntington (Town of) NY's financial statements and Moody's Investors Service

Profile

The Town of Huntington is located at the western end of Suffolk County, approximately 40 miles from Manhattan. The town is predominantly residential in nature with an estimated 2020 population of 201,205. (American Community Survey).

Detailed credit considerations

Economy and tax base: sizeable, affluent tax base exhibiting modest growth

The town's sizeable \$42.8 billion tax base (as of 2022) will continue to exhibit modest growth over the medium term given appreciation in existing home values as well as modest ongoing development. The mature, primarily residential tax base has increased at a compounded average annual rate of 2.4% since 2016. While the town's location 40 miles east of New York City (Aa1 stable) is a benefit, the town has its own major business corridor as well. The "110 corridor" located within the town has transformed into a major business area over the past several decades. The attractiveness of the area is what drove Canon (the town's second largest employer) to relocate its North American headquarters there several years ago. The town's favorable location and continued commercial and industrial development bode well for modest growth projections going forward.

While the pandemic did slow building activity within the town, it quickly picked back up and returned to pre-pandemic norms in 2021. One of the areas of focus over the past several years has been in higher density housing, something the town, and the region as a whole, lacks. This includes multi-family housing, senior assisted living facilities and housing condominiums. The town's downtown Huntington Station revitalization project is also progressing with plans to build a mixed use development, which will include a hotel, near the Long Island Railroad station. Much of the properties were blighted or unoccupied. According to the Suffolk County Industrial Development Agency who has been assisting with the project, the renovations over the past six years have increased tax revenue to \$347,000 from \$11,500.

The town's wealth and income profile is stable and above-average with median family income at 186.2% of the nation. The town's full value per capita is also strong at \$198,233.

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Financial operations and reserves: improved financial position

The town's financial position will remain sound in the near-term driven by conservative budget management. The town's Operating Funds (General Fund, Debt Service Fund, Highway Fund, Refuse and Garbage Fund, and Town Outside Village Fund) ended fiscal 2021 with yet another sizeable increase driven by conservative budgeting of both revenues and expenses. Over the past two years, coronavirus had very little impact on town operations given its limited exposure to state aid and no exposure to sales taxes. While recreation revenues did suffer, this was offset by a decline in expenses.

Management reports that year-to-date the town is on target relative to their budget. Mortgage tax revenues are trending above budget which could push General Fund operations to a positive. All other operating funds are likely to remain flat unless there's an unexpected event such as a severe storm. The town will receive approximately \$22.5 million in federal coronavirus relief funds, which management is using at least a portion of it on capital projects.

As management looks towards preparing a budget for 2023, their largest challenge is how to navigate the property tax cap which will limit their ability to raise property tax revenues and further inflationary pressures. Inflation hasn't had a material impact on operations year to date but has impacted how the town is managing its capital program. Several projects that are ongoing have seen an uptick in costs, while other projects have become simply too expensive to consider at this time. Compounding the problem is the delays in getting materials, this has forced the town to reconsider a number of capital expenses. For example, instead of purchasing a new dump truck, the cost of which has increased nearly 15% and would take 18 months to receive, management is refurbishing its fleet and extending the life of its inventory. That being said, the town has showed its willingness and ability to balance its budget on an annual basis, whether that's through revenue increases or expense reductions. The majority of revenues are derived from property taxes (57.5% of fiscal 2020 operating revenues) followed by departmental income (20%). The town's largest expenditures are home and community services (25.8% of fiscal 2020 expenditures) and employee benefits (19.6%).

Included in our analysis is a review of the town's various water districts and other non major funds. These funds have generally maintained adequate to strong reserves. Much of the debt being issued in 2022 is driven by the water districts and while the debt carries a general obligation pledge of the town, the debt service is generally paid from water revenues.

Liquidity

Similar to reserves, the town's liquidity will remain sound in the near-term driven by conservative budgeting. The town does not need to issue cash flow notes.

