

RatingsDirect®

Summary:

Addison, Texas; General Obligation

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Credit Profile

US\$10.7 mil comb tax and rev certs of oblig ser 2024 dtd 09/01/2024 due 02/15/2044

<i>Long Term Rating</i>	AAA/Stable	New
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

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the Town of Addison, Texas' anticipated \$10.7 million series 2024 combination tax and revenue certificates of obligation (COs).
- At the same time, we affirmed our 'AAA' rating on the town's general obligation (GO) debt and COs 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 \$1,000 limited net-revenue pledge from the town's waterworks-and-sewer system. Given the de minimis revenue pledge, 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 2024, 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.

Certificate proceeds will fund a public safety communications facility, new fire engine, as well as various public

infrastructure projects.

Credit overview

The rating reflects the town's diverse tax base and consistently strong financial performance, aided by very strong management and prudent budgeting that have enabled Addison to cash fund capital projects while maintaining healthy reserves.

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 2024 and 2025. While we consider Addison's debt burden very weak, we do not believe the town's additional debt plans will materially affect our view of its debt profile.

The 'AAA' rating reflects our view of the town's:

- Strong wealth and income metrics with a growing tax base;
- Consistently balanced budgetary performance, with very strong reserves, expected to continue in fiscal years 2024 and 2025;
- Strong Financial Management Assessment (FMA) and a strong institutional framework score; and
- Manageable debt burden, despite near-term debt plans.

Environmental, social, and governance

We consider environmental, social, and governance (ESG) factors to be neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view that Addison's robust economy, combined with very strong management, will continue to support the town's strong financial profile over the two-year outlook horizon.

Downside scenario

We could lower the rating if the town experiences significant economic or financial stress that results in a sustained structural imbalance and material decline in 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. Given its high percentage of commercial and industrial properties (nearly 44% of the tax base), we believe Addison could experience a somewhat volatile tax base and a prolonged economic recovery during recessionary periods, but we expect that the base will remain stable in the near term given ongoing development.

The town's transit-oriented development, with construction likely to begin in 2025 and anticipated investment of about \$500 million, will have multifamily, office, retail, and restaurant development, anchored by a commuter rail line called the Silver Line that will be the town's first DART rail station. This 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. In addition, officials note there is another mixed-use development currently under construction, anticipated to be completed in 2027, with an estimated investment of \$170 million. The same developer recently received approval for another \$100 million mixed-use development close by, to be completed in 2028. Growth in AV has generally been strong recently, but officials expect it will moderate to about 3.5% annually. Although there is limited greenspace available for new development, Addison has attracted many developers interested in redeveloping older properties.

Very strong reserves, with solid 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 2023 results were largely fueled by positive budget variances in both revenues and expenditures. After its transfer out of approximately \$3 million to the self-funded special projects fund, the town added approximately \$168,000 to fund balance in fiscal 2023. For 2024, management expects another transfer to the special projects fund of \$2 million and a minor increase to its ending general fund balance. While the fiscal 2025 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.

Debt profile likely will remain very weak given additional issuance plans, but carrying charges are manageable

Addison's adopted five-year CIP serves as a blueprint to address subsequent growth and development prudently. Management intends to issue at least \$49.7 million through fiscal 2026. This includes a \$44.6 million state infrastructure bank loan that would replace the 2019 series A and B authorized by voters; and the remaining \$5.1 million for other improvements. In addition, over the next three years, the town plans to issue a total of \$35 million for a new police station. Addison has no plans to ask voters for another bond authorization but could do so at the end of the current five-year capital plan. We expect the town's debt burden will remain elevated but believe that 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 the costs are manageable. However, the town did not meet our minimum funding progress. The town participates in the Texas Municipal Retirement System plan that was 83% funded as of Dec. 31, 2022. (For more information on Texas' pension landscape, see "Pension Spotlight: Texas," published April 4, 2023, on RatingsDirect.)

For OPEB, Addison has a retirement health care benefit 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. The net OPEB liability was \$2.8 million as of Dec. 31, 2022.

Addison, Texas--Key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	146.2			
Market value per capita (\$)	347,936			
Population		17,587	16,513	16,731
County unemployment rate(%)		3.8		
Market value (\$000)	6,119,152	5,576,317	5,075,397	
Ten largest taxpayers % of taxable value	16.8			
Strong budgetary performance				
Operating fund result % of expenditures		0.1	0.7	0.3
Total governmental fund result % of expenditures		13.6	0.9	10.0

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

	Most recent	Historical information		
		2023	2022	2021
Very strong budgetary flexibility				
Available reserves % of operating expenditures		45.4	48.9	51.0
Total available reserves (\$000)		20,024	19,837	19,699
Very strong liquidity				
Total government cash % of governmental fund expenditures		154.0	145.9	149.4
Total government cash % of governmental fund debt service		945.5	985.7	1,032.4
Very strong management				
Financial Management Assessment		Strong		
Very weak debt and long-term liabilities				
Debt service % of governmental fund expenditures		16.3	14.8	14.5
Net direct debt % of governmental fund revenue		169.8		
Overall net debt % of market value		4.2		
Direct debt 10-year amortization (%)		64.2		
Required pension contribution % of governmental fund expenditures		6.6		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

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
- 2023 Update Of Institutional Framework For U.S. Local Governments

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