

# RatingsDirect®

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## Summary:

# Addison, Texas; General Obligation

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## Summary:

# Addison, Texas; General Obligation

### Credit Profile

US\$12.68 mil comb tax and rev certs of obligation ser 2022 dtd 08/01/2022 due 02/15/2042		
<i>Long Term Rating</i>	AAA/Stable	New
US\$10.265 mil GO bnds ser 2022 dtd 08/01/2022 due 02/15/2042		
<i>Long Term Rating</i>	AAA/Stable	New
Addison GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rating Action Overview

- S&P Global Ratings assigned its 'AAA' rating to the Town of Addison, Texas' anticipated \$10.3 million general obligation (GO) bonds, series 2022, and \$12.7 million certificates of obligation, series 2022.
- At the same time, we affirmed our 'AAA' rating on the town's GO debt and certificates outstanding.
- The outlook is stable.

## Security

The GO bonds are direct obligations of the town, payable from the levy and collection of a continuing annual ad valorem tax, within limits prescribed by law, on all taxable property in the town.

State statutes limit the ad valorem tax rate for home rule cities to \$2.50 per \$100 of taxable assessed valuation (AV) for all town purposes. The Texas attorney general permits the allocation of \$1.50 of the \$2.50 maximum tax rate for ad valorem tax debt service. In fiscal 2021, Addison's total levy is well below the maximum at 61.46 cents per \$100 of AV, 17.35 cents of which is dedicated to debt service. Despite state statutory tax-rate limitations, we do not differentiate between the town's limited-tax debt and its general creditworthiness, since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources, which supports our view of the town's overall ability and willingness to pay debt service.

We understand proceeds from the series 2022 GO bonds will be used to fund road improvements, park and recreation facilities, and other public safety and town owned facility improvements. The certificates of obligation, series 2022, will be used for road improvements and water and sewer systems.

## Credit overview

Consistent operating surpluses, aided by strong management and prudent spending, have enabled Addison to transfer excess general fund revenues into its capital project fund in each of the past three fiscal years while maintaining its healthy reserve levels. The Town of Addison has a diverse tax base spread across multiple sectors in a high-demand metropolitan statistical area (MSA), with expected development anchored by a new Dallas Area Rapid Transit (DART) Silver line station, expected to being service in 2024. This, combined with strong reserves, leads us to view the town's

creditworthiness as stable over our outlook horizon and we believe management will prudently adjust operating budgets to maintain fiscal stability throughout the recession. We consider the town's debt burden very weak, with additional debt planned, but carrying charges are reasonable compared with those of similar Texas municipalities with high levels of debt.

The rating reflects our view of the town's:

- Strong economic wealth and income metrics;
- Consistent budgetary performance with very strong reserves; and
- Very strong Financial Management Assessment (FMA).

### **Environmental, social, and governance**

Our analysis of these risks encompasses our review of environmental and social risks that currently exist and are neutral in our credit rating analysis. We acknowledge the town's very strong management, with strong financial policies and practices, as a positive risk management, culture, and oversight governance factor.

## **Outlook**

The stable outlook reflects our view that the town's growth and strong economic metrics should still support the town's balanced financial operations.

### **Downside scenario**

We could consider lowering the rating if the town experiences significant economic or financial stress that results in structural imbalance and declining reserves, or if the town's debt burden increases to a level that stresses to its budgetary performance.

## **Credit Opinion**

### **Very strong economy in the Dallas MSA, with a major transit development underway**

The local economy is diverse and anchored by key industries such as professional, scientific, and technical services, health care, and finance. Also, the town has a well-educated workforce, with approximately 58% of the population holding a bachelor's degree or higher, which provides employers access to a competitive, skilled labor pool. While residents have convenient access to employment opportunities within Dallas and throughout the Dallas-Fort Worth MSA, Addison itself has a multitude of employment opportunities.

Assessed value growth has generally been steady, and officials expects it will grow 5.1% from fiscal 2022. The town has both residential and commercial development underway, anchored by a commuter rail line called the Silver Line that will be the town's first DART rail station. This \$1.1 billion, 26-mile line will traverse three counties and connect Addison to the Dallas-Fort Worth International Airport and numerous cities within the MSA. Service is expected to commence in 2024. The town recently entered into a memorandum of understanding with a master developer for a large mixed-use space near the station, which includes 700 living units, 150,000 square feet of office space, and 70,000

or retail and entertainment in phase 1. Assessed values have historically shown steady growth at 2%-5% a year, and officials state that although there is limited greenspace available for new development, Addison has attracted many developers interested in redeveloping older properties.

Given its abundance of commercial space, the town is home to several corporate headquarters, including Mary Kay Cosmetics, Bank of America, and Mattress Giant. Wingstop recently moved its corporate headquarters to the town, employing about 200 full-time jobs. Other key drivers of the local economy include the town's hotel and restaurant industries, in addition to the Addison Airport, one of the state's most-used general aviation airports. Officials state that Bank of America is planning a renovation of their facility in Addison.