Debt and pensions: low debt burden; pension liability is modest and manageable

The debt burden is low and will likely remain low given the limited future capital planning and modest growth of the town's tax base. The town's direct and overlapping debt burden are modest at 0.3% and 1.3% of full value, respectively. Debt issuing plans are minimal, and even lower than normal given the federal funds and inflation reduced capital spending. The debt burden will likely remain consistent with the Aaa rating category over the next two years.

Legal security

Payment of principal and interest on the town's general obligation bonds is backed by the town's faith and credit supported by the town's authority to levy such ad valorem property taxes as may be necessary to pay the bonds, 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).

Debt structure

All debt is fixed rate and amortizes over a fifteen year period, consistent with the life of the assets being financed.

Debt-related derivatives

Huntington is not party to any interest rate swaps or other derivative agreements.

Pensions and OPEB

The town's pension and OPEB liabilities are larger than its debt and, though manageable at this time, represent a potential future credit challenge. The town participates in one multiple employer cost-sharing pension plan and two single employer plans and funds OPEB on a pay-go basis. The table below summarizes the town's 2019 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

Long-term liabilities are manageable

	2021	\$\$\$ (000)	% of Operating Revenues	Discount Rate
Operating Revenue		198,539	n/a	n/a
Reported Unfunded Pension Liability		18,482	9%	5.71%
Moody's Adjusted Net Pension Liability		160,898	81%	3.20%
Reported Net OPEB Liability		341,702	172%	2.06%
Moody's Adjusted Net OPEB Liability		296,705	149%	2.83%
Net Direct Debt		102,113	51%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)		559,717	281.92%	
Pension Contribution		9,892	4.98%	n/a
OPEB Contribution		10,345	5.21%	n/a
Debt Service		13,371	6.73%	n/a
Total Fixed Costs		33,607	16.93%	n/a

Source: Moody's Investors Service; audited financial statements

While the town's OPEB liability is larger than its pension or debt burden's, management is actively managing the liability to ensure it does not continue to grow. Recent growth in the liability is largely driven by the declines in the discount rate being used to value the liability. However, management notes it continues to work with their collective bargaining groups to address the liability.

Fixed costs at 16% are manageable and below average for peers on Long Island. Given the limited debt plans and active management of OPEB fixed costs are not likely to significantly increase in the next two to three years.

ESG considerations

Environmental

The town is located in Suffolk County which we have designated as having a moderately negative (S-3) exposure to environmental factors. The tax base is exposed to severe weather events such as hurricanes. To combat the exposure to these risks the town, working with state and federal agencies has been improving their resilience to storms. This has included improving bulkheads and lengthening shorelines. The town has also worked to improve storm water quality which increases coastal vegetation acting as a natural barrier to storm surge.

Social

Social factors are not a driver of the rating. The county has been designated as having neutral to low risk for societal factors and much of that is true for the town as well.

Governance

Governance is not a primary driver of the rating. That being said, management's strengths are evident in its budget management and significantly improved reserves over the past five years.

New York cities have an institutional framework score ¹ of "Aa", which is strong. 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. However, this cap can be overridden at the local level, without voter approval and many local governments have done so when necessary. Unpredictable revenue

fluctuations tend to be low, reflected in expense growth being under 5% on average across the whole sector. Fixed and mandated costs are generally below 25% of expenditures. New York State has the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be low, however, reflective in expense growth being under 5% on average across the whole sector.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Huntington (Town of) NY

Rating Factors	Measure	Score
Economy/Tax Base (30%)[1]		
Tax Base Size: Full Value (in 000s)	\$42,846,371	Aaa
Full Value Per Capita	\$212,949	Aaa
Median Family Income (% of US Median)	189.5%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	29.2%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	18.4%	Aa
Cash Balance as a % of Revenues	47.5%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	25.1%	Aa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.3%	Aaa
Net Direct Debt / Operating Revenues (x)	0.6x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.5%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.0x	A
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Sources: US Census Bureau, {OrgName}'s financial statements and Moody's Investors Service

Endnotes

- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(July 2020\)](#) methodology report for more details.

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