

CREDIT OPINION

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Town of Addison, TX

Update to credit analysis

Summary

[The Town of Addison, TX's](#) (Aaa stable) credit profile is anchored by a regionally important economy north of the [City of Dallas](#) (A1 stable) with a moderately sized and growing tax base. The town's strong financial operations have led to high reserve and liquidity levels despite a slightly higher reliance on economically sensitive sales tax revenue which continue to grow given the town's role as a major job center. Addison's financial position is further strengthened by access to additional liquidity outside the main operating funds. The town has slightly higher debt ratios compared to peers and positively the pension burden is affordable and will not be a drag on credit quality over the next several years.

Credit strengths

- » Sound financial practices evidenced by high reserves
- » Major commercial economic center
- » Income and wealth indicators exceed national levels

Credit challenges

- » Above average reliance on commercial property and sales tax revenue compared to peers
- » Debt levels are slightly elevated compared to peers with slower than average repayment

Rating outlook

The stable outlook reflects our expectation that town's management team will continue to maintain balanced operations supported by a stable economy and solid liquidity position which contributes to a stable credit profile over the medium term.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Reduction in reserve levels
- » Significant economic decline
- » Sizeable debt issuance absent corresponding tax base growth

Key indicators

Exhibit 1

Addison (Town of) TX

	2019	2020	2021	2022	Aaa Medians
Economy					
Resident income ratio (%)	115.2%	110.9%	103.3%	N/A	173.0%
Full Value (\$000)	\$4,725,759	\$4,819,907	\$4,925,943	\$5,075,396	\$8,668,233
Population	15,302	15,428	16,405	N/A	35,992
Full value per capita (\$)	\$308,833	\$312,413	\$300,271	N/A	\$225,444
Economic growth metric (%)	N/A	1.4%	1.3%	N/A	-0.5%
Financial Performance					
Revenue (\$000)	\$78,457	\$74,844	\$80,575	\$84,562	\$101,177
Available fund balance (\$000)	\$73,308	\$67,641	\$71,178	\$76,753	\$58,570
Net unrestricted cash (\$000)	\$89,805	\$115,081	\$126,464	\$132,230	\$82,803
Available fund balance ratio (%)	93.4%	90.4%	88.3%	90.8%	61.7%
Liquidity ratio (%)	114.5%	153.8%	157.0%	156.4%	88.4%
Leverage					
Debt (\$000)	\$92,424	\$124,722	\$133,844	\$149,827	\$71,733
Adjusted net pension liabilities (\$000)	\$59,401	\$78,253	\$101,408	\$87,756	\$120,941
Adjusted net OPEB liabilities (\$000)	\$3,790	\$4,270	\$4,652	\$4,600	\$14,374
Other long-term liabilities (\$000)	\$1,012	\$1,294	\$1,436	\$1,341	\$3,750
Long-term liabilities ratio (%)	199.6%	278.6%	299.5%	288.0%	263.2%
Fixed costs					
Implied debt service (\$000)	\$6,265	\$6,739	\$8,932	\$9,388	\$4,989
Pension tread water contribution (\$000)	\$1,632	\$2,575	\$2,096	\$2,295	\$3,389
OPEB contributions (\$000)	\$157	\$147	\$204	\$230	\$523
Implied cost of other long-term liabilities (\$000)	\$71	\$74	\$93	\$101	\$245
Fixed-costs ratio (%)	10.4%	12.7%	14.1%	14.2%	11.6%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#). The Economic Growth metric cited above compares the five-year CAGR of real GDP for Dallas-Fort Worth-Arlington, TX Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Addison (Town of) TX's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

Profile

The Town of Addison is 12 miles north of downtown Dallas in [Dallas County](#) (Aaa stable). The town is home to several office spaces and the economy sees a high concentration of profession jobs with daytime population well over 3 times the nighttime population. The current population estimate is about 17,300.

