

RatingsDirect®

Summary:

Addison, Texas; General Obligation

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Credit Profile

US\$5.0 mil GO bnds ser 2023 dtd 08/01/2023 due 02/15/2043

Long Term Rating AAA/Stable New

US\$4.5 mil comb tax and rev certs of oblig ser 2023 dtd 08/01/2023 due 02/15/2043

Long Term Rating AAA/Stable New

Addison GO

Long Term Rating AAA/Stable Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the Town of Addison, Texas' anticipated \$5.0 million general obligation (GO) bonds, series 2023, and \$4.5 million certificates of obligation, series 2023.
- 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 and COs 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. The certificates are additionally secured by a limited net-revenue pledge from the town's waterworks-and-sewer system. Due to the additional pledged revenue's limited nature, we base our ratings on these obligations on the town's ad valorem tax pledge.

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 2023, Addison's total levy is well below the maximum at 60.98 cents per \$100 of AV, 16.47 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.

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.

We understand proceeds from the series 2023 GO bonds and certificates of obligation will be used to fund street and road improvements.

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 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 begin service in 2026. We believe management will continue to maintain fiscal stability with at least balanced results expected for fiscal years 2023 and 2024. While we consider Addison's debt burden weak, we do not believe the town's additional debt plans will materially affect our view of its debt profile.

The rating reflects our view of the town's:

- Strong economic wealth and income metrics with a growing tax base;
- Consistently balanced budgetary performance, with very strong reserves, expected to continue in fiscal years 2023 and 2024;
- Very strong Financial Management Assessment (FMA) and a strong institutional framework score; and
- Manageable debt burden, despite near-term debt plans.

Environmental, social, and governance

Our analysis of these risks encompasses our review of environmental and social risks which we consider neutral in our credit rating analysis. We acknowledge the town's very strong management, with strong financial policies and practices as positive risk management; however, we view governance risks as neutral.

Outlook

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

Downside scenario

We could lower 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 its budgetary performance.

Credit Opinion

Very strong economy in the Dallas-Fort Worth 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. While residents have convenient access to employment opportunities within the Dallas-Fort Worth MSA, Addison itself has a multitude of employment opportunities as it is home to several corporate headquarters and has an abundance of commercial space. 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 2026. The town 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 for retail and entertainment. In addition, officials note there is another mixed-use development currently under construction, with an estimated investment of \$170 million. Growth in AV has generally been steady, and officials expect it will grow 8% from fiscal 2023. Historically, AV has grown steadily 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. We believe the town will continue to exhibit similar AV growth in the near term given the aforementioned developments.

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

Conservative budgeting assumptions contributed to Addison's stable operating performance in recent years, allowing the town to maintain a very strong available fund balance despite transferring excess revenues to self-fund various capital projects. Fiscal year-end 2022 results were largely fueled by positive budget variances in both revenues and expenditures. After its transfer out of approximately \$1.8 million to the self-funded special projects fund, the town added approximately \$272,000 to fund balance in fiscal 2022. For 2023, management expects another transfer to the special projects fund of \$1.8 million and a minor increase to its ending general fund balance. While the fiscal 2024 budget has not been adopted, management indicates the budget will be balanced with increases in property tax revenues and personnel-related expenditures. There are no plans to reduce reserves at this time, therefore, we expect the town will maintain a very strong financial profile during our outlook horizon.

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

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 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 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, in line with state requirements.
- The town adheres to its formalized reserve and liquidity policy that 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.
- 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. Management intends to issue approximately \$28.5 million from its 2019 bond authorization, \$8.3 million from its 2019A bond authorization, \$3.4 million for a parking structure, and \$3 million for public infrastructure in the Vitruvian Park over the next two-to-three years. 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 believe the town will prudently manage debt issuance relative to its rate of tax base growth, as it has done historically.

Pension and other postemployment benefits (OPEB)

We do not view pension and OPEB liabilities as a near-term credit pressure because contributions make up less than 5% of the budget and the Texas Municipal Retirement System plan for the town is 104% funded as of Dec. 31, 2021. (For more information on Texas' pension landscape, see "Pension Spotlight: Texas," published April 4, 2023, on RatingsDirect.)

Addison, Texas--key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	159			
Market value per capita (\$)	333,293			
Population			16,731	15,844
County unemployment rate(%)		3.7		
Market value (\$000)	5,576,317	5,075,396	4,925,943	
Ten largest taxpayers % of taxable value	18.1			
Strong budgetary performance				
Operating fund result % of expenditures		0.7	0.3	(1.3)
Total governmental fund result % of expenditures		0.9	10.0	8.4
Very strong budgetary flexibility				
Available reserves % of operating expenditures		48.9	51.0	54.7
Total available reserves (\$000)		19,837	19,699	20,053
Very strong liquidity				
Total government cash % of governmental fund expenditures		146	149	147
Total government cash % of governmental fund debt service		986	1,032	1,026
Very strong management				
Financial Management Assessment	Strong			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		14.8	14.5	14.3
Net direct debt % of governmental fund revenue	217			
Overall net debt % of market value	4.8			
Direct debt 10-year amortization (%)	70			

Addison, Texas--key credit metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020
Required pension contribution % of governmental fund expenditures		4.7		
OPEB actual contribution % of governmental fund expenditures		0.0		

Strong institutional framework

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

Related Research

- 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
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of July 25, 2023)

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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