### **Very strong reserves, with stable performance resulting in surpluses transferred to capital projects**

Addison maintained stable performance in recent years and the town maintains a very strong fund balance around 50% of expenditures, or \$20.2 million as of Sept. 30, 2021. There are no plans at this time to reduce reserves. The town consistently adopts balanced operating budgets based on conservative assumptions, often leading to positive budget variances. The results have enabled the town to transfer excess revenue to its capital projects fund to self-fund various capital projects and alleviate some of its debt burdens. Consistent with that trend, the budget for the fiscal year ended Sept. 30, 2021, outperformed, and while final general fund results were balanced, the town transferred \$3 million of excess revenue to the self-funded special projects fund. In addition, the town created a new facility maintenance internal service fund and transferred \$500,000 to start.

For 2022, management expects another transfer to the special projects and facility maintenance funds of \$2.1 million and a slight increase in ending fund balance to \$20.5 million. The town received about \$900,000 in CARES Act funds and it was allocated \$4 million in American Rescue Plan Act funds; it received the first allocation in 2021 and expects the second in August 2022. Management plans to use the stimulus in its hotel fund.

We understand that the town does not have exposure to any variable-rate debt obligations or privately placed debt obligations that would cause contingent liability issues for the town.

### **Very strong financial management with detailed long-term planning**

The current town manager is leaving Aug. 1, 2022, but management does not expect any significant changes to financial practices.

Highlights include the following:

- Management uses three-to-five years of historical financial trend analysis to formulate the subsequent year's budget assumptions.
- Quarterly budget-to-actual financial reports are provided to the town council, and officials can amend the operating budget when needed.
- The council annually adopts a five-year rolling capital improvement plan (CIP) that identifies potential projects and their respective funding sources.
- Management also prepares a five-year financial forecast that it presents to the town council annually.
- The town council has a formalized and comprehensive investment management policy that is reviewed annually, and officials provide the council with quarterly investment holdings and performance reports.

- The town has a formalized debt management policy as well, in line with state requirements.
- The town's formalized fund balance policy requires general fund reserves above 25% of operating expenditures. The policy was adopted to prevent deterioration of reserves in the event of a drop in revenues or emergencies. The town has historically remained in compliance with this policy.
- We note the town has implemented policies and practices to help mitigate its exposure to cyber-security risks.
- The institutional framework score for Texas municipalities is strong.

### **Weak debt burden, with future debt plans, but manageable carrying charges**

Addison's adopted five-year CIP serves as a blueprint to address subsequent growth and development prudently. According to management, the town has \$41.9 million remaining for its 2019 bond authorization. Officials plan to issue the remaining amount over five-to-seven years, focusing on the reconstruction of a major arterial roadway. In addition, the town plans to issue \$15 million for public infrastructure in two new residential developments. We expect the town's debt burden will remain elevated, as Addison will likely issue additional debt to fund growth-related capital needs. However, we assess the town will prudently manage debt issuance relative to its rate of tax base growth, and the new issuance will not materially increase debt obligations as the town is scheduled to repay \$44 million in principal in the next five years.

#### Pension and other postemployment benefits

We do not view pension and other postemployment benefits (OPEB) liabilities as an immediate source of credit pressure, as required contributions currently made up an affordable share of total governmental expenditures.

As of Dec. 31, 2020, the town participates in:

- Texas Municipal Retirement System (TMRS): 98.4% funded with a net pension liability of \$2.3 million.

For OPEB, Addison has a retirement health care benefit and a Supplemental Death Benefits Fund for all employees who retire from the town and receive benefits from a town-sponsored retirement program. The town's contribution to the health plan consists of total premiums in excess of retiree contributions. In fiscal 2020, the net OPEB liability was \$3.65 million.

For more information, see "Pension Spotlight: Texas," published Feb. 25, 2020, on RatingsDirect. Despite differences in plan provisions, assumptions and methods are common across all TMRS plans. These include a discount rate of 6.75%, which we consider generally conservative given the risk-sharing plan features as well as young demographics in Texas, and closed level-percent-of-pay amortization periods (not to exceed 30 years).

### **Rating above the sovereign**

Addison's GO bonds are eligible to be rated above the sovereign because we assess 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" (published Nov. 19, 2013), U.S. local governments are considered to have moderate sensitivity to country risk. The town's GO pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or the town's operations. The institutional framework in the U.S. is predictable for local governments, allowing them significant

autonomy and independent treasury management, and Addison has no history of government intervention. The town has considerable financial flexibility, as demonstrated by its very strong general fund balance as a percent of expenditures, as well as very strong liquidity.

Addison, Texas--Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	159.5			
Market value per capita (\$)	303,353			
Population		16,731	15,844	15,632
County unemployment rate(%)		5.6		
Market value (\$000)	5,075,396	4,925,943	4,819,907	
Ten largest taxpayers % of taxable value	21.2			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		0.3	(1.3)	(1.1)
Total governmental fund result % of expenditures		10.0	8.4	8.7
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		51.0	54.7	55.5
Total available reserves (\$000)		19,699	20,053	20,084
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		149.4	146.5	151.5
Total government cash % of governmental fund debt service		1,032.4	1,026.4	1,165.6
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Very weak debt and long-term liabilities</b>				
Debt service % of governmental fund expenditures		14.5	14.3	13.0
Net direct debt % of governmental fund revenue	205.4			
Overall net debt % of market value	4.7			
Direct debt 10-year amortization (%)	58.0			
Required pension contribution % of governmental fund expenditures		4.6		
OPEB actual contribution % of governmental fund expenditures		0.0		
<b>Strong institutional framework</b>				

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of July 21, 2022)		
Addison GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Addison GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Addison GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Addison GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Addison GO rfdg bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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