Detailed credit considerations

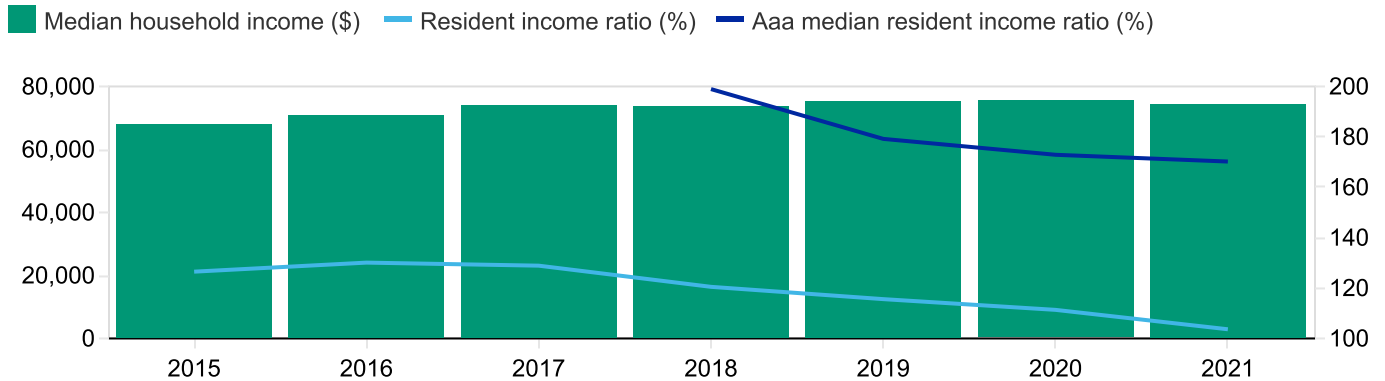
Economy: strong economy reliant on commercial, retail and industrial property

Strong economic growth will continue driven by the strength of the broader Dallas/Fort Worth economy and ongoing mixed-use and some residential development within the town. Although the town is nearly entirely built out, with vacant land comprising only 1.8% of the town's tax base, the remaining developable land will attract mixed use development, along with some residential development. The town is heavily reliant on retail, commercial and industrial property, which makes up 45.4% of the town's fiscal 2023 assessed valuation. However, as commercial property has appreciated in taxable value, the town's full value per capita has also grown 14.3% year over year, reaching \$343,245 in fiscal 2022. Town officials report stable economic conditions with office occupancy rates at about 81%. Ongoing development includes multifamily housing and town homes in Vitruvian Park and a transit oriented development being constructed near a new [Dallas Area Rapid Transit](#) (Aa2 stable) light rail station. The town's economic growth metric, as measured by five-year growth in real GDP, is above similarly rated peers at 1.3%.

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Exhibit 2

Resident Income



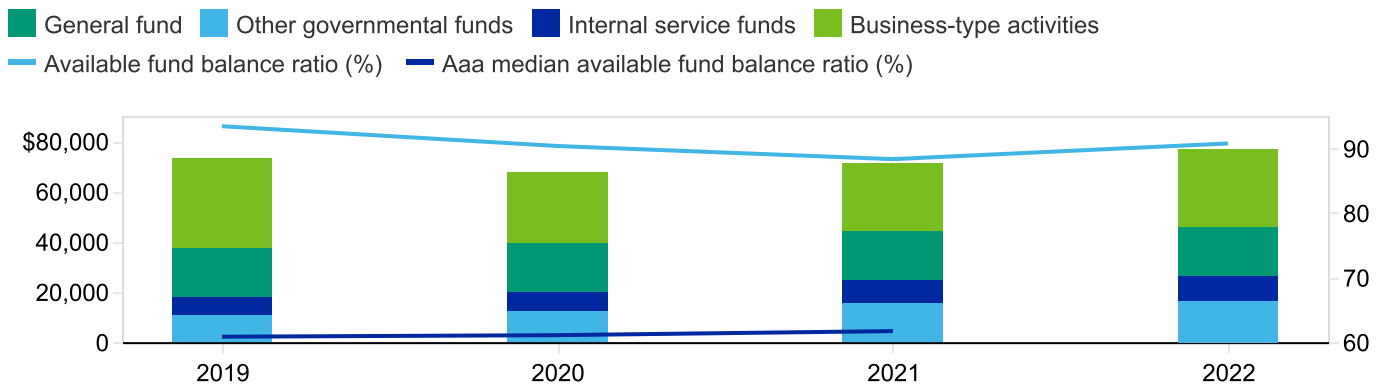
Source: Moody's Investors Service

Financial operations: strong fiscal management supports healthy financial profile

The town's strong financial position is expected to remain so due to conservative budgeting practices and continued revenue growth. The town's fiscal 2023 budget is performing at or above budget across all governmental and business-type funds. The town's available fund balance closed fiscal 2022 (September 30 year-end) at about \$76.8 million, or an amount equal to 90.8% of total annual revenue. Addison's available fund balance is well above the median for Aaa-rated peers (see exhibit 2).

Exhibit 3

Financial reserves trending positive after a decrease in fiscal 2020



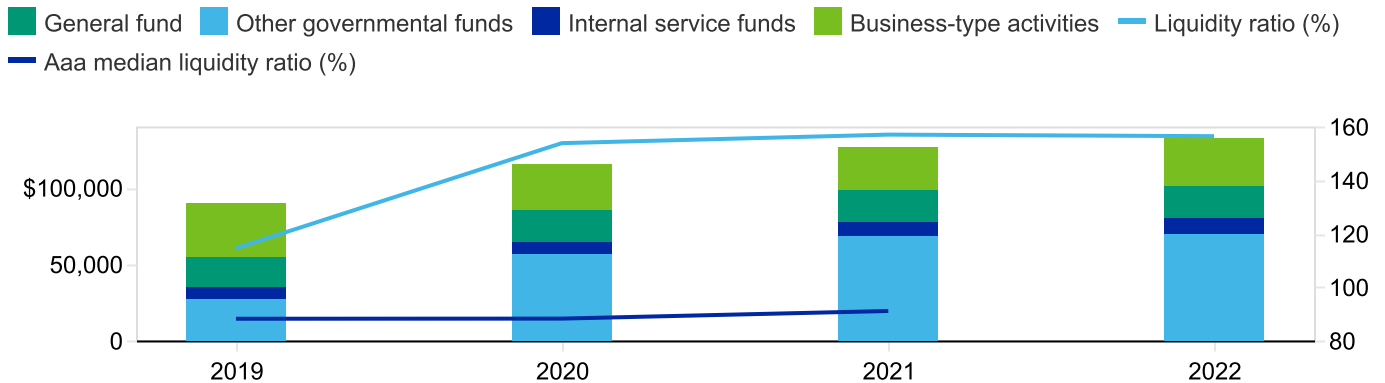
Source: Moody's Investors Service

Liquidity

The town's liquidity is expected to remain at currently strong levels. At fiscal year-end 2022, available liquidity across governmental and business-type activities was roughly \$132.2 million or a very healthy 156.4% of revenue.

Exhibit 4

Net cash as a percent of revenue growing consistently



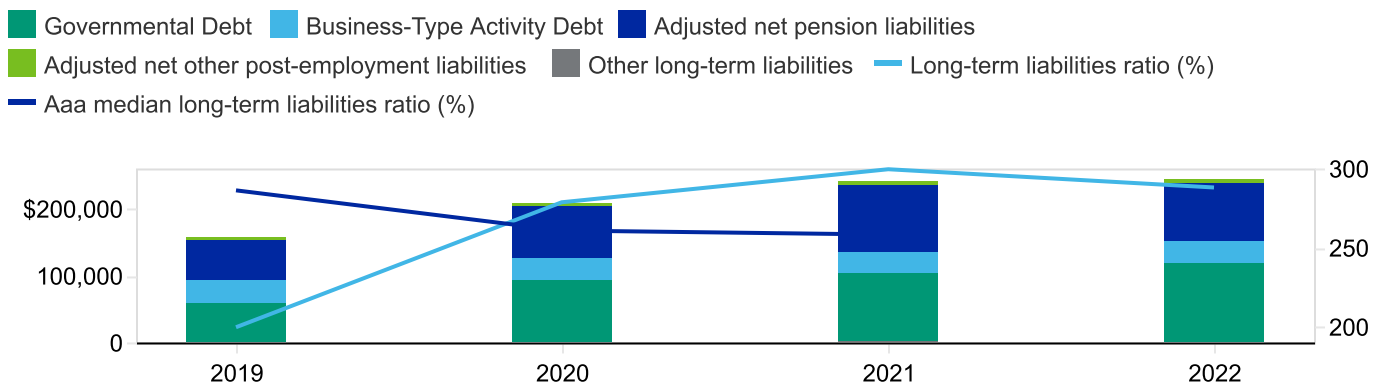
Source: Moody's Investors Service

Leverage: additional issuance plans to keep leverage slightly elevated

Addison's leverage will remain slightly elevated given additional issuance plans over the next few years, although given strong tax base and revenue growth the debt burden will remain manageable. At fiscal year-end 2022, leverage amounted to 288% of revenues, which includes debt and adjusted pension and other post-employment benefit (OPEB) liabilities. Fixed costs are above the median for similarly rated peers at 14.2% of revenues. Long-term liabilities from governmental activities make up 84.4% of the town's leverage, while the remaining 15.6% is associated with business-type activities. The town anticipates issuing roughly \$43 million in additional debt over the next three years. The future debt is not expected to materially impact the long-term liabilities or fixed cost ratios.

Exhibit 5

Total Primary Government - Long Term Liabilities



Source: Moody's Investors Service

Legal security

The bonds are secured by a direct and continuing annual ad valorem tax, levied on all taxable property within the limits prescribed by law.

Debt structure

Principal payout is below similarly rated peers with 63.4% of principal retired in 10 years. The debt service schedule is largely descending until final maturity in fiscal 2043.

Debt-related derivatives

All of the town's debt is fixed rate and the town is not party to any derivative agreements.

Pensions and OPEB

The town's unfunded pension and other post employment benefits (OPEB) liabilities should remain a manageable portion of town's total leverage. The town provides pension benefits for employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multi-employer public employee retirement system administered by the State of Texas (Aaa stable).

The town reported a net pension surplus of \$6.4 million using a 6.75% discount rate. Moody's adjusted net pension liability (ANPL) for the town, under our methodology for adjusting reported pension data, was \$87.8 million, using an indexed discount rate of 3%. This represents about 145.6% of revenues. The town contributed \$2.6 million to the plan in fiscal 2022 representing about 4.4% of revenue. This contribution was about \$293,000 over the Moody's determined "tread water" contribution level, which is a credit positive relative to many other cities. The "tread water" indicator measures the annual government contribution required to prevent the reported net pension liability from growing, under reported assumptions.

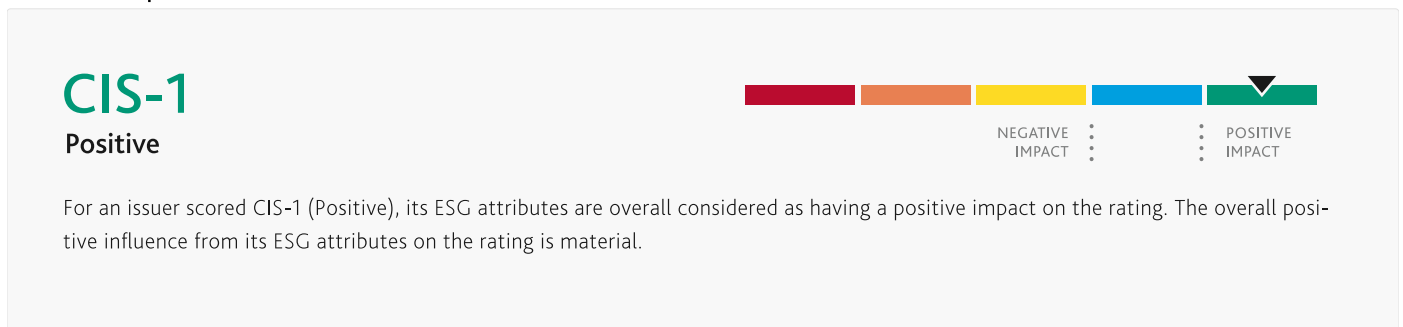
In addition to pension benefits, the town also provides retiree health care (OPEB) benefits to employees. However, the liability is manageable, with our adjusted net OPEB liability equating to just 7% of fiscal 2022 operating revenue. Additionally, total fixed costs (debt service, pension contributions and OPEB contributions) remain manageable at approximately 14.2% of operating revenue.

ESG considerations

Addison (Town of) TX's ESG Credit Impact Score is Positive CIS-1

Exhibit 6

ESG Credit Impact Score

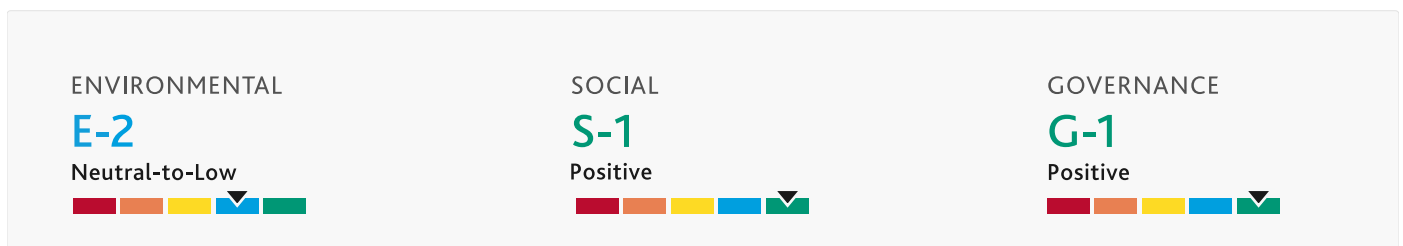


Source: Moody's Investors Service

The Town of Addison, TX's credit impact score is **CIS-1** reflecting positive social attributes, a very strong governance profile, and low exposure to environmental risks, all of which support the town's credit rating, resilience and capacity to respond to shocks.

Exhibit 7

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Addison, TX's overall E issuer profile score is **E-2** reflecting relatively low exposure to environmental risks across all categories including physical climate risk, carbon transition, water management, natural capital and waste and pollution.

Social

Addison TX's S issuer profile score is **S-1** reflecting its role as a major employment center in the Dallas Fort Worth area that attracts thousands of workers within the day allowing its daytime population to swell to about 10 times its nighttime population. Given limited availability of land, population growth has been relatively stable although labor and income trends are higher than typical peers. Educational attainment levels in the town are high supporting demand for professional jobs in the area. Although housing costs are rising rapidly, they remain affordable in comparison to other high demand areas of the country. Access to basic services and exposure to health and safety considerations is in line with peers.

Governance

Addison TX's very strong governance profile supports its rating, as captured by its **G-1** issuer profile score. The town maintains both strong institutional structure and demonstrated policy credibility and effectiveness. Transparency and disclosure is in line with peers evidenced by a steady history of the timely release of budgets and audited financial statements. Budget management strategies are strong with actual performance typically favorably outpacing budgeted expectations and the town utilizes long range financial and capital planning to guide its longer-term outlook.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 8

Addison (Town of) TX

	Measure	Weight	Score
Economy			
Resident income ratio	103.3%	10.0%	Aa
Full value per capita	339,916	10.0%	Aaa
Economic growth metric	1.3%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	90.8%	20.0%	Aaa
Liquidity ratio	156.4%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	288.0%	20.0%	A
Fixed-costs ratio	14.2%	10.0%	Aa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa2
Assigned Rating			

The complete list of outstanding ratings assigned to the Addison (Town of) TX is available on their [issuer page](#). Details on the current ESG scores assigned to the Addison (Town of) TX are available on their [ESGView page](#).

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

Appendix

Exhibit 9

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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